United Gulf Holding Company B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

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

The Board of Directors is pleased to submit its report and the audited consolidated financial statements of United Gulf Holding Company B.S.C. ("the Company") for the year ended 31 December 2019.

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

KAMCO merger with Global Investment House
Subsequent to acquisition of GIH in 2018, KAMCO obtained approval of the Kuwait Capital Market Authority (CMA) and the creditors of GIH to merge GIH by amalgamation with KAMCO. The Extraordinary General Meeting (EGM) of GIH, held on 18 September 2019 approved the merger between GIH and KAMCO by way of amalgamation, including the dissolution of GIH. Pursuant to which KAMCO became the merging company and GIH became the merged company. The EGM also approved the share swap ratio of 0.75522821 shares of KAMCO for every share of GIH.

Following the completion of merger all the right and obligation of GIH vested in KAMCO and the legal formalities to transfer ownership of assets and liabilities, changes to contracts where GIH was a party, cancellation of commercial license and license with the Central Bank of Kuwait (CBK) are under process as at the date of these consolidated financial statements. Further, at the close of business on 12 December 2019, GIH transferred all the assets and liabilities to KAMCO.

Results for the year
During the year ended 31 December 2019, the Company earned a net profit of US$ 9.7 million (2018: US$ 18.6 million) and total operating income of US$ 224.4 million (2018: US$ 208.0 million).

As of 31 December 2019, total assets of the Company were US$ 3,470 million (2018: US$ 3,399 million) with total equity of shareholders at US$ 328.6 million (2018: US$ 364.0 million).

Appropriations for the year
The Board of Directors' recommendation on the allocation of the net profit for the year is as follows:

- Transfer of US$ 975 thousand equivalent to 10% of the Company's net profit for the year to the Company's Statutory Reserves; and
- Retaining the remaining balance of net profit for the year as Retained Earnings for next year.

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 2020 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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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 2019, 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 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 2019. 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><td colspan="2">1. Expected Credit Losses (ECL) on loans and receivables</td></tr>
<tr><td>Key audit matter</td><td>How the key audit matter was addressed in the audit</td></tr>
<tr><td>The process for estimating impairment provision on loans and advances associated with credit risk in accordance with IFRS 9 is significant and complex area. IFRS 9 requires use of expected credit loss ("ECL") model for the purposes of calculating impairment loss. ECL model requires the Group to exercise significant judgement using subjective assumptions when determining both the timing and the amounts of ECL for loans and advances subject to credit risk. Because of the complexity of requirements under IFRS 9, significance of judgements applied and the Group's exposure to loans and advances forming a major portion of the Group's assets, the audit of ECL is a key area of focus.

As at 31 December 2019, the Group's gross loans and receivables amounted to USD 723 million and related ECL amounted to USD 66 million, comprising USD 9 million of provision against Stage 1 and 2 exposures and USD 57 million against exposures classified under Stage 3.

Refer to note 2 which contains the disclosure of significant assumptions accounting judgements and estimates relating to the impairment losses on loans and receivables and the impairment assessment methodology used by the Group, note 9 which contains the disclosure of impairment against loans and receivables and note 34 (b) for details of credit quality analysis and key assumptions and factors considered in determination of ECL.</td><td>Our audit procedures included:

• Gaining an understanding of the Group's key credit processes comprising granting, booking, monitoring and provisioning and testing the operating effectiveness of key controls over these processes;

• We assessed:
o the Group's IFRS 9 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of IFRS 9;
o Group's ECL modeling techniques and methodology against the requirements of IFRS 9;
o the soundness of the Group's loan grading processes; and
o the theoretical soundness and the mathematical integrity of the models.

• We obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions;

• We understood and assessed the significant modeling assumptions for exposures as well as overlays with a focus on:

o Key modeling assumptions adopted by the Group; and
o Basis for and data used to determine overlays.

• For a sample of exposures, we performed procedures to evaluate:</td></tr>
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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)

1. Expected Credit Losses (ECL) on loans and receivables (continued)	
Key audit matter	**How the key audit matter was addressed in the audit**
	○ 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; and ○ ECL calculation. • For exposures being given special focus by the Group's various Management /Board committees and other exposures that had over-due positions in the financial reporting period, we: ○ performed credit reviews focusing on the borrowers' ability to repay from normal operations, the performance/ history of the account and receipts after the financial reporting date; and ○ assessed impairment calculations by evaluating the appropriateness of provisioning methodologies and policies, and, where relevant, the Group's extendible value of collateral by reference to external data sources in determining loss given defaults. • For forward looking information used by the Group's management in its ECL calculations, we held discussions with management and checked the management's internal approvals for economic outlook used for purposes of calculating ECL; and • We also involved specialists where their specific expertise was required. • We considered the adequacy of the disclosures in the consolidated financial statements in relation to impairment of loans and receivables as required under IFRS 9.

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. In addition to this, the magnitude of goodwill recognized, being USD 52.3 million in the consolidated statement of financial position as at 31 December 2019 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 14 which contains the assessment of goodwill impairment and the key assumptions and factors considered in such assessment.	Our audit procedures included: • The assessment of 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. Further, we also assessed the viability of management's plans and intentions underlying the projections; • With the assistance of internal specialists, we assessed 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.

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 of USD 742 million as at 31 December 2019, 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 11 which contains the disclosure of investment in associates.	Our audit procedures included: • The 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. We also assessed the viability of the underlying management's plans and intentions to ensure the assumptions are realistic and projections are achievable based on the current conditions and past history of the associates. • With the assistance of internal specialists, we assessed the assumptions and methodologies used by the management to determine the recoverable amount of the investments in associates; and • 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.

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">4. Deferred taxation</th></tr>
<tr><th>Key audit matter</th><th>How the key audit matter was addressed in the audit</th></tr>
<tr><td>As at 31 December 2019, the Group had recognised deferred tax assets of USD 36.8 million in respect of the deductible temporary differences and accumulated tax losses. In accordance with the applicable financial reporting framework, 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 are 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 relieved.

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 16 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; and
  ○ the current pipeline of new business.

• We assessed the applicability of enacted and substantively enacted tax laws that support the recognition of the deferred tax assets;

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

• We assessed whether the consolidated financial statements disclosures are appropriate.</td></tr>
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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)

5. Valuation of unquoted assets measured at fair value through profit or loss	
Key audit matter	**How the key audit matter was addressed in the audit**
The fair value of certain financial assets, designated as fair value through profit or loss amounting to US$ 683 million, 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. These financial assets primarily include: i) the equity instruments in the form of shares (classified as FVTPL) held in a sub-fund of an unlisted collective investment scheme ('the Fund'), amounting to US$ 105 million, which holds assets where valuation is subjective due to availability of limited observable market data. the trading assets amounting to US$ 460 million that represent forfaiting assets (discounted receivables generated from an export contract) valuation of which is subjective due to availability of 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 tnote 2 which contains the disclosure of significant assumptions accounting judgements and estimates relating to the valuation of unquoted investments carried at fair value through profit or loss and note 35 which contains the disclosures for the fair value hierarchy.	Our audit procedures included: • Evaluation of reports prepared by the external auditor engaged by the Investment Manager of the Fund, specifically on the valuation of the investments held by the Fund; • We assessed the design and implementation of controls over the valuation process; • Where relevant involved specialist to review policies and procedures, the valuation models used to determine the fair value and independently reproduce model and recalculate the fair value of the forfaiting assets portfolio; and • We assessed whether the consolidated financial statements disclosures are appropriate.

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

Other information included in the Group's 2019 annual report
Other information consists of the information included in the Group's 2019 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 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;

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

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

Auditor's Responsibilities for the Audit of the consolidated financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the (consolidated) financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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

We report that:

1. as required by the Bahrain Commercial Companies Law,

    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; and

    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 2019 that might have had a material adverse effect on the business of the Company or on its consolidated financial position.

2. As required by article (8) of section (2) of chapter 1 of the Bahrain Corporate Governance Code, we report that the Company,

    a. has appointed corporate governance officer; and

    b. Has a board approved written guidance and procedures for corporate governance.

