



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2017



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTSFor the nine months ended 30th September 2017**Table of contents****Independent auditor's review report to the shareholders**

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REPORT ON REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF GULF INTERNATIONAL BANK B.S.C.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of Gulf International Bank B.S.C. (the “Bank”) and its subsidiaries (together the “Group”) as at 30 September 2017, comprising the interim consolidated statement of financial position as at 30 September 2017 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows 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 condensed interim consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it 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 condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.



28 October 2017
Manama, Kingdom of Bahrain

Consolidated statement of financial position

	<i>Note</i>	<u>30.9.17</u> US\$ millions	<u>31.12.16</u> US\$ millions
ASSETS			
Cash and other liquid assets	9	6,703.6	3,095.0
Securities purchased under agreements to resell		855.0	635.0
Placements		5,206.0	4,715.3
Trading securities		190.9	91.9
Investment securities	7	3,806.6	4,066.4
Loans and advances	8	10,285.0	9,745.1
Other assets		568.2	557.1
Total assets		<u>27,615.3</u>	<u>22,905.8</u>
LIABILITIES			
Deposits from banks		2,214.2	2,554.2
Deposits from customers	9	18,291.4	13,447.5
Securities sold under agreements to repurchase		410.6	1,321.5
Other liabilities		530.1	463.6
Senior term financing		3,759.5	2,761.6
Total liabilities		<u>25,205.8</u>	<u>20,548.4</u>
EQUITY			
Share capital		2,500.0	2,500.0
Reserves	10	345.1	364.7
Retained earnings		(435.6)	(507.3)
Total equity		<u>2,409.5</u>	<u>2,357.4</u>
Total liabilities & equity		<u>27,615.3</u>	<u>22,905.8</u>

The condensed interim consolidated financial statements were approved by the Board of Directors on 28th October 2017 and signed on its behalf by:-

Abdullah bin Hassan Alabdulgader
Vice Chairman and
Chairman of Board Audit Committee

Abdulaziz A. Al-Helaissi
Chief Executive Officer

The notes on pages 6 to 15 form part of these condensed interim consolidated financial statements.

Consolidated statement of income

	<i>Note</i>	Three months ended		Nine months ended	
		30.9.17	30.9.16	30.9.17	30.9.16
		US\$ millions	US\$ millions	US\$ millions	US\$ millions
Interest income		153.8	117.1	436.2	337.4
Interest expense		87.0	69.4	251.0	198.7
Net interest income		66.8	47.7	185.2	138.7
Fee and commission income	3	19.0	16.0	55.7	48.6
Foreign exchange income	4	3.4	2.6	10.5	11.6
Trading income	5	1.7	1.9	11.0	6.5
Other income	6	3.4	2.2	7.5	16.4
Total income		94.3	70.4	269.9	221.8
Staff expenses		35.9	34.7	105.1	103.6
Premises expenses		5.0	4.5	14.9	13.0
Other operating expenses		19.3	16.1	55.8	41.0
Total operating expenses		60.2	55.3	175.8	157.6
Net income before provisions and tax		34.1	15.1	94.1	64.2
Provision (charge) / release for loans and advances	8	(11.3)	0.1	(15.4)	(3.8)
Net income before tax		22.8	15.2	78.7	60.4
Taxation charge on overseas activities		(2.0)	(1.9)	(4.6)	(5.4)
Net income		20.8	13.3	74.1	55.0

Abdullah bin Hassan Alabdulgader
Vice Chairman and
Chairman of Board Audit Committee

Abdulaziz A. Al-Helaissi
Chief Executive Officer

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Consolidated statement of comprehensive income

	Three months ended		Nine months ended	
	30.9.17 US\$ millions	30.9.16 US\$ millions	30.9.17 US\$ millions	30.9.16 US\$ millions
Net income	20.8	13.3	74.1	55.0
Other comprehensive income:-				
Items that may subsequently be reclassified to consolidated statement of income:-				
Cash flow hedges:-				
- net changes in fair value	(0.1)	-	(0.1)	-
	<u>(0.1)</u>	<u>-</u>	<u>(0.1)</u>	<u>-</u>
Items that will not be reclassified to consolidated statement of income:-				
Net changes in fair value of equity investments classified as fair value through other comprehensive income (FVTOCI)	(4.0)	(19.7)	(18.3)	(42.6)
Remeasurement of defined benefit pension fund	4.4	(34.6)	(3.6)	(41.0)
	<u>0.4</u>	<u>(54.3)</u>	<u>(21.9)</u>	<u>(83.6)</u>
Total other comprehensive income / (loss)	<u>0.3</u>	<u>(54.3)</u>	<u>(22.0)</u>	<u>(83.6)</u>
Total comprehensive income / (loss)	<u>21.1</u>	<u>(41.0)</u>	<u>52.1</u>	<u>(28.6)</u>

The notes on pages 6 to 15 form part of these condensed interim consolidated financial statements.

