Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019 (Reviewed)

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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 2019, comprising of the interim condensed consolidated statement of financial position as at 30 June 2019 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.

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$ 0.8 million for the period ended 30 June 2019, and as of that date, the Bank has accumulated losses of US$ 213.4 million and the Bank's total liabilities exceeded its total assets by US$ 113.4 million. The Bank's total liabilities that amounted to US$ 142.8 million as of 30 June 2019 include a deposit of US$ 127.4 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$ 194.9 million from related parties which were fully provided for as at 30 June 2019. As of the date of our report, the Bank is working on various options, including negotiating with the related parties to restructure the exposures, and other alternative options, with the objective of recovering these exposures.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 June 2019 is negative US$ 113.4 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 below 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 June 2019, 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 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.

Ernst + Young

24 February 2020
Manama, Kingdom of Bahrain

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2019 (Reviewed)

	Note	*Reviewed 30 June 2019 US$ '000*	*Audited 31 December 2018 US$ '000*
ASSETS			
Balances with banks and financial institutions		**6,998**	13,086
Placements with financial institutions		**18,474**	14,461
Investment securities	6	**2,592**	14,528
Loans and advances	7	**-**	-
Exposures to related parties	8	**-**	-
Other assets		**1,352**	1,344
TOTAL ASSETS		**29,416**	43,419
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions		**137,989**	150,524
Due to customers		**3,070**	4,076
Other liabilities		**1,785**	1,450
Total liabilities		**142,844**	156,050
EQUITY			
Share capital		**100,000**	100,000
Accumulated losses		**(213,428)**	(212,631)
Total equity		**(113,428)**	(112,631)
TOTAL LIABILITIES AND EQUITY		**29,416**	43,419

Khalifa Bin Duaij Bin Khalifa AlKhalifa
Chairman

Abdulrahman Abdulla Mohamed Husain
Vice Chairman

Abdulla Mohamed Dawood
Acting Chief Executive Officer

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2019 (Reviewed)

		Three-month period ended 30 June		*Six-month period ended 30 June*	
			Restated		*Restated*
	Note	***2019 US$ '000***	*2018 US$ '000*	***2019 US$ '000***	*2018 US$ '000*
OPERATING INCOME					
Interest income		**89**	4,400	**280**	8,307
Interest expense		**(87)**	(252)	**(224)**	(444)
Net interest income		**2**	4,148	**56**	7,863
Gain on investment securities		**95**	758	**938**	418
Fee and commission income		**42**	48	**56**	94
Other income		**61**	45	**138**	108
Foreign exchange gain (loss)		**61**	(35)	**63**	21
Total operating income		**261**	4,964	**1,251**	8,504
OPERATING EXPENSES					
Staff expenses		**650**	990	**1,237**	1,727
Travel and business development expenses		**4**	176	**8**	311
Legal and professional expenses		**183**	68	**357**	156
Premises and equipment expenses		**33**	106	**65**	219
Depreciation and amortisation expenses		**105**	49	**214**	85
Other operating expenses		**113**	196	**304**	411
Total operating expenses		**1,088**	1,585	**2,185**	2,909
NET (LOSS) PROFIT FOR THE PERIOD BEFORE IMPAIRMENT ALLOWANCE		**(827)**	3,379	**(934)**	5,595
Impairment (allowance) recoveries - net	9	**(183)**	(17,360)	**137**	(28,691)
NET LOSS FOR THE PERIOD		**(1,010)**	(13,981)	**(797)**	(23,096)
Other comprehensive income for the period		**-**	-	**-**	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(1,010)**	(13,981)	**(797)**	(23,096)
BASIC AND DILUTED EARNINGS PER SHARE (IN US$ CENTS)		**(0.25)**	(3.50)	**(0.20)**	(5.77)

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 15 form part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six-month period ended 30 June 2019 (Reviewed)

