

**Bahrain Middle East Bank B.S.C.**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**30 JUNE 2018 (Reviewed)**

## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF BAHRAIN MIDDLE EAST BANK B.S.C.**

### ***Introduction***

We have reviewed the accompanying interim condensed consolidated financial statements of Bahrain Middle East Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group") as at 30 June 2018, comprising of the interim condensed consolidated statement of financial position as at 30 June 2018 and the related interim condensed consolidated statements of comprehensive income, cash flows and changes in equity for the six-month period then ended and explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### ***Scope of Review***

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

### ***Conclusion***

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



26 July 2018  
Manama, Kingdom of Bahrain

# Bahrain Middle East Bank B.S.C.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018 (Reviewed)

	Note	<i>Reviewed</i> <b>30 June</b> <b>2018</b> <b>US\$ '000</b>	<i>Audited</i> <b>31 December</b> <b>2017</b> <b>US\$ '000</b>
<b>ASSETS</b>			
Balances with banks and financial institutions		<b>10,713</b>	30,023
Treasury bills and placements with financial institutions		<b>82,699</b>	50,061
Investment securities	3	<b>47,645</b>	23,456
Loans and advances	4	<b>142,773</b>	138,714
Other assets		<b>5,314</b>	3,385
<b>TOTAL ASSETS</b>		<b>289,144</b>	245,639
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to financial institutions		<b>178,734</b>	154,064
Due to customers		<b>3,448</b>	3,124
Borrowings	5	<b>18,501</b>	4,810
Other liabilities		<b>1,952</b>	1,859
<b>Total liabilities</b>		<b>202,635</b>	163,857
<b>EQUITY</b>			
Share capital		<b>100,000</b>	100,000
Accumulated losses		<b>(13,491)</b>	(18,218)
<b>Total equity</b>		<b>86,509</b>	81,782
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>289,144</b>	245,639



Wilson S Benjamin  
Chairman



Murat Solak  
Vice Chairman



Korhan Alev  
Chief Executive Officer

# Bahrain Middle East Bank B.S.C.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2018 (Reviewed)


	Three-month period ended 30 June		Six-month period ended 30 June	
		Restated		Restated
	2018	2017	2018	2017
Note	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>OPERATING INCOME</b>				
Interest income	4,400	2,969	8,307	5,782
Interest expense	(252)	(64)	(444)	(127)
<b>Net interest income</b>	<b>4,148</b>	<b>2,905</b>	<b>7,863</b>	<b>5,655</b>
Gain (loss) on investment securities	758	(136)	418	(179)
Fee and commission income	48	21	94	46
Other income	45	53	108	87
Foreign exchange (loss) gain	(35)	61	21	75
<b>Total operating income</b>	<b>4,964</b>	<b>2,904</b>	<b>8,504</b>	<b>5,684</b>
<b>OPERATING EXPENSES</b>				
Staff expenses	990	588	1,727	1,551
Travel and business development expenses	176	20	311	42
Legal and professional expenses	68	76	156	201
Premises and equipment expenses	106	73	219	148
Depreciation and amortisation expenses	49	17	85	26
Other operating expenses	197	183	411	325
<b>Total operating expenses</b>	<b>1,586</b>	<b>957</b>	<b>2,909</b>	<b>2,293</b>
<b>NET PROFIT FOR THE PERIOD</b>				
<b>BEFORE IMPAIRMENT ALLOWANCE</b>	<b>3,378</b>	<b>1,947</b>	<b>5,595</b>	<b>3,391</b>
Impairment allowance - net	6	(465)	(313)	(868)
<b>NET PROFIT FOR THE PERIOD</b>	<b>2,913</b>	<b>1,634</b>	<b>4,727</b>	<b>3,130</b>
Other comprehensive income for the period	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>2,913</b>	<b>1,634</b>	<b>4,727</b>	<b>3,130</b>
<b>FOR THE PERIOD</b>				
<b>BASIC AND DILUTED EARNINGS</b>				
<b>PER SHARE (IN US\$ CENTS)</b>	<b>0.73</b>	<b>0.68</b>	<b>1.18</b>	<b>1.29</b>



