

ALUBAF Arab International Bank B.S.C. (c)

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2018 (Reviewed)

REVIEW REPORT TO THE BOARD OF DIRECTORS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

Introduction

We have reviewed the accompanying interim condensed financial statements of ALUBAF Arab International Bank B.S.C. (c) (the "Bank") as at 30 September 2018, comprising the interim statement of financial position and the related interim statements of profit or loss, comprehensive income, cash flows and changes in equity for the nine-month period then ended and explanatory notes. The Bank's Board of Directors is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* ('IAS 34'). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

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

Conclusion

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



11 November 2018
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)

INTERIM STATEMENT OF FINANCIAL POSITION

At 30 September 2018

		<i>(Reviewed)</i> 30 September 2018 <i>US\$'000</i>	<i>(Audited)</i> 31 December 2017 <i>US\$'000</i>
ASSETS			
Cash and balances with Central banks and other banks		411,729	298,349
Deposits with banks and other financial institutions		396,634	409,496
Investments classified as fair value through profit and loss	5	14,626	20,462
Investment securities	6	202,572	221,374
Loans and advances	7	126,814	150,256
Property, equipment and software		9,919	10,371
Interest receivable		5,200	6,744
Other assets		1,260	1,591
TOTAL ASSETS		1,168,754	1,118,643
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		591,705	569,557
Due to banks and other financial institutions		133,676	133,417
Due to customers		136,452	93,805
Interest payable		3,614	1,086
Other liabilities		7,677	6,927
Total liabilities		873,124	804,792
Equity			
Share capital		250,000	250,000
Statutory reserve		21,257	21,257
Retained earnings		29,855	40,399
Fair value reserve		(5,482)	(2,805)
Proposed dividend		-	5,000
Total equity		295,630	313,851
TOTAL LIABILITIES AND EQUITY		1,168,754	1,118,643


Anthony C. Mallis
Deputy Chairman


Moraja G. Solaiman
Chairman

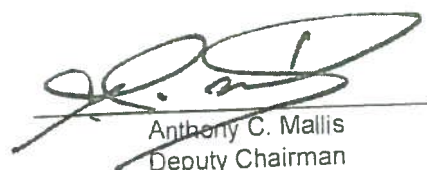
The attached notes 1 to 13 form part of these interim condensed financial statements.

ALUBAF Arab International Bank B.S.C. (c)

INTERIM STATEMENT OF PROFIT OR LOSS

Nine months ended 30 September 2018

	Note	<i>(Reviewed)</i>		<i>(Reviewed)</i>	
		<i>Three months ended</i>		<i>Nine months ended</i>	
		<i>30 September</i>		<i>30 September</i>	
		2018	2017	2018	2017
		US\$'000	US\$'000	US\$'000	US\$'000
Interest and similar income		11,084	9,629	31,727	28,334
Interest expense		(3,771)	(2,650)	(9,860)	(7,500)
Net interest income		7,313	6,979	21,867	20,834
Fee and commission income		1,653	794	3,767	3,104
Trading income (loss) - net		20	9	(275)	41
Gain on non-trading investments - net		67	-	270	5
Foreign exchange gain - net		174	78	401	570
Other income		29	24	76	75
Operating income		9,256	7,884	26,106	24,629
Provision charge for the period	8	(1,251)	(2,500)	(3,753)	(10,239)
Net operating income		8,005	5,384	22,353	14,390
Staff costs		1,815	1,761	5,759	5,549
Depreciation		210	270	733	807
Other operating expenses		723	696	3,858	1,891
Operating expenses		2,748	2,727	10,350	8,247
NET PROFIT FOR THE PERIOD		5,257	2,657	12,003	6,143


 Anthony C. Mallis
 Deputy Chairman


 Morhija G. Solaiman
 Chairman

The attached notes 1 to 13 form part of these interim condensed financial statements.

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF COMPREHENSIVE INCOME
 Nine months ended 30 September 2018

	<i>(Reviewed)</i> <i>Three months ended</i> <i>30 September</i>		<i>(Reviewed)</i> <i>Nine months ended</i> <i>30 September</i>	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
NET PROFIT FOR THE PERIOD	5,257	2,657	12,003	6,143
Other comprehensive income:				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Unrealised fair value gain/(loss) on investments classified as fair value through other comprehensive income (FVOCI)	3,406	141	(3,749)	1,423
Reversal/(Increase) of impairment on FVOCI	70	-	(1,859)	-
Other comprehensive income/(loss) for the period	3,476	141	(5,608)	1,423
Total comprehensive income for the period	8,733	2,798	6,395	7,566

The attached notes 1 to 13 form part of these interim condensed financial statements.

