# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31st March 2018

GIB

بنـك الخليـج الدولـي

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended 31st March 2018

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Building a better working world

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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 31 March 2018, comprising the interim consolidated statement of financial position as at 31 March 2018 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-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.

Ernst + Young

13 April 2018
Manama, Kingdom of Bahrain

# Consolidated statement of financial position

| | *Note* | 31.3.18 US$ millions | 31.12.17 US$ millions |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and other liquid assets | | **5,264.5** | 3,768.5 |
| Securities purchased under agreements to resell | | **805.0** | 855.0 |
| Placements | | **4,455.8** | 6,033.2 |
| Trading securities | | **208.9** | 191.8 |
| Investment securities | *8* | **3,913.3** | 3,993.8 |
| Loans and advances | *9* | **10,428.2** | 10,043.1 |
| Other assets | | **564.9** | 585.9 |
| **Total assets** | | **25,640.6** | 25,471.3 |
| **LIABILITIES** | | | |
| Deposits from banks | | **1,400.9** | 2,129.1 |
| Deposits from customers | | **17,656.9** | 15,989.8 |
| Securities sold under agreements to repurchase | | **429.8** | 1,130.5 |
| Other liabilities | | **451.6** | 547.4 |
| Senior term financing | | **3,243.8** | 3,263.6 |
| **Total liabilities** | | **23,183.0** | 23,060.4 |
| **EQUITY** | | | |
| Share capital | | **2,500.0** | 2,500.0 |
| Reserves | *10* | **360.7** | 352.5 |
| Retained earnings | | **(403.1)** | (441.6) |
| **Total equity** | | **2,457.6** | 2,410.9 |
| **Total liabilities & equity** | | **25,640.6** | 25,471.3 |

The condensed interim consolidated financial statements were approved by the Board of Directors on 13th April 2018 and signed on its behalf by:-

| | | |
|---|---|---|
| **Abdullah bin Hassan Alabdulgader** | **Yahya bin Abdullah Alyahya** | **Abdulaziz A. Al-Helaissi** |
| Chairman | Chairman of the Board Audit Committee | Chief Executive Officer |

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

# Consolidated statement of income

| | Note | Three months ended 31.3.18 US$ millions | Three months ended 31.3.17 US$ millions |
|---|---|---|---|
| Interest income | | 165.2 | 133.2 |
| Interest expense | | 98.7 | 78.6 |
| Net interest income | | 66.5 | 54.6 |
| Fee and commission income | 3 | 15.7 | 16.2 |
| Foreign exchange income | 4 | 4.1 | 3.6 |
| Trading income | 5 | 5.3 | 4.5 |
| Other income | 6 | 26.5 | 3.4 |
| **Total income** | | 118.1 | 82.3 |
| Staff expenses | | 37.9 | 34.0 |
| Premises expenses | | 5.2 | 4.7 |
| Other operating expenses | | 16.9 | 17.8 |
| **Total operating expenses** | | 60.0 | 56.5 |
| **Net income before provisions and tax** | | 58.1 | 25.8 |
| Provision charge for other assets | 7 | (1.9) | - |
| Provision charge for loans and advances | 9 | (29.0) | (3.0) |
| **Net income before tax** | | 27.2 | 22.8 |
| Taxation charge | | (1.4) | (1.2) |
| **Net income** | | 25.8 | 21.6 |

| **Abdullah bin Hassan Alabdulgader** | **Yahya bin Abdullah Alyahya** | **Abdulaziz A. Al-Helaissi** |
|---|---|---|
| Chairman | Chairman of the Board Audit Committee | Chief Executive Officer |

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

# Consolidated statement of comprehensive income

| | Three months ended 31.3.18 US$ millions | Three months ended 31.3.17 US$ millions |
|---|---|---|
| **Net income** | **25.8** | 21.6 |
| **Other comprehensive income:-** | | |
| **Items that may subsequently be reclassified to consolidated statement of income:-** | | |
| Cash flow hedges:- | | |
| - net changes in fair value | **(1.3)** | (0.1) |
| | **(1.3)** | (0.1) |
| **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) | **11.7** | (19.5) |
| Remeasurement of defined benefit pension fund | **10.5** | - |
| | **22.2** | (19.5) |
| **Total other comprehensive income / (loss)** | **20.9** | (19.6) |
| **Total comprehensive income** | **46.7** | 2.0 |

