

**United Gulf Holding Company B.S.C.**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**30 September 2018 (REVIEWED)**

## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF UNITED GULF HOLDING COMPANY B.S.C.**

### ***Introduction***

We have reviewed the accompanying interim condensed consolidated financial statements of United Gulf Holding Company B.S.C. (the "Company") and its subsidiaries (together the "Group") as at 30 September 2018, comprising the interim consolidated statement of financial position as at 30 September 2018 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 Company 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 2018  
Manama, Kingdom of Bahrain

United Gulf Holding Company B.S.C.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018 (Reviewed)

	<i>Reviewed</i> <b>30 September</b> <i>2018</i> <b>US\$ 000</b>	<i>Audited</i> <b>31 December</b> <i>2017</i> <b>US\$ 000</b>
<i>Notes</i>		
<b>ASSETS</b>		
Demand and call deposits with banks	556,886	432,067
Placements with banks	157,031	119,853
Investments carried at fair value through statement of income	87,065	19,268
Non-trading investments	329,158	384,172
Held-to-maturity investments	494	-
Loans and receivables	1,140,310	972,292
Other assets	150,209	126,056
Investments in associates	743,467	758,381
Investment properties	108,963	105,093
Property and equipment	72,950	47,221
Goodwill	52,587	52,587
Assets held for sale	2,631	-
<b>TOTAL ASSETS</b>	<b>3,401,751</b>	<b>3,016,990</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Due to banks and other financial institutions	490,330	624,422
Deposits from customers	1,069,399	878,220
Loans payable	984,054	856,426
Long term bonds	132,227	-
Subordinated debt	-	50,000
Other liabilities	145,942	66,284
<b>TOTAL LIABILITIES</b>	<b>2,821,952</b>	<b>2,475,352</b>
<b>EQUITY</b>		
Share capital	206,487	206,487
Treasury shares	(56)	-
Share premium	214,477	214,477
Treasury share reserve	(39)	-
Statutory reserve	446	446
Fair value reserve	(24,479)	90
Foreign currency translation reserve	(2,191)	(1,517)
(Accumulated deficit) retained earnings	(6,068)	2,264
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>	<b>388,577</b>	<b>422,247</b>
Perpetual Tier 1 capital	33,000	33,000
Non-controlling interests	158,222	86,391
<b>TOTAL EQUITY</b>	<b>579,799</b>	<b>541,638</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,401,751</b>	<b>3,016,990</b>

Masaud Hayat  
Chairman

Faisal Al Ayyar  
Vice Chairman

Hussain Lalani  
Acting Chief Executive Officer

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

United Gulf Holding Company B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the nine-month period ended 30 September 2018 (Reviewed)

	Three-month period ended 30 September 2018 US\$ 000	Nine-month period ended 30 September 2018 US\$ 000
<b>Continuing operations</b>		
Interest income	15,986	43,870
Investment income - net	5,179	17,126
	<b>21,165</b>	<b>60,996</b>
Fees and commissions - net	10,964	41,304
Foreign currency translation gains - net	442	891
Share of results of associates - net	11,545	27,477
	<b>44,116</b>	<b>130,668</b>
<b>Total income</b>	<b>44,116</b>	<b>130,668</b>
Interest expense	(17,896)	(49,789)
	<b>26,220</b>	<b>80,879</b>
<b>Operating income before expenses and provisions</b>	<b>26,220</b>	<b>80,879</b>
Salaries and benefits	(11,856)	(33,775)
General and administrative expenses	(7,026)	(21,186)
	<b>7,338</b>	<b>25,918</b>
<b>Operating income before provisions and tax</b>	<b>7,338</b>	<b>25,918</b>
Provisions for expected credit losses - net	(3,564)	(7,655)
Provision for losses against unfunded participation	-	(731)
Taxation - net	(890)	(1,161)
	<b>2,884</b>	<b>16,371</b>
<b>Net profit for the period from continuing operations</b>	<b>2,884</b>	<b>16,371</b>
Net profit (loss) from discontinued operations	161	(1,467)
	<b>3,045</b>	<b>14,904</b>
<b>Net profit for the period</b>	<b>3,045</b>	<b>14,904</b>
<b>Net profit attributable to non-controlling interests</b>	<b>541</b>	<b>2,891</b>
<b>NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>	<b>2,504</b>	<b>12,013</b>
<b>Net profit (loss) attributable to:</b>		
<b>Non-controlling interests</b>		
- from continuing operations	509	3,320
- from discontinued operations	32	(429)
	<b>541</b>	<b>2,891</b>
<b>Shareholders of the parent</b>		
- from continuing operations	2,375	13,051
- from discontinued operations	129	(1,038)
	<b>2,504</b>	<b>12,013</b>
<b>Earnings per share</b>		
Basic and diluted (loss) earnings per share attributable to shareholders of the parent (US cents)	(0.06)	1.17
Basic and diluted (loss) earnings per share from continuing operations attributable to shareholders of the parent (US cents)	(0.09)	1.42

Masaud Hayat  
Chairman

Faisal Al Ayyar  
Vice Chairman

Hussain Lalani  
Acting Chief Executive Officer

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

United Gulf Holding Company B.S.C.

**INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**

For the nine-month period ended 30 September 2018 (Reviewed)

	<i>Three-month period ended 30 September 2018 US\$ 000</i>	<i>Nine-month period ended 30 September 2018 US\$ 000</i>
<b>NET PROFIT FOR THE PERIOD</b>	<b>3,045</b>	<b>14,904</b>
<b>Other comprehensive (loss) income for the period to be reclassified to profit or loss in subsequent periods:</b>		
Foreign currency translation reserve	(2,172)	(738)
Fair value reserve	(1,520)	(17,066)
Share of other comprehensive loss of associates - net	(4,897)	(14,187)
Cash flow hedges	612	1,661
<b>Other comprehensive loss for the period to be reclassified to profit or loss in subsequent periods</b>	<b>(7,977)</b>	<b>(30,330)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(4,932)</b>	<b>(15,426)</b>
<b>Total comprehensive (loss) income attributable to</b>		
- shareholders of the parent	(4,167)	(16,107)
- non-controlling interests	(765)	681
	<b>(4,932)</b>	<b>(15,426)</b>

**United Gulf Holding Company B.S.C.**
**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

For the nine-month period ended 30 September 2018 (Reviewed)

		<i>Nine-month period ended 30 September 2018</i>	<i>For the period from 28 June 2017 to 30 September 2017</i>
	<i>Note</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
<b>OPERATING ACTIVITIES</b>			
Net profit for the period from continuing operations		16,371	-
Net loss from discontinued operations		(1,467)	-
Net profit for the period		14,904	-
Adjustments for non-cash items:			
Depreciation		2,069	-
Provisional gain on bargain purchase		(3,664)	-
Share of results of associates - net		(27,477)	-
Provisions for expected credit losses - net		7,655	-
Provision for losses against unfunded participation		731	-
Change in fair values of investment properties		(1,401)	-
Gain on sale due to reclassification of investment		(31)	-
Loss on investments carried at fair value through statement of income		797	-
Interest income		(43,870)	-
Interest expense		49,789	-
Dividend income		(8,217)	-
Operating loss before working capital changes		(8,715)	-
Changes in operating assets and liabilities:			
Placements with banks with original maturities of more than ninety days		(2,905)	-
Investments carried at fair value through statement of income		(4,610)	-
Non-trading investments		54,355	-
Loans and receivables		(172,010)	-
Other assets		16,957	-
Due to banks and other financial institutions		(134,092)	-
Deposits from customers		191,179	-
Other liabilities		(4,365)	-
Interest received		40,851	-
Interest paid		(40,213)	-
Dividends received		8,217	-
Donations		(200)	-
Net cash flows used in operating activities		(55,551)	-
<b>INVESTING ACTIVITIES</b>			
Investments in associates - net		40,185	-
Investment in subsidiary - net of cash acquired	6	(23,568)	319,040
Excess paid for fair value of net asset acquired		(2,202)	-
Investment properties - net		(190)	-
Property and equipment - net		(2,799)	-
Net cash flows from investing activities		11,426	319,040
<b>FINANCING ACTIVITIES</b>			
Purchase of treasury shares		(95)	-
Proceeds from obtaining new loans		127,628	-
Repayment of subordinated debt		(50,000)	-
Cash raised from issuance of long term bonds	8	132,227	-
Interest payment on Tier 1 capital		(7,187)	-
Issue of initial share capital		-	5,400
Net cash flows from financing activities		202,573	5,400
Foreign currency translation adjustments		(674)	-
Movement in non-controlling interests		1,318	-
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>159,092</b>	<b>324,440</b>
Cash and cash equivalents at the beginning of the period		542,132	-
<b>CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER</b>	<b>5</b>	<b>701,224</b>	<b>324,440</b>

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.



# United Gulf Holding Company B.S.C.

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2018 (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	Treasury share reserve US\$ 000	Statutory reserve US\$ 000	Fair value reserve US\$ 000	Foreign currency translation reserve US\$ 000	Retained earnings / (Accumulated deficit) US\$ 000			
Balance at 1 January 2018	206,487	-	214,477	-	446	90	(1,517)	2,264	422,247	33,000	541,638
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (note 4)	-	-	-	-	-	8,067	-	(16,146)	(8,079)	-	(10,810)
Profit for the period	206,487	-	214,477	-	446	8,157	(1,517)	(13,882)	414,168	33,000	530,828
Other comprehensive loss	-	-	-	-	-	-	-	12,013	12,013	-	14,904
	-	-	-	-	-	(27,446)	(674)	-	(28,120)	-	(30,330)
Total comprehensive (loss) income for the period	-	-	-	-	-	(27,446)	(674)	12,013	(16,107)	-	(15,426)
Transfer upon disposal of non-trading investments	-	-	-	-	-	(5,190)	-	5,190	-	-	-
Purchase of treasury shares	(56)	-	-	(39)	-	-	-	-	(95)	-	(95)
Interest payment on Tier 1 capital	-	-	-	-	-	-	-	(1,752)	(1,752)	-	(1,752)
Share of associate's interest payment on Tier 1 capital	-	-	-	-	-	-	-	(5,435)	(5,435)	-	(5,435)
Acquisition of a subsidiary (note 6)	-	-	-	-	-	-	-	-	-	70,353	70,353
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	3,528	3,528
Excess paid for fair value of net assets acquired (note 7)	-	-	-	-	-	-	-	(2,202)	(2,202)	-	(2,202)
<b>Balance at 30 September 2018</b>	<b>206,487</b>	<b>(56)</b>	<b>214,477</b>	<b>(39)</b>	<b>446</b>	<b>(24,479)</b>	<b>(2,191)</b>	<b>(6,068)</b>	<b>388,577</b>	<b>33,000</b>	<b>579,799</b>
Issue of share capital	206,487	-	214,477	-	-	-	-	-	420,964	-	420,964
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	33,000	142,123
Balance at 30 September 2017	206,487	-	214,477	-	-	-	-	-	420,964	33,000	563,087

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2018 (Reviewed)

**1 INCORPORATION AND PRINCIPAL ACTIVITIES**

**Incorporation**

United Gulf Holding Company B.S.C. ["the Company"] is a joint stock company incorporated in the Kingdom of Bahrain on 28 June 2017 under Commercial Registration number 114160 and is listed on the Bahrain Bourse. The address of the Company's registered office is UGB Tower, Diplomatic Area, P.O. Box 5565, Manama, Kingdom of Bahrain.

