

United Gulf Holding Company B.S.C.
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

United Gulf Holding Company B.S.C.

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors is pleased to submit its report and the audited consolidated financial statements of United Gulf Holding Company B.S.C. ("the Company") for the year ended 31 December 2021.

Principal activities and review of business developments

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

Results for the year

During the year ended 31 December 2021, the Company recorded a net loss of US\$ 8.3 million (2020: net loss of US\$ 70.3 million) and total operating income of US\$ 182.0 million (2020: US\$ 139.1 million). The increase is mainly attributable to the recovery of global and regional economies from the outbreak of the coronavirus (COVID-19).

As of 31 December 2021, total assets of the Group were US\$ 3,256 million (2020: US\$ 3,265 million) with total equity of shareholders at US\$ 247.1 million (2020: US\$ 279.8 million).

Appropriations for the year

The Board of Directors recommend that no allocation be done from retained earnings to reserves as the Company recorded losses during the year ended 31 December 2020.

Remuneration of Board of Directors and Executive Management

As part of the Group's commitment to transparency and fair disclosures, below are the remunerations paid to the Directors and Executive management of the Company for the year ended 31 December 2021:

Board of Directors' remuneration

Name	Fixed remunerations				
	Remuneration	Allowance for attending Board and committee meetings	Salaries	Others	Total
	amounts in US\$				
First: Independent Directors:					
1- Mubarak Al Maskati	-	-	-	-	-
2-Bader Al Awadhi	-	-	-	-	-
3-Mohammed Haroon	-	-	-	-	-
Second: Non-Executive Directors: Nil					
Third: Executive Directors:					
1- Masaud J. Hayat	-	-	-	-	-
2- Faisal Al Ayyar	-	-	-	-	-
3- Sadoun Ali	-	-	-	-	-
4- Tareq Abdulsalam	-	-	-	-	-
5- Mazen Hawwa	-	-	-	-	-

United Gulf Holding Company B.S.C.
REPORT OF THE BOARD OF DIRECTORS

Remuneration of Board of Directors and Executive Management (continued)

Executive management's

	Salaries and allowances	Bonus	Other remuneration	Total
	amounts in US\$			
Remuneration paid to top six executives, including CEO and Senior Financial Officer	-	-	-	-

Notes:

1. In line with the Service Level Agreement signed between UGB and UGH on 23 August 2017, the CEO, CFO, the Chief Audit Executive & Corporate Secretary, Chief Compliance Officer, and other officers of UGB including the AML, risk management and shareholders/investor relations functions, perform their corresponding roles for UGH. There are hence no employees hired separately by UGH.

2. In the event it is deemed appropriate to pay certain UGB officers a variable, one-off compensation in lieu of the additional critical responsibilities undertaken by them on behalf of UGH, such compensation is approved by the NRC of UGB and disclosed appropriately.

Auditors

Resolution for their appointment of the auditors of the Company for the year ending 31 December 2022 will be put for approval of the Shareholders.

Signed on behalf of the Board of Directors



Masaud Hayat
Chairman

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of United Gulf Holding Company B.S.C. (“the Company”) and its subsidiaries (together “the Group”), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”) as modified by the Central Bank of Bahrain (“CBB”).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (“*IESBA Code*”) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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

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

Key audit matters (continued)

1. Impairment on loans and receivables	
Key audit matter	How the key audit matter was addressed in the audit
<p>The process for estimating Expected Credit Loss (“ECL”) on credit risk associated with loans and receivables in accordance with IFRS 9 – Financial Instruments (“IFRS 9”) is a significant and complex area. IFRS 9 requires use of the ECL model for the purposes of calculating loss allowances.</p> <p>Due to the complexity of the requirements under IFRS 9, the significance of judgments and estimations applied in the ECL calculations, the impact of the COVID-19 global pandemic on the determination of ECL and the significance of Group’s exposure to loans and receivables forming a major portion of the Group’s assets, the audit of ECL for loans and receivables is a key area of focus.</p> <p>Further, the assessment of credit-impaired loans and receivables classified under Stage 3 may be materially misstated if individual impairments are not appropriately identified and estimated. The calculation of ECL includes a range of estimates of future cash flows and valuation of collateral, which are subject to inherent uncertainty and judgment.</p> <p>As at 31 December 2021, the Group’s gross loans and receivables amounted to USD 719 million and related ECL amounted to USD 94 million.</p> <p>Refer to the accounting policies, disclosures of loans and receivables and credit risk management in notes 2, 8 and 31 to the consolidated financial statements.</p>	<p>Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates.</p> <p>Our key audit procedures focused on the following:</p> <ul style="list-style-type: none"> • We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the ECL model. We have also tested the completeness and accuracy of the data used in the measurement of the ECL. • We assessed: <ul style="list-style-type: none"> ○ the ECL provisioning policy including the compliance of Group’s determination of the significant increase in credit risk and consequent staging criteria with the requirements of IFRS 9; and ○ the significant modelling and macroeconomic assumptions, including evaluation of forward-looking information and scenarios against the requirements of the ECL policy. • For a sample of exposures, we performed procedures to evaluate: <ul style="list-style-type: none"> ○ timely identification of exposures with a significant increase in credit risk and appropriateness of staging; ○ the process of collateral valuation; and ○ ECL recalculation.

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

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

Key audit matters (continued)

1. Impairment on loans and receivables (continued)	
Key audit matter	How the key audit matter was addressed in the audit
As noted above.	<ul style="list-style-type: none"> In the case of non-performing loans and receivables, we evaluated the appropriateness of the inputs, particularly the Loss Given Default (“LGD”) and discount rates used in the ECL model. We also carried out discussion with management and corroborated their responses from external and independent sources, as applicable. We considered the adequacy of the disclosures in the consolidated financial statements in relation to ECL on loans and receivables as per the applicable financial reporting standards. <p>Wherever relevant, internal specialists and component auditors were involved in the performance of above procedures.</p>

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

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

Key audit matters (continued)

2. Impairment on goodwill	
Key audit matter	How the key audit matter was addressed in the audit
<p>Under IAS 36 – Impairment of Assets, goodwill is required to be tested for impairment annually. The impairment testing of goodwill recognised on Cash Generating Units (“CGUs”) relies on estimates of Value-in-Use (“VIU”) based on estimated future cash flows. The determination of future cash flows involves making significant judgments and estimates, which incorporates an element of uncertainty in determining the recoverable amount of the CGU.</p> <p>Judgment is required in determining recoverable amount of each CGU, mainly due to (i) inherent uncertainty in forecasting future cash flows; and (ii) judgment required in determining appropriate discount rates and expected long term growth rates applied to those cash flows in arriving at VIU (being the basis on which impairment, if any, is assessed). The impact of COVID-19 has resulted in unprecedented economic conditions, which in turn heightens the level of judgment required to determine the inputs used in calculating the recoverable amount of each CGU.</p> <p>Given significant judgment being involved in carrying out impairment assessment as noted above and the magnitude of goodwill recognised, being USD 52.5 million in the consolidated statement of financial position as at 31 December 2021, we considered this as a key audit matter.</p> <p>Refer to the accounting policies, critical accounting estimates and judgments in note 2, and allocation of goodwill to CGUs in note 13 to the consolidated financial statements.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of management’s processes for determining recoverable amount for annual goodwill impairment testing; • Assessment of the reasonableness of key inputs, such as the discount rates and growth rates, by comparison to externally available industry, economic and financial data and the Group’s own historical data and performance; • Assessment of the viability of management’s plans and intentions underlying the projections; and • Considering the adequacy of disclosures in the consolidated financial statements in relation to impairment of goodwill as per the applicable financial reporting standards. <p>Wherever relevant, internal specialists were involved in the performance of above procedures.</p>

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

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

Key audit matters (continued)

3. Impairment of equity investment in an associate	
Key audit matter	How the key audit matter was addressed in the audit
<p>As at 31 December 2021, the Group has a significant investment of USD 548 million, representing an equity stake of 15% in one of its associated companies. Given the significant gap between the carrying value and market value, management carried out an impairment assessment by comparing the carrying value of the investment to the recoverable amount, being the higher of VIU and the fair value less costs of disposal.</p> <p>Although the investee is listed, the shares are closely held and illiquid and therefore the fair value is unobservable. Management believes that the quoted value is not a proxy for fair value. The calculation was consequently derived using several VIU scenarios based on different assumptions and judgments. The determination of VIU is highly subjective and requires significant management judgment associated with the estimation of future cashflows and the terminal growth rate, as well as an appropriate discount rate, which are inherently difficult to determine with precision particularly in uncertain and depressed market conditions.</p> <p>Due to the uncertainty of forecasting and discounting future cash flows, the level of management's judgment involved and the significance of the Group's investment in an associate (as indicated above) as at 31 December 2021, we considered this as a key audit matter.</p> <p>Refer to the accounting policies, critical accounting estimates and judgments in note 2, and disclosure of investment in associates in note 10 to the consolidated financial statements.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Assessment of the appropriateness of the valuation methodology, having due regard to the nature of the investment and the underlying business. • Assessment of future cashflows prepared by management and used our professional judgment to make appropriate adjustments to such cashflows. • Determination of an appropriate long-term growth rate and terminal value using our professional judgment by taking into account available market information on growth rates. <p>Based on above, we narrowed down our VIU range to the most probable outcome. We then derived an impairment range by comparing our VIU range to the carrying value of the investment.</p> <p>We also reviewed the adequacy of disclosures included in the consolidated financial statements in relation to investment in associates as per the applicable financial reporting standards.</p> <p>Wherever relevant, internal specialists were involved in the performance of above procedures.</p>

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

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

Key audit matters (continued)

4. Valuation of Level 3 investments carried at FVTPL and FVOCI	
Key audit matter	How the key audit matter was addressed in the audit
<p>Level 3 investments carried at Fair Value Through Profit or Loss (“FVTPL”) and Fair Value Through Other Comprehensive Income (“FVOCI”) as of 31 December 2021 amounted to USD 484 million and USD 186 million respectively. Valuation of these investments is primarily determined through the application of valuation techniques that involve exercise of judgment, and use of assumptions based on limited observable market data.</p> <p>The risk around these judgments and estimates made by management has increased due to continuously evolving impacts of COVID-19 pandemic on valuations.</p> <p>We considered valuation of aforementioned investments as a key audit matter given the significance of judgments and estimates made by management to support the valuations.</p> <p>Refer to the critical accounting estimates and judgments and disclosures relating to the valuation of unquoted investments at FVTPL and FVOCI in note 2, and disclosures for the fair value hierarchy in note 32.</p>	<p>We obtained an understanding of management’s processes for determining the fair value of unquoted investments.</p> <p>We formed an independent range for key assumptions used in valuation of a sample of unquoted investments, with reference to the relevant industry and market valuation considerations. We derived a range of fair values using such assumptions and other qualitative risk factors. We compared these ranges with management’s valuation, and discussed our results with management.</p> <p>We have considered the impact of COVID-19 pandemic throughout the procedures performed on the valuations of the selected sample of unquoted investments, by evaluating whether the valuation methodologies and assumptions used are appropriate.</p> <p>We considered the adequacy of disclosures in the consolidated financial statements in relation to valuation of Level 3 investments carried at FVTPL and FVOCI as per the applicable financial reporting standards.</p> <p>Wherever relevant, internal specialists and component auditors were involved in the performance of above procedures.</p>

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

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

Other information included in the Group's 2021 Annual Report

Other information consists of the information included in the Group's 2021 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Board of Directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

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

Report on Other Legal and Regulatory Requirements

- 1) As required by the Bahrain Commercial Companies Law, we report that:
 - a. the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
 - b. the financial information contained in the Directors Report is consistent with the consolidated financial statements;
 - c. satisfactory explanations and information have been provided to us by Management in response to all our requests; and
 - d. we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association during the year ended 31 December 2021 that might have had a material adverse effect on the business of the Company or on its consolidated financial position.

- 2) As required by Article (8) of section (2) of Chapter 1 of the Bahrain Corporate Governance Code, we report that the Company has:
 - a. appointed a corporate governance officer; and
 - b. a Board approved written guidance and procedures for corporate governance.

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



Partner's registration no. 244
27 February 2022
Manama, Kingdom of Bahrain

United Gulf Holding Company B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Notes	2021 US\$ 000	2020 US\$ 000
ASSETS			
Demand and call deposits with banks	5	406,852	465,391
Placements with banks	5	222,700	219,348
Investments at fair value through profit or loss	6	553,156	544,548
Investments at fair value through other comprehensive income	6	354,268	347,294
Investments carried at amortised cost	6	35,087	9,839
Loans and receivables	8	625,134	593,715
Other assets	9	95,474	119,541
Investment in associates	10	730,262	700,981
Investment properties	11	117,788	115,940
Property, equipment and right of use assets	12	45,690	79,832
Goodwill and other intangible assets	13	69,119	68,472
TOTAL ASSETS		3,255,530	3,264,901
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions		756,718	647,763
Deposits from customers		994,590	1,115,273
Loans payable	15	842,258	818,618
Long term bonds	16	132,371	131,497
Other liabilities	17	112,806	114,760
Total liabilities		2,838,743	2,827,911
Equity			
Share capital	18	219,547	219,547
Share premium	18	169,558	270,111
Treasury shares	18	(320)	(320)
Treasury share reserve	18	(1,518)	(1,518)
Statutory reserve	18	3,285	3,285
Fair value reserve	19	(131,410)	(107,590)
Foreign currency translation reserve	18	(1,508)	(3,148)
Accumulated deficit		(10,530)	(100,553)
Equity attributable to the shareholders of the Parent		247,104	279,814
Perpetual Additional Tier 1 Capital	20	33,000	33,000
Non-controlling interests		136,683	124,176
Total equity		416,787	436,990
TOTAL LIABILITIES AND EQUITY		3,255,530	3,264,901



Masaud Hayat
Chairman



Faisal Al Ayyar
Vice Chairman

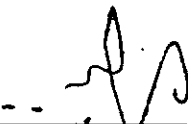


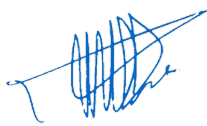
Hussain Lalani
Chief Executive Officer


The attached notes 1 to 34 form part of these consolidated financial statements.