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

Ernst + Young

Partner's registration no. 224
26 February 2019
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	*2019* *US$ 000*	*2018* *US$ 000*
ASSETS			
Demand and call deposits with banks		**479,384**	522,428
Placements with banks		**250,871**	169,736
Investments at fair value through profit and loss	7	**683,359**	602,576
Investments at fair value through other comprehensive Income	8	**219,345**	289,729
Investments carried at amortised cost		**10,066**	10,341
Loans and receivables	9	**657,218**	664,533
Other assets	10	**147,880**	122,689
Investments in associates	11	**741,915**	749,727
Investment properties	12	**119,937**	124,853
Property, equipment and right of use assets	13	**85,638**	70,511
Goodwill and other intangible assets	14	**70,390**	71,481
Assets held for sale	15	**4,223**	-
TOTAL ASSETS		**3,470,226**	3,398,604
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		**633,030**	505,149
Deposits from customers		**1,072,209**	1,041,904
Loans payable	17	**1,006,595**	1,034,982
Long term bonds	18	**131,948**	131,739
Other liabilities	19	**122,818**	136,313
TOTAL LIABILITIES		**2,966,600**	2,850,087
EQUITY			
Share capital	20	**206,487**	206,487
Share premium	20	**214,477**	214,477
Treasury shares	20	**(320)**	(56)
Treasury share reserve	20	**(1,518)**	(39)
Statutory reserve	20	**3,285**	2,310
Fair value reserve	21	**(76,150)**	(54,201)
Foreign currency translation reserve	20	**(3,093)**	(2,293)
Accumulated deficit		**(14,555)**	(2,682)
CAPITAL AND RESERVES ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**328,613**	364,003
Perpetual Tier 1 capital	22	**33,000**	33,000
Non-controlling interests in equity		**142,013**	151,514
TOTAL EQUITY		**503,626**	548,517
TOTAL LIABILITIES AND EQUITY		**3,470,226**	3,398,604

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

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

	Notes	2019 US$ 000	2018 US$ 000
Continuing operations			
Interest income	23	**59,445**	61,436
Investment income - net	24	**47,696**	42,514
		107,141	103,950
Fees and commissions - net	25	**75,423**	72,478
Foreign currency gains - net		**1,098**	678
Share of results of associates - net	26	**40,700**	30,905
Total income		**224,362**	208,011
Interest expense	27	**(82,897)**	(68,563)
Operating income before expenses and provisions		**141,465**	139,448
Salaries and benefits		**(68,530)**	(53,937)
General and administrative expenses		**(44,269)**	(34,868)
Operating income before provisions and tax		**28,666**	50,643
Reversal of impairment (impairment loss) on investments		**70**	(9,020)
Provision for losses against unfunded participation		**-**	(805)
Expected credit losses		**(8,359)**	(14,199)
Taxation - net	16	**(4,919)**	(2,616)
Net profit for the year from continuing operations		**15,458**	24,003
Net profit from discontinued operations		**-**	524
Net profit for the year		**15,458**	24,527
Net profit attributable to non-controlling interests		**5,711**	5,883
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**9,747**	18,644
Net profit attributable to:			
Non-controlling interests			
- from continuing operations		**5,711**	5,812
- from discontinued operations		**-**	71
		5,711	5,883
Shareholders of the parent			
- from continuing operations		**9,747**	18,191
- from discontinued operations		**-**	453
		9,747	18,644
Earnings per share			
Basic and diluted earnings per share attributable to shareholders of the parent (US cents)	28	**(1.11)**	2.35
Earnings per share for continuing operations			
Basic and diluted earnings per share attributable to shareholders of the parent (US cents)	28	**(1.11)**	2.24
Earnings per share for discontinued operations			
Basic and diluted earnings per share attributable to shareholders of the parent (US cents)		**-**	0.11

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

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	*2018*
	US$ 000	*US$ 000*
Net profit for the year	**15,458**	24,527
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:		
Foreign currency translation reserve	**(921)**	(1,207)
Fair value reserve	**(14,667)**	(23,630)
Share of other comprehensive loss of associates - net	**(18,243)**	(32,187)
Cash flow hedges	**(4,942)**	55
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(38,773)**	(56,969)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Fair value reserve	**(941)**	(3,649)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(941)**	(3,649)
Other comprehensive loss for the year	**(39,714)**	(60,618)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(24,256)**	(36,091)
Total comprehensive (loss) income attributable to:		
- shareholders of the parent	**(29,213)**	(38,919)
- non-controlling interests	**4,957**	2,828
	(24,256)	(36,091)

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	*2019 US$ 000*	*2018 US$ 000*
OPERATING ACTIVITIES			
Profit before tax		**20,377**	26,619
Net profit from discontinued operations		**-**	524
Net profit for the year		**20,377**	27,143
Adjustments for non-cash items:			
Depreciation and amortisation		**5,777**	4,211
Share of results of associates - net	26	**(40,700)**	(30,905)
Expected credit losses		**8,359**	14,199
Reversal of impairment (impairment loss) on investments		**(70)**	9,020
Change in fair values of investment properties	24	**(7,294)**	(1,109)
Gain on sale due to reclassification of investment	24	**(664)**	(31)
(Gain) loss on investments at fair value through profit and loss	24	**(11,213)**	1,260
Interest income	23	**(59,445)**	(61,436)
Interest expense	27	**82,897**	68,563
Dividends income	24	**(8,195)**	(9,855)
Bargain purchase gain on acquisition of a subsidiary	24	**-**	(23,928)
Loss on sale of associates and subsidiaries	24	**-**	523
Provision for losses against unfunded participation		**-**	805
Operating loss before changes in operating assets and liabilities		**(10,171)**	(1,540)
Changes in operating assets and liabilities:			
Placements with banks with original maturities of more than ninety days		**22,617**	(43,780)
Investments at fair value through profit and loss		**(69,570)**	(267)
Investments at fair value through other comprehensive Income		**55,213**	81,585
Investments at amortised cost		**275**	(9,847)
Loans and receivables		**(1,283)**	(207,354)
Other assets		**(33,540)**	39,601
Due to banks and other financial institutions		**127,881**	(119,273)
Deposits from customers		**30,305**	163,684
Other liabilities		**(6,345)**	(7,924)
Interest received		**58,204**	58,949
Interest paid		**(81,405)**	(66,068)
Dividends income	24	**8,195**	9,855
Donations		**(200)**	(200)
Directors' remuneration		**(195)**	-
Net cash from (used in) operating activities		**99,981**	(102,579)
INVESTING ACTIVITIES			
Investments in associates - net		**26,208**	(1,747)
Property and equipment - net	13	**(7,050)**	(5,053)
Deferred consideration paid on the acquisition of a subsidiary		**(8,247)**	-
Investment in subsidiaries - net of cash acquired		**-**	(23,568)
Intangible assets	14	**-**	(2,573)
Net cash from (used in) investing activities		**10,911**	(32,941)
FINANCING ACTIVITIES			
Repayment (proceed from) of term loans		**(28,387)**	178,556
Interest payment on Perpetual Tier 1 capital		**(14,316)**	(8,949)
Purchase of treasury shares		**(1,743)**	(95)
Subordinated debt		**-**	(50,000)
Issuance of long term bonds	18	**-**	131,739
Net cash (used in) from financing activities		**(44,446)**	251,251
Foreign currency translation adjustments		**(1,162)**	(478)
Movement in non-controlling interests		**(4,576)**	(16,586)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**60,708**	98,667
Cash and cash equivalents at 1 January		**640,799**	542,132
NET CHANGE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS AT 31 DECEMBER	29	**701,507**	640,799

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to shareholders of the parent											
	Share capital US$ 000	Treasury shares US$ 000	Share premium US$ 000	Treasury share reserve US$ 000	Statutory reserve US$ 000	Fair value reserve US$ 000	Foreign currency translation reserve US$ 000	Retained earnings / (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 2019	206,487	(56)	214,477	(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 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 in ownership in a subsidiary (note 5)	-	-	-	-	-	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**	**(320)**	**214,477**	**(1,518)**	**3,285**	**(76,150)**	**(3,093)**	**(14,555)**	**328,613**	**33,000**	**142,013**	**503,626**
Balance at 1 January 2018	206,487	-	214,477	-	446	90	(1,517)	2,264	422,247	33,000	86,391	541,638
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	-	-	8,067	-	(16,146)	(8,079)	-	(2,731)	(10,810)
	206,487	-	214,477	-	446	8,157	(1,517)	(13,882)	414,168	33,000	83,660	530,828
Profit for the year	-	-	-	-	-	-	-	18,644	18,644	-	5,883	24,527
Other comprehensive loss	-	-	-	-	-	(56,787)	(776)	-	(57,563)	-	(3,055)	(60,618)
Total comprehensive (loss) income for the year	-	-	-	-	-	(56,787)	(776)	18,644	(38,919)	-	2,828	(36,091)
Transfer upon disposal of investments carried at fair value through other comprehensive Income	-	-	-	-	-	(5,571)	-	5,571	-	-	-	-
Transferred during the year	-	-	-	-	1,864	-	-	(1,864)	-	-	-	-
Purchase of treasury shares	-	(56)	-	(39)	-	-	-	-	(95)	-	-	(95)
Interest payment on Tier 1 capital and other adjustments	-	-	-	-	-	-	-	(8,949)	(8,949)	-	-	(8,949)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	78,557	78,557
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(13,531)	(13,531)
Excess paid for fair value of net assets acquired	-	-	-	-	-	-	-	(2,202)	(2,202)	-	-	(2,202)
Balance at 31 December 2018	206,487	(56)	214,477	(39)	2,310	(54,201)	(2,293)	(2,682)	364,003	33,000	151,514	548,517

The attached notes 1 to 38 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 2019, KIPCO owned 98% of the Company's outstanding shares.

These consolidated financial statements were authorised for issue by the Board of Directors on 26 February 2020.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the relevant provisions of the Bahrain Commercial Companies Law, and the directives and regulations and associated resolutions, rules and procedures of the Bahrain Bourse.

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 carried at fair value through profit and loss, fair value through other comprehensive income, 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$) which is also the functional currency of the Group and are rounded to the nearest US$ 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 standards or amendments to existing standards applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2019:

IFRS 16 Leases (IFRS 16)
The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. Several other amendments to existing standards and interpretations applied for the first time in 2019, however, they did not impact the consolidated financial statements of the Group.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (IFRS 16) (continued)
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

The Group adopted IFRS 16 using the modified retrospective method of adoption, with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

Nature of the effect of adoption of IFRS 16
The Group has lease contracts for buildings from where it operates its off-shore offices and subsidiaries. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. In an operating lease, the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively. As at 31 December 2019, the Group did not have any finance lease arrangements.