**Activities**

The principal activities of the Company 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 Company'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 (Boursa Kuwait). As at 30 September 2018, KIPCO owned 98% of the Company's outstanding shares.

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 13 November 2018.

**2 SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

The interim condensed consolidated financial statements of the Group for the nine-month period ended 30 September 2018 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 as at 31 December 2017. In addition, results for the nine-month period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

The Company was incorporated on 28 June 2017 and did not had any operations for the period from incorporation to 30 September 2017. As a result, the interim consolidated statements of income and other comprehensive income do not contain comparative figures.

**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 period ended 31 December 2017, except for new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

In these interim condensed consolidated financial statements, the Group has applied IFRS 7 (revised) Financial instruments: Disclosures (IFRS 7R), IFRS 9 Financial Instruments (IFRS 9) and IFRS 15 Revenue from contracts with customers (IFRS 15). The nature and the impact of each amendment is described below:

**New standards, interpretations and amendments adopted by the Group**

**IFRS 9 Financial Instruments**

IFRS 9 replaces IAS 39 Financial instruments: recognition and measurement (IAS 39) for annual periods on or after 1 January 2018. The Group has adopted IFRS 9 effective from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the interim condensed consolidated financial statements.



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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New standards, interpretations and amendments adopted by the Group (continued)**

***IFRS 9 Financial Instruments (continued)***

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Consequently, for notes and disclosures, the consequential amendments to revised IFRS 7 Financial instruments: Disclosures (IFRS 7R) have also only been applied to the current period. The comparative period notes and disclosures repeat those disclosures made in the prior year. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below:

***Classification and measurement of financial assets***

Under IFRS 9, the classification and measurement category of all financial assets, except equity instruments and derivatives, is assessed based on a combination of the entity's business model for managing the financial assets and its contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity (HTM) and amortised cost) have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets as fair value through profit or loss (FVTPL).

The above designation of equity investments at FVOCI (i.e. election to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies in other comprehensive income) and debt investment that meets the amortised cost or FVOCI criteria as FVTPL (only if doing so eliminates or significantly reduces an accounting mismatch), through an irrevocable election / designation at initial recognition of a financial asset.

The Group's classification of its financial assets is explained in detail in note 14. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 4.

***Classification and measurement of financial liabilities***

Classification of financial liabilities remained unchanged for the Group. Financial liabilities continue to be measured at amortised cost.

***Impairment of financial assets***

IFRS 9 impairment requirements are based on expected credit loss (ECL) model as compared to the incurred loss model approach under IAS 39. Key changes to the Group's accounting policy for impairment of financial assets are listed below:

Under IFRS 9, the Group applies a three-stage approach to measuring ECL on all loans and debt type financial assets (including loan commitments and financial guarantee contracts) accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in the credit quality since initial recognition:

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New standards, interpretations and amendments adopted by the Group (continued)**

***IFRS 9 Financial Instruments (continued)***

***Impairment of financial assets (continued)***

i) Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk (SICR) since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

ii) Stage 2: Lifetime ECL - not credit impaired

For exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

iii) Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest income is suspended and recognised on cash receipt basis.

For more details on the accounting policies, refer section summary of changes in significant accounting policies. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 4.

***IFRS 7(revised) Financial instruments: Disclosures (IFRS 7R)***

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 4.

Reconciliations from opening to closing ECL allowances are presented in note 4.

IFRS 7R also requires additional and more detailed disclosures for hedge accounting. However, the adoption of IFRS 9 for hedge accounting did not have a material impact on the hedging activities / accounting of the Group, therefore, these will be disclosed in the annual consolidated financial statements for the year ending 31 December 2018.

***IFRS 15 Revenue from contracts with customers (IFRS 15)***

The Group adopted IFRS 15 Revenue from contracts with customers (IFRS 15) resulting in a change in the revenue recognition policy of the Group in relation to its contracts with customers.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several standards and interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The adoption of this standard will result into change in accounting policies as discussed below:

***Performance-based fees***

For revenue from performance-based fees for the provision of services over a period of time, the Group previously accrued revenue over that period. Under IFRS 15, performance-based fees will not be recognised until it is highly probable that a significant reversal in the amount of cumulative revenue will not occur. The recognition of performance-based fees will require significant judgement and are unlikely to be recognised in full until they have crystallised or are no longer subject to clawback.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New standards, interpretations and amendments adopted by the Group (continued)**

***IFRS 15 Revenue from contracts with customers (IFRS 15) (continued)***

*Advisory income*

For revenue from advisory fees for the provision of services over a period of time, the Group previously accrued revenue over that period. Under IFRS 15, the Group applied significant judgement to identify the performance obligations in an advisory service contract and whether each service is capable of being distinct in the context of contract. Revenue from these performance obligations are recognized either at a point in time or over time when the respective performance obligations in a contract are delivered to the customer.

The Group has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity. There were no adjustments to opening retained earnings and other account balances on the adoption of IFRS 15.

Several other amendments to standards and interpretations applied for the first time in 2018, however, they did not impact the interim condensed consolidated financial statements of the Group.