Wilson S Benjamin  
Chairman



Murat Solak  
Vice Chairman



Korhan Alev  
Chief Executive Officer

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

# Bahrain Middle East Bank B.S.C.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2018 (Reviewed)

	<i>Six-month period ended 30 June</i>	
	<b>2018</b>	<i>Restated 2017</i>
<i>Note</i>	<b>US\$ '000</b>	<i>US\$ '000</i>
<b>OPERATING ACTIVITIES</b>		
Net profit for the period	4,727	3,130
Adjustments for:		
Impairment allowance - net (excluding on cash and cash equivalents)	6      489	250
Depreciation and amortisation	85	26
Changes in operating assets and liabilities:		
Investment securities	(24,522)	1,190
Loans and advances	(4,215)	(5,203)
Other assets	(1,627)	(839)
Due to financial institutions	24,670	475
Due to customers	324	(3,980)
Borrowings	13,691	-
Other liabilities	93	(1,111)
Net cash from (used in) operating activities	<b>13,715</b>	<b>(6,062)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of premises and equipment	(109)	-
Purchase of intangible assets	(278)	-
Net cash used in investing activities	<b>(387)</b>	<b>-</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>13,328</b>	<b>(6,062)</b>
Cash and cash equivalents at 1 January	80,084	44,561
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>93,412</b>	<b>38,499</b>
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>		
Balances with banks and financial institutions	10,713	25,019
Treasury bills and placements with financial institutions with original maturities of three months or less	82,699	13,480
	<b>93,412</b>	<b>38,499</b>

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

## Bahrain Middle East Bank B.S.C.

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2018 (Reviewed)

	<i>Share capital US\$ '000</i>	<i>Accumulated losses US\$ '000</i>	<i>Total equity US\$ '000</i>
Balance at 1 January 2018	100,000	(18,218)	81,782
Total comprehensive income for the period	-	4,727	4,727
<b>Balance at 30 June 2018</b>	<b>100,000</b>	<b>(13,491)</b>	<b>86,509</b>
Balance at 1 January 2017 (Restated)	60,501	(23,418)	37,083
Total comprehensive income for the period (Restated)	-	3,130	3,130
Balance at 30 June 2017	60,501	(20,288)	40,213

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018 (Reviewed)

**1 INCORPORATION AND ACTIVITIES**

Bahrain Middle East Bank B.S.C. ("the Bank") is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain. On 9 April 2007, the Central Bank of Bahrain ("the CBB") issued a Conventional Wholesale Banking license to the Bank. The commercial registration ("CR") number of the Bank is 12266. The Bank is listed on the Bahrain Bourse under the ticker 'BMB'. AN Investment W.L.L., a limited liability company incorporated in the Kingdom of Bahrain, is the Parent company of the Bank. The principal activities of the Bank and its subsidiaries (together "the Group") are trade finance, corporate advisory and asset management services.

The registered office of the Bank is BMB Centre, Building 135, Road 1702, Block 317, Diplomatic Area, Manama, Kingdom of Bahrain.

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 26 July 2018.

**2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES**

**2.1 Basis of preparation**

The interim condensed consolidated financial statements of the Group for the six-month period ended 30 June 2018 are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not contain all the information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017. In addition, results for the six-month period ended 30 June 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

***Restatement of comparatives due to application of IFRS 9***

The comparative figures in the interim consolidated statement of income, comprehensive income, cash flows and changes in equity for the six-month period ended 30 June 2017, have been restated since the Group early adopted IFRS 9 for the year ended 31 December 2017, with a date of initial application of 1 January 2017.

The early adoption in 2017 required that the comparative information for interim periods of 2017 be restated. The restatement information is set out below:

	<i>Previously reported US\$ '000</i>	<i>Restatement US\$ '000</i>	<i>As reported herein US\$ '000</i>
<b>Interim condensed consolidated statement of income</b>			
Loss on investment securities	(79)	(100)	(179)
Impairment allowance - net	(1,284)	1,023	(261)
Net profit for the period	2,207	923	3,130
<b>Interim condensed consolidated statement of comprehensive income</b>			
Total other comprehensive loss for the period	(917)	917	-
Total comprehensive income for the period	1,290	1,840	3,130
<b>Interim condensed consolidated statement of cash flows</b>			
Net cash used in operating activities	(6,051)	(11)	(6,062)
Cash and cash equivalents at 1 January	44,581	(20)	44,561
Cash and cash equivalents at 30 June	38,530	(31)	38,499

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018 (Reviewed)

**2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES****2.2 Significant accounting policies**

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective for annual period beginning on or after as of 1 January 2018.

The below new relevant standards and amendments apply for the first time in 2018. However, they do not have a material impact on the interim condensed consolidated financial statements of the Group:

- *IFRS 7(Revised) Financial instrument: Disclosures (IFRS 7R)*
- *IFRS 15 Revenue from contracts with customers (IFRS 15)*

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective, such as *IFRS 16 Leases*.

