

United Gulf Bank B.S.C. (c)
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 SEPTEMBER 2017

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of United Gulf Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group") as at 30 September 2017, comprising of the interim consolidated statement of financial position as at 30 September 2017 and the related interim consolidated statements of income, comprehensive income, cash flows and changes in equity for the nine-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 November 2017
Manama, Kingdom of Bahrain

United Gulf Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

		<i>Reviewed</i> 30 September 2017 US\$ 000	<i>Audited</i> 31 December 2016 US\$ 000	<i>Reviewed</i> 30 September 2016 US\$ 000
	<i>Note</i>			
ASSETS				
Demand and call deposits with banks		33,458	176,880	147,888
Placements with banks		101,765	187,350	251,745
Investments carried at fair value through statement of income		24,886	45,178	53,223
Non-trading investments	4	254,998	404,436	408,368
Loans and receivables		11,785	1,184,804	1,149,758
Other assets		54,930	112,735	138,787
Investments in associates		140,486	709,043	718,410
Investment properties		105,056	101,326	102,204
Property and equipment		1,641	32,117	39,513
Goodwill		51,671	51,868	52,705
Assets held for sale	5	2,208,474	-	198
TOTAL ASSETS		2,989,150	3,005,737	3,062,799
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		356,784	726,222	782,546
Deposits from customers		50,135	985,210	933,985
Loans payable		121,021	652,125	617,623
Subordinated debt		-	50,000	123,470
Other liabilities		36,243	62,724	61,268
Liabilities directly associated with assets held for sale	5	1,867,239	-	211
TOTAL LIABILITIES		2,431,422	2,476,281	2,519,103
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		(39,913)	(49,966)	(49,533)
Foreign currency translation reserve		(32,479)	(37,476)	(31,987)
Retained earnings		90,257	83,711	86,415
CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		415,605	394,009	401,383
Perpetual Tier 1 capital	7	33,000	33,000	33,000
Non-controlling interests		109,123	102,447	109,313
TOTAL EQUITY		557,728	529,456	543,696
TOTAL LIABILITIES AND EQUITY		2,989,150	3,005,737	3,062,799

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. (c)

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the nine-month period ended 30 September 2017 (Reviewed)

	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Investment income - net	6,238	481	17,415	4,313
Interest income	1,326	916	3,094	2,876
	7,564	1,397	20,509	7,189
Fees and commissions	4,328	3,728	15,599	16,760
Foreign currency translation losses - net	(161)	(859)	(373)	(3,470)
Share of results of associates - net	(1,594)	75	(1,419)	2,827
Total income	10,137	4,341	34,316	23,306
Interest expense	(4,178)	(2,910)	(11,576)	(8,635)
Operating income before expenses and provisions	5,959	1,431	22,740	14,671
Salaries and benefits	(4,292)	(5,415)	(12,598)	(16,718)
General and administrative expenses	(2,382)	(1,909)	(7,755)	(8,017)
Operating (loss) income before provisions	(715)	(5,893)	2,387	(10,064)
Write-backs of (provisions for) loans and receivables	1,664	-	(597)	3,000
Provision for impairment on investments	-	-	(462)	(1,700)
Taxation - net	93	(14)	(1,071)	(20)
Net profit (loss) for the period from continuing operations	1,042	(5,907)	257	(8,784)
Discontinued operations				
Net income from discontinued operations	2,128	5,136	10,748	8,790
Net profit (loss) for the period	3,170	(771)	11,005	6
Net profit (loss) attributable to non-controlling interests	972	(2,454)	2,707	(5,912)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	2,198	1,683	8,298	5,918
Net profit (loss) for the period attributable to:				
Non-controlling interests				
- from continuing operations	319	(2,862)	525	(5,031)
- from discontinued operations	653	408	2,182	(881)
	972	(2,454)	2,707	(5,912)
Shareholders of the parent				
- from continuing operations	723	(3,045)	(268)	(3,753)
- from discontinued operations	1,475	4,728	8,566	9,671
	2,198	1,683	8,298	5,918