United Gulf Holding Company B.S.C.
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2021

	Notes	2021 US\$ 000	2020 US\$ 000
Interest income	21	43,382	46,888
Investment income - net	22	33,673	2,255
		<u>77,055</u>	<u>49,143</u>
Fees and commissions - net	23	81,721	81,362
Foreign currency losses - net		(3,225)	(301)
Share of results of associates	10,24	26,415	8,933
Total income		<u>181,966</u>	<u>139,137</u>
Interest expense	25	(62,180)	(72,327)
Operating income before expenses and provisions		<u>119,786</u>	<u>66,810</u>
Salaries and benefits		(72,196)	(60,881)
General and administrative expenses		(35,896)	(38,165)
Operating income (loss) before provisions and tax		<u>11,694</u>	<u>(32,236)</u>
Net impairment reversal (loss) on investments		58	(5,409)
Provisions for unfunded participation		-	(2,634)
Allowances for expected credit losses	7	(2,833)	(33,981)
Net profit (loss) before tax		<u>8,919</u>	<u>(74,260)</u>
Taxation expense	14	(4,008)	(10,273)
Net profit (loss) for the year		<u>4,911</u>	<u>(84,533)</u>
Net profit (loss) attributable to non-controlling interests		<u>13,224</u>	<u>(14,237)</u>
Net loss attributable to shareholders of the Parent		<u>(8,313)</u>	<u>(70,296)</u>
Loss per share			
Basic and diluted loss per share attributable to shareholders of the Parent (US cents)	26	<u>(3.67)</u>	<u>(18.65)</u>


Masaud Hayat
Chairman


Faisal Al Ayyar
Vice Chairman


Hussain Lalani
Chief Executive Officer

United Gulf Holding Company B.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	2021 US\$ 000	2020 US\$ 000
Net profit (loss) for the year		4,911	(84,533)
Other Comprehensive Income (OCI)			
Items that may be reclassified to profit or loss in subsequent periods			
Foreign currency translation adjustments		2,140	(1,050)
Share of other comprehensive loss of associates - net	10	(26,489)	(31,175)
Net change in fair value reserve of debt investments at FVOCI		(3,487)	2,901
Net change in cash flow hedges		10,067	(1,100)
		(17,769)	(30,424)
Items that will not be reclassified to profit or loss in subsequent periods			
Revaluation surplus on property	11	3,470	-
Net change in fair value reserve of equity investments at FVOCI		(2,384)	(10,673)
		1,086	(10,673)
Other comprehensive loss for the year		(16,683)	(41,097)
Total comprehensive loss for the year		(11,772)	(125,630)
Total comprehensive (loss) income attributable to:			
- Shareholders of the Parent		(24,943)	(107,205)
- Non-controlling interests		13,171	(18,425)
		(11,772)	(125,630)

The attached notes 1 to 34 form part of these consolidated financial statements.

United Gulf Holding Company B.S.C.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	Notes	2021 US\$ 000	2020 US\$ 000
OPERATING ACTIVITIES			
Net profit (loss) for the year before tax		8,919	(74,260)
Adjustments for non-cash items:			
Depreciation and amortization		4,983	6,943
Share of results of associates	10,24	(26,415)	(8,933)
Allowances for expected credit losses	7	2,833	33,981
Impairment loss (reversal of impairment) on investments		(58)	5,409
Change in fair values of investment properties	22	(1,194)	3,800
Gain on sale of investment properties	22	(5,548)	-
Loss (gain) on investments at fair value through profit or loss	22	(16,392)	10,744
Interest income	21	(43,382)	(46,888)
Interest expense	25	62,180	72,327
Gain due to reclassification of investment	22	-	(587)
Gain on sale of associates and subsidiaries	22	-	(1,429)
Provisions for unfunded participation		-	2,634
Operating (loss) profit before changes in operating assets and liabilities		(14,074)	3,741
Changes in operating assets and liabilities:			
Placements with banks with original maturities of more than ninety days		(23,208)	(83,767)
Investments at fair value through profit or loss		7,784	128,067
Investments at fair value through other comprehensive Income		(12,842)	(136,672)
Investments at amortised cost		(25,248)	227
Loans and receivables		(33,336)	31,225
Other assets		29,633	5,392
Due to banks and other financial institutions		108,955	14,733
Deposits from customers		(120,683)	43,064
Other liabilities		366	(6,926)
Interest received		42,959	54,125
Interest paid		(64,225)	(73,064)
Donations		(50)	(200)
Directors' remuneration		(225)	(195)
Net cash used in operating activities		(104,194)	(20,250)
INVESTING ACTIVITIES			
Proceeds from the sale of investment property	11	40,748	781
Property and equipment - net	12	(5,126)	-
Investments in associates - net		(33,564)	18,507
Acquisition of Intangible assets - net		(2,359)	-
Net cash (used) in from investing activities		(301)	19,288
FINANCING ACTIVITIES			
Proceed from issuance of Rights Shares		-	68,694
Term loans - net		23,640	(187,977)
Interest payment on Perpetual Additional Tier 1 Capital		(3,504)	(7,805)
Movement in non-controlling interests		(664)	588
Net cash from (used in) financing activities		19,472	(126,500)
Foreign currency translation adjustments		6,331	(1,039)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(78,692)	(128,501)
Cash and cash equivalents at 1 January		572,838	701,339
NET CHANGE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	494,146	572,838

The attached notes 1 to 34 form part of these consolidated financial statements.

United Gulf Holding Company B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	<i>Attributable to shareholders of the Parent</i>											
	<i>Share capital</i>	<i>Share premium</i>	<i>Treasury shares</i>	<i>Treasury share reserve</i>	<i>Statutory reserve</i>	<i>Fair value reserve</i>	<i>Foreign currency translation reserve</i>	<i>Accumulated deficit</i>	<i>Total</i>	<i>Perpetual Tier 1 Capital</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
Balance at 1 January 2021	219,547	270,111	(320)	(1,518)	3,285	(107,590)	(3,148)	(100,553)	279,814	33,000	124,176	436,990
Net (loss) profit for the year	-	-	-	-	-	-	-	(8,313)	(8,313)	-	13,224	4,911
Other comprehensive (loss) income	-	-	-	-	-	(18,366)	1,736	-	(16,630)	-	(53)	(16,683)
Total comprehensive (loss) income for the year	-	-	-	-	-	(18,366)	1,736	(8,313)	(24,943)	-	13,171	(11,772)
Transfer upon disposal of equity investments carried at FVOCI (note 19)	-	-	-	-	-	(5,454)	(96)	5,550	-	-	-	-
Interest payment on perpetual Tier 1 Capital	-	-	-	-	-	-	-	(7,767)	(7,767)	-	-	(7,767)
Write-off of accumulated losses (note 18)	-	(100,553)	-	-	-	-	-	100,553	-	-	-	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(664)	(664)
Balance at 31 December 2021	219,547	169,558	(320)	(1,518)	3,285	(131,410)	(1,508)	(10,530)	247,104	33,000	136,683	416,787
Balance at 1 January 2020	206,487	214,477	(320)	(1,518)	3,285	(76,150)	(3,093)	(14,555)	328,613	33,000	142,013	503,626
Net loss for the year	-	-	-	-	-	-	-	(70,296)	(70,296)	-	(14,237)	(84,533)
Other comprehensive loss	-	-	-	-	-	(36,854)	(55)	-	(36,909)	-	(4,188)	(41,097)
Total comprehensive loss for the year	-	-	-	-	-	(36,854)	(55)	(70,296)	(107,205)	-	(18,425)	(125,630)
Issuance of rights shares (note 18)	13,060	55,634	-	-	-	-	-	-	68,694	-	-	68,694
Transfer upon disposal of equity investments carried at fair value through other comprehensive income	-	-	-	-	-	5,414	-	(5,414)	-	-	-	-
Modification loss net of government assistance (note 34)	-	-	-	-	-	-	-	(2,483)	(2,483)	-	-	(2,483)
Interest payment on Perpetual Tier 1 Capital	-	-	-	-	-	-	-	(7,805)	(7,805)	-	-	(7,805)
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	588	588
Balance at 31 December 2020	219,547	270,111	(320)	(1,518)	3,285	(107,590)	(3,148)	(100,553)	279,814	33,000	124,176	436,990

The attached notes 1 to 34 form part of these consolidated financial statements.

At 31 December 2021

1 INCORPORATION AND PRINCIPAL ACTIVITIES

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

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

The Company's parent and ultimate holding company is Kuwait Projects Company (Holding) K.S.C. ["KIPCO"], a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange (Boursa Kuwait). As at 31 December 2021, KIPCO owned 98 % of the Company's outstanding shares (31 December 2020: 98%).

These consolidated financial statements were authorised for issue by the Board of Directors on 27 February 2022.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance and framework

The consolidated financial statements of the Group have been prepared in accordance with the relevant provisions of the Bahrain Commercial Companies Law, directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse and directives of the Capital Markets Supervision Directorate (CMSD) of the Central Bank of Bahrain (CBB). These include circulars on regulatory concessionary measures in response to COVID-19 issued by CBB. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020 and related CBB communications, required the adoption of all International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), except for:

- (a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, in equity instead of profit or loss as required by IFRS 9 'Financial Instruments' (IFRS 9). Any other modification gain or loss on financial assets are recognized in accordance with the requirements of IFRS 9; and
- (b) recognition of financial assistance received from the government and / or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity instead of profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in profit or loss. Any other financial assistance is recognized in accordance with the requirements of IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'. Please refer note 34 for further details.

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'IFRS as modified by CBB'.

For the purpose of these consolidated financial statements, the financial information of the subsidiaries has been adjusted to align with the above framework.

2.2 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement at fair value of investments at Fair Value Through Profit or Loss ("FVTPL") and Fair Value Through Other Comprehensive Income ("FVOCI"), investment properties and derivative financial instruments.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Presentation and functional currency

The consolidated financial statements have been presented in United States Dollar (US\$), which is also the functional currency of the Company and all the amounts reported in the consolidated financial statements are rounded to the nearest US\$ thousands, except where otherwise indicated.

2.4 New and amended standards and interpretations adopted during the year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following new and amended standards and interpretations applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2021:

2.4.1 Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has certain exposure to IBORs on its financial instruments that will be reformed as part of this market-wide initiative. It was expected that most reforms affecting the Group will be completed by the end of 2021. The Group is in the process of amending or preparing to amend contractual terms in response to IBOR reform, and there is still uncertainty over the timing and the methods of transition in some jurisdictions that the Bank operates in. The Group anticipates that IBOR reform will have operational, risk management and accounting impacts across all of its business lines.

Interbank offered rates ("IBORs"), such as the London Interbank Offered Rate ("LIBOR") used to, play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments. Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted.

Interest Rate Benchmark Reform - Phase 2 amendments have become effective from 1 January 2021 which address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities and hedge accounting. The Group has adopted the requirements of 'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) which is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted.

The amendments require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability. In addition, it provides certain exceptions to hedge accounting requirements.

The majority of LIBOR and other Interbank Offer Rates are discontinued after 31 December 2021 and replaced with certain Alternative Benchmark Rates, with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New and amended standards and interpretations adopted during the year (continued)

2.4.1 Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (continued)

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

2.4.2 COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received COVID-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

2.5 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries as at 31 December 2021 and 2020. The reporting dates of the subsidiaries and the Company are identical and the subsidiaries' accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

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

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Basis of consolidation (continued)

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

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

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

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

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

The principal subsidiaries of the Company are as follows:

<i>Name of the subsidiary</i>	<i>Country of incorporation</i>	<i>Ownership at 31 December</i>		<i>Year of incorporation</i>
		<i>2021</i>	<i>2020</i>	
<i>Held directly</i>				
United Gulf Bank B.S.C. (c) [UGB]	Bahrain	100%	100%	1980
FIMBank Group [FIMBank]	Malta	80%	80%	1994
Hatoon Real Estate Company	Kuwait	100%	100%	2008
Syria Gulf Investment Company	Syria	99%	99%	2007
<i>Held through UGB</i>				
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	60%	60%	1998
United Gulf Financial Services Company North Africa [UGFS-NA]	Tunisia	84%	84%	2008
United Gulf Realty International, Ltd [UGRIL]	B.V.I.	100%	100%	2012
United Gulf Asset Company W.L.L.	Bahrain	100%	100%	2017
<i>Held through FIMBank</i>				
India Factoring and Finance Solutions Private Limited	India	87%	87%	2010
FIM Holdings (Chile) S.p.a.	Chile	100%	100%	2014
London Forfaiting Company Limited	U.K.	100%	100%	2009
London Forfaiting International Limited	U.K.	100%	100%	2009
London Forfaiting Americas Inc.	U.S.A.	100%	100%	2009
London Forfaiting do Brasil Ltd.	Brazil	100%	100%	2009

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Basis of consolidation (continued)

<i>Name of the subsidiary</i>	<i>Country of incorporation</i>	<i>Ownership at 31 December</i>		<i>Year of incorporation</i>
		<i>2021</i>	<i>2020</i>	
<i>Held through FIMBank</i>				
FIM Factors B.V.	Netherlands	100%	100%	2009
FIM Business Solutions Limited	Malta	100%	100%	2009
FIM Property Investment Limited	Malta	100%	100%	2010
The Egyptian Company for Factoring S.A.E.	Egypt	100%	100%	2016
<i>Held through KAMCO</i>				
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	100%	2007
Al Jazi Money Market Fund	Kuwait	51%	51%	2007
Al Tadamon United Holding Company	Kuwait	96%	96%	2017
Al Zad Real Estate W.L.L.	Kuwait	99%	99%	2007
Bukeye Power Project Advisory Company	U.S.A.	48%	48%	2017
Bukeye Power Project Manager Limited	Jersey	100%	100%	2017
Carnation Advisory Company LLC	U.S.A.	75%	75%	2018
Carnation Manager limited	U.K.	100%	100%	2018
Centerstone Investor	U.S.A.	100%	100%	2021
First Brokerage	Kuwait	93%	93%	1985
Global DIFC	U.A.E.	100%	100%	2013
KAMCO Investment Company Saudi	Saudi Arabia	100%	100%	2016
KAMCO Egypt Holding Limited	U.A.E.	-	100%	2018
Kamco GCC Opportunistic Fund	Kuwait	91%	100%	2013
KAMCO Investment Company (DIFC) Limited	U.A.E.	-	100%	2016
KAMCO MENA Plus (DIFC)	U.A.E.	58%	58%	2019
Kubbar United Real Estate Company	Kuwait	100%	100%	2017
Kuwait Private Equity Opportunity Fund	Kuwait	73%	73%	2004
Lawson Lane Investor Incorporation	U.S.A.	100%	100%	2020
Nawasi United Holding Company	Kuwait	96%	96%	2017
North Africa Real Estate Company	Kuwait	100%	100%	2014
Plans United Real Estate Company	Kuwait	100%	100%	2017
Project Plaza Investor Incorporation	U.S.A.	100%	100%	2019
Shuroq Investment Services	Oman	100%	77%	1998
<i>Held through UGFS-NA</i>				
United Gulf Financial Services UGAS	Tunisia	100%	100%	2010

2.6 Summary of significant accounting policies

2.6.1 Business combinations

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.1 Business combinations (continued)

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

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

2.6.2 Goodwill and other intangible assets

Goodwill

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

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

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

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

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

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

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or definite.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.2 Goodwill and other intangible assets (continued)

Other intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income.

