

United Gulf Bank B.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

30 JUNE 2017

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF UNITED GULF BANK B.S.C.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of United Gulf Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group") as at 30 June 2017, comprising of the interim consolidated statement of financial position as at 30 June 2017 and the related interim consolidated statements of income, comprehensive income, cash flows and changes in equity for the six-month period then ended and explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.



13 August 2017
Manama, Kingdom of Bahrain

United Gulf Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		Reviewed	Audited	Reviewed
		30 June	31 December	30 June
		2017	2016	2016
	Notes	US\$ 000	US\$ 000	US\$ 000
ASSETS				
Demand and call deposits with banks		405,681	176,880	199,981
Placements with banks		167,748	187,350	218,753
Investments carried at fair value through statement of income		23,699	45,178	51,950
Non-trading investments	4	424,418	404,436	346,414
Loans and receivables		996,415	1,184,804	1,141,754
Other assets		126,103	112,735	141,929
Investments in associates		720,186	709,043	683,604
Investment properties		104,899	101,326	102,148
Property and equipment		32,420	32,117	39,581
Goodwill		51,868	51,868	52,321
Non-current assets classified as held for sale	5	63,022	-	382
TOTAL ASSETS		3,116,459	3,005,737	2,978,817
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		733,417	726,222	725,053
Deposits from customers		900,033	985,210	882,060
Loans payable		777,998	652,125	650,051
Subordinated debt		50,000	50,000	123,470
Other liabilities		66,102	62,724	62,069
Liabilities directly associated with non-current assets classified as held for sale	5	38,734	-	218
TOTAL LIABILITIES		2,566,284	2,476,281	2,442,921
EQUITY				
Share capital		208,651	208,651	208,651
Treasury shares		(18,131)	(18,131)	(18,131)
Share premium		11,459	11,459	11,459
Statutory reserve		100,514	100,514	99,888
General reserve		80,999	80,999	80,373
Treasury shares reserve		14,248	14,248	14,248
Fair value reserve		(39,640)	(49,966)	(53,681)
Foreign currency translation reserve		(35,136)	(37,476)	(32,260)
Retained earnings		88,059	83,711	84,731
CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		411,023	394,009	395,278
Perpetual Tier 1 capital	7	33,000	33,000	33,000
Non-controlling interests		106,152	102,447	107,618
TOTAL EQUITY		550,175	529,456	535,896
TOTAL LIABILITIES AND EQUITY		3,116,459	3,005,737	2,978,817

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

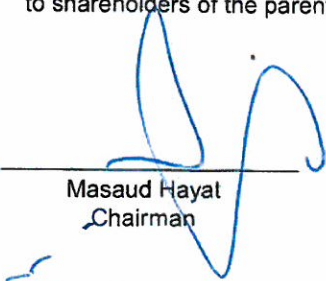
Hussain Lalani
Acting Chief Executive Officer


The attached explanatory notes 1 to 13 form part of these interim condensed consolidated financial statements.


United Gulf Bank B.S.C.
INTERIM CONSOLIDATED STATEMENT OF INCOME

For the six-month period ended 30 June 2017 (Reviewed)