Leases previously accounted for as operating leases
The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The effect of adoption of IFRS 16 is disclosed in note 36 to these consolidated financial statements.

Amendments to IAS 28: Long-term interests in associates and joint ventures
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Amendments to IAS 28: Long-term interests in associates and joint ventures (continued)
The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments do not have an impact on its consolidated financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Group.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019.

These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation
The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments had no impact on the consolidated financial statements of the Group.

Annual Improvements 2015-2017 Cycle

IFRS 3 Business Combinations
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IFRS 11 Joint Arrangements
A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual Improvements 2015-2017 Cycle (continued)

IAS 12 Income Taxes
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events (the amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted).

IAS 23 Borrowing Costs
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete (the amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted). These amendments had no impact on the consolidated financial statements of the Group

Principles of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiaries as at 31 December 2019. 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.

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,

- 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 statement of comprehensive income 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 into 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)

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 2019*	*2018*	*Year of incorporation*
Held directly				
United Gulf Bank B.S.C. (c) [UGB]	Bahrain	**100%**	**100%**	1980
FIMBank Group [FIMBank]	Malta	**80%**	**79%**	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%**	86%	1998
United Gulf Financial Services Company-North Africa	Tunisia	**84%**	84%	2008
United Gulf Realty International, Ltd [UGRIL]	British Virgin	**100%**	100%	2012
United Gulf Asset Company S.P.C.	Bahrain	**100%**	100%	2017
Held through FIMBank				
India Factoring and Finance Solutions Private Limited	India	**87%**	**86%**	2010
FIM Holdings (Chile) S.p.a.	Chile	**100%**	**100%**	2014
Latam Factors S.A.	Chile	**0%**	**51%**	2014
London Forfaiting Company Limited	United Kingdom	**100%**	**100%**	2009
London Forfaiting International Limited	United Kingdom	**100%**	**100%**	2009
London Forfaiting Americas Inc.	United States of Amer	**100%**	**100%**	2009
London Forfaiting do Brasil Ltd.	Brazil	**100%**	**100%**	2009
FIM Factors B.V.	Netherlands	**100%**	**100%**	2009
Menafactors Limited	United Arab Emirate	**0%**	**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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)

Name of the subsidiary	*Country of incorporation*	*Ownership at 31 December 2019*	*2018*	*Year of incorporation*
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 Tadamon United Holding Co	Kuwait	**100%**	96%	2017
Al Zad Real Estate W.L.L.	Kuwait	**100%**	99%	2007
Bukeye Power Project Advisory Co	U.S.A.	**50%**	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%**	-	1985
Flint Advisor Company Llc	Jersey	**46%**	46%	2017
Flint Manager Ltd	U.S.A.	**100%**	100%	2017
Global Investment House	Kuwait	**-**	71%	1998
Global DIFC	Kuwait	**100%**	-	2013
Global Saudi	Saudi Arabia	**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.	**100%**	100%	2019
KAMCO Mena Plus Fixed Income Fund	Kuwait	**-**	38%	2016
Kubbar United Real Estate Co	Kuwait	**100%**	-	2017
Kuwait Private Equity Opportunity Fund	Kuwait	**73%**	73%	2004
Nawasi United Holding Co	Kuwait	**100%**	96%	2017
North Africa Real Estate Co.	Kuwait	**100%**	100%	2014
Plans United Real Estate Co	Kuwait	**100%**	-	2017
Project Plaza Investor Inc	U.S.A.	**100%**	-	2019
S17P02V Holding Ltd	U.A.E.	**-**	100%	2018
Shuroq Investment Services	Oman	**77%**	-	1998

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 2019, the Group did not have any intangible assets which had an infinite useful life.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 the associate and its carrying value, 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 ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in the 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
From 1 January 2019, 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:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Debt type Instrument: Classification and Subsequent measurement (continued)

- 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 4. Interest income from these financial assets is included in 'Interest income' using the EIR method.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in consolidated statement of income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to consolidated 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 consolidated profit or loss and presented in the consolidated statement of income within 'Investment income - net' as 'Gain on investments at fair value through profit and 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Business model (continued)
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.

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 *IAS 32 Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis. Fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to consolidated 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 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Financial asset at FVTPL
The Group classifies financial assets at fair value through profit and 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 statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Changes in fair values gain and losses, financing income and dividends are recorded in consolidated statement of income according to the terms of the contract, or when the right to payment has been established.

Dividends are 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 instrument assets carried at amortised cost and FVOCI and with 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

For the purposes of calculation of ECL, the Group categorises its FVOCI debt securities, loans and receivable and 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 loans are first recognised, the Group recognises an allowance based upto 12-month ECL.
- Stage 2 – Significant increase in credit risk: when a loan 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 loans.

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.

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 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 customers. 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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.
- 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 out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period of 12 months.

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 statement of financial position

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

- financial assets measured at amortized 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.

For more details on the impairment calculations and policy refer to note 4 to these consolidated financial statements.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedging activities
A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market
- 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedging activities (continued)

(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.

The Group did not have any impact on its retained earnings or profit or loss due to change in hedge accounting under IFRS 9.

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 and there is no significant concentration of credit risk in respect of contracts with positive fair value with any individual counterparty at the date of the statement of financial position.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The Group applies hedge accounting in three 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge ineffectiveness (continued)
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 2019 or 2018 in relation to the interest rate swaps.

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

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

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

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

Financial instruments with no active market and where fair value can not be reliably determined are stated at cost less provision for any impairment.

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 statement of financial position 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition (continued)
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.

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, plant 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)
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 subordinated debt and other liabilities. These are stated at amortised cost. Transaction costs are amortised over the period of the debt using the effective yield method. Deposits from customers include deposits from both external customers and other group companies.

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.

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
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 statement of financial position date are disclosed as an event after the statement of financial position 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)
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.

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 Group. 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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, other than those which are carried at cost, 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 consolidated OCI.

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

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
For revenue from performance-based fees for the provision of services over a period of time, the Group previously accrued revenue over that period. Under IFRS 15, performance-based fees will not be 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 will require significant judgement and are unlikely to be recognised in full until they have crystallised or are no longer subject to clawback.

Advisory income
For revenue from advisory fees for the provision of services over a period of time, the Group previously accrued revenue over that period. Under IFRS 15, the Group applied 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised less cumulative amortisation.

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

Undrawn loan 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, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2019, 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.

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 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;

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant assumptions, accounting judgements and estimates (continued)

Measurement of the expected credit loss allowance (ECL) (continued)

- 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.

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 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Standards 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:

Amendments to IFRS 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

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

Amendments to IFRS 3: Definition of a Business (continued)
Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, '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.'

4 EXPECTED CREDIT LOSSES

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

	Stage 1 *US$ 000*	*Stage 2* *US$ 000*	*Stage 3* *US$ 000*	*Total* *US$ 000*
As at 31 December 2018	6,050	7,228	52,679	65,957
Adjustment *	10,349	766	(962)	10,153
At 1 January 2019	16,399	7,994	51,717	76,110
Net transfers between stage 1, 2 and 3	(113)	(246)	359	-
(Reversal) Provided during the year - net	(170)	(443)	8,972	8,359
Amounts written-off	(430)	-	(4,762)	(5,192)
Other adjustments	25	4	327	356
As at 31 December 2019	**15,711**	**7,309**	**56,613**	**79,633**

* During the current year, as at 1 January 2019, the Group changed the presentation of certain of its other assets and loans and advances and segregated the related credit losses from gross other assets for disclosures in the consolidated financial statements. As at 31 December 2018, the Group reported these other assets on a net basis.

5 KAMCO MERGER WITH GLOBAL INVESTMENT HOUSE ("GIH")

On 21 July 2018, subsequent to acquisition of GIH, KAMCO obtained approval of the Kuwait Capital Market Authority (CMA) to merge GIH by amalgamation with KAMCO, where by the shareholders of GIH will receive shares of KAMCO in exchange. KAMCO will become legal successor of GIH's all rights and obligations on the effective date of the merger.

The Extraordinary General Meeting (EGM) of GIH, held on 18 September 2019 approved the merger between GIH and KAMCO by way of amalgamation, including the dissolution of GIH. Pursuant to which KAMCO became the merging company and GIH became the merged company. The EGM also approved the share swap ratio as noted below.

On 29 September 2019, merger resolution was announced and published in Kuwait Gazette that granted the creditors of GIH the right to object the merger within a period of 30 days from the announcement by serving an official notification to GIH through the court.

No creditor objected the merger, therefore on 30 October 2019, a general public notice of the merger was issued by Ministry of Commerce and Industry, Kuwait ("MOCI") which included the dissolution of GIH. On 21 November 2019, the Capital Market Authority, Kuwait, approved execution of the merger between KAMCO and GIH.

On 12 December 2019, the share swap was executed and this resulted in cancelling of GIH's shareholders' register with Kuwait Clearing Company on the same date. The minority shareholders of GIH received 0.75522821 shares of KAMCO for every share of GIH.

5 KAMCO MERGER WITH GLOBAL INVESTMENT HOUSE ("GIH") (continued)

Following the completion of merger all the right and obligation of GIH vested in KAMCO and the legal formalities to transfer ownership of assets and liabilities, changes to contracts where GIH was a party, cancellation of commercial license and license with the Central Bank of Kuwait (CBK) are under process as at the date of these consolidated financial statements. Further, at the close of business on 12 December 2019, GIH transferred all the assets and liabilities to KAMCO.