2.6.3 Investments in associates

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

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

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

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

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.4 Financial instruments

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

Date of recognition

Financial assets and liabilities, with the exception of loans and receivables, due to banks and other financial institutions and deposits from customers, are initially recognized on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and receivables are recognized when funds are transferred to the customers' accounts. The Group recognizes due to banks and other financial institutions and deposits from customers when funds are transferred to the Group.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. At initial recognition, the Group 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 consolidated statement of income. Immediately after initial recognition, an expected credit loss ("ECL") is recognized for financial assets measured at amortised cost and debt instruments measured at FVOCI, which results in an accounting loss being recognized in the consolidated statement of income when an asset is newly originated.

When the fair value of financial assets and liabilities at initial recognition differs from the transaction price, the Group accounts for the day 1 profit or loss 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 recognized 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 derecognized.

Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- amortised cost;
- FVOCI; or
- FVTPL.

The Group classifies and measures its derivative and trading portfolio at FVTPL. The Group may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are derivative instruments.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.5 Financial assets

Classification and subsequent measurement

The classification requirements for financial assets is as below:

(a) Debt type instrument classification and Subsequent measurement:

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group'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 Group 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. Interest income from these financial assets is included in 'Interest income' using the Effective Interest Rate ("EIR") method.
- 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 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 consolidated statement of income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to consolidated income and recognised in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the EIR method.
- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. 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 consolidated profit or loss and presented in the consolidated statement of income within 'Net investment income' 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 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Business model

The Group 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 Group manages the assets in order to generate cash flows. That is, whether the Group'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 '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:

- 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;

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6.5 Financial assets (continued)

(a) Debt type instrument classification and subsequent measurement (continued):

Business model (continued)

- How the asset's and business model performance is evaluated and reported to key management personnel and Asset and Liability Committee (ALCO);
- 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 Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

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 realized in a way that is different from the Group's original expectations, the Group 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.

SPPI test

As a second step of its classification process the Group 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 amortization 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 SPPI, the Group 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 Group 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 Group'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.

The Group 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.5 Financial assets (continued)

(b) 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. Examples of equity instruments include basic ordinary shares.

Equity instruments at FVOCI

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis. Fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to consolidated statement of income, including on disposal. Equity investments at FVOCI are not subject to impairment assessment. All other equity investments which the Group has not irrevocably elected at initial recognition or transition, to classify at FVOCI, are recognised at FVTPL.

Financial asset at FVTPL

The Group classifies financial assets at fair value through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the consolidated statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Changes in fair values gain and losses, financing income and dividends are recorded in consolidated statement of income according to the terms of the contract, or when the right to payment has been established.

Dividends are recognized in the consolidated statement of income as 'Investment income - net' when the Group's right to receive payments is established.

Impairment

The Group assesses on a forward-looking basis, the ECL associated with its debt instruments carried at FVOCI and assets carried at amortised cost and the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes a loss allowance 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.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.5 Financial assets (continued)

Impairment (continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: estimates the expected portion of the loan commitment that are drawn down over the expected life of the loan commitment; and calculates the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down; and
- financial guarantee contracts: estimates the ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

For the purposes of calculation of ECL, the Group categorizes its FVOCI debt securities, assets at amortised cost, loans and receivable, loan commitments and financial guarantee contracts into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing: when assets are first recognized, the Group recognizes an allowance based up to 12-month ECL.
- Stage 2 – Significant Increase in Credit Risk (SICR): when a loan shows a significant increase in credit risk, the Group records an allowance for the lifetime ECL.
- Stage 3 – Credit-impaired: the Group recognizes the lifetime ECL for these loans.

For the purposes of categorization into above stages, the Group has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The Group records impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the ECL does not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

No impairment is recorded on equity investments.

Stage 1

The Group measures loss allowances at an amount up to 12-month ECL for Stage 1 exposures. All financial assets are classified as Stage 1 on initial recognition date. Subsequently on each reporting date the Group classifies following as Stage 1:

- debt type assets that are determined to have low credit risk at the reporting date; and
- on which credit risk has not increased significantly since their initial recognition.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.5 Financial assets (continued)

Impairment (continued)

Measurement of ECL (continued)

Stage 2

IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognized based on their lifetime ECLs.

The Group considers whether there has been a significant increase in credit risk of an asset by comparing the rating migration upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment that takes into account a number of economic scenarios, in order to recognize the probability of higher losses associated with more negative economic outlooks.

It is the Group's policy to evaluate additional available reasonable and supportive forward-looking information as further additional drivers.

Stage 3

Financial assets are included in Stage 3 when there is objective evidence that the loan is credit impaired. At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

At 31 December 2021

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.5 Financial assets (continued)

Impairment (continued)

Measurement of ECL (continued)

Stage 3 (continued)

- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Other than originated credit-impaired loans, loans are transferred from Stage 3 if they no longer meet the criteria of credit-impaired after a probation period.

Forward looking information

The Group incorporates forward-looking information in the measurement of ECLs.

The Group considers forward-looking information such as macroeconomic factors (e.g., GDP growth, oil prices, country's equity indices and unemployment rates) and economic forecasts.

The Group uses internal information coming from internal economic experts, combined with published external information from government and private economic forecasting services. These forward looking assumptions undergo an internal governance process before they are applied for different scenarios.

Presentation of allowance for ECL in the consolidated statement of financial position:

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a provision under other liabilities; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the cumulative changes in fair value reserve.

Limitation of estimation techniques

The models applied by the Group may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Adjustments are expected to be made until the base models are updated. Although the Group uses data that is as current as possible, models used to calculate ECLs are based on data that is up to date except for certain factors for which the data is updated once it is available and adjustments are made for significant events occurring prior to the reporting date.

Experienced credit adjustment

The Group's ECL allowance methodology requires the Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.6 Derivatives and hedging activities

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps and forward foreign exchange contracts. Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (a) Hedges of the fair value of recognized assets or liabilities or firm commitments (fair value)
- (b) Hedges of highly probable future cash flows attributable to a recognized asset or liability (cash flow hedges); or
- (c) Hedges of a net investment in a foreign operation (net investment hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of income, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income.

Amounts accumulated in equity are recycled to the consolidated statement of income in the periods when the hedged item affects income or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized in the periods when the hedged item affects income or loss. When a forecast transaction is no longer expected to occur (for example, the recognized hedged asset is disposed of), the cumulative gain or loss previously recognized in other comprehensive income is immediately reclassified to the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.6 Derivatives and hedging activities (continue)

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income. Gains and losses accumulated in equity are included in the consolidated statement of income when the foreign operation is disposed of as part of the gain or loss on the disposal.

(e) Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

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

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

(f) Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The majority of the Group's derivative contracts are entered into with other financial institutions.

(g) Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to entering into forward contracts with external counterparties.

(h) Derivatives held or issued for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. The Board has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on an ongoing basis and hedging strategies used to ensure positions are maintained within established limits. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps are reviewed on an ongoing basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Board of Directors.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.6 Derivatives and hedging activities (continue)

(h) Derivatives held or issued for hedging purposes (continued)

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against overall statement of financial position exposures. For interest rate risk this is carried out by monitoring the duration of assets and liabilities using simulations to estimate the level of interest rate risk and entering into interest rate swaps and futures to hedge a proportion of the interest rate exposure, where appropriate. Since strategic hedging does not qualify for special hedge accounting related derivatives are accounted for as trading instruments.

The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the interest rate risk arising from specifically identified loans and securities bearing fixed interest rates. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as hedges.

(i) Hedge strategies

The Group applies hedge accounting in two separate hedging strategies, as follows:

(i) Interest rate risk on fixed rate debt type instruments (fair value hedge)

The Group holds a portfolio of long-term variable and fixed rate loans / securities and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this risk exposure by entering into pay fixed / receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term variable / fixed rate loans and securities arising solely from changes in LIBOR (the benchmark rate of interest). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are as follows:

- (i) differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- (ii) hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument; and
- (iii) counterparty credit risk which impacts the fair value of uncollateralized interest rate swaps but not the hedged items.

(ii) Net investment in foreign operation (net investment hedge)

The Group has investments in foreign operations which are consolidated in these financial statements. The foreign exchange rate exposure arising from this investment is hedged through the use of forward exchange contracts. These contracts are designated as net investment hedges to hedge the equity of the foreign operations. The Group establishes the hedging ratio by matching the contracts with the net assets of the foreign operations.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.6 Derivatives and hedging activities (continue)

(j) Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. For hedges of exposures to fluctuations in foreign exchange rates, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness.

In hedges of foreign currency exposures, ineffectiveness may arise if the timing of the cash flows changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. In cases, where the Group does not hedge 100% of its loans, the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency. It may occur due to the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and differences in critical terms between the interest rate swaps and loans.

There was no ineffectiveness during 2021 or 2020 in relation to the interest rate swaps.

2.6.7 Interest income

Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVTPL and financial assets measured at FVOCI. 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.

The Group adopted IBOR reform Phase 2 from its effective date, which allows as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

2.6.8 Fair value measurement

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

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.8 Fair value measurement (continued)

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

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

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

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

Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

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

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

For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques may include the following:

- brokers' quotes
- recent arm's length market transactions
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- option pricing models
- other valuation methods

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.8 Fair value measurement (continued)

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

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

2.6.9 Derecognition

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

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

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

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

The Group derecognizes financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, many financial instruments have already been amended or will be amended during 2022 as they transition from IBORs to RFRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition.

For financial instruments measured at amortised cost, the Group first applies the practical expedient as described below in Note 2.6.22 to reflect the change in the referenced interest rate from an IBOR to a RFR. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

2.6.9 Write-offs

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 Group'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 consolidated statement of income.

2.6.11 Investment properties

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.11 Investment properties (continued)

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

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

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

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

2.6.12 Property and equipment

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Depreciation is provided on all property and equipment, except land and work in progress, at rates calculated to write off the cost of each asset on a straight line basis to their residual values over its expected useful life which is between 3 to 5 years for all property and equipment except for certain building fixtures and fittings which are depreciated over expected useful life of 10 years and building civil structure which is depreciated over its expected useful life of 20 years.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.6.13 Financial liabilities

Financial liabilities comprise of due to banks and other financial institutions, deposits from customers, loans, bonds and other liabilities. These are stated at amortised cost. Transaction costs are amortised over the period of the debt using the effective yield method. Financial liabilities are classified as either FVTPL or at amortised cost. Accounting and subsequent measurement of liabilities at FVTPL is similar to assets at amortised cost except for there being no need for and ECL. In case of financial liabilities at FVTPL all fair value movements are taken to profit or loss except for gains or losses arising from changes to issuers' credit rating which is presented in OCI with no subsequent reclassification to profit or loss.

Classification and subsequent measurement

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.14 Treasury shares and treasury share reserve

Treasury shares are own equity instruments of the Group which are reacquired by the Group or any of its subsidiaries. These are stated at cost and deducted from equity. Any gain or loss arising on reissuance of treasury shares is taken directly to treasury share reserve in the consolidated statement of changes in equity.

2.6.15 Cash and cash equivalents

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

2.6.16 Fiduciary assets

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

2.6.17 Dividends on ordinary shares

The Group recognizes a liability to make cash or non-cash distributions to its equity holders when the distribution is authorized and the distribution is no longer at the discretion of the Group. A distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

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

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

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.6.18 Taxes

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

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

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

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

- (a) When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) In respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.18 Taxes (continued)

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

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

2.6.19 Offsetting

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

2.6.20 Trade and settlement date accounting

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

2.6.21 Employees benefits

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

2.6.22 Provisions

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

2.6.23 Foreign currencies

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

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

a) Translation of foreign currency transactions and balances

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

b) Translation of financial statements of foreign operations

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.23 Foreign currencies (continued)

b) Translation of financial statements of foreign operations (continued)

On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in the consolidated statement of income.

2.6.24 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(i) Interest income and expense

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

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

(ii) Commission income and other fees are recognized when earned.

(iii) Performance-based fees

Performance-based fees is not recognized until it is highly probable that a significant reversal in the amount of cumulative revenue will not occur. The recognition of performance-based fees requires significant judgement and is unlikely to be recognized in full until it has crystallized or is no longer subject to claw back.

(iv) Advisory income

The Group applies significant judgement to identify the performance obligations in an advisory service contract and whether each service is capable of being distinct in the context of contract. Revenue from these performance obligations are recognized either at a point in time or over time when the respective performance obligations in a contract are delivered to the customer.

(v) Rental income on investment properties is recognized on a straight line basis.

(vi) Dividend income is recognized when the Group's right to receive the dividend is established.

2.6.25 Contingent liabilities and contingent assets

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.26 Financial guarantee contracts and commitments

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

The premium received is recognized in the consolidated statement of income 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 Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

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

2.6.27 Segment information

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

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

2.7 Significant assumptions, accounting judgements and estimates

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

a) Business model

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- i) Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- ii) Management's evaluation of the performance of the portfolio and liquidity requirements in the current market conditions; and
- iii) Management's strategy in terms of earning contractual interest revenues or generating capital gains.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Significant assumptions, accounting judgements and estimates (continued)

b) Measurement of the ECL

The measurement of the ECL for financial assets measured at amortised cost and debt instruments at FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behaviour (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 Group'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:

- Internal credit rating model, which assigns PDs to the individual ratings;
- Determining criteria for 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 PDs, EADs and LGDs;
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining relevant period of exposure with respect to the revolving facilities and facilities undergoing restructuring at the time of the reporting date.

c) 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 Group applies judgement while carrying out 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.

d) Going concern

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

e) Impairment of goodwill and intangible assets

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The key assumptions and estimates used to determine the recoverable amount for the different CGUs, are disclosed and further explained in note 13 to these consolidated financial statements.