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 nine-month period ended 30 September 2017 (Reviewed)

	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	2017	2016	2017	2016
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
NET PROFIT (LOSS) FOR THE PERIOD	3,170	(771)	11,005	6
Other comprehensive income (loss) for the period to be reclassified to profit or loss in subsequent periods:				
Foreign currency translation reserve	652	136	1,745	589
Fair value reserve	2,190	4,552	19,106	6,287
Transfer to interim consolidated statement of income upon disposal	-	654	-	2,949
Cash flow hedges	146	(40)	(215)	(322)
Other comprehensive income for the period to be reclassified to profit or loss in subsequent periods	2,988	5,302	20,636	9,503
Other comprehensive loss for the period from discontinued operations to be reclassified to profit or loss in subsequent periods	(47)	(3,425)	(3,422)	(8,078)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	6,111	1,106	28,219	1,431
Total comprehensive income (loss) attributable to				
- shareholders of the parent	4,582	6,105	23,348	7,447
- non-controlling interests	1,529	(4,999)	4,871	(6,016)
	6,111	1,106	28,219	1,431

United Gulf Bank B.S.C. (c)
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine-month period ended 30 September 2017 (Reviewed)

	Note	<i>Nine-months period ended 30 September</i>	
		2017	2016
		US\$ 000	US\$ 000
OPERATING ACTIVITIES			
Net profit (loss) for the period from continuing operations		257	(8,784)
Net income from discontinued operations		10,748	8,790
Net profit for the period		11,005	6
Adjustments for non-cash items:			
Depreciation		2,483	3,581
(Gain) loss on investments carried at fair value through statement of income		(4,363)	268
Share of results of associates - net		(24,975)	(30,679)
(Write-backs of) provisions for loans and receivables		(1,504)	3,169
Net income from assets held for sale		(1,484)	-
Provisions for impairment on investments		462	1,700
Gain on fair valuation of investment properties		(3,000)	-
Gain on sale of associates and subsidiaries		(890)	(1,436)
Interest income		(41,226)	(35,537)
Interest expense		45,789	39,138
Dividend income		(6,970)	(5,442)
Gain on bargain purchase		-	(1,137)
Operating loss before working capital changes		(24,673)	(26,369)
Changes in operating assets and liabilities:			
Placements with banks with original maturities of more than ninety days		(76,405)	(7,199)
Investments carried at fair value through statement of income		24,655	10,950
Non-trading investments		44,283	(21,117)
Loans and receivables		133,409	(108,088)
Other assets		(17,759)	(15,594)
Due to banks and other financial institutions		(47,770)	(65,468)
Deposits from customers		(124,234)	467,366
Other liabilities		4,202	2,069
Net assets of disposal group classified as held for sale		(19,958)	875
Interest received		42,717	34,258
Interest paid		(50,840)	(34,178)
Dividends received		6,970	5,442
Directors' remuneration		(195)	(220)
Donations		(200)	(200)
Net cash (used in) from operating activities		(105,798)	242,527
INVESTING ACTIVITIES			
Investments in subsidiaries - net of cash acquired		-	(3,944)
Investments in associates - net		(22,492)	6,793
Investment properties - net		(730)	(87)
Property and equipment - net		(2,493)	(1,382)
Net cash (used in) from investing activities		(25,715)	1,380
FINANCING ACTIVITIES			
Proceeds from (repayment of) loans		86,272	(96,945)
Issue of perpetual Tier 1 capital	7	-	33,000
Interest paid on perpetual Tier 1 Capital		(1,752)	-
Repayment of subordinated debt		-	(19,800)
Net cash from (used in) financing activities		84,520	(83,745)
Foreign currency translation adjustments		4,997	2,903
Movement in non-controlling interests		3,969	(4,900)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(38,027)	158,165
Cash and cash equivalents at 1 January		357,067	220,957
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	6	319,040	379,122