	Note	*Six-month period ended 30 June* 2019 US$ '000	Restated 2018 US$ '000
OPERATING ACTIVITIES			
Net loss for the period		**(797)**	(23,096)
Adjustments for:			
Impairment allowance - net (excluding on cash and cash equivalents)	9	**(103)**	28,682
Depreciation and amortisation		**214**	85
Changes in operating assets and liabilities:			
Placements with financial institutions		**-**	-
Investment securities		**11,936**	(18,522)
Loans and advances		**-**	(705)
Exposures to related parties		**103**	(24,107)
Other assets		**(222)**	(1,627)
Due to financial institutions		**(12,535)**	24,670
Due to customers		**(1,006)**	324
Borrowings		**-**	13,691
Other liabilities		**335**	93
Net cash used in operating activities		**(2,075)**	(512)
INVESTING ACTIVITIES			
Purchase of premises and equipment		**-**	(109)
Purchase of intangible assets		**-**	(278)
Net cash used in investing activities		**-**	(387)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(2,075)**	(899)
Cash and cash equivalents at 1 January		**20,984**	65,078
CASH AND CASH EQUIVALENTS AT 30 JUNE		**18,909**	64,179
CASH AND CASH EQUIVALENTS COMPRISE:			
Balances with banks and financial institutions		**6,998**	10,713
Placements with financial institutions with original maturities of three months or less		**11,911**	53,466
		18,909	64,179

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six-month period ended 30 June 2019 (Reviewed)

	Share capital US$ '000	*Accumulated losses US$ '000*	*Total equity US$ '000*
Balance at 1 January 2019	100,000	(212,631)	(112,631)
Total comprehensive loss for the period	-	(797)	(797)
Balance at 30 June 2019	**100,000**	**(213,428)**	**(113,428)**
Balance at 1 January 2018 (Restated and unaudited)	100,000	(23,259)	76,741
Total comprehensive loss for the period	-	(23,096)	(23,096)
Balance at 30 June 2018 (Restated)	100,000	(46,355)	53,645

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 24 February 2020.

2 GOING CONCERN

As at 30 June 2019, the total liabilities of the Group exceeded its total assets by US$ 113.4 million (31 December 2018: US$ 112.6 million). Furthermore, the current contractual liabilities of the Group also exceeded its liquid assets. Although current contractual liabilities of US$ 127.4 million (31 December 2018: US$ 127.4 million) to a single counterparty are expected to continue to be rolled over based on certain restrictions, the ability of the Bank to meet its obligations when due, depends on its ability to recover its fully provided non-performing assets that are due from a related party with an exposures of US$ 194.9 million (31 December 2018: US$ 195.0 million) and to recover its non-performing loans from a locally incorporated Bank that has defaulted on its obligations with an exposures of US$ 13.1 million (31 December 2018: US$ 13.1 million) . 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, the Board and management have taken a number of initiatives including severally negotiating with the related parties to restructure the exposures. The management is considering various legal options with the objective of achieving recovery from all the defaulting parties. In addition, the Board and management are working on different continuity options, which include the restructure of the Bank with the objective of prudently utilizing the available liquidity and other resources to continue the Bank's operations.

Considering these initiatives, these 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 the next twelve months and subject that the above mentioned current contractual liabilities of US$ 127.4 million to a single counterparty continue to be rolled over due to the imposed restrictions.

3 NON-COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

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

1 As at 30 June 2019, the Bank's equity stood negative at US$ 113.4 million (31 December 2018: US$ 112.6 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 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. In addition, the Bank is not in compliance with the liquidity coverage ratio ("LCR") and leverage ratio ("LR") requirements set out in these regulations.

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, large exposures and public disclosure requirements (continued)

2 The Bank did not publish its consolidated financial statements for the period ended 30 June 2019 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.

3 The Bank has exposures to a major shareholder of US$ 194.9 million as at 30 June 2019 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 June 2019, 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 has invited its shareholders to an extra-ordinary general meeting to discuss the capital position of the Bank in compliance with Article 58 of the Bank's Amended and Restated Articles of Association on 23 December 2019 and to two further adjournments on 30 December 2019 and on 6 January 2020, however the quorum required was not met. The Bank will convene another extraordinary general meeting of the shareholders, subject to regulatory approvals, after the issuance of these 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

As disclosed in detail in the audited consolidated financial statements of the Group as of 31 December 2018, the Bank discovered certain facts and agreements during Q4 2018 relating to its trade finance loans, placements with certain financial institutions and certain investment in debt securities. Prior to 30 September 2018, the Bank had treated its trade finance exposures, placement with certain financial institutions and certain investment in debt securities as exposure to third parties in its financial statements. However after the above discoveries, such exposures have been restated and are treated as exposures to related parties.

