

United Gulf Bank B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

30 JUNE 2020 (REVIEWED)

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF UNITED GULF BANK B.S.C. (c)

Introduction

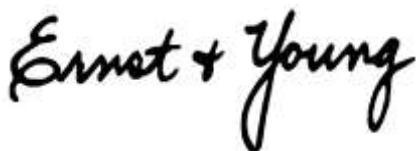
We have reviewed the accompanying interim condensed consolidated financial statements of United Gulf Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group") as at 30 June 2020, comprising the interim consolidated statement of financial position as at 30 June 2020 and the related interim consolidated statements of income, comprehensive income, cash flows and changes in equity for the six-month period then ended and explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting ('IAS 34') as modified by the Central Bank of Bahrain ("CBB"). Our responsibility is to express a conclusion on these interim condensed financial consolidated statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as modified by CBB.



Ernst & Young

13 August 2020
Manama, Kingdom of Bahrain

United Gulf Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020 (Reviewed)

	Notes	Reviewed 30 June 2020	Audited 31 December 2019	Reviewed 30 June 2019
		US\$ 000	US\$ 000	US\$ 000
ASSETS				
Demand and call deposits with banks		162,091	71,369	107,292
Placements with banks		103,551	236,110	243,529
Investments carried at fair value through statement of income		77,975	97,778	80,760
Investments carried at fair value through other comprehensive income		120,484	131,048	136,914
Investments carried at amortised cost		-	280	283
Loans and receivables		27,841	27,778	25,349
Other assets		63,425	62,933	61,086
Investments in associates		65,509	75,774	75,078
Investment properties		101,884	102,713	97,873
Property and equipment		50,142	51,849	51,709
Goodwill and other intangible assets		64,835	65,591	66,063
Assets of disposal group held for sale	6	41,360	-	-
TOTAL ASSETS		879,097	923,223	945,936
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		154,702	307,784	257,882
Deposits from customers		77,174	22,647	52,427
Loans payable		131,896	36,875	79,856
Long term bonds	7	129,980	131,948	131,844
Other liabilities		83,770	90,965	92,721
TOTAL LIABILITIES		577,522	590,219	614,730
EQUITY				
Share capital	8	116,132	116,132	116,132
Share premium		5,687	5,687	5,687
Statutory reserve		52,032	52,032	50,890
General reserve		31,763	31,763	30,621
Fair value reserve		(8,972)	(6,009)	(7,872)
Foreign currency translation reserve		(5,597)	(4,569)	(4,814)
Retained earnings		2,170	15,911	7,594
CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		193,215	210,947	198,238
Perpetual Tier 1 capital	10	33,000	33,000	33,000
Non-controlling interests		75,360	89,057	99,968
TOTAL EQUITY		301,575	333,004	331,206
TOTAL LIABILITIES AND EQUITY		879,097	923,223	945,936

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

Hussain Lalani
Chief Executive Officer

The attached notes 1 to 16 form part of these interim condensed consolidated financial statements.

United Gulf Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the six-month period ended 30 June 2020 (Reviewed)

	<i>Six-month period ended 30 June</i>	
	2020 US\$ 000	2019 US\$ 000
Continuing operations		
Investment (loss) income - net	(6,561)	17,250
Interest income	2,735	5,163
	(3,826)	22,413
Fees and commissions - net	31,123	30,823
Foreign currency translation gains - net	176	96
Share of results of associates - net	(7,151)	3,941
	20,322	57,273
Total income		
Interest expense	(9,119)	(11,007)
	11,203	46,266
Salaries and benefits	(16,298)	(22,988)
General and administrative expenses	(10,570)	(15,159)
	(15,665)	8,119
Operating (loss) income before provisions and tax	(355)	124
	(16,020)	8,243
(Loss) profit before tax from continuing operations		
Taxation - net	(35)	(877)
	(16,055)	7,366
(LOSS) PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		
Discontinued operations		
Net profit from discontinued operations	6	444
	(15,611)	7,366
(LOSS) PROFIT FOR THE PERIOD		
Net (loss) profit for the period attributable to:		
Shareholders of the parent		
- from continuing operations	(10,457)	4,257
- from discontinued operation	266	-
	(10,191)	4,257
Non-controlling interests		
- from continuing operations	(5,598)	3,109
- from discontinued operation	178	-
	(5,420)	3,109

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

Hussain Lalani
Chief Executive Officer

The attached notes 1 to 16 form part of these interim condensed financial statements.