**3 INVESTMENT SECURITIES**

	<b>30 June 2018 (Reviewed)</b>		
	<i>Fair value through profit or loss US\$ '000</i>	<i>Amortised cost US\$ '000</i>	<i>Total US\$ '000</i>
<b>Quoted investments</b>			
Sovereign bonds	4,951	19,500	24,451
Other bonds and debt securities	2,975	-	2,975
Equities	403	-	403
	<b>8,329</b>	<b>19,500</b>	<b>27,829</b>
<b>Unquoted investments</b>			
Other bonds and debt securities	-	17,000	17,000
Managed funds	3,153	-	3,153
	<b>3,153</b>	<b>17,000</b>	<b>20,153</b>
	<b>11,482</b>	<b>36,500</b>	<b>47,982</b>
Less: Allowance for impairment	-	(337)	(337)
<b>Balance at 30 June 2018</b>	<b>11,482</b>	<b>36,163</b>	<b>47,645</b>



# Bahrain Middle East Bank B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018 (Reviewed)

### 3 INVESTMENT SECURITIES (continued)

	31 December 2017 (Audited)		
	<i>Fair value through profit or loss</i>	<i>Amortised cost</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Quoted investments</b>			
Sovereign bonds	5,988	-	5,988
Other bonds and debt securities	2,818	-	2,818
Equities	394	-	394
	<u>9,200</u>	<u>-</u>	<u>9,200</u>
<b>Unquoted investments</b>			
Other bonds and debt securities	-	11,000	11,000
Managed funds	3,260	-	3,260
	<u>3,260</u>	<u>11,000</u>	<u>14,260</u>
	12,460	11,000	23,460
Less: Allowance for impairment	-	(4)	(4)
<b>Balance at 31 December 2017</b>	<u>12,460</u>	<u>10,996</u>	<u>23,456</u>

Sovereign bonds held by the Group amounting to US\$ 19,500 thousand (31 December 2017: US\$ 5,988 thousand) are pledged to a local financial institution (refer note 5).

### 4 LOANS AND ADVANCES

	<i>Reviewed</i>	<i>Audited</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2018</i>	<i>2017</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Trade finance	140,930	137,420
Installment sale receivable (refer note 7)	3,533	3,533
Corporate loans	3,705	3,000
	<u>148,168</u>	<u>143,953</u>
Less: Allowance for impairment	(5,395)	(5,239)
	<u>142,773</u>	<u>138,714</u>

Installment sale receivable relates to a sale agreement entered by the Bank to sell its investment in a piece of land in the State of Kuwait on an installment sale basis. The loan is secured by corporate guarantees from a shareholder and additional guarantee from two associates of the shareholder. This loan is non-performing (Stage 3) and has been fully provided for.

# Bahrain Middle East Bank B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018 (Reviewed)

### 4 LOANS AND ADVANCES (continued)

The following table sets out the information about the credit quality of loans and advances and movement in related impairment allowance:

	30 June 2018 (Reviewed)			Total US\$ '000
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit- impaired US\$ '000	Stage 3: Lifetime ECL credit- impaired US\$ '000	
Balance at 1 January 2018	1,159	547	3,533	5,239
Net remeasurement of loss allowance	209	(53)	-	156
<b>Balance at 30 June 2018</b>	<b>1,368</b>	<b>494</b>	<b>3,533</b>	<b>5,395</b>
Gross exposure	141,635	3,000	3,533	148,168
	31 December 2017 (Audited)			Total US\$ '000
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit- impaired US\$ '000	Stage 3: Lifetime ECL credit- impaired US\$ '000	
Balance at 1 January 2017 - on adoption of IFRS 9	1,018	3,153	-	4,171
Transfer to lifetime ECL credit- impaired	-	(1,928)	1,928	-
Net remeasurement of loss allowance	141	(678)	1,605	1,068
<b>Balance at 31 December 2017</b>	<b>1,159</b>	<b>547</b>	<b>3,533</b>	<b>5,239</b>
Gross exposure	137,420	3,000	3,533	143,953

### 5 BORROWINGS

These represent short term borrowings from a local financial institution for general financing purposes. These will mature in third quarter of 2018 and are secured against pledge of investment securities of US\$ 19,500 thousand as of 30 June 2018 (31 December 2017: US\$ 5,988 thousand).