	<i>Three-month period ended 30 June</i>		<i>Six-month period ended 30 June</i>	
	2017	2016	2017	2016
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Investment income - net	4,944	118	15,681	7,701
Interest income	14,673	11,739	27,937	23,030
	19,617	11,857	43,618	30,731
Fees and commissions	8,971	11,708	17,859	20,178
Foreign currency translation (losses) gains - net	(923)	4,496	(2,193)	(75)
Share of results of associates - net	10,505	10,904	19,613	21,138
Total income	38,170	38,965	78,897	71,972
Interest expense	(15,584)	(14,427)	(30,248)	(27,111)
Operating income before expenses and provisions	22,586	24,538	48,649	44,861
Salaries and benefits	(12,038)	(12,743)	(23,270)	(25,008)
General and administrative expenses	(7,597)	(7,500)	(15,316)	(14,442)
Operating income before provisions	2,951	4,295	10,063	5,411
Provision for loans and receivables	-	(2,740)	(500)	(1,989)
Reversal of provision for (Provision for) impairment on investments	523	-	(462)	(1,700)
Taxation - net	(775)	(1,177)	(1,266)	(899)
Net profit for the period from continuing operations	2,699	378	7,835	823
Discontinued operations				
Net loss from discontinued operations	-	(30)	-	(48)
Net profit for the period	2,699	348	7,835	775
Net profit (loss) attributable to non-controlling interests	1,278	(857)	1,735	(3,459)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	1,421	1,205	6,100	4,234
Net profit (loss) for the period attributable to:				
Non-controlling interests				
- from continuing operations	1,278	(845)	1,735	(3,440)
- from discontinued operations	-	(12)	-	(19)
	1,278	(857)	1,735	(3,459)
Shareholders of the parent				
- from continuing operations	1,421	1,223	6,100	4,263
- from discontinued operations	-	(18)	-	(29)
	1,421	1,205	6,100	4,234
Earnings per share				
Basic and diluted earnings per share attributable to shareholders of the parent (US cents)	0.17	0.15	0.75	0.52
Basic and diluted earnings per share from continuing operations attributable to shareholders of the parent (US cents)	0.17	0.15	0.75	0.52


 Masaud Hayat
 Chairman


 Faisal Al Ayyar
 Vice Chairman


 Hussain Lalani
 Acting Chief Executive Officer

The attached explanatory notes 1 to 13 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2017 (Reviewed)

	<i>Three-month period ended 30 June</i>		<i>Six-month period ended 30 June</i>	
	2017	2016	2017	2016
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
NET PROFIT FOR THE PERIOD	2,699	348	7,835	775
Other comprehensive income (loss) for the period to be reclassified to profit or loss in subsequent periods:				
Foreign currency translation reserve	511	498	2,616	2,763
Fair value reserve	9,833	(1,746)	19,454	1,233
Transfer to interim consolidated statement of income upon disposal	-	65	-	2,295
Share of other comprehensive (loss) income of associates - net	(2,247)	1,689	(7,436)	(6,459)
Cash flow hedges	(413)	344	(361)	(282)
Other comprehensive income (loss) for the period to be reclassified to profit or loss in subsequent periods	7,684	850	14,273	(450)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	10,383	1,198	22,108	325
Total comprehensive income (loss) attributable to				
- shareholders of the parent	8,645	2,429	18,766	1,342
- non-controlling interests	1,738	(1,231)	3,342	(1,017)
	10,383	1,198	22,108	325

The attached explanatory notes 1 to 13 form part of these interim condensed consolidated financial statements.

United Gulf Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2017 (Reviewed)

		Six-months period ended 30 June	
		2017	2016
Notes		US\$ 000	US\$ 000
OPERATING ACTIVITIES			
	Net profit for the period	7,835	775
	Adjustments for non-cash items:		
	Depreciation	1,660	2,430
	(Gain) loss on investments carried at fair value through statement of income	(3,380)	1,842
	Share of results of associates - net	(19,613)	(21,138)
	Provision for loans and receivables	500	1,989
	Net gain arising from non-current assets classified as held for sale	(920)	-
	Provisions for impairment on investments	462	1,700
	Loss (Gain) on sale of associates & subsidiaries	8	(1,578)
	(Gain) loss on fair valuation of investment properties	(3,000)	48
	Interest income	(27,937)	(23,030)
	Interest expense	30,248	27,111
	Dividend income	(5,351)	(4,074)
	Operating loss before working capital changes	(19,488)	(13,925)
	Changes in operating assets and liabilities:		
	Placements with banks with original maturities of more than ninety days	(202,758)	11,988
	Investments carried at fair value through statement of income	24,860	(3,131)
	Non-trading investments	(2,321)	29,909
	Loans and receivables	187,889	(111,645)
	Other assets	(17,969)	(22,486)
	Due to banks and other financial institutions	7,196	(113,106)
	Deposits from customers	(85,177)	419,974
	Other liabilities	3,936	6,349
	Interest received	32,177	22,093
	Interest paid	(30,412)	(25,071)
	Dividends received	5,351	4,074
	Directors' remuneration	(195)	(220)
	Donations	(200)	(200)
	Net cash (used in) from operating activities	(97,111)	204,603
INVESTING ACTIVITIES			
	Investments in associates - net	1,026	38,939
	Acquisition of non-current assets classified as held for sale	(60,611)	-
	Proceeds from disposal of non-current assets classified as held for sale	37,243	650
	Investment properties - net	(573)	(31)
	Property and equipment - net	(1,964)	(317)
	Net cash (used in) from investing activities	(24,879)	39,241
FINANCING ACTIVITIES			
	Proceeds from loans	125,873	(64,517)
	Issue of perpetual Tier 1 capital	-	33,000
	Interest paid on perpetual Tier 1 Capital	(1,752)	-
	Repayment of subordinated debt	-	(19,800)
	Net cash from (used in) financing activities	124,121	(51,317)
	Foreign currency translation adjustments	2,340	2,630
	Movement in non-controlling interests	1,970	1,746
NET CHANGE IN CASH AND CASH EQUIVALENTS		6,441	196,903
	Cash and cash equivalents at 1 January	357,067	220,957
CASH AND CASH EQUIVALENTS AT 30 JUNE		363,508	417,860