ALUBAF Arab International Bank B.S.C. (c)

INTERIM STATEMENT OF CASH FLOWS

Nine months ended 30 September 2018

	Note	(Reviewed)	
		Nine months ended	
		30 September	
		2018	2017
		US\$'000	US\$'000
OPERATING ACTIVITIES			
Net profit for the period		12,003	6,143
Adjustments for:			
Provision charge for the period	8	3,753	10,239
Depreciation		733	807
Amortisation of investments carried at amortised cost		380	389
Investment income		(270)	-
Unrealised loss on held for trading securities		216	20
Gain on disposal of fixed asset		(7)	-
Amortisation of assets reclassified as "loans and advances" from trading investments		(636)	(584)
Operating profit before changes in operating assets and liabilities		<u>16,172</u>	<u>17,014</u>
Changes in operating assets and liabilities:			
Balances with Central Banks above three months		(15,399)	-
Deposits with banks and other financial institutions		29,566	46,702
Investments classified as fair value through profit and loss		4,558	1,145
Investment securities		(294)	-
Loans and advances		1,713	30,759
Interest receivable and other assets		1,875	458
Deposits from banks and other financial institutions		22,148	39,676
Due to banks and other financial institutions		259	(21,546)
Due to customers		42,647	(30,390)
Interest payable and other liabilities		1,996	7,617
Net cash from operating activities		<u>105,241</u>	<u>91,435</u>
INVESTING ACTIVITIES			
Purchase of non-trading investments		-	(25,378)
Proceeds from disposal/redemption of non-trading investments		15,163	5,000
Purchase of property, equipment and software		(281)	(171)
Proceeds from disposal of fixed assets		7	-
Net cash from/(used in) investing activities		<u>14,889</u>	<u>(20,549)</u>
FINANCING ACTIVITY			
Dividend paid		(5,000)	-
Net cash used in financing activities		<u>(5,000)</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		115,130	70,886
Cash and cash equivalents at beginning of the period		<u>677,834</u>	<u>651,092</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		<u><u>792,964</u></u>	<u><u>721,978</u></u>
Cash and cash equivalents comprise:			
Cash and balances with Central Bank and other banks with original maturity of ninety days or less		<u>396,330</u>	<u>321,823</u>
Deposits with banks and other financial institutions with original maturity of ninety days or less		<u>396,634</u>	<u>400,155</u>
		<u><u>792,964</u></u>	<u><u>721,978</u></u>

The attached notes 1 to 13 form part of these interim condensed financial statements.

ALUBAF Arab International Bank B.S.C. (c)

INTERIM STATEMENT OF CHANGES IN EQUITY

Nine months ended 30 September 2018

	(Reviewed)					
	Share capital US\$'000	Statutory reserve US\$'000	Retained earnings US\$'000	Fair value reserve US\$'000	Proposed dividend US\$'000	Total US\$'000
Balance as at 1 January 2018	250,000	21,257	40,399	(2,805)	5,000	313,851
Transition adjustment on adoption of IFRS 9	-	-	(22,547)	2,931	-	(19,616)
At 1 January 2018 - restated	250,000	21,257	17,852	126	5,000	294,235
Net profit for the period	-	-	12,003	-	-	12,003
Other comprehensive loss for the period	-	-	-	(5,608)	-	(5,608)
Dividend paid (note 10)	-	-	-	-	(5,000)	(5,000)
At 30 September 2018	250,000	21,257	29,855	(5,482)	-	295,630
Balance as at 1 January 2017	250,000	20,174	35,652	(3,549)	-	302,277
Net profit for the period	-	-	6,143	-	-	6,143
Other comprehensive income for the period	-	-	-	1,423	-	1,423
At 30 September 2017	250,000	20,174	41,795	(2,126)	-	309,843

The attached notes 1 to 13 form part of these interim condensed financial statements.

