United Gulf Holding Company B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

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 2020.

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 2020, the Company recorded a net loss of US$ 70.3 million (2019: net profit of US$ 9.7 million) and total operating income of US$ 139.1 million (2019: US$ 224.4 million). This is mainly attributable to the outbreak of the coronavirus (COVID-19) and its effects on the global and regional economies.

As of 31 December 2020, total assets of the Company were US$ 3,265 million (2019: US$ 3,470 million) with total equity of shareholders at US$ 279.8 million (2019: US$ 328.6 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.

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution for their appointment as auditors of the Company for the year ending 31 December 2021 has been put for approval by the Shareholders.

Signed on behalf of the Board of Directors

Masaud Hayat Chairman	Faisal Al Ayyar Vice Chairman

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Ernst & Young – Middle East
P.O. Box 140
East Tower – 10th floor
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
www.ey.com/mena
C.R. no. 29977-1

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of United Gulf Holding Company B.S.C. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of 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 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as modified by the 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 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 2020. 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)

<table>
<tr><th colspan="2">1. Expected Credit Losses (ECL) on loans and receivables</th></tr>
<tr><th>Key audit matter</th><th>How the key audit matter was addressed in the audit</th></tr>
<tr><td>The process for estimating allowances for Expected Credit Loss ("ECL") on credit risk associated with loans and receivables in accordance with IFRS 9 is significant and complex area. IFRS 9 requires the use of the ECL model for the purposes of calculating loss allowances.

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.

As at 31 December 2020, the Group's gross loans and receivables amounted to USD 710 million and related ECL amounted to USD 116 million.

Refer to note 2 which contains the disclosure of significant assumptions accounting judgements and estimates relating to the ECL on loans and receivables and the ECL assessment methodology used by the Group, note 8 which contains the disclosure of allowances for ECL against loans and receivables and note 32 (b) for details of credit quality analysis and key assumptions and factors considered in determination of ECL.</td><td>Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates.

Our key audit procedures focused on the following:

• 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:

○ the Group's ECL provisioning policy including the determination of the significant increase in credit risk and consequent staging criteria with the requirements of IFRS 9 and considering the regulatory guidelines issued with respect to Covid-19 global pandemic;

○ the significant modelling and macroeconomic assumptions, including evaluation of forward-looking information and scenarios against the requirements of the Group's ECL policy;

○ the basis of determination of any management overlays applied by the Group to incorporate the effects of the Covid-19 global pandemic on its modelled ECL outcome; and</td></tr>
</table>

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

Key audit matters (continued)

1. Expected Credit Losses (ECL) on loans and receivables (continued)	
Key audit matter	**How the key audit matter was addressed in the audit**
	○ the theoretical soundness and tested the mathematical integrity of the models. • For a sample of exposures, we performed procedures to evaluate: ○ Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; ○ Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging keeping in view the long-term effects of Covid-19 on customers severely affected by it; and ○ The ECL calculation. • We considered the adequacy of the disclosures in the consolidated financial statements in relation to ECL on loans and receivables. Wherever relevant internal specialists were involved in the performance of above procedures.

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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. Goodwill impairment	
Key audit matter	**How the key audit matter was addressed in the audit**
Goodwill is required to be tested for impairment annually. The impairment testing of goodwill recognized on cash generating units ('CGUs') relies on estimates of value-in use based on estimated future cash flows. The determination of future cash flows involves making significant judgements and estimates which incorporates an element of uncertainty in the recoverable amount of the CGU. Subjectivity is highest for those CGUs where headroom between value-in-use and carrying value is limited and where the value-in-use is most sensitive to estimates of future cash flows. Given the significant judgement involved in carrying out impairment assessment as noted above and the magnitude of goodwill recognized, being USD 52.1 million in the consolidated statement of financial position as at 31 December 2020 makes this area a key audit matter. Refer to note 2 which contains the disclosure of significant assumptions accounting judgements and estimates relating to the impairment of goodwill and the impairment assessment methodology used by the Group and note 13 which contains the assessment of goodwill impairment and the key assumptions and factors considered in such assessment.	Our audit procedures included: • 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 • Assessment of the reasonableness of assumptions and methodologies used to forecast value-in-use for CGUs with significant goodwill amount. We also considered whether the Group's disclosures of the application of judgement in estimating CGU cash flows and the sensitivity of the results of those estimates adequately reflect the risks associated with goodwill impairment. Wherever relevant internal specialists were involved in the performance of above procedures.

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 testing of investments in associates**	
Key audit matter	**How the key audit matter was addressed in the audit**
The assessment of reasonableness of the carrying amount of investment in associates involve determining the recoverable amount of such investment. This determination mainly relies on the management's estimates of future cash flows and other assumptions including the use of discount rates. Due to the uncertainty of forecasting and discounting future cash flows, the level of management's judgement involved and the significance of the Group's investment in associates amounting to USD 701 million as at 31 December 2020, we considered this as a key audit matter. Refer to note 2 which contains the disclosure of significant assumptions accounting judgements and estimates relating to the impairment on associates and note 10 which contains the disclosure of investment in associates.	Our audit procedures included: • Assessment of forecasts of future cash flows prepared by the management, evaluating the assumptions and comparing the estimates to externally available industry, economic and financial data to ensure the reasonableness of such assumptions and estimates; • Assessment of the viability of management's plans and intentions to ensure the assumptions are realistic and projections are achievable based on the current conditions and past performance of the associates; and • Assessment of assumptions and methodologies used by the management to determine the recoverable amount of the investments in associates. Additionally, our audit procedures included comparison of the carrying values of the Group's investment in associates for which audited financial statements were available with their respective net asset values and discussions with management of the associates' performance and their outlook. Wherever relevant internal specialists were involved in the performance of above procedures.

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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)

<table>
<tr><td colspan="2">4. Deferred taxation</td></tr>
<tr><td>Key audit matter</td><td>How the key audit matter was addressed in the audit</td></tr>
<tr><td>As at 31 December 2020 the Group had recognised deferred tax assets of USD 27.2 million in respect of the deductible temporary differences and accumulated tax losses. The recognition of deferred tax assets is permitted only to the extent that it is probable that future taxable profits will be available against which these assets can be used. Such restrictions are even more pertinent for jurisdictions where the carry forward of losses to future periods become time-barred beyond a time period.

The recognition of deferred tax assets, therefore, requires significant judgement in estimating future profitability (and the extent of taxable profits) based on business plans drawn up by the management. Due to estimation uncertainty, the projected relief of the tax losses for which the deferred tax assets are recognised, might be materially different from the actual amount.

We considered the recognition of deferred tax assets as a key audit matter due to the significant management judgement and estimate required in forecasting future taxable profits.

Refer to note 2 which contains the accounting policy relating to deferred tax asset and note 14 which contains the disclosure of deferred tax asset recorded in the consolidated financial statements.</td><td>Our audit procedures included:

• Evaluation of the assumptions underlying the Group's projections having regard to;
  ○ our understanding of the Group, and the industry and the jurisdictions in which the Group operates;
  ○ the current pipeline of new business; and
  ○ the applicability of enacted and substantively enacted tax laws that support the recognition of the deferred tax assets.

• Assessment of the reasonableness of the projections used to support the recognition of the deferred tax asset, with respect to carry forward losses subject to time-barring, with particular focus on the ability of the underlying subsidiary to utilise such losses before expiration; and

• Assessment of the appropriateness of the disclosures in the consolidated financial statements.

Wherever relevant internal specialists were involved in the performance of above procedures.</td></tr>
</table>

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

Key audit matters (continued)

5. Valuation of level 3 investments carried at FVTPL and FVOCI	
Key audit matter	**How the key audit matter was addressed in the audit**
The carrying value of level 3 FVTPL and FVOCI investments as of 31 December 2020 were US$ 488 million and US$ 189 million respectively. The valuation of these investments held by the Group is primarily determined through the application of valuation techniques that involve the exercise of judgement, and the use of assumptions based on limited observable market data. We considered the valuation of the aforementioned investments as a key audit matter due to the significant management judgement and application of valuation techniques that involve the exercise of judgement, and the use of assumptions based on limited observable market data. Refer to note 2 which contains the disclosure of significant assumptions accounting judgements and estimates relating to the valuation of unquoted investments at FVTPL and FVOCI and note 33 which contains the disclosures for the fair value hierarchy.	Our audit procedures included: • Assessment of design and implementation of controls over the valuation process; • Review of policies and procedures and the valuation models used to determine the fair value and independent recalculation of the fair value of the forfaiting assets portfolio; and • Assessment of the appropriateness of the disclosures in the consolidated financial statements. Wherever relevant internal specialists were involved in the performance of above procedures.

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

Other information included in the Group's 2020 annual report
Other information consists of the information included in the Group's 2020 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Directors report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs 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

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, related safeguards.

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.

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

Report on Other Legal and Regulatory Requirements

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 2020 that might have had a material adverse effect on the business of the Company or on its consolidated financial position.

