

Bahrain Middle East Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2018 (Reviewed)

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF 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 September 2018, comprising of the interim condensed consolidated statement of financial position as at 30 September 2018 and the related interim condensed consolidated statements of 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.

Because of the significance of the matters described in the Basis for disclaimer of conclusion section of our report, we have not been able to obtain sufficient appropriate evidence with respect to the basis of going concern adopted by the Bank to provide a basis for a review conclusion on the interim condensed consolidated financial statements in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Basis for Disclaimer of Conclusion

We draw your attention to Note 2 of the interim condensed consolidated financial statements. As stated therein, the Bank incurred a loss of US\$ 193 million for the period ended 30 September 2018, and as of that date, the Bank has accumulated losses of US\$ 216 million and the Bank's total liabilities exceeded its total assets by US\$ 116 million. The Bank's total liabilities that amounted to US\$ 195 million as of 30 September 2018 include a deposit of US\$ 127 million from a single financial institution that rolls over on a monthly basis. The Bank's ability to repay its liabilities is largely dependent on the recoverability of a non-performing exposures of US\$ 196 million from related parties which was fully provided for as at 30 September 2018. The Bank is currently in the process of negotiating the restructuring terms of its exposures with related parties and as of the date of our review report, the recovery plan schedule has not yet been finalised. These interim condensed consolidated financial statements have been prepared on a going concern basis.

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

Basis for Disclaimer of Conclusion (continued)

We draw your attention to Note 3 of the interim condensed consolidated financial statements. As stated therein, the Bank's total equity as of 30 September 2018 is negative US\$ 116 million which is less than the minimum of US\$ 100 million required by Central Bank of Bahrain ("CBB") for wholesale bank licensees. Further, the capital adequacy stands at negative 102.8% compared to the minimum requirement of 12.5% and accordingly, the Bank is not in compliance with the minimum capital adequacy requirements set out in regulations issued by the CBB. Further, as of 30 September 2018, the Bank's accumulated losses is more than 50% of its paid-up capital. As required by the Bahrain Commercial Companies Law (BCCL), the Bank should convene a shareholder's meeting to decide whether to continue the operations of the Bank.

These events and conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast doubt on the Bank's ability to continue as a going concern.

Disclaimer of Conclusion

Due to the significance of the matter described in the "Basis for Disclaimer of Conclusion" section of our report, we were unable to obtain sufficient appropriate evidence with respect to the going concern of the Bank to form a conclusion on the accompanying interim condensed consolidated financial statements. Accordingly, we do not express a conclusion on these interim condensed consolidated financial statements.



20 November 2019
Manama, Kingdom of Bahrain


Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2018 (Reviewed)

		<i>Reviewed</i> 30 September <i>2018</i> US\$ '000	<i>Restated</i> 31 December <i>2017</i> US\$ '000	<i>Restated</i> 1 January <i>2017</i> US\$ '000
ASSETS				
Balances with banks and financial institutions		12,172	30,023	40,368
Placements with financial institutions		36,462	35,055	4,193
Investment securities	6	28,251	12,460	6,250
Loans and advances	7	-	-	1,605
Exposures to related parties	8	-	159,675	116,314
Other assets		1,853	3,385	2,464
TOTAL ASSETS		78,738	240,598	171,194
LIABILITIES AND EQUITY				
LIABILITIES				
Due to financial institutions		170,618	154,064	126,567
Due to customers		4,674	3,124	8,405
Borrowings	9	17,337	4,810	-
Other liabilities		2,037	1,859	2,443
Total liabilities		194,666	163,857	137,415
EQUITY				
Share capital		100,000	100,000	60,501
Accumulated losses		(215,928)	(23,259)	(26,722)
Total equity		(115,928)	76,741	33,779
TOTAL LIABILITIES AND EQUITY		78,738	240,598	171,194


