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

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 2019 (REVIEWED)

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 June 2019, comprising the interim consolidated statement of financial position as at 30 June 2019 and the related interim consolidated statements of income and comprehensive income for the three-month and six-month periods then ended and the related interim consolidated statements of 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.



8 August 2019
Manama, Kingdom of Bahrain

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019 (Reviewed)

	Notes	Reviewed	Audited	Reviewed
		30 June 2019	31 December 2018	30 June 2018
		US\$ 000	US\$ 000	US\$ 000
ASSETS				
Demand and call deposits with banks		107,292	143,510	44,551
Placements with banks		243,529	108,529	94,420
Investments carried at fair value through statement of income		80,760	81,852	37,057
Investments carried at fair value through other comprehensive income		136,914	167,647	158,393
Investments carried at amortised cost		283	494	
Loans and receivables		25,349	25,191	3,949
Other assets		61,086	61,097	27,877
Investments in associates		75,078	71,513	77,533
Investment properties	6	97,873	107,629	106,491
Property and equipment	6	51,709	39,394	2,497
Goodwill and other intangible assets		66,063	66,634	52,390
TOTAL ASSETS		945,936	873,490	605,158
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		257,882	220,879	209,240
Deposits from customers		52,427	32,608	28,541
Loans payable		79,856	67,033	76,065
Long term bonds	7	131,844	131,739	
Other liabilities		92,721	106,375	38,288
TOTAL LIABILITIES		614,730	558,634	352,134
EQUITY				
Share capital	8	116,132	101,132	101,132
Share premium		5,687	5,687	5,687
Statutory reserve		50,890	50,890	49,881
General reserve		30,621	30,621	29,612
Fair value reserve		(7,872)	(10,121)	1,248
Foreign currency translation reserve		(4,814)	(4,534)	(3,646)
Retained earnings		7,594	13,318	11,714
CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT				
Perpetual Tier 1 capital	9	198,238	186,993	195,628
Non-controlling interests		33,000	33,000	33,000
		99,968	94,863	24,396
TOTAL EQUITY		331,206	314,856	253,024
TOTAL LIABILITIES AND EQUITY		945,936	873,490	605,158


Masaud Hayat
Chairman


Faisal Al Ayyar
Vice Chairman


Hussain Lalani
Chief Executive Officer

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the six-month period ended 30 June 2019 (Reviewed)

	<i>Three-month period ended 30 June</i>		<i>Six-month period ended 30 June</i>	
	<i>2019 US\$ 000</i>	<i>2018 US\$ 000</i>	<i>2019 US\$ 000</i>	<i>2018 US\$ 000</i>
Continuing operations				
Investment income - net	7,747	808	17,250	5,318
Interest income	2,788	1,039	5,163	2,132
	10,535	1,847	22,413	7,450
Fees and commissions - net	13,501	10,346	30,823	18,283
Foreign currency translation (losses) gains - net	(377)	(984)	96	443
Share of results of associates - net	1,476	1,104	3,941	1,290
Total income	25,135	12,313	57,273	27,466
Interest expense	(5,979)	(2,440)	(11,007)	(5,692)
Operating income before expenses and provisions	19,156	9,873	46,266	21,774
Salaries and benefits	(11,053)	(4,868)	(22,988)	(10,044)
General and administrative expenses	(6,260)	(3,290)	(15,159)	(7,131)
Operating income before provisions and tax	1,843	1,715	8,119	4,599
Reversal of expected credit losses - net	759	-	124	-
Provision for losses against unfunded participation	-	-	-	(731)
Taxation - net	(7)	(160)	(877)	619
Net profit for the period from continuing operations	2,595	1,555	7,366	4,487
Net income from discontinued operations	-	450	-	450
NET PROFIT FOR THE PERIOD	2,595	2,005	7,366	4,937
Net profit for the period attributable to:				
- shareholders of the parent	1,506	1,882	4,257	4,710
- non-controlling interests	1,089	123	3,109	227
	2,595	2,005	7,366	4,937


Masaud Hayat
Chairman


Faisal Al Ayyar
Vice Chairman


Hussain Lalani
Chief Executive Officer

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2019 (Reviewed)