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

# Consolidated statement of changes in equity

| | Share capital US$ millions | Reserves US$ millions | Retained earnings US$ millions | Total US$ millions |
|---|---|---|---|---|
| **At 1st January 2018** | **2,500.0** | **352.5** | **(441.6)** | **2,410.9** |
| Net income for the period | - | - | 25.8 | 25.8 |
| Other comprehensive income for the period | - | 10.4 | 10.5 | 20.9 |
| Total comprehensive income for the period | - | 10.4 | 36.3 | 46.7 |
| Transfer to retained earnings | - | (2.2) | 2.2 | - |
| **At 31st March 2018** | **2,500.0** | **360.7** | **(403.1)** | **2,457.6** |
| **At 1st January 2017** | **2,500.0** | **364.7** | **(507.3)** | **2,357.4** |
| Net income for the period | - | - | 21.6 | 21.6 |
| Other comprehensive loss for the period | - | (19.6) | - | (19.6) |
| Total comprehensive (loss) / income for the period | - | (19.6) | 21.6 | 2.0 |
| Transfer to retained earnings | - | (0.5) | 0.5 | - |
| **At 31st March 2017** | **2,500.0** | **344.6** | **(485.2)** | **2,359.4** |

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

# Consolidated statement of cash flows

| | Three months ended 31.3.18 US$ millions | Three months ended 31.3.17 US$ millions |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income before tax | 27.2 | 22.8 |
| Adjustments to reconcile net income to net cash flow from operating activities:- | | |
| Provision charge for loans and advances | 29.0 | 3.0 |
| Provision charge for other assets | 1.9 | - |
| Tax paid | (2.1) | (0.7) |
| Amortisation of investment securities | 2.4 | 3.2 |
| Amortisation of senior term financing | 0.1 | - |
| Net increase in statutory deposits with central banks | (24.8) | (40.1) |
| Net decrease in securities purchased under agreements to resell | 50.0 | 55.0 |
| Net decrease / (increase) in placements | 1,577.4 | (333.2) |
| Net increase in trading securities | (17.1) | (30.3) |
| Net increase in loans and advances | (414.1) | (727.8) |
| Decrease / (increase) in accrued interest receivable | 32.0 | (19.2) |
| (Decrease) / increase in accrued interest payable | (28.7) | 38.2 |
| Net (increase) / decrease in other net assets | (20.1) | 12.7 |
| Net decrease in deposits from banks | (728.2) | (215.2) |
| Net increase in deposits from customers | 1,667.1 | 1,157.6 |
| Net decrease in securities sold under agreement to repurchase | (700.7) | (528.0) |
| **Net cash inflow / (outflow) from operating activities** | 1,451.3 | (602.0) |
| **INVESTING ACTIVITIES** | | |
| Purchase of investment securities | (266.1) | (339.7) |
| Maturity of investment securities | 305.9 | 377.5 |
| **Net cash inflow from investing activities** | 39.8 | 37.8 |
| **FINANCING ACTIVITIES** | | |
| Net (decrease) / increase in senior term financing | (19.9) | 593.5 |
| **Net cash (outflow) / inflow from financing activities** | (19.9) | 593.5 |
| **Increase in cash and cash equivalents** | 1,471.2 | 29.3 |
| **Cash and cash equivalents at 1st January** | 3,552.6 | 2,923.6 |
| **Cash and cash equivalents at 31st March** | 5,023.8 | 2,952.9 |

Cash and cash equivalents at 31st March 2018 excludes statutory deposits amounting to $240.7 million (31st March 2017: $211.5 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 three months ended 31st March 2018**

## 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 and a conventional retail 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 three months ended 31st March 2018 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 2017, except for the adoption of applicable new accounting standards with effect from 1st January 2018 as referred to below.

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

**IFRS 15 – Revenue from contracts with customers**

IFRS 15 introduces a new five-step model framework for determining whether, how much and when revenue is recognised. IFRS 15 has been applied retrospectively and has had no material impact on the Group's condensed interim consolidated financial statements. Contracts with customers impacted by the new standards are summarised below:-

*Interest income and management fees*

Interest income and management fees are recognised using the effective interest rate method over the contractual life of the facility. Fees, including loan origination fees and early redemption fees, are included in the calculation of the effective interest rate to the extent that they are considered to be an integral part of the effective interest rate, and are amortised on a straight-line basis. As part of the Group's internal policies, interest income and the amortisation of management fees are suspended when either interest or principal is overdue. There is no material impact on the recognition of interest income or management fees resulting from the application of this standard.