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the management, extrapolated for five year projections using nominal projected banking sector growth rates in the respective countries in which they operate. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these business segments.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Significant assumptions, accounting judgements and estimates (continued)

f) Fair value of financial instruments

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

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

3.1 IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach); and/or
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

3.2 Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

3.3 Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively are not expected to have material impact on the Group's financial statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

3.4 Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the consolidated financial statements of Group.

3.5 Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

3.6 IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the Group first applies the amendment.

The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

3.7 IAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

3.8 Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

3.9 Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The amendments are not expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

4 FINANCIAL ASSETS AND LIABILITIES

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

	<i>Designated at FVTPL</i>	<i>Designated at FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
31 December 2021				
Demand and call deposits with banks	-	-	406,852	406,852
Placements with banks	-	-	222,700	222,700
Investments at fair value through profit or loss	553,156	-	-	553,156
Investments at fair value through other comprehensive	-	354,268	-	354,268
Investments carried at amortised cost	-	-	35,087	35,087
Loans and receivables	-	-	625,134	625,134
Other assets	669	4,960	58,026	63,655
Total financial assets	553,825	359,228	1,347,799	2,260,852
Due to banks and other financial	-	-	756,718	756,718
Deposits from customers	-	-	994,590	994,590
Loans payable	-	-	842,258	842,258
Long term bonds	-	-	132,371	132,371
Other liabilities	1,594	320	95,550	97,464
Total financial liabilities	1,594	320	2,821,487	2,823,401
31 December 2020				
Demand and call deposits with banks	-	-	465,391	465,391
Placements with banks	-	-	219,348	219,348
Investments at fair value through profit or loss	544,548	-	-	544,548
Investments at fair value through other comprehensive	-	347,294	-	347,294
Investments carried at amortised cost	-	-	9,839	9,839
Loans and receivables	-	-	593,715	593,715
Other assets	-	-	85,091	85,091
Total financial assets	544,548	347,294	1,373,384	2,265,226
Due to banks and other financial	-	-	647,763	647,763
Deposits from customers	-	-	1,115,273	1,115,273
Loans payable	-	-	818,618	818,618
Long term bonds	-	-	131,497	131,497
Other liabilities	1,684	4,014	88,089	93,787
Total financial liabilities	1,684	4,014	2,801,240	2,806,938

The fair values of financial instruments on the consolidated statement of the financial position are not significantly different from their carrying values included in the financial statements as at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

5 CASH AND CASH EQUIVALENTS

	2021	2020
	US\$ 000	US\$ 000
Demand and call deposits with banks	406,852	465,391
Placements with banks	222,700	219,348
	629,552	684,739
<i>Adjusted for:</i>		
Time deposits with original maturities of more than ninety days	117,020	101,919
Mandatory reserves	18,872	10,765
Expected credit losses	(486)	(783)
Cash and cash equivalents	494,146	572,838

6 INVESTMENTS

	2021			
	<i>Designated at FVTPL</i>	<i>Designated at FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Quoted investments				
Equities	7,322	5,133	-	12,455
Debt securities*	12,944	162,409	35,087	210,440
Managed funds	5,517	-	-	5,517
Total quoted investments	25,783	167,542	35,087	228,412
Unquoted investments				
Forfeiting assets	439,985	-	-	439,985
Equities	1,055	186,684	-	187,739
Debt securities	827	-	-	827
Managed funds	85,506	42	-	85,548
Total unquoted investments	527,373	186,726	-	714,099
Total investments	553,156	354,268	35,087	942,511
	2020			
	<i>Designated at FVTPL</i>	<i>Designated FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Quoted investments				
Equities	7,916	5,034	-	12,950
Debt securities	12,436	153,328	9,839	175,603
Managed funds	1,313	-	-	1,313
Total quoted investments	21,665	158,362	9,839	189,866
Unquoted investments				
Forfeiting assets	452,327	-	-	452,327
Equities	2,608	188,899	-	191,507
Debt securities	-	-	-	-
Managed funds	67,948	33	-	67,981
Total unquoted investments	522,883	188,932	-	711,815
Total investments	544,548	347,294	9,839	901,681

*As at 31 December 2021, debt securities carried at amortised cost include bonds amounting to US\$ 25,248 thousand (2020: nil) issued by GCC governments rated A- (as per the S&P ratings) or better, and by a GCC-based corporate rated Ba2 by Moody's. All of these exposures were classified as stage 1 exposures. The fair values of these bonds was approximately equal to their carrying values as of 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

7 EXPECTED CREDIT LOSSES

An analysis of movement in ECL allowances during the year is as follows:

	<i>Stage 1</i> <i>US\$ 000</i>	<i>Stage 2</i> <i>US\$ 000</i>	<i>Stage 3</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
As at 1 January 2021	17,142	7,074	107,602	131,818
Transfer from Stage 1 to Stage 3	(701)	-	701	-
Transfer from Stage 2 to Stage 1	2,096	(2,096)	-	-
Transfer from Stage 2 to Stage 3	-	(230)	230	-
Net remeasurement of loss allowances	8	(991)	3,816	2,833
Written-off during the year	-	-	(20,630)	(20,630)
Foreign exchange and other adjustments	346	(7)	(4,336)	(3,997)
As at 31 December 2021	18,891	3,750	87,383	110,024
As at 1 January 2020	15,711	7,309	83,633	106,653
Transfer from Stage 1 to Stage 3	(880)	-	880	-
Transfer from Stage 2 to Stage 3	-	(498)	498	-
Net remeasurement of loss allowances	2,309	258	31,414	33,981
Written-off during the year	-	-	(10,456)	(10,456)
Foreign exchange and other adjustments	2	5	1,633	1,640
As at 31 December 2020	17,142	7,074	107,602	131,818

8 LOANS AND RECEIVABLES

	<i>2021</i>			
	<i>Stage 1</i> <i>US\$ 000</i>	<i>Stage 2</i> <i>US\$ 000</i>	<i>Stage 3</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
Factoring assets	258,416	133,105	67,134	458,655
Loans to customers	115,842	7,629	76,183	199,654
Loans to banks	2,770	-	-	2,770
Syndicated loans	47,641	-	5,428	53,069
Staff loans	4,800	-	-	4,800
	429,469	140,734	148,745	718,948
Less: Expected credit losses	(3,429)	(3,163)	(87,222)	(93,814)
	426,040	137,571	61,523	625,134
	<i>2020</i>			
	<i>Stage 1</i> <i>US\$ 000</i>	<i>Stage 2</i> <i>US\$ 000</i>	<i>Stage 3</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
Factoring assets	120,926	150,956	98,284	370,166
Loans to customers	153,739	37,605	98,999	290,343
Loans to banks	4,618	-	10,192	14,810
Syndicated loans	9,617	12,262	7,916	29,795
Staff loans	4,705	-	-	4,705
	293,605	200,823	215,391	709,819
Less: Expected credit losses	(2,269)	(6,296)	(107,539)	(116,104)
	291,336	194,527	107,852	593,715

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

8 LOANS AND RECEIVABLES (continued)

The movement in the expected credit losses is as follows:

	<i>2021</i>			
	<i>Stage 1</i> <i>US\$ 000</i>	<i>Stage 2</i> <i>US\$ 000</i>	<i>Stage 3</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
As at 1 January 2021	2,269	6,296	107,539	116,104
Transfer from Stage 2 to Stage 1	2,090	(2,090)	-	-
Transfer from Stage 2 to Stage 3	-	(230)	230	-
Net remeasurement of loss allowances	(929)	(813)	3,661	1,919
Written-off during the year	-	-	(19,872)	(19,872)
Foreign exchange and other adjustments	(1)	-	(4,336)	(4,337)
As at 31 December 2021	3,429	3,163	87,222	93,814

	<i>2020</i>			
	<i>Stage 1</i> <i>US\$ 000</i>	<i>Stage 2</i> <i>US\$ 000</i>	<i>Stage 3</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
As at 1 January 2020	1,798	7,130	83,633	92,561
Transfer from Stage 1 to Stage 2	(62)	62	-	-
Transfer from Stage 3 to Stage 2	-	(560)	560	-
Net remeasurement of loss allowances	554	(327)	31,386	31,613
Written-off during the year	-	-	(9,673)	(9,673)
Foreign exchange and other adjustments	(21)	(9)	1,633	1,603
As at 31 December 2020	2,269	6,296	107,539	116,104

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

	<i>Neither past due nor impaired US\$ 000</i>	<i>Past due but not impaired US\$ 000</i>	<i>Past due and impaired US\$ 000</i>	<i>Total US\$ 000</i>
31 December 2021				
Factoring assets	379,568	11,953	67,134	458,655
Loans to customers	118,766	4,705	76,183	199,654
Loans to banks	2,770	-	-	2,770
Syndication loans	47,641	-	5,428	53,069
Staff loans	4,800	-	-	4,800
Total	553,545	16,658	148,745	718,948
<i>31 December 2020</i>				
Factoring assets	174,796	97,086	98,284	370,166
Loans to customers	153,739	37,605	98,999	290,343
Loans to banks	4,618	-	10,192	14,810
Syndication loans	9,617	12,262	7,916	29,795
Staff loans	4,705	-	-	4,705
Total	347,475	146,953	215,391	709,819

All of the Group's loans and receivables which were past due but not impaired as of 31 December 2021 and 2020 were overdue for less than 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

9 OTHER ASSETS

	2021	2020
	US\$ 000	US\$ 000
Due from customers	60,474	72,031
Deferred tax asset (Note 14)	24,921	25,876
Accounts receivable	17,891	27,538
Current tax asset	1,280	1,397
Interest receivable on loans and advances	875	453
	105,441	127,295
Less: Expected credit losses	(15,585)	(14,931)
Prepayments	5,618	7,177
	95,474	119,541

The movement in the expected credit losses is as follows:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
As at 1 January 2021	14,128	740	63	14,931
Transfer from Stage 1 to Stage 3	(701)	-	701	-
Net remeasurement of loss allowances	1,338	(153)	155	1,340
Written-off during the year	-	-	(758)	(758)
Foreign exchange and other adjustments	72	-	-	72
As at 31 December 2021	14,837	587	161	15,585
As at 1 January 2020	13,379	22	-	13,401
Transfer from Stage 1 to Stage 3	(818)	-	818	-
Net remeasurement of loss allowances	1,544	718	28	2,290
Written-off during the year	-	-	(783)	(783)
Foreign exchange and other adjustments	23	-	-	23
As at 31 December 2020	14,128	740	63	14,931

10 INVESTMENTS IN ASSOCIATES

	<i>Name</i>	<i>Activit</i>	2021		2020	
			<i>Carrying</i>	<i>Ownership</i>	<i>Carrying</i>	<i>Ownership</i>
			<i>value</i>	<i>%</i>	<i>value</i>	<i>%</i>
				<i>US\$ 000</i>		<i>US\$ 000</i>
a)	Burgan Bank S.A.K.	Commercial banking	547,845	15	519,252	15
b)	United Real Estate Company	Real estate	46,054	10	47,879	10
c)	Assoufid B.V.	Project-development company	42,677	40	45,938	40
d)	Kamco Investment Fund	Fund	36,429	30	27,884	27
e)	North Africa Holding Company	Investments	7,949	48	12,973	48
f)	KAMCO Real Estate Yield Fund	Real estate	9,516	36	10,159	36
g)	Syria Gulf Bank	Commercial banking	10,257	31	10,264	31
h)	N.S. 88	Real estate	15,432	30	9,986	20

10 INVESTMENTS IN ASSOCIATES (continued)

	<i>Name</i>	<i>Activit</i>	<i>2021</i>		<i>2020</i>	
			<i>Carrying value US\$ 000</i>	<i>Ownership %</i>	<i>Carrying value US\$ 000</i>	<i>Ownership %</i>
i)	Manafae Investment Company	Islamic investment	10,158	34	9,985	34
j)	United Capital Transport Company K.S.C.C.	Transport	3,934	40	6,657	40
k)	United Gulf Sukuk Services	Investments	7	20	-	-
l)	United Real Estate Company - Syria	Real estate	4	20	4	20
			730,262		700,981	

- a) Burgan Bank S.A.K. ("Burgan Bank") is a listed commercial bank incorporated in the State of Kuwait. The Group owns 15% (2020: 15%) equity interest in Burgan Bank. The Group has the ability to exercise significant influence on Burgan Bank through representation on the board of directors of Burgan Bank.
- b) United Real Estate Company (URC), is a company listed on the Kuwait Stock Exchange. At 31 December 2021, the Group owns 10% (2020: 10%) of URC. The Group has the ability to exercise significant influence on URC through representation on the board of directors of URC.
- c) The Group owns 40% (2020: 40%) of Assoufid B.V., a closed company incorporated in the Netherlands.
- d) The Group holds a 30% (2020: 27%) equity interest in KAMCO Investment Fund ("KIF") through its subsidiary KAMCO.
- e) The Company owns 48% (2020: 48%) through its subsidiaries in North Africa Holding Company (NAHC), a closed company incorporated in the State of Kuwait in 2006.
- f) The Group holds a 36% (2020: 36%) equity interest in KAMCO Real Estate Yield Fund through its subsidiary KAMCO.
- g) Syria Gulf Bank (SGB) is a commercial bank incorporated in the Syrian Arab Republic. SGB commenced commercial operations in 2007. The Group owns a 31% (2020: 31%) equity stake in SGB.
- h) The Group owns 30% (2020: 20%) of N.S. 88 through its subsidiary KAMCO
- i) The Group owns 34% (2020: 34%) of Manafae Investment Company through its subsidiary
- j) United Capital Transport Company K.S.C.C. (UniCap) was incorporated in State of Kuwait in 2011. The Group owns a 40% (2020: 40%) equity interest through its subsidiary KAMCO. UniCap is a dedicated leasing solutions provider to governments, international oil companies and varied construction, mining and industrial services businesses.
- k) The Group set up United Gulf Sukuk Services in the Kingdom of Bahrain during the year. As of 31 December 2021 the Group directly owns 20% of the Company.
- l) United Real Estate Company - Syria is a closed company incorporated in the Syrian Arab Republic. At 31 December 2021, the Group owns 20% (2020: 20%) of its equity interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

10 INVESTMENTS IN ASSOCIATES (continued)

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2021 and 2020 on behalf of its associates.