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

Ernst + Young

Partner's registration no. 244
28 February 2021
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	**2020 US$ 000**	2019 US$ 000
ASSETS			
Demand and call deposits with banks		**465,391**	479,384
Placements with banks		**219,348**	250,871
Investments at fair value through profit or loss	6	**544,548**	683,359
Investments at fair value through other comprehensive income	7	**347,294**	219,345
Investments carried at amortised cost		**9,839**	10,066
Loans and receivables	8	**593,715**	657,218
Other assets	9	**119,541**	147,880
Investments in associates	10	**700,981**	746,138
Investment properties	11	**115,940**	119,937
Property, equipment and right of use assets	12	**79,832**	85,638
Goodwill and other intangible assets	13	**68,472**	70,390
TOTAL ASSETS		**3,264,901**	3,470,226
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		**647,763**	633,030
Deposits from customers		**1,115,273**	1,072,209
Loans payable	15	**818,618**	1,006,595
Long term bonds	16	**131,497**	131,948
Other liabilities	17	**114,760**	122,818
TOTAL LIABILITIES		**2,827,911**	2,966,600
EQUITY			
Share capital	18	**219,547**	206,487
Share premium	18	**270,111**	214,477
Treasury shares	18	**(320)**	(320)
Treasury share reserve	18	**(1,518)**	(1,518)
Statutory reserve	18	**3,285**	3,285
Fair value reserve	19	**(107,590)**	(76,150)
Foreign currency translation reserve	18	**(3,148)**	(3,093)
Accumulated deficit		**(100,553)**	(14,555)
CAPITAL AND RESERVES ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**279,814**	328,613
Perpetual Tier 1 capital	20	**33,000**	33,000
Non-controlling interests in equity		**124,176**	142,013
TOTAL EQUITY		**436,990**	503,626
TOTAL LIABILITIES AND EQUITY		**3,264,901**	3,470,226

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

United Gulf Holding Company B.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2020

	Notes	2020 US$ 000	2019 US$ 000
Interest income	21	**46,888**	59,445
Investment income - net	22	**2,255**	47,696
		49,143	107,141
Fees and commissions - net	23	**81,362**	75,423
Foreign currency gains - net		**(301)**	1,098
Share of results of associates - net	24	**8,933**	40,700
Total income		**139,137**	224,362
Interest expense	25	**(72,327)**	(82,897)
Operating income before expenses and provisions		**66,810**	141,465
Salaries and benefits		**(60,881)**	(68,530)
General and administrative expenses		**(38,165)**	(44,269)
Operating (loss) income before provisions and tax		**(32,236)**	28,666
(Impairment loss) reversal of impairment on investments		**(5,409)**	70
Provision for losses against unfunded participation		**(2,634)**	-
Expected credit losses		**(33,981)**	(8,359)
Taxation - net	14	**(10,273)**	(4,919)
Net (loss) profit for the year		**(84,533)**	15,458
Net (loss) profit attributable to non-controlling interests		**(14,237)**	5,711
NET (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**(70,296)**	9,747

	Notes	2020 US$ 000	2019 US$ 000
Loss per share			
Basic and diluted loss per share attributable to shareholders of the parent (US cents)	26	**(18.65)**	(1.11)

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

Hussain Lalani
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	*2019*
	US$ 000	*US$ 000*
Net (loss) profit for the year	**(84,533)**	15,458
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Foreign currency translation reserve	**(1,050)**	(921)
Fair value reserve	**(9,467)**	(14,667)
Share of other comprehensive loss of associates - net	**(21,708)**	(18,243)
Cash flow hedges	**(1,100)**	(4,942)
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(33,325)**	(38,773)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Fair value reserve	**(7,772)**	(941)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(7,772)**	(941)
Other comprehensive loss for the year	**(41,097)**	(39,714)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(125,630)**	(24,256)
Total comprehensive (loss) income attributable to:		
- shareholders of the parent	**(107,205)**	(29,213)
- non-controlling interests	**(18,425)**	4,957
	(125,630)	(24,256)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	**2020 US$ 000**	2019 US$ 000
OPERATING ACTIVITIES			
Net (loss) profit for the year before tax		**(74,260)**	20,377
Adjustments for non-cash items:			
Depreciation and amortisation		**6,943**	5,777
Share of results of associates - net	24	**(8,933)**	(40,700)
Expected credit losses		**33,981**	8,359
Impairment loss (reversal of impairment) on investments		**5,409**	(70)
Change in fair values of investment properties	22	**3,800**	(7,294)
Gain due to reclassification of investment	22	**(587)**	(664)
Loss (gain) on investments at fair value through profit or loss	22	**10,744**	(11,213)
Interest income	21	**(46,888)**	(59,445)
Interest expense	25	**72,327**	82,897
Gain on sale of associates and subsidiaries	22	**(1,429)**	-
Provision for losses against unfunded participation		**2,634**	-
Operating profit (loss) before changes in operating assets and liabilities		**3,741**	(1,976)
Changes in operating assets and liabilities:			
Placements with banks with original maturities of more than ninety days		**(83,767)**	22,449
Investments at fair value through profit or loss		**128,067**	(69,570)
Investments at fair value through other comprehensive Income		**(136,672)**	55,213
Investments at amortised cost		**227**	275
Loans and receivables		**31,225**	(1,283)
Other assets		**5,392**	(33,540)
Due to banks and other financial institutions		**14,733**	127,881
Deposits from customers		**43,064**	30,305
Other liabilities		**(6,926)**	(6,345)
Interest received		**54,125**	58,204
Interest paid		**(73,064)**	(81,405)
Donations		**(200)**	(200)
Directors' remuneration		**(195)**	(195)
Net cash (used in) from operating activities		**(20,250)**	99,813
INVESTING ACTIVITIES			
Investments in associates - net		**18,507**	26,208
Property and equipment - net	12	**781**	(7,050)
Deferred consideration paid on the acquisition of a subsidiary		**-**	(8,247)
Net cash from investing activities		**19,288**	10,911
FINANCING ACTIVITIES			
Proceed from issuance of Rights Shares		**68,694**	-
Settlement of term loans - net		**(187,977)**	(28,387)
Interest payment on Perpetual Tier 1 capital		**(7,805)**	(14,316)
Purchase of treasury shares		**-**	(1,743)
Net cash used in financing activities		**(127,088)**	(44,446)
Foreign currency translation adjustments		**(1,039)**	(1,162)
Movement in non-controlling interests		**588**	(4,576)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(128,501)**	60,540
Cash and cash equivalents at 1 January		**701,339**	640,799
NET CHANGE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS AT 31 DECEMBER	27	**572,838**	701,339

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to shareholders of the parent											
	Share capital US$ 000	*Share premium US$ 000*	*Treasury shares US$ 000*	*Treasury share reserve US$ 000*	*Statutory reserve US$ 000*	*Fair value reserve US$ 000*	*Foreign currency translation reserve US$ 000*	*Accumulated deficit US$ 000*	*Total before non-controlling interests US$ 000*	*Perpetual Tier 1 capital US$ 000*	*Non-controlling interests US$ 000*	*Total equity US$ 000*
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
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	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 35)	-	-	-	-	-	-	-	(2,483)	(2,483)	-	-	(2,483)
Interest payment on 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**
Balance at 1 January 2019	206,487	214,477	(56)	(39)	2,310	(54,201)	(2,293)	(2,682)	364,003	33,000	151,514	548,517
Profit for the year	-	-	-	-	-	-	-	9,747	9,747	-	5,711	15,458
Other comprehensive loss	-	-	-	-	-	(38,160)	(800)	-	(38,960)	-	(754)	(39,714)
Total comprehensive (loss) income for the year	-	-	-	-	-	(38,160)	(800)	9,747	(29,213)	-	4,957	(24,256)
Purchase of treasury shares	-	-	(264)	(1,479)	-	-	-	-	(1,743)	-	-	(1,743)
Transfer upon disposal of equity investments carried at fair value through other comprehensive income	-	-	-	-	-	11,514	-	(11,514)	-	-	-	-
Transferred during the year	-	-	-	-	975	-	-	(975)	-	-	-	-
Interest payment on Tier 1 capital and other adjustments	-	-	-	-	-	-	-	(14,316)	(14,316)	-	-	(14,316)
Dilution of ownership in a subsidiary	-	-	-	-	-	4,697	-	5,185	9,882	-	(9,882)	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(4,576)	(4,576)
Balance at 31 December 2019	206,487	214,477	(320)	(1,518)	3,285	(76,150)	(3,093)	(14,555)	328,613	33,000	142,013	503,626

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

1 INCORPORATION AND PRINCIPAL ACTIVITIES

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

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

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

Impact of COVID-19
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 Group's operations, the scale and duration of further developments remain uncertain at this stage and could potentially further impact the Group's financial position, financial performance and cash flows in the future, the extent of which is presently undeterminable.

These consolidated financial statements were authorised for issue by the Board of Directors on 28 February 2021.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with the relevant provisions of the Bahrain Commercial Companies Law, directives and 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 the recently issued CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020 and related CBB communications, require 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’. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9. Please refer note 35 for further details; 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 recognised in profit or loss. Any other financial assistance is recognised in accordance with the requirements of IAS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’. Please refer note 35 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’, which has been applied retrospectively and did not result in any change to the financial information reported for the comparative period.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 FVTPL and FVOCI, investment properties and derivative financial instruments.

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect the previously reported net profit or the total equity of the Group.

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

New and amended standards and interpretations
The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following new and amended standards and interpretations applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2020:

Amendments to IFRS 3: Definition of a Business
The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

As communicated by the CBB, the London Interbank Offered Rate ("LIBOR") used to price US$ denominated financial instruments will be replaced by Secured Overnight Financing Rate ("SOFR") or other recognised benchmark rates internationally. While LIBOR is intended to be discontinued after end-2021, a transition to alternative risk-free rates will potentially have legal, technological, accounting and regulatory implications.

The Group is currently in the process of assessing the impact of such a transition and developing an approach to address arising risks. An initial impact assessment analysis is being submitted to the CBB as of the date of these financial statements that describes the process, timelines and appropriate legal solutions to deal with the transition.

Impact on hedging relationships
Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 include a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform.

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative risk-free interest rate. These amendments are effective for annual periods beginning on or after 1 January 2020, with early application permitted. The Group is currently assessing the impact of this standard and will apply from the effective date.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Amendments to IAS 1 and IAS 8: Definition of Material
The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to the definition of material did not have a significant impact on the Group’s consolidated financial statements.

Conceptual Framework for Financial Reporting issued on 29 March 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

The amendments did not have a significant impact on the Group’s consolidated financial statements.

Amendments to IFRS 16 COVID-19 Related Rent Concessions
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 amendments did not have a significant impact on the Group’s consolidated financial statements.