The Group owned 205,218,583 shares in KAMCO which represented 86.4% of KAMCO's outstanding shares prior to the merger. Subsequent to the merger, the Group effective ownership reduced to 59.95%. However, as the shares were issued at a premium, the Group recorded a gain of US$ 5,185 thousand on the remaining ownership stake in retained earnings.

6 FINANCIAL ASSETS AND LIABILITIES

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

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 carried at fair value through profit and 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	2,412	4,887	115,519	122,818
Total financial liabilities	**2,412**	**4,887**	**2,959,301**	**2,966,600**

6 FINANCIAL ASSETS AND LIABILITIES (continued)

31 December 2018	*Designated at FVTPL US$ 000*	*Designated at FVOCI US$ 000*	*Amortised cost US$ 000*	*Total US$ 000*
Demand and call deposits with banks	-	-	522,428	522,428
Placements with banks	-	-	169,736	169,736
Investments carried at fair value through profit and loss	602,576	-	-	602,576
Investments at fair value through other comprehensive	-	289,729	-	289,729
Investments carried at amortised cost	-	-	10,341	10,341
Loans and receivables	-	-	664,533	664,533
Other assets	70	679	117,697	118,446
Total financial assets	602,646	290,408	1,484,735	2,377,789
Due to banks and other financial	-	-	505,149	505,149
Deposits from customers	-	-	1,041,904	1,041,904
Loans payable	-	-	1,034,982	1,034,982
Subordinated debt	-	-	131,739	131,739
Other liabilities	-	-	136,313	136,313
Total financial liabilities	-	-	2,850,087	2,850,087

7 INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	***2019* US$ 000**	*2018 US$ 000*
Forfaiting assets	**460,239**	347,285
Investment in sub-fund of collective investment scheme - unlisted	**125,342**	173,438
Managed funds	**66,828**	59,424
Quoted equities	**13,545**	12,278
Quoted debt securities	**12,245**	6,941
Unquoted equity	**4,335**	3,210
Unquoted debt securities	**825**	-
	683,359	602,576

8 INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	***2019* US$ 000**	*2018 US$ 000*
Unquoted equities	**106,413**	120,249
Debt securities	**79,367**	86,609
Quoted equities	**32,559**	80,889
Managed funds	**1,006**	1,982
	219,345	289,729

9 LOANS AND RECEIVABLES

	2019				2018
	Stage 1 US$ 000	*Stage 2 US$ 000*	*Stage 3 US$ 000*	*Total US$ 000*	*US$ 000*
Factoring assets	**173,471**	**159,101**	**58,669**	**391,241**	367,987
Loans to customers	**182,044**	**19,934**	**73,249**	**275,227**	285,185
Loans to banks	**20,909**	**-**	**7,761**	**28,670**	41,045
Syndication loans	**7,811**	**6,914**	**8,562**	**23,287**	28,217
Staff loans	**4,857**	**-**	**-**	**4,857**	4,028
	389,092	**185,949**	**148,241**	**723,282**	726,462
Less: Expected credit lossess	**(2,332)**	**(7,119)**	**(56,613)**	**(66,064)**	(61,929)
	386,760	**178,830**	**91,628**	**657,218**	664,533

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 2018	**3,259**	**5,996**	**52,674**	**61,929**
Adjustment *	**-**	**766**	**(962)**	**(196)**
At 1 January 2019	**3,259**	**6,762**	**51,712**	**61,733**
Net transfers between stage 1, 2 and 3	**(113)**	**(246)**	**359**	**-**
(Reversal) provided during the year - net	**(855)**	**601**	**8,972**	**8,718**
Written-off during the year	**-**	**-**	**(4,762)**	**(4,762)**
Other adjustments	**41**	**2**	**332**	**375**
As at 31 December 2019	**2,332**	**7,119**	**56,613**	**66,064**

* During the current year, as at 1 January 2019, the Group changed the presentation of certain of its other assets and loans and advances and segregated the related credit losses from gross other assets for disclosures in the consolidated financial statements. As at 31 December 2018, the Group reported these other assets on a net basis.

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 2019				
Factoring assets	**321,093**	**11,479**	**58,669**	**391,241**
Loans to customers	**200,564**	**1,414**	**73,249**	**275,227**
Loans to banks	**20,909**	**-**	**7,761**	**28,670**
Syndication loans	**14,725**	**-**	**8,562**	**23,287**
Staff loans	**4,857**	**-**	**-**	**4,857**
Total	**562,148**	**12,893**	**148,241**	**723,282**

9 LOANS AND RECEIVABLES (continued)

	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 2018				
Factoring assets	285,702	37,297	44,988	367,987
Loans to customers	221,610	1,293	62,282	285,185
Loans to banks	31,902	-	9,143	41,045
Syndication loans	28,217	-	-	28,217
Staff loans	4,028	-	-	4,028
Total	571,459	38,590	116,413	726,462

All of the Group's loans and receivables which were past due but not impaired as of 31 December 2019 were overdue for less than 30 days (2018: Same).

10 OTHER ASSETS

	2019 US$ 000	2018 US$ 000
Due from customers	**67,272**	61,073
Deferred tax asset (Note 16)	**36,774**	38,694
Accounts receivable	**43,218**	24,538
Prepayments	**6,179**	4,243
Interest receivable	**7,690**	6,537
Derivative assets (Note 33)	**148**	749
Gross other assets	**161,281**	135,834
Less: Expected credit losses	**(13,401)**	(13,145)
	147,880	122,689

The table below reconciles the movement of the ECL from 1 Janaury 2019 and 31 December 2019:

	Stage 1 US$ 000	**Stage 2 US$ 000**	**Stage 3 US$ 000**	**Total US$ 000**
As at 31 December 2018	**2,791**	**-**	**5**	**2,796**
Adjustment *	**10,349**	**-**	**-**	**10,349**
At 1 January 2019	**13,140**	**-**	**5**	**13,145**
Provided during the year - net	**685**	**20**	**-**	**705**
Amounts written-off	**(430)**	**-**	**-**	**(430)**
Other movements	**(16)**	**2**	**(5)**	**(19)**
As at 31 December 2019	**13,379**	**22**	**-**	**13,401**

* During the current year, as at 1 January 2019, the Group changed the presentation of certain of its other assets and segregated the related credit losses from gross other assets for disclosures in the consolidated financial statements. As at 31 December 2018, the Group reported these other assets on a net basis.

11 INVESTMENTS IN ASSOCIATES

			Carrying value		*Ownership*	
		Activity	*2019*	*2018*	*2019*	*2018*
			US$ 000	*US$ 000*	*%*	*%*
a)	Burgan Bank S.A.K.	Commercial banking	**552,707**	552,708	**15**	15
b)	United Real Estate Company	Real estate	**50,644**	52,894	**10**	10
c)	Assoufid B.V.	Project-development company	**38,284**	37,194	**40**	40
d)	Kamco Investment Fun	Fund	**30,807**	24,357	**23**	23
e)	North Africa Holding Company	Investments	**23,444**	33,432	**44**	44
f)	KAMCO Real Estate Yield Fund	Real estate	**13,744**	14,550	**38**	30
g)	N.S. 88	Real estate	**11,423**	11,570	**20**	20
h)	Manafae Investment Company	Islamic investment	**10,951**	11,202	**33**	33
i)	United Capital Transport Company K.S.C.C.	Transport	**8,419**	9,269	**40**	40
j)	Takaud Saving & Pensions Company	Savings and pension	**1,064**	1,986	**36**	50
k)	United Real Estate Company - Syria	Real estate	**9**	21	**20**	20
l)	Fina Corporation	Financial Services	**230**	221	**49**	49
m)	Lotus Financial	Islamic Investment	**189**	187	**45**	45
n)	Kuwait Education Fund	Fund	**-**	136	**-**	34
o)	Adhari Park Developme	Financial Services	**-**	-	**20**	20
			741,915	749,727		

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2019 and 2018 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% 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 2019, the Group owns 10% of URC (2018:10%). 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% of Assoufid B.V., a closed company incorporated in the Netherlands.

d) The Group holds a 23% equity interest in KAMCO Investment Fund ("KIF") through its subsidiary KAMCO (2018: 23%).

e) The Company directly owns 33% and indirectly owns 11%, through its subsidiary KAMCO, of North Africa Holding Company (NAHC), a closed company incorporated in the State of Kuwait in 2006.

f) The Group holds a 38% (2018: 30%) equity interest in KAMCO Real Estate Yield Fund through its subsidiary KAMCO. The increase in equity interest is due to redemption of the fund's units by other unit holders during the year.

g) The Group owns 20% of N.S. 88 through its subsidiary KAMCO (2018: 20%).