Investments in material associates

Burgan Bank and URC are the Group's material associates, and are listed on the Kuwait Stock Exchange. Presented below are the aggregated financial information of these associates as disclosure of the financial information for each associate is not allowed by the stock exchange by-laws until the respective financial results of these associates are published.

	2021	2020
	US\$ 000	US\$ 000
Summarised statement of financial position:		
Current assets	16,262,913	15,275,430
Non-current assets	9,133,000	10,084,312
Current liabilities	14,886,938	18,654,315
Non-current liabilities	6,812,334	3,168,036
Equity	3,696,641	3,537,275
Group's ownership in equity	421,684	396,215
Other adjustments	172,215	170,916
Carrying amount of investments	593,899	567,131
Fair value of investment in associate based on quoted market price	416,689	292,197
	2021	2020
	US\$ 000	US\$ 000
Summarised statement of income:		
Operating income	384,635	271,238
Interest income	840,959	889,395
Interest expense	(454,805)	(470,975)
Administrative expenses	(633,387)	(632,426)
Profit for the year	137,402	57,232
Other comprehensive Loss for the year	(156,210)	(179,710)
Total comprehensive Loss for the year	(18,808)	(122,478)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

10 INVESTMENTS IN ASSOCIATES (continued)

	<i>2021</i>	<i>2020</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>
Summarised statement of income:		
Total comprehensive loss for the year attributable to shareholders of the Parent	(12,360)	(85,013)
Group's share of total comprehensive (loss) income for the year	(2,330)	7,386
Cash dividend received from the associate during the year	9,035	15,294

Investments in associates that are individually not significant

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

	<i>2021</i>	<i>2020</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>
Summarized statement of income for the year ended 31 December:		
Revenue	18,582	17,794
Income (loss) for the year	14,609	(12,909)
Total comprehensive income (loss) for the year	14,609	(12,909)
Group's share of income (loss) for the year	5,994	(2,685)

11 INVESTMENT PROPERTIES

	<i>2021</i>	<i>2020</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>
At 1 January	115,940	119,937
Reclassified from property and equipment (note 12)	35,853	-
Sale of investment property	(35,200)	-
Change in fair values	1,194	(3,800)
Foreign exchange adjustments	1	(197)
At 31 December	117,788	115,940

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

During the year, the Groups' subsidiary UGRIL disposed of its property in 176 Federal street, USA. The disposal generated a realised gain of US\$ 5,548 thousand.

During the year, a property consisting of land and building was transferred from property and equipment to investment properties, as majority of the property was being leased out to third parties and no longer being occupied by the Group. At the date of reclassification, the fair value was determined by an independent valuer. At the date of the reclassification, the carrying value of the property was US\$ 32,383 thousand and fair value was estimated to be US\$ 35,853 thousand. Accordingly, the increase of US\$ 3,470 thousand was recorded as other comprehensive income.

Valuations of investment properties were conducted by independent appraisers with a recognized and relevant professional qualification and recent experience of the location and category of investment property being valued. The discounted future cash flow method or property market value method has been used and deemed appropriate considering the nature and usage of the properties. The Group's investment properties are categorized in Level 3 of the fair value hierarchy as at 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

11 INVESTMENT PROPERTIES (continued)

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

12 PROPERTY AND EQUIPMENT

	<i>Land</i> <i>US\$ '000</i>	<i>Buildings</i> <i>US\$ '000</i>	<i>Furniture and fixtures</i> <i>US\$ '000</i>	<i>Computers and vehicles</i> <i>US\$ '000</i>	<i>Right- of-use assets</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
Cost						
Balance as at						
1 January 2021	27,322	87,722	20,309	23,075	3,600	162,028
Additions during the year	-	32	1,388	551	-	1,971
Reclassified to investment properties (note 11)	(15,510)	(53,947)	-	-	-	(69,457)
Disposals during the year	-	-	(143)	(129)	-	(272)
Exchange rate and other movements	110	848	(593)	144	-	509
At 31 December 2021	11,922	34,655	20,961	23,641	3,600	94,779
Accumulated depreciation						
Balance as at						
1 January 2021	-	(40,202)	(18,687)	(21,896)	(1,411)	(82,196)
Reclassified to investment properties (note 11)	-	37,074	-	-	-	37,074
Charge for the year	-	(1,446)	(1,373)	(734)	(8)	(3,561)
Depreciation relating to disposals during the year	-	-	122	127	-	249
Exchange rate and other movements	-	(600)	71	(126)	-	(655)
At 31 December 2021	-	(5,174)	(19,867)	(22,629)	(1,419)	(49,089)
Net book value:						
At 31 December 2021	11,922	29,481	1,094	1,012	2,181	45,690
At 31 December 2020	27,322	47,520	1,622	1,179	2,189	79,832

13 GOODWILL AND OTHER INTANGIBLE ASSETS

	<i>Goodwill</i> <i>US\$ '000</i>	<i>Customer relationships</i> <i>US\$ '000</i>	<i>Licenses with indefinite useful lives</i> <i>US\$ '000</i>	<i>Software</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
Cost					
Balance as at 1 January 2021	52,128	11,256	14,086	-	77,470
Additions during the year	-	-	-	1,779	1,779
Exchange rate and other movements	346	75	24	-	445
At 31 December 2021	52,474	11,331	14,110	1,779	79,694
Amortisation and impairment					
Balance as at 1 January 2021	-	(2,337)	(6,661)	-	(8,998)
Amortisation for the year	-	(1,258)	-	(164)	(1,422)
Exchange rate and other movements	-	(17)	(138)	-	(155)
At 31 December 2021	-	(3,612)	(6,799)	(164)	(10,575)
Net book value:					
At 31 December 2021	52,474	7,719	7,311	1,615	69,119

13 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

	<i>Goodwill</i>	<i>Customer</i>	<i>Licenses</i>	<i>Software</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>relationships</i>	<i>with indefinite</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
		<i>US\$ '000</i>	<i>useful lives</i>		
			<i>US\$ '000</i>		
Cost					
Balance as at 1 January 2020	52,306	11,295	13,566	-	77,167
Additions during the year	-	-	37	-	37
Exchange rate and other movements	(178)	(39)	483	-	266
At 31 December 2020	52,128	11,256	14,086	-	77,470
Amortization and impairment					
Balance as at 1 January 2020	-	(1,216)	(5,561)	-	(6,777)
Amortisation for the year	-	(1,126)	(1,100)	-	(2,226)
Exchange rate and other movements	-	5	-	-	5
At 31 December 2020	-	(2,337)	(6,661)	-	(8,998)
Net book value:					
At 31 December 2020	52,128	8,919	7,425	-	68,472

Goodwill

The goodwill as of 31 December relates to KAMCO (a subsidiary) and is allocated to the asset management and investment banking operating segment, a Cash Generating Unit (CGU). The recoverable amount of the CGU is determined based on a value-in-use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. The key assumptions used in the value in use calculation include a perpetuity growth rate of 3% (2020: 3%) and discount factor of 10% (2020: 8.4%). No goodwill impairment was identified in 2021 or 2020 as the recoverable amount of the CGU was higher than its net book value.

The calculation of value in use for the CGU is sensitive primarily to the expected growth rate and discount rate. Reasonable changes in these assumptions will not result in an impairment of the goodwill.

Other intangible assets

Customer relationship have an economic useful life of 10 years each and are amortised on a straight line basis.

14 TAXATION

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

a) Deferred tax asset

Deferred tax asset relate to the following:

	2021	2020
	US\$ 000	US\$ 000
Excess of capital allowances over depreciation	(665)	(665)
Allowances for uncollectibility	6,217	6,955
Changes in fair value of financial instruments	1,408	663
Unabsorbed capital allowances	622	622
Unabsorbed tax losses	17,253	18,215
Other temporary differences	86	86
	24,921	25,876

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

14 TAXATION (continued)

a) Deferred tax asset (continued)

Reconciliation of deferred tax assets is as follows:

	<i>Opening balance US\$ 000</i>	<i>Recognised in statement of OCI US\$ 000</i>	<i>Recognised in statement of income US\$ 000</i>	<i>Effects of movement in exchange rates US\$ 000</i>	<i>Closing balance US\$ 000</i>
2021					
Excess of capital allowances over depreciation	(665)	-	2	(2)	(665)
Allowances for uncollectibility	6,955	-	(740)	2	6,217
Changes in fair value of financial instruments	663	745	-	-	1,408
Unabsorbed capital allowances	622	-	-	-	622
Unabsorbed tax losses	18,215	-	(860)	(102)	17,253
Other temporary differences	86	-	-	-	86
	25,876	745	(1,598)	(102)	24,921
2020					
Excess of capital allowances over depreciation	(677)	-	13	(1)	(665)
Allowances for uncollectibility	23,165	-	(15,989)	(221)	6,955
Changes in fair value of financial instruments	1,036	(420)	47	-	663
Unabsorbed capital allowances	625	-	(3)	-	622
Unabsorbed tax losses	12,491	-	5,724	-	18,215
Other temporary differences	134	-	(48)	-	86
	36,774	(420)	(10,256)	(222)	25,876

As at 31 December 2021, the Group has unutilized tax losses of US\$ 139,935 thousand (2020: US\$ 114,449 thousand) that are available for offsetting against future taxable profits.

b) Deferred tax liabilities

Deferred tax liabilities relate to the following:

	2021 US\$ 000	2020 US\$ 000
Excess of capital allowances over depreciation	2,837	2,837
Revaluation of investment properties at fair value	1,378	4,913
	4,215	7,750

Reconciliation of deferred tax liabilities is as follows:

	<i>Opening balance US\$ 000</i>	<i>Recognized in statement of income US\$ 000</i>	<i>Closing balance US\$ 000</i>
2021			
Excess of capital allowances over depreciation	2,837	-	2,837
Revaluation of investment properties at fair value	4,913	(3,535)	1,378
	7,750	(3,535)	4,215
2020			
Excess of capital allowances over depreciation	2,837	-	2,837
Revaluation of investment properties at fair value	5,951	(1,038)	4,913
	8,788	(1,038)	7,750

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

14 TAXATION (continued)

c) Income tax

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

	2021	2020
	US\$ 000	US\$ 000
Consolidated statement of income		
Current income tax charge	(5,843)	(833)
Movement in deferred tax assets recognized in consolidated statement of income	(1,700)	(10,478)
Movement in deferred tax liabilities recognized in consolidated statement of income	3,535	1,038
Income tax charge reported in the statement of income - net	(4,008)	(10,273)

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

15 LOANS PAYABLE

31 December 2021	Currency	Total US\$ 000
Maturing within one year		
3 months or less	US\$	50,000
Over 3 months	US\$	165,000
		215,000
Maturing after one year		
More than 1 year and less than 2 years	US\$	203,900
More than 1 year and less than 2 years	KWD*	16,546
More than 2 years	US\$	406,812
		627,258
		842,258
31 December 2020		
Maturing within one year		
3 months or less	KWD*	19,724
3 months or less	US\$	50,000
3 months or less	GBP**	2,986
Over 3 months	US\$	94,096
		166,806
Maturing after one year		
More than 1 year and less than 2 years	US\$	516,812
More than 2 years	US\$	135,000
		651,812
		818,618

* KWD represents Kuwaiti Dinar.

** GBP represents the Pound Sterling.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

16 LONG TERM BONDS

	2021	2020
	US\$ 000	US\$ 000
Fixed interest rate of 6.00% per annum and maturing on 26 July 2023	49,308	48,983
Floating interest at CBK discount rate + 2.75% per annum (capped at 7% per annum) and maturing on 26 July 2023	83,063	82,514
	132,371	131,497

17 OTHER LIABILITIES

	2021	2020
	US\$ 000	US\$ 000
Staff related payables	30,377	27,900
Accrued expenses	28,639	20,842
Interest payable	8,735	10,780
Deferred income	7,366	10,110
Deferred tax liability (note 14)	4,215	7,750
Tax payable	3,761	3,113
Derivative liabilities (note 31)	1,914	5,698
Dividends payable	1,386	1,444
Other payables	26,413	27,123
	112,806	114,760

18 EQUITY

a) Share capital

	2021	2020
	US\$ 000	US\$ 000
Authorized share capital:		
Number of shares (in thousands)	505,400	505,400
Par value (US\$)	0.50	0.50
	252,700	252,700

Issued and fully paid up share capital:

Number of shares (in thousands)	439,094	439,094
Par value (US\$)	0.50	0.50
	219,547	219,547

b) Treasury shares and treasury shares reserve

At 31 December 2021, UGH held 640,091 treasury shares (2020: 640,091 shares). These treasury shares do not carry any voting rights and are not entitled to dividends. The net gain or loss on reissuance of treasury shares is taken to treasury share reserve in the consolidated statement of changes in equity and is not available for distribution. The value of treasury shares as of 31 December 2021 based on the last bid price of US\$ 3.29 (equivalent to BD 1.24) per share (2020: US\$ 3.29 (equivalent to BD 1.24) per share) was US\$ 2,106 thousand (2020: US\$ 2,106 thousand).

At 31 December 2021

18 EQUITY (continued)

c) Share premium

Share premium represents a non-distributable reserve arising from the acquisition of United Gulf Bank ("UGB") from its shareholders via a share swap offer of 1 new share of the Company for 2 shares of UGB. The reserve was credited with the difference between the value of shares and the net assets acquired. In an Extraordinary General Meeting (the "EGM") held on 31 March 2021, the shareholders resolved to write off the accumulated losses outstanding as of 31 December 2020 amounting to US\$ 100,553 thousand against the share premium held by the Company after obtaining all the required regulatory approval.

d) Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Company's articles of association, 10% of the profit for the year is transferred to a statutory reserve until such time as the reserve reaches 50% of the Company's paid-up share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain. No amounts were transferred to this reserve as the Group incurred losses for the year 2021 (2020: same).

e) Dividend paid

No dividend was announced or paid during year ended 31 December 2021 and 2020.

f) Foreign currency translation reserve

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

g) Right issue

On 10 December 2020, the company concluded an issuance of 26,119 thousand rights shares ("rights issue") to its existing shareholders for a consideration of US\$ 68,694 thousand. Accordingly, the issued and paid up share capital of the company increased by US\$ 13,060 thousand. The Parent fully subscribed to its portion of rights issue.

