

United Gulf Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2014 (Reviewed)

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 September 2014, comprising of the interim consolidated statement of financial position as at 30 September 2014 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.



Ernst & Young

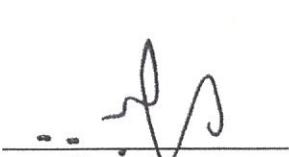
13 November 2014
Manama, Kingdom of Bahrain

United Gulf Bank B.S.C.

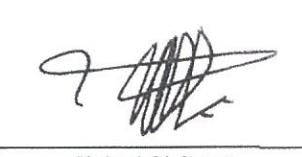
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014 (Reviewed)

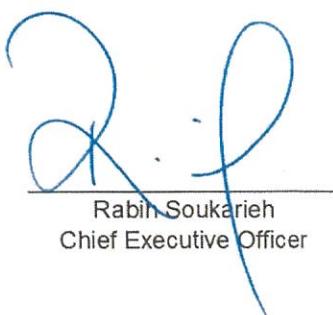
	<i>Reviewed 30 September 2014 Note</i>	<i>Audited 31 December 2013 US\$ 000</i>	<i>Reviewed 30 September 2013 US\$ 000</i>
ASSETS			
Demand and call deposits with banks	191,332	17,747	14,229
Placements with banks	93,976	113,063	93,661
Investments carried at fair value through statement of income	77,201	46,629	46,608
Non-trading investments	5 229,566	166,267	184,528
Loans and receivables	1,007,047	3,958	8,371
Other assets	73,920	29,630	41,593
Investments in associates and joint ventures	794,559	824,557	810,727
Investment properties	14	14	14
Property and equipment	39,029	690	701
Goodwill	77,343	56,008	56,303
TOTAL ASSETS	2,583,987	1,258,563	1,256,735
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	609,626	258,548	233,735
Deposits from customers	512,327	23,802	27,786
Loans payable	737,480	386,325	398,123
Subordinated debt	93,270	100,000	100,000
Other liabilities	68,342	30,326	28,784
TOTAL LIABILITIES	2,021,045	799,001	788,428
EQUITY			
Share capital	208,651	208,651	208,650
Treasury shares	(18,131)	(18,131)	(18,111)
Share premium	11,459	11,459	11,459
Statutory reserve	96,882	96,882	96,623
General reserve	77,367	77,367	77,108
Treasury shares reserve	14,248	14,248	14,248
Fair value reserve	1,075	(17,313)	(9,168)
Foreign currency translation reserve	(898)	6,686	7,310
Retained earnings	72,184	56,451	56,599
CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT			
Non-controlling interests	100,105	23,262	23,589
TOTAL EQUITY	562,942	459,562	468,307
TOTAL LIABILITIES AND EQUITY	2,583,987	1,258,563	1,256,735



Masaud Hayat
Chairman



Faisal Al Ayyar
Vice Chairman



Rabih Soukarieh
Chief Executive Officer

The attached explanatory notes 1 to 12 form part of these interim condensed consolidated financial statements.

United Gulf Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the nine-month period ended 30 September 2014 (Reviewed)

	Note	Three-month period ended 30 September		Nine-month period ended 30 September	
		2014 US\$ 000	2013 US\$ 000	2014 US\$ 000	2013 US\$ 000
Investment income - net	7	1,435	3,597	12,546	8,903
Interest income		14,652	1,751	42,703	5,092
		16,087	5,348	55,249	13,995
Fees and commissions		9,983	3,963	29,807	13,226
Foreign currency translation (losses) gains - net		(4,496)	262	(7,658)	1,327
Share of results of associates and joint ventures - net	7	9,710	(2,585)	40,420	16,074
Total income		31,284	6,988	117,818	44,622
Interest expense		(12,468)	(7,784)	(38,208)	(23,416)
Operating income (loss) before expenses and provisions		18,816	(796)	79,610	21,206
Salaries and benefits		(9,078)	(4,554)	(29,376)	(12,725)
General and administrative expenses		(1,142)	(1,579)	(12,509)	(5,342)
Operating income (loss) before provisions		8,596	(6,929)	37,725	3,139
(Impairment loss) write-back of provisions for loans, investments, guarantees and other assets - net		(13,955)	(87)	(26,863)	272
NET (LOSS) PROFIT FOR THE PERIOD		(5,359)	(7,016)	10,862	3,411
(Loss) profit attributable to:					
- shareholders of the parent		(682)	(7,447)	15,733	2,217
- non-controlling interests		(4,677)	431	(4,871)	1,194
		(5,359)	(7,016)	10,862	3,411
Earnings per share					
Basic and diluted earnings per share (US cents)		(0.08)	(0.91)	1.93	0.27