11 INVESTMENTS IN ASSOCIATES (continued)

h) The Group owns 33% of Manafae Investment Company through its subsidiary KAMCO (2018: 33%).

i) 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 (2018: 40%). UniCap is a dedicated leasing solutions provider to governments, international oil companies and varied construction, mining and industrial services businesses.

j) The Group owned 50% of Takaud Savings and Pension Company (Takaud) as of 31 December 2018. The remaining equity stake is owned by KIPCO which also exercises control over Takaud through representation on its Board of Directors. During the year, KIPCO participated in an additional capital increase of Takaud where as the Group did not participate, which resulted in a dilution in the Group's ownership in Takaud to 36%.

k) United Real Estate Company - Syria is a closed company incorporated in the Syrian Arab Republic. At 31 December 2019, the Group owns 20% of its equity interest (2018: 20%).

l) The Group holds 49% equity interest in FINA Corporation situated in Tunisia (2018: 49%) through its subsidiary KAMCO.

m) The Group holds a 49% (2018: Nil) equity interest in Lotus Financial Investment through its subsidiary KAMCO. The Group acquired the associate during the year.

n) Kuwait Education Fund was a fund incorporated in the State of Kuwait in 2007. The fund was liquidated during the year. As of 31 December 2018, the Group owned 34% through its subsidiary KAMCO.

o) The Group holds 20% equity interest in Adhari Park Development Company B.S.C (c) situated in the Kingdom of Bahrain (2018: 20%) through its subsidiary KAMCO.

In accordance with IAS 36, 'Impairment of Assets', the Group's recoverable amount of these associates (i.e. value in use) was in excess of their carrying values and accordingly no impairment was recognised against these investments during the year (2018: Same).

11 INVESTMENTS IN ASSOCIATES (continued)

Investments in material associates (continued)

	Burgan Bank US$ 000	*URC US$ 000*
Summarised statement of income for the year ended 31 December 2018:		
Operating income	267,628	316,915
Interest income	1,247,163	1,120
Interest expense	(641,132)	(55,726)
Administrative expenses	(598,014)	(287,053)
Profit (loss) for the year	275,645	(24,744)
Other comprehensive loss for the year	(135,379)	(65,386)
Total comprehensive income (loss) for the year	140,266	(90,130)
Group's share of total comprehensive income (loss) for the year	20,758	(8,949)
Cash dividend received from the associate during the year	7,540	-

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:

	2019 US$ 000	*2018 US$ 000*
Summarised statement of financial position as of 31 December:		
Total assets	**596,311**	479,115
Total liabilities	**160,136**	142,909
Equity	**436,175**	336,206
Carrying amount of investments	**138,564**	144,125
Summarised statement of income for the year ended 31 December:		
Revenue	**38,855**	61,735
Income (loss) for the year	**8,519**	(16,409)
Total comprehensive income (loss) for the year	**8,519**	(16,409)
Group's share of loss for the year	**(1,197)**	(15,626)

12 INVESTMENT PROPERTIES

	2019 US$ 000	*2018 US$ 000*
At 1 January	**124,853**	105,093
Acquisition of a subsidiary	**-**	2,171
Reclassified (to) from property and equipment (note 13)	**(12,734)**	16,239
Change in fair values	**7,294**	1,109
Foreign exchange adjustment	**524**	241
At 31 December	**119,937**	124,853

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.

12 INVESTMENT PROPERTIES (continued)

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 as 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 2019 and 2018.

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.

13 PROPERTY AND EQUIPMENT

2019	*Land*	*Buildings*	*Furniture and fixtures*	*Computers and vehicles*	*Right-of-use Assets*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000* (Note 36)	*US$ '000*
Cost						
Balance as at 1 January 2019	24,504	75,344	20,296	26,220	2,398	148,762
Reclassified from investment property	2,734	10,000	-	-	-	12,734
Additions during the year	22	2,011	2,180	872	1,965	7,050
Disposals	-	-	(3,025)	(227)	-	(3,252)
Effect of movement in exchange rates	-	-	(7)	(8)	-	(15)
At 31 December 2019	**27,260**	**87,355**	**19,444**	**26,857**	**4,363**	**165,279**
Depreciation						
Balance as at 1 January 2019	-	(36,355)	(17,935)	(23,961)	-	(78,251)
Charge for the year	-	(2,555)	(765)	(922)	(406)	(4,648)
Attributable to disposals	-	-	3,025	224	-	3,249
Effect of movement in exchange rates	-	-	4	5	-	9
At 31 December 2019	-	**(38,910)**	**(15,671)**	**(24,654)**	**(406)**	**(79,641)**
Net book value:						
At 31 December 2019	**27,260**	**48,445**	**3,773**	**2,203**	**3,957**	**85,638**
At 31 December 2018	24,504	38,989	2,361	2,259	2,398	70,511

14 GOODWILL AND OTHER INTANGIBLE ASSETS

2019	*Goodwill*	*Customer relationships*	*Licenses with definite useful lives*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Cost				
Balance as at 1 January 2019	52,288	11,328	13,513	77,129
Acquired on acquisition of a subsidiary	-	-	-	-
Additions during the year	-	-	-	-
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)
Acquired on acquisition of a subsidiary	-	-	-	-
Amortisation	-	(803)	(326)	(1,129)
At 31 December 2019	-	**(1,216)**	**(5,561)**	**(6,777)**

14 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

2018	*Goodwill* *US$ '000*	*Customer relationships* *US$ '000*	*Licenses with definite useful lives* *US$ '000*	*Total* *US$ '000*
Cost				
Balance as at 1 January 2018	52,586	-	7,313	59,899
Acquired on acquisition of a subsidiary	-	11,328	3,627	14,955
Additions during the year	-	-	2,573	2,573
Foreign currency translation adjustments	(298)	-	-	(298)
At 31 December 2018 -	52,288	11,328	13,513	77,129
Amortisation and impairment				
Balance as at 1 January 2018	-	-	(4,575)	(4,575)
Acquired on acquisition of a subsidiary	-	-	-	-
Amortisation	-	(413)	(660)	(1,073)
At 31 December 2018 -	-	(413)	(5,235)	(5,648)
Net book value:				
At 31 December 2019 -	**52,306**	**10,079**	**8,005**	**70,390**
At 31 December 2018 -	52,288	10,915	8,278	71,481

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 2% (2018: 3%) and discount factor of 8.3% (2018: 9.5%). There was no goodwill impairment identified in 2019 or 2018 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 market risk premium, growth risk rate, risk free rate and country risk premium.

The sensitivity of the value in use calculation to changes in key assumptions used in the impairment assessment of goodwill is disclosed below:

	Impact of change	
	+10% *US$ 000*	**-10%** *US$ 000*
Key assumptions		
Growth rate	**7,633**	**(7,167)**
Discount factor	**(34,724)**	**45,233**

These changes do not result in impairment of goodwill.

Other intangible assets
Customer relationships and licenses with defininte life have useful lives have a useful economic life of 10 years each and are amortised on a straight line basis.

15 ASSETS HELD FOR SALE

During the year, the Group's management initiated an active plan to divest its 31% stake in Syria Gulf Bank ("SGB"), an associate. As a result, the Group's investment in SGB has been classified as "Assets held for sale" in accordance with IFRS 5 - Non-current Assets held for sale and discontinued operations ("IFRS 5") in the consolidated statement of financial position as of 31 December 2019.

16 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:

	2019 *US$ 000*	*2018* *US$ 000*
Excess of capital allowances over depreciation	**(677)**	(553)
Allowances for uncollectibility	**21,961**	22,278
Changes in fair value of financial instruments	**1,036**	2,245
Unabsorbed capital allowances	**625**	1,556
Unabsorbed tax losses	**13,695**	13,168
Other temporary differences	**134**	-
	36,774	38,694

Reconciliation of deferred tax assets is as follows:

2019	*Opening balance* *US$ 000*	*Recognised 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	**(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**
Unabsorbed capital allowances	**1,556**	**-**	**(931)**	**-**	**625**
Unabsorbed tax losses	**13,168**	**-**	**527**	**-**	**13,695**
Other temporary differences	**-**	**-**	**134**	**-**	**134**
	38,694	**(245)**	**(1,482)**	**(193)**	**36,774**
2018					
Excess of capital allowances over depreciation	(375)	-	(178)	-	(553)
Allowances for uncollectibility	18,151	-	3,249	878	22,278
Changes in fair value of financial instruments	986	267	992	-	2,245
Investment tax credits	239	-	(239)	-	-
Unabsorbed capital allowances	976	-	580	-	1,556
Unabsorbed tax losses	21,046	-	(7,878)	-	13,168
	41,023	267	(3,474)	878	38,694

As at 31 December 2019, the Group has tax losses arising out of subsidiaries in Malta, the United Kingdom and India of US$ 100,514 thousand (2018: US$ 94,225 thousand) that are available for offsetting against future taxable profits.

b) Deferred tax liabilities

Deferred tax liabilities relate to the following:

	2019 *US$ 000*	*2018* *US$ 000*
Excess of capital allowances over depreciation	**2,837**	2,837
Revaluation of investment properties at fair value	**5,951**	4,044
	8,788	6,881

16 TAXATION (continued)

b) Deferred tax liabilities (continued)

Reconciliation of deferred tax liabilities is as follows:

2019	*Opening balance* *US$ 000*	*Recognised in OCI* *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	**4,044**	**-**	**1,907**	**5,951**
	6,881	**-**	**1,907**	**8,788**
2018				
Excess of capital allowances over depreciation	2,531	618	(312)	2,837
Revaluation of investment properties at fair value	4,237	-	(193)	4,044
	6,768	618	(505)	6,881

c) Income tax credit

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

	2019 *US$ 000*	*2018* *US$ 000*
Consolidated statement of income		
Current income tax (charge) credit	**(1,530)**	1,363
Movement in deferred tax assets recognised in statement of income	**(1,482)**	(3,474)
Movement in deferred tax liabilities recognised in statement of income	**(1,907)**	(505)
Income tax charge reported in the statement of income - net	**(4,919)**	(2,616)

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.