The attached explanatory notes 1 to 13 form part of these interim condensed consolidated financial statements.

United Gulf Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2017 (Reviewed)

	Attributable to shareholders of the parent										Total before non-controlling interests US\$ 000	Perpetual Tier 1 capital US\$ 000	Non-controlling interests US\$ 000	Total equity US\$ 000
	Share capital US\$ 000	Treasury shares US\$ 000	Share premium US\$ 000	Statutory reserve US\$ 000	General reserve US\$ 000	Treasury share reserve US\$ 000	Fair value reserve US\$ 000	Foreign currency translation reserve US\$ 000	Retained earnings US\$ 000					
Balance at 1 January 2017	208,651	(18,131)	11,459	100,514	80,999	14,248	(49,966)	(37,476)	83,711	394,009	33,000	102,447	529,456	
Profit for the period	-	-	-	-	-	-	-	-	6,100	6,100	-	1,735	7,835	
Other comprehensive income	-	-	-	-	-	-	10,326	2,340	-	12,666	-	1,607	14,273	
Total comprehensive income for the period	-	-	-	-	-	-	10,326	2,340	6,100	18,766	-	3,342	22,108	
Interest payment on Tier 1 capital	-	-	-	-	-	-	-	-	(1,752)	(1,752)	-	-	(1,752)	
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	363	363	
Balance at 30 June 2017	208,651	(18,131)	11,459	100,514	80,999	14,248	(39,640)	(35,136)	88,059	411,023	33,000	106,152	550,175	
Balance at 1 January 2016	208,651	(18,131)	11,459	99,888	80,373	14,248	(48,159)	(34,890)	80,497	393,936	-	109,331	503,267	
Profit (loss) for the period	-	-	-	-	-	-	-	-	4,234	4,234	-	(3,459)	775	
Other comprehensive (loss) income	-	-	-	-	-	-	(5,522)	2,630	-	(2,892)	-	2,442	(450)	
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(5,522)	2,630	4,234	1,342	-	(1,017)	325	
Perpetual Tier 1 capital	-	-	-	-	-	-	-	-	-	-	33,000	-	33,000	
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(696)	(696)	
Balance at 30 June 2016	208,651	(18,131)	11,459	99,888	80,373	14,248	(53,681)	(32,260)	84,731	395,278	33,000	107,618	535,896	

The attached explanatory notes 1 to 13 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Incorporation

United Gulf Bank B.S.C. ["UGB" or "the Bank"] is a joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550, and is listed on the Bahrain Bourse. The address of the Bank's registered office is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

The Bank operates in Kingdom of Bahrain under a Wholesale Banking License issued by the Central Bank of Bahrain [the "CBB"].

Activities

The principal activities of the Bank and its subsidiaries [together the "Group"] comprise of investment and commercial banking. Investment banking includes asset portfolio management, corporate finance, advisory, investment in quoted and private equity / funds, real estate, capital markets, international banking and treasury functions. Commercial banking includes extending loans and other credit facilities, accepting deposits and current accounts from corporate and institutional customers.