Principles of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiaries as at 31 December 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)

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

The principal subsidiaries of the Company are as follows:

Name of the subsidiary	*Country of incorporation*	*Ownership at 31 December 2020*	*2019*	*Year of incorporation*
Held directly				
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
Held through UGB				
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	**60%**	60%	1998
United Gulf Financial Services Company-North Africa	Tunisia	**84%**	84%	2008
United Gulf Realty International, Ltd [UGRIL]	British Virgin Islands	**100%**	100%	2012
United Gulf Asset Company W.L.L.	Bahrain	**100%**	100%	2017
Held through FIMBank				
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	United Kingdom	**100%**	100%	2009
London Forfaiting International Limited	United Kingdom	**100%**	100%	2009
	United States of			

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)

Name of the subsidiary	*Country of incorporation*	*Ownership at 31 December* **2020**	*2019*	*Year of incorporation*
London Forfaiting Americas Inc.	America	**100%**	100%	2009
London Forfaiting do Brasil Ltd.	Brazil	**100%**	100%	2009
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
Held through KAMCO				
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	**100%**	100%	2007
Al Jazi Money Market Fund	Kuwait	**51%**	51%	2007
Al Tadamun United Holding Co	Kuwait	**96%**	100%	2017
Al Zad Real Estate W.L.L.	Kuwait	**99%**	100%	2007
Bukeye Power Project Advisory Co	U.S.A.	**48%**	50%	2017
Bukeye Power Project Manager Ltd	Jersey	**100%**	100%	2017
Carnation Advisory Company LLC	U.S.A.	**75%**	75%	2018
Carnation Manager limited	U.K.	**100%**	100%	2018
First Brokerage	Kuwait	**93%**	93%	1985
Flint Advisor Company LLC	Jersey	**0%**	46%	2017
Flint Manager Ltd	U.S.A.	**0%**	100%	2017
Global DIFC	U.A.E.	**0%**	100%	2013
KAMCO Investment Company Saudi	Saudi Arabia	**100%**	100%	2016
KAMCO Egypt Holding Ltd	U.A.E.	**100%**	100%	2018
Kamco GCC Opportunistic Fund	Kuwait	**100%**	100%	2013
KAMCO Investment Company (DIFC) Limited	U.A.E.	**100%**	100%	2016
KAMCO MENA Plus (DIFC)	U.A.E.	**58%**	58%	2019
Kubbar United Real Estate Co	Kuwait	**100%**	100%	2017
Kuwait Private Equity Opportunity Fund	Kuwait	**73%**	73%	2004
Lawson Lane Investor Inc	U.S.A.	**100%**	-	2020
Nawasi United Holding Co	Kuwait	**96%**	100%	2017
North Africa Real Estate Co.	Kuwait	**100%**	100%	2014
Plans United Real Estate Co	Kuwait	**100%**	100%	2017
Project Plaza Investor Inc	U.S.A.	**100%**	100%	2019
Shuroq Investment Services	Oman	**77%**	77%	1998
Held through UGFS-NA				
United Gulf Financial Services UGAS	Tunisia	**100%**	**100%**	2010

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 acquire. For each business combination, the acquirer measures the non controlling interest in the acquire either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

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 recognised 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 recognised 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 recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

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

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

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

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 amortisation and accumulated impairment losses.

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

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 amortisation period and the amortisation 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 amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and other Intangible assets (continued)

Other intangible assets (continued)
An intangible asset is derecognised 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.

As at 31 December 2020, the Group did not have any intangible assets which had an infinite useful life.

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

The consolidated statement of income reflects the Group's share of the results of operations of the 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 recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the 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 recognise an impairment loss on its investments in its associates. At each reporting date, the Group determines whether there is objective evidence that an investment in an associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of its investment in the associate and its carrying value and then recognises the loss as 'Share of results of associates' in the consolidated statement of income.

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

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 recognised 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 recognised when funds are transferred to the customers' accounts. The Group recognises due to banks and other financial institutions and deposits from customers when funds are transferred to the Group.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 recognised for financial assets measured at amortised cost and debt instruments measured at FVOCI, which results in an accounting loss being recognised 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 recognised as a day 1 gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day 1 profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or when the instrument is derecognised.

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

Financial assets

Classification and subsequent measurement
The classification requirements for financial assets is as below:

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 and measured as described in note 2 and note 4. Interest income from these financial assets is included in 'Interest income' using the EIR method.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Debt type Instrument: Classification and Subsequent measurement (continued)

- 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 statement of income and recognised in 'Investment income - net' as 'Gain on disposal of investments at fair value through other comprehensive 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 profit or loss and presented in the consolidated statement of income within 'Investment income - net' as 'Gain on investments at fair value through profit or loss' 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 'Investment income - net' as 'Gain on disposal of investments at fair value through other comprehensive income'. Interest income from these financial assets is included in 'Interest income' using the EIR 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;
- 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 realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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 amortisation of the premium/discount).

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

In assessing whether the contractual cash flows are 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.

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 I*AS 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 statememt of income, including on disposal. Equity investments at FVOCI are not subject to impairment assessment. Equity investments at FVOCI are included in investments at fair value through other comprehensive income in the consolidated statement of financial position. 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Financial asset at FVTPL (continued)
Dividends are recognised 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 recognises 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.

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 categorises 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 recognised, the Group recognises an allowance based upto 12-month ECL.
- Stage 2 – Significant increase in credit risk: when an asset shows a significant increase in credit risk, the Group records an allowance for the lifetime ECL.
- Stage 3 – Impaired: the Group recognises the lifetime ECL for these assets.

For the purposes of categorisation 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

Measurement of ECL (continued)
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 recognised 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.

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 recognised 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 recognise 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 amortized 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (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 recognised 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 recognised 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.

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').

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedging activities (continued)

- 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
- 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 recognised 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 recognising 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 recognised assets or liabilities or firm commitments (fair value hedges);
(b) Hedges of highly probable future cash flows attributable to a recognised 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 recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised 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 recognised in the periods when the hedged item affects income or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the consolidated statement of income.

(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 recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised 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.

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.

Derivatives held or issued for trading purposes
Most of the Group's derivative trading activities relate to entering into forward contracts with external counterparties.

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives held or issued for hedging purposes (continued)
The Group applies hedge accounting in two separate hedging strategies, as follows:

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 uncollateralised interest rate swaps but not the hedged items.

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.

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 2020 or 2019 in relation to the interest rate swaps.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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

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

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

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

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
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.

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.

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

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

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

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

Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the 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.

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)

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

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

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

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the 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.

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)

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.

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

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

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

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

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

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

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 recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

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

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)

Deferred Tax (continued)
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.

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

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

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

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

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

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

Translation of foreign currency transactions and balances
Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange differences arising on the retranslation of monetary items, are included in consolidated statement of income 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 recognised directly in a fair value reserve in the consolidated statement of comprehensive income. Non–monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

Translation of financial statements of foreign operations
Assets (including goodwill) and liabilities of foreign operations are translated at the exchange rates prevailing at the 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.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Commission income and other fees are recognised when earned.

Performance-based fees
Performance-based fees is not recognised 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 recognised in full until it has crystallised or is no longer subject to clawback.

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.

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

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

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

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

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 recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

The premium received is recognised 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 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Measurement of the expected credit loss allowance (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.

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant assumptions, accounting judgements and estimates (continued)

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

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

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

IFRS 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);
- 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.

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;
- 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)

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.

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 recognises 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.

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.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods 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 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

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

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.

4 EXPECTED CREDIT LOSSES

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

2020	***Stage 1 US$ 000***	***Stage 2 US$ 000***	***Stage 3 US$ 000***	***Total US$ 000***
As at 31 December 2019	15,711	7,309	56,613	79,633
Opening adjustment *	-	-	27,020	27,020
As at 1st January 2020	15,711	7,309	83,633	106,653
Net transfers between stage 1, 2 and 3	(880)	(498)	1,378	-
Provided during the year - net	2,309	258	31,414	33,981
Amounts written-off	-	-	(10,456)	(10,456)
Other adjustments	2	5	1,633	1,640
As at 31 December 2020	**17,142**	**7,074**	**107,602**	**131,818**

* This represents a change in presentation of interest in supense.

5 FINANCIAL ASSETS AND LIABILITIES

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

31 December 2020	***Designated at FVTPL US$ 000***	***Designated at FVOCI US$ 000***	***Amortised cost US$ 000***	***Total US$ 000***
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	**-**	**-**	**112,364**	**112,364**
Total financial assets	**544,548**	**347,294**	**1,400,657**	**2,292,499**
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**	**109,062**	**114,760**
Total financial liabilities	**1,684**	**4,014**	**2,822,213**	**2,827,911**

31 December 2019	*Designated at FVTPL US$ 000*	*Designated at FVOCI US$ 000*	*Amortised cost US$ 000*	*Total US$ 000*
Demand and call deposits with banks	-	-	479,384	479,384
Placements with banks	-	-	250,871	250,871
Investments at fair value through profit or loss	683,359	-	-	683,359
Investments at fair value through other comprehensive	-	219,345	-	219,345
Investments carried at amortised cost	-	-	10,066	10,066
Loans and receivables	-	-	657,218	657,218
Other assets	-	148	141,553	141,701
Total financial assets	683,359	219,493	1,539,092	2,441,944
Due to banks and other financial	-	-	633,030	633,030
Deposits from customers	-	-	1,072,209	1,072,209
Loans payable	-	-	1,006,595	1,006,595
Long term bonds	-	-	131,948	131,948
Other liabilities	177	6,974	115,667	122,818
Total financial liabilities	177	6,974	2,959,449	2,966,600

6 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	*2019*
	US$ 000	*US$ 000*
Forfaiting assets	**452,327**	460,239
Investment in sub-fund of collective investment scheme - unlisted	**20,332**	125,289
Managed funds	**48,929**	66,828
Quoted equities	**7,916**	13,545
Quoted debt securities	**12,436**	12,245
Unquoted equity	**2,608**	4,388
Unquoted debt securities	**-**	825
	544,548	683,359

7 INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	*2019*
	US$ 000	*US$ 000*
Quoted debt securities	**153,328**	79,367
Quoted equities	**5,034**	4,657
Unquoted equities (see note 7.1)	**188,899**	134,315
Managed funds	**33**	1,006
	347,294	219,345

7.1 Included herein is an investment with a carrying value of US$ 104 million. The Parent has committed to acquire such investment at its carrying value or higher.