Masaud Hayat
Chairman



Faisal Al Ayyar
Vice Chairman



Rabih Soukarieh
Chief Executive Officer

The attached explanatory notes 1 to 12 form part of these interim condensed consolidated financial statements.

United Gulf Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine-month period ended 30 September 2014 (Reviewed)

	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
NET (LOSS) PROFIT FOR THE PERIOD	(5,359)	(7,016)	10,862	3,411
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:				
Foreign currency translation reserve	(7,741)	(2,375)	(8,076)	(5,417)
Fair value reserve	4,152	1,781	19,448	4,312
Transfer to interim consolidated statement of income upon derecognition	(714)	438	(1,722)	1,740
Share of other comprehensive income (loss) of associates and joint ventures - net	857	(5,743)	726	(11,278)
Cash flow hedges	215	(366)	178	348
Other comprehensive (loss) income for the period to be reclassified to profit or loss in subsequent periods	(3,231)	(6,265)	10,554	(10,295)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	(8,590)	(13,281)	21,416	(6,884)
Total comprehensive (loss) income attributable to				
- shareholders of the parent	(3,624)	(14,370)	26,537	(8,665)
- non-controlling interests	(4,966)	1,089	(5,121)	1,781
	(8,590)	(13,281)	21,416	(6,884)

United Gulf Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine-month period ended 30 September 2014 (Reviewed)

	Note	Nine-months period ended 30 September	
		2014 US\$ 000	2013 US\$ 000
OPERATING ACTIVITIES			
Net profit for the period		10,862	3,411
Adjustments for non-cash items:			
Depreciation		2,231	172
Gain on investments carried at fair value through income statement		(7,788)	(5,593)
Share of results of associates and joint ventures - net		(40,420)	(16,074)
Gain on sale of associated companies		(237)	1,273
Impairment loss (write-back of provisions) for loans, investments, guarantees and other assets - net		26,863	(272)
Interest income		(42,703)	(5,092)
Interest expense		38,208	23,416
Dividend income		(2,828)	(2,528)
Operating loss before working capital changes		(15,812)	(1,287)
Changes in operating assets and liabilities:			
Placements with banks with original maturities of more than ninety days.		(8,010)	-
Investments carried at fair value through statement of income		(22,784)	12,281
Non-trading investments		2,182	10,282
Loans and receivables		(21,026)	(2,461)
Other assets		(2,161)	(17,119)
Due to banks and other financial institutions		(208,119)	58,366
Deposits from customers		56,332	(36,734)
Other liabilities		15,803	4,516
Interest received		40,208	5,147
Interest paid		(34,117)	(23,865)
Dividends received		2,828	2,528
Donations		(200)	(200)
Directors' remuneration		(200)	(200)
Net cash (used in) from operating activities		(195,076)	11,254
INVESTING ACTIVITIES			
Investment in subsidiaries - net of cash acquired	4 (d)	89,276	(6,617)
Investments in associates and joint ventures - net		76,197	-
Proceeds from sale of investment property		-	12,733
Property and equipment - net		(1,552)	(246)
Net cash from investing activities		163,921	5,870
FINANCING ACTIVITIES			
Proceeds from loans		176,689	15,734
Subordinated debt		(6,730)	-
Purchase of treasury shares		-	(2,831)
Proceeds from issue of shares		-	6
Net cash from financing activities		169,959	12,909
Foreign currency translation adjustments		(7,584)	(5,276)
Movement in non-controlling interests		15,268	421
NET CHANGE IN CASH AND CASH EQUIVALENTS		146,488	25,178
Cash and cash equivalents at 1 January		130,491	82,393
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	6	276,979	107,571

The attached explanatory notes 1 to 12 form part of these interim condensed financial statements.