17 LOANS PAYABLE

31 December 2019	*Currency**	*Parent* *US$ 000*	*Subsidiaries* *US$ 000*	*Total* *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**	**10,485**	**417,297**
More than 2 years	US$	**125,000**	**-**	**125,000**
	EGP	**-**	**92**	**92**
		531,812	**10,577**	**542,389**
		763,146	**243,449**	**1,006,595**

17 LOANS PAYABLE (continued)

31 December 2018	*Currency**	*Parent US$ 000*	*Subsidiaries US$ 000*	*Total US$ 000*
Maturing within one year				
3 months or less	KWD	-	23,319	23,319
	US$	-	183,500	183,500
	EUR	-	12,595	12,595
	INR	-	9,309	9,309
1 year or less but over 3 months	US$	482,104	62,103	544,207
	KWD	-	16,467	16,467
	EGP	-	4,805	4,805
		482,104	312,098	794,202
Maturing after one year				
More than 1 year & less than 2 years	KWD	-	16,468	16,468
	US$	213,533	-	213,533
More than 2 years	US$	-	10,779	10,779
		213,533	27,247	240,780
		695,637	339,345	1,034,982

* KWD represents Kuwaiti Dinar, INR represents Indian Rupee, GBP represents Pound Sterling and EGP represents Egyptian Pound.

18 LONG TERM BONDS

	2019 US$ 000	*2018 US$ 000*
Fixed interest rate of 6.00% per annum and maturing on 26 July 2023, (KWD 14.9 million)	**49,151**	49,073
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)	**82,797**	82,666
	131,948	131,739

19 OTHER LIABILITIES

	2019 US$ 000	*2018 US$ 000*
Staff related payables	**27,427**	35,812
Accrued expenses	**25,973**	25,976
Interest payable	**11,517**	10,025
Dividends payable	**3,655**	2,505
Deferred tax liability (note 16)	**8,788**	6,881
Derivative financial liabilities (note 33)	**7,299**	-
Provisions for legal liabilities under IFRS 3	**9,987**	9,899
Deferred consideration payable	**-**	8,264
Deferred income	**10,117**	13,898
Tax payable	**4,147**	-
Other payables	**13,908**	23,053
	122,818	136,313

20 EQUITY

Share capital

	2019 *US$ 000*	*2018* *US$ 000*
Authorised share capital		
Number of shares (in thousands)	**505,400**	505,400
Par value (US$)	**0.50**	0.50
	252,700	252,700
Issued and fully paid up share capital		
Number of shares (in thousands)	**412,974**	412,974
Par value (US$)	**0.50**	0.50
	206,487	206,487

Treasury shares and treasury shares reserve

At 31 December 2019, UGH held 640,091 treasury shares (2018: 111,100 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 2019 based on the last bid price of US$ 3.29 (equivalent to BD 1.24) per share (2018: US$ 3.29 (equivalent to BD 1.24) per share) was US$ 2,106 thousand (2018: US$ 365 thousand).

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.

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 2019 or 31 December 2018.

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.

21 FAIR VALUE RESERVE

	2019 US$ 000	2018 US$ 000
Investments at fair value through other comprehensive		
Balance at 1 January	**(54,256)**	90
Transition adjustment on adoption of IFRS 9	**-**	8,067
Transferred upon disposal of investments at fair value through other comprehensive income	**11,514**	(5,571)
Transferred to non-controlling interests upon dilution in a subsidiary	**4,697**	-
Net movement in unrealised fair values during the year	**(33,218)**	(56,842)
Balance at 31 December	**(71,263)**	(54,256)
Cash flow hedges		
Balance at 1 January	**55**	-
Net movement in the fair values during the year	**(4,942)**	55
Balance at 31 December	**(4,887)**	55
	(76,150)	(54,201)

22 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.

23 INTEREST INCOME

	2019 US$ 000	2018 US$ 000
Loans and receivables	**50,029**	54,183
Investments	**899**	1,551
Placements with banks	**7,244**	4,704
Demand and call deposits with banks	**1,273**	998
	59,445	61,436

24 INVESTMENT INCOME - NET

	2019 US$ 000	2018 US$ 000
Gain on bargain purchase of a subsidiary	**-**	23,928
Dividend income	**8,195**	9,855
Loss on sale of an associates	**-**	(523)
Rental income from investment properties	**4,039**	3,945
(Loss) gain on sale of invetsments at fair value through other comprehensive income	**(10)**	55
Gain (loss) on investments carried at fair value through profit and loss	**11,213**	(1,260)
Unrealized gain on investment properties	**7,294**	1,109
Gain on sale due to reclassification of investment	**664**	31
Others	**16,301**	5,374
	47,696	42,514

25 FEES AND COMMISSIONS - NET

	2019	*2018*
	US$ 000	*US$ 000*
Credit related fees, commissions and other income - net	**28,922**	50,894
Management fees from fiduciary activities	**40,757**	14,965
Advisory fees	**5,744**	6,619
	75,423	72,478

26 SHARE OF RESULTS OF ASSOCIATES - NET

	2019	*2018*
	US$ 000	*US$ 000*
Burgan Bank	**41,897**	46,294
Kamco Investment Fund	**6,412**	1,737
United Real Estate Company	**(2,287)**	(2,477)
Assoufid B.V.	**-**	(6,182)
Kuwait Education Fund	**-**	237
Latam Factors S.A.	**-**	239
N.S. 88	**(177)**	(391)
KAMCO Real Estate Yield Fund	**(296)**	20
Manafae Investment Company	**(419)**	(423)
United Capital Transport Company	**(874)**	(1,944)
North Africa Holding Company	**(1,133)**	(1,967)
Takaud Saving & Pensions Company	**(2,423)**	(4,238)
	40,700	30,905

27 INTEREST EXPENSE

	2019	*2018*
	US$ 000	*US$ 000*
Loans payable	**53,638**	42,845
Due to banks and other financial institutions	**10,645**	8,540
Long term bonds	**7,692**	3,353
Deposits from customers	**10,922**	13,825
	82,897	68,563

28 EARNINGS 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:

	2019 *US$ 000*	*2018* *US$ 000*
Profit attributable to equity shareholders of the Company		
- continuing operations	**9,747**	18,191
- discontinued operations	**-**	453
Deduction of interest on prepetual tier one capital	**(14,316)**	(8,949)
Profit attributable to equity shareholders of the Company	**(4,569)**	9,695
Weighted average number of shares outstanding during the year (in thousands)	**412,731**	412,864
Basic and dilluted (loss) earnings per share (US cents)	**(1.11)**	2.35
Basic and dilluted (loss) earnings per share (US cents) from continuing operations	**(1.11)**	2.24
Basic and dilluted (loss) earnings per share (US cents) from discontinued operations	**-**	0.11

29 CASH AND CASH EQUIVALENTS

	2019 *US$ 000*	*2018* *US$ 000*
Demand and call deposits with banks excluding mandatory reserves	**468,620**	505,200
Placements with original maturities of ninety days or less	**232,887**	135,599
	701,507	640,799
Mandatory reserves	**10,764**	17,228
Placements with original maturities of more than ninety days	**18,152**	35,370
Expected credit losses as per IFRS 9	**(168)**	(1,233)
Cash and cash equivalents net of expected credit losses	**701,339**	639,566

30 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	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 at 31 December 2019 and for the year ended 31 December 2019 was as follows:

Eliminations
These relate to intra-group transactions which are eliminated upon consolidation.

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
Reversal of impairment on investments	70	-	-	70
Expected credit losses - net	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	552,706	-	741,915
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

30 SEGMENTAL INFORMATION (continued)

31 December 2018 **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	90,430	88,532	(1,856)	177,106
Share of results of associates - net	(15,628)	46,533	-	30,905
Total income	74,802	135,065	(1,856)	208,011
Interest expense	(45,481)	(24,938)	1,856	(68,563)
Salaries and benefits	(30,309)	(23,628)	-	(53,937)
General and administrative expenses	(20,862)	(14,008)	2	(34,868)
Operating (loss) income before ECL, impairment and taxation	(21,850)	72,491	2	50,643
Impairment loss on investments	(9,020)	-	-	(9,020)
Provision for losses against unfunded participation	(805)	-	-	(805)
Expected credit losses	(9,306)	(4,893)	-	(14,199)
Taxation - net	95	(2,711)	-	(2,616)
(Loss) profit for the year from continuing operations	(40,886)	64,887	2	24,003
Net profit for the year from discontinued operations	524	-	-	524
Net (loss) profit for the year	(40,362)	64,887	2	24,527
Profit attributable to equity shareholders of the parent				18,644
Profit attributable to non-controlling interests				5,883
Net profit for the year				24,527
Statement of financial position				
Investments in associates	226,263	523,464	-	749,727
Segment assets	1,303,568	2,345,466	(250,430)	3,398,604
Segment liabilities	1,342,276	1,563,530	(55,719)	2,850,087

Geographical segments

The Group operates in four 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 at 31 December 2019 and for the year ended 31 December 2018:

	G.C.C. US$ 000	*MENA US$ 000*	*Europe US$ 000*	*Americas US$ 000*	*Others US$ 000*	*Total US$ 000*
31 December 2019						
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**

	G.C.C. US$ 000	*MENA US$ 000*	*Europe US$ 000*	*America US$ 000*	*Others US$ 000*	*Total US$ 000*
31 December 2018						
Total income	129,222	2,911	44,823	10,391	20,664	208,011
Total assets	1,552,674	136,169	1,276,556	235,311	197,894	3,398,604

31 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:

	2019			
	Parent ***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**
Foreign currency translation losses - net	**-**	**-**	**-**	**-**
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**

	2018			
	Parent *US$ 000*	*Associates* *US$ 000*	*Other related parties* *US$ 000*	*Total* *US$ 000*
Gain on investments carried at fair value through statement of income	-	15	-	15
Fees and commissions - net	3,586	33,245	2,855	39,686
Dividend income	-	-	1,359	1,359
Rental income	2,384	326	-	2,710
Foreign currency translation gains - net	-	362	-	362
Interest income	137	2,364	782	3,283
Interest expense	(515)	(18,307)	(3,852)	(22,674)
Others	-	(1)	(1,325)	(1,326)

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

	2019 ***US$ 000***	*2018* *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.