8 LOANS AND RECEIVABLES

			2020	
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	US$ 000	***US$ 000***	***US$ 000***	***US$ 000***
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**
Syndication 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 lossess	**(2,269)**	**(6,296)**	**(107,539)**	**(116,104)**
	291,336	**194,527**	**107,852**	**593,715**

			2019	
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*
Factoring assets	173,471	159,101	58,669	391,241
Loans to customers	182,044	19,934	77,047	279,025
Loans to banks	20,909	-	30,460	51,369
Syndication loans	7,811	6,914	8,562	23,287
Staff loans	4,857	-	-	4,857
	389,092	185,949	174,738	749,779
Less: Expected credit lossess	(1,798)	(7,130)	(83,633)	(92,561)
	387,294	178,819	91,105	657,218

8 LOANS AND RECEIVABLES (continued)

The movement in the expected credit losses is as follows:

	Stage 1 US$ 000	*Stage 2 US$ 000*	*Stage 3 US$ 000*	*Total US$ 000*
As at 31 December 2019	**1,798**	**7,130**	**56,613**	**65,541**
Opening adjustment *	**-**	**-**	**27,020**	**27,020**
As at 1st January 2020	**1,798**	**7,130**	**83,633**	**92,561**
Net transfers between stage 1, 2 and 3	**(62)**	**(498)**	**560**	**-**
Provision (reversal) during the year - net	**554**	**(327)**	**31,386**	**31,613**
Written-off during the year	**-**	**-**	**(9,673)**	**(9,673)**
Other adjustments	**(21)**	**(9)**	**1,633**	**1,603**
As at 31 December 2020	**2,269**	**6,296**	**107,539**	**116,104**

* This represents a change in presentation of interest in supense.

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

	Neither past due nor impaired US$ 000	*Past due but not impaired US$ 000*	*Past due and impaired US$ 000*	*Total US$ 000*
31 December 2020				
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**

	Neither past due nor impaired US$ 000	*Past due but not impaired US$ 000*	*Past due and impaired US$ 000*	*Total US$ 000*
31 December 2019				
Factoring assets	321,093	11,479	58,669	391,241
Loans to customers	200,564	1,414	77,047	279,025
Loans to banks	20,909	-	30,460	51,369
Syndication loans	14,725	-	8,562	23,287
Staff loans	4,857	-	-	4,857
Total	562,148	12,893	174,738	749,779

All of the Group's loans and receivables which were past due but not impaired as of 31 December 2020 (2019: Same) were overdue for less than 90 days.

9 OTHER ASSETS

	2020 **US$ 000**	*2019* *US$ 000*
Due from customers	**72,031**	67,272
Deferred tax asset (Note 14)	**25,876**	36,774
Accounts receivable	**27,538**	43,218
Prepayments	**7,177**	6,179
Current tax asset	**1,397**	1,846
Interest receivable	**453**	5,844
Derivative assets (Note 31)	**-**	148
Gross other assets	**134,472**	161,281
Less: Expected credit losses	**(14,931)**	(13,401)
	119,541	147,880

The table below reconicles the movement of the ECL from 1 Janaury 2020 and 31 December 2020:

	Stage 1 *US$ 000*	*Stage 2* *US$ 000*	*Stage 3* *US$ 000*	*Total* *US$ 000*
As at 1 January 2020	**13,379**	**22**	**-**	**13,401**
Net transfers between stages	**(818)**	**-**	**818**	**-**
Provided during the year - net	**1,544**	**718**	**28**	**2,290**
Amounts written-off	**-**	**-**	**(783)**	**(783)**
Other movements	**23**	**-**	**-**	**23**
As at 31 December 2020	**14,128**	**740**	**63**	**14,931**

10 INVESTMENTS IN ASSOCIATES

			Carrying value		*Ownership*	
		Activity	***2020***	*2019*	***2020***	*2019*
			US$ 000	*US$ 000*	***%***	*%*
a)	Burgan Bank S.A.K.	Commercial banking	**519,252**	552,707	**15**	15
b)	United Real Estate Company	Real estate	**47,879**	50,644	**10**	10
c)	Assoufid B.V.	Project-development company	**45,938**	38,284	**40**	40
d)	Kamco Investment Func	Fund	**27,884**	30,807	**27**	23
e)	North Africa Holding Company	Investments	**12,973**	23,444	**48**	44
f)	KAMCO Real Estate Yield Fund	Real estate	**10,159**	13,744	**36**	38
g)	Syria Gulf Bank	Commercial banking	**10,264**	4,223	**31**	31
h)	N.S. 88	Real estate	**9,986**	11,423	**20**	20
i)	Manafae Investment Company	Islamic investment	**9,985**	10,951	**34**	33
j)	United Capital Transport Company K.S.C.C.	Transport	**6,657**	8,419	**40**	40
k)	Takaud Saving & Pensions Company	Savings and pension	**-**	1,064	**36**	36
l)	United Real Estate Company - Syria	Real estate	**4**	9	**20**	20

11 INVESTMENTS IN ASSOCIATES (continued)

			Carrying value		*Ownership*	
		Activity	***2020***	*2019*	***2020***	*2019*
			US$ 000	*US$ 000*	***%***	*%*
m)	Fina Corporation	Financial Services	**-**	230	**49**	49
n)	Lotus Financial Investment	Islamic Investment	**-**	189	**-**	45
			703,001	748,157		

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2020 and 2019 on behalf of its associates.

a) Burgan Bank S.A.K. is a listed commercial bank incorporated in the State of Kuwait. The Group owns 15% (2019: 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 2020, the Group owns 10% of URC (2019:10%). 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% (2019: 40%) of Assoufid B.V., a closed company incorporated in the Netherlands.

d) The Group holds a 27% equity interest in KAMCO Investment Fund (“KIF”) through its subsidiary KAMCO (2019: 23%).

e) The Company directly owns 37% and indirectly owns 11%, through its subsidiary KAMCO, in North Africa Holding Company (NAHC), a closed company incorporated in the State of Kuwait in 2006.

f) The Group holds a 36% (2019: 38%) equity interest in KAMCO Real Estate Yield Fund through its subsidiary KAMCO. The decrease in equity interest is due to subscription of the fund's units by other unit holders during the year.

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% equity stake in SGB (2019: 31%).

h) The Group owns 20% of N.S. 88 through its subsidiary KAMCO (2019: 20%).

i) The Group owns 34% of Manafae Investment Company through its subsidiary KAMCO (2019: 33%).

j) United Capital Transport Company K.S.C.C. (UniCap) was incorporated in State of Kuwait in 2011. The Group owns a 40% equity interest through its subsidiary KAMCO (2019: 40%). UniCap is a dedicated leasing solutions provider to governments, international oil companies and varied construction, mining and industrial services businesses.

k) The Group owned 36% of Takaud Savings and Pension Company (Takaud) as of 31 December 2020 (2019: same). The remaining equity stake is owned by KIPCO which also exercises control over Takaud through representation on its Board of Directors.

l) United Real Estate Company - Syria is a closed company incorporated in the Syrian Arab Republic. At 31 December 2020, the Group owns 20% of its equity interest (2019: 20%).

m) The Group holds 49% equity interest in FINA Corporation situated in Tunisia (2019: 49%) through its subsidiary KAMCO.

n) The Group holds a Nil (2019: 49%) equity interest in Lotus Financial Investment through its subsidiary KAMCO. During the year the group disposed its entire shareholding for a gain on disposal of US$ 1,429 thousand.

10 INVESTMENTS IN ASSOCIATES (continued)

As at 31 December 2020, the Group's recoverable amount of one of these associates (i.e. value in use) was in excess of their carrying values and accordingly impairment of US$ 5,200 thousand was recognised during the year (2019: nil).

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.

Summarised statement of financial position:	***2020*** ***US$ 000***	*2019* *US$ 000*
Current assets	**15,275,430**	15,771,684
Non-current assets	**10,084,312**	9,672,255
Current liabilities	**18,654,315**	17,854,150
Non-current liabilities	**3,168,036**	3,745,046
Equity	**3,537,275**	3,844,743
Equity attributable to the shareholders of the Parent	**2,838,261**	3,103,802
Group's ownership in equity	**396,215**	434,719
Other adjustments	**170,916**	168,632
Carrying amount of investments	**567,131**	603,351
Fair value of investment in associate based on quoted market price	**292,197**	433,569

Summarised statement of income:	***2020*** ***US$ 000***	***2019*** ***US$ 000***
Operating income	**271,238**	631,651
Interest income	**889,395**	1,144,818
Interest expense	**(470,975)**	(644,864)
Administrative expenses	**(632,426)**	(873,744)
Profit for the year	**57,232**	257,861
Other comprehensive loss for the year	**(179,710)**	(118,045)
Total comprehensive (loss) income for the year	**(122,478)**	139,816
Total comprehensive (loss) income for the year attributable to shareholders of the Parent	**(85,013)**	144,811
Group's share of total comprehensive income for the year	**7,386**	22,876
Cash dividend received from the associate during the year	**15,294**	14,807

10 INVESTMENTS IN ASSOCIATES (continued)

Investments in associates that are individually not significant

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

	2020	*2019*
Summarised statement of financial position as of 31 December:	***US$ 000***	*US$ 000*
Total assets	**538,643**	596,311
Total liabilities	**253,571**	160,136
Equity	**285,072**	436,175
Carrying amount of investments	**135,870**	138,564
Summarised statement of income for the year ended 31 December:		
Revenue	**17,794**	38,855
(Loss) income for the year	**(12,909)**	8,519
Total comprehensive (loss) income for the year	**(12,909)**	8,519
Group's share of loss for the year	**(2,685)**	(1,197)

11 INVESTMENT PROPERTIES

	2020	*2019*
	US$ 000	*US$ 000*
At 1 January	**119,937**	124,853
Reclassified to property and equipment	**-**	(12,734)
Change in fair values	**(3,800)**	7,294
Foreign exchange adjustment	**(197)**	524
At 31 December	**115,940**	119,937

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.

Valuations of investment properties were conducted by independent appraisers with a recognised and relevant professional qualification and recent experience of the location and category of investment property being valued. The discounted future cash flow method or property market value method have been used and deemed appropriate considering the nature and usage of the properties. The Group's investment properties are categorised in level 3 of the fair value hierarchy as at 31 December 2020 and 2019.