### 6 IMPAIRMENT ALLOWANCE

The impairment allowance recorded in the statement of income is as follows:

	30 June 2018 (Reviewed)			Total ECL US\$ '000
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit- impaired US\$ '000	Stage 3: Lifetime ECL credit- impaired US\$ '000	
Balances with banks and financial institutions	8	-	-	8
Treasury bills and placements with financial institutions	371	-	-	371
Investment securities - at amortised cost	333	-	-	333
Loans and advances	209	(53)	-	156
<b>Total</b>	<b>921</b>	<b>(53)</b>	<b>-</b>	<b>868</b>

# Bahrain Middle East Bank B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018 (Reviewed)

### 6 IMPAIRMENT ALLOWANCE (continued)

	30 June 2017 (Reviewed and Restated)			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total ECL
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balances with banks and financial institutions	10	-	-	10
Treasury bills and placements with financial institutions	1	-	-	1
Investment securities - at amortised cost	-	(99)	179	80
Loans and advances	40	130	-	170
<b>Total</b>	<b>51</b>	<b>31</b>	<b>179</b>	<b>261</b>

### 7 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors, key management personnel of the Bank and entities owned, controlled, jointly controlled or significantly influenced by such parties.

Key management personnel of the Group are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the Board of Directors, Chief Executive Officer, Chief Financial Officer and Heads of Departments. Transactions entered during the period and balances at period-end are set out below:

All related party transactions are on terms equivalent to arm's length transactions and are approved by the Board of Directors.

	Key management personnel		Shareholders and their related parties		
	Reviewed	Audited	Reviewed	Audited	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017	
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
<b>Statement of financial position</b>					
<b>Assets</b>					
Loans and advances	-	-	3,000	3,000	
<b>Liabilities</b>					
Deposits	-	-	88	267	
Other liabilities - employees leaving indemnity	306	242	-	-	
		Three-month period ended (Reviewed)		Six-month period ended (Reviewed)	
		30 June 2018	30 June 2017	30 June 2018	30 June 2017
		US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Statement of income</b>					
Interest income	66	66	132	132	

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018 (Reviewed)

**7 RELATED PARTY TRANSACTIONS AND BALANCES (continued)****Key management compensation**

Compensation to key management personnel, including directors, included in the consolidated statement of income is as follows:

	<i>Six month period ended (Reviewed)</i>	
	<b>30 June 2018</b>	<b>30 June 2017</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>
Salaries and other short-term employee benefits	662	906
Employee leaving indemnity	24	17
	<b>686</b>	<b>923</b>
Directors' fees	<b>94</b>	<b>79</b>

**Guarantee**

The Bank has received a corporate guarantee from a shareholder with regard to the Bank's installment sale receivable (refer note 4), and an additional guarantee from two associates of the shareholder.

**8 SEGMENT RESULTS****Segment information**

For management purposes, the Group is organised into three major business segments:

<b>Financing</b>	- Financing and trade finance
<b>Investing</b>	- Investments in debt securities, equities and private equity funds
<b>Other operating segments</b>	- Corporate advisory and building management etc.

The Group's business segments are broken down by key business activities and those with clearly identifiable revenue streams and expenses. The segmentation is in line with segments internally reported to the Chief Executive Officer, who is the chief decision maker.

Segment information for the period ended 30 June 2018 is as follows:

	<i>Six-month period ended 30 June 2018 (Reviewed)</i>			
	<i>Financing</i>	<i>Investing</i>	<i>Others</i>	<i>Total</i>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
Interest income	7,172	1,135	-	8,307
Interest expense	(444)	-	-	(444)
Gain on investment securities	-	418	-	418
Fee and commission income	-	-	94	94
Other income	-	-	108	108
Foreign exchange gain	-	-	21	21
Results from operations	<b>6,728</b>	<b>1,553</b>	<b>223</b>	<b>8,504</b>
Impairment allowance - net	<b>(535)</b>	<b>(333)</b>	<b>-</b>	<b>(868)</b>
<b>Segment profit</b>	<b>6,193</b>	<b>1,220</b>	<b>223</b>	<b>7,636</b>
Unallocated corporate expenses				<b>(2,909)</b>
<b>Net profit for the period</b>				<b>4,727</b>
<b>Segment assets at 30 June 2018</b>	<b>239,579</b>	<b>48,350</b>	<b>1,215</b>	<b>289,144</b>
<b>Segment liabilities at 30 June 2018</b>	<b>200,807</b>	<b>-</b>	<b>1,828</b>	<b>202,635</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018 (Reviewed)

**8 SEGMENT RESULTS (continued)**

Segment information for the period ended 30 June 2017 is as follows:

	<i>Six-month period ended 30 June 2017 (Reviewed and Restated)</i>			
	<i>Financing</i>	<i>Investing</i>	<i>Others</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Interest income	5,781	1	-	5,782
Interest expense	(127)	-	-	(127)
Loss on investment securities	-	(179)	-	(179)
Fee and commission income	-	-	46	46
Other income	-	-	87	87
Foreign exchange gain	-	-	75	75
Results from operations	5,654	(178)	208	5,684
Impairment allowance - net	(181)	(80)	-	(261)
Segment profit (loss)	5,473	(258)	208	5,423
Unallocated corporate expenses				(2,293)
Net profit for the period				3,130
Segment assets as at 31 December 2017	221,096	23,622	921	245,639
Segment liabilities as at 31 December 2017	162,111	-	1,746	163,857

**9 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Group's financial instruments are accounted for under the historical cost convention except for the measurement at fair value of investments at fair value through profit or loss. Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the book amounts and the fair value estimates.