United Gulf Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2020 (Reviewed)

	<i>Six-month period ended 30 June</i>	
	2020	2019
	US\$ 000	US\$ 000
NET (LOSS) PROFIT FOR THE PERIOD	(15,611)	7,366
Other comprehensive loss		
<i>Items that may be reclassified to profit or loss in subsequent periods</i>		
Foreign currency translation reserve	(2,997)	(294)
Fair value changes of investments carried at fair value		
through other comprehensive income	(3,647)	-
Cash flow hedges	(129)	(835)
	(6,773)	(1,129)
<i>Items that will not be reclassified to profit or loss in subsequent periods</i>		
Fair value changes of investments carried at fair value		
through other comprehensive income	(4,208)	(6,302)
Total other comprehensive loss	(10,981)	(7,431)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(26,592)	(65)
Total comprehensive (loss) income attributable to:		
- shareholders of the parent	(15,971)	(2,003)
- non-controlling interests	(10,621)	1,938
	(26,592)	(65)

United Gulf Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2020 (Reviewed)

	Note	<i>Six-month period ended 30 June</i>	
		2020 US\$ 000	2019 US\$ 000
OPERATING ACTIVITIES			
(Loss) profit after tax		(16,055)	7,366
Net profit from discontinued operations		444	-
		(15,611)	7,366
Adjustments for non-cash items:			
Interest expense		9,119	11,007
Depreciation and amortisation		1,810	1,322
Interest income		(2,735)	(5,163)
Loss (gain) on investments carried at fair value through statement of income		11,886	(4,377)
Share of results of associates - net		7,151	(3,941)
Expected credit losses - net		355	(124)
Gain on fair valuation of investment properties		-	(2,929)
Gain on sale of an associate		(1,412)	-
Profit before tax from discontinued operations		(444)	-
		10,119	3,161
Operating profit before working capital changes			
Changes in operating assets and liabilities:			
Placements with banks with original maturities of more than ninety days		13,608	(22,224)
Investments carried at fair value through statement of income		7,917	5,469
Investments carried at fair value through other comprehensive income		(383)	25,591
Investments carried at amortised cost		280	211
Loans and receivables		302	775
Other assets		(892)	(2,308)
Due to banks and other financial institutions		(153,082)	37,002
Deposits from customers		54,527	19,819
Other liabilities		(4,745)	(10,077)
		(72,349)	57,419
Interest received		2,799	5,081
Interest paid		(11,124)	(5,073)
Directors' remuneration paid		(195)	(195)
Donations paid		(250)	(200)
		(81,119)	57,032
Net cash flows (used in) from operating activities			
INVESTING ACTIVITIES			
Acquisition of assets held for sale		(40,916)	-
Investments in associates - net		4,526	377
Property and equipment - net		653	(381)
		(35,737)	(4)
Net cash flows used in investing activities			
FINANCING ACTIVITIES			
Issue of share capital		-	15,000
Proceeds from new term loans		95,021	12,823
Repayments of term loans		-	(8,240)
Interest payment on Tier 1 capital		(1,761)	(1,752)
		93,260	17,831
Net cash flows from financing activities			
Foreign currency translation adjustments		(1,139)	(176)
Movement in non-controlling interests		(3,076)	1,994
		(27,811)	76,677
NET CHANGE IN CASH AND CASH EQUIVALENTS		267,314	237,428
Cash and cash equivalents at 1 January			
CASH AND CASH EQUIVALENTS AT 30 June	4	239,503	314,105

The attached notes 1 to 16 form part of these interim condensed consolidated financial statements.

United Gulf Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2020 (Reviewed)

	Attributable to shareholders of the parent								Perpetual Tier 1 capital US\$ 000	Non- controlling interests US\$ 000	Total equity US\$ 000
	Share capital US\$ 000	Share premium US\$ 000	Statutory reserve US\$ 000	General reserve US\$ 000	Fair value reserve US\$ 000	Foreign currency translation reserve US\$ 000	Retained earnings US\$ 000	non- controlling interests US\$ 000			
Balance at 1 January 2020	116,132	5,687	52,032	31,763	(6,009)	(4,569)	15,911	210,947	33,000	89,057	333,004
Loss for the period	-	-	-	-	-	-	(10,191)	(10,191)	-	(5,420)	(15,611)
Other comprehensive loss for the period	-	-	-	-	(4,752)	(1,028)	-	(5,780)	-	(5,201)	(10,981)
Total comprehensive loss for the period	-	-	-	-	(4,752)	(1,028)	(10,191)	(15,971)	-	(10,621)	(26,592)
Transfer upon disposal of equity investments carried at carried at fair value through other comprehensive income	-	-	-	-	1,789	-	(1,789)	-	-	-	-
Interest payment on Tier 1 capital	-	-	-	-	-	-	(1,761)	(1,761)	-	-	(1,761)
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	(3,076)	(3,076)
Balance at 30 June 2020	116,132	5,687	52,032	31,763	(8,972)	(5,597)	2,170	193,215	33,000	75,360	301,575
Balance at 1 January 2019	101,132	5,687	50,890	30,621	(10,121)	(4,534)	13,318	186,993	33,000	94,863	314,856
Profit for the period	-	-	-	-	-	-	4,257	4,257	-	3,109	7,366
Other comprehensive loss for the period	-	-	-	-	(5,980)	(280)	-	(6,260)	-	(1,171)	(7,431)
Total comprehensive (loss) income for the period	-	-	-	-	(5,980)	(280)	4,257	(2,003)	-	1,938	(65)
Issue of share capital	15,000	-	-	-	-	-	-	15,000	-	-	15,000
Transfer upon disposal of equity investments carried at carried at fair value through other comprehensive income	-	-	-	-	8,229	-	(8,229)	-	-	-	-
Interest payment on Tier 1 capital	-	-	-	-	-	-	(1,752)	(1,752)	-	-	(1,752)
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	3,167	3,167
Balance at 30 June 2019	116,132	5,687	50,890	30,621	(7,872)	(4,814)	7,594	198,238	33,000	99,968	331,206