United Gulf Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine-month period ended 30 September 2014 (Reviewed)

Attributable to shareholders of the parent									
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Treasury share reserve	Fair value reserve	Foreign currency translation reserve	Total before non-controlling interests
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	Total equity US\$ 000
Balance at 1 January 2014	208,651	(18,131)	11,459	96,882	77,367	14,248	(17,313)	6,686	56,451
Profit (loss) for the period	-	-	-	-	-	-	-	15,733	(4,871)
Other comprehensive income (loss)	-	-	-	-	-	-	18,388	(7,584)	(250)
Total comprehensive income (loss) for the period	-	-	-	-	-	-	18,388	(7,584)	10,804
Other movements in non-controlling interests *	-	-	-	-	-	-	-	-	10,804
Balance at 30 September 2014	208,651	(18,131)	11,459	96,882	77,367	14,248	1,075	(838)	56,451
Balance at 1 January 2013	208,644	(15,340)	11,459	96,623	77,108	14,308	(3,562)	12,586	54,382
Profit for the period	-	-	-	-	-	-	-	456,208	456,208
Other comprehensive loss	-	-	-	-	-	-	(5,606)	(5,276)	(5,276)
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(5,606)	(5,276)	456,208
Share issued	6	-	-	-	-	-	-	2,217	2,217
Purchase of treasury shares - net	-	(2,771)	-	-	-	(60)	-	-	(60)
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	(2,831)
Balance at 30 September 2013	208,650	(18,111)	11,459	96,623	77,108	14,248	(9,168)	7,310	56,599

* This mainly arises on the acquisition of subsidiaries during the period (note 4).

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2014 (Reviewed)

1 INCORPORATION AND PRINCIPAL ACTIVITY

United Gulf Bank B.S.C. [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 Bahrain under a Wholesale Banking License issued by the Central Bank of Bahrain [the CBB].

The principal activities of the Bank and its principal 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 September 2014, KIPCO owned 97.40% of the Bank's outstanding shares (31 December 2013: 96.83%).

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 13 November 2014.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the nine-month period ended 30 September 2014 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 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 2013. In addition, results for the nine-month period ended 30 September 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

Significant accounting policies

The accounting policies adopted in the preparation of the 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 2013, except for the adoption of new standards and interpretations effective as of 1 January 2014.

The nature and the impact of each new standard / amendment is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of *IFRS 13 Fair Value Measurement* on the disclosures required under *IAS 36 Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments have no impact on the Group.

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2014 (Reviewed)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

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

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:

<i>Name of the subsidiary</i>	<i>Country of incorporation</i>	<i>Effective ownership</i>		<i>Year of incorporation</i>
		<i>30 September 2014</i>	<i>31 December 2013</i>	
<i>Held directly</i>				
FIMBank Group [FIMBank]	Malta	61%	-	1994
KIPCO Asset Management Company [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	85%	85%	2008
<i>Held through KAMCO</i>				
Al-Nuzoul Holding Company K.S.C. (Closed)	Kuwait	0%	99%	2005
Al-Janah Holding Company K.S.C. (Closed)	Kuwait	99%	99%	2005
KAMCO Real Estate Investment Company S.P.C.	Bahrain	100%	100%	2005
Al Zad Real Estate W.L.L.	Kuwait	99%	100%	2007
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	100%	2007
North Africa Real Estate Co. W.L.L.	Kuwait	100%	99%	2007
Al Raya Real Estate Projects Company W.L.L.	Kuwait	100%	100%	2007
Orange Real Estate Co. W.L.L.	Kuwait	100%	100%	2005
Al Rawabi International Real Estate Co. W.L.L.	Kuwait	96%	96%	2009
Kamco GCC Opportunistic Fund	Kuwait	97%	100%	2013
Kuwait Private Equity Opportunity Fund	Kuwait	71%	66%	2004
First Homes Real Estate Co. W.L.L.	Kuwait	0%	99%	2009
<i>Held through FIMBank</i>				
India Factoring and Finance Solutions Private Limited	India	79%	-	2010
CIS Factors Holdings B.V.	Russia	50%	-	2009
London Forfaiting Company Limited	United Kingdom	100%	-	2009
London Forfaiting International Limited	United Kingdom	100%	-	2009
London Forfaiting Americas Inc.	United States of America	100%	-	2009
London Forfaiting do Brasil Ltd.	Brazil	100%	-	2009
FIM Factors B.V.	Netherlands	100%	-	2009
Menafactors Limited	United Arab Emirates	100%	-	2009
FIM Business Solutions Limited	Malta	100%	-	2009
FIM Property Investment Limited	Malta	100%	-	2010

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2014 (Reviewed)

4 BUSINESS COMBINATIONS

a) Acquisition of FIMBank p.l.c.