The Bank's parent and ultimate holding company is Kuwait Projects Company (Holding) K.S.C. ["KIPCO"], a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. As at 30 June 2017, KIPCO owned 97.77% of the Bank's outstanding shares (31 December 2016: 97.77%).

Restructuring

The Bank's directors are in the process of reviewing the operational structure of the Bank and exploring options to separate the regulated banking activities from the portfolio of core investments. In this regard, KIPCO is expected to float a new Holding company in Bahrain [the "Holding Company"] which will ultimately fully own the existing UGB (regulated banking entity) while the portfolio of the core investments currently managed by UGB are expected to be transferred to the Holding Company. The regulated banking activities and assets under management including investment banking along with related liabilities are expected to be retained at UGB.

This realignment of UGB operations is subject to shareholder's and other regulatory approvals.

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors 13 August 2017.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six-month period ended 30 June 2017 are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not contain all the information and disclosures required for full set of financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2016. In addition, results for the six-month period ended 30 June 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS

As at 30 June 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements or the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these amendments apply for the first time in 2017, they do not have a material impact on the interim condensed consolidated financial statements of the Group. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its interim condensed consolidated financial statements, but expects to disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

These amendments do not have any impact on the Group's interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017

3 BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements incorporate the interim condensed financial statements of the Bank and its principal subsidiaries.

The Bank has the following principal subsidiaries:

Name of the subsidiary	Country of incorporation	Legal ownership		Year of incorporation
		30 June 2017	31 December 2016	
Held directly				
FIMBank Group [FIMBank]	Malta	61%	61%	1994
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	86%	86%	1998
Hatoon Real Estate Company	Kuwait	98%	98%	2008
Syria Gulf Investment Company	Syria	99%	99%	2007
United Gulf Financial Services Company-North Africa	Tunisia	83%	85%	2008
United Gulf Realty International, Ltd	British Virgin Islands	100%	100%	2012
Held through KAMCO				
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	100%	2007
Al Jazi Money Market Fund	Kuwait	51%	48%	2007
Al Tadamon United Holding Co	Kuwait	96%	0%	2017
Al Zad Real Estate W.L.L.	Kuwait	99%	99%	2007
Asset United Holding Co	Kuwait	96%	0%	2017
Bukeye Power Project Advisory Co	U.S.A.	50%	0%	2017
Bukeye Power Project Manager Ltd	Jersey	100%	0%	2017
Flint Advisor Company Llc	Jersey	46%	0%	2017
Flint Manager Ltd	U.S.A.	100%	0%	2017
Flint Project Equity Company Ltd	Jersey	94%	0%	2017
Flint Project Finance Company Ltd	Jersey	94%	0%	2017
Kamco GCC Opportunistic Fund	Kuwait	100%	87%	2013
KAMCO Investment Company (DIFC) Limited	U.A.E.	100%	100%	2016
KAMCO Mena Plus Fixed Income Fund	Kuwait	71%	51%	2016
Kamco Real Estate Investment Co.	Kuwait	71%	0%	2004
Kuwait Private Equity Opportunity Fund	Kuwait	73%	71%	2004
Nawasi United Holding Co	Kuwait	96%	0%	2017
North Africa Real Estate Co.	Kuwait	100%	100%	2014
Orange Real Estate Co. W.L.L.	Kuwait	0%	100%	2005
Held through FIMBank				
India Factoring and Finance Solutions Private Limited	India	86%	86%	2010
CIS Factors Holdings B.V.	Russia	0%	100%	2009
FIM Holdings (Chile) S.p.a.	Chile	100%	100%	2014
Latam Factors S.A.	Chile	51%	51%	2014
London Forfaiting Company Limited	United Kingdom	100%	100%	2009
London Forfaiting International Limited	United Kingdom	100%	100%	2009
London Forfaiting Americas Inc.	United States of America	100%	100%	2009
London Forfaiting do Brasil Ltd.	Brazil	100%	100%	2009
FIM Factors B.V.	Netherlands	100%	100%	2009
	United Arab Emirates			
Menafactors Limited	Emirates	100%	100%	2009
FIM Business Solutions Limited	Malta	100%	100%	2009
FIM Property Investment Limited	Malta	100%	100%	2010
The Egyptian Company for Factoring S.A.E.	Egypt	100%	100%	2016