The attached notes 1 to 16 form part of these interim condensed consolidated financial statements.

United Gulf Bank B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2020 (Reviewed)

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Incorporation

United Gulf Bank B.S.C. (c) ("UGB" or "the Bank") is a closed joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550. The address of the Bank's registered office is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

The Bank operates in the Kingdom of Bahrain under a Wholesale Banking License issued by the Central Bank of Bahrain ("the CBB").

Activities

The principal activities of the Bank 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 Bank's parent company is United Gulf Holding Company B.S.C. ("UGHC") which owns 100% shares of the Bank and the ultimate holding company is Kuwait Projects Company Holding K.S.C.P ("KIPCO"). UGHC is incorporated in the Kingdom of Bahrain as a joint stock company and is listed on the Bahrain Bourse. KIPCO is incorporated in the State of Kuwait and is listed on the Kuwait Stock Exchange (Boursa Kuwait).

Impact of COVID-19

During the period ended 30 June 2020, there was an outbreak of coronavirus (COVID-19). The existing and anticipated effects of the outbreak on the global economy is expected to continue to evolve. While these developments continue to impact the Group's operations, the scale and duration of further developments remain uncertain at this stage and could potentially further impact the Group's financial position, financial performance and cash flows in the future, the extent of which is presently undeterminable.

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 13 August 2020.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB") including the recently issued CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020, require the adoption of all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) (IFRS), except for:

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

United Gulf Bank B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2020 (Reviewed)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

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

The interim condensed consolidated financial statements of the Group have been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting', using the IFRS as modified by CBB framework. Hence, the framework used in the preparation of the interim condensed consolidated financial statements of the Group is hereinafter referred to as 'IAS 34 as modified by CBB'.

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2019 were in accordance with IFRS as issued by IASB. However, except for the above-mentioned modifications to accounting policies and the change in accounting policies as a result of adoption of new and amended accounting standards / interpretations (as disclosed below), that have been applied retrospectively, all other accounting policies remain the same and have been consistently applied in these interim condensed consolidated financial statements. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

These interim condensed consolidated financial statements do not contain all the information and disclosures required for the annual audited consolidated financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2019. In addition, results for the six-month period ended 30 June 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

Significant accounting policies

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2019, except for the modifications disclosed earlier and the new standards and interpretations effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

New standards, interpretations and amendments adopted by the Group

Amendments to IFRS 3: Definition of a Business

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

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the interim condensed consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2020 (Reviewed)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Group (continued)

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial statements of the Group.

Significant accounting judgements, estimates and assumptions

In preparing these interim condensed consolidated financial statements, significant judgements made by management in applying accounting policies and key sources of estimation were the same as those that were applied to the annual consolidated financial statements for the year ended 31 December 2019.

3 BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements include the interim condensed financial statements of the Bank and its subsidiaries as at 30 June 2020. The reporting dates of the subsidiaries and the Bank are identical and the subsidiaries' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances. Where the reporting dates of the subsidiaries and the Bank are not identical, the most recent financial statements of the subsidiary are used and adjusted for the effects of significant transactions or events between the reporting dates of the subsidiary and interim condensed consolidated financial statements. The basis of consolidation used in these interim condensed consolidated financial statements of the Group is consistent to the the basis of consolidation used and disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2019.

