

United Gulf Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2016 (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 2016, comprising the interim consolidated statement of financial position as at 30 September 2016 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.



10 November 2016
Manama, Kingdom of Bahrain

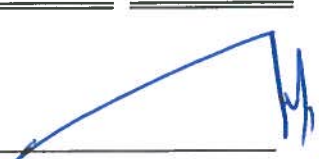
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016 (Reviewed)

		<i>Reviewed</i> 30 September 2016 US\$ 000	<i>Audited</i> 31 December 2015 US\$ 000	<i>Reviewed</i> 30 September 2015 US\$ 000
	<i>Note</i>			
ASSETS				
Demand and call deposits with banks		147,888	176,793	239,720
Placements with banks		251,745	57,026	115,201
Investments carried at fair value through statement of income		53,223	50,661	55,571
Non-trading investments	4	408,368	285,003	287,485
Loans and receivables		1,149,758	1,032,098	769,022
Other assets		138,787	119,686	115,251
Investments in associates		718,410	853,984	858,794
Investment properties		102,204	46,222	43,722
Property and equipment		39,513	41,694	41,257
Goodwill		52,705	52,321	54,304
Assets of disposal group classified as held for sale		198	1,028	1,184
TOTAL ASSETS		3,062,799	2,716,516	2,581,511
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		782,546	838,160	716,855
Deposits from customers		933,985	462,086	433,898
Loans payable		617,623	714,568	691,609
Subordinated debt		123,470	143,270	143,270
Other liabilities		61,268	54,999	79,110
Liabilities of disposal group classified as held for sale		211	166	206
TOTAL LIABILITIES		2,519,103	2,213,249	2,064,948
EQUITY				
Share capital		208,651	208,651	208,651
Treasury shares		(18,131)	(18,131)	(18,131)
Share premium		11,459	11,459	11,459
Statutory reserve		99,888	99,888	98,766
General reserve		80,373	80,373	79,251
Treasury shares reserve		14,248	14,248	14,248
Fair value reserve		(49,533)	(48,159)	(35,297)
Foreign currency translation reserve		(31,987)	(34,890)	(31,059)
Retained earnings		86,415	80,497	77,493
CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		401,383	393,936	405,381
Perpetual Tier 1 capital	6	33,000	-	-
Non-controlling interests		109,313	109,331	111,182
TOTAL EQUITY		543,696	503,267	516,563
TOTAL LIABILITIES AND EQUITY		3,062,799	2,716,516	2,581,511


 Masaud Hayat
 Chairman


 Faisal Al Ayyar
 Vice Chairman

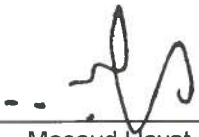

 Hussain Lalani
 Acting Chief Executive Officer

The attached explanatory notes 1 to 11 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the nine-month period ended 30 September 2016 (Reviewed)

