

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

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**30 SEPTEMBER 2016 (Reviewed)**

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

### ***Introduction***

We have reviewed the accompanying interim condensed consolidated statement of financial position of Bahrain Middle East Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group") as at 30 September 2016 and the related interim condensed consolidated statements of income, comprehensive income, cash flows and changes in equity for the nine-month period then ended, and explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

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

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, 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.



3 November 2016  
Manama, Kingdom of Bahrain

# Bahrain Middle East Bank B.S.C.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2016 (Reviewed)

	<i>Note</i>	<b>Reviewed 30 September 2016 US\$ '000</b>	<b>Audited 31 December 2015 US\$ '000</b>
<b>ASSETS</b>			
Balances with banks and financial institutions		14,052	28,373
Treasury bills and placements with financial institutions		52,401	19,998
Investments at fair value through profit or loss		1,263	161
Loans and advances	3	112,663	110,705
Available-for-sale investments	4	5,609	9,530
Held-to-maturity investments		189	216
Other assets		2,555	2,889
<b>TOTAL ASSETS</b>		<b>188,732</b>	<b>171,872</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from financial institutions		136,504	125,098
Deposits from customers		11,137	8,726
Other liabilities		1,576	2,786
<b>Total liabilities</b>		<b>149,217</b>	<b>136,610</b>
<b>EQUITY</b>			
Share capital		60,501	60,501
Accumulated losses		(21,921)	(26,554)
Fair value reserve		935	1,315
<b>Total equity</b>		<b>39,515</b>	<b>35,262</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>188,732</b>	<b>171,872</b>



Wilson S Benjamin  
Chairman



Sheikh Abdullah A.K Al Sabah  
Vice Chairman



Ritchie Skelding  
Chief Executive Officer

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements

# Bahrain Middle East Bank B.S.C.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

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

	Note	Three-month period ended 30 September		Nine-month period ended 30 September	
		2016	2015	2016	2015
		US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>OPERATING INCOME</b>					
Interest income		2,747	2,987	8,051	8,451
Interest expense		(244)	(403)	(837)	(1,144)
<b>Net interest income</b>		<b>2,503</b>	<b>2,584</b>	<b>7,214</b>	<b>7,307</b>
Investment banking income	6	177	551	478	1,324
Other income		70	83	300	256
Foreign exchange (loss) gain		(17)	6	(66)	110
<b>Total operating income</b>		<b>2,733</b>	<b>3,224</b>	<b>7,926</b>	<b>8,997</b>
<b>OPERATING EXPENSES</b>					
Staff expenses		772	761	2,313	2,293
Premises expenses		59	90	229	276
Other operating expenses		220	226	574	761
<b>Total operating expenses</b>		<b>1,051</b>	<b>1,077</b>	<b>3,116</b>	<b>3,330</b>
<b>NET PROFIT FOR THE PERIOD BEFORE IMPAIRMENT PROVISIONS</b>					
		1,682	2,147	4,810	5,667
Impairment provisions - net	5	139	(349)	(177)	(657)
<b>NET PROFIT FOR THE PERIOD</b>		<b>1,821</b>	<b>1,798</b>	<b>4,633</b>	<b>5,010</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (IN US\$ CENTS)</b>					
		0.75	0.74	1.91	2.07



Wilson S Benjamin  
Chairman



Sheikh Abdullah A.K Al Sabah  
Vice Chairman



Ritchie Skelding  
Chief Executive Officer

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements

**Bahrain Middle East Bank B.S.C.****INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

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

	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</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>1,821</b>	<b>1,798</b>	<b>4,633</b>	<b>5,010</b>
<b>Other comprehensive income (loss):</b>				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Fair value reserves (available-for-sale investments):				
Net amount transferred to statement of income on sale/impairment	-	(469)	21	(695)
Net changes in fair value during the period	28	305	(401)	81
<b>Total other comprehensive income (loss) for the period</b>	<b>28</b>	<b>(164)</b>	<b>(380)</b>	<b>(614)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>1,849</b>	<b>1,634</b>	<b>4,253</b>	<b>4,396</b>

The attached notes 1 to 10 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 nine-month period ended 30 September 2016 (Reviewed)