On 27 January 2014, the Bank purchased 54,411,528 shares of FIMBank p.l.c., incorporated in Malta ("FIMBank"), an associate of the Group as of 31 December 2013, for a cash consideration of US\$ 51.69 million by way of a voluntary bid for shares of FIMBank. As a result, the Group's interest in FIMBank has increased from 30% to 61%, following which FIMBank has become a subsidiary of the Group. Accordingly, FIMBank has been consolidated in these interim condensed consolidated financial statements. The acquisition has been accounted for using the acquisition method.

The Group has recorded a provisional goodwill of US\$ 1.4 million on acquisition of FIMBank, considering that the purchase price allocation exercise is in progress as of the reporting date and would be completed within 12 months from the date of acquisition as allowed by IFRS 3.

The provisional fair values of the identifiable assets and liabilities of FIMBank as at the date of acquisition were:

	<i>Fair value recognised on acquisition US\$ 000</i>
Assets	
Bank demand, call and time deposits	212,652
Trading and non-trading investments	50,565
Investment in associated companies	22,919
Loans and advances	880,211
Property and equipment	38,917
Other assets	32,387
	<hr/> <u>1,237,651</u>
Liabilities	
Due to banks and other financial institutions	460,104
Deposits from customers	432,193
Loans payable	174,466
Other liabilities	16,294
	<hr/> <u>1,083,057</u>
Total identifiable net assets at fair value	154,594
Non-controlling interests	(59,117)
Goodwill arising on acquisition (on a provisional basis)	1,429
	<hr/> <u>96,906</u>
Purchase consideration transferred	
Net cash acquired with the subsidiary	204,789
Cash paid	(96,906)
	<hr/> <u>107,883</u>

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2014 (Reviewed)

4 BUSINESS COMBINATIONS (continued)

b) Acquisition of India Factoring and Finance Solutions Private Limited ("India Factoring")

On 31 March 2014, the Group, through its subsidiary FIMBank, purchased 30% shares in India Factoring (a company incorporated in India), an associate of FIMBank as of 31 December 2013, from Punjab National Bank, India for a cash consideration of US\$ 18 million. As a result, the FIMBank's interest in India Factoring has increased from 49% to 79%, following which India Factoring has become a subsidiary of the Group. Accordingly, India Factoring has been consolidated in these interim condensed consolidated financial statements. The acquisition has been accounted for using the acquisition method. As a result of the acquisition of India Factoring, the net cash outflow amounted to US\$ 18 million.

The Group has recorded a provisional goodwill of US\$ 19.9 million on acquisition of India Factoring, considering that the purchase price allocation exercise is in progress as of the reporting date and would be completed within 12 months from the date of acquisition as allowed by IFRS 3.

The provisional fair values of the identifiable assets and liabilities of India Factoring as at the date of acquisition were:

	<i>Fair value recognised on acquisition US\$ 000</i>
Assets	
Loans and receivables	127,950
Other assets	8,107
Property and equipment	101
Goodwill	61
	<hr/> 136,219
Liabilities	
Due to banks and other financial institutions	99,093
Other liabilities	2,228
	<hr/> 101,321
Total identifiable net assets at fair value	34,898
Non-controlling interests	(7,329)
Fair value of existing interest in India Factoring	(29,446)
Goodwill arising on acquisition (on a provisional basis)	19,906
	<hr/> 18,029
Net cash acquired with the subsidiary	-
Cash paid	(18,029)
Net cash outflow	<hr/> (18,029)

c) Acquisition of CIS Factors Holdings B.V. ("CIS")

On 18 February 2014, the Group, through its subsidiary FIMBank, purchased 40% shares in CIS (a company incorporated in Russia), an associate of FIMBank as of 31 December 2013, from Joint Stock Bank "Transcapitalbank" for an amount of US\$ 578 thousand. As a result, the FIMBank's interest in CIS has increased from 40% to 80%, following which CIS has become a subsidiary of FIMBank. Accordingly, CIS has been consolidated in these interim condensed consolidated financial statements. The acquisition has been accounted for using the acquisition method. The purchase price allocation exercise is in progress as of the reporting date, and would be completed within 12 months from the date of acquisition as allowed by IFRS 3.