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2016	2015	2016	2015
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Investment income - net	5,848	(3,710)	13,549	1,966
Interest income	12,507	13,229	35,537	44,505
	18,355	9,519	49,086	46,471
Fees and commissions	7,688	7,357	27,866	22,780
Foreign currency translation (losses) gains - net	(4,402)	395	(4,477)	2,261
Share of results of associates - net	9,541	12,328	30,679	33,394
Total income	31,182	29,599	103,154	104,906
Interest expense	(12,027)	(13,159)	(39,138)	(38,592)
Operating income before expenses and provisions	19,155	16,440	64,016	66,314
Salaries and benefits	(12,423)	(11,874)	(37,431)	(37,011)
General and administrative expenses	(5,930)	(6,984)	(20,372)	(22,038)
Operating income (loss) before provisions	802	(2,418)	6,213	7,265
(Provisions) reversal of provision for loans and receivables	(1,180)	1,858	(3,169)	(6,698)
Provision for impairment on investments	-	-	(1,700)	-
Taxation - net	(371)	(226)	(1,270)	1,205
Net (loss) profit for the period from continuing operations	(749)	(786)	74	1,772
Discontinued operations				
Net loss from discontinued operations	(20)	(243)	(68)	(2,585)
Net (loss) profit for the period	(769)	(1,029)	6	(813)
Net loss attributable to non-controlling interests	(2,453)	(1,796)	(5,912)	(6,784)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	1,684	767	5,918	5,971
Net (loss) profit for the period attributable to:				
Non-controlling interests				
- from continuing operations	(2,446)	(1,701)	(5,886)	(5,781)
- from discontinued operations	(7)	(95)	(26)	(1,003)
	(2,453)	(1,796)	(5,912)	(6,784)
Shareholders of the parent				
- from continuing operations	1,696	915	5,960	7,553
- from discontinued operations	(12)	(148)	(42)	(1,582)
	1,684	767	5,918	5,971
Earnings per share				
Basic and diluted earnings per share attributable to shareholders of the parent (US cents)	0.21	0.09	0.73	0.73
Basic and diluted earnings per share from continuing operations attributable to shareholders of the parent (US cents)	0.21	0.11	0.73	0.93


 Masaud Hayat
 Chairman


 Faisal Al Ayyar
 Vice Chairman


 Hussain Lalani
 Acting Chief Executive Officer

The attached explanatory notes 1 to 11 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine-month period ended 30 September 2016 (Reviewed)

	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	2016	2015	2016	2015
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
NET (LOSS) PROFIT FOR THE PERIOD	(769)	(1,029)	6	(813)
Other comprehensive income (loss) for the period to be reclassified to profit or loss in subsequent periods:				
Foreign currency translation reserve	295	232	3,058	(21,431)
Fair values reserve	5,410	(4,886)	6,643	(811)
Transfer to interim consolidated statement of income upon disposal	654	171	2,949	(19,452)
Share of other comprehensive loss of associates - net	(4,444)	(11,250)	(10,903)	(22,433)
Cash flow hedges	(40)	6	(322)	(36)
Other comprehensive income (loss) for the period to be reclassified to profit or loss in subsequent periods	1,875	(15,727)	1,425	(64,163)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	1,106	(16,756)	1,431	(64,976)
Total comprehensive income (loss) attributable to				
- shareholders of the parent	6,105	(13,641)	7,447	(57,521)
- non-controlling interests	(4,999)	(3,115)	(6,016)	(7,455)
	1,106	(16,756)	1,431	(64,976)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine-month period ended 30 September 2016 (Reviewed)

		Nine-month period ended 30 September	
		2016	2015
	Note	US\$ 000	US\$ 000
OPERATING ACTIVITIES			
Net profit for the period		74	1,772
Adjustments for non-cash items:			
Depreciation		3,581	1,810
Loss on investments carried at fair value through statement of income		268	5,370
Share of results of associates - net		(30,679)	(33,394)
Provisions for loans and receivables		3,169	6,698
Provision for impairment on investments		1,700	-
Gain on sale of associates & subsidiaries		(1,436)	(1,375)
Loss on fair valuation of investment properties		-	422
Interest income		(35,537)	(44,505)
Interest expense		39,138	38,592
Dividend income		(5,442)	(2,532)
Gain on bargain purchase		(1,137)	-
Operating loss before working capital changes		(26,301)	(27,142)
Changes in operating assets and liabilities:			
Placements with banks with original maturities of more than ninety days		(7,199)	(23,228)
Investments carried at fair value through statement of income		10,950	(3,878)
Non-trading investments		(21,117)	13,555
Loans and receivables		(108,088)	111,444
Other assets		(15,594)	283
Due to banks and other financial institutions		(65,468)	4,240
Deposits from customers		467,366	(114,519)
Other liabilities		2,069	16,047
Net assets of disposal group classified as held for sale		807	4,081
Interest received		34,258	43,714
Interest paid		(34,178)	(37,859)
Dividends received		5,442	2,532
Directors' remuneration		(220)	(220)
Donations		(200)	(200)
Net cash from (used in) operating activities		242,527	(11,150)
INVESTING ACTIVITIES			
Investments in subsidiaries - net of cash acquired		(3,944)	-
Investments in associates - net		6,793	18,738
Investment properties - net		(87)	(39,370)
Property and equipment - net		(1,382)	(3,141)
Net cash from (used in) investing activities		1,380	(23,773)
FINANCING ACTIVITIES			
Repayments of loans		(96,945)	(89,738)
Issue of perpetual Tier 1 capital	6	33,000	-
(Repayment) proceeds from issue of subordinated debt		(19,800)	50,000
Net cash used in financing activities		(83,745)	(39,738)
Foreign currency translation adjustments		2,903	(20,656)
Movement in non-controlling interests		(4,900)	481
NET CHANGE IN CASH AND CASH EQUIVALENTS		158,165	(94,836)
Cash and cash equivalents at 1 January		220,957	418,416
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	5	379,122	323,580