**New standards, interpretations and amendments issued but not yet effective**

The main standard that is issued, but not yet effective, up to the date of issuance of the Group's interim condensed consolidated financial statements is IFRS 16 *Leases*, which is effective from 1 January 2019. The Group intends to adopt the standard, when it becomes effective. The Group is assessing the impact of implementation of the standards.

**Summary of changes in significant accounting policies**

Based on the adoption of new standards explained above and in note 4, the following accounting policies are applicable effective 1 January 2018 replacing / amending or adding to the corresponding accounting policies set out in annual consolidated financial statements for year ended 31 December 2017.

**Financial instruments**

*Date of recognition*

Financial assets and liabilities, with the exception of loans and receivables, due to banks and other financial institutions and deposits from customers, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and receivables are recognised when funds are transferred to the customers' accounts. The Group recognises due to banks and other financial institutions and deposits from customers when funds are transferred to the Group.

*Initial measurement*

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in consolidated income. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in the interim consolidated statement of income when an asset is newly originated.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2018 (Reviewed)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Summary of changes in significant accounting policies (continued)**

**Financial instruments (continued)**

*Initial measurement (continued)*

When the fair value of financial assets and liabilities at initial recognition differs from the transaction price, the Group accounts for the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses data only from observable markets, the difference is recognised as a day 1 gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day 1 profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or when the instrument is derecognised.

*Measurement categories of financial assets and liabilities*

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- FVOCI
- FVTPL

The Group classifies and measures its derivative and trading portfolio at FVTPL. The Group may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Before 1 January 2018, the Group classified its financial assets as loans and receivables (amortised cost), FVTPL, available-for-sale or held-to-maturity (amortised cost), as explained in the annual consolidated financial statements for the year ended 31 December 2017.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are derivative instruments.

**Financial assets**

*Classification and subsequent measurement*

From 1 January 2018, the Group has applied IFRS 9 and classified its financial assets in the following measurement categories:

- Amortised cost;
- FVOCI; or
- FVTPL.

The classification requirements for financial assets is as below:

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset i.e. solely payments of principal and interest (SPPI) test.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:



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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2018 (Reviewed)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Summary of changes in significant accounting policies (continued)**

**Financial assets (continued)**

*Classification and subsequent measurement (continued)*

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured as described in note 4. Interest income from these financial assets is included in 'Interest income' using the EIR method.
- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in interim consolidated statement of income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to consolidated income and recognised in 'Investment income - net' as 'Gain on disposal of non-trading securities'. Interest income from these financial assets is included in 'Interest income' using the EIR method.
- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in consolidated profit or loss and presented in the interim consolidated statement of income within 'Investment income - net' as 'Gain on trading securities' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Investment income - net' as 'Gain on disposal of non-trading securities'. Interest income from these financial assets is included in 'Interest income' using the EIR method.

*Business model*

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'held for trading' business model and measured at FVTPL. The business model assessment is not carried out on an instrument-by-instrument basis but at the aggregate portfolio level and is based on observable factors such as:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the asset's and business model performance is evaluated and reported to key management personnel and Asset and Liability Committee (ALCO);
- How risks are assessed and managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2018 (Reviewed)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Summary of changes in significant accounting policies (continued)**

**Financial assets (continued)**

*Business model (continued)*

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

*SPPI test*

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

Interest is the consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- the currency in which the financial asset is denominated, and the period for which the interest rate is set;
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements).

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

*Equity instruments*

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2018 (Reviewed)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Summary of changes in significant accounting policies (continued)**

**Financial assets (continued)**

*Financial asset at FVTPL*

The Group classifies financial assets fair value through profit and loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the interim consolidated statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Changes in fair values, financing income and dividends are recorded in interim consolidated statement of income according to the terms of the contract, or when the right to payment has been established.

*Equity instruments at FVOCI*

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis. Fair value gains and losses are recognised in OCI and are not subsequently reclassified to consolidated income, including on disposal. Equity investments at FVOCI are not subject to impairment assessment. Dividends are recognised in the interim consolidated statement of income as 'Investment income - net' when the Group's right to receive payments is established. Equity investments at FVOCI are included in non-trading investments in the interim consolidated statement of financial position.

**Financial Liabilities**

*Classification and subsequent measurement*

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the interim consolidated statement of income.

*Modified or forbearance of loans*

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the customer being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2018 (Reviewed)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Summary of changes in significant accounting policies (continued)**

**Financial Liabilities (continued)**

*Modified or forbearance of loans (continued)*

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in consolidated profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forbore loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis or SICR criteria. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forbore asset until it is collected or written off or is transferred back to stage 2.

**Impairment**

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For more details on the impairment calculations and policy refer to note 4 to these interim condensed consolidated financial statements.

**Financial guarantee contracts and loan commitments**

Financial guarantee contracts' are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of this amortized amount and the amount of loss allowance; and
- Before 1 January 2018: at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitments that are measured at FVTPL. For other loan commitments:

- from 1 January 2018: the Group recognises loss allowance; and
- before 1 January 2018: the Group recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2018 (Reviewed)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Summary of changes in significant accounting policies (continued)**

**Derivatives and hedging activities**

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit default swaps, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);
- (b) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges); or
- (c) Hedges of a net investment in a foreign operation (net investment hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

**(a) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

**(b) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the interim consolidated statement of income.

Amounts accumulated in equity are recycled to the consolidated statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects income or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the interim consolidated statement of income.