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

2020	*Land*	*Buildings*	*Furniture and fixtures*	*Computers and vehicles*	*Right--of-use Assets*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Cost						
Balance as at 1 January 2020	27,260	87,355	20,490	26,857	3,317	165,279
Additions during the year	-	144	420	-	325	889
Impairment during the year	-	-	(2,153)	-	-	(2,153)
Disposals during the year	-	-	(367)	(513)	(31)	(911)
Exchange rate and other	62	223	1,919	(3,269)	(11)	(1,076)
At 31 December 2020	**27,322**	**87,722**	**20,309**	**23,075**	**3,600**	**162,028**
Depreciation						
Balance as at 1 January 2019	-	(38,910)	(15,671)	(24,654)	(406)	(79,641)
Charge for the year	-	(2,177)	(751)	(783)	(1,006)	(4,717)
Depreciation relating to disposals during the year	-	-	335	903	-	1,238
Exchange rate and other	-	885	(2,600)	2,638	1	924
At 31 December 2020	**-**	**(40,202)**	**(18,687)**	**(21,896)**	**(1,411)**	**(82,196)**
Net book value:						
At 31 December 2020	**27,322**	**47,520**	**1,622**	**1,179**	**2,189**	**79,832**
At 31 December 2019	27,260	48,445	4,819	2,203	2,911	85,638

13 GOODWILL AND OTHER INTANGIBLE ASSETS

2020		*Goodwill*	*Customer relationships*	*Licenses with indefinite useful lives*	*Total*
		US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
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**
Amortisation and impairment					
Balance as at 1 January 2020		-	(1,216)	(5,561)	(6,777)
Amortisation		-	(1,126)	(1,100)	(2,226)
Exchange rate and other movements		-	5	-	5
At 31 December 2020	**-**	**-**	**(2,337)**	**(6,661)**	**(8,998)**

13 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

2019		*Goodwill US$ '000*	*Customer relationships US$ '000*	*Licenses with indefinite useful lives US$ '000*	*Total US$ '000*
Cost					
Balance as at 1 January 2019		52,288	11,328	13,513	77,129
Foreign currency translation adjustments		18	(33)	53	38
At 31 December 2019	-	52,306	11,295	13,566	77,167
Amortisation and impairment					
Balance as at 1 January 2019		-	(413)	(5,235)	(5,648)
Amortisation		-	(803)	(326)	(1,129)
At 31 December 2019	-	-	(1,216)	(5,561)	(6,777)
Net book value:					
At 31 December 2020	**-**	**52,128**	**8,919**	**7,425**	**68,472**
At 31 December 2019	-	52,306	10,079	8,005	70,390

Goodwill

The goodwill remaining 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 (a CGU). The recoverable amount of the CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. The key assumptions used in the value in use calculation include a perpetuity growth rate of 3% (2019: 2%) and discount factor of 8.4% (2019: 8.3%). There was no goodwill impairment identified in 2020 or 2019 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 relationships have useful lives have a useful economic life of 10 years each and are amortised on a straight line basis.

14 TAXATION

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

a) Deferred tax assets

Deferred tax assets relate to the following:

	2020 US$ 000	*2019 US$ 000*
Excess of capital allowances over depreciation	**(665)**	(677)
Allowances for uncollectibility	**5,751**	21,961
Changes in fair value of financial instruments	**663**	1,036
Unabsorbed capital allowances	**622**	625
Unabsorbed tax losses	**19,419**	13,695
Other temporary differences	**86**	134
	25,876	36,774

14 TAXATION (continued)

Reconciliation of deferred tax assets is as follows:

2020	***Opening balance US$ 000***	***Recognised in statement of OCI US$ 000***	***Recognised in statement of income US$ 000***	***Effects of movement in exchange rates US$ 000***	***Closing balance US$ 000***
Excess of capital allowances over depreciation	(677)	-	13	(1)	(665)
Allowances for uncollectibility	21,961	-	(15,989)	(221)	5,751
Changes in fair value of financial instruments	1,036	(420)	47	-	663
Unabsorbed capital allowances	625	-	(3)	-	622
Unabsorbed tax losses	13,695	-	5,724	-	19,419
Other temporary differences	134	-	(48)	-	86
	36,774	**(420)**	**(10,256)**	**(222)**	**25,876**
2019					
Excess of capital allowances over depreciation	(553)	-	(166)	42	(677)
Allowances for uncollectibility	22,278	-	(82)	(235)	21,961
Changes in fair value of financial instruments	2,245	(245)	(964)	-	1,036
Investment tax credits	1,556	-	(931)	-	625
Unabsorbed capital allowances	13,168	-	527	-	13,695
Unabsorbed tax losses	-	-	134	-	134
	38,694	(245)	(1,482)	(193)	36,774

As at 31 December 2020, the Group has unutilised tax losses of US$ 114,449 thousand (2019: US$ 100,514 thousand) that are available for offsetting against future taxable profits.

b) Deferred tax liabilities

Deferred tax liabilities relate to the following:

	2020 US$ 000	*2019 US$ 000*
Excess of capital allowances over depreciation	**2,837**	2,837
Revaluation of investment properties at fair value	**4,913**	5,951
	7,750	8,788

Reconciliation of deferred tax liabilities is as follows:

2020	***Opening balance US$ 000***	***Recognised in statement of income US$ 000***	***Closing balance US$ 000***
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**
2019			
Excess of capital allowances over depreciation	2,837	-	2,837
Revaluation of investment properties at fair value	4,044	1,907	5,951
	6,881	1,907	8,788

14 TAXATION (continued)

c) Income tax charge

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

	2020	*2019*
	US$ 000	*US$ 000*
Consolidated statement of income		
Current income tax charge	**(833)**	(1,530)
Movement in deferred tax assets recognised in consolidated statement of incor	**(10,478)**	(1,482)
Movement in deferred tax liabilities recognised in consolidated statement of income	**1,038**	(1,907)
Income tax charge reported in the statement of income - net	**(10,273)**	(4,919)

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

		Parent	***Subsidiaries***	***Total***
31 December 2020	***Currency***	***US$ 000***	***US$ 000***	***US$ 000***
Maturing within one year				
3 months or less	KWD	**-**	**19,724**	**19,724**
	US$	**50,000**	**-**	**50,000**
	GBP	**-**	**2,986**	**2,986**
1 year or less but over 3 months	US$	**83,900**	**10,196**	**94,096**
		133,900	**32,906**	**166,806**
Maturing after one year				
More than 1 year & less than 2 years	US$	**516,812**	**-**	**516,812**
More than 2 years	US$	**135,000**	**-**	**135,000**
		651,812	**-**	**651,812**
		785,712	**32,906**	**818,618**

		Parent	*Subsidiaries*	*Total*
31 December 2019	*Currency*	*US$ 000*	*US$ 000*	*US$ 000*
Maturing within one year				
3 months or less	KWD	-	9,896	9,896
	US$	-	80,474	80,474
	EUR	-	27,011	27,011
	INR	-	2,852	2,852
1 year or less but over 3 months	US$	231,334	73,428	304,762
	KWD	-	16,493	16,493
	EUR	-	19,236	19,236
	EGP	-	3,482	3,482
		231,334	232,872	464,206
Maturing after one year				
More than 1 year & less than 2 years	US$	406,812	-	406,812
	US$	125,000	10,485	135,485
More than 2 years	EGP	-	92	92
		531,812	10,577	542,389
		763,146	243,449	1,006,595

16 LONG TERM BONDS

	2020 US$ 000	2019 US$ 000
Fixed interest rate of 6.00% per annum and maturing on 26 July 2023, (KWD 14.9 million)	**48,983**	49,151
Floating interest at CBK discount rate + 2.75% per annum (capped at 7% per annum) and maturing on 26 July 2023, (KWD 25.1 million)	**82,514**	82,797
	131,497	131,948

17 OTHER LIABILITIES

	2020 US$ 000	2019 US$ 000
Staff related payables	**27,900**	27,427
Accrued expenses	**20,842**	25,973
Interest payable	**10,780**	11,517
Dividends payable	**1,444**	3,655
Deferred tax liability (note 14)	**7,750**	8,788
Derivative financial liabilities (note 31)	**5,698**	7,151
Provisions for legal liabilities under IFRS 3	**9,987**	9,987
Deferred income	**10,110**	10,117
Tax payable	**3,113**	4,147
Other payables	**17,136**	14,056
	114,760	122,818

18 EQUITY

Share capital

	31 December 2020 US$ 000	31 December 2019 US$ 000
Authorised share capital		
Number of shares (in thousands)	505,400	505,400
Par value (US$)	0.50	0.50
	252,700	252,700
Issued and fully paid up share capital		
Number of shares (in thousands)	**439,094**	412,974
Par value (US$)	**0.50**	0.50
	219,547	206,487

Rights 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.

Treasury shares and treasury shares reserve

At 31 December 2020, UGH held 640,091 treasury shares (2019: 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 2020 based on the last bid price of US$ 3.29 (equivalent to BD 1.24) per share (2019: US$ 3.29 (equivalent to BD 1.24) per share) was US$ 2,106 thousand (2019: US$ 2,106 thousand).

18 EQUITY (continued)

Share premium
Share premium represents a non-distributable reserve arising from the acquisition of United Gulf Bank ("UGB") from its shareholders via a share swap offer of 1 new share of the Company for 2 shares of UGB. The reserve is credited with the difference between the value of shares and the net assets acquired. During the year, the Company concluded a rights issue which resulted in additional share premium of US$ 55,634 thousand.

Statutory reserve
In accordance with the Bahrain Commercial Companies Law and the Bank'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.

Dividend paid
No dividend was announced or paid during year ended 31 December 2020 or 31 December 2019.

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.