The attached explanatory notes 1 to 11 form part of these interim condensed consolidated financial statements.

United Gulf Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2016 (Reviewed)

	Attributable to shareholders of the parent								Total before	
	Share capital US\$ 000	Treasury shares US\$ 000	Share premium US\$ 000	Statutory reserve US\$ 000	General reserve US\$ 000	Treasury share reserve US\$ 000	Fair value reserve US\$ 000	Foreign currency translation reserve US\$ 000	Retained earnings US\$ 000	non-controlling interests US\$ 000
Balance at 1 January 2016	208,651	(18,131)	11,459	99,888	80,373	14,248	(48,159)	(34,890)	80,497	393,936
Profit (loss) for the period	-	-	-	-	-	-	-	-	5,918	5,918
Other comprehensive (loss) income	-	-	-	-	-	-	(1,374)	2,903	-	1,529
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(1,374)	2,903	5,918	7,447
Perpetual Tier 1 capital	-	-	-	-	-	-	-	-	-	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-
Balance at 30 September 2016	208,651	(18,131)	11,459	99,888	80,373	14,248	(49,533)	(31,987)	86,415	401,383
Balance at 1 January 2015	208,651	(18,131)	11,459	98,766	79,251	14,248	7,539	(10,403)	71,522	462,902
Profit (loss) for the period	-	-	-	-	-	-	-	-	5,971	5,971
Other comprehensive loss	-	-	-	-	-	-	(42,836)	(20,656)	-	(63,492)
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(42,836)	(20,656)	5,971	(57,521)
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-
Balance at 30 September 2015	208,651	(18,131)	11,459	98,766	79,251	14,248	(35,297)	(31,059)	77,493	405,381

	Share capital US\$ 000	Treasury shares US\$ 000	Share premium US\$ 000	Statutory reserve US\$ 000	General reserve US\$ 000	Treasury share reserve US\$ 000	Fair value reserve US\$ 000	Foreign currency translation reserve US\$ 000	Retained earnings US\$ 000	non-controlling interests US\$ 000	Perpetual Tier 1 capital US\$ 000	Non-controlling interests US\$ 000	Total equity US\$ 000
Balance at 1 January 2016	208,651	(18,131)	11,459	99,888	80,373	14,248	(48,159)	(34,890)	80,497	393,936	-	109,331	503,267
Profit (loss) for the period	-	-	-	-	-	-	-	-	5,918	5,918	-	(5,912)	6
Other comprehensive (loss) income	-	-	-	-	-	-	(1,374)	2,903	-	1,529	-	(104)	1,425
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(1,374)	2,903	5,918	7,447	-	(6,016)	1,431
Perpetual Tier 1 capital	-	-	-	-	-	-	-	-	-	-	33,000	-	33,000
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	5,998	5,998
Balance at 30 September 2016	208,651	(18,131)	11,459	99,888	80,373	14,248	(49,533)	(31,987)	86,415	401,383	33,000	109,313	543,696
Balance at 1 January 2015	208,651	(18,131)	11,459	98,766	79,251	14,248	7,539	(10,403)	71,522	462,902	-	117,485	580,387
Profit (loss) for the period	-	-	-	-	-	-	-	-	5,971	5,971	-	(6,784)	(813)
Other comprehensive loss	-	-	-	-	-	-	(42,836)	(20,656)	-	(63,492)	-	(671)	(64,163)
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(42,836)	(20,656)	5,971	(57,521)	-	(7,455)	(64,976)
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	1,152	1,152
Balance at 30 September 2015	208,651	(18,131)	11,459	98,766	79,251	14,248	(35,297)	(31,059)	77,493	405,381	-	111,182	516,563