	<i>Nine-month period ended 30 September</i>	
	<b>2016</b>	<b>2015</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>OPERATING ACTIVITIES</b>		
Net profit for the period	<b>4,633</b>	<b>5,010</b>
Adjustments for:		
Impairment provisions - net (note 5)	<b>177</b>	<b>657</b>
Depreciation and amortisation	<b>34</b>	<b>38</b>
Changes in operating assets and liabilities:		
Treasury bills and placements with financial institutions	<b>-</b>	<b>3,000</b>
Investments at fair value through profit or loss	<b>(1,102)</b>	<b>128</b>
Loans and advances	<b>(1,801)</b>	<b>(24,767)</b>
Available-for-sale investments	<b>3,207</b>	<b>(2,697)</b>
Held-to-maturity investments	<b>27</b>	<b>7</b>
Other assets	<b>300</b>	<b>(439)</b>
Deposits from financial institutions	<b>11,406</b>	<b>441</b>
Deposits from customers	<b>2,411</b>	<b>(5,389)</b>
Other liabilities	<b>(1,210)</b>	<b>(523)</b>
Net cash from (used in) operating activities	<b>18,082</b>	<b>(24,534)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>18,082</b>	<b>(24,534)</b>
Cash and cash equivalents at 1 January	<b>48,371</b>	<b>40,608</b>
<b>CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER</b>	<b>66,453</b>	<b>16,074</b>
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>		
Balances with banks and financial institutions	<b>14,052</b>	<b>7,492</b>
Treasury bills and placements with financial institutions with original maturities of three months or less	<b>52,401</b>	<b>8,582</b>
	<b>66,453</b>	<b>16,074</b>

The attached notes 1 to 10 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 nine-month period ended 30 September 2016 (Reviewed)

	<i>Share capital</i> US\$ '000	<i>Accumulated losses</i> US\$ '000	<i>Fair value reserve</i> US\$ '000	<i>Total equity</i> US\$ '000
Balance at 1 January 2016	60,501	(26,554)	1,315	35,262
Total comprehensive income (loss) for the period	-	4,633	(380)	4,253
<b>Balance at 30 September 2016</b>	<b>60,501</b>	<b>(21,921)</b>	<b>935</b>	<b>39,515</b>
Balance at 1 January 2015	60,501	(31,633)	2,136	31,004
Total comprehensive income (loss) for the period	-	5,010	(614)	4,396
Balance at 30 September 2015	60,501	(26,623)	1,522	35,400

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements

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

30 September 2016 (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'. The principal activities of the Bank and its subsidiaries (together "the Group") are trade finance and corporate advisory in the digital media and e-commerce sectors.

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 3 November 2016.

**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 nine-month period ended 30 September 2016 are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not contain all the information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2015. In addition, results for the nine-month period ended 30 September 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

**2.2 Basis of consolidation**

These interim condensed consolidated financial statements include the financial statements of the Bank and its subsidiaries after elimination of inter company transactions and balances.

**2.3 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 2015, except for the adoption of new standards and interpretations effective for annual period beginning on or after 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective, such as:

- *IFRS 9 Financial Instruments*
- *IFRS 15 Revenue from Contracts from Customers*
- *IFRS 16 Leases*

The below new standards and amendments apply for the first time in 2016. However, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

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

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



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2016 (Reviewed)

### 2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

#### 2.3 Significant accounting policies (continued)

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

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

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

*Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are currently being assessed if they have any impact on the Group.

*Annual Improvements 2012-2014 Cycle*

These improvements are effective for annual periods beginning on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- IFRS 7 Financial Instruments: Disclosures;
- IAS 19 Employee Benefits; and
- IAS 34 Interim Financial Reporting.