19 FAIR VALUE RESERVE

	2020	*2019*
	US$ 000	*US$ 000*
Investments at fair value through other comprehensive Income		
Balance at 1 January	**(71,263)**	(54,256)
Transferred upon disposal of investments at fair value through other comprehensive income	**5,414**	11,514
Transferred to non-controlling interests upon dilution in a subsidiary	**-**	4,697
Net movement in unrealised fair values during the year	**(35,754)**	(33,218)
Balance at 31 December	**(101,603)**	(71,263)
Cash flow hedges		
Balance at 1 January	**(4,887)**	55
Net movement in the fair values during the year	**(1,100)**	(4,942)
Balance at 31 December	**(5,987)**	(4,887)
	(107,590)	(76,150)

20 PERPETUAL TIER 1 CAPITAL

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

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

21 INTEREST INCOME

	2020	2019
	US$ 000	US$ 000
Loans and receivables	**43,220**	50,029
Investments	**745**	899
Placements with banks	**1,467**	7,244
Demand and call deposits with banks	**1,456**	1,273
	46,888	59,445

22 INVESTMENT INCOME - NET

	2020	2019
	US$ 000	US$ 000
Dividend income	**4,733**	8,195
Gain on sale of an associate	**1,429**	-
Rental income from investment properties	**3,567**	4,039
Gain (loss) on sale of invetsments at fair value through other comprehensive income	**1,304**	(10)
Gain (loss) on investments carried at fair value through profit or loss	**(10,744)**	11,213
Unrealized (loss) gain on investment properties	**(3,800)**	7,294
Gain due to reclassification of investments	**587**	664
Others	**5,179**	16,301
	2,255	47,696

23 FEES AND COMMISSIONS - NET

	2020	2019
	US$ 000	US$ 000
Credit related fees, commissions and other income - net	**39,492**	28,922
Management fees from fiduciary activities	**41,247**	40,757
Advisory fees	**623**	5,744
	81,362	75,423

24 SHARE OF RESULTS OF ASSOCIATES - NET

	2020	2019
	US$ 000	US$ 000
Burgan Bank	**16,236**	41,897
Syria Gulf Bank	**8,538**	-
Kamco Investment Fund	**(2,818)**	6,412
United Real Estate Company	**(4,618)**	(2,287)
N.S. 88	**(1,275)**	(177)
KAMCO Real Estate Yield Fund	**(1,443)**	(296)
Manafae Investment Company	**(1,063)**	(419)
United Capital Transport Company	**(1,782)**	(874)
North Africa Holding Company	**(1,777)**	(1,133)
Takaud Saving & Pensions Company	**(1,065)**	(2,423)
	8,933	40,700

25 INTEREST EXPENSE

	2020	2019
	US$ 000	US$ 000
Loans payable	**49,127**	53,638
Due to banks and other financial institutions	**6,495**	10,645
Long term bonds	**6,786**	7,692
Deposits from customers	**9,919**	10,922
	72,327	82,897

26 LOSS PER SHARE

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

	2020	2019
	US$ 000	US$ 000
(Loss) profit attributable to equity shareholders of the parent	**(70,296)**	9,747
Deduction of interest on prepetual Tier 1 capital	**(7,805)**	(14,316)
	(78,101)	(4,569)
Weighted average number of shares outstanding during the year (in thousands)	**418,864**	412,731
Basic and dilluted loss per share (US cents)	**(18.65)**	(1.11)

27 CASH AND CASH EQUIVALENTS

	2020	2019
	US$ 000	US$ 000
Demand and call deposits with banks	**465,391**	479,384
Placements with banks	**219,348**	250,871
	684,739	730,255
Adjusted for:		
Time deposits with original maturities of more than ninety days	**101,919**	18,320
Mandatory reserves	**10,765**	10,764
Expected credit losses	**(783)**	(168)
Cash and cash equivalents net of expected credit losses	**572,838**	**701,339**

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

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

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

Segmental information relating to the Group's operations as at and for the year ended 31 December 2020 was as follows:

31 December 2020 **Statement of income**	*Asset management and investment banking US$ 000*	*Commercial banking US$ 000*	*Eliminations US$ 000*	*Consolidated total US$ 000*
Income from external customers	79,451	52,471	(1,718)	130,204
Share of results of associates - net	(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)
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

28 SEGMENTAL INFORMATION (continued)

31 December 2019 **Statement of income**	*Asset management and investment banking US$ 000*	*Commercial banking US$ 000*	*Eliminations US$ 000*	*Consolidated total US$ 000*
Income from external customers	112,409	72,558	(1,305)	183,662
Share of results of associates - net	(1,197)	41,897	-	40,700
Total income	111,212	114,455	(1,305)	224,362
Interest expense	(65,991)	(18,211)	1,305	(82,897)
Salaries and benefits	(45,461)	(23,069)	-	(68,530)
General and administrative expenses	(30,318)	(13,951)	-	(44,269)
Operating (loss) income before ECL, impairment and taxation	(30,558)	59,224	-	28,666
Impairment reversal on investments	70	-	-	70
Expected credit losses	1,707	(10,066)	-	(8,359)
Taxation - net	(2,187)	(2,732)	-	(4,919)
Net (loss) profit for the year	(30,968)	46,426	-	15,458
Profit attributable to equity shareholders of the parent				9,747
Profit attributable to non-controlling interests				5,711
Net profit for the year				15,458
Statement of financial position				
Investments in associates	189,209	556,929	-	746,138
Segment assets	1,305,911	2,438,419	(274,104)	3,470,226
Segment liabilities	1,407,237	1,612,018	(52,655)	2,966,600

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 2020:

31 December 2020	***G.C.C. US$ 000***	***MENA US$ 000***	***Europe US$ 000***	***Americas US$ 000***	***Others US$ 000***	***Total US$ 000***
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**

31 December 2019	*G.C.C. US$ 000*	*MENA US$ 000*	*Europe US$ 000*	*America US$ 000*	*Others US$ 000*	*Total US$ 000*
Total income	131,960	11,665	36,473	19,799	24,465	224,362
Total assets	1,590,903	156,887	1,114,608	244,525	363,303	3,470,226

29 RELATED PARTY TRANSACTIONS

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

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

	2020			
	Major shareholder US$ 000	***Associates US$ 000***	***Other related parties US$ 000***	***Total US$ 000***
Investment income	**-**	**-**	**407**	**407**
Fees and commissions - net	**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)**

	2019			
	Major shareholder US$ 000	*Associates US$ 000*	*Other related parties US$ 000*	*Total US$ 000*
Fees and commissions - net	3,443	2,868	4,500	10,811
Dividend income	-	-	947	947
Rental income	2,232	43	-	2,275
Interest income	515	2,147	1,081	3,743
Interest expense	(170)	(25,435)	(5,527)	(31,132)
Others	-	12,505	(1,211)	11,294

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

	2020 US$ 000	*2019 US$ 000*
Interest payment on Perpetual Tier 1 Capital.	**(531)**	(531)

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

29 RELATED PARTY TRANSACTIONS (continued)

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

	2020			
	Parent US$ 000	***Associates US$ 000***	***Other related parties US$ 000***	***Total US$ 000***
Demand and call deposits with banks	**-**	**4,562**	**270**	**4,832**
Placements with banks	**-**	**-**	**28,370**	**28,370**
Investments carried at fair value through profit or loss	**-**	**2,052**	**-**	**2,052**
Investments carried at fair value through other comprehensive income	**-**	**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 Tier 1 Capital	**-**	**-**	**(10,000)**	**(10,000)**
Off statement of financial position items:				
Letters of guarantee	**-**	**-**	**150**	**150**

	2019			
	Parent US$ 000	*Associates US$ 000*	*Other related parties US$ 000*	*Total US$ 000*
Demand and call deposits with banks	-	1,592	135	1,727
Placements with banks	-	-	25,270	25,270
Investments carried at fair value through profit or loss	-	2,636	448	3,084
Investments carried at fair value through other comprehensive income	-	2,913	85,649	88,562
Investments carried at amortised cost	9,894	-	-	9,894
Loans and receivables	-	7,000	27,483	34,483
Other assets	3,928	36,334	2,169	42,431
Due to banks and other financial institutions	-	(10,164)	(214,648)	(224,812)
Deposits from customers	(87)	(1,220)	(28,479)	(29,786)
Loans payable	-	(436,812)	(35,321)	(472,133)
Other liabilities	(8)	(409)	(3,270)	(3,687)
Perpetual Tier 1 Capital	-	-	(10,000)	(10,000)
Off statement of financial position items:				
Letters of guarantee	-	-	150	150
Letters of credit	-	-	-	-
Loan related commitments	**-**	**-**	3,195	3,195

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.

29 RELATED PARTY TRANSACTIONS (continued)

During the year, the Company acquired certain investments for a consideration of USD 65 million from its parent KIPCO.

For other transactions and balances with related parties refer notes 7.1, 18 and 32 (b).

Compensation of key management personnel was as follows:

	2020	*2019*
	US$ 000	*US$ 000*
Employee benefits	**3,162**	3,371

30 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:

	2020	*2019*
	US$ 000	*US$ 000*
Credit related		
Letters of credit	**16,425**	25,132
Letters of guarantee	**14,988**	12,537
	31,413	37,669
Investment related *	**88,892**	144,006
	120,305	181,675

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

31 DERIVATIVES

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

			Notional amounts by term to maturity			
31 December 2020	*Positive fair value US$ 000*	*Negative fair value US$ 000*	*Notional amount Total US$ 000*	*Within 3 months US$ 000*	*3 - 12 months US$ 000*	*1 - 5 years US$ 000*
Derivatives held for trading *						
Forward foreign exchange contracts	**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**

			Notional amounts by term to maturity			
31 December 2019	*Positive fair value US$ 000*	*Negative fair value US$ 000*	*Notional amount Total US$ 000*	*Within 3 months US$ 000*	*3 - 12 months US$ 000*	*1 - 5 years US$ 000*
Derivatives held for trading *						
Forward foreign exchange contracts	223	(400)	205,748	134,099	52,031	19,618
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	8	(2,243)	740,683	544,078	186,793	9,812
Derivatives used as cash flow hedges						
Interest rate swaps	148	(4,887)	400,000	-	75,000	325,000

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

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

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

Hedge of net investments in foreign operations
The Group has designated certain forward foreign exchange contracts to hedge against changes in the value of its investments in foreign operations for an amount of US$ 660 million (2019: US$ 741 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.

31 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 income is as follows:

	2020		*2019*	
	Within 1 year US$ 000	***1-5 years US$ 000***	*Within 1 year US$ 000*	*1-5 years US$ 000*
Net cash outflows (liabilities)	**15,432**	**1,496**	8,722	5,022
Statement of comprehensive income	**-**	**(6,930)**	148	(4,887)

32 RISK MANAGEMENT

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

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

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

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

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

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

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

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

32 RISK MANAGEMENT (continued)

a) Introduction (continued)

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.

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

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

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

32 RISK MANAGEMENT (continued)

a) Introduction (continued)

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.