The attached explanatory notes 1 to 11 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS

As at 30 September 2016 (Reviewed)

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Incorporation

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

Activities

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

The Bank's parent and ultimate holding company is Kuwait Projects Company (Holding) K.S.C. ["KIPCO"], a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. As at 30 September 2016, KIPCO owned 97.77% of the Bank's outstanding shares (31 December 2015: 97.77%).

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 10 November 2016.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the nine-month period ended 30 September 2016 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 2015. In addition, results for the nine-month period ended 30 September 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

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 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016.

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

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

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2016 (Reviewed)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2016 (Reviewed)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Amendments to IAS 1 Disclosure Initiative (continued)

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2016 (Reviewed)

3 BASIS OF CONSOLIDATION

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

The Bank has the following principal subsidiaries:

Name of the subsidiary	Country of incorporation	Legal ownership		Year of incorporation
		30 September 2016	31 December 2015	
Held directly				
FIMBank Group [FIMBank]	Malta	61%	61%	1994
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	86%	86%	1998
Hatoon Real Estate Company	Kuwait	98%	98%	2008
Syria Gulf Investment Company	Syria	99%	99%	2007
Takaud Saving & Pensions Company	Bahrain	50%	50%	2011
United Gulf Financial Services Company-North Africa	Tunisia	85%	85%	2008
United Gulf Realty International, Ltd	British Virgin Islands	100%	100%	2012
Held through KAMCO				
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	100%	2007
Al Jazi Money Market Fund	Kuwait	48%	17%	2016
KAMCO Mena Plus Fixed Income Fund	Kuwait	65%	44%	2009
Al Zad Real Estate W.L.L.	Kuwait	99%	99%	2007
Kamco GCC Opportunistic Fund	Kuwait	100%	87%	2013
Kuwait Private Equity Opportunity Fund	Kuwait	71%	71%	2004
North Africa Real Estate Co.	Kuwait	100%	100%	2014
Orange Real Estate Co. W.L.L.	Kuwait	100%	100%	2005
Held through FIMBank				
India Factoring and Finance Solutions Private Limited	India	79%	79%	2010
CIS Factors Holdings B.V.	Russia	100%	100%	2009
FIM Holdings (Chile) S.p.a.	Chile	100%	100%	2014
First Factors S.A.	Chile	51%	51%	2014
London Forfaiting Company Limited	United Kingdom	100%	100%	2009
London Forfaiting International Limited	United Kingdom	100%	100%	2009
London Forfaiting Americas Inc.	United States of America	100%	100%	2009
London Forfaiting do Brasil Ltd.	Brazil	100%	100%	2009
FIM Factors B.V.	Netherlands	100%	100%	2009
Menafactors Limited	United Arab Emirates	100%	100%	2009
FIM Business Solutions Limited	Malta	100%	100%	2009
FIM Property Investment Limited	Malta	100%	100%	2010
Emerging Market Trade Finance Fund	Malta	100%	100%	2013
The Egyptian Company for Factoring S.A.E.	Egypt	100%	50%	2016