Consolidated statement of changes in equity

	<u>Share capital</u> US\$ millions	<u>Reserves</u> US\$ millions	<u>Retained earnings</u> US\$ millions	<u>Total</u> US\$ millions
At 1st January 2017	2,500.0	364.7	(507.3)	2,357.4
Net income for the period	-	-	74.1	74.1
Other comprehensive loss for the period	-	(18.4)	(3.6)	(22.0)
Total comprehensive income for the period	-	(18.4)	70.5	52.1
Transfer to retained earnings	-	(1.2)	1.2	-
At 30th September 2017	2,500.0	345.1	(435.6)	2,409.5
At 1st January 2016	2,500.0	379.8	(517.5)	2,362.3
Net income for the period	-	-	55.0	55.0
Other comprehensive loss for the period	-	(42.6)	(41.0)	(83.6)
Total comprehensive loss for the period	-	(42.6)	14.0	(28.6)
Transfer to retained earnings	-	(0.3)	0.3	-
At 30th September 2016	2,500.0	336.9	(503.2)	2,333.7

The notes on pages 6 to 15 form part of these condensed interim consolidated financial statements.

Consolidated statement of cash flows

	Nine months ended 30.9.17 US\$ millions	Nine months ended 30.9.16 US\$ millions
OPERATING ACTIVITIES		
Net income before tax	78.7	60.4
Adjustments to reconcile net income to net cash flow from operating activities:-		
Provisions for loans and advances	15.4	3.8
Tax paid	(1.4)	(4.4)
Realised losses / (profits) on debt investment securities	0.4	(1.4)
Amortisation of investment securities	7.9	8.9
Amortisation of senior term financing	0.3	-
Net (increase) / decrease in statutory deposits with central banks	(31.8)	14.4
Net (increase) / decrease in securities purchased under agreements to resell	(220.0)	1,292.8
Net increase in placements	(490.7)	(415.9)
Net increase in trading securities	(99.0)	(10.4)
Net increase in loans and advances	(555.3)	(694.8)
Increase in accrued interest receivable	(56.6)	(34.5)
Increase in accrued interest payable	60.7	34.2
Net decrease in other net assets	46.6	28.9
Net (decrease) / increase in deposits from banks	(340.0)	645.7
Net increase / (decrease) in deposits from customers	4,843.9	(1,207.1)
Net decrease in securities sold under agreement to repurchase	(910.9)	(687.2)
Net cash inflow / (outflow) from operating activities	2,348.2	(966.6)
INVESTING ACTIVITIES		
Purchase of investment securities	(929.5)	(1,160.6)
Maturity and sale of investment securities	1,160.5	1,061.4
Net cash inflow / (outflow) from investing activities	231.0	(99.2)
FINANCING ACTIVITIES		
Net increase in senior term financing	997.6	290.8
Net decrease in subordinated term financing	-	(150.0)
Net cash inflow from financing activities	997.6	140.8
Increase / (decrease) in cash and cash equivalents	3,576.8	(925.0)
Cash and cash equivalents at 1st January	2,923.6	4,117.5
Cash and cash equivalents at 30th September	6,500.4	3,192.5

Cash and cash equivalents at 30th September 2017 excludes statutory deposits amounting to \$203.2 million (30th September 2016: \$172.9 million).

The notes on pages 6 to 15 form part of these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended 30th September 2017

1. Incorporation and registration

The parent company of the Group, Gulf International Bank B.S.C. (the Bank), is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain by Amiri Decree Law No. 30 dated 24th November 1975 and is registered as a conventional wholesale bank with the Central Bank of Bahrain. The registered office of the Bank is located at Al-Dowali Building, 3 Palace Avenue, Manama, Kingdom of Bahrain.