	<i>Three-month period ended 30 June</i>		<i>Six-month period ended 30 June</i>	
	2019	2018	2019	2018
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
NET PROFIT FOR THE PERIOD	2,595	2,005	7,366	4,937
Other comprehensive (loss) income				
<i>Items that may be reclassified to profit or loss in subsequent periods</i>				
Foreign currency translation reserve	(166)	(2,461)	(294)	(1,046)
Cash flow hedges	(498)	27	(835)	630
	(664)	(2,434)	(1,129)	(416)
<i>Items that will not be reclassified to profit or loss in subsequent periods</i>				
Fair value reserve	(5,696)	(1,895)	(6,302)	(9,836)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(3,765)	(2,324)	(65)	(5,315)
Total comprehensive (loss) income attributable to:				
- shareholders of the parent	(3,925)	(2,163)	(2,003)	(4,531)
- non-controlling interests	160	(161)	1,938	(784)
	(3,765)	(2,324)	(65)	(5,315)

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2019 (Reviewed)

		Six-month period ended 30 June	
	Note	2019 US\$ 000	2018 US\$ 000
OPERATING ACTIVITIES			
Net profit for the period		7,366	4,937
Adjustments for non-cash items:			
Depreciation		1,322	502
Gain on investments carried at fair value through statement of income		(4,377)	(311)
Share of results of associates - net		(3,941)	(1,290)
Reversal of expected credit losses - net		(124)	-
Provisions for losses against unfunded participation		-	731
Loss on sale of associates & subsidiaries		-	(31)
Gain on fair valuation of investment properties		(2,929)	(1,398)
Gain on sale of non-trading investments		-	(56)
Interest income		(5,163)	(2,131)
Interest expense		11,007	5,692
Dividend income		(3,406)	(1,432)
Taxation - net		877	-
Operating income before working capital changes		632	5,213
Changes in operating assets and liabilities:			
Placements with banks with original maturities of more than ninety days		(22,224)	-
Investments carried at fair value through statement of income		5,469	(17,478)
Investments carried at fair value through other comprehensive income		25,591	55,878
Investments carried at amortised cost		211	-
Loans and receivables		775	267
Other assets		(2,308)	2,902
Due to banks and other financial institutions		37,002	(40,971)
Deposits from customers		19,819	(2,477)
Other liabilities		(10,954)	(1,212)
		54,013	2,122
Interest received		5,081	1,870
Interest paid		(5,073)	(4,281)
Dividends received		3,406	1,432
Directors' remuneration paid		(195)	-
Donations paid		(200)	-
Net cash flows from operating activities		57,032	1,143
INVESTING ACTIVITIES			
Investments in associates - net		377	1,269
Property and equipment - net		(381)	(1,320)
Net cash flows used in investing activities		(4)	(51)
FINANCING ACTIVITIES			
Issue of share capital		15,000	-
Issue (repayment) of term loans		12,823	(22,593)
Deferred consideration paid on the acquisition of a subsidiary		(8,240)	-
Interest paid on perpetual Tier 1 capital		(1,752)	(1,752)
Net cash flows from (used in) financing activities		17,831	(24,345)
Foreign currency translation adjustments		(176)	225
Movement in non-controlling interests		1,994	(2,733)
NET CHANGE IN CASH AND CASH EQUIVALENTS		76,677	(25,761)
Cash and cash equivalents at 1 January		237,428	166,252
CASH AND CASH EQUIVALENTS AT 30 JUNE	4	314,105	140,491

The attached notes 1 to 14 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 six-month period ended 30 June 2019 (Reviewed)

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019 (Reviewed)

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 the 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 company is United Gulf Holding Company B.S.C. ("UGHC") which owns 100% shares of the Bank and the ultimate holding company is Kuwait Projects Company Holding K.S.C.P ("KIPCO"). 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 (Boursa Kuwait).

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 8 August 2019.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six-month period ended 30 June 2019 are prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

These 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 consolidated financial statements for the year ended 31 December 2018. In addition, results for the three-month and the six-month periods ended 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

Certain of the comparative figures have been reclassified to conform to the presentation of the current period. This did not have an impact on the previously reported consolidated financial position or performance of the Group.

Significant accounting policies

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 consolidated financial statements for the year ended 31 December 2018, except for new standards and interpretations effective as of 1 January 2019. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

As at 30 June 2019 (Reviewed)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Group

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Group is primarily a lessor, and all lease contracts where the Group is a lessee are either short-term leases or the underlying assets are low-value assets.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

Annual Improvements 2015-2017 Cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the interim condensed consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019 (Reviewed)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Annual Improvements 2015-2017 Cycle (continued)

IFRS 3 Business Combinations (continued)

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Significant accounting judgements, estimates and assumptions

In preparing these interim condensed consolidated financial statements, significant judgements made by management in applying accounting policies and key sources of estimation were the same as those that were applied to the annual consolidated financial statements for the year ended 31 December 2018.