4 NON - TRADING INVESTMENTS

Included under non-trading investments are unquoted available for sale investments, primarily representing nominal equity stakes of up to 13.9% (31 December 2015: 13.9%) in various geographically and sectorally dispersed entities, amounting to US\$ 32,668 thousand (31 December 2015: US\$ 42,782 thousand) for which fair value cannot be determined with sufficient accuracy, as future cash flows are not determinable. Accordingly, these investments are carried at cost less provisions for impairment.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2016 (Reviewed)

5 CASH AND CASH EQUIVALENTS

	<i>Reviewed</i> 30 September 2016 US\$ 000	<i>Audited</i> 31 December 2015 US\$ 000	<i>Reviewed</i> 30 September 2015 US\$ 000
Demand and call deposits with banks	127,377	168,743	239,720
Time deposits with original maturities of ninety days or less	251,745	52,214	83,860
	379,122	220,957	323,580

6 PERPETUAL TIER 1 CAPITAL

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

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

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

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

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2016 (Reviewed)

7 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 2016			Reviewed Nine-month period ended 30 September 2015
	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	-	25	1	26
Gain (loss) on sale of non-trading investments	-	-	697	697
Gain on sale of investments in associated and subsidiary companies	1,145	-	-	1,145
Fees and commissions	2,013	3,196	4,220	9,429
Dividend income	-	18	69	87
Interest income	-	1,562	631	2,193
Interest expense	(1,070)	(7,067)	(2,626)	(10,763)
Others - net	4	1,712	(715)	1,001
Purchase transactions				
Non-trading investments*	44,449	50,000	-	94,449
Investments in associated company	-	-	-	-
Investment properties*	56,000	-	-	56,000
Sales transactions				
Sale of subsidiary	-	-	-	-
Non-trading investments	-	-	-	-
Investments in associated company*	146,000	-	-	146,000
Investment properties	-	-	-	-

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

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

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2016 (Reviewed)

7 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				Audited 31 December 2015 US\$ 000	Reviewed 30 September 2015 US\$ 000
	30 September 2016			Total US\$ 000		
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000			
Demand and call deposits with banks	-	4,379	572	4,951	1,280	2,479
Placements with banks	-	-	20,441	20,441	30,856	42,876
Investments carried at fair value through statement of income	-	-	2,610	2,610	3,759	3,321
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	-	4,934	15,367	20,301	28,343	28,573
Loans and receivables	-	17,753	8,152	25,905	36,839	35,242
Other assets	1,924	35,372	10,409	47,705	53,882	53,125
Due to banks and other financial institutions	-	(75,746)	(121,237)	(196,983)	(185,134)	(150,495)
Deposits from customers	(136)	(11,448)	(18,440)	(30,024)	(17,679)	(15,741)
Loans payable	-	(306,559)	-	(306,559)	(492,865)	(374,383)
Subordinated debt	-	(50,000)	-	(50,000)	(50,000)	(50,000)
Other liabilities	(635)	(3,708)	(3,270)	(7,613)	(5,637)	(5,371)
Perpetual Tier 1 Capital	-	-	(10,000)	(10,000)	-	-
Off statement of financial position items:						
Letters of guarantee	-	-	150	150	-	-
Funds managed or advised by the Group	-	-	32,812	32,812	-	-

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2016 (Reviewed)

8 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 2016 were as follows:

	<i>Reviewed</i>		
	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>
Income from external customers	22,497	49,978	72,475
Share of results of associates - net	5,183	25,496	30,679
Total income	27,680	75,474	103,154
Operating income before provisions and tax	4,855	1,358	6,213
Write-backs of provisions			
(provisions) for loans and receivables	3,000	(6,169)	(3,169)
Provision for impairment on investments	(1,700)	-	(1,700)
Taxation - net	(20)	(1,250)	(1,270)
Profit (loss) for the period from continuing operations	6,135	(6,061)	74
Discontinued operations			
Net loss from discontinued operations	-	(68)	(68)
Net profit (loss) for the period	6,135	(6,129)	6
Profit attributable to shareholders of the parent			5,918
Loss attributable to non-controlling interests			(5,912)
Net profit for the period			6

