United Gulf Holding Company B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

Building a better
working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED GULF HOLDING COMPANY B.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of United Gulf Holding Company B.S.C. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the period from 28 June 2017 to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the period ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED GULF HOLDING COMPANY B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

1. Group reorganisation	
Key audit matter	**How the key audit matter was addressed in the audit**
During the period, the Group entered in to a corporate reorganization whereby the regulated banking activities were segregated from non-regulated services. As a result, the Company had acquired the entire shareholding of United Gulf Bank B.S.C. (c) ("the Bank" or "UGB") (a subsidiary) via a share swap offer of 1 new Company share for 2 shares of UGB as explained in Note 4 to the consolidated financial statements. Subsequent to the share swap, the Company's shares were listed on the Bahrain Bourse. Subsequently, beneficial interest in the portfolio of core investments managed by UGB has been transferred to the Company. We have considered the reorganisation as a key audit matter due to significant judgments and assumptions involved in the recognition and measurement of the transferred assets and assumed liabilities and the complexity of the related accounting and disclosures.	Our audit procedures included: • Discussed the terms of the transaction with the management, read the agreements and Board of Directors meeting minutes to obtain an understanding of the transactions and the key terms; • An important element of our audit relates to identification and measurement of the carrying value of acquired assets and assumed liabilities. We assessed the methodologies and assumptions used in determining the carrying value of assets and liabilities; • We evaluated the timing and appropriateness of the accounting treatment and consideration paid as part of the transaction; and • We assessed the adequacy of the related disclosures in Note 4 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED GULF HOLDING COMPANY B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

2. Impairment of loans and receivable	
Key audit matter	**How the key audit matter was addressed in the audit**
The management exercise significant judgement using subjective assumptions over both the timing of recognition of impairment, and estimation of the amount of the impairment provision for loans and advances. Because loans and advances form a major portion of the Group's assets, and due to the significance of judgment used in estimating both the specific and collective provisions for loans and advances, we considered this as a key audit matter. As at 31 December 2017, the gross loans and advances amounted to USD 1,012 million and related loan loss impairment provision amounted to USD 25 million and collective impairment provision of USD 15 million. The basis of the impairment provision policy is disclosed in the accounting policies and in Note 8 to the consolidated financial statements.	Our audit procedures included: • The assessment of controls over the authorization, granting and booking of loans and receivable to confirm the operating effectiveness of the key controls in place for the credit processes; • We tested a sample of loan facilities, and assessed the criteria for determining whether an impairment event had occurred, focusing on new real estate lending, which present different risks than those ordinarily faced by the Group with trade finance or factoring business; • We performed detailed credit reviews focusing on the borrowers' ability to repay out of the normal operations, the performance/history of the account, the quality of the collateral held and receipts after the financial reporting date. On the remaining population, we have checked the credit status of borrowers where this was available, reviewed adherence with repayment programmes and searched for available external information that may represent impairment triggers; • For the collective impairment provision, we obtained an understanding of the methodology used by the Group to determine the collective impairment provisions, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management; and • We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk. Refer to the critical accounting estimates and judgements and disclosures of loans and advances in Note 2 and 8 to the consolidated financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
UNITED GULF HOLDING COMPANY B.S.C. (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

3. Goodwill impairment	
Key audit matter	**How the key audit matter was addressed in the audit**
Goodwill impairment testing of cash generating units ('CGUs') relies on estimates of value-in use based on estimated future cash flows. Due to the uncertainty of forecasting and discounting future cash flows and the significance of the Group's recognised goodwill of USD 53 million as at 31 December 2017, we considered this as a key audit matter. The basis of the goodwill impairment policy is disclosed in the accounting policies and in Note 12 to the consolidated financial statements.	Our audit procedures included: • The assessment of reasonableness of cash flow projections and comparison of key inputs, such as the discount rates and growth rates, to externally available industry, economic and financial data and the Group's own historical data and performance. With the assistance of our own specialists, we assessed the assumptions and methodologies used to forecast value-in-use for those CGUs; and • Additionally, we considered whether the Group's disclosures of the application of judgement in estimating CGU cash flows and the sensitivity of the results of those estimates adequately reflect the risks associated with goodwill impairment. Refer to the critical accounting estimates and judgements and disclosures of goodwill in Note 2 and 11 to the consolidated financial statements
4. Impairment testing of investments in associates	
Key audit matter	**How the key audit matter was addressed in the audit**
The determination of recoverable amounts of the Group's investments in associates relies on management's estimates of future cash flows and their judgment with respect to the associates' performance. Due to the uncertainty of forecasting and discounting future cash flows, the level of management's judgement involved and the significance of the Group's investment in associates of USD 758 million as at 31 December 2017, we considered this as a key audit matter. The basis of impairment of investment in associates is disclosed in the accounting policies and in Note 10 to the consolidated financial statements.	Our audit procedures included: • The assessment of forecasts of future cash flows prepared by the management, evaluating the assumptions and comparing the estimates to externally available industry, economic and financial data. With the assistance of our own specialists, we assessed the assumptions and methodologies used by the management to determine the recoverable amount of the investment in associates; and • Additionally, our audit procedures included comparison of the carrying values of the Group's investment in associates for which audited financial statements were available with their respective net asset values and discussions with management of the associates' performance and their outlook. Refer to disclosures of investment in associates in Note 10 to the consolidated financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
UNITED GULF HOLDING COMPANY B.S.C. (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

5. Deferred taxation	
Key audit matter	**How the key audit matter was addressed in the audit**
As at 31 December 2017, the Group had recognised deferred tax assets of USD 41 million in respect of the future benefit of deductible temporary differences and accumulated tax losses which the management considered would probably be utilised or recovered in the future years through the generation of future taxable profits by the relevant group entities or by set-off against deferred tax liabilities. The recognition of deferred tax assets relies on the exercise of significant judgement in respect of assessing the sufficiency of future taxable profit, the probability of such future taxable profit being generated and future reversals of existing taxable temporary differences. We considered the recognition of deferred tax assets as a key audit matter due to the significant management judgement and estimate required in forecasting future taxable profits, which could be subject to error or potential management bias.	Our audit procedures included: • Evaluation of the assumptions and judgments exercised by the management in respect of the forecasts of future taxable profits by comparing the assumptions adopted with our understanding of the business and the industry in which the Group operates; • Considered the historical accuracy of forecasts of future taxable profits by comparing the actual taxable profits of the current year with forecasts made in the previous year, after taking in consideration current year modifications in strategy or business requirements, and assessing whether there were any indicators of management bias in the selection of key assumptions; • Considering the appropriateness and validity of tax planning strategies relied upon to support recognition in terms of the applicable tax rules; and • We assessed whether the consolidated financial statements disclosures are appropriate. Refer to Note 13 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED GULF HOLDING COMPANY B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in the Group's 2017 annual report
Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Directors report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED GULF HOLDING COMPANY B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the consolidated financial statements (continued)
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the (consolidated) financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED GULF HOLDING COMPANY B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the audit of the consolidated financial statements (continued)
From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We report that:

a) as required by the Bahrain Commercial Companies Law,
    a. the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

    b. the financial information contained in the Directors Report is consistent with the consolidated financial statements; and

    c. satisfactory explanations and information have been provided to us by Management in response to all our requests.

b) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association during the period ended 31 December 2017 that might have had a material adverse effect on the business of the Company or on its consolidated financial position.

The partner in charge of the audit resulting in this independent auditor's report is Fawad Laique.

Ernst + Young

Partner's registration no. 121
27 February 2018
Manama, Kingdom of Bahrain

United Gulf Holding Company B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 US$ 000
ASSETS		
Demand and call deposits with banks		432,067
Placements with banks		119,853
Investments carried at fair value through statement of income	6	19,268
Non-trading investments	7	384,172
Loans and receivables	8	972,292
Other assets	9	126,056
Investments in associates	10	758,381
Investment properties	11	105,093
Property and equipment		47,221
Goodwill	12	52,587
TOTAL ASSETS		3,016,990
LIABILITIES AND EQUITY		
LIABILITIES		
Due to banks and other financial institutions		624,422
Deposits from customers		878,220
Loans payable	14	856,426
Subordinated debt	15	50,000
Other liabilities	16	66,284
TOTAL LIABILITIES		2,475,352
EQUITY		
Share capital	17	206,487
Share premium	17	214,477
Statutory reserve	17	446
Fair value reserve	18	90
Foreign currency translation reserve	17	(1,517)
Retained earnings		2,264
CAPITAL AND RESERVES ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		422,247
Perpetual Tier 1 capital	19	33,000
Non-controlling interests in equity		86,391
TOTAL EQUITY		541,638
TOTAL LIABILITIES AND EQUITY		3,016,990

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

Hussain Lalani
Acting Chief Executive Officer

The attached notes 1 to 35 form part of these consolidated financial statements.