At 30 September 2018

1 CORPORATE INFORMATION

ALUBAF Arab International Bank B.S.C. (c) (the "Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is Building 854, Road 3618, Avenue 436, Alubaf Tower, Al-Seef District, PO Box 11529, Manama, Kingdom of Bahrain.

The interim condensed financial statements of the Bank for the nine month period ended 30 September 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 11 November 2018.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements of the Bank for the nine month period ended 30 September 2018 are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2017. In addition, results for the nine months period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

2.1 New standards, interpretations and amendments adopted by the Bank

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018.

For the accounting policies with respect to the prior year comparative figures refer to the annual financial statements for year ended 31 December 2017.

The following new and amended accounting standards became effective in 2018 and have been adopted by the Bank in preparation of these interim condensed financial statements as applicable.

2.1.1 IFRS 9 Financial instruments

IFRS 9 replaces IAS 39 Financial instruments: recognition and measurement (IAS 39) for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Bank has applied IFRS 9 with the initial application date of 1 January 2018.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings and reserves as at 1 January 2018.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below.

2.1.1.1 Classification and measurement of financial assets

Under IFRS 9, the classification and measurement category of all financial assets, except equity instruments and derivatives, is assessed based on a combination of the entity's business model for managing the financial assets and its contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity (HTM) and amortised cost) have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets as fair value through profit or loss (FVTPL).

At 30 September 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1.1 IFRS 9 Financial instruments (continued)

2.1.1.1 Classification and measurement of financial assets (continued)

The above designation of equity investments at FVOCI (i.e. election to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies in other comprehensive income) and debt investment that meets the amortised cost or FVOCI criteria as FVTPL (only if doing so eliminates or significantly reduces an accounting mismatch), is through an irrevocable election / designation at initial recognition of a financial asset.

The Bank's classification of its financial assets is explained in detail in note 3. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 4.

2.1.1.2 Classification and measurement of financial liabilities

Classification of financial liabilities remained largely unchanged for the Bank. Financial liabilities continue to be measured at amortised cost.

2.1.1.3 Impairment of financial assets

IFRS 9 impairment requirements are based on an expected credit loss (ECL) model as compared to the incurred loss model approach under IAS 39. Key changes to the Bank's accounting policy for impairment of financial assets are listed below:

Under IFRS 9, the Bank applies a three-stage approach to measuring ECL on all loans and debt type financial assets (including loan commitments and financial guarantee contracts) accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in the credit quality since initial recognition:

i) Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk (SICR) since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

ii) Stage 2: Lifetime ECL - not credit impaired

For exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

iii) Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Bank's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised.

For more details on the accounting policies, refer to note 3 in the interim condensed financial statements. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 4.

2.1.2 IFRS 7(revised) Financial instruments: Disclosures (IFRS 7R)

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 4.

2.1.3 IFRS 15 Revenue from contracts with customers

The Bank adopted IFRS 15 resulting in a change in the revenue recognition policy of the Bank in relation to its contracts with customers.

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several standards and interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

At 30 September 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1.3 IFRS 15 Revenue from contracts with customers (continued)

The Bank has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity. There were no adjustments to opening retained earnings and other account balances on the adoption of IFRS 15.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017 except for the policies explained below. Based on the adoption of new standards explained in notes 2 and 3, the following accounting policies are applicable effective 1 January 2018 replacing / amending or adding to the corresponding accounting policies set out in the annual financial statements for year ended 31 December 2017.

3.1 Financial instruments

3.1.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. Loans and advances are recognised when funds are transferred to the customers' accounts.

3.1.2 Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in notes 3.2 and 3.3.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in the statement of profit or loss when an asset is newly originated. When the fair value of financial assets and liabilities at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

3.1.3 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination, the difference is treated as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses data only from observable markets, the difference is recognised as a day 1 gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day 1 profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or when the instrument is derecognised.

3.2 Financial assets

3.2.1 Debt type instruments - Classification and subsequent measurement

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVTPL, available-for-sale or held-to-maturity (amortised cost), as explained in the annual financial statements for the year ended 31 December 2017.

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets - debt type instruments in the following measurement categories:

At 30 September 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets (continued)

3.2.1 Debt type instruments - Classification and subsequent measurement (continued)

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL).