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2016 (Reviewed)

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

Segmental results for the nine-month period ended 30 September 2015 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	20,262	51,250	71,512
Share of results of associates - net	646	32,748	33,394
Total income	<u>20,908</u>	<u>83,998</u>	<u>104,906</u>
Operating income before provisions and tax	5,290	1,975	7,265
Impairment loss on loans and receivables	-	(6,698)	(6,698)
Taxation - net	-	1,205	1,205
Profit (loss) for the period from continuing operations	<u>5,290</u>	<u>(3,518)</u>	<u>1,772</u>
Discontinued operations			
Net loss from discontinued operations	-	(2,585)	(2,585)
Net profit (loss) for the period	<u>5,290</u>	<u>(6,103)</u>	<u>(813)</u>
Profit attributable to shareholders of the parent			5,971
Loss attributable to non-controlling interests			(6,784)
Net loss for the period			<u>(813)</u>

Segmental assets and liabilities

Segmental assets and liabilities at 30 September 2016 were as follows:

	<i>Reviewed</i>		
	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>
Investments in associates	<u>234,047</u>	<u>484,363</u>	<u>718,410</u>
Segment assets	<u>1,020,364</u>	<u>2,042,435</u>	<u>3,062,799</u>
Segment liabilities	<u>1,042,646</u>	<u>1,476,457</u>	<u>2,519,103</u>

Segmental assets and liabilities at 31 December 2015 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	<u>311,483</u>	<u>542,501</u>	<u>853,984</u>
Segment assets	<u>860,721</u>	<u>1,855,795</u>	<u>2,716,516</u>
Segment liabilities	<u>985,306</u>	<u>1,227,943</u>	<u>2,213,249</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2016 (Reviewed)

9 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 2016 US\$ 000	Audited 31 December 2015 US\$ 000	Reviewed 30 September 2015 US\$ 000
Credit-related commitments:			
Letters of credit	65,431	88,159	55,644
Letters of guarantee	15,374	11,082	33,224
	80,805	99,241	88,868
Undrawn commitments	-	-	48,456
Investments and loan related commitments	84,224	65,819	4,019
	165,029	165,060	141,343

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.

10 DERIVATIVES

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

	<i>Notional amounts</i>		
	Reviewed 30 September 2016 US\$ 000	Audited 31 December 2015 US\$ 000	Reviewed 30 September 2015 US\$ 000
<i>Derivatives held for trading:</i>			
Forward foreign exchange contracts *	380,678	235,538	206,831
<i>Derivatives used as hedge of net investments in foreign operations</i>			
Forward foreign exchange contracts	709,625	699,479	730,320
<i>Derivatives used as cash flow hedges</i>			
Interest rate swap	175,000	200,000	200,000

* 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2016 (Reviewed)