Khalifa Bin Duaij Bin Khalifa
AlKhalifa
Chairman


Abdulrahman Abdulla
Mohamed Husain
Vice Chairman


Abdulla Mohamed Dawood
Acting Chief Executive Officer


The attached notes 1 to 16 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 2018 (Reviewed)

	Note	Three-month period ended 30 September		Nine-month period ended 30 September	
			Restated		Restated
		2018 US\$ '000	2017 US\$ '000	2018 US\$ '000	2017 US\$ '000
OPERATING INCOME					
Interest income		(777)	2,926	7,530	8,708
Interest expense		(341)	(82)	(785)	(209)
Net interest income		(1,118)	2,844	6,745	8,499
Gain (loss) on investment securities		19	26	437	(153)
Fee and commission income		116	33	210	79
Other income		21	63	129	150
Foreign exchange gain		21	22	42	97
Total operating income		(941)	2,988	7,563	8,672
OPERATING EXPENSES					
Staff expenses		734	454	2,461	2,005
Travel and business development expenses		214	113	525	155
Legal and professional expenses		67	102	223	303
Premises and equipment expenses		109	73	328	247
Depreciation and amortisation expenses		17	57	102	57
Other operating expenses		166	6	577	331
Total operating expenses		1,307	805	4,216	3,098
NET (LOSS) PROFIT FOR THE PERIOD BEFORE IMPAIRMENT ALLOWANCE					
		(2,248)	2,183	3,347	5,574
Impairment (allowance) recoveries - net	10	(195,148)	125	(196,016)	(255)
NET (LOSS) PROFIT FOR THE PERIOD		(197,396)	2,308	(192,669)	5,319
Other comprehensive income for the period		-	-	-	-
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD		(197,396)	2,308	(192,669)	5,319
BASIC AND DILUTED EARNINGS PER SHARE (IN US\$ CENTS)					
		(49.35)	0.95	(48.17)	2.20


 Khalifa Bin Duaij Bin Khalifa
 AlKhalifa
 Chairman


 Abdulrahman Abdulla Mohamed
 Husain
 Vice Chairman


 Abdulla Mohamed Dawood
 Acting Chief Executive Officer

The attached notes 1 to 16 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 2018 (Reviewed)

	Note	Nine-month period ended 30 September	
		2018 US\$ '000	Restated 2017 US\$ '000
OPERATING ACTIVITIES			
Net (loss) profit for the period		(192,669)	5,319
Adjustments for:			
Impairment allowance - net (excluding on cash and cash equivalents)	10	189,881	268
Depreciation and amortisation		102	57
Changes in operating assets and liabilities:			
Placements with financial institutions		(6,000)	
Investment securities		(15,791)	(7,294)
Loans and advances		(705)	(7,398)
Exposures to related parties		(29,501)	-
Other assets		1,937	(1,044)
Due to financial institutions		16,554	17,333
Due to customers		1,550	(5,276)
Borrowings		12,527	-
Other liabilities		178	(1,115)
Net cash (used in) from operating activities		(21,937)	850
INVESTING ACTIVITIES			
Purchase of premises and equipment		(109)	-
Purchase of intangible assets		(398)	-
Net cash used in investing activities		(507)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS		(22,444)	850
Cash and cash equivalents at 1 January		65,078	44,561
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER		42,634	45,411
CASH AND CASH EQUIVALENTS COMPRISE:			
Balances with banks and financial institutions		12,172	16,706
Placements with financial institutions with original maturities of three months or less		30,462	28,705
		42,634	45,411

The attached notes 1 to 16 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 2018 (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 2018 (Restated and unaudited)	100,000	(23,259)	-	76,741
Total comprehensive loss for the period	-	(192,669)	-	(192,669)
Balance at 30 September 2018	100,000	(215,928)	-	(115,928)
Balance at 1 January 2017 (Restated)	60,501	(26,722)	-	33,779
Total comprehensive income for the period (Restated)	-	5,319	-	5,319
Balance at 30 September 2017 (Restated)	60,501	(21,403)	-	39,098
Balance at 31 December 2016	60,501	(21,481)	917	39,937
Restatement adjustment (note 4)	-	(5,241)	(917)	(6,158)
Balance at 1 January 2017 (Restated)	60,501	(26,722)	-	33,779