The classification requirements for financial assets is as below.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Bank's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset i.e. solely payments of principal and interest (SPPI) test.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the EIR method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Other operating income' as 'Gain or loss on disposal of non-trading investments'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate (EIR) method.
- **Fair value through profit or loss (FVTPL):** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. The Bank may also designate a financial asset at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of profit or loss within 'Other operating income' as a 'Gain on trading securities' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Other operating income' as a 'Gain on disposal of non-trading investments'. Interest income from these financial assets is included in 'Interest and similar income' using the EIR method.

3.2.2 Business model

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of a 'held for trading' business model and measured at FVTPL. The business model assessment is not carried out on an instrument-by-instrument basis but at the aggregate portfolio level and is based on observable factors such as:

At 30 September 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets (continued)

3.2.2 Business model (continued)

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the asset's and business model performance is evaluated and reported to key management personnel;
- How risks are assessed and managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3.2.3 SPPI test

The Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

Interest is the consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- the currency in which the financial asset is denominated, and the period for which the interest rate is set;
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements).

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

At 30 September 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets (continued)

3.2.3 SPPI test (continued)

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period other than the reclassifications made on the initial adoption of IFRS 9 at the date of transition.

3.2.4 Equity type instruments - classification and subsequent measurement

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Upon initial recognition, the Bank elects to irrevocably designate certain equity investments at FVOCI which are held for purposes other than held for trading. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Equity investments at FVOCI are not subject to impairment assessment. All other equity investments which the Bank has not irrevocably elected at initial recognition or transition, to classify at FVOCI, are recognised at FVTPL.

Gains and losses on equity investments at FVTPL are included in 'Other operating income' as a 'Gain on disposal of non-trading investments' in the statement of profit or loss.

Dividends are recognised in the statement of profit or loss as 'Other operating income' when the Bank's right to receive payments is established.

3.2.5 Modified or forbearance of loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forbore when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the customer being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

At 30 September 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets (continued)

3.2.5 Modified or forbearance of loans (continued)

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forbore loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis or based on SICR criteria. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forbore asset until it is collected or written off or is transferred back to Stage 2.

3.2.6 Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

3.3 Financial liabilities

3.3.1 Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at FVTPL: this classification is applied to derivatives and financial liabilities held for trading (e.g. short positions in the trading booking). Gains or losses on financial liabilities designated at FVTPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

At 30 September 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial liabilities

3.3.2 Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EIR, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

3.4 Impairment

The Bank assesses on a forward-looking basis, the ECL associated with its debt instruments financial assets carried at amortised cost and FVOCI and against the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises an ECL for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

3.5 Financial guarantee contracts and loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the interim condensed financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the interim condensed statement of profit or loss, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision.

The premium received is recognised in the interim condensed statement of profit or loss in other operating income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the interim condensed statement of financial position.

At 30 September 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Interest income

Under both IFRS 9 and IAS 39, interest income is recorded using the EIR method for all financial instruments measured at amortised cost and financial instruments designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

3.7 Significant accounting judgements, estimates and assumptions

In preparing these interim condensed financial statements, significant judgements made by management in applying accounting policies and key sources of estimation were the same as those that were applied to the annual financial statements for the year ended 31 December 2017 except for new judgements and estimates explained below:

Measurement of the expected credit loss allowance (ECL)

The measurement of the ECL for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behavior (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Credit rating model, which assigns probability of defaults (PDs) to the individual ratings;
- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PD, exposure at default (EAD) and loss given default (LGD);
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
- Determining relevant period of exposure with respect to the revolving credit facilities and facilities undergoing restructuring at the time of the reporting date.

Classification of financial assets

Classification of financial assets in the appropriate category depends upon the business model and SPPI test. Determining the appropriate business model and assessing whether the cash flows generated by the financial asset meet the SPPI test is complex and requires significant judgements by management.