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017

4 NON - TRADING INVESTMENTS

Included under non-trading investments are unquoted available for sale investments, primarily representing nominal equity stakes of up to 13.9% (31 December 2016: 13.9%) in various geographically and sectorally dispersed entities, amounting to US\$ 56,992 thousand (31 December 2016: US\$ 43,789 thousand) for which fair value cannot be determined with sufficient accuracy, as future cash flows are not determinable. Accordingly, these investments are carried at cost less provisions for impairment.

5 NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

During the period, the Group acquired interest in certain special purpose vehicles (the "Entities"), for a consideration of US\$ 60,497 thousand and the Entities obtained financing of US\$ 77,558 thousand. Through these Entities, the Group acquired properties in the United States of America and the United Kingdom for a total purchase price of US\$ 126,015 thousand and incurred related acquisition costs of US\$ 9,785 thousand. The Group recognised a net profit arising from these Entities amounting to US\$ 217 thousand in the interim condensed consolidated statement of income.

The Group classified these Entities as a "disposal group held for sale". The Group considered the Entities to meet the criteria to be classified as held for sale for the following reasons:

- a) These Entities are available for immediate sale and can be disposed of in their current condition; and
- b) The actions to complete disposal were initiated and expected to be completed within one year from the date of acquisition.

In June 2017, the Group disposed a majority interest in the UK Entity for a consideration of US\$ 37,243 thousand. Accordingly, a net gain on disposal of this Entity amounting to US\$ 703 thousand is recognized in the interim condensed consolidated statement of income.

6 CASH AND CASH EQUIVALENTS

	<i>Reviewed 30 June 2017 US\$ 000</i>	<i>Audited 31 December 2016 US\$ 000</i>	<i>Reviewed 30 June 2016 US\$ 000</i>
Demand and call deposits with banks	196,530	169,717	199,107
Time deposits with original maturities of ninety days or less	166,978	187,350	218,753
	363,508	357,067	417,860

7 PERPETUAL TIER 1 CAPITAL

On 28th March 2016, the Bank issued Perpetual Additional Tier 1 Capital (the "AT1 Capital") amounting to US\$ 33,000 thousand.

The AT1 Capital constitutes subordinated obligations of the Bank and is classified as equity in accordance with IAS 32: Financial Instruments – Classification. The AT1 Capital does not have a maturity date and bears interest on its nominal amount from the date of issue at a fixed annual rate.

The AT1 Capital is redeemable by the Bank at its sole discretion on or after 28 March 2021 or on any interest payment date thereafter subject to the prior consent of the Central Bank of Bahrain.

The Bank at its sole discretion may elect not to distribute interest and this is not considered an event of default. If the Bank does not pay interest on the AT1 Capital (for whatever reason), then the Bank must not make any other distribution on or with respect to its other shares that rank equally with or junior to the AT1 Capital.

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017

8 RELATED PARTY TRANSACTIONS

The Group enters into transactions with its parent, associated companies, directors, senior management and entities which are either controlled or significantly influenced by such parties.

The income and expenses in respect of related party transactions during the six-month period are included in the interim condensed consolidated financial statements and are as follows:

	Reviewed			Reviewed
	Six-month period ended 30 June 2017			Six-month period ended 30 June 2016
	Major shareholder	Associates	Other related parties	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Gain on investments carried at fair value through statement of income - net	-	23	1	24
(Loss) Gain on sale of investments in associated and subsidiary companies	-	-	(5)	(5)
Gain on foreign currencies	-	6,069	-	6,069
Fees and commissions - net	1,274	(2,009)	6,214	5,479
Dividend income	-	-	127	127
Interest income	-	851	359	1,210
Interest expense	(183)	(9,689)	(1,589)	(11,461)
Others - net	1,108	111	(525)	694
				1,825

Purchase transactions

Non-trading investments*

Investment properties*

Sales transactions

Investments in associated companies*

* The Group had sold investments in associated companies of US\$ 146,000 thousand and acquired certain non-trading investments of US\$ 94,449 thousand and investment properties of US\$ 56,000 thousand from related parties.

