

**United Gulf Bank B.S.C. (c)**  
**INTERIM CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**30 SEPTEMBER 2019 (REVIEWED)**

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

### ***Introduction***

We have reviewed the accompanying interim condensed consolidated financial statements of United Gulf Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group") as at 30 September 2019, comprising the interim consolidated statement of financial position as at 30 September 2019 and the related interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended and the related interim consolidated statements of cash flows and changes in equity for the nine-month period then ended and explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### ***Scope of review***

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.



13 November 2019  
Manama, Kingdom of Bahrain

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019 (Reviewed)

|                                                                        |       | Reviewed<br>30 September<br>2019<br>US\$ 000 | Audited<br>31 December<br>2018<br>US\$ 000 | Reviewed<br>30 September<br>2018<br>US\$ 000 |
|------------------------------------------------------------------------|-------|----------------------------------------------|--------------------------------------------|----------------------------------------------|
|                                                                        | Notes |                                              |                                            |                                              |
| <b>ASSETS</b>                                                          |       |                                              |                                            |                                              |
| Demand and call deposits with banks                                    |       | 94,720                                       | 143,510                                    | 142,259                                      |
| Placements with banks                                                  |       | 196,506                                      | 108,529                                    | 139,904                                      |
| Investments carried at fair value through statement of income          |       | 81,732                                       | 81,852                                     | 87,065                                       |
| Investments carried at fair value through other comprehensive income   |       | 129,891                                      | 167,647                                    | 177,469                                      |
| Investments carried at amortised cost                                  |       | 283                                          | 494                                        | 494                                          |
| Loans and receivables                                                  |       | 27,116                                       | 25,191                                     | 23,897                                       |
| Other assets                                                           |       | 64,372                                       | 61,097                                     | 68,114                                       |
| Investments in associates                                              |       | 74,008                                       | 71,513                                     | 76,057                                       |
| Investment properties                                                  | 6     | 97,744                                       | 107,629                                    | 108,963                                      |
| Property and equipment                                                 | 6     | 51,071                                       | 39,394                                     | 27,583                                       |
| Goodwill and other intangible assets                                   |       | 65,749                                       | 66,634                                     | 52,390                                       |
| <b>TOTAL ASSETS</b>                                                    |       | <b>883,192</b>                               | <b>873,490</b>                             | <b>904,195</b>                               |
| <b>LIABILITIES AND EQUITY</b>                                          |       |                                              |                                            |                                              |
| <b>LIABILITIES</b>                                                     |       |                                              |                                            |                                              |
| Due to banks and other financial institutions                          |       | 210,819                                      | 220,879                                    | 219,185                                      |
| Deposits from customers                                                |       | 36,543                                       | 32,608                                     | 43,813                                       |
| Loans payable                                                          |       | 89,260                                       | 67,033                                     | 70,716                                       |
| Long term bonds                                                        | 7     | 131,536                                      | 131,739                                    | 132,227                                      |
| Other liabilities                                                      |       | 89,936                                       | 106,375                                    | 115,900                                      |
| <b>TOTAL LIABILITIES</b>                                               |       | <b>558,094</b>                               | <b>558,634</b>                             | <b>581,841</b>                               |
| <b>EQUITY</b>                                                          |       |                                              |                                            |                                              |
| Share capital                                                          | 8     | 116,132                                      | 101,132                                    | 101,132                                      |
| Share premium                                                          |       | 5,687                                        | 5,687                                      | 5,687                                        |
| Statutory reserve                                                      |       | 50,890                                       | 50,890                                     | 49,881                                       |
| General reserve                                                        |       | 30,621                                       | 30,621                                     | 29,612                                       |
| Fair value reserve                                                     |       | (11,507)                                     | (10,121)                                   | (773)                                        |
| Foreign currency translation reserve                                   |       | (5,083)                                      | (4,534)                                    | (3,906)                                      |
| Retained earnings                                                      |       | 8,032                                        | 13,318                                     | 13,259                                       |
| <b>CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b> |       | <b>194,772</b>                               | <b>186,993</b>                             | <b>194,892</b>                               |
| Perpetual Tier 1 capital                                               | 9     | 33,000                                       | 33,000                                     | 33,000                                       |
| Non-controlling interests                                              |       | 97,326                                       | 94,863                                     | 94,462                                       |
| <b>TOTAL EQUITY</b>                                                    |       | <b>325,098</b>                               | <b>314,856</b>                             | <b>322,354</b>                               |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                    |       | <b>883,192</b>                               | <b>873,490</b>                             | <b>904,195</b>                               |

Masaud Hayat  
Chairman

Faisal Al-Ayyar  
Vice Chairman

Hussain Lalani  
Chief Executive Officer

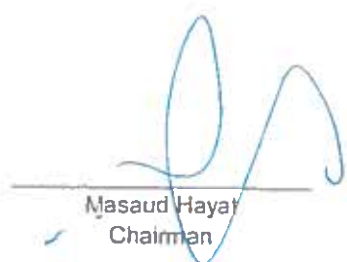
The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

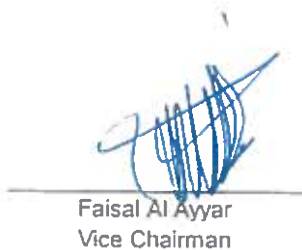
United Gulf Bank B.S.C. (c)

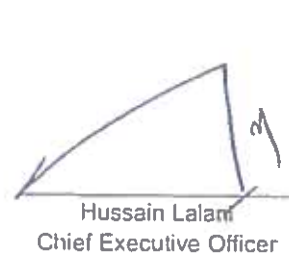
INTERIM CONSOLIDATED STATEMENT OF INCOME