31 RELATED PARTY TRANSACTIONS (continued)

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

	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 and 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

	2018			
	Parent US$ 000	*Associates US$ 000*	*Other related parties US$ 000*	*Total US$ 000*
Demand and call deposits with banks	-	20,990	146	21,136
Placements with banks	-	-	18,927	18,927
Investments carried at fair value through profit and loss	-	-	111,449	111,449
Investments carried at fair value through other comprehensive income	9,847	-	-	9,847
Loans and receivables	-	8,516	29,357	37,873
Other assets	5,078	7,313	2,422	14,813
Due to banks and other financial institutions	-	(77,330)	(123,579)	(200,909)
Deposits from customers	(11,555)	(958)	(5,356)	(17,869)
Loans payable	-	(462,104)	(11,435)	(473,539)
Other liabilities	(610)	(1,245)	(3,047)	(4,902)
Perpetual Tier 1 Capital	-	-	(10,000)	(10,000)
Off statement of financial position items:				
Letters of guarantee	-	-	150	150
Letters of credit	-	-	14,780	14,780
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 certain FVOCI investment of the Group at its carrying value of US$ 50 million.

31 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel was as follows:

	2019 *US$ 000*	*2018* *US$ 000*
Short term employee benefits	**12,121**	9,061

32 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:

	2019 *US$ 000*	*2018* *US$ 000*
Credit related		
Letters of credit	**25,132**	28,100
Letters of guarantee	**12,537**	5,027
	37,669	33,127
Investment related *	**144,006**	165,663
	181,675	198,790

* Investment related commitments represent 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.

33 DERIVATIVES

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

31 December 2019	Positive fair value US$ 000	Negative fair value US$ 000	*Notional amounts by term to maturity* 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**

31 December 2018	Positive fair value US$ 000	Negative fair value US$ 000	*Notional amounts by term to maturity* 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	136	(66)	150,535	110,148	40,387	-
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	1,378	(754)	738,491	563,564	165,115	9,812
Derivatives used as cash flow hedges						
Interest rate swaps	55	-	290,000	-	-	290,000

* 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$ 755 million (2018: US$ 738 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.

33 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:

	2019		*2018*	
	Within 1 year US$ 000	***1-5 years US$ 000***	*Within 1 year US$ 000*	*1-5 years US$ 000*
Net cash outflows (liabilities)	**8,722**	**5,022**	6,765	8,067
Statement of comprehensive income	**148**	**(4,887)**	55	-

34 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.

34 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.

34 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.

	2019 *US$ 000*	*2018* *US$ 000*
Demand and call deposits with banks	**479,384**	522,428
Placements with banks	**250,871**	169,736
Investments at fair value through profit and loss	**13,070**	6,941
Investments at fair value through other comprehensive Income	**79,367**	86,609
Investments at amortised cost	**10,066**	10,341
Loans and receivables	**657,218**	664,533
Other assets	**141,553**	117,697
Letters of credit	**25,132**	28,100
Letters of guarantee	**12,537**	5,027
Derivative financial assets	**148**	749
	1,669,346	1,612,161

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 2019 was US$ 61.8 million (2018: US$ 161 million) before taking account of collateral or other credit enhancements.

34 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	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**

	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	121,097	6,701	346,334	47,040	1,178	78	522,428
Placements with banks	85,768	24,462	59,485	-	21	-	169,736
Investments at FVTPL	6,941	-	-	-	-	-	6,941
Investments at FVOCI	-	-	74,790	6,092	-	5,727	86,609
Investments at amortised cost	9,847	494	-	-	-	-	10,341
Loans and receivables	167,426	68,865	236,551	45,294	113,335	33,062	664,533
Other assets	55,284	6,838	11,089	1,306	16,694	26,486	117,697
Letters of credit	1,791	3,715	1,969	-	5,575	15,050	28,100
Letters of guarantee	72	576	2,452	1,387	-	540	5,027
Derivative financial assets	749	-	-	-	-	-	749
31 December 2018	448,975	111,651	732,670	101,119	136,803	80,943	1,612,161

34 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 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

At 31 December 2018	*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	-	522,428	-	-	-	-	522,428
Placements with banks	-	169,736	-	-	-	-	169,736
Investments at FVTPL	-	6,941	-	-	-	-	6,941
Investments at FVOCI	-	66,769	-	-	19,840	-	86,609
Investments at amortised cost	-	10,341	-	-	-	-	10,341
Loans and receivables	391,197	82,801	72,294	22,345	6,123	89,773	664,533
Other assets	2,181	57,612	4,324	11	330	53,239	117,697
Letters of credit	4,551	23,393	-	-	-	156	28,100
Letters of guarantee	1,485	3,136	350	56	-	-	5,027
Derivative financial assets	-	749	-	-	-	-	749
	399,414	943,906	76,968	22,412	26,293	143,168	1,612,161

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.

34 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 2019 US$ 000	*Net maximum exposure 2019 US$ 000*	*Gross maximum exposure 2018 US$ 000*	*Net maximum exposure 2018 US$ 000*
Factoring assets	**391,241**	**275,472**	367,987	249,046
Loans to customers	**275,227**	**160,814**	285,185	229,023
Loans to banks	**28,670**	**7,085**	41,045	30,332
Syndication loans	**23,287**	**23,287**	28,217	28,217
Others	**4,857**	**3,949**	4,028	1,735
	723,282	**470,607**	726,462	538,353

Credit risk exposure for each credit rating

At 31 December 2019	*Investment grade US$ 000*	*Non-investment grade US$ 000*	*Unrated US$ 000*	*Total US$ 000*
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**

At 31 December 2018	*Investment grade US$ 000*	*Non-investment grade US$ 000*	*Unrated US$ 000*	*Total US$ 000*
Demand and call deposits with banks	497,444	15,301	9,683	522,428
Placements with banks	110,926	34,349	24,461	169,736
Investments at FVTPL	6,941	-	-	6,941
Investments at FVOCI	86,609	-	-	86,609
Investments at amortised cost	9,847	-	494	10,341
Loans and receivables	1,800	10,793	651,940	664,533
Other assets	4,731	339	112,627	117,697
Letters of credit	1,478	2,215	24,407	28,100
Letters of guarantee	99	4	4,924	5,027
Derivative financial assets	749	-	-	749
	720,624	63,001	828,536	1,612,161

34 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$ 32,847 thousands of restructured loans as of 31 December 2019 (2018: US$ 21,314 thousand)

Offsetting financial assets and financial liabilities

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

	Loans and receivables US$ 000	*Customer deposits US$ 000*
31 December 2019		
Gross amounts of recognised financial asset / liability	**285,000**	**285,000**
Gross amounts offset in the consolidated statement of financial position	**(285,000)**	**(285,000)**
31 December 2018		
Gross amounts of recognised financial asset / liability	285,000	285,376
Gross amounts offset in the consolidated statement of financial position	(285,000)	(285,000)

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.

34 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:

Currency	***Increase in basis points 2019***	***Sensitivity of net interest income 2019 US$ 000***	*Increase in basis points 2018*	*Sensitivity of net interest income 2018 US$ 000*
Kuwaiti Dinar	**+ 25**	**(65)**	+ 25	(237)
United States Dollar	**+ 25**	**(584)**	+ 25	(1,371)
Euro	**+ 25**	**(422)**	+ 25	(332)
Pound Sterling	**+ 25**	**8**	+ 25	15
Others	**+ 25**	**70**	+ 25	247

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 2019, including the effect of hedging instruments.