The attached notes 1 to 16 form part of these interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

1 INCORPORATION AND ACTIVITIES

Bahrain Middle East Bank B.S.C. ("the Bank" or "BMB") is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain on 5 July 1982 and was granted a license by the Central Bank of Bahrain ("CBB") to carry out banking services. On 9 April 2007, the CBB changed their licenses categories and have issued BMB a Conventional Wholesale Banking license. The commercial registration ("CR") number of the Bank is 12266 and its CBB license number is WBS/023. The Bank is listed on the Bahrain Bourse under the ticker 'BMB'. The principal activities of the Bank and its subsidiaries (together also referred to as "the Group") are trade finance, private & corporate banking, institutional banking 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.

AN Investment W.L.L., a limited liability company incorporated in the Kingdom of Bahrain, is the Parent company of the Bank.

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 20 November 2019.

2 GOING CONCERN

As at 30 September 2018, the total liabilities of the Group exceeded its total assets by USD 115.9 million. Furthermore, the current contractual liabilities of the Group also exceeded its liquid assets. Although current contractual liabilities of US\$ 127.4 million to a single counterparty are expected to continue to be rolled over for a longer period based on the past experience and management's estimation, the ability of the Bank to meet its obligations when due, depends on its ability to recover its non-performing related party exposures of US\$ 195.9 million, which have been fully provided. These factors along with those mentioned in note 3 below indicate the existence of uncertainties which may cast doubt about the Bank's ability to continue as a going concern.

To address these factors, management has taken a number of initiatives including negotiations with the related parties to restructure the exposures, with the objective of achieving recovery. In addition, the management is working on different options to restructure the Bank and to continue its operations, with the objective of prudently utilizing the available liquidity and other resources, and identifying means to generate additional liquidity required to continue the Bank's operations. Considering these initiatives, these interim condensed consolidated financial statements have been prepared on a going concern basis with the assumption that the Bank will continue to be operational for at least next twelve months.

3 NON-COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

a *Non-compliance with Central Bank Of Bahrain Rulebook relating to minimum capital requirement, capital adequacy and large exposures*

1 As at 30 September 2018, the Bank's equity stood negative at USD 115.9 million which is less than the minimum required by the CBB for wholesale bank licensees of USD 100 million. Furthermore, the capital adequacy ratio of the Bank stands negative at 102.8% as of 30 September 2018 compared to the minimum required total capital ratio of 12.5% by the CBB and accordingly, the Bank is not in compliance with the minimum capital adequacy requirements set out in the regulations issued by the CBB.

2 The Bank did not publish its consolidated financial statements for the period ended 30 September 2018 within the time prescribed in section PD-3.1.4 of Public Disclosure Module. Furthermore, the Bank did not submit these financial statements to CBB within the prescribed time as per section BR-3.1.8.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

3 NON-COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS (continued)**a Non-compliance with Central Bank Of Bahrain Rulebook relating to minimum capital requirement, capital adequacy and large exposures (continued)**

3 The Bank has exposures to a major shareholder of US\$ 195.9 million as at 30 September 2018 which is in not in compliance with section CM-5.5.7A and CM-5.5.11 of CBB Rulebook. Further due to the negative equity, the Bank is not in compliance with the other exposure limits as defined in CM-5 and elsewhere in the CBB Rulebook Volume 1.

b Non-compliance with Bahrain Commercial Companies Law and the Bank's Articles of Association

1 As of 30 September 2018, the Bank's accumulated losses are more than 50% of its paid-up capital. As required by the Bahrain Commercial Companies Law (BCCL), the Bank should convene a shareholder's meeting to decide whether or not to continue the operations of the Bank. The Bank will convene an extraordinary general meeting of the shareholders, subject to regulatory approvals, after the issuance of these interim condensed consolidated financial statements to discuss the capital position of the Bank in compliance with Article 58 of the Bank's Amended and Restated Articles of Association.