11 FINANCIAL INSTRUMENTS

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

	<i>Held for trading</i>	<i>Designated at fair value through statement of income</i>	<i>Available-for-sale</i>	<i>Amortised cost / Loans and receivables</i>	<i>Total</i>
<i>30 September 2016</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Demand and call deposits with banks	-	-	-	147,888	147,888
Placements with banks	-	-	-	251,745	251,745
Investments carried at fair value through statement of income	24,271	28,952	-	-	53,223
Non-trading investments	-	-	408,368	-	408,368
Loans and receivables	-	-	-	1,149,758	1,149,758
Other assets	-	255	-	133,673	133,928
Assets of disposal group classified as held for sale	-	-	-	198	198
Total financial assets	24,271	29,207	408,368	1,683,262	2,145,108
Due to banks and other financial institutions	-	-	-	782,546	782,546
Deposits from customers	-	-	-	933,985	933,985
Loans payable	-	-	-	617,623	617,623
Subordinated debt	-	-	-	123,470	123,470
Other liabilities	-	688	-	60,580	61,268
Liabilities of disposal group classified as held for sale	-	-	-	211	211
Total financial liabilities	-	688	-	2,518,415	2,519,103
	<i>Held for trading</i>	<i>Designated at fair value through statement of income</i>	<i>Available-for-sale</i>	<i>Amortised cost / Loans and receivables</i>	<i>Total</i>
<i>31 December 2015</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Demand and call deposits with banks	-	-	-	176,793	176,793
Placements with banks	-	-	-	57,026	57,026
Investments carried at fair value through statement of income	21,112	29,549	-	-	50,661
Non-trading investments	-	-	285,003	-	285,003
Loans and receivables	-	-	-	1,032,098	1,032,098
Other assets	-	205	-	115,302	115,507
Assets of disposal group classified as held for sale	-	-	-	1,028	1,028
Total financial assets	21,112	29,754	285,003	1,382,247	1,718,116
Due to banks and other financial institutions	-	-	-	838,160	838,160
Deposits from customers	-	-	-	462,086	462,086
Loans payable	-	-	-	714,568	714,568
Subordinated debt	-	-	-	143,270	143,270
Other liabilities	65	15	-	54,919	54,999
Liabilities of disposal group classified as held for sale	-	-	-	166	166
Total financial liabilities	65	15	-	2,213,169	2,213,249

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2016 (Reviewed)

11 FINANCIAL INSTRUMENTS (continued)

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\$ 32,668 thousand (31 December 2015: US\$ 42,782 thousand) carried at cost less impairment (Note 4).

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 2016:

	Level 1 US\$ 000	Level 2 US\$ 000	Level 3 US\$ 000	Total US\$ 000
Assets measured at fair value				
Investments carried at fair value through statement of income				
Quoted equities	24,271	-	-	24,271
Quoted debt securities	-	-	-	-
Credit linked notes	-	-	17,739	17,739
Managed funds	9,962	1,251	-	11,213
Non-trading investments				
Equities - quoted	57,694	-	-	57,694
Quoted debt securities	168,253	-	-	168,253
Equities - unquoted	3	73,101	19,681	92,785
Real estate managed funds - unquoted	-	11,860	-	11,860
Other managed funds	-	33,157	11,951	45,108
Derivatives				
Interest rate swap	-	255	-	255
	260,183	119,624	49,371	429,178
Liabilities carried at fair value				
Derivatives				
Held for trading	-	28	-	28
Used as hedge of net investments in foreign operations	-	660	-	660
	-	688	-	688

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2016 (Reviewed)

11 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 2015:

	Level 1 US\$ 000	Level 2 US\$ 000	Level 3 US\$ 000	Total US\$ 000
Assets measured at fair value				
Investments carried at fair value through statement of income				
Quoted equities	21,112	-	-	21,112
Credit linked notes	17,741	-	-	17,741
Managed funds	9,961	1,847	-	11,808
Non-trading investments				
Equities - quoted	12,547	-	-	12,547
Quoted debt securities	134,720	-	-	134,720
Equities - unquoted	-	22,370	478	22,848
Real estate managed funds - unquoted	-	16,301	-	16,301
Other managed funds	-	40,238	12,599	52,837
Unquoted debt securities	-	-	2,968	2,968
Derivatives				
Used as hedge of net investments in foreign operations	-	362	-	362
Interest rate swap	-	205	-	205
	<u>196,081</u>	<u>81,323</u>	<u>16,045</u>	<u>293,449</u>
Liabilities measured at fair value				
Derivatives				
Held for trading	-	427	-	427
Interest rate swap	-	15	-	15
	<u>-</u>	<u>442</u>	<u>-</u>	<u>442</u>

Transfers between Level 1, Level 2 and Level 3

During the nine-month period ended 30 September 2016 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.