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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2018 (Reviewed)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Summary of changes in significant accounting policies (continued)**

**(c) Net investment hedge**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the interim consolidated statement of income. Gains and losses accumulated in equity are included in the interim consolidated statement of income when the foreign operation is disposed of as part of the gain or loss on the disposal.

The Group did not have any impact on its retained earnings or profit or loss due to change in hedge accounting under IFRS 9.

**Interest income**

Under both IFRS 9 and IAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

**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 2017 except for new judgements and estimates explained below:

**Measurement of the expected credit loss allowance (ECL)**

The measurement of the ECL for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Internal credit rating model, which assigns PDs to the individual ratings;
- Determining criteria for SICR;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining relevant period of exposure with respect to the revolving facilities and facilities undergoing restructuring at the time of the reporting date.

**Classification of financial assets**

Classification of financial assets in the appropriate category depends upon the business model and SPPI test. Determining the appropriate business model and assessing whether the cash flows generated by the financial asset meet the SPPI test is complex and requires significant judgements by management.

The Group applies judgement while carrying out SPPI test and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****Significant accounting judgements, estimates and assumptions (continued)****Write-off**

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

**Collateral valuation**

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

**3 BASIS OF CONSOLIDATION**

The interim condensed consolidated financial statements include the interim condensed financial statements of the Company and its subsidiaries as at 30 September 2018. The reporting dates of the subsidiaries and the Company are identical and the subsidiaries' accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

The principal subsidiaries of the Company are as follows:

Name of the subsidiary	Country of incorporation	Ownership		Year of incorporation
		30 September 2018	31 December 2017	
<b>Held directly</b>				
United Gulf Bank B.S.C. (c) [UGB]	Bahrain	100%	100%	1980
FIMBank Group [FIMBank]	Malta	75%	61%	1994
Hatoon Real Estate Company	Kuwait	98%	98%	2008
Syria Gulf Investment Company	Syria	99%	99%	2007
<b>Held through UGB</b>				
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	86%	86%	1998
United Gulf Financial Services Company-North Africa	Tunisia	84%	83%	2008
United Gulf Realty International, Ltd	British Virgin Islands	100%	100%	2012
United Gulf Asset Company S.P.C.	Bahrain	100%	100%	2017
<b>Held through KAMCO</b>				
Global Investment House K.S.C. (c)	Kuwait	71%	-	1998
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%	2007
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%	-	2018
Carnation Manager limited	U.K.	100%	-	2018

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

## 3 BASIS OF CONSOLIDATION (continued)

Name of the subsidiary	Country of Incorporation	Ownership		Year of incorporation
		30 September 2018	31 December 2017	
<b>Held through KAMCO (continued)</b>				
Flint Advisor Company Llc	Jersey	46%	46%	2017
Flint Manager Ltd	U.S.A.	100%	100%	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	38%	71%	2016
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
S17P02V Holding Limited	U.A.E.	100%	-	2018
<b>Held through FIMBank</b>				
FIM Holdings (Chile) S.p.a.	Chile	100%	100%	2014
London Forfaiting Company Limited	United Kingdom	100%	100%	2005
London Forfaiting International Limited	United Kingdom	100%	100%	2005
London Forfaiting do Brasil Ltd.	Brazil	100%	100%	2005
FIM Factors B.V.	Netherlands	100%	100%	2005
Menafactors Limited	U.A.E.	100%	100%	2009
FIM Business Solutions Limited	Malta	100%	100%	2005
FIM Property Investment Limited	Malta	100%	100%	2008
The Egyptian Company for Factoring S.A.E.	Egypt	100%	100%	2006
London Forfaiting Americas Inc.	U.S.A.	100%	100%	2009
India Factoring and Finance Solutions Private Limited	India	86%	86%	2010

## 4 TRANSITION DISCLOSURES

- (a) The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets and financial liabilities, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Financial assets	IAS39 carrying amount US\$ 000	Reclassifi- -cation US\$ 000	Remeasu- -ment US\$ 000	IFRS 9 carrying amount US\$ 000	Classifica- -tion under IFRS9
Demand and call deposits with banks	432,067	-	(1)	432,066	Amortised cost
Placements with banks	119,853	-	(204)	119,649	Amortised cost
Investments carried at fair value through statement of income	19,268	(3,704)	-	15,564	FVTPL
Non-trading investments	-	3,704	-	3,704	FVOCI
Non-trading investments	384,172	(44,832)	-	339,340	FVOCI
Investments carried at fair value through statement of income	-	44,832	-	44,832	FVTPL
Loans and receivables	972,292	-	(8,699)	963,593	Amortised cost
Other assets	126,056	-	(201)	125,855	Amortised cost
<b>Total assets</b>	<b>2,053,708</b>	<b>-</b>	<b>(9,105)</b>	<b>2,044,603</b>	

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

## 4 TRANSITION DISCLOSURES (continued)

### (b) Impact on retained earnings and other reserves

	Retained earnings	Other reserves	Non- controlling interests
	US\$ 000	US\$ 000	US\$ 000
Closing balance under IAS 39 (31 December 2017)	2,264	90	86,391
Reclassifications and remeasurement of of investments under IFRS 9	(2,726)	3,036	465
Share of transition adjustments from associates	(7,212)	5,031	(299)
Recognition of expected credit losses under IFRS 9	(6,208)	-	(2,897)
Opening balance under IFRS 9 (1 January 2018)	<u>(13,882)</u>	<u>8,157</u>	<u>83,660</u>

### (c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing loan loss provisions measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 ECL model at 1 January 2018:

Measurement category	Loan loss allowance under IAS 39	Remeasure- -ment	ECL under IFRS 9
	US\$ 000	US\$ 000	US\$ 000
Demand and call deposits with banks	-	1	1
Placements with banks	-	204	204
Loans and receivables	39,511	8,699	48,210
Other assets	-	201	201
Total	<u>39,511</u>	<u>9,105</u>	<u>48,616</u>

### (d) Loans and receivables

Following is the stage wise break-up as of the date of transition to IFRS 9:

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Loans and advances	829,472	131,255	51,076	1,011,803
ECL allowances	(3,111)	(11,466)	(33,633)	(48,210)
As at 1 January 2018	<u>826,361</u>	<u>119,789</u>	<u>17,443</u>	<u>963,593</u>

	30 September 2018 (Reviewed)				Audited 31 December 2017
	Stage 1	Stage 2	Stage 3	Total	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Loans and advances	921,389	176,357	105,375	1,203,121	1,011,803
ECL allowances	(2,442)	(11,332)	(49,037)	(62,811)	(39,511)
	<u>918,947</u>	<u>165,025</u>	<u>56,338</u>	<u>1,140,310</u>	<u>972,292</u>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2018 (Reviewed)

**4 TRANSITION DISCLOSURES (continued)**

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

	<b>Stage 1</b> <b>US\$ 000</b>	<b>Stage 2</b> <b>US\$ 000</b>	<b>Stage 3</b> <b>US\$ 000</b>	<b>Total</b> <b>US\$ 000</b>
As at 1 January 2018	3,111	11,466	33,633	48,210
Charge for the period - net	(548)	32	7,976	7,460
Reclassification/ transfers between stages	(121)	3,513	(3,392)	-
Write back of ECL allowances	-	(3,679)	-	(3,679)
Amounts written off	-	-	(7)	(7)
Acquisition of subsidiary (note 6)	-	-	10,827	10,827
As at 30 September 2018	<b>2,442</b>	<b>11,332</b>	<b>49,037</b>	<b>62,811</b>

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above:

**(A) Designation of equity instruments at FVOCI**

The Group has elected to irrevocably designate investments of US\$ 3,704 thousand that were previously classified as FVTPL, at FVOCI as permitted under IFRS 9. The changes in fair value of such securities will no longer be reclassified to interim consolidated statement of income when they are disposed of.

**(B) Designation of equity instruments at FVTPL**

The Group has elected to designate certain of its investments at a carrying value of US\$ 44,832 thousand as FVTPL as permitted under IFRS 9 from the initial date of application. These investments were previously classified as available-for-sale. Any changes in fair value of these securities will be recognised in the interim consolidated statement of income.

**5 CASH AND CASH EQUIVALENTS**

	<b>Reviewed</b> <b>30 September</b> <b>2018</b> <b>US\$ 000</b>	<b>Audited</b> <b>31 December</b> <b>2017</b> <b>US\$ 000</b>
Demand and call deposits with banks	544,193	422,279
Time deposits with original maturities of ninety days or less	159,128	119,853
Cash and cash equivalents gross of expected credit losses	703,321	542,132
Expected credit losses as per IFRS 9	(2,097)	-
<b>Cash and cash equivalents net of expected credit losses</b>	<b>701,224</b>	<b>542,132</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

## 6 BUSINESS COMBINATION

During September 2018, the Group (through its subsidiary KAMCO) acquired 396,426,434 shares, representing 71.18% effective equity interest of Global Investment House K.S.C. (Closed) ("GIH"), a Kuwaiti Shareholding Company, regulated by CMA as an investment company and CBK for financing activities. GIH is principally engaged in provision of asset management, investment banking and brokerage activities. The Group was able to control the investee and therefore, the entity became a subsidiary of the Group. Accordingly, GIH has been consolidated from 1 September 2018 being the date of exercise of control. The acquisition has been accounted for in accordance with IFRS 3: Business combination ("IFRS 3").

The consideration paid and the provisional values of assets acquired and liabilities assumed, as well as the non-controlling interest at the proportionate share of the acquiree's identifiable net assets, are summarized as follows:

	<i>US\$ 000</i>
<b>Assets</b>	
Demand and call deposits with banks	108,739
Investments carried at fair value through statement of income	63,953
Non-trading investments	23,112
Held to maturity investments	494
Loans and receivables	19,809
Other assets	36,430
Investments in associates	425
Investment properties	2,279
Property and equipment	24,999
	<b>280,240</b>
<b>Liabilities</b>	
Other liabilities	48,414
	<b>231,826</b>
<b>Total identifiable net assets at fair value</b>	<b>231,826</b>
Non-controlling interests	4,982
	<b>226,844</b>
Group's share of net assets acquired	161,473
Provisional bargain purchase gain	(3,664)
<b>Total purchase consideration</b>	<b>157,809</b>
<b>Analysis of cash flows on business combination</b>	
Cash consideration	(132,307)
Demand and call deposits with banks in subsidiary acquired	108,739
<b>Net cash out flow on business combination</b>	<b>(23,568)</b>
<b>Deferred consideration payable</b>	<b>(25,502)</b>

In accordance with requirements of IFRS 3, the Group has carried out a preliminary Purchase Price Allocation exercise which resulted in a provisional bargain purchase gain from business combination, since the fair value of the assets acquired and liabilities assumed exceeded the purchase consideration paid and related transaction expenses. Non-controlling interest has been recognised at the proportionate share of GIH's identifiable net assets.