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2014 (Reviewed)

4 BUSINESS COMBINATIONS (continued)

d) Investment in subsidiaries - net of cash acquired

	Reviewed 30 September 2014 US\$ 000
- FIMBank p.l.c. (Note 4a)	107,883
- India Factoring and Finance Solutions Private Limited (Note 4b)	(18,029)
- CIS Factors Holdings B.V. (Note 4c)	(578)
	<hr/>
	89,276

5 NON - TRADING INVESTMENTS

Included under non-trading investments are unquoted available for sale investments, primarily representing nominal equity stakes of up to 13% (31 December 2013: 13%) in various geographically and sectorally dispersed entities, amounting to US\$ 27.3 million (31 December 2013: US\$ 30 million) for which fair value cannot be determined with sufficient accuracy, as future cash flows are not determinable.

6 CASH AND CASH EQUIVALENTS

	Reviewed 30 September 2014 US\$ 000	Audited 31 December 2013 US\$ 000	Reviewed 30 September 2013 US\$ 000
Demand and call deposits with banks	191,332	17,747	14,229
Time deposits with original maturities of ninety days or less	85,647	112,744	93,342
	<hr/>	<hr/>	<hr/>
	276,979	130,491	107,571

7 NON-RECURRING INCOME

Investment income for the nine-month period ended 30 September 2014 includes US\$ 7.8 million representing a gain on step-acquisition of an associate (nine-month period ended 30 September 2013: nil) which is of a non-recurring nature.

Share of results of associates and joint ventures for the nine-month period ended 30 September 2014 includes US\$ 11.8 million representing a gain on deemed disposal of an associate (nine-month period ended 30 September 2013: nil) which is also of a non-recurring nature.

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2014 (Reviewed)

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 any of the above mentioned 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 Nine-month period ended 30 September 2014			Reviewed Nine-month period ended 30 September 2013
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000
(Loss) gain on investments carried at fair value through statement of income-net	-	-	(356)	(356)
(Loss) gain on sale of non-trading investments	-	(331)	(10)	(341)
Fees and commissions	-	(135)	1,344	1,209
Dividend income	6	6	238	250
Interest income	1	718	227	946
Loss on sale of investment properties	-	-	-	642
Interest expense	(582)	(10,671)	(2,929)	(1,273)
Others	4	86	(680)	(11,358)
Impairment loss on loans, investments, guarantees and other assets - net	-	(431)	(191)	(603)
				-
Purchase transactions				
Non-trading investments	-	31,130	-	31,130
				-
Sales transactions				
Investments carried at fair value through statement of income	-	-	-	8,194
Non-trading investments	-	-	-	15,292
Investment properties	-	-	-	12,733

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 2014			Reviewed 30 September 2013		
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000	Audited 31 December 2013	Audited 31 December 2013
Demand and call deposits with banks	-	1,087	404	1,491	3,954	3,421
Placements with banks	-	26,164	15,479	41,643	65,420	53,861
Investments carried at fair value through statement of income	460	1,382	891	2,733	1,594	1,796
Investments carried at fair value through statement of income in funds managed by related party	-	-	9,962	9,962	9,962	9,962
Non-trading investments	180	-	19,077	19,257	17,897	26,874
Loans and receivables	-	37,780	2,083	39,863	4,364	4,295
Other assets	847	8,513	5,478	14,838	12,490	25,101
Due to banks and other financial institutions	-	(26,772)	(115,992)	(142,764)	(183,751)	(140,257)
Deposits from customers	(348)	(670)	(18,074)	(19,092)	(19,200)	(22,090)
Loans payable	-	(477,560)	-	(477,560)	(267,061)	(278,891)
Other liabilities	(21)	(1,715)	(2,493)	(4,229)	(3,629)	(2,881)
Off statement of financial position items:						
Letters of guarantee	-	27,777	-	27,777	29,037	32,016
Funds managed or advised by the Group (including funds under management)	-	-	-	-	54,954	67,691
All related party exposures are performing and are free of any provision for possible credit losses.						