4 RESTATEMENT OF COMPARATIVE PERIODS

During Q4 2018, the Bank discovered certain facts and agreements relating to its trade finance loans, placements with certain financial institutions and certain investment in debt securities. Further the Bank received a Directive from the Central Bank of Bahrain and in accordance with the Directive and based on the facts discovered, the Bank reassessed the nature of its relationship with the trade finance counterparty and concluded that it is a related party. As at 30 September 2017, the Bank had treated its trade finance exposures, placement with certain financial institutions and certain investment in debt securities as exposure to third parties. However after the above discoveries, such exposures have been restated and are treated as exposures to related parties.

With the above mentioned information being currently available, as per International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8), this has been treated as a prior period error. The opening balances at the earliest prior period presented i.e. as at 1 January 2017 have been restated and the impact of restatement has been recognised in the equity. The comparative amounts as of 30 September 2017 have also been restated to account for the effect of the above restatement.

Furthermore, the Bank early adopted IFRS 9 Financial Instruments ("IFRS 9") as at 1 January 2017. Due to the above mentioned restatement, the Bank changed inputs to its IFRS 9 model which resulted in additional expected credit losses ("ECL") of US\$ 3,304 thousand, compared to the previously calculated ECLs at the time of early adoption of IFRS 9.

The restatement information as of 1 January 2017 is as follows:

	<i>Previously reported under IAS 30</i>	<i>Impact of IFRS 9 application</i>	<i>Restatement</i>	<i>Restated amounts</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
1 January 2017				
Statement of financial position				
Loans and advances*	123,958	(2,735)	(119,618)	1,605
Exposures to related parties	-	-	116,314	116,314
All other assets**	53,394	(119)	-	53,275
Accumulated losses	(21,481)	(1,937)	(3,304)	(26,722)
Fair value reserve	917	(917)	-	-
Total equity	39,937	(2,854)	(3,304)	33,779

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

4 RESTATEMENT OF COMPARATIVE PERIODS (continued)

The restatement did not have any impact on the classification and measurement of liabilities.

The restatement information as of 31 December 2017 is as follows:

	<i>Previously reported US\$ '000</i>	<i>Restatement US\$ '000</i>	<i>Restated amounts US\$ '000</i>
31 December 2017			
Statement of financial position			
Placements with financial institutions	50,061	(15,006)	35,055
Investment securities	23,456	(10,996)	12,460
Loans and advances*	138,714	(138,714)	-
Exposures to related parties	-	159,675	159,675
Accumulated losses	(18,218)	(5,041)	(23,259)
Total equity	81,782	(5,041)	76,741
30 September 2017			
Statement of income			
Loss on investment securities	(53)	(100)	(153)
Impairment allowance	(2,034)	1,779	(255)
Net profit for the period	3,640	1,679	5,319
30 September 2017			
Statement of comprehensive income			
Total other comprehensive loss for the period**	(917)	917	-
Total comprehensive income for the period	2,723	2,596	5,319
30 September 2017			
Statement of cash flows			
Net cash from operating activities	837	13	850
Cash and cash equivalents at 1 January	44,581	(20)	44,561
Cash and cash equivalents at 30 September	45,418	(7)	45,411

*Includes US\$ 1,933 thousand as of 1 January 2017 and US\$ 2,453 thousand as of 31 December 2017, which was disclosed as related party exposures in the notes to the consolidated financial statements as of 31 December 2017.

**The restatement is due to the transitional adjustment relating to IFRS 9 as disclosed in the consolidated financial statements as at 31 December 2017. The above mentioned restatement did not have any impact on these balances.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

5 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES**5.1 Basis of preparation**

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

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 and the restated amounts disclosed above. In addition, results for the nine-month period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

5.2 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); and*
- *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*.