19 FAIR VALUE RESERVE

	2021 US\$ 000	2020 US\$ 000
Investments carried at FVOCI		
Balance at 1 January	(101,603)	(71,263)
Transferred to retained earnings upon sale of FVOCI investments	(5,454)	5,414
Net movement in unrealized fair values during the year	(28,433)	(35,754)
Balance at 31 December	<u>(135,490)</u>	<u>(101,603)</u>
Cash flow hedges		
Balance at 1 January	(5,987)	(4,887)
Net movement in the fair values during the year	10,067	(1,100)
Balance at 31 December	<u>4,080</u>	<u>(5,987)</u>
	<u>(131,410)</u>	<u>(107,590)</u>

20 PERPETUAL ADDITIONAL TIER 1 CAPITAL

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

21 INTEREST INCOME

	2021 US\$ 000	2020 US\$ 000
Loans and receivables	40,236	43,220
Demand and call deposits with banks	941	583
Investments carried at amortised cost	885	873
Debt securities carried at FVTPL	810	745
Placements with banks	510	1,467
	<u>43,382</u>	<u>46,888</u>

22 INVESTMENT INCOME - NET

	2021 US\$ 000	2020 US\$ 000
Gain (loss) on investments carried at FVTPL	16,392	(10,744)
Gain on sale of investment properties (note 11)	5,548	-
Rental income from investment properties	4,662	3,567
Dividend income	2,987	4,733
Unrealised gain (loss) on investment properties	1,194	(3,800)
Gain on sale of investments at FVOCI	746	1,304
Gain on sale of an associate	-	1,429
Gain due to reclassification of investments	-	587
Other income	2,144	5,179
	<u>33,673</u>	<u>2,255</u>

23 FEES AND COMMISSIONS - NET

	2021 US\$ 000	2020 US\$ 000
Management fees from fiduciary activities	46,942	41,247
Credit related fees, commissions and other income - net	31,600	39,492
Advisory fees	3,179	623
	<u>81,721</u>	<u>81,362</u>

24 SHARE OF RESULTS OF ASSOCIATES

	2021 US\$ 000	2020 US\$ 000
Burgan Bank S.A.K.	22,714	16,236
Kamco Investment Fund	8,360	(2,818)
United Real Estate Company K.S.C.P.	(2,293)	(4,618)
North Africa Holding Company K.S.C.C.	(1,519)	(1,777)
KAMCO Real Estate Yield Fund	(276)	(1,443)
N.S. 88	(218)	(1,275)
Manafae Investment Company K.S.C.P.	(148)	(1,063)
United Capital Transport Company K.S.C.C.	(205)	(1,782)
Syria Gulf Bank	-	8,538
Takaoud Saving & Pensions Company	-	(1,065)
	<u>26,415</u>	<u>8,933</u>

United Gulf Holding Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

25 INTEREST EXPENSE

	<i>2021</i> <i>US\$ 000</i>	<i>2020</i> <i>US\$ 000</i>
Loans payable	36,538	49,127
Deposits from customers	12,654	9,919
Due to banks and other financial institutions	6,499	6,495
Long term bonds	6,489	6,786
	62,180	72,327

26 LOSS PER SHARE

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

	<i>2021</i> <i>US\$ 000</i>	<i>2020</i> <i>US\$ 000</i>
Loss attributable to equity shareholders of the parent	(8,313)	(70,296)
Deduction of interest on Perpetual Tier 1 Capital	(7,767)	(7,805)
	(16,080)	(78,101)
Weighted average number of shares outstanding during the year (in thousands)	438,454	418,864
Basic and diluted loss per share (US cents)	(3.67)	(18.65)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

27 SEGMENTAL INFORMATION

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

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

Asset management and investment banking Undertaking asset portfolio management, corporate finance, advisory, investments in quoted and private equity/funds, real estate, capital markets, international banking and treasury activities.

Commercial banking Loans and other credit facilities, deposit and current accounts from corporate and institutional customers.

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

Segmental information relating to the Group's operations as at and for the year ended 31 December 2021 was as follows:

31 December 2021	Asset management and investment banking	Commercial banking	Eliminations	Consolidated
Statement of income	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Income from external customers	103,357	53,639	(1,445)	155,551
Share of results of associates	3,701	22,714	-	26,415
Total income	107,058	76,353	(1,445)	181,966
Interest expense	(51,019)	(12,603)	1,442	(62,180)
Salaries and benefits	(46,084)	(26,112)	-	(72,196)
General and administrative expenses	(21,590)	(14,309)	3	(35,896)
Operating (loss) income before ECL, impairment and taxation	(11,635)	23,329	-	11,694
Net impairment reversal on investments	58	-	-	58
Expected credit losses	(925)	(1,908)	-	(2,833)
Taxation - net	(1,688)	(2,320)	-	(4,008)
Net (loss) profit for the year	(14,190)	19,101	-	4,911
Loss attributable to equity shareholders of the Parent				(8,313)
Profit attributable to non-controlling interests				13,224
Net profit for the year				4,911
Statement of financial position				
31 December 2021				
Investments in associates	172,160	558,102	-	730,262
Segment assets	1,114,287	2,341,734	(200,491)	3,255,530
Segment liabilities	1,283,943	1,564,492	(9,692)	2,838,743

At 31 December 2021

27 SEGMENTAL INFORMATION (continued)

	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Eliminations US\$ 000</i>	<i>Consolidated US\$ 000</i>
<i>31 December 2020</i>				
Statement of income				
Income from external customers	79,451	52,471	(1,718)	130,204
Share of results of associates	(7,415)	16,348	-	8,933
Total income	72,036	68,819	(1,718)	139,137
Interest expense	(60,477)	(13,568)	1,718	(72,327)
Salaries and benefits	(36,220)	(24,661)	-	(60,881)
General and administrative expenses	(23,790)	(14,375)	-	(38,165)
Operating (loss) income before ECL, impairment and taxation	(48,451)	16,215	-	(32,236)
Net impairment loss on investments	(5,409)	-	-	(5,409)
Expected credit losses	(3,625)	(30,356)	-	(33,981)
Provision for losses against unfunded participation	(2,634)	-	-	(2,634)
Taxation - net	950	(11,223)	-	(10,273)
Net loss for the year	(59,169)	(25,364)	-	(84,533)
Loss attributable to equity shareholders of the Parent				(70,296)
Loss attributable to non-controlling interests				(14,237)
Net loss for the year				(84,533)
Statement of financial position				
Investments in associates	171,465	529,516	-	700,981
Segment assets	1,134,534	2,358,932	(228,565)	3,264,901
Segment liabilities	1,272,514	1,600,888	(45,491)	2,827,911

Geographical segments

The Group operates in five geographic markets: Domestic region (Gulf Cooperation Council (G.C.C.) member countries), Middle East and North Africa (MENA) (excluding G.C.C.), Europe, Americas and others. The following table shows the distribution of the Group's total income and total assets by geographical segment, allocated based on the location of the customers and assets as at and for the year ended 31 December 2021:

	<i>G.C.C. US\$ 000</i>	<i>MENA US\$ 000</i>	<i>Europe US\$ 000</i>	<i>America US\$ 000</i>	<i>Others US\$ 000</i>	<i>Total US\$ 000</i>
<i>31 December 2021</i>						
Total income	107,580	8,159	26,346	16,323	23,558	181,966
Total assets	1,472,052	177,287	1,036,485	252,101	317,605	3,255,530
<i>31 December 2020</i>						
Total income	72,186	19,826	17,855	13,305	15,965	139,137
Total assets	1,372,329	152,806	1,134,621	269,729	335,416	3,264,901

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

28 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

	2021			Total US\$ 000
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	
Investment income	-	-	32	32
Net fees and commissions	5,649	6,659	2,790	15,098
Dividend income	-	-	653	653
Rental income	2,249	-	-	2,249
Interest income	622	330	4,860	5,812
Interest expense	(1,562)	(15,714)	(6,158)	(23,434)
Others	-	(102)	(1,295)	(1,397)

	2020			Total US\$ 000
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	
Investment income	-	-	407	407
Net fees and commissions	8,935	25,594	1,125	35,654
Dividend income	-	8	294	302
Rental income	2,210	(430)	-	1,780
Interest income	411	584	2,440	3,435
Interest expense	(735)	(20,493)	(6,260)	(27,488)
Others	216	37	(1,919)	(1,666)

Equity transactions with related parties during the year included in the consolidated statement of changes in equity are as follows:

	2021 US\$ 000	2020 US\$ 000
Interest payment on Perpetual Additional Tier 1 Capital	(531)	(531)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

28 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	<i>2021</i>			<i>Total US\$ 000</i>
	<i>Parent US\$ 000</i>	<i>Associates US\$ 000</i>	<i>Other related parties US\$ 000</i>	
Demand and call deposits with banks	-	2,495	840	3,335
Placements with banks	-	-	24,231	24,231
Investments carried at FVTPL	-	2,017	876	2,893
Investments carried at FVOCI	-	499	151,185	151,684
Investments carried at amortised cost	9,972	-	-	9,972
Loans and receivables	-	9,545	77,188	86,733
Other assets	4,054	11,417	2,711	18,182
Due to banks and other financial institutions	-	(30,930)	(74,254)	(105,184)
Deposits from customers	(40,386)	(1,972)	(52,487)	(94,845)
Loans payable	-	(486,812)	(53,900)	(540,712)
Other liabilities	(283)	(4,662)	(2,246)	(7,191)
Perpetual Additional Tier 1 Capital	-	-	(10,000)	(10,000)
<i>Off statement of financial position items:</i>				
Letters of guarantee	-	-	150	150

	<i>2020</i>			<i>Total US\$ 000</i>
	<i>Parent US\$ 000</i>	<i>Associates US\$ 000</i>	<i>Other related parties US\$ 000</i>	
Demand and call deposits with banks	-	4,562	270	4,832
Placements with banks	-	-	28,370	28,370
Investments carried at FVTPL	-	2,052	-	2,052
Investments carried at FVOCI	-	4,186	156,696	160,882
Investments carried at amortised cost	9,910	-	-	9,910
Loans and receivables	-	9,533	48,271	57,804
Other assets	4,536	25,436	1,965	31,937
Due to banks and other financial institutions	-	(13,097)	(82,538)	(95,635)
Deposits from customers	(41,409)	(609)	(6,992)	(49,010)
Loans payable	-	(461,812)	(53,900)	(515,712)
Other liabilities	(39)	(5,168)	(3,770)	(8,977)
Perpetual Additional Tier 1 Capital	-	-	(10,000)	(10,000)
<i>Off statement of financial position items:</i>				
Letters of guarantee	-	-	150	150

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

The Parent has committed to acquire an FVOCI investment of the Group at its carrying value of US\$ 104 million or higher (2020: US\$ 104 million).

28 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel was as follows:

	2021	2020
	US\$ 000	US\$ 000
Short-term employee benefits	2,524	2,480
Long-term employee benefits	104	682
	2,628	3,162

29 COMMITMENTS AND CONTINGENCIES

Credit-related commitments

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

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

The Group has the following credit and investment related commitments:

	2021	2020
	US\$ 000	US\$ 000
Credit-related commitments:		
Undrawn credit facilities	95,441	73,013
Letters of credit	21,145	27,750
Letters of guarantee	50,534	14,988
	167,120	115,751
Investments related commitments *	53,265	88,892
	220,385	204,643

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

30 DERIVATIVES

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

The table below shows the positive and negative fair values of derivative financial instruments. The notional amount is that of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of either market or credit risk.

	<i>Notional amounts by term to maturity</i>					
	<i>Positive</i>	<i>Negative</i>	<i>Total</i>	<i>Within 3</i>	<i>3 - 12</i>	<i>1 - 5 years</i>
	<i>fair value</i>	<i>fair value</i>		<i>months</i>	<i>months</i>	<i></i>
31 December 2021	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Derivatives held for trading *						
Forward foreign exchange contracts	669	(1,594)	102,570	52,007	40,751	9,812
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	732	(320)	828,277	489,376	329,092	9,809
Derivatives used as cash flow hedges						
Interest rate swaps	4,228	-	375,000	110,000	-	265,000

	<i>Notional amounts by term to maturity</i>					
	<i>Positive</i>	<i>Negative</i>	<i>Total</i>	<i>Within 3</i>	<i>3 - 12</i>	<i>1 - 5 years</i>
	<i>fair value</i>	<i>fair value</i>		<i>months</i>	<i>months</i>	<i></i>
31 December 2020	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Derivatives held for trading *						
Forward foreign exchange contracts	1,030	(2,714)	282,314	152,733	109,960	19,621
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	3,333	(417)	659,866	397,254	262,612	-
Derivatives used as cash flow hedges						
Interest rate swaps	-	(6,930)	375,000	115,000	100,000	160,000

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

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

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

Hedge of net investments in foreign operations

The Group has designated certain forward foreign exchange contracts to hedge against changes in the value of its investments in foreign operations for an amount of US\$ 815 million (2020: US\$ 660 million). Gains or losses on the retranslation of these forward foreign exchange contracts are transferred to equity through other comprehensive income to offset any gains or losses on the translation of the net investments in foreign operations.