United Gulf Holding Company B.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the period from incorporation to 31 December 2017

	Note	*US$ 000*
Continuing operations		
Interest income	20	13,904
Investment income - net	21	11,950
		25,854
Fees and commissions - net	22	12,586
Foreign currency losses - net		(555)
Share of results of associates - net	23	6,945
Total income		44,830
Interest expense	24	(15,918)
Operating income before expenses and provisions		28,912
Salaries and benefits		(10,855)
General and administrative expenses		(6,937)
Operating income before provisions and tax		11,120
Provisions for doubtful loans, advances and other assets - net	8	(2,103)
Taxation - net	13	(906)
Net profit for the period from continuing operations		8,111
Net loss from discontinued operations	35	(3,025)
Net profit for the period		5,086
Net profit attributable to non-controlling interests		624
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		4,462
Earnings per share		
Basic and diluted earnings per share attributable to shareholders of the parent (US cents)	25	2.13
Earnings per share for continuing operations		
Basic and diluted earnings per share attributable to shareholders of the parent (US cents)	25	3.88

Masaud Hayat Chairman	Faisal Al Ayyar Vice Chairman	Hussain Lalani Acting Chief Executive

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from incorporation to 31 December 2017

	US$ 000
Net profit for the period	**5,086**
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent years:	
Foreign currency translation reserve	**(1,498)**
Fair value reserve	**15,236**
Share of other comprehensive loss of associates - net	**(10,672)**
Other comprehensive income to be reclassified to profit or loss in subsequent years	**3,066**
TOTAL COMPREHENSIVE INCOME	**8,152**
Total comprehensive income attributable to:	
- shareholders of the parent	**3,035**
- non-controlling interests	**5,117**
	8,152

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from incorporation to 31 December 2017

	Note	US$ 000
OPERATING ACTIVITIES		
Net profit for the period from continuing operations		8,111
Net loss for the period from discontinued operations		(3,025)
Net profit for the period		5,086
Adjustments for non-cash items:		
Depreciation		846
Share of results of associates - net	23	(6,945)
Gain on sale of associates and subsidiaries	21	(1,778)
Provisions for doubtful loans and other assets - net	8	2,103
Taxation	21	906
Change in fair values of investment properties		148
Gain on sale due to reclassification of investment	12	(2,971)
Loss on investments carried at fair value through statement of income		(352)
Interest income		(13,904)
Interest expense	21	15,918
Dividend income	21	(1,652)
Other non-cash items	24	(719)
Operating loss before changes in operating assets and liabilities		(3,314)
Changes in operating assets and liabilities:		
Placements with banks with original maturities of more than ninety days		68,380
Investments carried at fair value through statement of income		5,970
Non-trading investments		19,017
Loans and receivables		78,610
Other assets		(5,614)
Due to banks and other financial institutions		(54,030)
Deposits from customers		25,002
Other liabilities		(2,342)
Net assets of disposal group classified as held for sale		21,442
Interest received		9,854
Interest paid		(8,388)
Dividends received	21	1,652
Donations		(200)
Directors' remuneration		(195)
Net cash from operating activities		155,844
INVESTING ACTIVITIES		
Investment in subsidiaries - net of cash acquired	4	319,040
Investments in associates - net		(13,432)
Investment properties - net		(185)
Property and equipment - net		(15,940)
Net cash from investing activities		289,483
FINANCING ACTIVITIES		
Share Capital issued		5,400
Proceeds from obtaining new loans		118,030
Interest payment on Tier 1 capital securities		(1,752)
Net cash from financing activities		121,678
Foreign currency translation adjustments		(1,517)
Movement in non-controlling interests		(23,356)
NET CHANGE IN CASH AND CASH EQUIVALENTS AND		
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	26	542,132

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from incorporation to 31 December 2017

	Attributable to shareholders of the parent									
	Share capital US$ 000	*Share premium US$ 000*	*Statutory reserve US$ 000*	*Fair value reserve US$ 000*	*Foreign currency translation reserve US$ 000*	*Retained earnings US$ 000*	*Total before non-controlling interests US$ 000*	*Perpetual Tier 1 capital US$ 000*	*Non-controlling interests US$ 000*	*Total equity US$ 000*
Capital issued during the period	206,487	214,477	-	-	-	-	420,964	-	-	420,964
Profit for the period	-	-	-	-	-	4,462	4,462	-	624	5,086
Other comprehensive income (loss)	-	-	-	90	(1,517)	-	(1,427)	-	4,493	3,066
Total comprehensive income (loss) for the period	-	-	-	90	(1,517)	4,462	3,035	-	5,117	8,152
Interest payment on Tier 1 capital	-	-	-	-	-	(1,752)	(1,752)	-	-	(1,752)
Acquisition of subsidiaries	-	-	-	-	-	-	-	33,000	109,123	142,123
Transferred during the period	-	-	446	-	-	(446)	-	-	-	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	(27,849)	(27,849)
Balance at 31 December 2017	**206,487**	**214,477**	**446**	**90**	**(1,517)**	**2,264**	**422,247**	**33,000**	**86,391**	**541,638**

The attached explanatory notes 1 to 35 form part of these consolidated financial statements

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Incorporation
United Gulf Holding Company B.S.C. ["the Company"] is a joint stock company incorporated in the Kingdom of Bahrain on 28 June 2017 under Commercial Registration number 114160 and is listed on the Bahrain Bourse. The address of the Company's registered office is UGB Tower, Diplomatic Area, P.O. Box 5565, Manama, Kingdom of Bahrain.

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

The Company's parent and ultimate holding company is Kuwait Projects Company (Holding) K.S.C. ["KIPCO"], a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. As at 31 December 2017, KIPCO owned 98% of the Company's outstanding shares.

These consolidated financial statements were authorised for issue by the Board of Directors on 27 February 2018.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the relevant provisions of the Bahrain Commercial Companies Law, and the directives and regulations and associated resolutions, rules and procedures of the Bahrain Bourse.

The Company was incorporated on 28 June 2017 and these are the first annual consolidated financial statements of the Company. As a result, the consolidated financial statements do not contain any comparative figures.

Basis of preparation
The consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement at fair value of investments carried at fair value through statement of income, non-trading investments, investment properties and derivative financial instruments.

Presentation and functional currency
The consolidated financial statements have been presented in US Dollars (US$) being the functional and presentational currency of the Group and are rounded to the nearest US$ thousands except when otherwise indicated.

New and amended standards and interpretations

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following amendments to IFRS, applicable to the Group, and which are effective from 1 January 2017:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for the current period in the consolidated statement of cashflows.

Amendments to IAS 7 Statement of Cash Flows
In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvements 2012-2016 Cycle
These improvements include:

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure
The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. As at 31 December 2017, the Group did not have any held for sale assets and that these amendments did not affect the Group's consolidated financial statements.

Significant accounting policies are set out below:

Principles of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiaries as at 31 December 2017. The reporting dates of the subsidiaries and the Company are identical and the subsidiaries' accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)

Profit or loss and each component of Other Comprehensive Income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

a) Derecognises the assets (including goodwill) and liabilities of the subsidiary;
b) Derecognises the carrying amount of any non-controlling interest;
c) Derecognises the cumulative transaction differences, recorded in equity;
d) Recognises the fair value of consideration received;
e) Recognises the fair value of any investment retained;
f) Recognises any surplus or deficit in the consolidated statement of income; and
g) Reclassifies the parent's share of a component previously recognised in OCI to consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The principal subsidiaries of the Company are as follows:

Name of the subsidiary	*Country of incorporation*	*Ownership at 31 December 2017*	*Year of incorporation*
Held directly			
United Gulf Bank B.S.C. (c) [UGB]	Bahrain	100%	1980
FIMBank Group [FIMBank]	Malta	61%	1994
Hatoon Real Estate Company	Kuwait	98%	2008
Syria Gulf Investment Company	Syria	99%	2007
Held through UGB			
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	86%	1998
United Gulf Financial Services Company-North Africa	Tunisia	83%	2008
United Gulf Realty International, Ltd	British Virgin Islands	100%	2012
Held through KAMCO			
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	2007
Al Jazi Money Market Fund	Kuwait	51%	2007
Al Tadamon United Holding Co	Kuwait	96%	2017
Al Zad Real Estate W.L.L.	Kuwait	99%	2007
Bukeye Power Project Advisory Co	U.S.A.	50%	2017
Bukeye Power Project Manager Ltd	Jersey	100%	2017
Flint Advisor Company Llc	Jersey	46%	2017
Flint Manager Ltd	U.S.A.	100%	2017
Kamco GCC Opportunistic Fund	Kuwait	100%	2013
KAMCO Investment Company (DIFC) Limited	U.A.E.	100%	2016
KAMCO Mena Plus Fixed Income Fund	Kuwait	71%	2016
Kuwait Private Equity Opportunity Fund	Kuwait	73%	2004
Nawasi United Holding Co	Kuwait	96%	2017
North Africa Real Estate Co.	Kuwait	100%	2014

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)

Name of the subsidiary	*Country of incorporation*	*Ownership at 31 December 2017*	*Year of incorporation*
Held through FIMBank			
India Factoring and Finance Solutions Private Limited	India	**86%**	2010
FIM Holdings (Chile) S.p.a.	Chile	**100%**	2014
London Forfaiting Company Limited	United Kingdom	**100%**	2009
London Forfaiting International Limited	United Kingdom	**100%**	2009
London Forfaiting Americas Inc.	United States of Americ	**100%**	2009
London Forfaiting do Brasil Ltd.	Brazil	**100%**	2009
FIM Factors B.V.	Netherlands	**100%**	2009
Menafactors Limited	United Arab Emirates	**100%**	2009
FIM Business Solutions Limited	Malta	**100%**	2009
FIM Property Investment Limited	Malta	**100%**	2010
The Egyptian Company for Factoring S.A.E.	Egypt	**100%**	2016

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

The Group uses the pooling of interests method to accounts for transfer of assets and liabilities between entities under common control. The assets and liabilities of the combining entities are reflected at their carrying amounts, and no adjustments are made to reflect fair values, or recognise any new assets or liabilities at the date of combination, that would otherwise be done under the acquisition method. No new goodwill is recognised as a result of the combination.

The Group accounts for such transactions using the prospective accounting, whereby, the consolidated financial statements do not reflect the results of the acquired entity for the period before the transaction occurred. The corresponding amounts for the previous year are also not restated. The assets and liabilities are acquired at their respective carrying values and the history associated with the past changes in value is lost and the equity reserves are not rolled forward.

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's share of the fair value of the net identifiable assets of the acquired subsidiary or associate at the date of the acquisition. Goodwill arising on the acquisition of an associate is included in the carrying amount of the respective associate and, therefore, is not separately tested for impairment. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the consolidated statement of financial position.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)
Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill of subsidiaries is allocated to cash-generating units and is tested annually for impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell, and its value in use. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Negative goodwill arising on an acquisition is recognised immediately in the consolidated statement of income.

On disposal of a part of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in associates
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not a control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associates. Any change in OCI of those investees is presented as part of the Group's consolidated statement of comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of associates are prepared for the same reporting period as that of the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investments in its associates. At each reporting date, the Group determines whether there is objective evidence that an investment in an associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of results of associates' in the consolidated statement of income.

Upon loss of significant influence over an associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each reporting date.