The Bank applies judgement while carrying out the SPPI test and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2018

4 TRANSITION DISCLOSURES

4.1 The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets and financial liabilities, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Financial assets

	31 December 2017				1 January 2018		
	Note	IAS 39 category	IAS 39 Carrying amount US\$'000	Reclassification US\$'000	Remeasurement US\$'000	IFRS 9 carrying amount US\$'000	IFRS 9 category
Cash and balances with Central banks and other banks		Amortised cost (receivables)	298,349	-	(11)	298,338	Amortised cost
Deposits with banks and other financial institutions		Amortised cost (receivables)	409,496	-	(80)	409,416	Amortised cost
Loans and advances		Amortised cost (loans and receivables)	150,256	-	(17,823)	132,433	Amortised cost
Non-trading investments – Held to maturity		HTM	105,064	(105,064)	-	-	
Transfers to debt instruments at amortised cost	(E)		-	(105,064)	-	-	
Non-trading investments – debt instruments at amortised cost		Amortised cost (loans and receivables)	-	108,257	(1,930)	106,327	Amortised cost
Transfers to amortised cost (IFRS 9)	(B)			13,263			
Transfers from held to maturity (IAS 39)	(E)			105,064			
Transfers to FVTPL (IFRS 9)	(A)			(10,070)			
Total financial assets measured at amortised cost			963,165	3,193	(19,844)	946,514	
Financial assets at FVTPL							
Investments classified as fair value through profit and loss		Fair value through profit or loss	20,462	(1,298)	235	19,399	FVTPL
Transfers from held to maturity (IAS 39)	(A)			10,070			
Transfers from available-for-sale (IAS 39)	(C)			4,963			
Transfers to amortised cost (IFRS 9)	(B)			(13,263)			
Transfers to FVOCI (IFRS 9)	(D)			(3,068)			
Total financial assets at FVTPL			20,462	(1,298)	235	19,399	

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2018

4 TRANSITION DISCLOSURES (continued)

	31 December 2017				1 January 2018	
	Note	IAS 39	Reclassifica- tion	Remeasure- ment	IFRS 9	IFRS 9 category
		category			Carrying amount	
		US\$'000	US\$'000	US\$'000	US\$'000	
Financial assets at FVOCI						
Non-trading investments – debt securities under AFS category		AFS	116,310	(116,310)	-	-
Transfers to FVOCI (debt securities)	(E)		-	(116,310)	-	-
Non-trading investments – FVOCI (debt securities)			-	114,415	(2,931)	111,484
Transfer to FVOCI (debt securities)	(E)			116,310		
Transfers from FVTPL (IFRS 9)	(D)			3,068		
Transfers to FVTPL (IFRS 9)	(C)			(4,963)		
Total financial assets at FVOCI			116,310	(1,895)	(2,931)	111,484
Total financial assets			1,099,937	-	(22,540)	1,077,397
Non-financial assets						
Other assets			18,706	-	-	18,706
Total assets			1,118,643	-	(22,540)	1,096,103
Financial liabilities						
Other liabilities - Off balance sheet exposures			(29,523)	-	(7)	(29,530)
Net impact of remeasurements			1,089,120	-	(22,547)	1,066,573

The total remeasurement loss of US\$ 22,547 thousand was recognised in opening retained earnings at 1 January 2018.

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Bank as shown in the table above:

(A) Debt instruments previously classified as held to maturity but which fail the SPPI test

The Bank holds a portfolio of debt instruments that failed to meet the SPPI requirement for the amortised cost classification under IFRS 9. As a result, these instruments, which amounted to US\$ 10,070 thousand were classified as FVTPL on the date of initial application.

(B) Debt instruments previously classified as trading

The Bank was previously holding a portfolio of debt instruments that was held for trading. These instruments passed the SPPI requirements and the Bank has reassessed its business model for holding these instruments to be "hold to collect". As a result, these instruments which amounted to US\$ 13,263 thousand were classified as amortised cost on the date of initial application.

(C) Debt instruments previously classified as available-for-sale

The Bank has elected to designate certain of its investments at a carrying value of US\$ 4,963 thousand as FVTPL as permitted under IFRS 9 from the initial date of application. These investments were previously classified as available-for-sale. Any changes in fair value of these securities will be recognised in the profit or loss.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2018

4 TRANSITION DISCLOSURES (continued)

(D) Debt instruments previously classified as held-for-trading

The Bank was previously holding a portfolio of debt instruments that was held for trading. These instruments passed the SPPI requirements and the Bank has reassessed its business model for holding these instruments to be "hold to collect and sell". As a result, these instruments which amounted to US\$ 3,068 thousand were classified as FVOCI on the date of initial application.