Accordingly, as per International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8), this was treated as a prior period error. The opening balances at the earliest prior period presented i.e. as at 1 January 2017 were restated and the impact of restatement has been recognised in the equity. Accordingly, the comparative amounts presented in these interim condensed consolidated financial statements as of 30 June 2018 have also been restated to account for the effect of the above.

The restatement information as of is as follows:

	Previously reported US$ '000	*Restatement US$ '000*	*Restated amounts US$ '000*
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

4 RESTATEMENT OF COMPARATIVE PERIODS (continued)

30 June 2018			
Statement of financial position			
Placements with financial institutions	82,699	(29,233)	53,466
Investment securities	47,645	(16,663)	30,982
Loans and advances*	142,773	(142,196)	577
Exposures to related parties	-	155,228	155,228
Accumulated losses	(13,491)	(32,864)	(46,355)
Total equity	86,509	(32,864)	53,645
Six-month period ended 30 June 2018			
Statement of comprehensive income			
Impairment allowance	(868)	(27,823)	(28,691)
Net profit (loss) for the period	4,727	(27,823)	(23,096)
Six-month period ended 30 June 2018			
Statement of cash flows			
Net cash from operating activities	13,715	(14,227)	(512)
Cash and cash equivalents at 1 January	80,084	(15,006)	65,078
Cash and cash equivalents at 30 June	93,412	(29,233)	64,179

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 six-month period ended 30 June 2019 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 2018. In addition, results for the six-month period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

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 2018, except for changes to the accounting due to adoption of IFRS 16 Leases from 1 January 2019 as explained below:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

5.2 Significant accounting policies (continued)

IFRS 16 Leases (continued)

Prior to the adoption of IFRS 16, the Group accounted and classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease in accordance with IAS 17. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and accordingly, the comparative information is not restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has recorded right-of-use assets representing the right to use the underlying asset under furniture and equipment (in other assets) and the corresponding lease liability to make lease payments under other liabilities. The right-of-use asset and lease liability recorded as at 1 January 2019 amounted to US$ 380 thousand, with no impact on retained earnings. When measuring lease liabilities, the Group discounted lease payments using the incremental rate of 5%.

The accounting policies of the Group upon adoption of IFRS 16 are as follows:

a) Right-of-use assets

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under other assets in the statement of financial position.

b) Lease liability

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the statement of financial position.

6 INVESTMENT SECURITIES

	30 June 2019 (Reviewed)		
	Fair value through profit or loss US$ '000	*Amortised cost US$ '000*	*Total US$ '000*
Quoted investments			
Equities	**376**	**-**	**376**
	376	**-**	**376**
Unquoted investments			
Other bonds and debt securities	**-**	**-**	**-**
Managed funds	**2,216**	**-**	**2,216**
	2,216	**-**	**2,216**
	2,592	**-**	**2,592**
Balance at 30 June 2019	**2,592**	**-**	**2,592**

	31 December 2018 (Audited)		
	Fair value through profit or loss US$ '000	*Amortised cost US$ '000*	*Total US$ '000*
Quoted investments			
Sovereign bonds	-	9,000	9,000
Other bonds and debt securities	2,920	-	2,920
Equities	328	-	328
	3,248	9,000	12,248
Unquoted investments			
Managed funds	2,280	-	2,280
	2,280	-	2,280
	5,528	9,000	14,528
Balance at 31 December 2018	5,528	9,000	14,528

7 LOANS AND ADVANCES

	***Reviewed* 30 June 2019 US$ '000**	*Audited 31 December 2018 US$ '000*
Installment sale receivable	**3,533**	3,533
Corporate loan	**705**	705
	4,238	4,238
Less: Allowance for impairment	**(4,238)**	(4,238)
Net loans and advances	**-**	-

7 LOANS AND ADVANCES (continued)

Movements in allowance for impairment are as follows:

	30 June 2019 (Reviewed)			
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Stage 3: Lifetime ECL credit-impaired US$ '000***	***Total US$ '000***
Balance at 1 January 2019	-	-	**4,238**	**4,238**
Net remeasurement of loss allowance	-	-	-	-
Balance at 30 June 2019	-	-	**4,238**	**4,238**
Gross exposure	-	-	**4,238**	**4,238**