For financial instruments traded in an active market, fair value is determined by reference to quoted market bid prices for assets and quoted market offer prices for liabilities, without deduction for transaction costs. The fair value of investments in managed funds or similar investment vehicles, where available, are based on last published bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques may include the following:
- brokers' quotes
- recent arm's length market transactions
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- option pricing models

Financial instruments with no active market and where fair value can not be reliably determined are stated at cost less provision for any impairment.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date with the resulting value discounted back to present value.

The fair value of interest rate swaps is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Investments carried at fair value through statement of income
Investments classified as carried at fair value through the statement of income comprise of two categories 'investments held for trading' and 'investments designated at fair value through statement of income'.

An investment is classified as 'held for trading' if it is acquired or incurred principally for the purpose of selling in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives which are not used as hedge are also categorised as held for trading.

Investments designated at fair value through statement of income are investments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Group's investment strategy.

These investments are initially recognised at fair value. Transaction costs are immediately expensed in the consolidated statement of income. Subsequent to initial recognition, investments designated at fair value through statement of income are remeasured at fair value and gains and losses arising from such remeasurement are included in the consolidated statement of income.

Non-trading investments
These are classified as follows:

- Held to maturity; and
- Available-for-sale

Held to maturity
Investments with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold these investments to maturity. These investments are initially recognised at fair value, including directly attributable transaction costs.

After initial recognition investments held to maturity are carried at amortised cost using the effective interest rate method. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'interest income' in the consolidated statement of income. The losses, if any, arising from impairment of such investments are recognised in the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments (continued)

Investments available-for-sale
Investments available-for-sale include equity investments and debt securities. Investments available-for-sale are those non-derivative financial assets that are designated as available-for-sale or are not classified as investment at fair value through statement of income, investments held to maturity or loans and receivables.

These investments are initially recognised at fair value, including directly attributable transaction costs.

After initial recognition, available-for-sale investments are measured at fair value with gains and losses being recognised in the consolidated statement of comprehensive income until the investment is derecognised or determined to be impaired at which time the cumulative gains or losses previously reported in the consolidated statement of comprehensive income are recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Dividends are included in 'dividend income'. Interest income on available-for-sale investments is recorded in 'interest income' in the consolidated statement of income, using the effective interest yield method.

Loans and receivables
Loans and receivables are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognised when cash is advanced to borrowers. They are derecognised when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Loans and receivables are initially measured at cost, being the fair value of the consideration given.

Following initial recognition, loans and receivables are stated at cost less any amount written off and specific and collective provisions for impairment.

Derivatives and hedge accounting
The Group makes use of derivative instruments to manage exposure to foreign currency risk and interest rate risk. In order to manage a particular risk, the Group applies hedge accounting to transactions which meet the specified criteria. The Group enters into derivative instruments, mainly forward foreign exchange contracts, interest rate and forward currency swaps in the foreign exchange markets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Derivatives are initially recognised and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of income. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the consolidated statement of income, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to the consolidated statement of income when the hedge item affects the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedge accounting (continued)
At the inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, objectives and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also, at the inception of the hedging relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at the end of each quarter. A hedge is regarded as highly effective if the changes in the fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

For the purpose of hedge accounting, hedges are classified into three categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction; and (c) hedge of net investment in a foreign operation.

Fair value hedges
In relation to fair value hedges, that qualify for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated statement of income. At 30 September 2017 there were no hedges classified as fair value hedges.

Cash flow hedges
In relation to cash flow hedges the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in the fair value reserve in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised in the consolidated statement of income.

When the hedged cash flow affects the consolidated statement of income, the gain or loss on the hedging instrument is recycled in the corresponding income or expense line of the consolidated statement of income. When the hedging instrument expires or is sold, terminated or exercised or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income.

Hedge of net investments in foreign operations
Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. On the disposal of the foreign operation, the cumulative value of any such gains or losses recognised in equity through other comprehensive income is transferred to the consolidated statement of income.

For hedges which do not qualify for hedge accounting and held for trading derivatives, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For discontinued fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For discontinued cash flow hedges or hedges of net investments in foreign operations, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

All properties held for rental or for capital appreciation purposes, or both, are classified as investment properties. Where a property is partially occupied by the Group and the portions could be sold separately, the Group accounts for the portions separately either as an investment property or property and equipment, as appropriate. If the portions cannot be sold separately, the property is classified as an investment property only if an insignificant portion is held for own use.

The Group applies the fair value model of accounting for investment properties. All investment properties are initially recorded at cost, including acquisition expenses associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income. The Group engages independent valuation specialists to determine the fair value of investment properties. Fair values are determined based on an annual evaluation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the statement of financial position and any gain or loss resulting from disposal is included in the consolidated statement of income.

Lease assets

Leases in terms of which the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases.

Leased assets held under operating lease are not recognised in the Group's consolidated statement of financial position.

Financial liabilities

Financial liabilities comprise of due to banks and other financial institutions, deposits from customers, loans payable, subordinated debt and other liabilities. These are stated at amortised cost. Transaction costs are amortised over the period of the debt using the effective yield method. Deposits from customers include deposits from both external customers and other group companies.

Cash and cash equivalents

Cash and cash equivalents include cash, demand and call deposits, highly liquid investments that are readily convertible into cash and placements (excluding escrow balances) with original maturities up to ninety days from the date of acquisition.

Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group in the consolidated statement of financial position.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends on ordinary shares
The Company recognises a liability to make cash or non-cash distributions to its equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of income.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the consolidated statement of financial position date.

Lease payments
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Taxes
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the respective countries where these subsidiaries operate. Income tax payable on taxable profit ("current tax") is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group subsidiaries operates.

Deferred Tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(a) When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) In respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(a) the right to receive cash flows from the asset have expired;
(b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
(c) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Trade and settlement date accounting
All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to the counterparty.

Employees benefits
The Group provides for end of service benefits to all its employees. Entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. National employees of the Group are also covered by the Social Insurance Organisation scheme and the Company's obligations are limited to the amount contributed to the scheme.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and reliably measurable.

Impairment of financial assets
An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, an impairment loss, is recognised in the consolidated statement of income.

Financial assets carried at amortised cost
A financial asset is considered impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)
A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield basis.

In addition to a specific provision for credit losses, a provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial asset since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of income.

Investments available-for-sale
For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from consolidated OCI and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in their fair value after impairment are recognised directly in consolidated OCI.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Impairment of non-financial assets
Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the consolidated statement of income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies
The consolidated financial statements have been presented in US Dollars being the functional and presentational currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of transaction.

Translation of foreign currency transactions and balances
Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange differences arising on the retranslation of monetary items, are included in consolidated statement of income. Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary investments carried at fair value through the consolidated statement of income are included in the consolidated statement of income. Exchange differences arising on the retranslation of available for sale equity investments, other than those which are carried at cost, are recognised directly in a fair value reserve in the consolidated statement of comprehensive income. Non–monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

Translation of financial statements of foreign operations
Assets (including goodwill) and liabilities of foreign operations are translated at the exchange rates prevailing at the consolidated statement of financial position date. Income and expense items are translated at average exchange rates for the relevant period. All resulting exchange differences are taken directly to a foreign currency translation reserve in equity through consolidated statement of other comprehensive

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

Recognition of income and expenses
Interest income and related fees are recognised using the effective yield method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Recognition of interest income is suspended when the related financial asset becomes impaired. Notional interest is recognised on impaired financial assets based on the rate used to discount future cash flows to their net present value.

Commission income and other fees are recognised when earned.

Rental income on investment properties is recognised on a straight line basis.

Dividend income is recognised when the Group's right to receive the dividend is established.

Contingent liabilities and contingent assets
Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Segment information
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Acting Chief Executive Officer of the Company as its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and expenses being eliminated at Group level. Income and expenses directly associated with each segment are included in determining business segment performance.

Significant assumptions, accounting judgements and estimates
In the process of applying the Group's accounting policies, management has made the following assumptions, judgements and estimates in determining the amounts recognised in the consolidated financial statements:

Going concern
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Classification of investments
Management decides on acquisition of an investment whether it should be classified as carried at fair value through statement of income, held to maturity or available-for-sale.

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making short term profit. Classification of investments designated as fair value through statement of income depends on how management monitors the performance of these investments.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular the Group has the intention and ability to hold these to maturity.

All other investments are classified as available-for-sale.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of investments
The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires considerable judgment.

Impairment of goodwill
The Group determines whether goodwill is impaired at each reporting date. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant assumptions, accounting judgements and estimates (continued)

Impairment losses on loans and receivables
The Group reviews its loans and receivables on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and receivables
In addition to specific provisions against individually significant loans and receivables, the Group also makes a collective impairment provision against loans and receivables, which although not specifically identified against a loan, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal gradings take into consideration factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

New standards and interpretations issued but not yet effective
Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of relevant standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

IFRS 9 Financial Instruments

Introduction
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

Classification and measurement
From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the statement of profit or loss.

3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

New standards and interpretations issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

Classification and measurement (continued)
The following is the outcome of an initial high level impact assessment performed by the Group during 2016:

- The majority of loans and advances to banks and customers, that are classified as loans and advances under IAS 39 are expected to be measured at amortised cost under IFRS 9;
- Financial assets held for trading and financial assets designated at FVPL are expected to continue to be measured at FVPL;
- The majority of the debt securities classified as available for sale under IAS 39 are expected to be measured at amortised cost or FVOCI. Some securities, however, will be classified as FVPL, either because of their contractual cash flow characteristics or the business model within which they are held; and
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

Hedge accounting
The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9.

Impairment of financial assets
IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Group is currently working on establishing a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

- To calculate ECL, the Group will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Group under the contract, and
- The cash flows that the Group expects to receive, discounted at the effective interest rate of the loan.

Under IFRS 9, the Group expects to group its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are first recognised, the Group recognises an allowance based on 12-month expected credit losses.
- Stage 2 – Underperforming loans: when a loan shows a significant increase in credit risk, the Group records an allowance for the lifetime expected credit loss.
- Stage 3 – Impaired loans: the Group recognises the lifetime expected credit losses for these loans. In addition, in Stage 3 the Group recognises interest income on receipt basis.