*Commissions on letters of credit and guarantee and related advising fees*

Revenue earned from the arrangement of letters of credit or guarantee is recognised as the services are performed or received. Commissions on letters of credit and related fees are recognised after the transfer of services, whilst commissions on letters of guarantee are amortised over the life of the guarantee. There is no material impact on the recognition of letters of credit or guarantee or related fees from the application of this standard.

*Investment banking fees*

Investment banking fees comprise fees relating to the provision of financial services, underwriting activities, and services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions. For contracts involving multiple phases, monthly non-refundable retainer fees are charged and reflected in income as per the conditions stipulated in the contract. The Group is also entitled to advisory fees upon the completion of the transactions, which are only recognised at the end of the contract. There is no material impact on the recognition of investment banking fees resulting from the application of this standard.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended 31st March 2018

## 3. Fee and commission income

| | **Three months ended 31.3.18 US$ millions** | Three months ended 31.3.17 US$ millions |
|---|---|---|
| **Fee and commission income** | | |
| Commissions on letters of credit and guarantee | **7.6** | 8.0 |
| Investment banking and management fees | **5.9** | 6.7 |
| Loan commitment fees | **1.5** | 0.7 |
| Loan agency fees | **0.6** | 0.7 |
| Other fee and commission income | **0.5** | 0.4 |
| Total fee and commission income | **16.1** | 16.5 |
| **Fee and commission expense** | **(0.4)** | (0.3) |
| **Net fee and commission income** | **15.7** | 16.2 |

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.

## 5. Trading income

| | **Three months ended 31.3.18 US$ millions** | Three months ended 31.3.17 US$ millions |
|---|---|---|
| Managed funds | **3.3** | 1.6 |
| Interest rate derivatives | **2.0** | 2.9 |
| Debt securities | **0.1** | 0.1 |
| Equity securities | **(0.1)** | (0.1) |
| | **5.3** | 4.5 |

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.

The increase in trading income derived from managed funds during the period ended 31st March 2018 was attributable to new seed investments in funds managed by the Group.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
**For the three months ended 31st March 2018**

## 6. Other income

| | Three months ended 31.3.18 US$ millions | Three months ended 31.3.17 US$ millions |
|---|---|---|
| Recoveries on previously written off assets | **26.5** | 0.2 |
| Dividends on equity investments classified as FVTOCI | **-** | 3.2 |
| | **26.5** | 3.4 |

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

## 7. Provision charge for other assets

A US$1.9 million provision charge for other assets during the period ended 31st March 2018 represented a provision in relation to amounts invoiced in prior years in respect of investment banking services.

## 8. Investment securities

### 8.1 Composition

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

| | 31.3.18 US$ millions | 31.3.18 % | 31.12.17 US$ millions | 31.12.17 % |
|---|---|---|---|---|
| AAA to A- / Aaa to A3 | **3,251.6** | **86.9** | 3,326.7 | 87.0 |
| BBB+ to BBB- / Baa1 to Baa3 | **265.1** | **7.1** | 267.1 | 7.0 |
| BB+ to BB- / Ba1 to Ba3 | **226.1** | **6.0** | 229.3 | 6.0 |
| Total debt securities | **3,742.8** | **100.0** | 3,823.1 | 100.0 |
| Equity investments | **170.5** | | 170.7 | |
| | **3,913.3** | | 3,993.8 | |

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 31st March 2018 and 31st December 2017 principally comprised GCC sovereign debt securities.