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

Credit risk is mitigated through:

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

The Group has well defined policies approved at the individual board level. These provide carefully documented guidelines for credit risk management. There is a two tier committee structure to approve and review credit and investment risk. The Investment Committee comprises of the 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.

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

	2020	*2019*
	US$ 000	*US$ 000*
Demand and call deposits with banks	**465,391**	479,384
Placements with banks	**219,348**	250,871
Investments at fair value through profit or loss	**12,436**	13,070
Investments at fair value through other comprehensive Income	**153,328**	79,367
Investments at amortised cost	**9,839**	10,066
Loans and receivables	**593,715**	657,218
Other assets	**112,364**	141,553
Letters of credit	**16,425**	25,132
Letters of guarantee	**14,988**	12,537
Derivative financial assets	**-**	148
	1,597,834	1,669,346

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 2020 was US$ 34.7 million (2019: US$ 61.8 million) before taking account of collateral or other credit enhancements.

32 RISK MANAGEMENT (continued)

b) Credit risk (continued)

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

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

	G.C.C.	***ME and North Africa***	***Europe***	***Americas***	***Asia***	***Others***	***Total***
	US$ 000	***US$ 000***	***US$ 000***	***US$ 000***	***US$ 000***	***US$ 000***	***US$ 000***
Demand and call deposits with banks	**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**

	G.C.C.	*ME and North Africa*	*Europe*	*Americas*	*Asia*	*Others*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*
Demand and call deposits with banks	35,810	10,601	394,812	33,799	2,815	1,547	479,384
Placements with banks	206,382	29,727	14,762	-	-	-	250,871
Investments at FVTPL	13,070	-	-	-	-	-	13,070
Investments at FVOCI	-	-	79,367	-	-	-	79,367
Investments at amortised cost	9,786	280	-	-	-	-	10,066
Loans and receivables	142,917	53,631	287,981	39,060	113,392	20,237	657,218
Other assets	63,012	26,424	12,665	2,240	11,419	25,793	141,553
Letters of credit	480	416	44	-	16,077	8,115	25,132
Letters of guarantee	5,622	2,141	4,547	227	-	-	12,537
Derivative financial assets	148	-	-	-	-	-	148
31 December 2019	477,227	123,220	794,178	75,326	143,703	55,692	1,669,346

32 RISK MANAGEMENT (continued)

b) Credit risk (continued)

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

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

At 31 December 2020	*Trading & Manufacturing US$ 000*	*Banks and other financial institutions US$ 000*	*Construction and real estate US$ 000*	*Individuals US$ 000*	*Government and public sector US$ 000*	*Others US$ 000*	*Total US$ 000*
Demand and call deposits with banks	**-**	**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**

At 31 December 2019	*Trading & Manufacturing US$ 000*	*Banks and other financial institutions US$ 000*	*Construction and real estate US$ 000*	*Individuals US$ 000*	*Government and public sector US$ 000*	*Others US$ 000*	*Total US$ 000*
Demand and call deposits with banks	-	479,384	-	-	-	-	479,384
Placements with banks	-	250,871	-	-	-	-	250,871
Investments at FVTPL	2,761	6,632	2,068	-	-	1,609	13,070
Investments at FVOCI	-	21,706	-	-	57,661	-	79,367
Investments at amortised cost	-	9,785	-	-	-	281	- 10,066
Loans and receivables	376,922	69,293	95,805	21,397	6,627	87,174	657,218
Other assets	-	46,429	2,311	33	94	92,686	141,553
Letters of credit	479	8,576	-	-	-	16,077	25,132
Letters of guarantee	471	11,003	595	55	-	413	12,537
Derivative financial assets	-	148	-	-	-	-	148
	380,633	903,827	100,779	21,485	64,382	198,240	1,669,346

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.

32 RISK MANAGEMENT (continued)

b) Credit risk (continued)

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 2020 US$ 000	***Net maximum exposure 2020 US$ 000***	*Gross maximum exposure 2019 US$ 000*	*Net maximum exposure 2019 US$ 000*
Factoring assets	**370,166**	**189,331**	391,241	275,472
Loans to customers	**290,343**	**141,230**	275,227	160,814
Loans to banks	**14,810**	**10,011**	28,670	7,085
Syndication loans	**29,795**	**29,795**	23,287	23,287
Others	**4,705**	**4,705**	4,857	3,949
	709,819	**375,072**	723,282	470,607

Credit risk exposure for each credit rating

	Investmen t grade US$ 000	***Non-investmen t grade US$ 000***	***Unrated US$ 000***	***Total US$ 000***
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**

	Investment grade US$ 000	*Non-investment grade US$ 000*	*Unrated US$ 000*	*Total US$ 000*
At 31 December 2019				
Demand and call deposits with banks	445,496	13,503	20,385	479,384
Placements with banks	225,601	-	25,270	250,871
Investments at FVTPL	12,571	499	-	13,070
Investments at FVOCI	63,991	-	15,376	79,367
Investments at amortised cost	-	9,785	281	10,066
Loans and receivables	-	5,155	652,063	657,218
Other assets	36,550	-	105,003	141,553
Letters of credit	-	416	24,716	25,132
Letters of guarantee	5,802	2,862	3,873	12,537
Derivative financial assets	148	-	-	148
	790,159	32,220	846,967	1,669,346

32 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit risk exposure for 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.

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$ 13,987 thousands of restructured loans as of 31 December 2020 (2019: US$ 32,847 thousand)

Offsetting financial assets and financial liabilities

The Group has interest bearing receivables from and payables to related parties amounting to US$ 325 million (2019: US$ 285 million). These receivables and payables have been offset in these consolidated financial statements as the criteria for offsetting financial instruments has been met. Interest income and interest expense on these related party balances amounting to US$ 1,090 thousand and US$ 564 thousand respectively (2019: US$ 119 thousand and 141 thousand respectively) have been recorded in these consolidated financial statements.

c) Market risk

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

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

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

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

32 RISK MANAGEMENT (continued)

c) Market risk (continued)

Interest rate risk

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

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

Currency	***Increase in basis points 2020***	***Sensitivity of net interest income 2020 US$ 000***	*Increase in basis points 2019*	*Sensitivity of net interest income 2019 US$ 000*
Kuwaiti Dinar	+ 25	**(323)**	+ 25	(65)
United States Dollar	+ 25	**(498)**	+ 25	(584)
Euro	+ 25	**(409)**	+ 25	(422)
Pound Sterling	+ 25	**34**	+ 25	8
Others	+ 25	**103**	+ 25	70

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 2020, including the effect of hedging instruments.

32 RISK MANAGEMENT (continued)

c) Market risk (continued)

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

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

Currency	***Change in currency rate in % 2020***	***Effect on profit before tax 2020 US$ 000***	***Effect on equity 2020 US$ 000***
Kuwaiti Dinar	+2	**(16,930)**	**385**
	-2	**16,930**	**(385)**
Euro	+2	**(3,440)**	**1,948**
	-2	**3,440**	**(1,948)**
Pound Sterling	+2	**73**	**-**
	-2	**(73)**	**-**

Currency	*Change in currency rate in % 2019*	*Effect on profit before tax 2019 US$ 000*	*Effect on equity 2019 US$ 000*
Kuwaiti Dinar	+2	(15,772)	1,054
	-2	15,772	(1,054)
Euro	+2	(4,503)	1,151
	-2	4,503	(1,151)
Pound Sterling	+2	1	-
	-2	(1)	-

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:

32 RISK MANAGEMENT (continued)

c) Market risk (continued)

Geographical distribution

At 31 December 2020	***Middle East/ North Africa US$ 000***	***Europe US$ 000***	***Americas US$ 000***	***Others US$ 000***	***Total US$ 000***
Investments carried at fair value through profit or loss					
Quoted equities	**7,882**	**-**	**1**	**33**	**7,916**
Unquoted equity	**-**	**-**	**2,608**	**-**	**2,608**
Investment in funds	**-**	**20,332**	**-**	**-**	**20,332**
Managed funds	**34,921**	**7,952**	**6,056**	**-**	**48,929**
	42,803	**28,284**	**8,665**	**33**	**79,785**
Investments at fair value through other comprehensive Income					
Quoted equities	**5,034**	**-**	**-**	**-**	**5,034**
Unquoted equities	**177,853**	**1,867**	**9,179**	**-**	**188,899**
Managed funds	**1,006**	**-**	**-**	**-**	**1,006**
	183,893	**1,867**	**9,179**	**-**	**194,939**
Total	**226,696**	**30,151**	**17,844**	**33**	**274,724**

At 31 December 2019	*Middle East/ North Africa US$ 000*	*Europe US$ 000*	*North America US$ 000*	*Others US$ 000*	*Total US$ 000*
Investments carried at fair value through profit or loss					
Quoted equities	13,514	-	-	31	13,545
Unquoted equity	4,388	-	-	-	4,388
Investment in funds	-	125,289	-	-	125,289
Managed funds	50,566	9,444	6,818	-	66,828
	68,468	134,733	6,818	31	210,050
Investments at fair value through other comprehensive Income					
Quoted equities	4,657	-	-	-	4,657
Unquoted equities	103,111	26,914	4,277	13	134,315
Managed funds	1,006	-	-	-	1,006
	108,774	26,914	4,277	13	139,978
Total	177,242	161,647	11,095	44	350,028

At the reporting date, the exposure to listed equity securities at fair value was US$ 12,950 thousand (2019: US$ 18,202 thousand). A decrease of 10% on the market indices of MENA stock exchanges could have an impact of approximately US$ 1,295 thousand (2019: 1,820 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.