Acquisition-related costs are charged to the interim condensed consolidated income statement of the Group.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

**6 BUSINESS COMBINATION (continued)**

Had the business combinations taken place at the beginning of the year, revenue of the Group and profit attributable to equity holders of the Group, would have been higher by US\$ 35,391 thousand and US\$ 11,193 thousand, respectively.

The Group is required to pay deferred consideration of US\$ 8,264 thousand after 180 days of the acquisition and remaining amount of US\$ 17,238 thousand is payable by January 2019, as per the arrangement terms agreed between the parties.

**7 INCREASE IN OWNERSHIP OF SUBSIDIARY**

During the period, FIMBank increased its issued share capital through a rights issue by issuing a total of 190,909,091 new ordinary shares. The Group had subscribed to the rights issue and acquired an additional 13.72% interest in the new ordinary shares of FIMBank, increasing its ownership interest to 74.89%, pursuant to the terms of an underwriting and subscription agreement. The new ordinary shares from the rights issue and additional interest were acquired for a total consideration of US\$ 102.3 million.

**8 LONG TERM BONDS**

	<i>Reviewed</i> <b>30 September</b> <b>2018</b> <b>US\$ 000</b>	<i>Audited</i> <b>31 December</b> <b>2017</b> <b>US\$ 000</b>
Fixed interest of 6.00% p.a. and maturing on 26 July 2023, (KD 14.9 million)	<b>49,255</b>	-
Floating interest of CBK discount rate + 2.75% p.a. (capped at 7% p.a.) and maturing on 26 July 2023, (KD 25.1 million)	<b>82,972</b>	-
	<b>132,227</b>	-

**9 PERPETUAL TIER 1 CAPITAL**

On 28 March 2016, UGB (a subsidiary) issued Perpetual Additional Tier 1 Capital (the "AT1 Capital") amounting to US\$ 33,000 thousand. The AT1 Capital constitutes subordinated obligations of UGB 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 UGB 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.

UGB at its sole discretion may elect not to distribute interest and this is not considered an event of default. If UGB does not pay interest on the AT1 Capital (for whatever reason), then UGB 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 Holding Company B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

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

	Reviewed			
	Nine-month period ended 30 September 2018			
	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	-	380	-	380
Fees and commissions - net	2,476	14,957	3,351	20,784
Dividend income	-	-	1,427	1,427
Rental income	1,675	166	-	1,841
Interest income	-	1,121	454	1,575
Interest expense	(111)	(13,944)	(2,498)	(16,553)
Others - net	-	-	(944)	(944)

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

# United Gulf Holding Company B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

### 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				
	Period ended 30 September 2018				
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000	Audited 31 December 2017 US\$ 000
Demand and call deposits with banks	-	13,704	71	13,775	2,157
Placements with banks	-	2,561	18,242	20,803	22,778
Investments carried at fair value through statement of income	-	-	8,976	8,976	2,209
Non-trading investments	-	-	126,738	126,738	134,931
Loans and receivables	-	-	8,238	8,238	21,027
Other assets	2,596	11,645	3,044	17,285	27,122
Due to banks and other financial institutions	-	(77,209)	(121,749)	(198,958)	(172,689)
Deposits from customers	(146)	(1,176)	(9,050)	(10,372)	(38,777)
Loans payable	-	(444,794)	(8,000)	(452,794)	(403,210)
Subordinated debt	-	-	-	-	(50,000)
Other liabilities	(635)	(5,623)	(4,811)	(11,069)	(5,909)
Perpetual Tier 1 Capital	-	-	(10,000)	(10,000)	(10,000)
Off statement of financial position items:					
Letters of credit	-	-	14,481	14,481	-
Letters of guarantee	-	-	150	150	150

All related party exposures are performing.



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2018 (Reviewed)

**11 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 2018 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	42,039	61,152	103,191
Share of results of associates - net	(10,495)	37,972	27,477
<b>Total income</b>	<b>31,544</b>	<b>99,124</b>	<b>130,668</b>
Operating income before provisions and taxation	16,918	9,000	25,918
Provisions for expected credit losses - net	(2,000)	(5,655)	(7,655)
Provision for losses against unfunded participation	(731)	-	(731)
Taxation - net	617	(1,778)	(1,161)
<b>Net profit for the period from continuing operations</b>	<b>14,804</b>	<b>1,567</b>	<b>16,371</b>
Net profit (loss) from discontinued operations	524	(1,991)	(1,467)
<b>Net profit for the period</b>	<b>15,328</b>	<b>(424)</b>	<b>14,904</b>
Profit attributable to shareholders of the parent			12,013
Profit attributable to non-controlling interests			2,891
<b>Net profit for the period</b>			<b>14,904</b>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

**11 SEGMENTAL INFORMATION (continued)**

**Segmental assets and liabilities**

Segmental assets and liabilities at 30 September 2018 were as follows:

	<i>Reviewed</i>		
	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>
Investments in associates	215,969	527,498	743,467
Segment assets	1,295,819	2,105,932	3,401,751
Segment liabilities	863,498	1,958,454	2,821,952

Segmental assets and liabilities at 31 December 2017 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	240,407	517,974	758,381
Segment assets	1,034,256	1,982,734	3,016,990
Segment liabilities	1,070,082	1,405,270	2,475,352

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

**Commitments**

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

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2018 (Reviewed)

**12 COMMITMENTS, CONTINGENCIES AND OTHER OFF STATEMENT OF FINANCIAL POSITION ITEMS (continued)**

**Commitments**

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

	<i>Reviewed</i> <b>30 September</b> <b>2018</b> <b>US\$ 000</b>	<i>Audited</i> <b>31 December</b> <b>2017</b> <b>US\$ 000</b>
Credit-related commitments:		
Letters of credit	<b>69,741</b>	63,025
Letters of guarantee	<b>11,186</b>	54,743
	<b>80,927</b>	117,768
Investments and loan related commitments	<b>247,549</b>	242,141
	<b>328,476</b>	359,909

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.