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

United Gulf Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 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	-	-	-	-	-	-	-	-	8,298	8,298	-	2,707	11,005	
Other comprehensive income	-	-	-	-	-	-	10,053	4,997	-	15,050	-	2,164	17,214	
Total comprehensive income for the period	-	-	-	-	-	-	10,053	4,997	8,298	23,348	-	4,871	28,219	
Interest payment on Tier 1 capital	-	-	-	-	-	-	-	-	(1,752)	(1,752)	-	-	(1,752)	
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	1,805	1,805	
Balance at 30 September 2017	208,651	(18,131)	11,459	100,514	80,999	14,248	(39,913)	(32,479)	90,257	415,605	33,000	109,123	557,728	
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	-	-	-	-	-	-	-	-	5,918	5,918	-	(5,912)	6	
Other comprehensive (loss) income	-	-	-	-	-	-	(1,374)	2,903	-	1,529	-	(104)	1,425	
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(1,374)	2,903	5,918	7,447	-	(6,016)	1,431	
Issue of Perpetual Tier 1 capital	-	-	-	-	-	-	-	-	-	-	33,000	-	33,000	
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	5,998	5,998	
Balance at 30 September 2016	208,651	(18,131)	11,459	99,888	80,373	14,248	(49,533)	(31,987)	86,415	401,383	33,000	109,313	543,696	

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 September 2017

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Incorporation

United Gulf Bank B.S.C. (c) ["UGB" or "the Bank"] is a closed joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550. 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.

Restructuring

On 7 September 2017, the Bank's directors announced the reorganization of the Bank's operations following the approval of the reorganization plan by the Bank's Board of Directors and the Central Bank of Bahrain ("CBB"). In this regard, Kuwait Projects Company (Holding) K.S.C. ("KIPCO"), the majority shareholder of UGB, was to float a new Holding company in Bahrain ("United Gulf Holding Company B.S.C." or "UGHC") which would ultimately fully own the existing UGB (regulating banking entity). In the final structure, the portfolio of the core investments currently managed by UGB would also be transferred to UGHC. UGB would be delisted from the Bahrain Bourse but would remain a wholesale conventional bank governed by CBB. The regulated banking activities and assets under management including investment banking along with related liabilities will be retained at UGB level.

This reorganization plan was subsequently approved by the Bank's shareholders in an Extraordinary General Meeting held on 25 September 2017, and the 100% share capital of UGB was acquired by UGHC via a share swap offer of 1 new UGHC share for 2 shares of UGB. Subsequent to the share swap, UGB shares were delisted and UGHC shares were listed on the Bahrain Bourse.

As at 30 September 2017, UGHC is the Bank's parent company and holds 100% shares of UGB and KIPCO is the ultimate parent company. UGHC is incorporated in the Kingdom of Bahrain as a joint stock company and is listed on the Bahrain Bourse. KIPCO is incorporated in the State of Kuwait and is listed on the Kuwait Stock Exchange. As at 30 September 2017, KIPCO owned 98% of UGHC's outstanding shares (31 December 2016: 98% of the Bank's outstanding shares).

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

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the nine-month period ended 30 September 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 nine-month period ended 30 September 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

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 for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017 and application of IFRS 5 "Non-current assets held for sale and discontinued operations".

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

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 ending 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.

Non-current assets held for sale and discontinued operations

Owing to the transfer of portfolio of core investments subsequent to period end, as explained in note 1, the Group classified those assets and liabilities directly associated with those assets held for sale as their carrying amounts would not be recovered principally through continuing use. Such assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sale will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the interim consolidated statement of financial position.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**Significant accounting policies (continued)****Non-current assets held for sale and discontinued operations (continued)**

Results of assets classified as held for sale are presented as a single amount as income or loss from assets classified as held for sale in the interim consolidated statement of income.