All related party transactions are on terms that are mutually agreed between the counterparties.

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017

8 RELATED PARTY TRANSACTIONS (continued)

The period-end balances in respect of related parties included in the interim condensed consolidated financial statements are as follows:

	Reviewed 30 June 2017			Audited 31 December 2016		Reviewed 30 June 2016
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000	US\$ 000	US\$ 000
Demand and call deposits with banks	-	1,883	162	2,045	6,124	6,712
Placements with banks	-	2,524	20,528	23,052	20,469	75,612
Investments carried at fair value through statement of income	-	-	2,237	2,237	2,179	1,888
Investments carried at fair value through statement of income in funds managed by related party	-	-	-	-	-	9,962
Non-trading investments	-	-	29,242	29,242	26,852	22,944
Loans and receivables	-	21,193	8,577	29,770	30,899	63,486
Other assets	-	22,024	5,700	27,724	30,382	58,449
Due to banks and other financial institutions	-	(99,038)	(120,143)	(219,181)	(223,946)	(276,340)
Deposits from customers	(113)	(1,936)	(18,491)	(20,540)	(22,347)	(24,501)
Loans payable	-	(443,024)	(8,000)	(451,024)	(345,940)	(297,407)
Subordinated debt	-	(50,000)	-	(50,000)	(50,000)	(50,000)
Other liabilities	(1,706)	(3,431)	(3,045)	(8,182)	(5,011)	(4,970)
Perpetual Tier 1 Capital	-	-	(10,000)	(10,000)	(10,000)	(10,000)
Off statement of financial position items:						
Letters of guarantee	-	-	150	150	150	-
Funds managed or advised by the Group	-	-	41,675	41,675	-	32,756

All related party exposures are performing and are free of any provision for possible credit losses.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017

9 SEGMENTAL INFORMATION

Operating segments are reported in accordance with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments reported by the Group meet the definition of a reportable segment under IFRS 8.

For management purposes, the Group is organised into business units based on the nature of their operations and services. The Group has two reportable operating segments being 'asset management and investment banking' and 'commercial banking'.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transactions between segments are generally recorded at estimated market rates.

Segmental results

Segmental results for the six-month period ended 30 June 2017 were as follows:

	<i>Reviewed</i>		
	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>
Income from external customers	21,966	37,318	59,284
Share of results of associates - net	684	18,929	19,613
Total income	22,650	56,247	78,897
Operating income before provisions and tax	9,933	130	10,063
(Provisions) Reversal of provisions for loans and receivables	(2,261)	1,761	(500)
Provisions for impairment on investments	(462)	-	(462)
Taxation - net	(1,164)	(102)	(1,266)
Net profit for the period	6,046	1,789	7,835
Profit attributable to shareholders of the parent			6,100
Profit attributable to non-controlling interests			1,735
Net profit for the period			7,835

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017

9 SEGMENTAL INFORMATION (continued)**Segmental results (continued)**

Segmental results for the six-month period ended 30 June 2016 were as follows:

	<i>Reviewed</i>		
	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>
Income from external customers	18,724	32,110	50,834
Share of results of associates - net	4,297	16,841	21,138
Total income	23,021	48,951	71,972
Operating income before provisions and tax	4,273	1,138	5,411
Write-back of provisions for (provisions for) loans and receivables	3,000	(4,989)	(1,989)
Provision for impairment on investments	(1,700)	-	(1,700)
Taxation - net	(6)	(893)	(899)
Profit (loss) for the period from continuing operations	5,567	(4,744)	823
Discontinued operations			
Net loss from discontinued operations	-	(48)	(48)
Net profit (loss) for the period	5,567	(4,792)	775
Profit attributable to shareholders of the parent			4,234
Loss attributable to non-controlling interests			(3,459)
Net profit for the period			775