For the nine-month period ended 30 September 2019 (Reviewed)

|                                                            | <i>Three-month period<br/>ended 30 September</i> |               | <i>Nine-month period<br/>ended 30 September</i> |               |
|------------------------------------------------------------|--------------------------------------------------|---------------|-------------------------------------------------|---------------|
|                                                            | 2019                                             | 2018          | 2019                                            | 2018          |
|                                                            | US\$ 000                                         | US\$ 000      | US\$ 000                                        | US\$ 000      |
| <b>Continuing operations</b>                               |                                                  |               |                                                 |               |
| Investment income - net                                    | 1,900                                            | 3,955         | 19,150                                          | 9,273         |
| Interest income                                            | 2,876                                            | 1,868         | 8,039                                           | 4,000         |
|                                                            | 4,776                                            | 5,823         | 27,189                                          | 13,273        |
| Fees and commissions - net                                 | 15,589                                           | 8,876         | 46,412                                          | 27,159        |
| Foreign currency translation gains - net                   | 709                                              | 280           | 805                                             | 723           |
| Share of results of associates - net                       | (857)                                            | 878           | 3,084                                           | 2,168         |
| <b>Total income</b>                                        | <b>20,217</b>                                    | <b>15,857</b> | <b>77,490</b>                                   | <b>43,323</b> |
| Interest expense                                           | (5,857)                                          | (4,029)       | (16,864)                                        | (9,721)       |
| <b>Operating income before<br/>expenses and provisions</b> | <b>14,360</b>                                    | <b>11,828</b> | <b>60,626</b>                                   | <b>33,602</b> |
| Salaries and benefits                                      | (9,147)                                          | (6,452)       | (32,135)                                        | (16,496)      |
| General and administrative expenses                        | (5,494)                                          | (3,613)       | (20,653)                                        | (10,744)      |
| <b>Operating income before provisions and tax</b>          | <b>(281)</b>                                     | <b>1,763</b>  | <b>7,838</b>                                    | <b>6,362</b>  |
| Reversal of expected credit losses - net                   | 1,225                                            | -             | 1,349                                           | -             |
| Provision for losses against unfunded participation        | -                                                | -             | -                                               | (731)         |
| <b>Profit before tax from continuing operations</b>        | <b>944</b>                                       | <b>1,763</b>  | <b>9,187</b>                                    | <b>5,631</b>  |
| Taxation - net                                             | 22                                               | (2)           | (855)                                           | 617           |
| <b>Profit for the period from continuing operations</b>    | <b>966</b>                                       | <b>1,761</b>  | <b>8,332</b>                                    | <b>6,248</b>  |
| <b>Discontinued operations</b>                             |                                                  |               |                                                 |               |
| Net profit from discontinued operations                    | -                                                | 74            | -                                               | 524           |
| <b>NET PROFIT FOR THE PERIOD</b>                           | <b>966</b>                                       | <b>1,835</b>  | <b>8,332</b>                                    | <b>6,772</b>  |
| <b>Net profit for the period attributable to:</b>          |                                                  |               |                                                 |               |
| <b>Shareholders of the parent</b>                          |                                                  |               |                                                 |               |
| - from continuing operations                               | 424                                              | 1,481         | 4,681                                           | 5,802         |
| - from discontinued operation                              | -                                                | 64            | -                                               | 453           |
|                                                            | 424                                              | 1,545         | 4,681                                           | 6,255         |
| <b>Non-controlling interests</b>                           |                                                  |               |                                                 |               |
| - from continuing operations                               | 542                                              | 280           | 3,651                                           | 446           |
| - from discontinued operation                              | -                                                | 10            | -                                               | 71            |
|                                                            | 542                                              | 290           | 3,651                                           | 517           |

  
Masaud Hayat  
Chairman

  
Faisal Al Ayyar  
Vice Chairman

  
Hussain Lalam  
Chief Executive Officer

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

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine-month period ended 30 September 2019 (Reviewed)

|                                                                                        | <i>Three-month period<br/>ended 30 September</i> |                 | <i>Nine-month period<br/>ended 30 September</i> |                 |
|----------------------------------------------------------------------------------------|--------------------------------------------------|-----------------|-------------------------------------------------|-----------------|
|                                                                                        | <b>2019</b>                                      | <b>2018</b>     | <b>2019</b>                                     | <b>2018</b>     |
|                                                                                        | <b>US\$ 000</b>                                  | <b>US\$ 000</b> | <b>US\$ 000</b>                                 | <b>US\$ 000</b> |
| <b>NET PROFIT FOR THE PERIOD</b>                                                       | <b>966</b>                                       | <b>1,835</b>    | <b>8,332</b>                                    | <b>6,772</b>    |
| <b>Other comprehensive (loss) income</b>                                               |                                                  |                 |                                                 |                 |
| <i>Items that may be reclassified to<br/>profit or loss in subsequent periods</i>      |                                                  |                 |                                                 |                 |
| Foreign currency translation reserve                                                   | (375)                                            | (359)           | (669)                                           | (1,405)         |
| Cash flow hedges                                                                       | (144)                                            | (41)            | (979)                                           | 589             |
|                                                                                        | <b>(519)</b>                                     | <b>(400)</b>    | <b>(1,648)</b>                                  | <b>(816)</b>    |
| <i>Items that will not be reclassified to<br/>profit or loss in subsequent periods</i> |                                                  |                 |                                                 |                 |
| Fair value reserve                                                                     | (3,989)                                          | (3,280)         | (10,291)                                        | (13,116)        |
| Total other comprehensive loss                                                         | <b>(4,508)</b>                                   | <b>(3,680)</b>  | <b>(11,939)</b>                                 | <b>(13,932)</b> |
| <b>TOTAL COMPREHENSIVE LOSS<br/>FOR THE PERIOD</b>                                     | <b>(3,542)</b>                                   | <b>(1,845)</b>  | <b>(3,607)</b>                                  | <b>(7,160)</b>  |
| <b>Total comprehensive (loss)<br/>income attributable to:</b>                          |                                                  |                 |                                                 |                 |
| - shareholders of the parent                                                           | (3,466)                                          | (736)           | (5,469)                                         | (5,267)         |
| - non-controlling interests                                                            | (76)                                             | (1,109)         | 1,862                                           | (1,893)         |
|                                                                                        | <b>(3,542)</b>                                   | <b>(1,845)</b>  | <b>(3,607)</b>                                  | <b>(7,160)</b>  |