6 INVESTMENT SECURITIES

	30 September 2018 (Reviewed)		
	<i>Fair value through profit or loss US\$ '000</i>	<i>Amortised cost US\$ '000</i>	<i>Total US\$ '000</i>
Quoted investments			
Sovereign bonds	-	22,000	22,000
Other bonds and debt securities	2,941	-	2,941
Equities	407	-	407
	3,348	22,000	25,348
Unquoted investments			
Other bonds and debt securities	-	-	-
Managed funds	2,903	-	2,903
	2,903	-	2,903
	6,251	22,000	28,251
Less: Allowance for impairment	-	-	-
Balance at 30 September 2018	6,251	22,000	28,251

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

6 INVESTMENT SECURITIES (continued)

	31 December 2017 (Restated)		
	<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>
Quoted investments			
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>
Unquoted investments			
Other bonds and debt securities	-	-	-
Managed funds	3,260	-	3,260
	<u>3,260</u>	<u>-</u>	<u>3,260</u>
	<u>12,460</u>	<u>-</u>	<u>12,460</u>
Less: Allowance for impairment	-	-	-
Balance at 31 December 2017	<u>12,460</u>	<u>-</u>	<u>12,460</u>

Sovereign bonds held by the Bank amounting to US\$ 22,000 thousand (31 December 2017: US\$ 5,988 thousand) are pledged to a local financial institution (refer note 9).

7 LOANS AND ADVANCES

	<i>Reviewed 30 September 2018 US\$ '000</i>	<i>Restated 31 December 2017 US\$ '000</i>
Installment sale receivable	3,533	3,533
Corporate loan	705	-
	<u>4,238</u>	<u>3,533</u>
Less: Allowance for impairment	<u>(4,238)</u>	<u>(3,533)</u>
Net loans and advances	<u>-</u>	<u>-</u>

Movements in allowance for impairment are as follows:

	30 September 2018 (Reviewed)			
	<i>Stage 1: 12- month ECL</i>	<i>Stage 2: Lifetime ECL not credit- impaired</i>	<i>Stage 3: Lifetime ECL credit- impaired</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Balance at 1 January 2018 (Restated)	-	-	3,533	3,533
Net remeasurement of loss allowance	-	-	705	705
Balance at 30 September 2018	<u>-</u>	<u>-</u>	<u>4,238</u>	<u>4,238</u>
Gross exposure	<u>-</u>	<u>-</u>	<u>4,238</u>	<u>4,238</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

7 LOANS AND ADVANCES (continued)

	31 December 2017 (Restated)			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 - Restated	-	1,928	-	1,928
Transfer to lifetime ECL credit- impaired	-	(1,928)	1,928	-
Remeasurement of loss allowance-Restated	-	-	1,605	1,605
Balance at 31 December 2017 - Restated	-	-	3,533	3,533
Gross exposure - Restated	-	-	3,533	3,533

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

8 EXPOSURES TO RELATED PARTIES

	Reviewed 30 September 2018 US\$ '000	<i>Restated 31 December 2017 US\$ '000</i>
Exposures to related parties	195,927	166,426
Less: Allowance for impairment	(195,927)	(6,751)
Net exposures to related parties	-	159,675

As disclosed in note 4, based on the discovery of certain facts in 2018, the Bank has reclassified its trade finance exposures as exposures to related parties. In addition, the Bank has also reclassified certain amounts from placements with financial institutions and investment securities after the discovery of certain agreements which were executed for the benefit of the related parties. These related parties exposures are non-performing as of 30 September 2018 and have been classified under Stage 3.