(E) Reclassification from retired categories with no change in measurement

In addition to the above, the following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired', with no changes to their measurement basis:

- (i) Those previously classified as available-for-sale and now classified as measured at FVOCI; and
- (ii) Those previously classified as held to maturity and now classified as measured at amortised cost.

4.2 Impact on retained earnings and other reserves

	<i>Retained earnings</i>	<i>Cumulative changes in fair value</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Closing balance under IAS 39 (31 December 2017)	40,399	(2,805)
Reclassification of instruments from Amortised cost to FVTPL	235	-
Reclassification of instruments from FVOCI to FVTPL	(458)	458
Recognition of expected credit losses under IFRS 9:		
- Liquid funds	(11)	-
- Non-trading investments	(4,403)	2,473
- Loans and advances	(17,823)	-
- Placements with banks and other financial institutions	(80)	-
- Other liabilities - Off balance sheet exposures	(7)	-
	(22,324)	2,473
Opening balance under IFRS 9 (1 January 2018)	17,852	126

4.3 Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing loan loss provisions measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 ECL model at 1 January 2018:

<i>Measurement category</i>	<i>Loan loss allowance under IAS 39</i>	<i>Reclassification</i>	<i>Remeasurement</i>	<i>ECL under IFRS 9</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Cash and balances with Central banks and other banks	-	-	11	11
Deposits with banks and other financial institutions	-	-	80	80
Loans and advances	80,627	-	17,823	98,450
	80,627	-	17,914	98,541
Non-trading investments				
FVOCI (debt securities)	-	458	2,473	2,931
Debt instruments at amortised cost	-	(235)	1,930	1,695
	-	223	4,403	4,626
Credit commitments and contingent items	-	-	7	7
Total	80,627	223	22,324	103,174

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2018

5 INVESTMENTS CLASSIFIED AS FAIR VALUE THROUGH PROFIT AND LOSS

	<i>(Reviewed)</i> 30 September 2018 US\$'000	<i>(Audited)</i> 31 December 2017 US\$'000
<i>Quoted:</i>		
- Debt securities	-	20,335
- Equity securities	14,626	127
	<u>14,626</u>	<u>20,462</u>

6 INVESTMENT SECURITIES

	<i>30 September 2018 (Reviewed)</i>		
	<i>FVOCI *</i> US\$'000	<i>Amortised cost *</i> US\$'000	<i>Total</i> US\$'000
Quoted investments			
- Sovereign debt securities	93,160	50,404	143,564
- Banks and Corporate debt securities	15,770	44,610	60,380
Total quoted investments	<u>108,930</u>	<u>95,014</u>	<u>203,944</u>
Provision for impairment on investment securities (note 6.1)	(614)	(1,372)	(1,986)
Reclassifying provision relating to FVOCI to OCI	614	-	614
Total investment securities	<u>108,930</u>	<u>93,642</u>	<u>202,572</u>

* Titles have been changed to align to IFRS 9 classification.

	<i>31 December 2017 (Audited)</i>		
	<i>Available-for-sale</i> US\$'000	<i>Held-to-maturity</i> US\$'000	<i>Total</i> US\$'000
Quoted investments			
- Sovereign debt securities	95,501	42,420	137,921
- Banks and Corporate debt securities	20,809	62,644	83,453
Total quoted investments	<u>116,310</u>	<u>105,064</u>	<u>221,374</u>
Provision for impairment on investment securities	-	-	-
Total investment securities	<u>116,310</u>	<u>105,064</u>	<u>221,374</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2018

6 INVESTMENT SECURITIES (continued)

Note 6.1

Movements in provision for impairment were as follows:

	30 September 2018 (Reviewed)			
	Stage 1:	Stage 2:	Stage 3:	Total ECL US\$ '000
	12-month	Lifetime ECL	Lifetime ECL	
	ECL	not credit-	credit-	
US\$ '000	impaired	impaired		
Balance at 1 January - on adoption of IFRS 9	608	3,796	-	4,404
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12 month ECL	1,331	(1,331)	-	-
Transfer to lifetime ECL not credit- impaired	(64)	64	-	-
Transfer to lifetime ECL credit- impaired	-	-	-	-
Provided during the period	-	-	-	-
Recoveries / write-backs	(1,360)	(1,058)	-	(2,418)
At 30 September 2018	515	1,471	-	1,986

7 LOANS AND ADVANCES

Loans and advances are stated net of provision for loan losses.