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

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine-month period ended 30 September 2019 (Reviewed)

|                                                                                 |      | Nine-month period<br>ended 30 September |                  |
|---------------------------------------------------------------------------------|------|-----------------------------------------|------------------|
|                                                                                 | Note | 2019<br>US\$ 000                        | 2018<br>US\$ 000 |
| <b>OPERATING ACTIVITIES</b>                                                     |      |                                         |                  |
| Profit before tax from continuing operations                                    |      | 9,187                                   | 5,631            |
| Net profit from discontinued operations                                         |      | -                                       | 524              |
| Profit before tax                                                               |      | 9,187                                   | 6,155            |
| Adjustments for non-cash items:                                                 |      |                                         |                  |
| Interest expense                                                                |      | 16,864                                  | 9,721            |
| Depreciation                                                                    |      | 2,853                                   | 610              |
| Interest income                                                                 |      | (8,039)                                 | (4,000)          |
| (Gain) loss on investments carried at fair value<br>through statement of income |      | (4,056)                                 | 797              |
| Share of results of associates - net                                            |      | (3,084)                                 | (2,168)          |
| Reversal of expected credit losses - net                                        |      | (1,349)                                 | -                |
| Gain on fair valuation of investment properties                                 |      | (2,830)                                 | (1,400)          |
| Gain on bargain purchase                                                        |      | -                                       | (3,664)          |
| Provisions for losses against unfunded participation                            |      | -                                       | 731              |
| Operating income before working capital changes                                 |      | 9,546                                   | 6,782            |
| Changes in operating assets and liabilities:                                    |      |                                         |                  |
| Placements with banks with original maturities of more than ninety days         |      | (8,650)                                 | -                |
| Investments carried at fair value through statement of income                   |      | 4,176                                   | (4,641)          |
| Investments carried at fair value through other comprehensive income            |      | 29,134                                  | 55,384           |
| Investments carried at amortised cost                                           |      | 211                                     | -                |
| Loans and receivables                                                           |      | (972)                                   | 128              |
| Other assets                                                                    |      | (5,032)                                 | 1,158            |
| Due to banks and other financial institutions                                   |      | (10,060)                                | (31,026)         |
| Deposits from customers                                                         |      | 3,935                                   | 12,795           |
| Other liabilities                                                               |      | (12,274)                                | 1,425            |
|                                                                                 |      | 10,014                                  | 42,005           |
| Interest received                                                               |      | 8,056                                   | 3,567            |
| Interest paid                                                                   |      | (12,411)                                | (6,434)          |
| Directors' remuneration paid                                                    |      | (195)                                   | -                |
| Donations paid                                                                  |      | (200)                                   | (200)            |
| Net cash flows from operating activities                                        |      | 5,264                                   | 38,938           |
| <b>INVESTING ACTIVITIES</b>                                                     |      |                                         |                  |
| Deferred consideration paid on the acquisition of a subsidiary                  |      | (8,221)                                 | -                |
| Investments in associates - net                                                 |      | 589                                     | 4,048            |
| Property and equipment - net                                                    |      | (911)                                   | (1,515)          |
| Acquisition of a subsidiary - net of cash acquired                              |      | -                                       | (23,568)         |
| Investment properties - net                                                     |      | -                                       | (191)            |
| Net cash flows used in investing activities                                     |      | (8,543)                                 | (21,226)         |
| <b>FINANCING ACTIVITIES</b>                                                     |      |                                         |                  |
| Issue of share capital                                                          |      | 15,000                                  | -                |
| Issue (repayment) of term loans                                                 |      | 22,227                                  | (27,942)         |
| Interest paid on perpetual Tier 1 capital                                       |      | (1,752)                                 | (1,752)          |
| Cash raised from issuance of long term bonds                                    |      | -                                       | 132,227          |
| Net cash flows from financing activities                                        |      | 35,475                                  | 102,533          |
| Foreign currency translation adjustments                                        |      | (771)                                   | (1,342)          |
| Movement in non-controlling interests                                           |      | (1,188)                                 | (3,310)          |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                                  |      | 30,237                                  | 115,593          |
| Cash and cash equivalents at 1 January                                          |      | 237,428                                 | 166,252          |
| <b>CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER</b>                                | 4    | 267,665                                 | 281,845          |

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

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

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2019 (Reviewed)