During the year, the Group performed a detailed impact assessment taking into consideration the above impairment methodology.

3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

New standards and interpretations issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group does not anticipate early adopting IFRS 15 and does not expect any material impact on the consolidated financial statements of the Group.

IFRS 16 Leases
The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Group does not anticipate early adopting IFRS 16 and does not expect any material impact on the consolidated financial statements of the Group.

4 GROUP REORGANISATION

Acquisition of United Gulf Bank B.S.C. (c) ("UGB" or "the Bank")

On 7 September 2017, UGB's directors announced the reorganization of the Bank's operations following the approval of the reorganization plan by the Bank's Board of Directors and the Central Bank of Bahrain ("CBB"). In this regard, KIPCO, the former majority shareholder of UGB, floated a new holding company (the Company) in the Kingdom of Bahrain which now fully owns the existing UGB (a regulated banking entity). UGB has been delisted from the Bahrain Bourse but remains a wholesale conventional bank governed by CBB. The regulated banking activities and assets under management including investment banking along with related liabilities are retained at UGB level.

This reorganization plan was subsequently approved by the Bank's shareholders in an Extraordinary General Meeting held on 25 September 2017, and 100% share capital of UGB was acquired by the Company via a share swap offer of 1 new share of the Company for every 2 shares of UGB. Subsequent to the share swap, UGB shares were delisted and the Company was listed on the Bahrain Bourse. Accordingly, UGB has been consolidated in these consolidated financial statements.

The carrying values of the assets and liabilities of UGB as at the date of transfer were:

	Carrying value recognised on transfer US$ 000
ASSETS	
Demand and call deposits with banks	262,422
Placements with banks	140,186
Investments carried at fair value through statement of income	24,886
Non-trading investments	380,460
Loans and receivables	1,052,899
Other assets	128,758
Investments in associates	746,898
Investment properties	105,056
Property and equipment	32,127
Goodwill	51,868
Assets classified as held for sale	63,559
	2,989,119
LIABILITIES	
Due to banks and other financial institutions	678,452
Deposits from customers	860,976
Loans payable	738,396
Subordinated debt	50,000
Other liabilities	61,481
Liabilities directly associated with assets classified as held for sale	42,117
	2,431,422
Total net assets	557,697
Perpetual Tier 1 capital	(33,000)
Non-controlling interests	(109,123)
Net assets	415,574
Net cash acquired with the subsidiary	319,040

4 GROUP REORGANISATION (continued)

The Group used the pooling of interests method to account for the Group reorganisation and for the transfer of assets and liabilities from UGB to UGH, as both are controlled by KIPCO as their ultimate parent. The assets and liabilities of UGB were transferred at their carrying values as at the date of reorganisation and no adjustments were made to reflect fair values. No new assets or liabilities were recognised as a result of the reorganisation, that would otherwise have been done under the acquisition method. No new goodwill was recognised as a result of the reorganisation.

UGH, being a newly formed Company, has accounted for the assets and liabilities transferred from UGB under prospective accounting.

5 FINANCIAL ASSETS AND LIABILITIES

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

31 December 2017	*Held for trading US$ 000*	*Designated at fair value through statement of income US$ 000*	*Available-for-sale US$ 000*	*Amortised cost / Loans and receivables US$ 000*	*Total US$ 000*
Demand and call deposits with banks	-	-	-	432,067	432,067
Placements with banks	-	-	-	119,853	119,853
Investments carried at fair value through statement of income	17,983	1,285	-	-	19,268
Non-trading investments	-	-	384,172	-	384,172
Loans and receivables	-	-	-	972,292	972,292
Other assets	-	1,100	-	118,517	119,617
Total financial assets	**17,983**	**2,385**	**384,172**	**1,642,729**	**2,047,269**
Due to banks and other financial institutions	-	-	-	624,422	624,422
Deposits from customers	-	-	-	878,220	878,220
Loans payable	-	-	-	856,426	856,426
Subordinated debt	-	-	-	50,000	50,000
Other liabilities	115	-	-	66,169	66,284
Total financial liabilities	**115**	**-**	**-**	**2,475,237**	**2,475,352**

6 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2017
	US$ 000
Investments held for trading	
Quoted equities	6,305
Quoted debt securities	11,678
Investments designated at fair value through statement of income	
Managed funds	1,285
	19,268

Managed funds primarily represent funds invested through unlisted companies and limited partnership interests. The fund managers have created these legal structures for tax efficiency and to meet other investors' requirements. The underlying investments in these funds are primarily in quoted debt and equity instruments in Kuwait and other international markets.

7 NON-TRADING INVESTMENTS

Non-trading investments comprise available-for-sale investments as follows:

	2017
	US$ 000
Quoted	
Debt securities	104,592
Equities	78,430
Total quoted	183,022
Unquoted	
Equities	138,321
Other managed funds	51,068
Real estate managed funds	11,761
Total unquoted	201,150
Total non-trading investments	384,172

Included under non-trading investments are unquoted available-for-sale investments, primarily representing nominal equity stakes up to 1.1% in various geographically and sectorally dispersed companies, amounting to US$ 61,294 thousand for which fair value cannot be determined with sufficient accuracy, as future cash flows are not determinable. Accordingly, these investments are carried at cost less provisions for impairment.

The movement in provision for non-trading investments was as follows:

	2017
	US$ 000
Acquired on acquisition	16,002
Charge for the period	-
At 31 December	16,002
Gross amount of individually impaired investments	17,607

8 LOANS AND RECEIVABLES

	2017 *US$ 000*
Forfaiting assets	252,509
Factoring assets	299,201
Loans to customers	363,767
Loans to banks	44,247
Syndication loans	48,416
Staff loans	3,663
	1,011,803
Less: Provision for impairment	(39,511)
	972,292

The movement in the provision for impairment is as follows:

	2017		
	Specific *US$ 000*	*Collective* *US$ 000*	*Total* *US$ 000*
Acquired on acquisition	28,637	15,342	43,979
Provided during the year - net	356	1,641	1,997
Written-off during the year	(4,115)	(2,106)	(6,221)
Other adjustments	139	(383)	(244)
Balance at 31 December	25,017	14,494	39,511

	2017 *US$ 000*
Gross amount of loans, individually determined to be impaired	60,900

The table below shows the credit quality of loans and receivables:

	Neither past due nor impaired *US$ 000*	*Past due but not impaired* *US$ 000*	*Past due and impaired* *US$ 000*	*Total* *US$ 000*
31 December 2017				
Forfaiting assets	252,509	-	-	252,509
Factoring assets	264,936	4,418	29,847	299,201
Loans to customers	343,157	-	20,610	363,767
Loans to banks	34,486	-	9,761	44,247
Syndication loans	31,045	16,689	682	48,416
Staff loans	3,663	-	-	3,663
Total	929,796	21,107	60,900	1,011,803

All of the Group's loans and receivables which were past due but not impaired as of 31 December 2017 were overdue for less than 30 days.

9 OTHER ASSETS

	2017 *US$ 000*
Due from customers	35,260
Deferred tax asset (Note 13)	41,023
Accounts receivable	38,184
Prepayments	6,439
Interest receivable	4,050
Derivative assets (Note 30)	1,100
	126,056

Due from customers and accounts receivable are stated net of provision of US$ 77 thousand. Additional provisions of US$ 106 thousand were made during the period from incorporation to 31 December 2017.

10 INVESTMENTS IN ASSOCIATES

		Activity	*Carrying value 2017 US$ 000*	*Ownership 2017 %*
a)	Burgan Bank S.A.K.	Commercial banking	508,380	15
b)	United Real Estate Company	Real estate	63,432	10
c)	North Africa Holding Company	Investments	49,406	44
d)	Assoufid B.V.	Holding, finance and project-development company	41,846	40
e)	Kuwait Education Fund	Fund	14,139	34
f)	United Capital Transport Co K.S.C.C.	Transport	15,038	40
g)	Manafae Investment Company	Islamic investment	12,870	31
h)	N.S. 88	Real estate	12,280	20
i)	Takaud Saving & Pensions Company	Savings and pension	8,211	50
j)	Syria Gulf Bank	Commercial banking	4,033	31
k)	Arab Leadership Academy	Training institute	414	15
l)	United Real Estate Company - Syria	Real estate	21	20
m)	Kamco Investment Fund	Fund	22,750	23
n)	Latam Factors S.A.	Forfaiting	5,561	51
o)	Al Sharq Financial Brokerage Co.	Brokerage and investment business	-	-
			758,381	

10 INVESTMENTS IN ASSOCIATES (continued)

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2017 and 2016 on behalf of its associates.

a) Burgan Bank S.A.K. is a listed commercial bank incorporated in the State of Kuwait. The Group owns 15% equity interest in Burgan Bank. The Group has the ability to exercise significant influence on Burgan Bank through representation on the board of directors of Burgan Bank.

b) United Real Estate Company (URC), is a company listed on the Kuwait Stock Exchange. At 31 December 2017, the Group owns 10% of URC. The Group has the ability to exercise significant influence on URC through representation on the board of directors of URC.

c) The Company directly owns 33% and indirectly owns 11%, through its subsidiary KAMCO, of North Africa Holding Company (NAHC), a closed company incorporated in the State of Kuwait in 2006.

d) The Group owns 40% of Assoufid B.V., a closed company incorporated in the Netherlands.

e) Kuwait Education Fund is fund incorporated in the State of Kuwait in 2007. As of 31 December 2017, the Group owns 34% through its subsidiary KAMCO.

f) United Capital Transport Company K.S.C.C. (UniCap) was incorporated in State of Kuwait in 2011. The Group owns a 40% equity stake through its subsidiary KAMCO. UniCap is a dedicated leasing solutions provider to governments, international oil companies and varied construction, mining and industrial services businesses.

g) The Group owns 31% of Manafae Investment Company through its subsidiary KAMCO.

h) The Group owns 20% of N.S. 88 through its subsidiary KAMCO.

i) The Group owns 50% of Takaud. The remaining 50% is owned by KIPCO which also exercises control over Takaud through representation on its Board of Directors.