	30 September 2018 (Reviewed)			
	Stage 1:	Stage 2:	Stage 3:	Total US\$ 000
	12-month	Lifetime ECL	Lifetime ECL	
	ECL	no credit-	credit-	
US\$ 000	impaired	impaired		
Letters of credit - financing	21,446	17,484	63,427	102,357
Sovereign loans	46,030	15,369	-	61,399
Commercial loans	37,874	5,000	6,326	49,200
Factoring	16,665	-	-	16,665
	122,015	37,853	69,753	229,621
Provision for impairment of loans (note 7.1)	(3,166)	(29,888)	(69,753)	(102,807)
	118,849	7,965	-	126,814
				(Audited)
				31 December
				2017
				US\$ 000
Letters of credit - financing				57,168
Sovereign loans				84,693
Commercial loans				69,652
Factoring				19,370
				230,883
Provision for impairment				(80,627)
				150,256

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2018

7 LOANS AND ADVANCES (continued)

Note 7.1

Movements in provision for impairment were as follows:

	30 September 2018 (Reviewed)			
	General Provision		Specific Provision	
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit- impaired US\$ '000	Stage 3: Lifetime ECL credit- impaired US\$ '000	Total ECL US\$ '000
Balance at 31 December	-	3,737	76,890	80,627
Balance at 1 January - on adoption of IFRS 9	2,856	14,873	94	17,823
<i>Changes due to financial assets recognised in opening balance that have:</i>				
Transfer to 12 month ECL	-	-	-	-
Transfer to lifetime ECL not credit- impaired	-	-	-	-
Transfer to lifetime ECL credit- impaired	-	-	-	-
Provided during the period	1,245	11,278	1,560	14,083
Recoveries / write-backs	(935)	-	(8,606)	(9,541)
Write off during the period	-	-	-	-
Exchange differences	-	-	(185)	(185)
At 30 September 2018	3,166	29,888	69,753	102,807

At 30 September 2018, interest in suspense on past due loans that are fully impaired amounts to US\$ 19,098 thousand (30 September 2017: US\$ 13,283 thousand).

The carrying value and fair value of the financial assets reclassified are as follows:

	(Reviewed) 30 September 2018 US\$'000	(Audited) 31 December 2017 US\$'000
Carrying value	46,030	45,394
Fair value	52,287	53,143

Fair value gain of US\$ 6,257 thousand for the nine-month period ended 30 September 2018 (30 September 2017: gain of US\$ 5,964 thousand) would have been recognised in the interim statement of comprehensive income had the trading investment not been reclassified to loans and advances.

8 PROVISION CHARGE FOR THE PERIOD

	(Reviewed) 30 September 2018 US\$'000	(Reviewed) 30 September 2017 US\$'000
Provision against money market, nostros and others	354	-
Provision for impairment on investment securities (note 6.1)	(2,418)	-
Provision for impairment of loans (note 7.1)	4,542	(10,239)
Provision against off balance sheet	1,275	-
	3,753	(10,239)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2018

9 COMMITMENTS AND CONTINGENT LIABILITIES**Credit and derivative related commitments**

	<i>(Reviewed)</i> 30 September 2018 US\$'000	<i>(Audited)</i> 31 December 2017 US\$'000
Letters of credit	159,050	29,462
Letters of guarantee	2,126	61
	161,176	29,523
Forward foreign exchange contracts	-	11,749
	161,176	41,272
Provision against off balance sheet (Stage 1) (provision balance is included under other liabilities)	(1,282)	-
	159,894	41,272

10 DIVIDEND PAID

A dividend of US\$ 5 million i.e. US\$ 1 per share relating to 2017 (2016: nil) was paid during the nine-month period ended 30 September 2018 after due approval from the shareholders at the annual general meeting held on 8 April 2018.

11 TRANSACTIONS WITH RELATED PARTIES

Related parties represent shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's management.