|                                                                                                | Attributable to shareholders of the parent |               |                   |                 |                    |                                      |                   | Total before non-controlling interests | Perpetual Tier 1 capital | Non-controlling interests | Total equity |
|------------------------------------------------------------------------------------------------|--------------------------------------------|---------------|-------------------|-----------------|--------------------|--------------------------------------|-------------------|----------------------------------------|--------------------------|---------------------------|--------------|
|                                                                                                | Share capital                              | Share premium | Statutory reserve | General reserve | Fair value reserve | Foreign currency translation reserve | Retained earnings |                                        |                          |                           |              |
|                                                                                                | US\$ 000                                   | US\$ 000      | US\$ 000          | US\$ 000        | US\$ 000           | US\$ 000                             | US\$ 000          | US\$ 000                               | US\$ 000                 | US\$ 000                  | US\$ 000     |
| Balance at 1 January 2019                                                                      | 101,132                                    | 5,687         | 50,890            | 30,621          | (10,121)           | (4,534)                              | 13,318            | 186,993                                | 33,000                   | 94,863                    | 314,856      |
| Profit for the period                                                                          | -                                          | -             | -                 | -               | -                  | -                                    | 4,681             | 4,681                                  | -                        | 3,651                     | 8,332        |
| Other comprehensive loss for the period                                                        | -                                          | -             | -                 | -               | (9,601)            | (549)                                | -                 | (10,150)                               | -                        | (1,789)                   | (11,939)     |
| Total comprehensive (loss) income for the period                                               | -                                          | -             | -                 | -               | (9,601)            | (549)                                | 4,681             | (5,469)                                | -                        | 1,862                     | (3,607)      |
| Issue of share capital (Note 8)                                                                | 15,000                                     | -             | -                 | -               | -                  | -                                    | -                 | 15,000                                 | -                        | -                         | 15,000       |
| Transfer upon disposal of investments carried at fair value through other comprehensive income | -                                          | -             | -                 | -               | 8,215              | -                                    | (8,215)           | -                                      | -                        | -                         | -            |
| Interest payment on Tier 1 capital                                                             | -                                          | -             | -                 | -               | -                  | -                                    | (1,752)           | (1,752)                                | -                        | -                         | (1,752)      |
| Other movements in non-controlling interests                                                   | -                                          | -             | -                 | -               | -                  | -                                    | -                 | -                                      | -                        | 601                       | 601          |
| Balance at 30 September 2019                                                                   | 116,132                                    | 5,687         | 50,890            | 30,621          | (11,507)           | (5,083)                              | 8,032             | 194,772                                | 33,000                   | 97,326                    | 325,098      |
| Balance at 1 January 2018                                                                      | 101,132                                    | 5,687         | 49,881            | 29,612          | 15,904             | (3,871)                              | 3,566             | 201,911                                | 33,000                   | 27,367                    | 262,278      |
| Profit for the period                                                                          | -                                          | -             | -                 | -               | -                  | -                                    | 6,255             | 6,255                                  | -                        | 517                       | 6,772        |
| Other comprehensive loss                                                                       | -                                          | -             | -                 | -               | (10,180)           | (1,342)                              | -                 | (11,522)                               | -                        | (2,410)                   | (13,932)     |
| Total comprehensive (loss) income for the period                                               | -                                          | -             | -                 | -               | (10,180)           | (1,342)                              | 6,255             | (5,267)                                | -                        | (1,893)                   | (7,160)      |
| Transfer upon disposal of investments carried at fair value through other comprehensive income | -                                          | -             | -                 | -               | (5,190)            | -                                    | 5,190             | -                                      | -                        | -                         | -            |
| Interest payment on Tier 1 capital                                                             | -                                          | -             | -                 | -               | -                  | -                                    | (1,752)           | (1,752)                                | -                        | -                         | (1,752)      |
| Transfer upon reclassification                                                                 | -                                          | -             | -                 | -               | (1,307)            | 1,307                                | -                 | -                                      | -                        | -                         | -            |
| Acquisition of a subsidiary                                                                    | -                                          | -             | -                 | -               | -                  | -                                    | -                 | -                                      | -                        | 70,353                    | 70,353       |
| Other movements in non-controlling interests                                                   | -                                          | -             | -                 | -               | -                  | -                                    | -                 | -                                      | -                        | (1,365)                   | (1,365)      |
| Balance at 30 September 2018                                                                   | 101,132                                    | 5,687         | 49,881            | 29,612          | (773)              | (3,906)                              | 13,259            | 194,892                                | 33,000                   | 94,462                    | 322,354      |

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

---

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

As at 30 September 2019 (Reviewed)

**1 INCORPORATION AND PRINCIPAL ACTIVITIES**

**Incorporation**

United Gulf Bank B.S.C. (c) ("UGB" or "the Bank") is a closed joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550. The address of the Bank's registered office is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

The Bank operates in the Kingdom of Bahrain under a Wholesale Banking License issued by the Central Bank of Bahrain ("the CBB").

**Activities**

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

The Bank's parent company is United Gulf Holding Company B.S.C. ("UGHC") which owns 100% shares of the Bank and the ultimate holding company is Kuwait Projects Company Holding K.S.C.P ("KIPCO"). UGHC is incorporated in the Kingdom of Bahrain as a joint stock company and is listed on the Bahrain Bourse. KIPCO is incorporated in the State of Kuwait and is listed on the Kuwait Stock Exchange (Boursa Kuwait).

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 13 November 2019.

**2 SIGNIFICANT ACCOUNTING**

**Basis of preparation**

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

These interim condensed consolidated financial statements do not contain all the information and disclosures required for full set of financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2018. In addition, results for the three-month and the nine-month periods ended 30 September 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

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

**Significant accounting policies**

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018, except for new standards and interpretations effective as of 1 January 2019. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019 (Reviewed)

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### **IFRS 16 Leases**

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

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

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

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

##### *Short-term leases and leases of low-value assets*

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

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

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

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

##### **Annual Improvements 2015-2017 Cycle**

##### **IFRS 3 Business Combinations**

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

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019 (Reviewed)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****Annual Improvements 2015-2017 Cycle (continued)****IFRS 3 Business Combinations (continued)**

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

**Significant accounting judgements, estimates and assumptions**

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

**3 BASIS OF CONSOLIDATION**

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

The principal subsidiaries of the Bank are as follows:

| Name of the subsidiary                              | Country of<br>incorporation | Legal ownership      |                     | Year of<br>incorporation |
|-----------------------------------------------------|-----------------------------|----------------------|---------------------|--------------------------|
|                                                     |                             | 30 September<br>2019 | 31 December<br>2018 |                          |
| <b>Held directly</b>                                |                             |                      |                     |                          |
| KAMCO Investment Company K.S.C.P. [KAMCO]           | Kuwait                      | 86%                  | 86%                 | 1998                     |
| United Gulf Financial Services Company-North Africa | Tunisia                     | 83%                  | 83%                 | 2008                     |
| United Gulf Asset Company S.P.C.                    | Bahrain                     | 100%                 | 100%                | 2017                     |
| United Gulf Realty International, Ltd [UGRIL]       | British Virgin<br>Islands   | 100%                 | 100%                | 2012                     |
| <b>Held through KAMCO</b>                           |                             |                      |                     |                          |
| Al Dhiyafa United Real Estate Company W.L.L.        | Kuwait                      | 100%                 | 100%                | 2007                     |
| Al Jazi Money Market Fund                           | Kuwait                      | 51%                  | 51%                 | 2007                     |
| Al Tadamon United Holding Co                        | Kuwait                      | 96%                  | 96%                 | 2017                     |
| Al Zad Real Estate W.L.L.                           | Kuwait                      | 99%                  | 99%                 | 2017                     |
| Bukeye Power Project Advisory Co                    | U.S.A.                      | 50%                  | 50%                 | 2017                     |
| Bukeye Power Project Manager Ltd                    | Jersey                      | 100%                 | 100%                | 2017                     |
| Carnation Advisory Company LLC                      | U.S.A.                      | 75%                  | 75%                 | 2018                     |
| Carnation Manager limited                           | U.K.                        | 100%                 | 100%                | 2018                     |
| Flint Advisor Company Llc                           | Jersey                      | 46%                  | 46%                 | 2017                     |
| Flint Manager Ltd                                   | U.S.A.                      | 100%                 | 100%                | 2017                     |
| Global Investment House                             | Kuwait                      | 71%                  | 71%                 | 1998                     |
| Kamco GCC Opportunistic Fund                        | Kuwait                      | 100%                 | 100%                | 2013                     |
| KAMCO Investment Company (DIFC) Limited             | U.A.E.                      | 100%                 | 100%                | 2016                     |
| KAMCO Mena Plus (DIFC)                              | U.A.E.                      | 63%                  | -                   | 2019                     |
| KAMCO Mena Plus Fixed Income Fund                   | Kuwait                      | -                    | 38%                 | 2016                     |
| Kubbar United Real Estate Company                   | Kuwait                      | 100%                 | -                   | 2019                     |
| Kuwait Private Equity Opportunity Fund              | Kuwait                      | 73%                  | 73%                 | 2004                     |
| Nawasi United Holding Co                            | Kuwait                      | 96%                  | 96%                 | 2017                     |
| North Africa Real Estate Co.                        | Kuwait                      | 100%                 | 100%                | 2014                     |
| Plans United Real Estate Company                    | Kuwait                      | 100%                 | -                   | 2019                     |
| Project Plaza Investor Inc                          | Jersey                      | 100%                 | -                   | 2019                     |
| S17P02V Holding Ltd                                 | U.A.E.                      | 100%                 | 100%                | 2018                     |

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019 (Reviewed)

## 4 CASH AND CASH EQUIVALENTS

|                                                                     | <i>Reviewed<br/>30 September<br/>2019<br/>US\$ 000</i> | <i>Audited<br/>31 December<br/>2018<br/>US\$ 000</i> | <i>Reviewed<br/>30 September<br/>2018<br/>US\$ 000</i> |
|---------------------------------------------------------------------|--------------------------------------------------------|------------------------------------------------------|--------------------------------------------------------|
| Demand and call deposits with banks<br>excluding mandatory reserves | 94,402                                                 | 143,192                                              | 141,941                                                |
| Time deposits with original maturities of ninety days or less       | 173,263                                                | 94,236                                               | 142,001                                                |
| Cash and cash equivalents gross of expected credit losses           | 267,665                                                | 237,428                                              | 283,942                                                |
| Time deposits with original maturities of more than ninety days     | 23,411                                                 | 15,526                                               | -                                                      |
| Expected credit losses                                              | (168)                                                  | (1,233)                                              | (2,097)                                                |
| Cash and cash equivalents net of expected credit losses             | 290,908                                                | 251,721                                              | 281,845                                                |

## 5 ANALYSIS OF MOVEMENT IN ECL ALLOWANCES

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

|                                             | <i>Stage 1<br/>US\$ 000</i> | <i>Stage 2<br/>US\$ 000</i> | <i>Stage 3<br/>US\$ 000</i> | <i>Total<br/>US\$ 000</i> |
|---------------------------------------------|-----------------------------|-----------------------------|-----------------------------|---------------------------|
| As at 31 December 2018                      | 3,446                       | 1,404                       | 10,534                      | 15,384                    |
| Adjustment *                                | 10,349                      | 766                         | (962)                       | 10,153                    |
| As at 1 January 2019                        | 13,795                      | 2,170                       | 9,572                       | 25,537                    |
| Provided (reversal) during the period - net | 390                         | (1,402)                     | (337)                       | (1,349)                   |
| Amounts written-off                         | (48)                        | (380)                       | -                           | (428)                     |
| Other adjustments                           | 21                          | 1                           | (17)                        | 5                         |
| As at 30 September 2019                     | 14,158                      | 389                         | 9,218                       | 23,765                    |

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

## 6 TRANSFER OF INVESTMENT PROPERTY

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

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019 (Reviewed)

## 7 LONG TERM BONDS

|                                                                                                                                    | <i>Reviewed</i><br>30 September<br>2019<br>US\$ 000 | <i>Audited</i><br>31 December<br>2018<br>US\$ 000 | <i>Reviewed</i><br>30 September<br>2018<br>US\$ 000 |
|------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------|-----------------------------------------------------|
| Fixed interest of 6.00% per annum and maturing on 26 July 2023, (KD 14.9 million)                                                  | 48,997                                              | 49,073                                            | 49,255                                              |
| Floating interest of CBK* discount rate + 2.75% per annum (capped at 7% per annum) and maturing on 26 July 2023, (KD 25.1 million) | 82,539                                              | 82,666                                            | 82,972                                              |
|                                                                                                                                    | <b>131,536</b>                                      | <b>131,739</b>                                    | <b>132,227</b>                                      |

\* Central Bank of Kuwait

## 8 ISSUE OF SHARE CAPITAL

|                                        | <i>Reviewed</i><br>30 September<br>2019<br>US\$ 000 | <i>Audited</i><br>31 December<br>2018<br>US\$ 000 | <i>Reviewed</i><br>30 September<br>2018<br>US\$ 000 |
|----------------------------------------|-----------------------------------------------------|---------------------------------------------------|-----------------------------------------------------|
| Authorised share capital               |                                                     |                                                   |                                                     |
| Number of shares (in thousands)        | 500,000                                             | 500,000                                           | 1,000,000                                           |
| Par value (US\$)                       | 0.50                                                | 0.50                                              | 0.25                                                |
|                                        | <b>250,000</b>                                      | <b>250,000</b>                                    | <b>250,000</b>                                      |
| Issued and fully paid up share capital |                                                     |                                                   |                                                     |
| Number of shares (in thousands)        | 232,263                                             | 202,263                                           | 404,526                                             |
| Par value (US\$)                       | 0.50                                                | 0.50                                              | 0.25                                                |
|                                        | <b>116,132</b>                                      | <b>101,132</b>                                    | <b>101,132</b>                                      |