j) Syria Gulf Bank (SGB) is a commercial bank incorporated in the Syrian Arab Republic. SGB commenced commercial operations in 2007. The Group owns a 31% equity stake in SGB.

k) Arab Leadership Academy is training institute incorporated in the State of Kuwait in 2007. As of 31 December 2017, the Group owns 15% through its subsidiary KAMCO. The Group has significant influence by appointment of directors on the Board of Directors of Arab Leadership Academy.

l) United Real Estate Company - Syria is a closed company incorporated in the Syrian Arab Republic. At 31 December 2017, the Group owns 20% of its equity stake.

m) During the year, the Group acquired an additional 3.82% equity interest in KAMCO Investment Fund ("KIF") (previously classified as a financial assets available for sale) through its subsidiary KAMCO, for a cash consideration of US$ 4,306 thousand. Accordingly, the Group's equity interest in KIF increased from 19.16% to 22.98%. Following the acquisition of additional equity interest, the Group determined that it exercises significant influence over KIF and hence became an associate of the Group. As a result, the Group has recognised a gain on previously held equity interest of US$ 3,431 thousand in the consolidated statement of income.

n) The Group through its subsidiary FIMBank holds 51% of the shares in Latam Factors S.A. Latam Factors is a factoring and leasing company incorporated and operating in Chile. The Group has determined that it does not have control of the investment and has accounted for it as an an associate.

o) During the year, the Group's effective interest in Al Sharq Financial Brokerage Company K.S.C. (Closed) ("Al Sharq") through its subsidiary KAMCO diluted to 7.33% as a result of subscription of rights issue by the other shareholders. Accordingly, upon loss of significant influence, the Group has reclassified its investment in Al Sharq to financial assets available for sale. Upon reclassification, the Group has fair valued its previously held interest in Al Sharq and recorded a loss of US$ 460 thousand in the consolidated statement of income.

Investments in associates include quoted associates with a carrying value of US$ 571,812 thousand with a total quoted market price of US$ 356,472 thousand at 31 December 2017. In accordance with IAS 36, 'Impairment of Assets', the Group's recoverable amount of these associates (i.e. value in use) was in excess of their carrying values and accordingly no impairment was recognised against these investments during the period.

10 INVESTMENTS IN ASSOCIATES (continued)

Investments in material associates

The tables below illustrate the Group's investment in associates that are considered as individually material:

	Burgan Bank US$ 000	*United Real Estate Company US$ 000*
Summarised statement of financial position as of 31 December 2017:		
Current assets	14,691,037	434,893
Non-current assets	9,870,778	1,561,623
Current liabilities	18,926,486	760,405
Non-current liabilities	2,761,332	468,709
Equity	2,873,997	767,402
Equity attributable to the shareholders of the Parent	2,227,267	620,449
Proportion of the Group's ownership	15%	10%
Group's ownership in equity	335,204	61,424
Other adjustments	173,176	2,008
Carrying amount of investments	508,380	63,432
Fair value of investment in associate based on quoted market price	328,289	28,183
Summarised statement of income for the year ended 31 December 2017:		
Operating income	61,298	54,237
Interest income	1,116,386	961
Interest expense	(384,621)	(48,645)
Administrative expenses	(564,280)	(2,315)
Profit for the year	228,784	4,237
Other comprehensive loss for the year	(103,928)	(6,025)
Total comprehensive income (loss) for the year	124,856	(1,789)
Group's share of total comprehensive income (loss) for the period	18,791	(177)
Cash dividend received from the associate during the period	5,042	1,747

Investments in associates that are individually not significant

The aggregate summarised financial information of the Group's associates that are not individually significant are provided below:

	2017 US$ 000
Summarised statement of financial position as of 31 December:	
Total assets	528,099
Total liabilities	156,079
Equity	372,020
Carrying amount of investments	186,569
Summarised statement of income for the year ended 31 December 2017:	
Revenue	19,102
Loss for the year	(17,864)
Other comprehensive loss for the year	(639)
Total comprehensive loss for the year	(18,503)
Group's share of loss for the period	(4,028)

The Company has accounted for its share of results of the associates for the period after these investments were transferred to the Company.

11 INVESTMENT PROPERTIES

	2017
	US$ 000
Acquisition of a subsidiary	105,056
Foreign exchange adjustment	37
At 31 December	105,093

Investment properties comprise of land and buildings owned by the Group. These are stated at fair values, determined based on independent valuations performed by external professional valuers at the period end.

Valuations of investment properties were conducted by independent appraisers with a recognised and relevant professional qualification and recent experience of the location and category of investment property being valued. The discounted future cash flow method or property market value method have been used as deemed appropriate considering the nature and usage of the property.

The Group's investment properties are categorised in level 3 of the fair value hierarchy as at 31 December 2017.

12 GOODWILL

	2017
	US$ 000
Acquisition of a subsidiary	51,868
Foreign currency translation adjustments	719
At 31 December	52,587

The goodwill remaining as of 31 December mainly relates to KAMCO (a subsidiary) and is allocated to the asset management and investment banking operating segment, a cash generating unit (a CGU). The recoverable amount of the CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. The key assumptions used in the value in use calculation include a perpetuity growth rate of 3% and discount factor of 9.5%. There was no goodwill impairment identified in 2017 as the recoverable amount of the CGU was higher than its net book value.

The calculation of value in use for the CGU is sensitive primarily to market risk premium, growth risk rate, risk free rate and country risk premium.

The sensitivity of the value in use calculation to changes in key assumptions used in the impairment assessment of goodwill is disclosed below:

	Impact of change	
	+10%	-10%
Key assumptions		
Growth rate	12,169	(11,101)
Discount factor	(40,750)	54,811

13 TAXATION

The Group's subsidiaries in Malta, the United Kingdom, India, Chile and the United States of America are subject to income tax.

a) Deferred tax assets

Deferred tax assets relate to the following:

	2017 *US$ 000*
Excess of capital allowances over depreciation	(375)
Allowances for uncollectibility	4,277
Changes in fair value of financial instruments	986
Investment tax credits	239
Unabsorbed capital allowances	976
Unabsorbed tax losses	34,920
	41,023

Reconciliation of deferred tax assets is as follows:

2017	*Arising on acquisition US$ 000*	*Recongnised in other comprehensive income US$ 000*	*Recognised in statement of income US$ 000*	*Effects of movement in exchange rates US$ 000*	*Closing balance US$ 000*
Excess of capital allowances over depreciation	(294)	24	(105)	-	(375)
Allowances for uncollectibility	18,069	(601)	(13,426)	235	4,277
Changes in fair value of financial instruments	3,578	(346)	(2,246)	-	986
Investment tax credits	239	-	-	-	239
Unabsorbed capital allowances	542	-	434	-	976
Unabsorbed tax losses	19,750	(869)	15,754	285	34,920
	41,884	(1,792)	411	520	41,023

As at 31 December 2017, the Group has tax losses arising out of subsidiaries in Malta and the United Kingdom of US$ 96,272 thousand that are available for offsetting against future taxable profits.

b) Deferred tax liabilities

Deferred tax liabilities relate to the following:

	2017 *US$ 000*
Excess of capital allowances over depreciation	3,909
Changes in fair value of financial instruments	2,859
	6,768

Reconciliation of deferred tax liabilities is as follows:

2017	*Arising on acquisition*	*Recognised in statement of income*	*Closing balance*
Excess of capital allowances over depreciation	403	3,506	3,909
Changes in fair value of financial instruments	1,799	1,060	2,859
	2,202	4,566	6,768

13 TAXATION (continued)

c) Income tax credit

The major components of income tax credit for the period ended 31 December are as follows:

	2017
	US$ 000
Consolidated statement of income	
Current income tax charge	(5,883)
Movement in deferred tax assets recognised in statement of income	411
Movement in deferred tax liabilities recognised in statement of income	4,566
Income tax credit reported in the statement of income - net	**(906)**

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

14 LOANS PAYABLE

31 December 2017	*Currency**	*Parent US$ 000*	*Subsidiaries US$ 000*	*Total US$ 000*
Maturing within one year				
1 month or less	KWD	-	662	662
	US$	139,132	5,000	144,132
	INR	-	19,589	19,589
3 months or less but over 1 month	KWD	-	16,501	16,501
	US$	-	70,950	70,950
	GBP	-	2,419	2,419
	EUR	-	3,598	3,598
1 year or less but over 3 months	US$	-	32,749	32,749
	EUR	-	2,399	2,399
	GBP	-	3,534	3,534
	KWD	-	28,652	28,652
	EGP	-	12,081	12,081
		139,132	198,134	337,266
Maturing after one year				
More than 1 year & less than 2 years	KWD	-	16,562	16,562
	US$	50,000	-	50,000
More than 2 years	KWD	-	16,561	16,561
	US$	425,006	11,031	436,037
		475,006	44,154	519,160
		614,138	242,288	856,426

* KWD represents Kuwaiti Dinar.

* INR represents Indian Rupee.

15 SUBORDINATED DEBT

As of 31 December 2017, the Group's sub-ordinated debt comprises of a 5-year loan amounting to US$ 50 million issued in 2015 by FIMBank, a subsidiary of the Group. The instrument carries a floating rate of interest and ranks after the Group's unsubordinated, secured and unsecured creditors.

16 OTHER LIABILITIES

	2017
	US$ 000
Staff related payables	20,019
Accrued expenses	3,002
Interest payable	7,530
Dividends payable	2,511
Deferred tax (Note 13)	6,768
Derivative financial liabilities (Note 30)	115
Other payables	26,339
	66,284

17 EQUITY

Share capital

The Company's authorised share capital as of 31 December 2017 comprised 505,400,000 shares of US$ 0.50 each.

The issued and fully paid up share capital as of 31 December 2017 comprised 412,974,651 shares of US$ 0.50 each.

Share premium

Share premium represents a non-distributable reserve arising from the acquisition of United Gulf Bank ("UGB") from its shareholders via a share swap offer of 1 new share of the Company for 2 shares of UGB. The reserve is credited with the difference between the value of shares and the net assets acquired.

Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Company's articles of association, 10% of the profit for the year is transferred to a statutory reserve until such time as the reserve reaches 50% of the Company's paid-up share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law. During the period, the Company transferred US$ 446 thousand to statutory reserve.

Dividend paid

No dividend was announced or paid during the period from incorporation to 31 December 2017.

Foreign currency translation reserve

The foreign currency translation reserve represents the net foreign exchange gain or loss arising from translating the financial statements of the Company's foreign subsidiaries and associated companies from their functional currencies into United States Dollars.

18 FAIR VALUE RESERVE

	2017
	US$ 000
Non-trading investments	
Net movement in unrealised fair value during the period	90
Balance at 31 December	90

19 PERPETUAL TIER 1 CAPITAL

On 28 March 2016, UGB (a subsidiary) issued Perpetual Additional Tier 1 Capital (the "AT1 Capital") amounting to US$ 33,000 thousand. The AT1 Capital constitutes subordinated obligations of UGB and is classified as equity in accordance with IAS 32: Financial Instruments – Classification. The AT1 Capital does not have a maturity date and bears interest on its nominal amount from the date of issue at a fixed annual rate. The AT1 Capital is redeemable by UGB at its sole discretion on or after 28 March 2021 or on any interest payment date thereafter subject to the prior consent of the Central Bank of Bahrain.

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

20 INTEREST INCOME

	2017 US$ 000
Loans and receivables	12,538
Non-trading investments	513
Placements with banks	612
Demand and call deposits with banks	241
	13,904

21 INVESTMENT INCOME - NET

	2017 US$ 000
Dividend income	1,652
Gain on sale of an associates and subsidiaries	1,778
Rental income from investment properties	949
Gain on sale of non-trading investments	617
Loss on investments carried at fair value through statement of income	(352)
Loss on investment properties	(148)
Gain on sale due to reclassification of investment	2,971
Others	4,483
	11,950

22 FEES AND COMMISSIONS - NET

	2017 US$ 000
Credit related fees, commissions and other income - net	5,435
Management fees from fiduciary activities	3,899
Advisory fees	3,252
	12,586

23 SHARE OF RESULTS OF ASSOCIATES - NET

	2017 US$ 000
Burgan Bank	10,279
United Real Estate Company	584
North Africa Holding Company	27
Assoufid B.V.	(180)
Kuwait Education Fund	694
United Capital Transport Company	(1,313)
Manafae Investment Company	(18)
N.S. 88	(2)
Takaud Saving & Pensions Company	(1,789)
Kamco Investment Fund	(1,787)
Latam Factors S.A.	9
CIS Factors Holding B.V.	439
Al Sharq Financial Brokerage Co.	2
	6,945

24 INTEREST EXPENSE

	2017 *US$ 000*
Loans payable	8,492
Due to banks and other financial institutions	1,919
Subordinated debt	569
Deposits from customers	4,938
	15,918

25 EARNINGS PER SHARE

Basic and diluted

Basic and diluted earnings per share is calculated by dividing the profit attributable to the equity shareholders of the Company by the weighted average number of shares outstanding during the period as follows:

	2017 *US$ 000*
Profit attributable to equity shareholders of the Company	4,462
Weighted average number of shares outstanding during the period (in	209,188
Basic and dilluted earnings per share (US cents)	2.13
Loss attributable to shareholders of the parent from discontinued operations for the basic and diluted EPS calculations	(3,025)
Basic and dilluted earnings per share (US cents)	(1.45)

26 CASH AND CASH EQUIVALENTS

	2017 *US$ 000*
Demand and call deposits with banks excluding mandatory reserves	422,279
Placements with original maturities of ninety days or less	119,853
	542,132

27 SEGMENTAL INFORMATION

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Acting Chief Executive Officer, who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments reported by the Group meet the definition of a reportable segment under IFRS 8.

For management purposes, the Group is organised into business units based on the nature of their operations and services. The Group has two reportable operating segments being 'asset management and investment banking' and 'commercial banking'.

Asset management and investment banking	Undertaking asset portfolio management, corporate finance, advisory, investments in quoted and private equity/funds, real estate, capital markets, international banking and treasury activities.
Commercial banking	Loans and other credit facilities, deposit and current accounts from corporate and institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transactions between segments are generally recorded at estimated market rates.

27 SEGMENTAL INFORMATION (continued)

Segmental information relating to the Group's operations for the period from incorporation to 31 December 2017 was as follows:

Statement of income	*Asset management and investment banking* *US$ 000*	*Commercial banking* *US$ 000*	*Total* *US$ 000*
Income from external customers	10,276	27,609	37,885
Share of results of associates - net	(3,334)	10,279	6,945
Total income	6,942	37,888	44,830
Operating (loss) income before provisions and tax	(4,983)	16,103	11,120
(Provisions for) write-back of provisions for doubtful loans and other assets - net	(2,298)	195	(2,103)
Taxation - net	53	(959)	(906)
(Loss) profit for the period from continuing operations	(7,228)	15,339	8,111
Profit attributable to equity shareholders of the parent			4,462
Profit attributable to non-controlling interests			624
			5,086
Statement of financial position			
Investments in associates	240,407	517,974	758,381
Segment assets	1,034,256	1,982,734	3,016,990
Segment liabilities	1,070,082	1,405,270	2,475,352

Geographical segments

The Group operates in four geographic markets: Domestic region (G.C.C.*), Middle East and North Africa (MENA) (excluding G.C.C.), Europe, North America and others. The following table shows the distribution of the Group's total income and non-current assets by geographical segment, allocated based on the location of the customers and assets for the period ended 31 December 2017:

	G.C.C. *US$ 000*	*MENA* *US$ 000*	*Europe* *US$ 000*	*America* *US$ 000*	*Others* *US$ 000*	*Total* *US$ 000*
31 December 2017						
Total income	30,886	1,855	23,842	1,561	(13,314)	44,830
Total assets	1,317,897	122,270	970,627	322,865	283,331	3,016,990

* The Gulf Co-operation Council (G.C.C.) countries are Kingdom of Bahrain, State of Kuwait, Kingdom of Saudi Arabia, State of Qatar, the United Arab Emirates and the Sultanate of Oman.

28 RELATED PARTY TRANSACTIONS

Related parties represent the parent, associates and joint ventures, directors and key management personnel and entities which are controlled, jointly controlled or significantly influenced by any of the above mentioned parties.

The income and expenses in respect of related parties transactions during the period and included in the consolidated financial statements are as follows:

	2017			
	Parent US$ 000	*Associates US$ 000*	*Other related parties US$ 000*	*Total US$ 000*
Gain on investments carried at fair value through statement of income	-	21	(1)	20
Fees and commissions - net	2,649	3,202	(5,191)	660
Dividend income	-	-	362	362
Rental income	567	221	-	788
Foreign currency translation losses - net	-	(13,079)	-	(13,079)
Interest income	-	906	7	913
Interest expense	(997)	(4,086)	(116)	(5,199)
Others	-	(166)	(236)	(402)

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

The period-end balances in respect of related parties included in the consolidated financial statements are as follows:

	2017			
	Parent US$ 000	*Associates US$ 000*	*Other related parties US$ 000*	*Total US$ 000*
Demand and call deposits with banks	-	2,114	43	2,157
Placements with banks	-	2,550	20,228	22,778
Investments carried at fair value through statement of income	-	-	2,209	2,209
Non-trading investments	1,584	(680)	134,027	134,931
Loans and receivables	-	12,784	8,243	21,027
Other assets	-	21,782	5,340	27,122
Due to banks and other financial institutions	-	(42,542)	(130,147)	(172,689)
Deposits from customers	(582)	(4,597)	(33,598)	(38,777)
Loans payable	-	(403,210)	-	(403,210)
Subordinated debt	-	(50,000)	-	(50,000)
Other liabilities	(636)	(2,742)	(2,531)	(5,909)
Perpetual Tier 1 Capital	-	-	(10,000)	(10,000)
Off statement of financial position items:				
Letters of guarantee	-	-	150	150

All related party exposures are performing and are free of any provision for possible credit losses.

28 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel was as follows:

	2017
	US$ 000
Short term employee benefits	315

29 COMMITMENTS AND CONTINGENCIES

Credit-related commitments

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

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

The Group has the following credit and investment related commitments:

	2017
	US$ 000
Credit related	
Letters of credit	63,025
Letters of guarantee	54,743
	117,768
Investment related *	242,141
	359,909

* Investment related commitments represent commitments for capital calls of fund structures. These commitments can be called during the investment period of the fund which is normally 1 to 5 years.

30 DERIVATIVES

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

			Notional amounts by term to maturity			
31 December 2017	*Positive fair value US$ 000*	*Negative fair value US$ 000*	*Notional amount Total US$ 000*	*Within 3 months US$ 000*	*3 - 12 months US$ 000*	*1 - 5 years US$ 000*
Derivatives held for trading *						
Forward foreign exchange contracts	774	(889)	533,680	379,076	154,604	-
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	-	-	453,792	453,792	-	-
Derivatives used as cash flow hedges						
Interest rate swaps	1,100	-	145,000	-	70,000	75,000

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

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

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

Hedge of net investments in foreign operations
The Group has designated certain forward foreign exchange contracts to hedge against changes in the value of its investments in foreign operations for an amount of US$ 454 million (KWD 137 million). Gains or losses on the retranslation of these forward foreign exchange contracts are transferred to equity through other comprehensive income to offset any gains or losses on the translation of the net investments in foreign

Cash flow hedges
The Group is exposed to variability in interest cash flows on liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. A schedule indicating as at 31 December, the periods when the net cash flows are expected to occur and when they are expected to affect the consolidated statement of income is as follows:

	2017	
	Within 1 year US$ 000	*1-5 years US$ 000*
Net cash outflows (liabilities)	1,363	1,985
Statement of comprehensive income	1,100	-

31 RISK MANAGEMENT

a) Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is considered critical to the Group's continuing profitability.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

The major risks to which the Group is exposed while conducting its business and operations, and the means and organisational structure it employs to manage them strategically for building shareholder value, are outlined below.