	31 December 2018 (Audited)			
	Stage 1: 12-month ECL US$ '000	*Stage 2: Lifetime ECL not credit-impaired US$ '000*	*Stage 3: Lifetime ECL credit-impaired US$ '000*	*Total US$ '000*
Balance at 1 January 2018 (Restated)	-	-	3,533	3,533
Net remeasurement of loss allowance	-	-	705	705
Balance at 31 December 2018	-	-	4,238	4,238
Gross exposure	-	-	4,238	4,238

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 June 2019 US$ '000	*Audited 31 December 2018 US$ '000*
Exposures to related parties	**194,928**	195,031
Less: Allowance for impairment	**(194,928)**	(195,031)
Net exposures to related parties	-	-

Based on the discovery of certain facts in 2018, the Bank reclassified its trade finance exposures as exposures to related parties. In addition, the Bank 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 31 December 2019 and 31 December 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:

8 EXPOSURES TO RELATED PARTIES (continued)

	30 June 2019 (Reviewed)			
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Stage 3: Lifetime ECL credit-impaired US$ '000***	***Total US$ '000***
Balance at 1 January 2019	-	-	**195,031**	**195,031**
Foreign exchange and other movements	-	-	**(103)**	**(103)**
Balance at 30 June 2019	-	-	**194,928**	**194,928**
Gross exposure	-	-	**194,928**	**194,928**

	31 December 2018 (Audited)			
	Stage 1: 12-month ECL US$ '000	*Stage 2: Lifetime ECL not credit-impaired US$ '000*	*Stage 3: Lifetime ECL credit-impaired US$ '000*	*Total US$ '000*
Balance at 1 January 2018 (Restated)	6,204	547	-	6,751
Transfer to lifetime ECL - credit impaired	(6,204)	(547)	6,751	-
Net remeasurement of loss allowance	-	-	188,280	188,280
Balance at 31 December 2018	-	-	195,031	195,031
Gross exposure	-	-	195,031	195,031

9 IMPAIRMENT ALLOWANCE

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

	30 June 2019 (Reviewed)			
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Stage 3: Lifetime ECL credit-impaired US$ '000***	***Total ECL US$ '000***
Balances with banks and financial institutions	**(20)**	**(1)**	-	**(21)**
Placements with financial institutions	**(13)**	-	-	**(13)**
Exposures to related parties	-	-	**(103)**	**(103)**
Total	**(33)**	**(1)**	**(103)**	**(137)**

	30 June 2018 (Restated)			
	Stage 1: 12-month ECL US$ '000	*Stage 2: Lifetime ECL not credit-impaired US$ '000*	*Stage 3: Lifetime ECL credit-impaired US$ '000*	*Total ECL US$ '000*
Balances with banks and financial institutions	6	2	-	8
Placements with financial institutions	1	-	-	1
Loans and advances	-	128	-	128
Exposures to related parties	-	28,554	-	28,554
Total	7	28,684	-	28,691

10 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:

	Key management personnel		*Shareholders and their related parties*	
	Reviewed 30 June 2019 US$ '000	*Audited 31 December 2018 US$ '000*	***Reviewed 30 June 2019 US$ '000***	*Audited 31 December 2018 US$ '000*
Statement of financial position				
Assets				
Exposures to related parties (refer note 4 and 8)	**-**	-	**194,928**	195,031
Impairment allowance (refer note 8)			**(194,928)**	(195,031)
Liabilities				
Deposits	**-**	-	**54**	94
Other liabilities - employees leaving indemnity	**277**	306	**-**	-
Assets under management				
Clients' assets under management placed with a related party (refer note 14)	**-**	-	**32,912**	32,921

	Three-month period ended 30 June		*Six-month period ended 30 June*	
	Reviewed 2019 US$ '000	*Restated 2018 US$ '000*	***Reviewed 2019 US$ '000***	*Restated 2018 US$ '000*
Statement of income				
Interest income (net of suspended interest)	**3,764**	(1,475)	**-**	7,302
Fee and commission expense	**-**	-	**-**	-

10 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:

	Six-month period ended 30 June	
	Reviewed 2019 US$ '000	*Reviewed 2018 US$ '000*
Salaries and other short-term employee benefits	**521**	662
Employee leaving indemnity	**12**	24
	533	686
Directors' fees	**44**	94

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.