### 3 LOANS AND ADVANCES

	<i>Reviewed</i> 30 September 2016 US\$ '000	<i>Audited</i> 31 December 2015 US\$ '000
Trade finance	105,771	104,108
Installment sale receivable (refer note 7)	5,328	6,533
Corporate loan	3,000	3,000
	<u>114,099</u>	<u>113,641</u>
Less: Provision for impairment	(1,436)	(2,936)
	<u>112,663</u>	<u>110,705</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2016 (Reviewed)

3 LOANS AND ADVANCES (continued)

The breakup of provision for impairment is as follows:

	<i>Reviewed</i> 30 September 2016 US\$ '000	<i>Audited</i> 31 December 2015 US\$ '000
Specific impairment provision	-	1,500
Collective impairment provision	1,436	1,436
	<u>1,436</u>	<u>2,936</u>

4 AVAILABLE-FOR-SALE INVESTMENTS

	<i>Reviewed</i> 30 September 2016 US\$ '000	<i>Audited</i> 31 December 2015 US\$ '000
<i>Equity and managed funds investments:</i>		
Unquoted equity fund investments	5,609	6,638
Unquoted strategic investments	-	237
	<u>5,609</u>	<u>6,875</u>
<i>Debt securities:</i>		
Quoted government sukuk	-	2,655
	<u>5,609</u>	<u>9,530</u>

5 IMPAIRMENT PROVISIONS / WRITE BACK

	<u>30 September 2016 (Reviewed)</u>		
	<i>Loans and advances</i> US\$ '000	<i>Available- for-sale investments</i> US\$ '000	<i>Total</i> US\$ '000
At 1 January 2016	2,936	10,813	13,749
Charge for the period	-	334	334
Recovery	(157)	-	(157)
Written-off	(1,343)	(7,241)	(8,584)
Foreign exchange movements	-	36	36
At 30 September 2016	<u>1,436</u>	<u>3,942</u>	<u>5,378</u>
	<u>30 September 2015 (Reviewed)</u>		
	<i>Loans and advances</i> US\$ '000	<i>Available- for-sale investments</i> US\$ '000	<i>Total</i> US\$ '000
At 1 January 2015	2,066	14,554	16,620
Charge for the period	220	1,008	1,228
Recovery	(571)	-	(571)
Written-off	-	(4,669)	(4,669)
Foreign exchange movements	(67)	(94)	(161)
At 30 September 2015	<u>1,648</u>	<u>10,799</u>	<u>12,447</u>
At 31 December 2015	<u>2,936</u>	<u>10,813</u>	<u>13,749</u>

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

30 September 2016 (Reviewed)

**6 INVESTMENT BANKING INCOME**

	<i>Reviewed</i> 30 September 2016 US\$ '000	<i>Reviewed</i> 30 September 2015 US\$ '000
Fee and commission income	810	630
(Loss) gain from available-for-sale investments - net	(130)	822
Loss from investments at fair value through profit or loss - net	(202)	(128)
	<u>478</u>	<u>1,324</u>

**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 the 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.

	<i>Key management personnel</i>		<i>Shareholders and their related parties</i>	
	<i>Reviewed</i> 30 September 2016 US\$ '000	<i>Audited</i> 31 December 2015 US\$ '000	<i>Reviewed</i> 30 September 2016 US\$ '000	<i>Audited</i> 31 December 2015 US\$ '000
<b>Liabilities</b>				
Deposits	-	-	3,437	304
Other liabilities - employee leaving indemnity	215	195	-	-
<b>Statement of income</b>				
Investment banking income	-	-	7	39
Interest expense	-	-	-	92
<b>Assets under management</b>	-	-	4,120	-

**Key management compensation**

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

	<i>Reviewed</i> 30 September 2016 US\$ '000	<i>Reviewed</i> 30 September 2015 US\$ '000
Salaries and other short-term employee benefits	1,264	1,262
Employee leaving indemnity	21	20
	<u>1,285</u>	<u>1,282</u>
Directors' fees	<u>72</u>	<u>74</u>

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

30 September 2016 (Reviewed)

**7 RELATED PARTY TRANSACTIONS AND BALANCES (continued)****Guarantee**

The Bank has received a corporate guarantee from a shareholder with regard to the Bank's installment sale receivable (refer note 3), and an additional guarantee from an associate of the shareholder. This additional guarantee is secured by real estate in the Arab Republic of Egypt (registration of the security is in process), and by share securities.