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9 SEGMENTAL INFORMATION

Operating segments are reported in accordance with the internal reporting provided to the Chief Executive Officer (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 2014 were as follows:

	<i>Reviewed</i>		
	<i>Asset management and investment banking</i> US\$ 000	<i>Commercial banking</i> US\$ 000	<i>Total</i> US\$ 000
Income from external customers	20,746	56,652	77,398
Share of results of associates and joint ventures	2,435	37,985	40,420
Total income	23,181	94,637	117,818
Operating income before provisions	20,484	17,241	37,725
Impairment loss on loans, investments, guarantees and other assets - net	(2,362)	(24,501)	(26,863)
Net profit (loss) for the period	18,122	(7,260)	10,862
Profit attributable to shareholders of the parent			15,733
Loss attributable to non-controlling interests			(4,871)
			10,862

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As at 30 September 2014 (Reviewed)

9 SEGMENTAL INFORMATION (continued)

Segmental results (continued)

Segmental results for the nine-month period ended 30 September 2013 were as follows:

	Reviewed		
	Asset management and investment banking US\$ 000	Commercial banking US\$ 000	Total US\$ 000
Income from external customers	28,548	-	28,548
Share of results of associates and joint ventures	6,364	9,710	16,074
Total income	34,912	9,710	44,622
Operating (loss) income before provisions	(6,571)	9,710	3,139
Impairment loss on investments	(1,352)	-	(1,352)
Write-back of provisions for loans, investments, guarantees and other assets - net	1,624	-	1,624
Net (loss) profit for the period	(6,299)	9,710	3,411
Profit attributable to shareholders of the parent			2,217
Profit attributable to non-controlling interests			1,194
			3,411

Segmental assets and liabilities

Segmental assets and liabilities at 30 September 2014 were as follows:

	Reviewed		
	Asset management and investment banking US\$ 000	Commercial banking US\$ 000	Total US\$ 000
Investments in associates and joint ventures	285,943	508,616	794,559
Segment assets	859,201	1,724,786	2,583,987
Segment liabilities	878,438	1,142,607	2,021,045

Segmental assets and liabilities at 31 December 2013 were as follows:

	Audited		
	Asset management and investment banking US\$ 000	Commercial banking US\$ 000	Total US\$ 000
Investments in associates and joint ventures	295,907	528,650	824,557
Segment assets	729,913	528,650	1,258,563
Segment liabilities	799,001	-	799,001

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2014 (Reviewed)

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:

	Reviewed 30 September 2014 US\$ 000	Audited 31 December 2013 US\$ 000	Reviewed 30 September 2013 US\$ 000
Credit-related commitments:			
Letters of credit	84,553	-	-
Letters of guarantee	52,307	29,037	32,016
	136,860	29,037	32,016
Undrawn commitments	98,545	-	-
Investment-related commitments	4,038	4,038	5,183
	239,443	33,075	37,199

All credit-related commitments mature within one year.

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

Funds under management

The Group holds assets amounting to US\$ 11,932 million (31 December 2013: US\$ 9,728 million) under its management on behalf of third parties. As these are third party funds managed in a fiduciary capacity, without risk or recourse to the Group, these are not included as assets in the interim consolidated statement of financial position.

11 DERIVATIVES

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

	Notional amounts		
	Reviewed 30 September 2014 US\$ 000	Audited 31 December 2013 US\$ 000	Reviewed 30 September 2013 US\$ 000
<i>Derivatives held for trading:</i>			
Forward foreign exchange contracts *	521,687	454,462	459,214
<i>Derivatives used as hedge of net investments in foreign operations</i>			
Forward foreign exchange contracts	548,081	551,215	548,077
Cross currency swaps	695,600	746,489	746,225
<i>Derivatives used as cash flow hedges</i>			
Interest rate swap	100,000	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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2014 (Reviewed)