The Bank and its subsidiaries (the Group), is principally engaged in the provision of wholesale commercial, asset management and investment banking services, with ambitions to enter a niche segment within retail consumer banking. The Group operates through subsidiaries, branch offices and representative offices located in five countries worldwide.

2. Accounting policies

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The condensed interim consolidated financial statements for the nine months ended 30th September 2017 have been prepared in compliance with International Accounting Standard (IAS) No. 34: Interim Financial Reporting. The accounting policies have been consistently applied by the Group and are consistent with those of the previous year, as set out in the consolidated financial statements for the year ended 31st December 2016.

All 30th September figures in these condensed interim consolidated financial statements have been reviewed by the external auditors, while those at 31st December are audited.

3. Fee and commission income

	Three months ended		Nine months ended	
	30.9.17	30.9.16	30.9.17	30.9.16
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Fee and commission income				
Investment banking and management fees	10.4	7.9	28.0	25.6
Commissions on letters of credit and guarantee	7.4	7.0	23.6	19.7
Loan commitment fees	1.1	0.7	2.8	2.3
Loan agency fees	0.2	0.2	1.0	0.9
Other fee and commission income	0.3	0.6	1.4	1.1
Total fee and commission income	19.4	16.4	56.8	49.6
Fee and commission expense	(0.4)	(0.4)	(1.1)	(1.0)
Net fee and commission income	19.0	16.0	55.7	48.6

Investment banking and management fees comprise fees relating to the provision of investment management and financial services, including asset and fund management, underwriting activities, and services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions.

Fee and commission expense principally comprises security custody fees and bank charges and commissions.

4. Foreign exchange income

Foreign exchange income principally comprises customer-initiated foreign exchange contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these offset customer-related foreign exchange contracts.

Foreign exchange includes spot and forward foreign exchange contracts, and currency futures and options.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended 30th September 2017

5. Trading income

	Three months ended		Nine months ended	
	30.9.17	30.9.16	30.9.17	30.9.16
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Interest rate derivatives	0.6	1.4	5.1	3.6
Equity securities	-	(0.1)	3.1	0.8
Managed funds	1.0	0.6	2.4	1.9
Debt securities	0.1	-	0.3	0.1
Commodity options	-	-	0.1	0.1
	1.7	1.9	11.0	6.5

Trading income comprises gains and losses arising both on the purchase and sale, and from changes in the fair value, of trading instruments, together with the related interest income, interest expense and dividend income. Trading income accordingly incorporates all income and expenses related to the Group's trading activities.

Interest rate derivative and commodity option income principally comprises customer-initiated contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these contracts.

6. Other income

	Three months ended		Nine months ended	
	30.9.17	30.9.16	30.9.17	30.9.16
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Dividends on equity investments classified as FVTOCI	3.6	1.9	6.9	6.4
Recoveries on previously written off assets	1.3	0.1	1.8	8.6
Net realised (losses) / profits on investment debt securities	(0.5)	0.2	(0.4)	1.4
Realised loss on written off asset	(1.0)	-	(1.0)	-
Sundry income	-	-	0.2	-
	3.4	2.2	7.5	16.4

Recoveries on previously written off assets comprise recoveries on assets that had previously been either written off or transferred to the memorandum records.

Net realised losses on investment debt securities for the period ended 30th September 2017 principally related to the sale of securities due to credit concerns.

The realised loss on written off asset for the period ended 30th September 2017 related to a contractual conditional partial write-off on a loan for which the conditions were met by the customer during the period.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended 30th September 2017

7. Investment securities

7.1 Composition

The credit rating profile of investment securities, based on the lowest rating assigned by the major international rating agencies, was as follows:-

	30.9.17		31.12.16	
	US\$ millions	%	US\$ millions	%
AAA to A- / Aaa to A3	3,169.9	87.2	3,292.1	86.3
BBB+ to BBB- / Baa1 to Baa3	253.1	7.0	310.9	8.1
BB+ to BB- / Ba1 to Ba3	211.9	5.8	212.3	5.6
Total debt securities	3,634.9	100.0	3,815.3	100.0
Equity investments	171.7		251.1	
	3,806.6		4,066.4	

Investment securities principally comprised investment-grade rated debt securities issued by major international financial institutions and government-related entities.

Investment securities rated BB+ to BB- / Ba1 to Ba3 at 30th September 2017 and 31st December 2016 principally comprised GCC sovereign debt securities.