Risk management structure

Each subsidiary within the Group is responsible for managing its own risks and has its own Board Committees, including Audit and Executive Committees in addition to other management committees such as Credit/ Investment Committee and (in the case of major subsidiaries) Asset and Liability Committees (ALCO), or equivalent, with responsibilities generally the same as the Bank's committees.

The Board's role is to approve investment strategies of the Company. The Board of Directors has delegated the Executive Management of the Company to the Acting Chief Executive Officer (who is not a Director).

UGH signed a Service Level Agreement ("SLA") on 24th August 2017 with its wholly owned subsidiary UGB, to avail the skills, knowledge, and experience of UGB employees for the management of the Company. Under the terms of the SLA, it was agreed that UGB would provide staff, facilities, premises, systems and equipment to facilitate smooth operations of the Company. Accordingly, the following Board / Management Committees of UGB also assist the Company is monitoring performance and facilitate day to day decision making. The details of key committees are provided as follows:

Executive Committee

The Executive Committee comprises of four directors including the Chairman, Vice Chairman and two other directors. Board meetings are held through circulation to approve all proposals not within the Investment Committee's risk authority, as well as to act on all matters within the Board's remit.

Investment Committee

The Investment Committee is mainly responsible for approving or recommending approval to the Executive Committee limits for individual exposures, investments and concentrations towards banks, countries, industries, risk rating classes, or other special risk asset categories. In addition, the Committee also monitors the overall risk profile and recommends provision levels to the Executive Committee. The Investment Committee is constituted by a majority motion passed in the Executive Committee. Currently the Committee consists of four members.

Audit Committee

The Audit Committee is appointed by the Board and consists of four members who are Directors, including three independent Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing (a) the quality and integrity of financial reporting, (b) the audit thereof, (c) the soundness of the internal controls, (d) the risk assessment activities, and (e) the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Risk and Compliance

The Risk and Compliance Committee is responsible for the monitoring and assessment of risks, the review of compliance with internal and external guidelines, the review and recommendation of provisioning requirements, the assessment of the impact from new regulatory requirements, and review of Investment Committee decisions. The Committee comprises of six senior executives including the Acting Chief Executive Officer. Additionally, the Head of Internal Audit and Quality Assurance participates in the Committee meetings in the capacity of an observer.

31 RISK MANAGEMENT (continued)

a) Introduction (continued)

Risk management structure (continued)

Asset and Liability Committee
The Asset and Liability Committee establishes policies and objectives for the asset and liability management of the statement of financial position in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost/yield profiles of assets and liabilities and evaluates the financial position both from interest rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions. The Committee comprises of six senior executives including the Acting Chief Executive Officer.

Management Committee
The Management Committee acts as the steering committee as well as a management forum to discuss any relevant issues. It meets on a weekly basis and consists of the Acting Chief Executive Officer and all Department Heads as well as Internal Audit. It also serves to follow up on a weekly basis on the daily conduct of the business activities. The Committee is headed by the Acting Chief Executive Officer.

Key Persons Committee
The Key Persons Committee comprises three members of senior management. The Committee is mainly responsible for the supervision of adequacy of compliance with the Central Bank of Bahrain and Bahrain Bourse guidelines on key persons trading (insider trading).

Monitoring and controlling risks is primarily performed based on limits established by the Board. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected geographies and industry sectors. In addition, the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Risk mitigation
As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

Where warranted, the Group enters into legally enforceable netting arrangements covering its money market and foreign exchange trading activities whereby the only net amounts may be settled at maturity. With regard to the credit risk in the off statement of financial statement exposures, third party guarantees are obtained wherever possible as a risk mitigation measure.

Concentration risk
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Robust limit structures put in place by the Board ensures effective monitoring and control of concentration risk and any limit breaches are immediately rectified and reported to the Board.

31 RISK MANAGEMENT (continued)

b) Credit risk

Credit risk arises from the extension of credit facilities in the Group's banking and trading activities as well as in investment activities where there is a possibility that a counterparty may fail to honour its commitment whenever an investment may fail.

Credit risk is mitigated through:

(i) Establishing an appropriate credit risk environment;
(ii) Operating under a sound credit and investment approval process;
(iii) Maintaining appropriate credit administration, measurement and monitoring processes; and
(iv) Ensuring adequate controls over the credit risk management process.

The Group has well defined policies approved at the individual board level. These provide carefully documented guidelines for credit risk management. There is a two tier committee structure to approve and review credit and investment risk. The Investment Committee comprises of the Acting Chief Executive Officer, Head of Treasury and the Chief Financial Officer. The Acting Head of Credit and Risk Management acts as a non-voting member to the Committee. Exposures beyond Investment Committee limits are approved by the Board's Executive Committee or by the full Board.

Maximum exposure to credit risk without taking account of any collateral or other credit enhancements

The table below shows the Group's maximum exposure to credit risk for the components of on and off statement of financial position exposure. The maximum exposure shown is gross before the effect of mitigation through the use of collateral arrangements, but after any provision for impairment.

	2017
	US$ 000
Demand and call deposits with banks	432,067
Placements with banks	119,853
Non-trading	104,592
Loans and receivables	972,292
Other assets	118,517
Letters of credit	63,025
Letters of guarantee	54,743
Derivative financial assets	1,100
	1,866,189

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any single client or counterparty as of 31 December 2017 was US$ 227 million before taking account of collateral or other credit enhancements.

An analysis of the Group's financial assets by geographical region, before taking into account collateral held or other credit enhancements, is as follows:

	G.C.C.	*ME and North Africa*	*Europe*	*Americas*	*Asia*	*Others*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*
Demand and call deposits with banks	28,453	7,157	275,630	120,078	635	114	432,067
Placements with banks	45,800	27,277	43,644	-	3,132	-	119,853
Non-trading investments	-	-	91,833	6,622	-	6,137	104,592
Loans and receivables	156,265	67,510	383,346	111,666	130,726	122,779	972,292
Other assets	50,940	1,940	43,303	1,007	13,069	8,258	118,517
Letters of credit	18,956	14,047	12,025	464	5,072	12,461	63,025
Letters of guarantee	1,213	3,264	32,667	94	12,860	4,645	54,743
Derivative financial assets	1,100	-	-	-	-	-	1,100
31 December 2017	302,727	121,195	882,448	239,931	165,494	154,394	1,866,189

31 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)
An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

At 31 December 2017	*Trading & Manufacturing* US$ 000	*Banks and other financials* US$ 000	*Construction and real estate* US$ 000	*Individuals* US$ 000	*Government and public sector* US$ 000	*Others* US$ 000	*Total* US$ 000
Demand and call deposits with banks	-	432,067	-	-	-	-	432,067
Placements with banks	-	119,853	-	-	-	-	119,853
Non-trading investments	-	52,437	44,430	-	-	7,725	104,592
Loans and receivables	102,721	533,886	36,296	146,998	60,515	91,876	972,292
Other assets	17,205	66,673	2,441	3,047	751	28,400	118,517
Letters of credit	6,994	44,271	3,485	2,500	3,917	1,858	63,025
Letters of guarantee	4,757	49,881	105	-	-	-	54,743
Derivative financial assets	-	1,100	-	-	-	-	1,100
	131,677	1,300,168	86,757	152,545	65,183	129,859	1,866,189

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained for commercial lending include charges over real estate properties, inventory, trade receivables, trading securities and bank guarantees.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement, during its review of the adequacy of the allowance for impairment losses.

An industry sector analysis of the Group's gross loans and advances, before and after taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure 2017 US$ 000	*Net maximum exposure 2017* US$ 000
Forfaiting assets	252,509	252,509
Factoring assets	299,201	241,707
Loans to customers	363,767	309,934
Loans to banks	44,247	16,287
Syndication loans	48,416	48,416
Others	3,663	-
	1,011,803	868,853

31 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit risk exposure for each credit rating

	Investment grade	*Non-investment grade*	*Unrated*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*
At 31 December 2017				
Demand and call deposits with banks	398,634	19,249	14,184	432,067
Placements with banks	92,576	-	27,277	119,853
Non-trading investments	104,592	-	-	104,592
Loans and receivables	27,480	99,208	845,604	972,292
Other assets	18,494	238	99,785	118,517
Letters of credit	7,688	11,823	43,514	63,025
Letters of guarantee	3,933	11,669	39,141	54,743
Derivative financial assets	1,100	-	-	1,100
	654,497	142,187	1,069,505	1,866,189

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risk and the comparison of credit exposures across all business lines, geographic regions and products. All externally rated credit risk exposures are rated by the relevant External Credit Assessment Institutions ("ECAIs").

Additionally, the internal risk ratings of the Group's externally unrated credit risk exposures which are largely subjective, are tailored to the various categories and are derived in accordance with the internal rating policy and practices. The attributable internal risk ratings are assessed and updated on a regular basis.

The table above reflects the risk ratings of the credit risk exposures rated by the relevant ECAIs. All of the externally unrated credit risk exposures have been classified under "Unrated" category.

Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The Group had US$ 20,525 thousand of restructured loans as of 31 December 2017.

Offsetting financial assets and financial liabilities

The disclosures set out in the table below include financial assets and financial liabilities that are offset in the Group's statement of financial position:

	Loans and receivables	*Customer deposits*
	US$ 000	*US$ 000*
31 December 2017		
Gross amounts of recognised financial asset (liability)	305,700	305,700
Gross amounts offset in the consolidated statement of financial position	(305,700)	(305,700)

31 RISK MANAGEMENT (continued)

c) Market risk

Market risk is defined as the risk of losses in the value of on-or-off statement of financial position financial instruments caused by a change in market prices or rates, (including changes in interest rates and foreign exchange rates). The Group's policy guidelines for market risk have been vetted by the Board of Directors in compliance with the rules and guidelines provided by the Central Bank of Bahrain. The Central Bank of Bahrain guidelines introduced a risk measurement framework whereby all locally incorporated banks in Bahrain are required to measure and apply capital charges in respect of their market risk in addition to capital requirements for credit risk and operational risk.

The market risk subject to capital charge normally arises from changes in value due to market forces in the following exposures:

- Interest rate instruments and securities in the trading book; and
- Foreign exchange throughout the banking book.