Segmental assets and liabilities

Segmental assets and liabilities at 30 June 2017 were as follows:

	<i>Reviewed</i>		
	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>
Investments in associates	215,348	504,838	720,186
Segment assets	1,026,648	2,089,811	3,116,459
Segment liabilities	1,059,086	1,507,198	2,566,284

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017

9 SEGMENTAL INFORMATION (continued)**Segmental assets and liabilities (continued)**

Segmental assets and liabilities at 31 December 2016 were as follows:

	<i>Audited</i>		
	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>
Investments in associates	205,301	478,303	683,604
Segment assets	994,834	1,983,983	2,978,817
Segment liabilities	1,017,073	1,425,848	2,442,921

10 COMMITMENTS, CONTINGENCIES AND OTHER OFF STATEMENT OF FINANCIAL POSITION ITEMS**Commitments**

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

Letters of credit, letters of guarantee (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers if certain conditions are met under the terms of the contract.

The Group has the following credit and investment-related commitments:

	<i>Reviewed 30 June 2017 US\$ 000</i>	<i>Audited 31 December 2016 US\$ 000</i>	<i>Reviewed 30 June 2016 US\$ 000</i>
Credit-related commitments:			
Letters of credit	45,014	52,044	66,059
Letters of guarantee	10,318	7,161	3,889
	55,332	59,205	69,948
Investments and loan related commitments	201,677	140,044	85,529
	257,009	199,249	155,477

Investment-related commitments represent capital commitments to fund structures. These commitments can be called by the fund during the investment period of the fund, which is normally between 1 to 5 years.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017

11 DERIVATIVES

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

	<i>Notional amounts</i>		
	<i>Reviewed</i>	<i>Audited</i>	<i>Reviewed</i>
	<i>30 June</i>	<i>31 December</i>	<i>30 June</i>
	<i>2017</i>	<i>2016</i>	<i>2016</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
<i>Derivatives held for trading:</i>			
Forward foreign exchange contracts *	202,926	432,242	464,618
<i>Derivatives used as hedge of net investments in foreign operations</i>			
Forward foreign exchange contracts	751,581	711,424	703,056
<i>Derivatives used as cash flow hedges</i>			
Interest rate swap	195,000	175,000	225,000

* The Group uses foreign currency denominated borrowings and forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment in foreign operations hedges and are entered into for periods consistent with currency transaction exposures.

12 FINANCIAL INSTRUMENTS

The table below summarises the accounting classification of the Group's financial assets and financial liabilities:

	<i>Held for trading</i>	<i>Designated at fair value through statement of income</i>	<i>Available-for-sale</i>	<i>Amortised cost / Loans and receivables</i>	<i>Total</i>
<i>30 June 2017</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Demand and call deposits with banks	-	-	-	405,681	405,681
Placements with banks	-	-	-	167,748	167,748
Investments carried at fair value through statement of income	22,393	1,306	-	-	23,699
Non-trading investments	-	-	424,418	-	424,418
Loans and receivables	-	-	-	996,415	996,415
Other assets	514	-	-	120,380	120,894
Non-current assets classified as held for sale	-	-	-	63,022	63,022
Total financial assets	22,907	1,306	424,418	1,753,246	2,201,877
Due to banks and other financial institutions	-	-	-	733,417	733,417
Deposits from customers	-	-	-	900,033	900,033
Loans payable	-	-	-	777,998	777,998
Subordinated debt	-	-	-	50,000	50,000
Other liabilities	79	3,090	-	62,933	66,102
'Liabilities directly associated with non-current assets classified as held for sale	-	-	-	38,734	38,734
Total financial liabilities	79	3,090	-	2,563,115	2,566,284