**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 listed bonds, 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 September 2016 is as follows:

	<i>Nine-month period ended 30 September 2016 (Reviewed)</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	7,987	64	-	8,051
Interest expense	(837)	-	-	(837)
Investment banking income (loss)	169	(332)	641	478
Other income	-	-	300	300
Foreign exchange loss	-	-	(66)	(66)
<b>Results from operations</b>	<b>7,319</b>	<b>(268)</b>	<b>875</b>	<b>7,926</b>
Impairment provisions - net (note 5)	157	(334)	-	(177)
Unallocated corporate expenses	-	-	-	(3,116)
<b>Net profit (loss) for the period</b>	<b>7,476</b>	<b>(602)</b>	<b>875</b>	<b>4,633</b>
<b>Reportable segment assets</b>	<b>181,118</b>	<b>7,061</b>	<b>553</b>	<b>188,732</b>
<b>Reportable segment liabilities</b>	<b>148,176</b>	<b>-</b>	<b>1,041</b>	<b>149,217</b>
<b>Equity</b>				<b>39,515</b>
<b>Total liabilities and equity</b>				<b>188,732</b>

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

30 September 2016 (Reviewed)

**8 SEGMENT RESULTS (continued)**

	<i>Nine-month period ended 30 September 2015 (Reviewed)</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	8,418	33	-	8,451
Interest expense	(1,144)	-	-	(1,144)
Investment banking income	-	694	630	1,324
Other income	-	-	256	256
Foreign exchange gain	-	-	110	110
<b>Results from operations</b>	<b>7,274</b>	<b>727</b>	<b>996</b>	<b>8,997</b>
Impairment provisions / write back - net	351	(1,008)	-	(657)
Unallocated corporate expenses	-	-	-	(3,330)
<b>Net profit (loss) for the period</b>	<b>7,625</b>	<b>(281)</b>	<b>996</b>	<b>5,010</b>
<b>Reportable segment assets</b>	<b>160,737</b>	<b>10,580</b>	<b>452</b>	<b>171,769</b>
<b>Reportable segment liabilities</b>	<b>135,507</b>	<b>-</b>	<b>862</b>	<b>136,369</b>
<b>Equity</b>				<b>35,400</b>
<b>Total liabilities and equity</b>				<b>171,769</b>

**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 and available-for-sale investments. 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 September 2016 (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>Nine-month period ended 30 September 2016 (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\$</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>					
Investments at fair value through profit or loss	1,002	-	261	1,263	1,263
Available-for-sale investments	-	-	5,609	5,609	5,609
<i>Financial assets not measured at fair value</i>					
Held-to-maturity investments	-	-	159	159	189
<i>31 December 2015 (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\$</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>					
Investments at fair value through profit or loss	-	-	161	161	161
Available-for-sale investments	2,655	-	6,875	9,530	9,530
<i>Financial assets not measured at fair value</i>					
Held-to-maturity investments	-	-	176	176	216

Management has assessed that the fair values of financial assets comprising of balances with banks and financial institutions, treasury bills and placements with financial institutions, loans and advances and other assets, and financial liabilities comprising of deposits from financial institutions, deposits from customers and other liabilities approximate their carrying amounts.

For held-to-maturity investments, fair value is lower than the carrying amount; however this shortfall in fair value is not relevant except in a forced sale situation since the Bank has the intention to hold held-to-maturity investments until maturity when it would recover full nominal amounts.

The fair value of held-to-maturity investments is based on last quoted market prices at the reporting date or on the present value of future cash flows.

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

30 September 2016 (Reviewed)

**9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

Movements in level 3 fair value hierarchy of investments:

	<i>Reviewed</i> <b>30 September</b> 2016 <i>US\$ '000</i>	<i>Audited</i> <b>31 December</b> 2015 <i>US\$ '000</i>
At 1 January	7,036	9,029
Net fair value movement	(205)	(291)
Additions	5	150
Exits (at cost)	(563)	(577)
Fair value transferred to statement of income on disposals / impairment	(403)	(1,275)
	<u>5,870</u>	<u>7,036</u>

Level 3 available-for-sale investments represent private equity funds 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.

**10 COMMITMENTS AND CONTINGENT LIABILITIES**

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

	<i>Reviewed</i> <b>30 September</b> 2016 <i>US\$ '000</i>	<i>Audited</i> <b>31 December</b> 2015 <i>US\$ '000</i>
Undrawn investment commitments in equity funds	4,675	4,929
Other commitments	2,579	2,579
Assets under management	28,422	42,626