12 FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by the Group as at 30 September 2014:

	<i>Loans and receivables</i> US\$ 000	<i>Available-for-sale</i> US\$ 000	<i>Fair value through profit or loss</i> US\$ 000
Financial assets:			
Placements with banks	8,329	-	-
Investments carried at fair value through statement of income	-	-	77,201
Non-trading investments	-	229,566	-
Loans and receivables	1,007,047	-	-
Other assets	69,979	-	-
Investment properties	-	-	14
Total	1,085,355	229,566	77,215
 Financial liabilities:			
	<i>Amortised cost</i> US\$ 000	<i>Available-for-sale</i> US\$ 000	<i>Fair value through profit or loss</i> US\$ 000
Due to banks and other financial institutions	609,626	-	-
Deposits from customers	512,327	-	-
Loans payable	737,480	-	-
Subordinated debt	93,270	-	-
Other liabilities	68,342	-	-
Total	2,021,045	-	-

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2014 (Reviewed)

12 FINANCIAL INSTRUMENTS (continued)

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by the Group as at 31 December 2013:

	<i>Loans and receivables</i> US\$ 000	<i>Available-for-sale</i> US\$ 000	<i>Fair value through profit or loss</i> US\$ 000
Financial assets:			
Placements with banks	319	-	-
Investments carried at fair value through statement of income	-	-	46,629
Non-trading investments	-	166,267	-
Loans and receivables	3,958	-	-
Other assets	27,845	-	-
Investment properties	-	-	14
Total	32,122	166,267	46,643
 Financial liabilities:			
	<i>Amortised cost</i> US\$ 000	<i>Available-for-sale</i> US\$ 000	<i>Fair value through profit or loss</i> US\$ 000
Due to banks and other financial institutions	258,548	-	-
Deposits from customers	23,802	-	-
Loans payable	386,325	-	-
Subordinated debt	100,000	-	-
Other liabilities	30,326	-	-
Total	799,001	-	-

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\$ 27.309 million (31 December 2013: US\$ 30 million) carried at cost less impairment (Note 5) and the following:

	<i>30 September 2014</i>		<i>31 December 2013</i>	
	<i>Carrying value</i> US\$ 000	<i>Fair value</i> US\$ 000	<i>Carrying value</i> US\$ 000	<i>Fair value</i> US\$ 000
Subordinated debt	93,270	80,458	100,000	88,000

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2014 (Reviewed)

12 FINANCIAL INSTRUMENTS (continued)

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 financial instruments 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 financial instruments recorded at fair value by level of the fair value hierarchy at 30 September 2014:

	Level 1 US\$ 000	Level 2 US\$ 000	Level 3 US\$ 000	Total US\$ 000
Investments carried at fair value through statement of income				
Quoted equities	46,711	-	-	46,711
Quoted managed funds	9,962	-	-	9,962
Unquoted managed funds	-	2,726	17,802	20,528
	56,673	2,726	17,802	77,201
Non-trading investments				
<i>Quoted securities</i>				
Equities	6,654	-	-	6,654
<i>Unquoted securities</i>				
Equities	-	23,890	539	24,429
Real estate managed funds	-	42,173	-	42,173
Other managed funds	-	111,338	17,663	129,001
	6,654	177,401	18,202	202,257
Investment properties				
	-	14	-	14
	63,327	180,141	36,004	279,472

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2014 (Reviewed)

12 FINANCIAL INSTRUMENTS (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2013:

	<i>Level 1</i> US\$ 000	<i>Level 2</i> US\$ 000	<i>Level 3</i> US\$ 000	<i>Total</i> US\$ 000
Investments carried at fair value through statement of income				
Quoted equities	34,016	-	-	34,016
Quoted managed funds	9,961	-	-	9,961
Unquoted managed funds	-	2,652	-	2,652
	43,977	2,652	-	46,629
Non-trading investments				
<i>Quoted securities</i>				
Equities	11,458	-	-	11,458
<i>Unquoted securities</i>				
Equities	-	25,700	520	26,220
Real estate managed funds	-	13,337	-	13,337
Other managed funds	47,302	26,324	11,600	85,226
Debt securities - unquoted	-	-	1,912	1,912
	58,760	65,361	12,120	138,153
Investment properties				
	-	14	-	14
	102,737	68,027	12,120	184,796

Transfers between Level 1, Level 2 and Level 3

During the nine-month period ended 30 September 2014 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.