Debt securities are classified as investment securities at amortised cost and equity investments are classified as FVTOCI.

7.2 Provisions for impairment

The movements in the provisions for credit-impairment of investment securities were as follows:-

	Collective provisions			Specific provisions			2017		Collective provisions			Specific provisions			2016	
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	
At 1st January and																
30th September	4.5	-	-	4.5	3.2	-	-	3.2	-	-	-	3.2	-	-	3.2	

Stage 1 provisions under IFRS 9 represented the probability-weighted estimate of expected credit losses, comprising both quantitative and qualitative information and analysis, based on the Group's historical experience and taking into consideration both internal and external indicators and including forward-looking information.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended 30th September 2017

8. Loans and advances

8.1 Composition

	<u>30.9.17</u>	<u>31.12.16</u>
	US\$ millions	US\$ millions
Gross loans and advances	10,678.4	10,166.1
Provisions for impairment	(393.4)	(421.0)
Net loans and advances	10,285.0	9,745.1

8.2 Provision for impairment

	Collective		Specific	<u>2017</u>	Collective		Specific	<u>2016</u>
	provisions		provisions	Total	provisions		provisions	Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January	82.5	83.0	255.5	421.0	76.2	127.0	226.5	429.7
Transfer to stage 1	2.2	(2.2)	-	-	-	-	-	-
Transfer to stage 2	(4.7)	4.7	-	-	(3.5)	3.5	-	-
Transfer to stage 3	(0.9)	(2.9)	3.8	-	(0.1)	(33.3)	33.4	-
Amounts utilised	-	-	(43.0)	(43.0)	-	-	(46.0)	(46.0)
Exchange rate movements	-	-	-	-	-	-	(1.0)	(1.0)
Net remeasurement of loss allowance	(4.5)	6.6	13.3	15.4	21.5	2.6	(20.3)	3.8
At 30th September	74.6	89.2	229.6	393.4	94.1	99.8	192.6	386.5

The stage 1 and stage 2 provisions reflect the probability-weighted estimate of expected credit losses under IFRS 9. The provisions comprise both quantitative and qualitative information and analysis, based on the Group's historical experience and taking into consideration both internal and external indicators and includes forward-looking information.

Stage 3 provisions reflect credit-impaired provisions based on the difference between the net carrying amount and the recoverable amount of the loan.

Amounts utilised during the periods ended 30th September 2017 and 30th September 2016 represented provisions utilised on the transfer of the related loans to the memorandum records. Recovery efforts on these loans are still ongoing with the intention to maximise potential recoveries.

9. Deposits from customers

The increase in deposits from customers during the nine months ended 30th September 2017 reflected a high level of deposit activity by the Group's London-based subsidiary, Gulf International Bank (UK) Limited. This also accounted for the increase in cash and other liquid assets during the same period.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended 30th September 2017

10. Reserves

	<u>Share premium</u>	<u>Compulsory reserve</u>	<u>Voluntary reserve</u>	<u>Cash flow hedge reserve</u>	<u>Investment securities revaluation reserve</u>	<u>Total</u>
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January 2017	7.6	222.0	159.5	-	(24.4)	364.7
Net fair value losses on cash flow hedges	-	-	-	(0.1)	-	(0.1)
Net fair value losses on equity investments classified as FVTOCI	-	-	-	-	(18.3)	(18.3)
Transfers to retained earnings	-	-	-	-	(1.2)	(1.2)
Net decrease	-	-	-	(0.1)	(19.5)	(19.6)
At 30th September 2017	7.6	222.0	159.5	(0.1)	(43.9)	345.1
At 1st January 2016	7.6	220.7	158.2	-	(6.7)	379.8
Net fair value losses on equity investments classified as FVTOCI	-	-	-	-	(42.6)	(42.6)
Transfers to retained earnings	-	-	-	-	(0.3)	(0.3)
Net decrease	-	-	-	-	(42.9)	(42.9)
At 30th September 2016	7.6	220.7	158.2	-	(49.6)	336.9

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended 30th September 2017

11. **Derivatives and foreign exchange instruments**

The notional amounts of derivatives and foreign exchange instruments were as follows:-