At 31 December 2021

30 DERIVATIVES (continued)**Cash flow hedges**

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

	2021		2020	
	<i>Within</i>		<i>Within</i>	
	<i>1 year</i>	<i>1-5 years</i>	<i>1 year</i>	<i>1-5 years</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Net cash outflows (liabilities)	1,993	3,491	15,432	1,496
Statement of comprehensive income	4,228	-	-	(6,930)

31 RISK MANAGEMENT**a) Introduction**

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

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

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

(i) Risk management structure

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

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

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

Executive Committee

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

Investment Committee

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

At 31 December 2021

31 RISK MANAGEMENT (continued)

a) Introduction (continued)

(i) Risk management structure (continued)

Audit Committee

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

Risk and Compliance

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

Asset and Liability Committee

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

Management Committee

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

Key Persons Committee

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

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

(ii) Risk mitigation

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

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

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

At 31 December 2021

31 RISK MANAGEMENT (continued)**b) Concentration risk**

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

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

c) Credit risk

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

Credit risk is mitigated through:

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

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

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

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

	2021	2020
	US\$ 000	US\$ 000
Demand and call deposits with banks	406,852	465,391
Placements with banks	222,700	219,348
Investments carried at FVTPL	13,771	12,436
Investments carried at FVOCI	162,409	153,328
Investments at amortised cost	35,087	9,839
Loans and receivables	625,134	593,715
Other assets	84,227	112,364
	1,550,180	1,566,421
Letters of credit	21,145	16,425
Letters of guarantee	50,534	14,988
Derivative financial assets	5,629	-
	1,627,488	1,597,834

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

31 RISK MANAGEMENT (continued)
c) Credit risk (continued)
(ii) Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any single client or counterparty as of 31 December 2021 was US\$ 24.5 million (2020: US\$ 34.7 million) before taking account of collateral or other credit enhancements.

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

	<i>G.C.C.</i>	<i>MENA</i>	<i>Europe</i>	<i>Americas</i>	<i>Asia</i>	<i>Others</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Demand and call deposits							
with banks	80,992	12,890	262,500	47,321	3,116	33	406,852
Placements with banks	35,571	27,831	140,050	-	7,922	11,326	222,700
Investments at FVTPL	13,771	-	-	-	-	-	13,771
Investments at FVOCI	-	162,409	-	-	-	-	162,409
Investments at							
amortised cost	35,087	-	-	-	-	-	35,087
Loans and receivables	190,068	70,550	180,544	62,968	120,045	959	625,134
Other assets	56,855	27,208	4,942	1,402	7,647	17,234	115,288
Letters of credit	578	-	13,881	-	19,688	10,663	44,810
Letters of guarantee	13,375	175	1,557	-	-	-	15,107
Derivative financial assets	4,592	-	842	-	-	-	5,434
31 December 2021	430,889	301,063	604,316	111,691	158,418	40,215	1,646,592
Demand and call deposits							
with banks	64,789	4,799	344,611	49,126	2,066	-	465,391
Placements with banks	39,124	33,362	122,319	-	-	24,543	219,348
Investments at FVTPL	12,436	-	-	-	-	-	12,436
Investments at FVOCI	-	-	153,328	-	-	-	153,328
Investments at							
amortised cost	9,839	-	-	-	-	-	9,839
Loans and receivables	174,861	50,107	201,505	46,419	105,761	15,062	593,715
Other assets	45,977	27,268	8,779	2,165	7,867	20,308	112,364
Letters of credit	3,103	-	332	-	-	12,990	16,425
Letters of guarantee	11,067	2,105	1,816	-	-	-	14,988
31 December 2020	361,196	117,641	832,690	97,710	115,694	72,903	1,597,834

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

31 RISK MANAGEMENT (continued)

c) Credit risk (continued)

(ii) Risk concentrations of the maximum exposure to credit risk (continued)

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

	Trading and Manufac- -turing	Banks and other financial institutions	Construction and real estate	Individuals	Government and public sector	Others	Total
At 31 December 2021	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Demand and call deposits							
with banks	-	265,120	-	-	141,713	19	406,852
Placements with banks	-	222,700	-	-	-	-	222,700
Investments at FVTPL	1,984	6,864	2,423	-	2,500	-	13,771
Investments at FVOCI	-	71,262	-	-	91,147	-	162,409
Investments at amortised cost	-	9,915	-	-	25,172	-	35,087
Loans and receivables	462,480	27,093	95,428	540	366	39,227	625,134
Other assets	1,122	43,086	8,765	941	401	60,973	115,288
Letters of credit	6,533	38,277	-	-	-	-	44,810
Letters of guarantee	373	13,360	325	56	-	993	15,107
Derivative financial assets	-	5,434	-	-	-	-	5,434
	472,492	703,111	106,941	1,537	261,299	101,212	1,646,592

At 31 December 2020

Demand and call deposits							
with banks	-	391,762	-	-	73,629	-	465,391
Placements with banks	-	219,348	-	-	-	-	219,348
Investments at FVTPL	-	5,728	497	-	-	6,211	12,436
Investments at FVOCI	-	-	-	-	153,328	-	153,328
Investments at amortised cost	-	9,839	-	-	-	-	9,839
Loans and receivables	361,194	57,995	107,661	889	5,471	60,505	593,715
Other assets	62	65,961	47	156	219	45,919	112,364
Letters of credit	3,103	13,322	-	-	-	-	16,425
Letters of guarantee	-	13,868	639	61	-	420	14,988
	364,359	777,823	108,844	1,106	232,647	113,055	1,597,834

(iii) Collateral and other credit enhancements

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

31 RISK MANAGEMENT (continued)

c) Credit risk (continued)

(iii) Collateral and other credit enhancements (continued)

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

	Gross maximum exposure 2021 US\$ 000	Net maximum exposure 2021 US\$ 000	Gross maximum exposure 2020 US\$ 000	Net maximum exposure 2020 US\$ 000
Factoring assets	458,655	244,822	370,166	189,331
Loans to customers	199,654	47,507	290,343	141,230
Loans to banks	2,770	242	14,810	10,011
Syndication loans	53,069	53,069	29,795	29,795
Others	4,800	4,800	4,705	4,705
	718,948	350,440	709,819	375,072

i) Credit risk exposure for each credit rating

	<i>Investment grade US\$ 000</i>	<i>Non- investment grade US\$ 000</i>	<i>Unrated US\$ 000</i>	<i>Total US\$ 000</i>
At 31 December 2021				
Demand and call deposits with banks	370,353	24,108	12,391	406,852
Placements with banks	124,119	6,778	91,803	222,700
Investments at FVTPL	12,944	-	827	13,771
Investments at FVOCI	162,409	-	-	162,409
Investments at amortised cost	35,087	-	-	35,087
Loans and receivables	30,313	32,288	562,533	625,134
Other assets	33,420	-	81,868	115,288
Letters of credit	17,000	-	27,810	44,810
Letters of guarantee	10,900	94	4,113	15,107
Derivative financial assets	5,434	-	-	5,434
	801,979	63,268	781,345	1,646,592

	<i>Investment grade US\$ 000</i>	<i>Non- investment grade US\$ 000</i>	<i>Unrated US\$ 000</i>	<i>Total US\$ 000</i>
At 31 December 2020				
Demand and call deposits with banks	450,928	7,336	7,127	465,391
Placements with banks	128,321	3,429	87,598	219,348
Investments at FVTPL	12,436	-	-	12,436
Investments at FVOCI	146,810	-	6,518	153,328
Investments at amortised cost	9,839	-	-	9,839
Loans and receivables	19,993	11,328	562,394	593,715
Other assets	21,268	-	91,096	112,364
Letters of credit	-	-	16,425	16,425
Letters of guarantee	11,219	363	3,406	14,988
	800,814	22,456	774,564	1,597,834

At 31 December 2021

31 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Credit risk exposure by each credit rating (continued)

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

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

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

(v) Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The Group had US\$ 4,788 thousands of restructured loans as of 31 December 2021 (2020: US\$ 13,987 thousand)

(vi) Offsetting financial assets and financial liabilities

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

	<i>Loans and receivables US\$ 000</i>	<i>Customer deposits US\$ 000</i>
31 December 2021		
Gross amounts of recognised financial asset / liability	45,500	45,500
Gross amounts offset in the consolidated statement of financial position	(45,500)	(45,500)
Net amount presented in the consolidated statement of financial position	<u>-</u>	<u>-</u>
31 December 2020		
Gross amounts of recognised financial asset / liability	325,000	325,000
Gross amounts offset in the consolidated statement of financial position	(325,000)	(325,000)
Net amount presented in the consolidated statement of financial position	<u>-</u>	<u>-</u>

d) Market risk

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

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

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

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

At 31 December 2021

31 RISK MANAGEMENT (continued)

d) Market risk (continued)

(i) Interest rate risk

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

IBOR transition

UGB ("the Bank") manages the Company's IBOR transition through relevant internal bank committees and vendors. The objectives include evaluating the extent to which loans advanced, loan commitments, cash products, bonds and derivatives have with reference to the IBOR reform. This involves whether contracts need to be amended and how to manage communication with counterparties. Relevant notes on this matter is communicated to Executive Committee and with other business functions as needed. Committees such as ALCO and RCC along with front and middle offices support the management of interest rate risk, and work closely to identify all operational risks arising from the IBOR reform.

The main risks to which the Bank is exposed as a result of the IBOR reform are operational and financial. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of internal systems that use IBOR curves and the revision of operational control, policies and procedures related to the reform. Financial risk is predominantly limited to interest rate risk and in particular basis risk. Other areas that could arise are to do with economic shortfalls, accounting treatments, Tax and legal issues if applicable.

The Bank does not have any has initiated amending existing loans and advances, including loan commitments to corporate customers, which is LIBOR linked throughout 2021. For any similar products in the future, these amendments are made to incorporate fallback language, definitions and provisions e.g. any existing EUR LIBOR, GBP LIBOR and USD LIBOR benchmark rates will be replaced by ESTR, SONIA and SOFR respectively when the former ceases to exist.

The Bank monitors the progress of the transition from IBOR to Alternative Reference Rates (ARR) by reviewing the total amounts of contracts that have yet to transition and the amounts of such contracts that include the appropriate fallback language and definitions. The Bank considers that a contract is not yet transitioned to ARR when interest under the contract is still indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR (referred to as an 'unreformed contract').

The Bank monitors the progress of the transition from IBOR to Alternative Reference Rates (ARR) by reviewing the total amounts of contracts that have yet to transition and the amounts of such contracts that include the appropriate fallback language and definitions. The Bank considers that a contract is not yet transitioned to ARR when interest under the contract is still indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR (referred to as an 'unreformed contract'). The Bank also monitors the progress of its system infrastructure by testing the capability of its current systems to handle the transition in terms of its day to day operational entries with the assistance of relevant vendors.

Interest rate sensitivity

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

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

At 31 December 2021

31 RISK MANAGEMENT (continued)

d) Market risk (continued)

(i) Interest rate risk (continued)

Interest rate sensitivity (continued)

	2021		2020	
	<i>Increase in basis points</i>	<i>Sensitivity of net interest income US\$ 000</i>	<i>Increase in basis points</i>	<i>Sensitivity of net interest income US\$ 000</i>
Currency				
Kuwaiti Dinar	+ 25	(270)	+ 25	(323)
United States Dollar	+ 25	(540)	+ 25	(498)
Euro	+ 25	(586)	+ 25	(409)
Pound Sterling	+ 25	40	+ 25	34
Others	+ 25	(6)	+ 25	103

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

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2021 and 31 December 2020, including the effect of hedging instruments.

(ii) Currency risk

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

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

	2021			2020		
	<i>Change in currency rate in %</i>	<i>Effect on profit before tax US\$ 000</i>	<i>Effect on equity US\$ 000</i>	<i>Change in currency rate in %</i>	<i>Effect on profit before tax US\$ 000</i>	<i>Effect on equity US\$ 000</i>
Kuwaiti Dinar	+2	(16,450)	961	+2	(16,930)	385
	-2	16,450	(961)	-2	16,930	(385)
Euro	+2	(2,948)	2,152	+2	(3,440)	1,948
	-2	2,948	(2,152)	-2	3,440	(1,948)
Pound Sterling	+2	273	-	+2	73	-
	-2	(273)	-	-2	(73)	-

iii) Equity price risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

31 RISK MANAGEMENT (continued)

Geographical distribution

d) Market risk (continued)

At 31 December 2021	<i>MENA</i> <i>US\$ 000</i>	<i>Europe</i> <i>US\$ 000</i>	<i>Americas</i> <i>US\$ 000</i>	<i>Others</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
Investments carried at FVTPL					
Equities	8,146	53	147	31	8,377
Managed funds	49,321	30,446	11,256	-	91,023
	57,467	30,499	11,403	31	99,400
Investments carried at FVOCI					
Equities	178,940	3,170	9,707	-	191,817
Managed funds	42	-	-	-	42
	178,982	3,170	9,707	-	191,859
Total	236,449	33,669	21,110	31	291,259
At 31 December 2020					
Investments carried at FVTPL					
Equities	7,882	-	2,609	33	10,524
Managed funds	34,921	28,284	6,056	-	69,261
	42,803	28,284	8,665	33	79,785
Investments carried at FVOCI					
Equities	182,887	1,867	9,179	-	193,933
Managed funds	33	-	-	-	33
	182,920	1,867	9,179	-	193,966
Total	225,723	30,151	17,844	33	273,751

At the reporting date, the exposure to listed equity securities at fair value was US\$ 12,455 thousand (2020: US\$ 12,950 thousand). A decrease of 10% on the market indices of MENA stock exchanges could have an impact of approximately US\$ 1,246 thousand (2020: US\$ 1,295 thousand) on the income or equity attributable to the Group, depending on whether the decline is significant or prolonged. The majority of the equities in the MENA region are quoted on the Kuwait Stock Exchange.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

31 RISK MANAGEMENT (continued)
e) Liquidity risk
(i) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2021 and 2020 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2021	<i>On demand US\$ 000</i>	<i>1 - 6 months US\$ 000</i>	<i>6 - 12 months US\$ 000</i>	<i>1 - 5 years US\$ 000</i>	<i>Over 5 years US\$ 000</i>	<i>Total US\$ 000</i>
Financial liabilities						
Due to banks and other financial institutions	371,631	233,701	75,743	77,802	224	759,101
Deposits from customers	523,657	334,752	145,137	1,960	1,219	1,006,725
Loans payable	407,056	50,324	225,267	180,489	-	863,136
Long term bonds	-	-	-	144,493	-	144,493
Other liabilities	-	1,201	91,501	20,104	-	112,806
Total non-derivative undiscounted financial liabilities	1,302,344	619,978	537,648	424,848	1,443	2,886,261
Derivatives						
Net cash outflows on interest rate swaps	-	1,078	914	3,492	-	5,484
Gross settled foreign currency derivatives	-	541,383	369,843	19,621	-	930,847
Off-statement of financial position items						
Letters of credit	44,810	-	-	-	-	44,810
Investment related commitments	-	-	-	1,126	-	1,126

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

31 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

(i) Analysis of financial liabilities by remaining contractual maturities (continued)