**13 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> <b>30 September</b> <b>2018</b> <b>US\$ 000</b>	<i>Audited</i> <b>31 December</b> <b>2017</b> <b>US\$ 000</b>
<i>Derivatives held for trading:</i>		
Forward foreign exchange contracts *	<b>520,216</b>	533,680
<i>Derivatives used as hedge of net investments in foreign operations:</i>		
Forward foreign exchange contracts	<b>379,789</b>	453,792
<i>Derivatives used as cash flow hedges:</i>		
Interest rate swap	<b>240,000</b>	145,000

\* 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 Holding Company B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

### 14 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 FVTPL</i>	<i>FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
<b>30 September 2018</b>	<b>US\$ 000</b>	<b>US\$ 000</b>	<b>US\$ 000</b>	<b>US\$ 000</b>	<b>US\$ 000</b>
Demand and call deposits with banks	-	-	-	556,886	556,886
Placements with banks	-	-	-	157,031	157,031
Investments carried at fair value through statement of income	82,998	4,067	-	-	87,065
Non-trading investments	-	-	329,158	-	329,158
Loans and receivables	-	-	-	1,140,310	1,140,310
Other assets	1,000	3,350	-	140,121	144,471
<b>Total financial assets</b>	<b>83,998</b>	<b>7,417</b>	<b>329,158</b>	<b>1,994,348</b>	<b>2,414,921</b>
Due to banks and other financial institutions	-	-	-	490,330	490,330
Deposits from customers	-	-	-	1,069,399	1,069,399
Loans payable	-	-	-	984,054	984,054
Long term bonds	-	-	-	132,227	132,227
Other liabilities	-	-	-	145,942	145,942
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,821,952</b>	<b>2,821,952</b>
		<i>Designated at fair value through statement of income</i>		<i>Amortised cost / Loans and receivables</i>	
	<i>Held for trading</i>	<i>US\$ 000</i>	<i>Available-for-sale</i>	<i>US\$ 000</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
<b>31 December 2017</b>					
Demand and call deposits with banks	-	-	-	432,067	432,067
Placements with banks	-	-	-	119,853	119,853
Investments carried at fair value through statement of income	17,983	1,285	-	-	19,268
Non-trading investments	-	-	384,172	-	384,172
Loans and receivables	-	-	-	972,292	972,292
Other assets	-	1,100	-	118,517	119,617
<b>Total financial assets</b>	<b>17,983</b>	<b>2,385</b>	<b>384,172</b>	<b>1,642,729</b>	<b>2,047,269</b>
Due to banks and other financial institutions	-	-	-	624,422	624,422
Deposits from customers	-	-	-	878,220	878,220
Loans payable	-	-	-	856,426	856,426
Subordinated debt	-	-	-	50,000	50,000
Other liabilities	115	-	-	66,169	66,284
<b>Total financial liabilities</b>	<b>115</b>	<b>-</b>	<b>-</b>	<b>2,475,237</b>	<b>2,475,352</b>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2018 (Reviewed)

**15 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.

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 2018:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>US\$ 000</b>	<b>US\$ 000</b>	<b>US\$ 000</b>	<b>US\$ 000</b>
<b>Assets measured at fair value</b>				
Investments carried at fair value through statement of income				
Equities - quoted	3,912	-	-	3,912
Debt securities - quoted	6,713	-	-	6,713
Equities - unquoted	-	-	1,487	1,487
Managed funds	-	44,664	30,289	74,953
Non-trading investments				
Equities - quoted	80,447	-	-	80,447
Debt securities - quoted	86,943	-	-	86,943
Equities - unquoted	-	87,343	43,006	130,349
Real estate managed funds - unquoted	-	11,841	155	11,996
Other managed funds	-	-	19,423	19,423
Derivatives				
Held for trading	-	1,532	-	1,532
Interest rate swap	-	3,350	-	3,350
Investment properties	-	-	108,963	108,963
	<b>178,015</b>	<b>148,730</b>	<b>203,323</b>	<b>530,068</b>
<b>Liabilities measured at fair value</b>				
Derivatives				
Used as hedge of net investments in foreign operations	-	(532)	-	(532)
	<b>-</b>	<b>(532)</b>	<b>-</b>	<b>(532)</b>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2018 (Reviewed)

**15 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 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	6,305	-	-	6,305
Debt securities - quoted	11,678	-	-	11,678
Managed funds	-	1,285	-	1,285
Non-trading investments				
Equities - quoted	78,430	-	-	78,430
Debt securities - quoted	104,592	-	-	104,592
Equities - unquoted	-	77,539	538	78,077
Real estate managed funds - unquoted	-	11,467	-	11,467
Other managed funds	-	25,011	25,301	50,312
Derivatives				
Interest rate swap	-	1,100	-	1,100
Investment properties	-	-	105,093	105,093
	<u>201,005</u>	<u>116,402</u>	<u>130,932</u>	<u>448,339</u>
Liabilities carried at fair value				
Derivatives				
Used as hedge of net investments in foreign operations	-	(115)	-	(115)
	<u>-</u>	<u>(115)</u>	<u>-</u>	<u>(115)</u>

**Transfers between Level 1, Level 2 and Level 3**

During the period from 1 January to 30 September 2018 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 (period ended 31 December 2017: same).