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

## 9 PERPETUAL TIER 1 CAPITAL

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

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

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

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

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019 (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                                  |                        |                                         |                   | Reviewed<br>Nine-month<br>period<br>ended<br>30 September<br>2018<br>US\$ 000 |
|-----------------------------------------------------------------------------|-------------------------------------------|------------------------|-----------------------------------------|-------------------|-------------------------------------------------------------------------------|
|                                                                             | Nine-month period ended 30 September 2019 |                        |                                         |                   |                                                                               |
|                                                                             | Major<br>shareholder<br>US\$ 000          | Associates<br>US\$ 000 | Other<br>related<br>parties<br>US\$ 000 | Total<br>US\$ 000 |                                                                               |
| Gain on investments carried at fair value through statement of income - net | -                                         | -                      | -                                       | -                 | 18                                                                            |
| Investment income                                                           | -                                         | -                      | 1,958                                   | 1,958             | 3                                                                             |
| Fees and commissions - net*                                                 | 2,250                                     | 1,586                  | 6,168                                   | 10,004            | 13,954                                                                        |
| Dividend income                                                             | -                                         | -                      | 566                                     | 566               | 927                                                                           |
| Rental income                                                               | -                                         | -                      | 1,717                                   | 1,717             | 1,840                                                                         |
| Interest income                                                             | -                                         | -                      | 1,586                                   | 1,586             | 1,495                                                                         |
| Interest expense                                                            | (623)                                     | -                      | (4,706)                                 | (5,329)           | (3,550)                                                                       |
| General and administrative expenses                                         | -                                         | -                      | (343)                                   | (343)             | (944)                                                                         |

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

|                                              |       |       |
|----------------------------------------------|-------|-------|
| Interest payment on Perpetual Tier 1 Capital | (531) | (531) |
|----------------------------------------------|-------|-------|

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

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

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019 (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                         |                        |                                         |                   | Audited<br>31 December<br>2018<br>US\$ 000 | Reviewed<br>30 September<br>2018<br>US\$ 000 |
|-----------------------------------------------------------------------------------|----------------------------------|------------------------|-----------------------------------------|-------------------|--------------------------------------------|----------------------------------------------|
|                                                                                   | 30 September 2019                |                        |                                         | Total<br>US\$ 000 |                                            |                                              |
|                                                                                   | Major<br>shareholder<br>US\$ 000 | Associates<br>US\$ 000 | Other<br>related<br>parties<br>US\$ 000 |                   |                                            |                                              |
| Demand and call deposits with banks                                               | -                                | -                      | 1,108                                   | 1,108             | 21,120                                     | 13,771                                       |
| Placements with banks                                                             | -                                | -                      | 23,837                                  | 23,837            | 21,546                                     | 20,803                                       |
| Investments carried at fair value through statement of income                     | -                                | -                      | 2,812                                   | 2,812             | -                                          | 8,976                                        |
| Investments carried at fair value through other comprehensive statement of income | -                                | -                      | 96,870                                  | 96,870            | 98,652                                     | 102,487                                      |
| Loans and receivables                                                             | -                                | -                      | 3,172                                   | 3,172             | 4,101                                      | 2,794                                        |
| Other assets                                                                      | -                                | 3,691                  | 6,729                                   | 10,420            | 10,901                                     | 10,752                                       |
| Due to banks and other financial institutions                                     | -                                | -                      | (136,824)                               | (136,824)         | (135,908)                                  | (133,958)                                    |
| Deposits from customers                                                           | (24,561)                         | (5)                    | (4,795)                                 | (29,361)          | (21,439)                                   | (34,446)                                     |
| Other liabilities                                                                 | (5)                              | -                      | (6,292)                                 | (6,297)           | (4,335)                                    | (5,621)                                      |
| Perpetual Tier 1 Capital                                                          | -                                | -                      | (10,000)                                | (10,000)          | (10,000)                                   | (10,000)                                     |
| Off statement of financial position items:                                        |                                  |                        |                                         |                   |                                            |                                              |
| Letters of guarantee                                                              | -                                | -                      | 150                                     | 150               | 150                                        | 150                                          |
| Investment related commitments                                                    | -                                | -                      | 3,195                                   | 3,195             | 3,194                                      | -                                            |

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

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019 (Reviewed)

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

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

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

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

|                                          | <i>Reviewed</i><br><i>30 September</i><br><i>2019</i><br><i>US\$ 000</i> | <i>Audited</i><br><i>31 December</i><br><i>2018</i><br><i>US\$ 000</i> | <i>Reviewed</i><br><i>30 September</i><br><i>2018</i><br><i>US\$ 000</i> |
|------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Credit-related commitments:              |                                                                          |                                                                        |                                                                          |
| Letters of guarantee                     | 2,237                                                                    | 2,162                                                                  | 2,169                                                                    |
|                                          | <u>2,237</u>                                                             | <u>2,162</u>                                                           | <u>2,169</u>                                                             |
| Investments and loan related commitments | 5,152                                                                    | 5,157                                                                  | 12,596                                                                   |
|                                          | <u>7,389</u>                                                             | <u>7,319</u>                                                           | <u>14,765</u>                                                            |

**12 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><br><i>30 September</i><br><i>2019</i><br><i>US\$ 000</i> | <i>Audited</i><br><i>31 December</i><br><i>2018</i><br><i>US\$ 000</i> | <i>Reviewed</i><br><i>30 September</i><br><i>2018</i><br><i>US\$ 000</i> |
| Derivatives held for trading:                                      |                                                                          |                                                                        |                                                                          |
| Forward foreign exchange contracts *                               | 965,734                                                                  | 767,694                                                                | 431,635                                                                  |
| Derivatives used as hedge of net investments in foreign operations |                                                                          |                                                                        |                                                                          |
| Forward foreign exchange contracts                                 | 98,856                                                                   | 186,165                                                                | 62,748                                                                   |
| Derivatives used as cash flow hedges                               |                                                                          |                                                                        |                                                                          |
| Interest rate swap                                                 | 75,000                                                                   | 75,000                                                                 | 75,000                                                                   |

\* The Group uses foreign currency denominated borrowings and forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment in foreign operations hedges and are entered into for periods consistent with currency transaction exposures.