	<u>Trading</u>	<u>Hedging</u>	<u>30.9.17</u> <u>Total</u>	<u>31.12.16</u> <u>Total</u>
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	6,220.1	-	6,220.1	5,549.7
Options purchased	1,070.1	-	1,070.1	1,840.3
Options written	1,070.1	-	1,070.1	1,840.3
	<u>8,360.3</u>	<u>-</u>	<u>8,360.3</u>	<u>9,230.3</u>
Interest rate contracts:-				
Interest rate swaps	4,331.5	14,654.3	18,985.8	14,918.3
Cross currency swaps	1,401.7	-	1,401.7	1,159.6
Options, caps and floors purchased	838.9	-	838.9	257.2
Options, caps and floors written	838.9	-	838.9	257.2
	<u>7,411.0</u>	<u>14,654.3</u>	<u>22,065.3</u>	<u>16,592.3</u>
Commodity contracts:-				
Options and swaps purchased	36.7	-	36.7	49.3
Options and swaps written	36.7	-	36.7	49.3
	<u>73.4</u>	<u>-</u>	<u>73.4</u>	<u>98.6</u>
	<u>15,844.7</u>	<u>14,654.3</u>	<u>30,499.0</u>	<u>25,921.2</u>

At 30th September 2017, the Value-at-Risk of the foreign exchange, interest rate and commodity trading contracts analysed in the table above was US\$0.1 million, nil and nil respectively (31st December 2016: US\$0.3 million, US\$0.1 million and nil respectively). Value-at-Risk is a measure of market risk exposure and represents an estimate, with a 99 per cent level of confidence, of the potential loss that might arise if the positions were to be held unchanged for ten consecutive business days. The estimate is based on a twelve month historical observation period of unweighted data from the DataMetrics data set.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended 30th September 2017

12. Credit-related financial instruments

	<u>30.9.17</u>	<u>31.12.16</u>
	Notional	Notional
	principal	principal
	amount	amount
	<u>US\$ millions</u>	US\$ millions
Direct credit substitutes	618.8	627.1
Transaction-related contingent items	1,893.1	2,009.9
Short-term self-liquidating trade-related contingent items	474.4	442.8
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	1,558.9	1,216.8
	<u>4,545.2</u>	<u>4,296.6</u>

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities. At 30th September 2017, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US\$330.6 million (31st December 2016: US\$316.0 million).

13. Fair value of financial instruments

The Group's financial instruments are accounted for under the historical cost method with the exception of trading securities, equity investment securities, derivative financial instruments and pension assets and liabilities, which are accounted for at fair value. The fair value represents 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. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices (level 1 measurement) or to the pricing prevailing for similar financial instruments (level 2 measurement) and the use of unobservable inputs in estimation techniques such as discounted cash flow analysis (level 3 measurement).

The valuation methodologies applied are outlined below.

13.1 Trading securities

The fair values of trading securities are based on quoted prices (level 1) or valuation techniques (level 2 or 3).

13.2 Investment securities

The fair values of equity investment securities are based on quoted prices (level 1) or valuation techniques (level 2 or 3). The fair values of debt investment securities are based on quoted market prices (level 1) and approximate the carrying values.

13.3 Loans and advances

The fair values (level 2) of loans on a floating interest rate basis are principally estimated at book value. The fair values (level 3) of impaired loans are estimated at the recoverable amount, measured as the present value of expected future cash flows discounted based on the interest rate at the inception of the loan. The fair values of fixed rate loans are estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality. The fair values (level 2) approximate the carrying values.

13.4 Term financing

The fair value of term financing is based on observable market data, including quoted market prices for debt instruments issued by similarly rated financial institutions and with similar maturities, or estimated on a discounted cash flow basis utilising currently prevailing spreads for borrowings with similar maturities. The fair values (level 2) of senior term financing at 30th September 2017 approximate the carrying values.

13.5 Pension assets and pension liabilities

The fair value of the net pension asset or liability is derived using an actuarial mathematical model (level 3). The modelling is performed by an independent actuary based upon measurement criteria stipulated by the accounting standard IAS19 - Employee Benefits (2011).

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended 30th September 2017

13. Fair value of financial instruments (continued)

13.6 Other on-balance sheet items

The fair values of foreign exchange and derivative financial instruments are based on market prices, discounted cash flow techniques or option pricing models as appropriate. The fair values of all other on-balance sheet assets and liabilities approximate their respective book values due to their short-term nature.