At 31 December 2020	On demand US\$ 000	1 - 6 months US\$ 000	6 - 12 months US\$ 000	1 - 5 years US\$ 000	Over 5 years US\$ 000	Total US\$ 000
<i>Financial liabilities</i>						
Due to banks and other financial institutions	262,526	153,650	124,827	109,956	1,616	652,575
Deposits from customers	642,648	339,100	160,850	4,110	3,062	1,149,770
Loans payable	16,538	56,625	98,804	689,804	-	861,771
Subordinated debt	-	-	-	151,500	-	151,500
Other liabilities	-	-	114,760	-	-	114,760
Total non-derivative undiscounted financial liabilities	921,712	549,375	499,241	955,370	4,678	2,930,376
<i>Derivatives</i>						
Net cash outflows on interest rate swaps	-	856	384	-	-	1,240
Gross settled foreign currency derivatives	-	549,987	372,572	19,621	-	942,180
<i>Off-statement of financial position items</i>						
Letters of credit	16,425	-	-	-	-	16,425
Letters of guarantee	-	-	-	14,988	-	14,988

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

31 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

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

ii) Maturity analysis bases on expected recoveries

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

At 31 December 2021

	<i>Less than 12 months US\$ 000</i>	<i>Over 12 months US\$ 000</i>	<i>Total US\$ 000</i>
Demand and call deposits with banks	387,980	18,872	406,852
Placements with banks	222,700	-	222,700
Investments at FVTPL	553,156	-	553,156
Investments at FVOCI	167,542	186,726	354,268
Investments carried at amortised cost	35,087	-	35,087
Loans and receivables	450,151	174,983	625,134
Other assets	95,474	-	95,474
Investments in associates	-	730,262	730,262
Investment properties	-	117,788	117,788
Property, equipment and right of use assets	-	45,690	45,690
Goodwill and other intangible assets	-	69,119	69,119
Total assets	1,912,090	1,343,440	3,255,530
Due to banks and other financial	677,433	79,285	756,718
Deposits from customers	992,224	2,366	994,590
Loans payable	215,000	627,258	842,258
Long term bonds	-	132,371	132,371
Other liabilities	92,703	20,103	112,806
Total liabilities	1,977,360	861,383	2,838,743
Net	(65,270)	482,057	416,787

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

31 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

ii) Maturity analysis bases on expected recoveries (continued)

At 31 December 2020

	<i>Less than 12 months US\$ 000</i>	<i>Over 12 months US\$ 000</i>	<i>Total US\$ 000</i>
Demand and call deposits with banks	454,626	10,765	465,391
Placements with banks	219,348	-	219,348
Investments at FVTPL	544,548	-	544,548
Investments at FVOCI	186,130	161,164	347,294
Investments carried at amortised cost	9,839	-	9,839
Loans and receivables	362,755	230,960	593,715
Other assets	119,541	-	119,541
Investments in associates	-	700,981	700,981
Investment properties	-	115,940	115,940
Property, equipment and right of use assets	-	79,832	79,832
Goodwill and other intangible assets	-	68,472	68,472
Total assets	1,896,787	1,368,114	3,264,901
Due to banks and other financial institutions	444,945	202,818	647,763
Deposits from customers	1,029,082	86,191	1,115,273
Loans payable	166,806	651,812	818,618
Long term bonds	-	131,497	131,497
Other liabilities	114,760	-	114,760
Total liabilities	1,755,593	1,072,318	2,827,911
Net	141,194	295,796	436,990

f) Operational risk

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

g) Capital management

The primary objectives of the Group's capital management are to ensure that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, or issue equity securities. No changes were made in the capital management objectives, policies and processes from previous year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

32 FAIR VALUE MEASUREMENT

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

Management has assessed that financial assets comprising of demand and call deposits with banks, placements with banks, and loans and receivables maturing within one year, and financial liabilities comprising of on-demand customer deposits, amounts due to banks and loans payable falling due within one year approximate their carrying values largely due to the short term maturities of these instruments.

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

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2021:

	<i>Fair value measurement using</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Assets measured at fair value				
<i>Investments carried at FVTPL</i>				
Forfeiting assets	-	-	439,985	439,985
Equities	7,322	-	1,055	8,377
Debt securities	12,944	-	827	13,771
Managed funds	5,517	43,175	42,331	91,023
<i>Investments at FVOCI</i>				
Equities	6,285	40	185,492	191,817
Debt securities	162,409	-	-	162,409
Managed funds	-	-	42	42
Investment properties	-	-	117,788	117,788
<i>Derivatives</i>				
Interest rate swaps	-	4,228	-	4,228
	194,477	47,443	787,520	1,029,440
Liabilities measured at fair value				
<i>Derivatives</i>				
Forward foreign exchange contracts	-	513	-	513

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2020:

	<i>Fair value measurement using</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Assets measured at fair value				
<i>Investments carried at FVTPL</i>				
Forfeiting assets	-	-	452,327	452,327
Equities	7,916	53	2,087	10,056
Debt securities	12,436	-	-	12,436
Managed funds	1,313	34,286	34,130	69,729
<i>Investments at FVOCI</i>				
Debt securities	153,328	-	-	153,328
Equities	5,034	-	188,899	193,933
Managed funds	-	-	33	33
Investment properties	-	-	115,940	115,940
<i>Derivatives</i>				
Forward foreign exchange contracts	-	1,232	-	1,232
	180,027	35,571	793,416	1,009,014
Liabilities measured at fair value				
<i>Derivatives</i>				
Interest rate swaps	-	(6,930)	-	(6,930)
	-	(6,930)	-	(6,930)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

32 FAIR VALUE MEASUREMENT (continued)

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2021 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement (year ended 31 December 2020: same). The following table shows a reconciliation of the opening and closing amount of level 3 financial instruments which are recorded at fair value:

The table below gives a reconciliation of fair value measurement of investments in Level 3 of the fair value hierarchy:

	<i>As at 1 January 2021 US\$'000</i>	<i>Net purchases, sales, transfer and settlement US\$'000</i>	<i>Gain (loss) recorded in the statement of income US\$'000</i>	<i>(Loss) gain recognized in other comprehensive income US\$'000</i>	<i>As at 31 December 2021 US\$'000</i>
<i>Investments carried at fair value through profit or loss</i>					
Forfeiting assets	452,327	(4,273)	(8,069)	-	439,985
Equities	2,087	846	(1,878)	-	1,055
Debt securities	-	827	-	-	827
Managed funds	34,130	8,661	(460)	-	42,331
	488,544	6,061	(10,407)	-	484,198
<i>Investments carried at fair value through other comprehensive income</i>					
Equities	188,899	483	3,381	(7,271)	185,492
Managed funds	33	(68)	-	77	42
	188,932	415	3,381	(7,194)	185,534
<i>Investment properties</i>	115,940	(2,816)	1,194	3,470	117,788
	<i>As at 1 January 2020 US\$'000</i>	<i>Net purchases, sales, transfer and settlement US\$'000</i>	<i>Gain (loss) recorded in the statement of income US\$'000</i>	<i>Loss recognized in other comprehensive income US\$'000</i>	<i>As at 31 December 2020 US\$'000</i>
<i>Investments carried at fair value through profit or loss</i>					
Forfeiting assets	460,239	(19,299)	11,387	-	452,327
Equities	4,335	(1,017)	(763)	-	2,555
Debt securities	825	(786)	(39)	-	-
Managed funds	139,430	(101,524)	(4,244)	-	33,662
	604,829	(122,626)	6,341	-	488,544
<i>Investments carried at fair value through other comprehensive income</i>					
Equities	134,315	64,000	-	(9,416)	188,899
Managed funds	1,006	-	-	(973)	33
	135,321	64,000	-	(10,389)	188,932
<i>Investment properties</i>	119,937	-	(3,997)	-	115,940

32 FAIR VALUE MEASUREMENT (continued)

Valuation technique and unobservable inputs used in measuring fair value of Level 3 investments:

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policies in Note 2. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities, exchange traded derivatives and simple over the counter derivatives like currency rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

Forfeiting assets

Forfeiting Assets involve the discounting of receivables generated from an export contract on a without recourse basis. The assets would be evidenced by a number of different debt instruments including Bills of Exchange, Promissory Notes, Letters of Credit and trade or project related Syndicated and Bilateral Loan (Financing) Agreements.

The Group establishes fair value of its trading assets using a valuation technique based on the discounted expected future principal and interest cash flows. The discount rate is an estimate based on current expected credit margin spreads and interest rates at the reporting date. Inputs to valuation technique reasonably represent market expectation and measures of risk-return factors inherent in the financial instrument.

The Group uses the LIBOR yield curve as of each reporting date plus an adequate credit margin spread to discount the trading assets held.

32 FAIR VALUE MEASUREMENT (continued)

Valuation technique and unobservable inputs used in measuring fair value of Level 3 investments: (continued)

FVOCI investments

Investment at fair value through other comprehensive income mainly represent holdings in an unlisted sub-fund of a collective investment scheme whose underlying investments would be classified as Level 3 assets. The sub-fund, independently run by a licensed investment manager, invests in sustainable energy plants with returns generated throughout the life of each plant.

The fair value is measured by the Group based on periodical net-asset-valuations prepared by the scheme's independent administrator. The sub-fund's assets are marked to fair market value. Assets are marked at observable traded prices where that is possible. Where there is no observable price, the assets are marked in accordance with best market practice. This may involve the use of models and forward projections. Inputs and assumptions used in these models may be subjective and could include a number of highly judgmental uncertainties including the projected valuations of the individual plants and the future potential income from each plant.

33 MATERIAL PARTLY OWNED SUBSIDIARIES

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

	2021	2020
	US\$ 000	US\$ 000
Accumulated balances of material non-controlling interests	136,325	124,111
Income (loss) allocated to material non-controlling interests	13,399	(14,099)

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

	2021	2020
	US\$ 000	US\$ 000
Summarized statement of income for the year ended 31 December:		
Total income	133,557	99,755
Total expenses	(97,624)	(107,534)
Taxation	(3,964)	(11,223)
ECL charged	(2,830)	(34,225)
Profit (loss) for the year	29,139	(53,227)
Total comprehensive income (loss) for the year	26,649	(60,514)
Total comprehensive income attributable to non-controlling interests	360	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

33 MATERIAL PARTLY OWNED SUBSIDIARIES (continued)

	<i>2021</i>	<i>2020</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>
Summarized statement of financial position as of 31 December:		
Total assets	2,212,942	2,161,572
Total liabilities	(1,781,362)	(1,756,099)
Total equity	431,580	405,473
Attributable to equity holders of the Parent	418,512	392,498
Non-controlling interest	13,068	12,975
	431,580	405,473
	<i>2021</i>	<i>2020</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>
Summarised cash flow information for the year ended 31 December:		
Operating activities	(96,009)	101,517
Investing activities	23,005	48,248
Financing activities	(7,184)	(50,230)
Foreign currency translation adjustments	(23,780)	(25,794)
Net (decrease) increase in cash and cash equivalents	(103,968)	73,741

34 MODIFICATION LOSS AND GOVERNMENT GRANT

During the current period, based on a regulatory directive issued by the CBB (refer note 2) as concessionary measures to mitigate the impact of COVID-19, and similar directive issued by the Central Bank of Kuwait, the one-off modification losses amounting to USD 4,211 thousand arising from the 6-month payment holidays provided to financing customers without charging additional interest has been recognized directly in equity.

The Government of the Kingdom of Bahrain announced various stimulus programmes to support businesses. The Group received, for certain months, financial assistance in the form of reimbursement of a portion of staff costs and waiver of utility charges of US\$ 864 thousand during the year ended 31 December 2021 (2020: US\$ 1,227 thousand).

United Gulf Holding Company B.S.C.

SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

At 31 December 2021

**(The attached schedules do not form part of the consolidated
financial statements)**

SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

COVID-19 IMPACT

During the year ended 31 December 2020, there was an outbreak of coronavirus (COVID-19). The existing and anticipated effects of the outbreak on the global economy is expected to continue to evolve. While these developments continue to impact the Company's operations, the scale and duration of further developments remain uncertain at this stage and could potentially further impact the Company's financial position, financial performance and cash flows in the future, the extent of which is presently undeterminable. The Group is monitoring the situation closely, and has undertaken various risk minimization and management practices to limit and minimize the impact on the Group's operations,

The Group's Board of Directors and management has been monitoring the impact of COVID-19 on the Group's revenues, impact on valuations of assets and impairments, etc. The Group's contingency plans were activated including business continuity, liquidity management etc.

The regulators in various jurisdictions announced several measures to combat the effects of COVID-19 to assist banks in operating with adequate liquidity and in complying with regulatory requirements. These included payment holiday for 6 months to eligible customers, 0% concessionary repo facilities to banks, reduction of cash reserve requirements from 5% to 3%, reduction in liquidity coverage ratio and net stable funds ratio from 100% to 80%, and the modification losses and additional ECL provisions on Stage land Stage 2 exposures to be added back to Tier 1 capital for two years.

The Government of the Kingdom of Bahrain has announced various stimulus programmes to support businesses. The Group received, for certain months, financial assistance in the form of reimbursement of a portion of staff costs and waiver of utility charges during the year ended 31 December 2020 amounting to US\$ 524 thousand. Further, the Government of the State of Kuwait has announced similar programmes to support business by reimbursing portion of the salaries paid to the Kuwaiti employees. As a result, the Company's indirect subsidiary, KAMCO Invest received reimbursements amounting to US\$ 864 thousand (2020: US\$ 703 thousand) during the year.

Impact on financial statements

The following table summarizes the impact that COVID-19 has had on different classes of assets for the year ended 31 December 2021:

	<i>Net impact on the Group's consolidated</i>		
	<i>Statement of</i>	<i>Statement of</i>	<i>Other</i>
	<i>Income</i>	<i>Financial</i>	<i>Comprehend-</i>
	<i>Statement</i>	<i>Position</i>	<i>-save income</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Impact on:			
Real estate assets	(719)	(719)	-
Investments at fair value through profit or loss	5,178	5,178	-
Investments at fair value through other comprehensive income	-	850	850
Investments in associates	(19,333)	(19,333)	-
Loans, receivables and other assets	5,526	5,526	-
Other impacts	(12,234)	-	-

Going concern

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

This information has not been subject to any review by external auditors.