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

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019 (Reviewed)

## 13 FINANCIAL INSTRUMENTS

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

|                                                                         | <i>Designated<br/>at FVTPL</i> | <i>FVOCI</i>    | <i>Amortised<br/>cost</i> | <i>Total</i>    |
|-------------------------------------------------------------------------|--------------------------------|-----------------|---------------------------|-----------------|
|                                                                         | <i>US\$ 000</i>                | <i>US\$ 000</i> | <i>US\$ 000</i>           | <i>US\$ 000</i> |
| <b>30 September 2019</b>                                                |                                |                 |                           |                 |
| Demand and call deposits with banks                                     | -                              | -               | 94,720                    | 94,720          |
| Placements with banks                                                   | -                              | -               | 196,506                   | 196,506         |
| Investments carried at fair value through<br>statement of income        | 81,732                         | -               | -                         | 81,732          |
| Investments carried at fair value through<br>other comprehensive income | -                              | 129,891         | -                         | 129,891         |
| Investments at amortised cost                                           | -                              | -               | 283                       | 283             |
| Loans and receivables                                                   | -                              | -               | 27,116                    | 27,116          |
| Other assets                                                            | 1,185                          | 316             | 61,633                    | 63,134          |
| <b>Total financial assets</b>                                           | <b>82,917</b>                  | <b>130,207</b>  | <b>380,258</b>            | <b>593,382</b>  |
| Due to banks and other financial institutions                           | -                              | -               | 210,819                   | 210,819         |
| Deposits from customers                                                 | -                              | -               | 36,543                    | 36,543          |
| Loans payable                                                           | -                              | -               | 89,260                    | 89,260          |
| Long term bonds                                                         | -                              | -               | 131,536                   | 131,536         |
| Other liabilities                                                       | -                              | -               | 89,936                    | 89,936          |
| <b>Total financial liabilities</b>                                      | <b>-</b>                       | <b>-</b>        | <b>558,094</b>            | <b>558,094</b>  |
| <b>31 December 2018</b>                                                 |                                |                 |                           |                 |
| Demand and call deposits with banks                                     | -                              | -               | 143,510                   | 143,510         |
| Placements with banks                                                   | -                              | -               | 108,529                   | 108,529         |
| Investments carried at fair value through<br>statement of income        | 81,852                         | -               | -                         | 81,852          |
| Investments carried at fair value through<br>other comprehensive income | -                              | 167,647         | -                         | 167,647         |
| Investments at amortised cost                                           | -                              | -               | 494                       | 494             |
| Loans and receivables                                                   | -                              | -               | 25,191                    | 25,191          |
| Other assets                                                            | -                              | 1,280           | 58,931                    | 60,211          |
| <b>Total financial assets</b>                                           | <b>81,852</b>                  | <b>168,927</b>  | <b>336,655</b>            | <b>587,434</b>  |
| Due to banks and other financial institutions                           | -                              | -               | 220,879                   | 220,879         |
| Deposits from customers                                                 | -                              | -               | 32,608                    | 32,608          |
| Loans payable                                                           | -                              | -               | 67,033                    | 67,033          |
| Long-term bonds                                                         | -                              | -               | 131,739                   | 131,739         |
| Other liabilities                                                       | 168                            | 208             | 105,999                   | 106,375         |
| <b>Total financial liabilities</b>                                      | <b>168</b>                     | <b>208</b>      | <b>558,258</b>            | <b>558,634</b>  |

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019 (Reviewed)

## 14 FAIR VALUE MEASUREMENT

*Fair value hierarchy*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair values of quoted securities are derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The fair values of the funds that are listed on active markets are determined by reference to their quoted bid prices. The fair values of unlisted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor or the market value of a comparable company.

The Group uses the following hierarchy for determining and disclosing the fair value of the Group's assets and liabilities by valuation technique:

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

**Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of the Group's assets and liabilities recorded at fair value by level of the fair value hierarchy at 30 September 2019:

|                                                                      | <i>Level 1</i><br><i>US\$ 000</i> | <i>Level 2</i><br><i>US\$ 000</i> | <i>Level 3</i><br><i>US\$ 000</i> | <i>Total</i><br><i>US\$ 000</i> |
|----------------------------------------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| <b>Assets measured at fair value</b>                                 |                                   |                                   |                                   |                                 |
| Investments carried at fair value through statement of income        |                                   |                                   |                                   |                                 |
| Equities - quoted                                                    | 6,166                             | -                                 | -                                 | 6,166                           |
| Equities - unquoted                                                  | -                                 | -                                 | 4,053                             | 4,053                           |
| Debt securities - quoted                                             | 10,262                            | -                                 | -                                 | 10,262                          |
| Debt securities - unquoted                                           | -                                 | -                                 | 822                               | 822                             |
| Managed funds                                                        | 1,050                             | 45,225                            | 14,154                            | 60,429                          |
| Investments carried at fair value through other comprehensive income |                                   |                                   |                                   |                                 |
| Equities - quoted                                                    | 30,449                            | -                                 | -                                 | 30,449                          |
| Equities - unquoted                                                  | -                                 | 64,123                            | 34,316                            | 98,439                          |
| Managed funds                                                        | -                                 | -                                 | 1,003                             | 1,003                           |
| Derivatives                                                          |                                   |                                   |                                   |                                 |
| Forward foreign exchange contracts                                   | -                                 | 1,200                             | -                                 | 1,200                           |
| Interest rate swap                                                   | -                                 | 301                               | -                                 | 301                             |
| Investment properties                                                | -                                 | -                                 | 97,744                            | 97,744                          |
|                                                                      | <u>47,927</u>                     | <u>110,849</u>                    | <u>152,092</u>                    | <u>310,868</u>                  |