Transactions with related parties included in the interim statement of financial position and interim statement of profit or loss are as follows:

	<i>(Reviewed)</i> 30 September 2018 US\$'000	<i>(Audited)</i> 31 December 2017 US\$'000
Interim statement of financial position		
Assets		
Cash and balances with banks	23,052	28,137
Loans and advances	4,683	4,799
Interest receivable	39	40
Other assets	170	58
Liabilities		
Deposits from banks and other financial institutions	423,700	430,187
Due to banks and other financial institutions	3,013	10,783
Interest payable	3,546	971
Other liabilities	727	469
Assets under management	22,314	23,061
Contingent liabilities		
Letters of credit and guarantee (fully secured by deposits)	8,592	6,021
Forward foreign exchange contracts	-	5,445

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2018

11 TRANSACTIONS WITH RELATED PARTIES (continued)

	<i>Nine months ended</i>	
	<i>(Reviewed)</i>	
	<u>30 September</u>	<u>30 September</u>
	2018	2017
	US\$ '000	US\$ '000
Interim statement of profit or loss		
Interest and similar income	165	34
Interest expense	9,269	7,103
Fee and commission income	107	712
	<i>Nine months ended</i>	
	<i>(Reviewed)</i>	
	<u>30 September</u>	<u>30 September</u>
	2018	2017
	US\$ '000	US\$ '000
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	1,922	1,482
End of service benefits	146	154
	<u>2,068</u>	<u>1,636</u>

* Includes sitting fees of US\$ 150 thousand (30 September 2017: US\$ 106 thousand) and reimbursement of travel, accommodation and other expenses paid to the Board of Directors amounting to US\$ 100 thousand (30 September 2017: US\$ 98 thousand).

12 FINANCIAL INSTRUMENTS

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.

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value hierarchy - financial instruments measured at fair value

The following table provides the fair value measurement hierarchy of the Bank's financial instruments measured at fair value:

At 30 September 2018 (Reviewed)

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
	US\$ '000	US\$ '000	US\$ '000
Investments classified as fair value through			
- profit and loss	14,626	-	14,626
- other comprehensive income	108,930	-	108,930
	<u>123,556</u>	<u>-</u>	<u>123,556</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2018

12 FINANCIAL INSTRUMENTS (continued)***Fair value hierarchy (continued)****At 31 December 2017 (Audited)*

	<i>Level 1</i> US\$ '000	<i>Level 2</i> US\$ '000	<i>Total</i> US\$ '000
Investments classified as fair value through			
- profit and loss	20,462	-	20,462
- other comprehensive income	116,310	-	116,310
Derivative financial instruments	-	(42)	(42)
	136,772	(42)	136,730
	136,772	(42)	136,730

The Bank had no investments measured at fair value qualifying for level 3 of the fair value hierarchy as at 30 September 2018 or as at 31 December 2017.

Transfers between level 1, level 2 and level 3

During the nine-month period ended 30 September 2018 there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of the level 3 fair value measurement (2017: nil).

Financial instruments not measured at fair value - comparison of fair value to carrying value

The following table provides details of the Bank's financial instruments not measured at fair value:

At 30 September 2018 (Reviewed)

	<i>Level 1</i> US\$ '000	<i>Level 2</i> US\$ '000	<i>Level 3</i> US\$ '000	<i>Total fair</i> <i>value</i> US\$ '000	<i>Carrying</i> <i>value</i> US\$ '000
Investments at amortised cost	91,500	-	-	91,500	93,642
Loans and advances	52,287	-	-	52,287	46,030
	143,787	-	-	143,787	139,672
	143,787	-	-	143,787	139,672

At 31 December 2017 (Audited)

	<i>Level 1</i> US\$ '000	<i>Level 2</i> US\$ '000	<i>Level 3</i> US\$ '000	<i>Total fair</i> <i>value</i> US\$ '000	<i>Carrying</i> <i>value</i> US\$ '000
Investments at amortised cost	106,859	-	-	106,859	105,064
Loans and advances	53,143	-	-	53,143	45,394
	160,002	-	-	160,002	150,458
	160,002	-	-	160,002	150,458

Balances with banks, deposits with banks and other financial institutions, interest receivable, other assets, deposits from banks and other financial institutions, due to banks and other financial institutions, due to customers, interest payable and other liabilities are generally short term in nature. Management has assessed that the fair values of these approximate their carrying values as of 30 September 2018 and 31 December 2017.

13 COMPARATIVES FIGURES

Certain comparative figures were reclassified in order to conform to the presentation of the financial statements for the current period. Such reclassifications do not affect previously reported net profit, total assets, total liabilities or equity.