3 BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements include the interim condensed financial statements of the Bank and its subsidiaries as at 30 June 2019. The reporting dates of the subsidiaries and the Bank are identical and the subsidiaries' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances. Where the reporting dates of the subsidiaries and the Bank are not identical, the most recent financial statements of the subsidiary are used and adjusted for the effects of significant transactions or events between the reporting dates of the subsidiary and interim condensed consolidated financial statements.

The principal subsidiaries of the Bank are as follows:

Name of the subsidiary	Country of incorporation	Legal ownership			Year of incorporation
		30 June 2019	31 December 2018		
Held directly					
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	86%	86%		1998
United Gulf Financial Services Company-North Africa	Tunisia	83%	83%		2008
United Gulf Asset Company S.P.C.	Bahrain	100%	100%		2017
United Gulf Realty International, Ltd [UGRIL]	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%	51%		2007
Al Tadamon United Holding Co	Kuwait	96%	96%		2017
Al Zad Real Estate W.L.L.	Kuwait	99%	99%		2017
Bukeye Power Project Advisory Co	U.S.A.	50%	50%		2017
Bukeye Power Project Manager Ltd	Jersey	100%	100%		2017
Carnation Advisory Company LLC	U.S.A.	75%	75%		2018
Carnation Manager limited	U.K.	100%	100%		2018
Flint Advisor Company Llc	Jersey	46%	46%		2017
Flint Manager Ltd	U.S.A.	100%	100%		2017
Global Investment House	Kuwait	71%	71%		1998
Kamco GCC Opportunistic Fund	Kuwait	100%	100%		2013
KAMCO Investment Company (DIFC) Limited	U.A.E.	63%	100%		2016
KAMCO Mena Plus (DIFC)	U.A.E.	63%	-		2019
KAMCO Mena Plus Fixed Income Fund	Kuwait	38%	38%		2016
Kubbar United Real Estate Company	Kuwait	100%	-		2019
Kuwait Private Equity Opportunity Fund	Kuwait	73%	73%		2004
Nawasi United Holding Co	Kuwait	96%	96%		2017
North Africa Real Estate Co.	Kuwait	100%	100%		2014
Plans United Real Estate Company	Kuwait	100%	-		2019
Project Plaza Investor Inc	Jersey	100%	-		2019
S17P02V Holding Ltd	U.A.E.	100%	100%		2018

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019 (Reviewed)

4 CASH AND CASH EQUIVALENTS

	Reviewed 30 June 2019 US\$ 000	Audited 31 December 2018 US\$ 000	Reviewed 30 June 2018 US\$ 000
Demand and call deposits with banks			
excluding mandatory reserves	106,974	143,192	44,233
Time deposits with original maturities of ninety days or less	207,131	94,236	96,258
Cash and cash equivalents gross of expected credit losses	314,105	237,428	140,491
Time deposits with original maturities of more than ninety days	37,750	15,526	-
Expected credit losses	(1,352)	(1,233)	(1,725)
Cash and cash equivalents net of expected credit losses	350,503	251,721	138,766

5 ANALYSIS OF MOVEMENT IN ECL ALLOWANCES

An analysis of movement in ECL allowances during the period is as follows:

	Stage 1 US\$ 000	Stage 2 US\$ 000	Stage 3 US\$ 000	Total US\$ 000
As at 31 December 2018	3,446	1,404	10,534	15,384
Adjustment *	10,349	766	(962)	10,153
As at 1 January 2019	13,795	2,170	9,572	25,537
Provided (reversal) during the period - net	144	180	(448)	(124)
Amounts written-off	(48)	(380)	-	(428)
Other adjustments	21	1	7	29
As at 30 June 2019	13,912	1,971	9,131	25,014

* During the current period, as at 1 January 2019, the Group changed the presentation of certain of its other assets and segregated the related credit losses from gross other assets for disclosures in the interim condensed consolidated financial statements. As at 31 December 2018, the Group reported these other assets on a net basis.

6 TRANSFER OF INVESTMENT PROPERTY

As at 1 January 2019, the Group determined that there is a change in use of a land and building amounting to US\$ 12,734 thousand, and the land and building meets the definition of a owner-occupied property under IAS 16 *Property, Plant and Equipment*. The Group reclassified the land and building from investment properties to property and equipment.