34 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 % 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)**	**-**

Currency	*Change in currency rate in % 2018*	*Effect on profit before tax 2018 US$ 000*	*Effect on equity 2018 US$ 000*
Kuwaiti Dinar	+2	(16,941)	1,535
	-2	16,941	(1,535)
Euro	+2	(863)	1,633
	-2	863	(1,633)
Pound Sterling	+2	62	-
	-2	(62)	-

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:

34 RISK MANAGEMENT (continued)

c) Market risk (continued)

Geographical distribution

At 31 December 2019	*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 and loss					
Quoted equities	13,514	-	-	31	13,545
Unquoted equity	4,335	-	-	-	4,335
Investment in funds	-	125,342	-	-	125,342
Managed funds	50,566	9,444	6,818	-	66,828
	68,415	134,786	6,818	31	210,050
Investments at fair value through other comprehensive Income					
Quoted equities	32,559	-	-	-	32,559
Unquoted equities	75,209	26,914	4,277	13	106,413
Managed funds	1,006	-	-	-	1,006
	108,774	26,914	4,277	13	139,978
Total	177,189	161,700	11,095	44	350,028

At 31 December 2018	*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 and loss					
Quoted equities	10,585	879	783	31	12,278
Unquoted equity	280	-	2,930	-	3,210
Investment in funds	-	173,438	-	-	173,438
Managed funds	42,706	9,916	6,802	-	59,424
	53,571	184,233	10,515	31	248,350
Investments at fair value through other comprehensive Income					
Quoted equities	80,889	-	-	-	80,889
Unquoted equities	102,871	12,643	3,182	1,553	120,249
Managed funds	977	-	973	32	1,982
	184,737	12,643	4,155	1,585	203,120
Total	238,308	196,876	14,670	1,616	451,470

At the reporting date, the exposure to listed equity securities at fair value was US$ 110,423 thousand (2018: US$ 93,167 thousand). A decrease of 10% on the market indices of MENA stock exchanges could have an impact of approximately US$ 11,042 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.

34 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 2019 and 31 December 2018 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 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
Long term bonds	-	-	-	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

34 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

At 31 December 2018	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	270,969	274,041	139,274	-	1,666	685,950
Deposits from customers	695,594	281,210	59,986	5,909	1,578	1,044,277
Loans payable	85,633	280,997	505,607	275,152	2,352	1,149,741
Subordinated debt	-	-	-	166,917	-	166,917
Other liabilities	-	-	93,539	42,774	-	136,313
Total non-derivative undiscounted financial liabilities	1,052,196	836,248	798,406	490,752	5,596	3,183,198
Derivatives						
Net cash outflows on interest rate swaps	-	3,336	3,336	8,160	-	14,832
Gross settled foreign currency derivatives	-	850,183	38,843	-	-	889,026
Off-statement of financial position items						
Letters of credit	-	25,886	-	2,214	-	28,100
Letters of guarantee	-	-	5,027	-	-	5,027
Investment related commitments	31,848	65,874	37,221	30,720	-	165,663

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

34 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 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 and 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
Long term bonds	-	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

34 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

At 31 December 2018

	Less than 12 months US$ 000	*Over 12 months US$ 000*	*Total US$ 000*
Demand and call deposits with banks	522,110	318	522,428
Placements with banks	169,736	-	169,736
Investments at fair value through statement of income	602,576	-	602,576
·ough other comprehensive Income	150,177	139,552	289,729
Investments at amortised cost	9,847	494	10,341
Loans and advances	529,949	134,584	664,533
Other assets	122,689	-	122,689
Investments in associates	-	749,727	749,727
Investment properties	-	124,853	124,853
Property and equipment	-	70,511	70,511
Goodwill	-	71,481	71,481
Total assets	2,107,084	1,291,520	3,398,604
Due to banks and other financial	505,149	-	505,149
Deposits from customers	1,036,248	5,656	1,041,904
Loans payable	777,735	257,247	1,034,982
Subordinated debt	-	131,739	131,739
Other liabilities	93,539	42,774	136,313
Total liabilities	2,412,671	437,416	2,850,087
Net	(305,587)	854,104	548,517

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.

35 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 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 statement of income				
Forfaiting assets	-	-	460,239	460,239
Investment in sub-fund of collective investment scheme - unlisted	-	53	125,289	125,342
Managed funds	3,494	49,193	14,141	66,828
Quoted equities	13,545	-	-	13,545
Quoted debt securities	12,245	-	-	12,245
Unquoted equity	-	-	4,335	4,335
Unquoted debt securities	-	-	825	825
Investments at fair value through other comprehensive Income				
Quoted Equities	4,657	-	27,902	32,559
Debt securities	79,367	-	-	79,367
Unquoted Equities	-	-	106,413	106,413
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)

35 FAIR VALUE MEASUREMENT (continued)

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2018:

	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 statement of income				
Forfaiting Assets	-	-	347,285	347,285
Investment in sub-fund of collective investment scheme - unlisted	-	-	173,438	173,438
Managed funds	-	40,829	18,595	59,424
Quoted equities	12,278	-	-	12,278
Quoted debt securities	6,941	-	-	6,941
Unquoted equity	-	-	3,210	3,210
Investments carried at fair value through other comprehensive income				
Equities - quoted	80,889	-	-	80,889
Debt Securities - quoted	86,609	-	-	86,609
Equities - unquoted	-	-	120,249	120,249
Managed funds	-	-	1,982	1,982
Derivatives				
Forward foreign exchange contracts	-	694	-	694
Interest rate swaps	-	55	-	55
Investment properties	-	-	124,853	124,853
	186,717	41,578	789,612	1,017,907

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2019 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 2018: same) except for investment property transferred to property and equipment (refer note 13). The following table shows a reconciliation of the opening and closing amount of level 3 financial instruments which are recorded at fair value:

35 FAIR VALUE MEASUREMENT (continued)

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

	As at 1 January 2019 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 2019 US$'000*
Investments carried at fair value through profit or loss					
Forfaiting assets	347,285	111,471	1,483	-	460,239
Investment in sub-fund of collective investment scheme - unlisted	173,438	(47,842)	(307)	-	125,289
Managed funds	18,595	(2,198)	(2,256)	-	14,141
Unquoted equity	3,210	1,125	-	-	4,335
Unquoted debt securities	-	825	-	-	825
	542,528	**63,381**	**(1,080)**	**-**	**604,829**
Investments carried at fair value through other comprehensive income					
Quoted Equities	-	27,902	-	-	27,902
Unquoted Equities	120,249	(11,135)	-	(2,701)	106,413
Managed funds	1,982	(976)	-	-	1,006
	122,231	**15,791**	**-**	**(2,701)**	**135,321**
Investment properties	**124,853**	**(12,734)**	**7,818**	**-**	**119,937**

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.

35 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.

36 LEASES

The effect of adoption IFRS 16 as at 1 January 2019 is as follows:

	US$ 000
Assets	
Right-of-use assets	**2,398**
Liabilities	
Trade and other payables	**2,398**
Total adjustment in equity	**-**

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	US$ 000
Operating lease commitments as at 31 December 2018	**1,924**
Weighted average incremental borrowing rate as at 1 January 2019	**5.8%**
Discounted operating lease commitments at 1 January 2019	**1,641**
Add:	
Payments not recognised as at 31 December 2018 (cancellable leases)	**1,100**
Changes in lease payments amounts	**78**
Short-term lease	**(375)**
Leases of low value items	**(46)**
	2,398
Lease liabilities as at 1 January 2019	**2,398**

Amounts recognised in the statements of financial position and income

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the year:

Right-of-use assets	*Property and equipment US$ 000*	*Lease liabilities US$ 000*
As at 1 January 2019	**2,398**	**2,398**
Additions	**1,965**	**1,965**
Depreciation expense	**(406)**	**-**
Interest expense	**-**	**66**
Payments	**-**	**(611)**
As at 31 December 2019	**3,957**	**3,818**

37 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.

	2019 *US$ 000*	*2018* *US$ 000*
Accumulated balances of material non-controlling interests	**141,974**	77,243
Income allocated to material non-controlling interests	**5,673**	(58)

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

	2019 *US$ 000*	*2018* *US$ 000*
Summarised statement of income for the year ended 31 December:		
Total income	**162,087**	147,972
Total expenses	**(131,739)**	(111,441)
Taxation	**(2,732)**	(3,229)
ECL charged	**(9,200)**	(7,600)
Profit from discontinued operations	**-**	524
Profit for the year	**18,416**	26,226
Total comprehensive income for the year	**5,580**	554
Total comprehensive income attributable to non-controlling interests	**2,883**	8
Summarised statement of financial position as of 31 December:		
Total assets	**2,318,764**	2,326,130
Total liabilities	**(1,837,743)**	(1,859,079)
Total equity	**481,021**	467,051
Attributable to equity holders of the parent	**468,049**	315,687
Non-controlling interest	**12,972**	151,364

	2019 *US$ 000*	*2018* *US$ 000*
Summarised cash flow information for the year ended 31 December:		
Operating activities	**(12,971)**	(192,569)
Investing activities	**121,635**	12,674
Financing activities	**3,768**	146,038
Foreign currency translation adjustments	**19,358**	(13,452)
Net increase (decrease) in cash and cash equivalents	**131,790**	(47,309)

38 SUBSEQUENT EVENTS

During the year, the Group's Board of directors approved the acquisition of 51.8% equity stake in Bank of Baghdad (BoB), an Iraqi Private Joint Stock Company, from Burgan Bank (BB). BoB offers banking and financing activities through its headquarter in the city of Baghdad along with currency exchange and financial brokerage services. BoB is presently owned by BB which is a public shareholding company incorporated in the State of Kuwait. Both the Group and BB are owned and controlled by KIPCO, the ultimate parent.

As of 31 December 2019, the acquisition was subject to approval from the Central Bank of Iraq. The approval was subsequently received on 29 January 2020. Actual transfer of the 51.8% shares of BoB on the Iraq Stock Exchange has not happened as of the date of these financial statements. The acquisition will be reflected in the interim condensed consolidated financial statements of the Group for the quarter ending 31 March 2020.