The Group has entered into interest rate swaps and forward foreign exchange contracts for hedging purposes and does not actively trade in derivatives.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income based on the consolidated statement of financial position as of 31 December:

Currency	***Increase in basis points 2017***	***Sensitivity of net interest income 2017 US$ 000***
Kuwaiti Dinar	+ 25	(256)
United States Dollar	+ 25	(1,648)
Euro	+ 25	(351)
Pound Sterling	+ 25	(3)
Others	+ 25	(44)

The decrease in the basis points will have an opposite impact on the net interest income.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2017, including the effect of hedging instruments.

31 RISK MANAGEMENT (continued)

c) Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group considers the United States Dollar as its functional currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The table below indicates the effect on profit before tax for the positions as at reporting date as a result of change in the currency rate with all other variables held constant.

Currency	*Change in currency rate in % 2017*	*Effect on profit before tax 2017 US$ 000*	*Effect on equity 2017 US$ 000*
Kuwaiti Dinar	+2	(18,090)	2,576
	-2	18,090	(2,576)
Euro	+2	(1,797)	995
	-2	1,797	(995)
Pound Sterling	+2	(131)	-
	-2	131	-

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The geographical distribution of the Group's equity investments is as follows:

Geographical distribution

At 31 December 2017	*Middle East/ North Africa US$ 000*	*Europe US$ 000*	*North America US$ 000*	*Others US$ 000*	*Total US$ 000*
Investments carried at fair value through statement of income					
Quoted equities	6,303	-	1	1	6,305
Managed funds	956	263	66	-	1,285
	7,259	263	67	1	7,590
Non-trading investments					
Quoted equities	62,028	5,835	10,567	-	78,430
Unquoted equities	105,229	27,212	5,880	-	138,321
Managed funds	45,597	14,993	2,239	-	62,829
	212,854	48,040	18,686	-	279,580
Total	220,113	48,303	18,753	1	287,170

At the reporting date, the exposure to listed equity securities at fair value was US$ 84,735 thousand . A decrease of 10% on the market indices of MENA stock exchanges could have an impact of approximately US$ 6,833 thousand on the income or equity attributable to the Group, depending on whether the decline is significant or prolonged. The majority of the equities in the MENA region are quoted on the Kuwait Stock Exchange.

For unquoted investments carried at cost the impact of the changes in the equity prices will only be reflected in the consolidated statement of income when the investment is sold or deemed to be impaired.

31 RISK MANAGEMENT (continued)

d) Liquidity risk

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2017	On demand US$ 000	1 - 6 months US$ 000	6 - 12 months US$ 000	1 - 5 years US$ 000	Over 5 years US$ 000	Total US$ 000
Financial liabilities						
Due to banks and other financial institutions	375,490	395,336	120,761	-	989	892,576
Deposits from customers	596,290	154,723	68,881	72,666	3,186	895,746
Loans payable	175,257	181,656	18,221	588,661	1,226	965,021
Subordinated debt	192	-	2,258	56,414	10,540	69,404
Other liabilities	-	-	66,284	-	-	66,284
Total non-derivative undiscounted financial liabilities	1,147,229	731,715	276,405	717,741	15,941	2,889,031
Derivatives						
Net cash outflows on interest rate swaps	-	780	583	1,985	-	3,348
Gross settled foreign currency derivatives	-	832,868	154,604	-	-	987,472
Off-statement of financial position items						
Letters of credit	-	57,682	4,843	500	-	63,025
Letters of guarantee	-	47,837	6,906	-	-	54,743
Investment related commitments	-	195,517	17,655	28,969	-	242,141

The Group expects that not all of contingent items or commitments will be drawn before expiry of the commitments.

31 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

In order to ensure that the Group can meet its financial obligations as they fall due, there is a close monitoring of its assets / liabilities position. Besides other functions, the Asset-Liability Committee evaluates the statement of financial position both from a liquidity and an interest rate sensitivity point of view. The whole process is aimed at ensuring sufficient liquidity to fund its ongoing business activities and to meet its obligations as they fall due. A diversified funding base has evolved in deposits raised from the interbank market, deposits received from customers and medium term funds raised through syndicated and commodity based murabaha transactions. These, together with the strength of its equity and the asset quality, ensure that funds are made available on competitive rates.

The maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled are as follows:

At 31 December 2017

	Less than 12 months US$ 000	*Over 12 months US$ 000*	*Total US$ 000*
Demand and call deposits with banks	422,279	9,788	432,067
Placements with banks	119,853	-	119,853
Investments carried at fair value through statement of income	19,268	-	19,268
Non-trading investments	183,022	201,150	384,172
Loand and advances	712,343	259,949	972,292
Other assets	126,056	-	126,056
Investments in associates	-	758,381	758,381
Investment properties	-	105,093	105,093
Property and equipment	-	47,221	47,221
Goodwill	-	52,587	52,587
Total assets	1,582,821	1,434,169	3,016,990
Due to banks and other financial institutions	578,278	46,144	624,422
Deposits from customers	688,366	189,854	878,220
Loans payable	337,266	519,160	856,426
Subordinated debt	-	50,000	50,000
Other liabilities	66,284	-	66,284
Total liabilities	1,670,194	805,158	2,475,352
Net	(87,373)	629,011	541,638

e) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. When controls fail to perform operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. While, the Group cannot expect to eliminate all operational risks, but through dedicated operational risk framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

32 FAIR VALUE MEASUREMENT

The Group uses the hierarchy for determining and disclosing the fair value of financial instruments as disclosed in Note 2.

Management has assessed that financial assets comprising of demand and call deposits with banks, placements with banks, and loans and receivables maturing within one year, and financial liabilities comprising of on-demand customer deposits, amounts due to banks and loans payable falling due within one year approximate their carrying values largely due to the short term maturities of these instruments. Non-trading investments carried at cost are disclosed in Note 6.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2017:

	Fair value measurement using			
	Level 1	*Level 2*	*Level 3*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*
Assets measured at fair value				
Investments carried at fair value through statement of income				
Quoted equities	6,305	-	-	6,305
Quoted debt securities	11,678	-	-	11,678
Managed funds	-	1,285	-	1,285
Non-trading investments				
Equities - quoted	78,430	-	-	78,430
Debt Securities - quoted	104,592	-	-	104,592
Equities - unquoted	-	77,539	538	78,077
Real estate managed funds - unquoted	-	11,467	-	11,467
Other managed funds	-	25,011	25,301	50,312
Derivatives				
Interest rate swaps	-	1,100	-	1,100
Investment properties	-	-	105,093	105,093
	201,005	116,402	130,932	448,339
Liabilities measured at fair value				
Derivatives				
Forward foreign exchange contracts	-	(115)	-	(115)
	-	(115)	-	(115)

Transfers between Level 1, Level 2 and Level 3

During the period from incorporation to 31 December 2017 there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurement.

As these are the first consolidated financial statements of the Company, the reconciliation of fair value measurement of non-trading investments in level 3 of the fair value hierarchy has not been presented.

33 MATERIAL PARTLY OWNED SUBSIDIARIES

KAMCO and FIMBank are the subsidiaries that the Group has material non-controlling interests in, and are listed on the Kuwait Stock Exchange and Malta Stock Exchange respectively. Presented below are the aggregated financial information of these subsidiaries as disclosure of the financial information for each subsidiary is not allowed by the stock exchange by-laws until the respective financial results of these subsidiaries are published.

	2017 *US$ 000*
Accumulated balances of material non-controlling interests	86,298
Income allocated to material non-controlling interests	3,314

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

	2017 *US$ 000*
Summarised statement of income for the year ended 31 December:	
Total income	108,587
Total expenses	(95,991)
Taxation	(1,166)
Gain on reversal of impairment - net	1,530
Profit for the year	12,960
Total comprehensive loss for the year	16,893
Total comprehensive loss attributable to non-controlling interests	(229)
Summarised statement of financial position as of 31 December:	
Total assets	1,866,476
Total liabilities	(1,575,559)
Total equity	290,917
Attributable to equity holders of the parent	282,800
Non-controlling interest	8,117
Summarised cash flow information for the period ended 31 December:	
Operating activities	15,789
Investing activities	92,723
Financing activities	36,203
Foreign currency translation adjustments	21,672
Net increase in cash and cash equivalents	166,387

The Company has accounted for its share of results of the associates for the period after these investments were transferred to the Company.

34 IFRS 9 TRANSITION DISCLOSURES

Based on 31 December 2017 data and the current implementation status of IFRS 9 as described in further detail below, the Group estimates the adoption of IFRS 9 will not lead to a material decline in the Group's total shareholders' equity, as the Group carries sufficient provisions to account for any potential impact of impairment requirements of IFRS 9.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity. In addition, the Group will implement changes in classification of certain financial instruments.

(a) Classification and measurement
The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale (AFS) with gains and losses recorded in OCI will continued to be measured at fair value through other comprehensive income. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during the period for these investments. The Group will apply the option to present fair value changes in OCI, and, therefore, the application of IFRS 9 will not have a significant impact.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment
IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has determined that it carries sufficient provisions to absorb any potential impact of loss allowances required as per IFRS 9.

(c) Hedge accounting
The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

34 IFRS 9 TRANSITION DISCLOSURES (continued)

(d) Other adjustments
In addition to the adjustments described above, on adoption of IFRS 9, other items of the primary financial statements such as deferred taxes, assets held for sale and liabilities associated with them, investments in the associate and joint venture, will be adjusted as necessary. The exchange differences on translation of foreign operations will also be adjusted.

35 DISCONTINUED OPERATIONS

During the period, the Group, through its subsidiary KAMCO, disposed a majority interest in certain special purpose vehicles (the "Entities"). The Group recognised a net profit on disposal of these Entities amounting to US$ 371 thousand in the consolidated statement of income.

During the period, the Group, through its subsidiary FIMBank, resolved to dispose of its investment in Brasilfactors . As a result, the Group recognised its share of results for the period and recycling of accumulated foreign currency losses amounting to US$ 3,396 thousand in the consolidated statement of income.