11 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.

Segment information for the period ended 30 June 2019 is as follows:

	Six-month period ended 30 June 2019 (Reviewed)			
	Financing US$ '000	*Investing US$ '000*	*Others US$ '000*	*Total US$ '000*
Interest income	128	152	-	280
Interest expense	(224)	-	-	(224)
Gain on investment securities	-	938	-	938
Fee and commission income	-	-	56	56
Other income	-	-	138	138
Foreign exchange gain	-	-	63	63
Results from operations	(96)	1,090	257	1,251
Impairment allowance - net	137	-	-	137
Segment profit	41	1,090	257	1,388
Unallocated corporate expenses				(2,185)
Net profit for the period				(797)
Segment assets at 30 June 2019	25,484	2,592	1,340	29,416
Segment liabilities at 30 June 2019	141,070	-	1,774	142,844

11 SEGMENT RESULTS (continued)

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

	Six-month period ended 30 June 2018 (Restated)			
	Financing US$ '000	*Investing US$ '000*	*Others US$ '000*	*Total US$ '000*
Interest income	7,172	1,135	-	8,307
Interest expense	(444)	-	-	(444)
Loss on investment securities	-	418	-	418
Fee and commission income	-	-	94	94
Other income	-	-	108	108
Foreign exchange gain	-	-	21	21
Results from operations	6,728	1,553	223	8,504
Impairment allowance - net	(28,691)	-	-	(28,691)
Segment profit (loss)	(21,963)	1,553	223	(20,187)
Unallocated corporate expenses				(2,909)
Net profit for the period				(23,096)
Segment assets as at 31 December 2018	27,563	14,675	1,181	43,419
Segment liabilities as at 31 December 2018	154,674	-	1,376	156,050

12 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.

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.

12 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (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:

	Six-month period ended 30 June 2019 (Reviewed)				
	Level 1 US$ '000	***Level 2 US$ '000***	***Level 3 US$ '000***	***Total fair values US$ '000***	***Total carrying amount US$ '000***
Financial assets measured at fair value:					
Investment securities	**376**	**-**	**2,216**	**2,592**	**2,592**
Financial liabilities measured at fair value					
Derivatives held for trading	**-**	**88**		**88**	**88**

	31 December 2018 (Audited)				
	Level 1 US$ '000	*Level 2 US$ '000*	*Level 3 US$ '000*	*Total fair values US$ '000*	*carrying amount US$ '000*
Financial assets measured at fair value:					
Investment securities	3,248	-	2,280	5,528	5,528
Financial assets measured at amortised cost:					
Investment securities	8,931	-	-	8,931	9,000
Financial liabilities measured at fair value					
Derivatives held for trading	-	14	-	14	14

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:

	Reviewed 30 June 2019 US$ '000	*Audited 31 December 2018 US$ '000*
At 1 January	**2,280**	3,260
Additions	**-**	50
Exits (at cost)	**(164)**	(225)
Net fair value movement	**100**	(805)
	2,216	2,280

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.

13 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 June 2019 (Reviewed)		*31 December 2018 (Audited)*	
	Notional amounts US$ '000	***Fair value (loss) / gain US$ '000***	*Notional amounts US$ '000*	*Fair value (loss) / gain US$ '000*
Derivatives held for trading:				
Currency swap	**5,911**	**(88)**	5,939	(14)

14 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:

	Reviewed 30 June 2019 US$ '000	*Audited 31 December 2018 US$ '000*
Other receivables	**33,013**	32,981
Private equity	**3,156**	3,949
	36,169	36,930

As of 30 June 2019, assets under management included in other receivables of US$ 32,912 thousand (31 December 2018: US$ 32,921 thousand) are invested with related counterparties, of which one has been classified as related party of the Bank in 2018 and the other was an existing known related party (refer note 8). 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.

15 COMMITMENTS AND CONTINGENT LIABILITIES

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

	Reviewed 30 June 2019 US$ '000	*Audited 31 December 2018 US$ '000*
Undrawn investment commitments in equity funds	**3,578**	3,572
Other commitments	**2,211**	2,579

15 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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.