The fair value of the land and building, as of the date of transfer, has been considered to be the deemed cost for subsequent accounting in accordance with IAS 16. The building will be depreciated over 10 years on a straight line basis from the date of transfer.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019 (Reviewed)

7 LONG TERM BONDS

	Reviewed 30 June 2019 US\$ 000	Audited 31 December 2018 US\$ 000	Reviewed 30 June 2018 US\$ 000
Fixed interest of 6.00% per annum and maturing on 26 July 2023, (KD 14.9 million)	49,112	49,073	-
Floating interest of CBK* discount rate + 2.75% per annum (capped at 7% per annum) and maturing on 26 July 2023, (KD 25.1 million)	82,732	82,666	-
	131,844	131,739	-

* Central Bank of Kuwait

8 ISSUE OF SHARE CAPITAL

During the period, the Bank increased its share capital by issuing 30,000,000 new shares of US\$ 0.50 each (US\$ 15 million) through a rights issue subscribed by cash. The capital increase was approved by the Central Bank of Bahrain on 6 March 2019 and by the shareholders in the Extraordinary General Assembly Meeting on 24 March 2019.

9 PERPETUAL TIER 1 CAPITAL

On 28 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.

10 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 Six-month period ended 30 June 2019			Reviewed Six-month period ended 30 June 2018
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	
Gain on investments carried at fair value through statement of income - net	-	-	-	8
Investment income	-	-	1,958	1,958
Fees and commissions - net*	750	1,003	3,839	5,592
Dividend income	-	-	566	566
Rental income	-	-	1,153	1,153
Interest income	-	-	1,057	1,057
Interest expense	(362)	-	(3,148)	(3,510)
General and administrative expenses	(6)	-	(117)	(123)
				(512)

Equity transactions with related parties during the six-month period included in the interim consolidated statement of changes in equity are as follows:

Interest payment on Tier 1 Capital	-	(531)	(531)
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All related party transactions are on terms that are mutually agreed between the counterparties.

*The Bank and its parent entered into arrangement for service sharing between the two group entities. In line with the arrangement, the Bank will provided certain services and incur certain expenses on behalf of its parent.

10 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 2019			Reviewed 31 December 2018			Audited 30 June 2018		
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000			Total US\$ 000	Other US\$ 000	
Demand and call deposits with banks	-	-	2,855	2,855			21,120	4,477	
Placements with banks	-	-	20,212	20,212			21,546	21,151	
Investments carried at fair value through statement of income	-	-	945	945			-	9,277	
Non-trading investments	-	-	93,325	93,325			98,652	102,811	
Loans and receivables	-	-	5,268	5,268			4,101	2,658	
Other assets	96	571	9,672	10,339			10,901	14,056	
Due to banks and other financial institutions	-	(133,534)	(133,534)	(135,908)			(133,834)		
Deposits from customers	(32,441)	-	(26,115)	(58,556)			(21,439)	(24,107)	
Other liabilities	-	-	(5,397)	(5,397)			(4,335)	(5,982)	
Perpetual Tier 1 Capital	-	-	(10,000)	(10,000)			(10,000)	(10,000)	
<i>Off statement of financial position items:</i>									
Letters of guarantee	-	-	150	150			150	150	
Investment related commitments	-	-	3,195	3,195			3,194	4,018	

All related party exposures are performing as of the date of these interim condensed consolidated financial statements.

The ultimate parent has committed to acquire certain FVOCI investment from the Group at its carrying value of US\$ 28 million.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019 (Reviewed)

11 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:

	Reviewed 30 June 2019 US\$ 000	Audited 31 December 2018 US\$ 000	Reviewed 30 June 2018 US\$ 000
Credit-related commitments:			
Letters of guarantee	2,165	2,162	150
	2,165	2,162	150
Investments and loan related commitments	5,150	5,157	4,017
	7,315	7,319	4,167

12 DERIVATIVES

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

	Notional amounts		
	Reviewed 30 June 2019 US\$ 000	Audited 31 December 2018 US\$ 000	Reviewed 30 June 2018 US\$ 000
Derivatives held for trading:			
Forward foreign exchange contracts *	425,758	767,694	455,685
Derivatives used as hedge of net investments in foreign operations			
Forward foreign exchange contracts	121,169	186,165	109,199
Derivatives used as cash flow hedges			
Interest rate swap	75,000	75,000	75,000

* 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.