13.7 Credit-related contingent items

There was no material fair value excess or shortfall in respect of credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams reflected contractual fees and commissions actually charged at the balance sheet date for agreements of similar credit standing and maturity. Impairment provisions made in respect of individual transactions where a potential for loss has been identified are included in provisions for the impairment of loans and advances.

The valuation basis for financial assets and financial liabilities carried at fair value was as follows:-

	Quoted prices (level 1) <u>US\$ millions</u>	Valuation based on observable market data (level 2) <u>US\$ millions</u>	Other valuation techniques (level 3) <u>US\$ millions</u>
At 30th September 2017			
Financial assets:-			
Trading securities	164.8	0.9	25.2
Investment securities - equities	108.2	-	63.5
Derivative financial instruments	-	133.9	-
Financial liabilities:-			
Derivative financial instruments	-	104.2	-
Net pension liability	-	-	17.0
At 31st December 2016			
Financial assets:-			
Trading securities	65.6	1.1	25.2
Investment securities - equities	175.3	-	75.8
Derivative financial instruments	-	168.9	-
Financial liabilities:-			
Derivative financial instruments	-	132.2	-
Net pension liability	-	-	13.8

Quoted prices include prices obtained from lead managers, brokers and dealers. Investment securities valued based on other valuation techniques comprise private equity investments that have been valued based on price / earnings and price / book ratios for similar entities, discounted cash flow techniques or other valuation methodologies.

During the period ended 30th September 2017, the value of investment securities whose measurement was determined by other valuation techniques (level 3 measurement) decreased by US\$12.3 million (30th September 2016: US\$5.4 million). The decrease principally comprised changes in assigned valuations as recognised in other comprehensive income.

No transfers out of the level 3 measurement classification occurred during the period ended 30th September 2017. Similarly, no transfers between level 1 and level 2 measurement classifications were made during the period ended 30th September 2017.

Sensitivity of the movement in the fair value of financial instruments in the level 3 category is assessed as not significant to other comprehensive income or total equity.

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14. Segmental information

For financial reporting purposes, the Group is organised into four main operating segments:-

- Wholesale banking: the provision of wholesale commercial financing and other credit facilities for corporate and institutional customers, and the provision of financial advisory services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions.
- Treasury: the provision of a broad range of treasury and capital market products and services to corporate and financial institution clients, money market, proprietary investment and trading activities and the management of the Group's balance sheet, including funding.
- Financial markets: the provision of asset and fund management services.
- Head office and support units: income arising on the investment of the Group's net free capital funds and expenses incurred by support units, including the investment in the retail banking strategy prior to the launch of all planned retail banking products and services.

The results reported for the business segments are based on the Group's internal financial reporting systems, which report interest revenue and interest expense on a net basis. The accounting policies of the segments are the same as those applied in the preparation of these condensed interim consolidated financial statements. Transactions between business segments are conducted on normal commercial terms and conditions. Transfer pricing between the business units is based on the market cost of funds.

Segment results, assets and liabilities comprise items directly attributable to the business segments. Liabilities reported for head office and support units comprise senior and subordinated term finance facilities and related accrued interest, the cost of which is recharged to the relevant operating business segments.

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14. **Segmental information** (continued)

The business segment analysis is as follows:-

	Wholesale banking	Treasury	Financial markets	Head office and support units	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Nine months ended 30th September 2017					
Net interest income	107.8	58.3	-	19.1	185.2
Total income	143.5	74.1	23.5	28.8	269.9
Segment result	100.7	67.0	17.4	(106.4)	78.7
Taxation charge on overseas activities					(4.6)
Net income after tax					74.1
Nine months ended 30th September 2016					
Net interest income	74.8	51.7	-	12.2	138.7
Total income	117.5	68.9	19.7	15.7	221.8
Segment result	90.3	61.2	14.1	(105.2)	60.4
Taxation charge on overseas activities					(5.4)
Net income after tax					55.0
At 30th September 2017					
Segment assets	10,395.4	16,685.6	67.6	466.7	27,615.3
Segment liabilities	759.7	19,711.6	-	4,734.5	25,205.8
Total equity					2,409.5
Total liabilities and equity					27,615.3
At 31st December 2016					
Segment assets	9,868.5	12,624.3	67.5	345.5	22,905.8
Segment liabilities	-	17,662.4	-	2,886.0	20,548.4
Total equity					2,357.4
Total liabilities and equity					22,905.8