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

### 8.2 Provisions for impairment

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

| | 2018 Collective provisions Stage 1 US$ millions | 2018 Collective provisions Stage 2 US$ millions | 2018 Specific provisions Stage 3 US$ millions | 2018 Total US$ millions | 2017 Collective provisions Stage 1 US$ millions | 2017 Collective provisions Stage 2 US$ millions | 2017 Specific provisions Stage 3 US$ millions | 2017 Total US$ millions |
|---|---|---|---|---|---|---|---|---|
| At 1st January and 31st March | **4.5** | **-** | **-** | **4.5** | 4.5 | - | - | 4.5 |

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 three months ended 31st March 2018

## 9. Loans and advances

### 9.1 Composition

| | 31.3.18 US$ millions | 31.12.17 US$ millions |
|---|---|---|
| Gross loans and advances | 10,871.0 | 10,456.7 |
| Provisions for impairment | (442.8) | (413.6) |
| Net loans and advances | 10,428.2 | 10,043.1 |

### 9.2 Provision for impairment

| | Collective provisions | | Specific provisions | 2018 | Collective provisions | | Specific provisions | 2017 |
|---|---|---|---|---|---|---|---|---|
| | 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 |
| At 1st January | 46.3 | 106.3 | 261.0 | 413.6 | 82.5 | 83.0 | 255.5 | 421.0 |
| Transfer to stage 1 | 1.2 | (1.2) | - | - | 1.6 | (1.6) | - | - |
| Transfer to stage 2 | (3.6) | 3.6 | - | - | (4.3) | 4.3 | - | - |
| Transfer to stage 3 | - | (12.1) | 12.1 | - | - | (0.2) | 0.2 | - |
| Exchange rate movements | - | - | 0.2 | 0.2 | - | - | 0.1 | 0.1 |
| Net remeasurement of loss allowance | 0.2 | 1.0 | 27.8 | 29.0 | (4.4) | 4.6 | 2.8 | 3.0 |
| At 31st March | 44.1 | 97.6 | 301.1 | 442.8 | 75.4 | 90.1 | 258.6 | 424.1 |

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.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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10. Reserves

| | Share premium | Compulsory reserve | Voluntary reserve | Cash flow hedge reserve | Investment securities revaluation reserve | Total |
|---|---|---|---|---|---|---|
| | US$ millions | US$ millions | US$ millions | US$ millions | US$ millions | US$ millions |
| **At 1st January 2018** | **7.6** | **225.8** | **163.3** | **(0.5)** | **(43.7)** | **352.5** |
| Net fair value losses on cash flow hedges | - | - | - | (1.3) | - | (1.3) |
| Net fair value gains on equity investments classified as FVTOCI | - | - | - | - | 11.7 | 11.7 |
| Transfers to retained earnings | - | - | - | - | (2.2) | (2.2) |
| Net (decrease) / increase | - | - | - | (1.3) | 9.5 | 8.2 |
| **At 31st March 2018** | **7.6** | **225.8** | **163.3** | **(1.8)** | **(34.2)** | **360.7** |
| **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 | - | - | - | - | (19.5) | (19.5) |
| Transfers to retained earnings | - | - | - | - | (0.5) | (0.5) |
| Net decrease | - | - | - | (0.1) | (20.0) | (20.1) |
| **At 31st March 2017** | **7.6** | **222.0** | **159.5** | **(0.1)** | **(44.4)** | **344.6** |

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended 31st March 2018

## 11. Derivatives and foreign exchange instruments

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

| | Trading | Hedging | 31.3.18 Total | 31.12.17 Total |
|---|---|---|---|---|
| | US$ millions | US$ millions | US$ millions | US$ millions |
| Foreign exchange contracts:- | | | | |
| Unmatured spot, forward and futures contracts | 6,170.1 | - | 6,170.1 | 6,727.9 |
| Options purchased | 556.6 | - | 556.6 | 770.8 |
| Options written | 556.6 | - | 556.6 | 770.8 |
| | 7,283.3 | - | 7,283.3 | 8,269.5 |
| Interest rate contracts:- | | | | |
| Interest rate swaps | 4,809.4 | 14,149.6 | 18,959.0 | 17,133.2 |
| Cross currency swaps | 1,402.1 | - | 1,402.1 | 1,451.8 |
| Options, caps and floors purchased | 1,364.3 | - | 1,364.3 | 1,165.2 |
| Options, caps and floors written | 1,364.3 | - | 1,364.3 | 1,165.2 |
| | 8,940.1 | 14,149.6 | 23,089.7 | 20,915.4 |
| Equity and commodity contracts:- | | | | |
| Options and swaps purchased | 78.0 | - | 78.0 | 86.6 |
| Options and swaps written | 78.0 | - | 78.0 | 86.6 |
| | 156.0 | - | 156.0 | 173.2 |
| | 16,379.4 | 14,149.6 | 30,529.0 | 29,358.1 |