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019 (Reviewed)

13 FINANCIAL INSTRUMENTS

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

	<i>Designated at FVTPL US\$ 000</i>	<i>FVOCI US\$ 000</i>	<i>Amortised cost US\$ 000</i>	<i>Total US\$ 000</i>
30 June 2019				
Demand and call deposits with banks	-	-	107,292	107,292
Placements with banks	-	-	243,529	243,529
Investments carried at fair value through statement of income	80,760	-	-	80,760
Investments carried at fair value through other comprehensive income	-	136,914	-	136,914
Amortised cost investments	-	-	283	283
Loans and receivables	-	-	25,349	25,349
Other assets	77	444	58,996	59,517
Total financial assets	80,837	137,358	435,449	653,644
Due to banks and other financial institutions	-	-	257,882	257,882
Deposits from customers	-	-	52,427	52,427
Loans payable	-	-	79,856	79,856
Long term bonds	-	-	131,844	131,844
Other liabilities	-	-	92,721	92,721
Total financial liabilities	-	-	614,730	614,730
31 December 2018				
Demand and call deposits with banks	-	-	143,510	143,510
Placements with banks	-	-	108,529	108,529
Investments carried at fair value through statement of income	81,852	-	-	81,852
Investments carried at fair value through other comprehensive income	-	167,647	-	167,647
Held-to-maturity investments	-	-	494	494
Loans and receivables	-	-	25,191	25,191
Other assets	-	1,280	58,931	60,211
Total financial assets	81,852	168,927	336,655	587,434
Due to banks and other financial institutions	-	-	220,879	220,879
Deposits from customers	-	-	32,608	32,608
Loans payable	-	-	67,033	67,033
Long-term bonds	-	-	131,739	131,739
Other liabilities	168	208	105,999	106,375
Total financial liabilities	168	208	558,258	558,634

The fair values of financial instruments carried at amortised cost are not significantly different from their carrying values included in the interim condensed consolidated financial statements.

As at 30 June 2019 (Reviewed)

14 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 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.

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 2019:

	<i>Level 1</i> US\$ 000	<i>Level 2</i> US\$ 000	<i>Level 3</i> US\$ 000	<i>Total</i> US\$ 000
Assets measured at fair value				
Investments carried at fair value through statement of income				
Equities - quoted	7,652	-	-	7,652
Equities - unquoted	-	-	4,286	4,286
Debt securities - quoted	6,592	-	-	6,592
Managed funds	-	45,936	16,294	62,230
Investments carried at fair value through other comprehensive income				
Equities - quoted	30,243	-	-	30,243
Equities - unquoted	-	65,125	40,535	105,660
Managed funds	-	-	1,011	1,011
Derivatives				
Forward foreign exchange contracts	-	77	-	77
Interest rate swap	-	444	-	444
Investment properties	-	-	97,873	97,873
	44,487	111,582	159,999	316,068

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019 (Reviewed)

14 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 2018:

	Level 1 US\$ 000	Level 2 US\$ 000	Level 3 US\$ 000	Total US\$ 000
Assets measured at fair value				
Investments carried at fair value through statement of income				
Equities - quoted	12,278	-	-	12,278
Debt securities - quoted	6,941	-	-	6,941
Unquoted equities	-	-	3,210	3,210
Managed funds	-	43,516	15,907	59,423
Investments carried at fair value through other comprehensive income				
Equities - quoted	45,219	-	-	45,219
Equities - unquoted	-	69,025	51,273	120,298
Managed funds	-	-	2,130	2,130
Derivatives				
Interest rate swap	-	1,280	-	1,280
Investment properties	-	-	107,629	107,629
	64,438	113,821	180,149	358,408
Liabilities measured at fair value				
Derivatives				
Forward foreign exchange contracts	-	(376)	-	(376)
	-	(376)	-	(376)

Transfers between Level 1, Level 2 and Level 3

During the six-month period ended 30 June 2019 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 (year ended 31 December 2018: same). The following table shows a reconciliation of the opening and closing amount of level 3 financial instruments which are recorded at fair value:

	As at 1 January 2019 US\$'000	Net purchases, sales, transfer and settlement US\$'000	Loss recorded in the statement of income US\$'000	Loss recognised in OCI US\$'000	As at 30 June 2019 US\$'000
<i>Investments carried at fair value through statement of income</i>					
Unquoted equities					
Unquoted equities	3,210	1,081	(5)	-	4,286
Managed funds	15,907	2,242	(1,855)	-	16,294
	19,117	3,323	(1,860)	-	20,580
<i>Investments carried at fair value through other comprehensive income</i>					
Equities - unquoted					
Equities - unquoted	51,273	(2,115)	-	(8,623)	40,535
Managed funds	2,130	(1,119)	-	-	1,011
	53,403	(3,234)	-	(8,623)	41,546
Investment properties					
Investment properties	107,629	(12,684)	2,928	-	97,873