**Fair value hierarchy**

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Valuation techniques based on observable inputs, either directly or indirectly. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation (i.e. net asset value received from administrator / fund managers).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018 (Reviewed)

## 9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows the carrying amounts and fair values of financial instruments, including their levels in the fair value hierarchy. It does not include fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value:

<i>Six-month period ended 30 June 2018 (Reviewed)</i>					
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Financial assets measured at fair value:</i>					
Investment securities	8,329	-	3,153	11,482	11,482
<i>Financial assets measured at amortised cost:</i>					
Investment securities	17,552	-	17,000	34,552	36,163
<i>31 December 2017 (Audited)</i>					
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Financial assets measured at fair value:</i>					
Investment securities	9,200	-	3,260	12,460	12,460
<i>Financial assets measured at amortised cost:</i>					
Investment securities	-	-	11,000	11,000	10,996
<i>Financial liabilities measured at fair value</i>					
Derivatives held for trading	-	54	-	54	54

The fair value of financial assets and financial liabilities approximate their carrying values, other than those disclosed above.

Movements in level 3 fair value hierarchy of investments:

	<i>Reviewed</i>	<i>Audited</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2018</i>	<i>2017</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
At 1 January	3,260	5,321
Additions	50	22
Exits (at cost)	(143)	(1,023)
Net fair value movement	(14)	(1,060)
	<u>3,153</u>	<u>3,260</u>

Level 3 investments represent fund investments where the underlying fund managers exercise judgements in valuation of investments.

During the period, there were no transfers between Level 1 and Level 2 fair value hierarchy, and no transfers into and out of Level 3 fair value hierarchy.

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

30 June 2018 (Reviewed)

**10 DERIVATIVE FINANCIAL INSTRUMENTS**

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. The Group uses currency swaps to manage some of its foreign currency exposures. These currency swaps 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.

The table below shows the fair values of the derivative financial instruments together with the notional amounts:

	<b>30 June 2018 (Reviewed)</b>		<b>31 December 2017</b>	
	<b>Notional amounts</b>	<b>Fair value (loss) / gain</b>	<b>Notional amounts</b>	<b>Fair value (loss) / gain</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
<i>Derivatives held for trading:</i>				
Currency swap	<b>6,075</b>	<b>-</b>	<b>6,189</b>	<b>(54)</b>

**11 ASSETS UNDER MANAGEMENT**

The Group's clients participate in products offered under its two alternative investment asset classes. Total assets under management ("AUM") in each product category at the consolidated statement of financial position date are as follows:

	<b>Reviewed</b>	<b>Audited</b>
	<b>30 June 2018</b>	<b>31 December 2017</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>
Trade finance	<b>32,262</b>	<b>9,500</b>
Private equity	<b>4,430</b>	<b>4,833</b>
	<b>36,692</b>	<b>14,333</b>

Assets under management, relating to trade finance, include sub-participations by various clients in trade finance deals administered by the Group.

Assets under management, relating to private equity, include BMB Technology and Telecommunications Investment Company (under liquidation), a US focused venture capital fund of funds, customer sub-participations in private equity funds managed by the Group and other client funds managed on a discretionary basis.

**12 COMMITMENTS AND CONTINGENT LIABILITIES**

The outstanding commitments and contingent liabilities of the Group are as follows:

	<b>Reviewed</b>	<b>Audited</b>
	<b>30 June 2018</b>	<b>31 December 2017</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>
Undrawn investment commitments in equity funds	<b>3,582</b>	<b>3,612</b>
Other commitments	<b>2,579</b>	<b>2,579</b>

Commitments mainly include commitments to participate in investments. Undrawn investment commitments comprise contractual commitments to investments made in equity funds. These amounts are called by fund managers, generally for a period between four and six years.

Other commitments represent unclaimed dividend amounts written back by the Bank in 2011. However, as per regulatory requirements, these amounts have been disclosed as a contingent liability.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS

30 June 2018 (Reviewed)

**12 COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

The Group is engaged in litigation cases involving claims made by and against the Group relating to its ex-employees and certain third parties. The Board, after reviewing the claims pending against the Group and based on the advice of the relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the financial position of the Group.