At 31st March 2018, the Value-at-Risk of the foreign exchange, interest rate and equity and commodity trading contracts analysed in the table above was US$0.1 million, nil and nil respectively (31st December 2017: US$0.1 million, nil 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 three months ended 31st March 2018**

## 12. Credit-related financial instruments

| | 31.3.18 Notional principal amount | 31.12.17 Notional principal amount |
|---|---|---|
| | US$ millions | US$ millions |
| Direct credit substitutes | 771.4 | 672.3 |
| Transaction-related contingent items | 2,004.3 | 2,020.7 |
| Short-term self-liquidating trade-related contingent items | 399.6 | 515.2 |
| Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities | 1,724.5 | 1,819.7 |
| | 4,899.8 | 5,027.9 |

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities. At 31st March 2018, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US$337.8 million (31st December 2017: US$330.7 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 and derivative financial instruments, 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 31st March 2018 approximate the carrying values.

### 13.5 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.

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For the three months ended 31st March 2018

13. Fair value of financial instruments (continued)

### 13.6 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) US$ millions | Valuation based on observable market data (level 2) US$ millions | Other valuation techniques (level 3) US$ millions |
|---|---|---|---|
| **At 31st March 2018** | | | |
| Financial assets:- | | | |
| Trading securities | **182.9** | **0.8** | **25.2** |
| Investment securities - equities | **106.9** | **-** | **63.6** |
| Derivative financial instruments | **-** | **203.0** | **-** |
| Financial liabilities:- | | | |
| Derivative financial instruments | **-** | **104.5** | **-** |
| **At 31st December 2017** | | | |
| Financial assets:- | | | |
| Trading securities | 165.7 | 0.9 | 25.2 |
| Investment securities - equities | 108.4 | - | 62.3 |
| Derivative financial instruments | - | 182.2 | - |
| Financial liabilities:- | | | |
| Derivative financial instruments | - | 131.5 | - |

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 31st March 2018, the value of investment securities whose measurement was determined by other valuation techniques (level 3 measurement) increased by US$1.3 million (31st March 2017: decrease of US$0.7 million), principally comprising changes in assigned valuations as recognised in other comprehensive income.

No transfers out of the level 3 measurement classification occurred during the period ended 31st March 2018. Similarly, no transfers between level 1 and level 2 measurement classifications were made during the period ended 31st March 2018.

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.

## 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.
- 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.
- Asset management and investment banking: the provision of asset and fund management services, and of financial advisory services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions.
- 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 | Asset management and investment banking | Head office and support units | Total |
|---|---|---|---|---|---|
| | US$ millions | US$ millions | US$ millions | US$ millions | US$ millions |
| **Three months ended 31st March 2018** | | | | | |
| Net interest income | 40.2 | 19.5 | - | 6.8 | 66.5 |
| Total income | 76.6 | 29.3 | 5.3 | 6.9 | 118.1 |
| Segment result | 30.1 | 27.0 | (1.7) | (28.2) | 27.2 |
| Taxation charge | | | | | (1.4) |
| Net income after tax | | | | | 25.8 |
| **Three months ended 31st March 2017** | | | | | |
| Net interest income | 31.5 | 17.4 | - | 5.7 | 54.6 |
| Total income | 41.6 | 23.9 | 7.4 | 9.3 | 82.2 |
| Segment result | 33.1 | 21.5 | 3.6 | (35.4) | 22.8 |
| Taxation charge | | | | | (1.2) |
| Net income after tax | | | | | 21.6 |
| **At 31st March 2018** | | | | | |
| Segment assets | 10,582.0 | 14,647.7 | 74.7 | 336.2 | 25,640.6 |
| Segment liabilities | 1,055.9 | 17,535.0 | - | 4,592.1 | 23,183.0 |
| Total equity | | | | | 2,457.6 |
| Total liabilities and equity | | | | | 25,640.6 |
| **At 31st December 2017** | | | | | |
| Segment assets | 10,150.3 | 14,802.3 | 68.5 | 450.2 | 25,471.3 |
| Segment liabilities | 1,148.8 | 17,423.5 | - | 4,488.1 | 23,060.4 |
| Total equity | | | | | 2,410.9 |
| Total liabilities and equity | | | | | 25,471.3 |