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 September 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%	100%	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
Menafactors Limited	United Arab 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 September 2017

4 NON - TRADING INVESTMENTS

Included under non-trading investments are unquoted available for sale investments, primarily representing nominal equity stakes of up to 1.1% (31 December 2016: 13.9%) in various geographically and sectorally dispersed entities, amounting to US\$ 35,700 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 ASSETS HELD FOR SALE**5.1 Restructuring**

On 25 September 2017, the Bank's shareholders approved the reorganization plan, where by the portfolio of the core investments currently managed by UGB will be transferred to UGHC (Refer note 1). Transfer of these core assets is expected to be completed within a year of the shareholders' approval. Accordingly, the core assets have been classified as a disposal group held for sale as of the date of these interim condensed consolidated financial statements.

The major classes of assets and liabilities of the disposal group classified as held for sale as at 30 September 2017 are as follows:

	30 September 2017 US\$ 000
ASSETS	
Demand and call deposits with banks	228,964
Placements with banks	38,421
Non-trading investments	125,462
Loans and receivables	1,041,114
Other assets	73,858
Investments in associates	606,412
Property and equipment	30,487
Goodwill	197
Assets held for sale	2,144,915
LIABILITIES	
Due to banks and other financial institutions	321,668
Deposits from customers	810,841
Loans payable	617,376
Subordinated debt	50,000
Other liabilities	25,237
Liabilities directly associated with assets held for sale	1,825,122
Net assets directly associated with disposal group	319,793

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

5 ASSETS HELD FOR SALE (continued)**5.1 Restructuring (continued)**

The results of the disposal group for the period are presented below:

	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	2017	2016	2017	2016
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Investment income - net	1,190	5,368	5,138	9,236
interest income	11,963	11,591	38,132	32,661
Fees and commissions	3,165	3,960	9,753	11,106
Foreign currency translation gains (losses) - net	60	(3,543)	(1,921)	(1,007)
Share of results of associates - net	6,954	9,466	26,393	27,852
Total income	23,332	26,842	77,495	79,848
Interest expenses	(11,363)	(9,117)	(34,213)	(30,503)
Salaries, general and administrative expenses	(11,005)	(11,029)	(35,913)	(33,068)
Provisions and taxation	236	(1,537)	1,895	(7,418)
Profit from discontinued operations	1,200	5,159	9,264	8,859

The net cash flows received by/invested in the disposal group are presented below:

	<i>Nine-months period ended 30 September</i>	
	2017	2016
	US\$ 000	US\$ 000
Net cash flows (used in) from operating activities	(120,026)	203,636
Net cash flows from (used in) investing activities	9,951	(1,652)
Net cash flows from (used in) financing activities	58,862	(117,338)
Other movements	(412)	1,371
	(51,625)	86,017

5.2 Subsidiary acquired and held for resale

During the period, the Group, through its subsidiary KAMCO, acquired interest in certain special purpose vehicles (the "Entities"), for a consideration of US\$ 60,882 thousand and the Entities obtained financing of US\$ 78,001 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\$ 126,759 thousand and incurred related acquisition costs of US\$ 9,852 thousand. The Group recognised a net profit arising from these Entities amounting to US\$ 1,484 thousand in the interim condensed consolidated statement of income.

In June 2017, the Group disposed a majority interest in the UK Entity for a consideration of US\$ 32,376 thousand. Accordingly, a net gain on disposal of this Entity amounting to US\$ 705 thousand is recognized in the interim condensed consolidated statement of income.

As at 30 September 2017, the assets of the US Entity classified as held for sale amounted to US\$ 63,559 thousand (31 December 2016: nil) and liabilities directly associated with assets classified as held for sale amounted to US\$ 42,117 thousand (31 December 2016: nil).

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:

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As at 30 September 2017

5 ASSETS HELD FOR SALE (continued)**5.2 Subsidiary acquired and held for resale (continued)**

- 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.