The following table sets out the information about the credit quality of exposures to related parties and movement in related impairment allowance:

	30 September 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 (Restated)	6,204	547	-	6,751
Transfer to lifetime ECL not credit- impaired	(6,204)	6,204	-	-
Transfer to lifetime ECL - credit impaired	-	(6,751)	6,751	-
Net remeasurement of loss allowance	-	-	189,176	189,176
Balance at 30 September 2018	-	-	195,927	195,927
Gross exposure	-	-	195,927	195,927

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

8 EXPOSURES TO RELATED PARTIES (continued)

	31 December 2017 (Restated)			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 - Restated	4,480	1,067	-	5,547
Remeasurement of loss allowance - Restated	1,724	(520)	-	1,204
Balance at 31 December 2017 - Restated	6,204	547	-	6,751
Gross exposure - Restated	163,426	3,000	-	166,426
	1 January 2017 (Restated)			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 - on adoption of IFRS 9	1,018	1,225	-	2,243
Impact of restatement (refer note 4)	3,462	(158)	-	3,304
Balance at 1 January 2017 - Restated	4,480	1,067	-	5,547
Gross exposure - Restated	118,861	3,000	-	121,861

9 BORROWINGS

These represent short term borrowings from a local financial institution for general financing purposes. These will mature in fourth quarter of 2018 and are secured against pledge of investment securities of US\$ 22,000 thousand as of 30 September 2018 (31 December 2017: US\$ 5,988 thousand).

10 IMPAIRMENT ALLOWANCE

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

	30 September 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	7	107	-	114
Placements with financial institutions	(23)	44	6,000	6,021
Investment securities - at amortised cost	-	-	-	-
Loans and advances	-	-	705	705
Exposures to related parties	-	-	189,176	189,176
Total	(16)	151	195,881	196,016

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

10 IMPAIRMENT ALLOWANCE (continued)

	30 September 2017 (Restated)			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	(2)	-	
Treasury bills and placements with financial institutions	(11)	-	-	(11)
Investment securities - at amortised cost	-	(99)	179	80
Loans and advances	-	-	386	386
Exposures to related parties	22	(220)	-	(198)
Total	9	(319)	565	255

11 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 Bank are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. 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:

	<u>Key management personnel</u>		<u>Shareholders and their related parties</u>	
	Reviewed	Restated	Reviewed	Restated
	30 September	31 December	30 September	31 December
	2018	2017	2018	2017
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Statement of financial position				
Assets				
Exposures to related parties (refer note 4 and 8)	-	-	195,927	166,426
Impairment allowance (refer note 8)			(195,927)	(6,751)
Liabilities				
Deposits	-	-	89	267
Other liabilities - employees leaving indemnity	338	242	-	-
Assets under management				
Clients' assets under management placed with a related party (refer note 15)	-	-	32,015	9,492

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

11 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	Reviewed	<i>Restated</i>	Reviewed	<i>Restated</i>
	2018	2017	2018	2017
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Statement of income				
Interest income (net of suspended interest)	(1,475)	2,907	5,842	8,528
Fee and commission expense	7	-	7	-

Key management compensation

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

	<i>Nine month period ended 30 September</i>	
		<i>Restated</i>
	2018	2017
	US\$ '000	US\$ '000
Salaries and other short-term employee benefits	986	1,066
Employee leaving indemnity	36	24
	1,022	1,090
Directors' fees	94	96

Guarantee

The Bank has received a corporate guarantee from its shareholder that is connected to installment sale receivable (refer note 7), and an additional guarantee was obtained from two associates of that shareholder.

12 SEGMENT RESULTS

Segment information

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

Financing	- Financing and trade finance
Investing	- Investments in debt securities, equities and private equity funds
Other operating segments	- 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

12 SEGMENT RESULTS (continued)

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

	<i>Nine-month period ended 30 September 2018 (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	6,403	1,127	-	7,530
Interest expense	(785)	-	-	(785)
Gain on investment securities	-	437	-	437
Fee and commission income	-	-	210	210
Other income	-	-	129	129
Foreign exchange gain	-	-	42	42
Results from operations	5,618	1,564	381	7,563
Impairment allowance - net	(196,016)	-	-	(196,016)
Segment profit	(190,398)	1,564	381	(188,453)
Unallocated corporate expenses				(4,216)
Net profit for the period				(192,669)
Segment assets at 30 September 2018	48,653	28,666	1,419	78,738
Segment liabilities at 30 September 2018	192,743	-	1,923	194,666