32 RISK MANAGEMENT (continued)

d) Liquidity risk

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2020 and 31 December 2019 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 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***
Financial liabilities						
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**
Long term bonds	**-**	**-**	**-**	**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**
Derivatives						
Net cash outflows on interest rate swaps	**-**	**856**	**384**	**-**	**-**	**1,240**
Gross settled foreign currency derivatives	**-**	**549,987**	**372,572**	**19,621**	**-**	**942,180**
Off-statement of financial position items						
Letters of credit	**16,425**	**-**		**-**	**-**	**16,425**
Letters of guarantee	**-**	**-**		**14,988**	**-**	**14,988**
Investment related commitments	**1,477**	**21,557**	**6,306**	**61,248**	**-**	**90,588**

32 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

At 31 December 2019	*On demand* *US$ 000*	*1 - 6 months* *US$ 000*	*6 - 12 months* *US$ 000*	*1 - 5 years* *US$ 000*	*Over 5 years* *US$ 000*	*Total* *US$ 000*
Financial liabilities						
Due to banks and other financial institutions	328,904	76,687	187,406	44,934	457	638,388
Deposits from customers	711,790	319,139	44,616	5,909	961	1,082,415
Loans payable	84,908	209,688	262,609	567,711	1,355	1,126,271
Subordinated debt	-	-	-	159,219	-	159,219
Other liabilities	-	-	122,818	-	-	122,818
Total non-derivative undiscounted financial liabilities	1,125,602	605,514	617,449	777,773	2,773	3,129,111
Derivatives						
Net cash outflows on interest rate swaps	-	4,482	4,240	5,022	-	13,744
Gross settled foreign currency derivatives	-	678,177	238,824	29,430	-	946,431
Off-statement of financial position items						
Letters of credit	-	23,838	416	878	-	25,132
Letters of guarantee	-	-	12,537	-	-	12,537
Investment related commitments	-	75,239	20,545	48,222	-	144,006

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

32 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

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

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

At 31 December 2020

	Less than 12 months US$ 000	*Over 12 months US$ 000*	*Total US$ 000*
Demand and call deposits with banks	454,626	10,765	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 Income	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	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

32 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

At 31 December 2019

	Less than 12 months US$ 000	*Over 12 months US$ 000*	*Total US$ 000*
Demand and call deposits with banks	468,620	10,764	479,384
Placements with banks	250,871	-	250,871
Investments at fair value through profit or loss	683,359	-	683,359
Investments at fair value through other comprehensive Income	111,926	107,419	219,345
Investments carried at amortised cost	10,066	-	10,066
Loans and receivables	474,579	182,639	657,218
Other assets	147,880	-	147,880
Investments in associates	-	741,915	741,915
Investment properties	-	119,937	119,937
Property, equipment and right of use assets	-	85,638	85,638
Goodwill and other intangible assets	-	70,390	70,390
Assets held for sale	4,223	-	4,223
Total assets	2,151,524	1,318,702	3,470,226
Due to banks and other financial	588,126	44,904	633,030
Deposits from customers	1,066,498	5,711	1,072,209
Loans payable	464,206	542,389	1,006,595
Subordinated debt	-	131,948	131,948
Other liabilities	122,818	-	122,818
Total liabilities	2,241,648	724,952	2,966,600
Net	(90,124)	593,750	503,626

e) Operational risk

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

f) 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.

33 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 2020:

	Fair value measurement using			
	Level 1	***Level 2***	***Level 3***	***Total***
	US$ 000	***US$ 000***	***US$ 000***	***US$ 000***
Assets measured at fair value				
Investments carried at fair value through profit or loss				
Forfaiting assets	**-**	**-**	**452,327**	**452,327**
Quoted equities	**7,916**	**-**	**-**	**7,916**
Quoted debt securities	**12,436**	**-**	**-**	**12,436**
Unquoted equities	**-**	**53**	**2,555**	**2,608**
Investment in sub-fund of collective investment scheme - unlisted	**-**	**-**	**20,332**	**20,332**
Managed funds	**1,313**	**34,286**	**13,330**	**48,929**
Investments at fair value through other comprehensive Income				
Debt Securities - quoted	**153,328**	**-**	**-**	**153,328**
Equities - quoted	**5,034**	**-**	**-**	**5,034**
Equities - unquoted	**-**	**-**	**188,899**	**188,899**
Other managed funds	**-**	**-**	**33**	**33**
Investment properties	**-**	**-**	**115,940**	**115,940**
	180,027	**34,339**	**793,416**	**1,007,782**
Liabilities measured at fair value				
Derivatives				
Forward foreign exchange contracts	**-**	**1,232**	**-**	**1,232**
Interest rate swaps	**-**	**(6,930)**	**-**	**(6,930)**
	-	**(5,698)**	**-**	**(5,698)**

33 FAIR VALUE MEASUREMENT (continued)

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2019:

	Fair value measurement using			
	Level 1	*Level 2*	*Level 3*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*
Assets measured at fair value				
Investments carried at fair value through profit or loss				
Forfaiting assets	-	-	460,239	460,239
Quoted equities	13,545	-	-	13,545
Quoted debt securities	12,245	-	-	12,245
Unquoted equities	-	53	4,335	4,388
Unquoted debt securities	-	-	825	825
Investment in sub-fund of collective investment scheme - unlisted	-	-	125,289	125,289
Managed funds	3,494	49,193	14,141	66,828
Investments at fair value through other comprehensive Income				
Debt Securities - quoted	79,367	-	-	79,367
Equities - quoted	4,657	-	-	4,657
Equities - unquoted	-	-	134,315	134,315
Other managed funds	-	-	1,006	1,006
Derivatives				
Interest rate swaps	-	148	-	148
Investment properties	-	-	119,937	119,937
	113,308	49,394	860,087	1,022,789
Liabilities measured at fair value				
Derivatives				
Forward foreign exchange contracts	-	(2,412)	-	(2,412)
Interest rate swaps	-	(4,887)	-	(4,887)
	-	(7,299)	-	(7,299)

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2020 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 2019: same) except for investment property transferred to property and equipment (refer note 12). The following table shows a reconciliation of the opening and closing amount of level 3 financial instruments which are recorded at fair value:

33 FAIR VALUE MEASUREMENT (continued)

Reconciliation of fair value measurement of investments in level 3 of the fair value hierarchy:

	As at 1 January 2020 US$'000	*Net purchases, sales, transfer and settlement US$'000*	*Gain (loss) recorded in the statement of income US$'000*	*(Loss) gain recognised in other comprehensive income US$'000*	*As at 31 December 2020 US$'000*
Investments carried at fair value through profit or loss					
Forfaiting assets	460,239	(19,299)	11,387	-	452,327
Investment in sub-fund of collective investment scheme - unlisted	125,289	(106,000)	1,043	-	20,332
Managed funds	14,141	4,476	(5,287)	-	13,330
Unquoted equity	4,335	(1,017)	(763)	-	2,555
Unquoted debt securities	825	(786)	(39)	-	-
	604,829	**(122,626)**	**6,341**	**-**	**488,544**
Investments carried at fair value through other comprehensive income					
Unquoted Equities	134,315	64,000	-	(9,416)	188,899
Managed funds	1,006	-	-	(973)	33
	135,321	**64,000**	**-**	**(10,389)**	**188,932**
Investment properties	**119,937**	**-**	**(3,997)**	**-**	**115,940**

Valuation technique and unobservable inputs used in measuring fair value of level 3
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 recognised 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.

33 FAIR VALUE MEASUREMENT (continued)

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

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised 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.

Forfaiting assets

Forfaiting 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 Bi-lateral 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.

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 judgemental uncertainties including the projected valuations of the individual plants and the future potential income from each plant.

34 MATERIAL PARTLY OWNED SUBSIDIARIES

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

	2020 ***US$ 000***	*2019* *US$ 000*
Accumulated balances of material non-controlling interests	**124,111**	141,974
Income allocated to material non-controlling interests	**(14,099)**	(58)

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

	2020 ***US$ 000***	*2019* *US$ 000*
Summarised statement of income for the year ended 31 December:		
Total income	**99,755**	162,087
Total expenses	**(107,534)**	(131,739)
Taxation	**(11,223)**	(2,732)
ECL charged	**(34,225)**	(9,200)
(Loss) profit for the year	**(53,227)**	18,416
Total comprehensive (loss) income for the year	**(60,514)**	5,580
Total comprehensive (loss) income attributable to non-controlling interests	**100**	2,883
Summarised statement of financial position as of 31 December:		
Total assets	**2,161,572**	2,318,764
Total liabilities	**(1,756,099)**	(1,837,743)
Total equity	**405,473**	481,021
Attributable to equity holders of the parent	**392,498**	461,253
Non-controlling interest	**12,975**	19,768

	2020 ***US$ 000***	*2019* *US$ 000*
Summarised cash flow information for the year ended 31 December:		
Operating activities	**101,517**	(12,971)
Investing activities	**48,248**	121,635
Financing activities	**(50,230)**	3,768
Foreign currency translation adjustments	**(25,794)**	19,358
Net increase in cash and cash equivalents	**73,741**	131,790

35 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.

Further, as per the regulatory directive financial assistance amounting to US$ 1,924 thousand (representing reimbursement of a portion of staff costs and waiver of utility charges for specified months) received in response to its COVID-19 support measures, has been recognized directly in equity.

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

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 Group's operations, the scale and duration of further developments remain uncertain at this stage and could potentially further impact the Group’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 minimisation and management practices to limit and minimise the impact on the Group's operations, financial position and performance.

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 Central Bank of Bahrain (CBB) and the Central Bank of Kuwait (CBK) announced various 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 1 and Stage 2 exposures to be added back to Tier 1 capital for two years.

The impact and accounting treatment of modification losses and government grants received has been disclosed in note 35 to the consolidated financial statements.

The Government of the Kingdom of Bahrain has announced various stimulus programmes to support businesses. The Group received financial assistance in the form of reimbursement of a portion of staff costs and waiver of utility charges for certain months 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 businesses by reimbursing portion of the salaries paid to Kuwaiti employees. As a result, the Group's subsidiary KAMCO Invest received reimbursements amounting to US$ 703 thousand during the year.

Impact on financial statements
The following table summarises the impact that COVID-19 has had on different classes of assets for the year ended 31 December 2020:

	Net impact on the Group's consolidated		
	Income Statement US$ 000	***Statement of Financial Position US$ 000***	***Statement of Other Comprehen--sive income US$ 000***
Impact on:			
Real estate assets	**(11,094)**	**(11,094)**	**-**
Investments at fair value through profit or loss	**(21,957)**	**(21,957)**	**-**
Investments at fair value through other comprehensive income	**-**	**626**	**626**
Investments in associates	**(43,932)**	**(43,932)**	**-**
Loans, receivables and other assets	**(28,256)**	**(28,256)**	**-**
Other impacts	**(16,453)**	**-**	**-**

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.