6 CASH AND CASH EQUIVALENTS

	<i>Reviewed</i> 30 September 2017 US\$ 000	<i>Audited</i> 31 December 2016 US\$ 000	<i>Reviewed</i> 30 September 2016 US\$ 000
Demand and call deposits with banks	33,458	169,717	127,377
Time deposits with original maturities of ninety days or less	101,765	187,350	251,745
Demand deposits with banks attributable to discontinued operations	145,396	-	-
Time deposits with original maturities of ninety days or less attributable to discontinued operations	38,421	-	-
	319,040	357,067	379,122

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 September 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 nine-month period are included in the interim condensed consolidated financial statements and are as follows:

	Reviewed			Reviewed Nine-month period ended
	Nine-month period ended 30 September 2017			
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000
Gain on investments carried at fair value through statement of income - net	-	27	1	28
(Loss) gain on sale of non-trading investments	-	-	(11)	(11)
Gain on sale of investments in associated and subsidiary companies	-	-	-	-
Fees and commissions - net	-	(2,632)	11,265	8,633
Dividend income	-	-	141	141
Gain on foreign currencies	-	6,312	-	6,312
Interest income	-	838	1,403	2,241
Interest expense	-	(14,734)	(3,109)	(17,843)
Others - net	-	166	887	1,053
				1,001

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.

The Bank and UGHC have entered into an arrangement for service sharing between the two group entities. In line with the arrangement the Bank will provide certain services and incur certain expenses on behalf of UGHC.

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 September 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 September 2017					
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000	Audited 31 December 2016 US\$ 000	Reviewed 30 September 2016 US\$ 000
Demand and call deposits with banks	-	1,857	163	2,020	6,124	4,951
Placements with banks	-	2,537	20,423	22,960	20,469	20,441
Investments carried at fair value through statement of income	-	-	2,244	2,244	2,179	2,610
Investments carried at fair value through statement of income in funds managed by related party	-	-	-	-	-	9,962
Non-trading investments	-	-	28,674	28,674	26,852	20,301
Loans and receivables	-	14,527	5,624	20,151	30,899	25,905
Other assets	10,000	21,591	4,634	36,225	30,382	47,705
Due to banks and other financial institutions	-	(62,518)	(121,056)	(183,574)	(223,946)	(196,983)
Deposits from customers	(5,305)	(1,150)	(58,118)	(64,573)	(22,347)	(30,024)
Loans payable	-	(358,996)	(8,000)	(366,996)	(345,940)	(306,559)
Subordinated debt	-	(50,000)	-	(50,000)	(50,000)	(50,000)
Other liabilities	-	(1,165)	(3,167)	(4,332)	(5,011)	(7,613)
Perpetual Tier 1 Capital	-	-	(10,000)	(10,000)	(10,000)	(10,000)
Off statement of financial position items:						
Letters of guarantee	-	-	150	150	150	150
Funds managed or advised by the Group	-	-	25,946	25,946	-	32,812

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 September 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 nine-month period ended 30 September 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	35,735	-	35,735
Share of results of associates - net	(1,419)	-	(1,419)
Total income	34,316	-	34,316
Operating income before provisions and tax	2,387	-	2,387
Provisions for loans and receivables	(597)	-	(597)
Provisions for impairment on investments	(462)	-	(462)
Taxation - net	(1,071)	-	(1,071)
Net profit for the period from continuing operations	257	-	257
Net income from discontinued operations	1,484	9,264	10,748
Net profit for the period	1,741	9,264	11,005
Profit attributable to shareholders of the parent			8,298
Profit attributable to non-controlling interests			2,707
Net profit for the period			11,005

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

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

Segmental results for the nine-month period ended 30 September 2016 were as follows:

	<i>Reviewed</i>		
	<i>Asset management and investment banking US\$ 000 (Restated)</i>	<i>Commercial banking US\$ 000 (Restated)</i>	<i>Total US\$ 000 (Restated)</i>
Income from external customers	20,479	-	20,479
Share of results of associates - net	2,827	-	2,827
Total income	23,306	-	23,306
Operating loss before provisions and tax	(10,064)	-	(10,064)
Write-back of provisions for loans and receivables	3,000	-	3,000
Provision for impairment on investments	(1,700)	-	(1,700)
Taxation - net	(20)	-	(20)
Loss for the period from continuing operations	(8,784)	-	(8,784)
Discontinued operations			
Net profit from discontinued operations	-	8,790	8,790
Net (loss) profit for the period	(8,784)	8,790	6
Profit attributable to shareholders of the parent			5,918
Loss attributable to non-controlling interests			(5,912)
Net profit for the period			6

Segmental assets and liabilities

Segmental assets and liabilities at 30 September 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	140,486	-	140,486
Segment assets	1,026,700	1,962,450	2,989,150
Segment liabilities	1,061,730	1,369,692	2,431,422

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 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	234,047	484,363	718,410
Segment assets	1,020,364	2,042,435	3,062,799
Segment liabilities	1,042,646	1,476,457	2,519,103

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 September 2017 US\$ 000</i>	<i>Audited 31 December 2016 US\$ 000</i>	<i>Reviewed 30 September 2016 US\$ 000</i>
Credit-related commitments:			
Letters of credit	51,901	52,044	65,431
Letters of guarantee	10,667	7,161	15,374
	62,568	59,205	80,805
Investments and loan related commitments	335,086	140,044	84,224
	397,654	199,249	165,029

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 September 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 September</i>	<i>31 December</i>	<i>30 September</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 *	213,536	432,242	380,678
<i>Derivatives used as hedge of net investments in foreign operations</i>			
Forward foreign exchange contracts	753,667	711,424	709,625
<i>Derivatives used as cash flow hedges</i>			
Interest rate swap	145,000	175,000	175,000

* 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 September 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	-	-	-	33,458	33,458
Placements with banks	-	-	-	101,765	101,765
Investments carried at fair value through statement of income	23,596	1,290	-	-	24,886
Non-trading investments	-	-	254,998	-	254,998
Loans and receivables	-	-	-	11,785	11,785
Other assets	-	630	-	51,899	52,529
Assets held for sale	-	-	125,462	1,378,775	1,504,237
Total financial assets	23,596	1,920	380,460	1,577,682	1,983,658
Due to banks and other financial institutions	-	-	-	356,784	356,784
Deposits from customers	-	-	-	50,135	50,135
Loans payable	-	-	-	121,021	121,021
Other liabilities	64	22	-	36,157	36,243
Liabilities directly associated with assets held for sale	-	-	-	1,867,239	1,867,239
Total financial liabilities	64	22	-	2,431,336	2,431,422

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

12 FINANCIAL INSTRUMENTS (continued)

		<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>Held for trading</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\$ 35,700 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 September 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 September 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	12,063	-	-	12,063
Debt securities - quoted	11,531	-	-	11,531
Managed funds	-	1,292	-	1,292
Non-trading investments				
Equities - quoted	73,943	-	-	73,943
Equities - unquoted	-	94,005	532	94,537
Real estate managed funds - unquoted	-	11,460	-	11,460
Other managed funds	-	29,006	10,352	39,358
Investment properties	-	-	105,056	105,056
Derivatives				
Interest rate swap	-	630	-	630
	97,537	136,393	115,940	349,870
Liabilities carried at fair value				
Derivatives				
Held for trading	-	(64)	-	(64)
Used as hedge of net investments in foreign operations	-	(22)	-	(22)
	-	(86)	-	(86)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 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	-	-	-	-
Investment properties	-	-	101,326	101,326
Derivatives				
Forward foreign exchange contracts	-	3,363	-	3,363
Interest rate swap	-	845	-	845
	<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 nine-month period ended 30 September 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.