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

	<i>Nine-month period ended 30 September 2017 (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	8,689	19	-	8,708
Interest expense	(209)	-	-	(209)
Loss on investment securities	-	(153)	-	(153)
Fee and commission income	-	-	79	79
Other income	-	-	150	150
Foreign exchange gain	-	-	97	97
Results from operations	8,480	(134)	326	8,672
Impairment allowance - net	(175)	(80)	-	(255)
Segment profit (loss)	8,305	(214)	326	8,417
Unallocated corporate expenses				(3,098)
Net profit for the period				5,319
Segment assets as at 31 December 2017	227,042	12,582	974	240,598
Segment liabilities as at 31 December 2017	162,111	-	1,746	163,857

13 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank'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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

13 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**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 Bank'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 Bank considers relevant and observable market prices in its valuations where possible.

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 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	3,348	-	2,903	6,251	6,251
Derivatives held for trading	-	85	-	85	85
<i>Financial assets measured at amortised cost:</i>					
Investment securities	21,787	-	-	21,787	22,000
<i>31 December 2017 (Restated)</i>					
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>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	-	-	-	-	-
<i>Financial liabilities measured at fair value</i>					
Derivatives held for trading	-	54	-	54	54

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

13 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**Fair value hierarchy (continued)**

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> 30 September 2018 US\$ '000	<i>Audited</i> 31 December 2017 US\$ '000
At 1 January	3,260	5,321
Additions	50	22
Exits (at cost)	(193)	(1,023)
Net fair value movement	(214)	(1,060)
	2,903	3,260

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.

14 DERIVATIVE FINANCIAL INSTRUMENTS

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

	30 September 2018 (Reviewed)		31 December 2017 (Audited)	
	Notional amounts US\$ '000	Fair value (loss) / gain US\$ '000	Notional amounts US\$ '000	Fair value (loss) / gain US\$ '000
<i>Derivatives held for trading:</i>				
Currency swap	6,119	85	6,189	(54)

15 ASSETS UNDER MANAGEMENT

The Bank's clients participated 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:

	<i>Reviewed</i> 30 September 2018 US\$ '000	<i>Audited</i> 31 December 2017 US\$ '000
Other receivables	34,186	9,500
Private equity	4,106	4,833
	38,292	14,333

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15 ASSETS UNDER MANAGEMENT (continued)

As of 30 September 2018, assets under management included in other receivables of US\$ 32,015 thousand (31 December 2017: US\$ 9,492 thousand) are invested with counterparties, of which one has been recently classified as related party of the Bank and the other was an existing known related party (refer note 11). The investments in the products which are related to the related parties are non-performing at the reporting date.

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 Bank and other client funds managed on a discretionary basis.

16 COMMITMENTS AND CONTINGENT LIABILITIES

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

	<i>Reviewed</i> 30 September 2018 US\$ '000	<i>Audited</i> 31 December 2017 US\$ '000
Undrawn investment commitments in equity funds	3,578	3,612
Other commitments	2,579	2,579

Commitments mainly include commitments to participate in investments. Undrawn investment commitments comprise contractual commitments to invest in managed equity funds. These amounts are called by fund managers, generally for a period between four and seven years which may be extended at the sole discretion of the funds manager by a further period.

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.

The Bank is engaged in litigation cases involving claims made against the Bank relating to its ex-employees. The Bank, based on the advice of relevant professional advisors, believes that these are adequately provided for and the outcome of these claims will not have a material adverse effect on the financial position of the Bank.

Furthermore, the Bank is also in the process of obtaining legal advices in relation to potential legal claims by third parties that may arise against the Bank.