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019 (Reviewed)

## 14 FAIR VALUE MEASUREMENT (continued)

The following table shows an analysis of the Group's assets and liabilities recorded at fair value by level of the fair value hierarchy at 31 December 2018:

|                                                                      | Level 1<br>US\$ 000 | Level 2<br>US\$ 000 | Level 3<br>US\$ 000 | Total<br>US\$ 000 |
|----------------------------------------------------------------------|---------------------|---------------------|---------------------|-------------------|
| <b>Assets measured at fair value</b>                                 |                     |                     |                     |                   |
| Investments carried at fair value through statement of income        |                     |                     |                     |                   |
| Equities - quoted                                                    | 9,615               | -                   | -                   | 9,615             |
| Debt securities - quoted                                             | 6,661               | -                   | -                   | 6,661             |
| Unquoted equities                                                    | -                   | -                   | 4,089               | 4,089             |
| Managed funds                                                        | -                   | 43,767              | 17,720              | 61,487            |
| Investments carried at fair value through other comprehensive income |                     |                     |                     |                   |
| Equities - quoted                                                    | 45,219              | -                   | -                   | 45,219            |
| Equities - unquoted                                                  | -                   | 69,293              | 52,125              | 121,418           |
| Managed funds                                                        | -                   | -                   | 1,010               | 1,010             |
| Derivatives                                                          |                     |                     |                     |                   |
| Interest rate swap                                                   | -                   | 1,280               | -                   | 1,280             |
| Investment properties                                                | -                   | -                   | 107,629             | 107,629           |
|                                                                      | <u>61,495</u>       | <u>114,340</u>      | <u>182,573</u>      | <u>358,408</u>    |
| <b>Liabilities measured at fair value</b>                            |                     |                     |                     |                   |
| Derivatives                                                          |                     |                     |                     |                   |
| Forward foreign exchange contracts                                   | -                   | (376)               | -                   | (376)             |
|                                                                      | <u>-</u>            | <u>(376)</u>        | <u>-</u>            | <u>(376)</u>      |

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

During the nine-month period ended 30 September 2019 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement (year ended 31 December 2018: same) except for investment property transferred to property and equipment (refer note 6). The following table shows a reconciliation of the opening and closing amount of level 3 financial instruments which are recorded at fair value:

|                                                                             | As at<br>1 January<br>2019<br>US\$'000 | Net<br>purchases,<br>sales,<br>transfer and<br>settlement<br>US\$'000 | Loss<br>recorded<br>in the<br>statement<br>of income<br>US\$'000 | Loss<br>recognised<br>in OCI<br>US\$'000 | As at<br>30 September<br>2019<br>US\$'000 |
|-----------------------------------------------------------------------------|----------------------------------------|-----------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------|-------------------------------------------|
| <i>Investments carried at fair value through statement of income</i>        |                                        |                                                                       |                                                                  |                                          |                                           |
| Equities - unquoted                                                         | 4,089                                  | -                                                                     | (36)                                                             | -                                        | 4,053                                     |
| Debt securities - unquoted                                                  | -                                      | 822                                                                   | -                                                                | -                                        | 822                                       |
| Managed funds                                                               | 17,720                                 | (1,640)                                                               | (1,926)                                                          | -                                        | 14,154                                    |
|                                                                             | <u>21,809</u>                          | <u>(818)</u>                                                          | <u>(1,962)</u>                                                   | <u>-</u>                                 | <u>19,029</u>                             |
| <i>Investments carried at fair value through other comprehensive income</i> |                                        |                                                                       |                                                                  |                                          |                                           |
| Equities - unquoted                                                         | 52,125                                 | (5,780)                                                               | -                                                                | (12,029)                                 | 34,316                                    |
| Managed funds                                                               | 1,010                                  | -                                                                     | -                                                                | (7)                                      | 1,003                                     |
|                                                                             | <u>53,135</u>                          | <u>(5,780)</u>                                                        | <u>-</u>                                                         | <u>(12,036)</u>                          | <u>35,319</u>                             |
| Investment properties                                                       | <u>107,629</u>                         | <u>(12,684)</u>                                                       | <u>2,799</u>                                                     | <u>-</u>                                 | <u>97,744</u>                             |

---

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS

As at 30 September 2019 (Reviewed)

**15 SUBSEQUENT EVENTS**

*Proposed merger*

On 4 July 2019, the Board of Directors of KAMCO Investment Company K.S.C.P. ("KAMCO") and Global Investment House K.S.C.C. ("GIH") have voted unanimously to recommend to shareholders a merger of the two entities.

Subsequently, on 17 September 2019, the proposed merger (the "Merger") of KAMCO and GIH was approved by the shareholders at the Extraordinary General Assembly Meeting to be effected by way of a merger pursuant to the provisions of Module Nine ("Mergers and Acquisitions") of the Executive Bylaws of Law No. 7 of 2010 on the Establishment of the Capital Markets Authority and Regulation of the Activity of Securities and their Amendments, and the provisions of Article 259 of the Companies Law No. 1 of 2010 and its executive regulations, through the issuance of 0.75522821 new KAMCO shares for every 1 share in GIH subject to the terms and conditions of the Merger and with effect from the Merger becoming effective. The share capital of the merged Company would increase from 263,301,750 shares to 342,332,633 shares.

As at the date of approval of the interim condensed consolidated financial information, the legal formalities of the merger are under process.

The Group currently owns 205,218,583 shares in KAMCO which represents 86.4% of the outstanding shares. Subsequent to the proposed merger, the Group effective ownership will be reduced to 59.9%.