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017

12 FINANCIAL INSTRUMENTS (continued)

	<i>Held for trading</i>	<i>Designated at fair value through statement of income</i>	<i>Available-for-sale</i>	<i>Amortised cost / Loans and receivables</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
31 December 2016					
Demand and call deposits with banks	-	-	-	176,880	176,880
Placements with banks	-	-	-	187,350	187,350
Investments carried at fair value through statement of income	26,050	19,128	-	-	45,178
Non-trading investments	-	-	404,436	-	404,436
Loans and receivables	-	-	-	1,184,804	1,184,804
Other assets	3,363	845	-	104,462	108,670
Total financial assets	29,413	19,973	404,436	1,653,496	2,107,318
Due to banks and other financial institutions	-	-	-	726,222	726,222
Deposits from customers	-	-	-	985,210	985,210
Loans payable	-	-	-	652,125	652,125
Subordinated debt	-	-	-	50,000	50,000
Other liabilities	-	-	-	62,724	62,724
Total financial liabilities	-	-	-	2,476,281	2,476,281

The fair values of financial instruments on statement of financial position are not significantly different from their carrying values included in the interim condensed consolidated financial statements except for non-trading investments of US\$ 56,992 thousand (31 December 2016: US\$ 43,789 thousand) carried at cost less impairment (Note 4).

13 FAIR VALUE MEASUREMENT

Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair values of quoted securities are derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The fair values of the funds that are listed on active markets are determined by reference to their quoted bid prices. The fair values of unlisted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor or the market value of a comparable company.

The Group uses the following hierarchy for determining and disclosing the fair value of the Group's assets and liabilities by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017

13 FAIR VALUE MEASUREMENT (continued)

The following table shows an analysis of the Group's assets and liabilities recorded at fair value by level of the fair value hierarchy at 30 June 2017:

	<i>Level 1</i> <i>US\$ 000</i>	<i>Level 2</i> <i>US\$ 000</i>	<i>Level 3</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
Assets measured at fair value				
Investments carried at fair value through statement of income				
Equities - quoted	10,091	-	-	10,091
Debt securities - quoted	12,303	-	-	12,303
Managed funds	-	1,305	-	1,305
Non-trading investments				
Equities - quoted	71,378	-	-	71,378
Debt securities - quoted	146,955	-	-	146,955
Equities - unquoted	-	79,416	709	80,125
Real estate managed funds - unquoted	-	11,428	-	11,428
Other managed funds	-	41,979	16,023	58,002
Derivatives				
Interest rate swap	-	514	-	514
Investment properties	-	-	104,899	104,899
	<u>240,727</u>	<u>134,642</u>	<u>121,631</u>	<u>497,000</u>
Liabilities carried at fair value				
Derivatives				
Held for trading	-	79	-	79
Used as hedge of net investments in foreign operations	-	3,090	-	3,090
	<u>-</u>	<u>3,169</u>	<u>-</u>	<u>3,169</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017

13 FAIR VALUE MEASUREMENT (continued)

The following table shows an analysis of the Group's assets and liabilities recorded at fair value by level of the fair value hierarchy at 31 December 2016:

	<i>Level 1</i> <i>US\$ 000</i>	<i>Level 2</i> <i>US\$ 000</i>	<i>Level 3</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
Assets measured at fair value				
Investments carried at fair value through statement of income				
Equities - quoted	15,485	-	-	15,485
Debt securities - quoted	10,565	-	-	10,565
Credit linked notes	17,800	-	-	17,800
Managed funds	-	1,328	-	1,328
Non-trading investments				
Equities - quoted	57,825	-	-	57,825
Debt securities - quoted	161,842	-	-	161,842
Equities - unquoted	-	78,052	474	78,526
Real estate managed funds - unquoted	-	11,673	-	11,673
Other managed funds	-	35,200	15,581	50,781
Unquoted debt securities	-	-	-	-
Derivatives				
Forward foreign exchange contracts	-	3,363	-	3,363
Interest rate swap	-	845	-	845
Investment properties	-	-	101,326	101,326
	<u>263,517</u>	<u>130,461</u>	<u>117,381</u>	<u>511,359</u>
Liabilities measured at fair value				
Derivatives				
Forward foreign exchange contracts	-	(8,841)	-	(8,841)
	<u>-</u>	<u>(8,841)</u>	<u>-</u>	<u>(8,841)</u>

Transfers between Level 1, Level 2 and Level 3

During the six-month period ended 30 June 2017 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.