The principal subsidiaries of the Bank are as follows:

Name of the subsidiary	Country of incorporation	Legal ownership		Year of incorporation
		30 June 2020	31 December 2019	
Held directly				
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	60%	60%	1998
United Gulf Financial Services Company-North Africa	Tunisia	84%	84%	2008
United Gulf Asset Company S.P.C.	Bahrain	100%	100%	2017
United Gulf Realty International, Ltd [UGRIL]	British Virgin Islands	100%	100%	2012
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	96%	100%	2017
Al Zad Real Estate W.L.L.	Kuwait	100%	100%	2017
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
Centerstone Investor	Jersey	100%	-	2020
First Brokerage	Kuwait	93%	93%	1985
Flint Advisor Company LLC	Jersey	46%	46%	2017
Flint Manager Ltd	U.S.A.	100%	100%	2017

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2020 (Reviewed)

3 BASIS OF CONSOLIDATION (continued)

Name of the subsidiary	Country of incorporation	Legal ownership		Year of incorporation
		30 June 2020	31 December 2019	
Global DIFC	Kuwait	100%	100%	2013
Global Saudi	Saudi Arabia	100%	100%	2016
KAMCO Egypt Holding Ltd	U.A.E.	100%	100%	2018
Kamco GCC Opportunistic Fund	Kuwait	100%	100%	2013
KAMCO Investment Company (DIFC) Limited	U.A.E.	100%	100%	2016
KAMCO Mena Plus (DIFC)	U.A.E.	100%	100%	2019
Kubbar United Real Estate Company	Kuwait	100%	100%	2019
Kuwait Private Equity Opportunity Fund	Kuwait	73%	73%	2004
Lawson Lane Investor Inc.	U.S.A.	50%	50%	2019
Nawasi United Holding Co	Kuwait	96%	100%	2017
North Africa Real Estate Co.	Kuwait	100%	100%	2014
Plans United Real Estate Company	Kuwait	100%	100%	2019
Project Plaza Investor Inc	Jersey	100%	100%	2019
Shuroq Investment Services	Oman	77%	77%	1998

4 CASH AND CASH EQUIVALENTS

	Reviewed 30 June 2020 US\$ 000	Audited 31 December 2019 US\$ 000	Reviewed 30 June 2019 US\$ 000
Demand and call deposits with banks excluding mandatory reserves	161,773	71,051	106,974
Time deposits with original maturities of ninety days or less	77,730	196,263	207,131
Cash and cash equivalents gross of expected credit losses	239,503	267,314	314,105
Time deposits with original maturities of more than ninety days	26,408	40,015	37,750
Expected credit losses	(587)	(168)	(1,352)
Cash and cash equivalents net of expected credit losses	265,324	307,161	350,503

5 ANALYSIS OF MOVEMENT IN ECL ALLOWANCES

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

	Stage 1 US\$ 000	Stage 2 US\$ 000	Stage 3 US\$ 000	Total US\$ 000
As at 1 January 2020	14,130	503	8,903	23,536
Transfers from stage 1 and 2 to stage 3	(16)	(330)	346	-
(Reversed) provided during the period - net	(85)	419	21	355
Write back / written-off during the year - net	(809)	-	33	(776)
Other adjustments	8	(121)	(320)	(433)
As at 30 June 2020	13,228	471	8,983	22,682

United Gulf Bank B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2020 (Reviewed)

6 ASSETS OF DISPOSAL GROUP HELD FOR SALE

During the current period, the Group acquired interest in certain special purpose vehicles (the "Entities"), for a consideration of US\$ 101million (KWD 30.9 million) and the Entities obtained financing of US\$ 185 million (KWD 56.5million). Through these Entities, the Group acquired a property in the United States of America and classified it as "disposal group held for sale".

During the period, the Group disposed a majority interest in these Entities with the carrying value of US\$ 58.2 million (KWD 17.8 million) for a consideration of US\$ 58.6 million (KWD 18.1million). Accordingly, a net gain on disposal of these Entities amounting to US\$ 444 thousand is recognized in the interim condensed consolidated statement of income. The Group as at 30 June 2020 effectively owns 41.73% equity interest in these Entities and accordingly exercises significant influence over these entities. The Group has classified these entities as "Non-current asset held for sale" in accordance with IFRS 5 - Non-current Assets held for sale as the Group actively plans to dispose its stake in these entities.

The Group considered the above Entities meet the criteria to be classified as held for sale for the following reasons:

- 1) These Entities are available for immediate sale and can be disposed of in their current condition.
- 2) The actions to complete disposal are initiated and will be completed within one year from the date of acquisition.

Subsequent to the reporting date, the Group acquired interest in certain special purpose vehicles (the "Entities"), for a consideration of USD 83.915 million. Through these Entities, the Group acquired properties in the United Kingdom and classified it as "disposal group held for sale". Subsequently, Group has disposed majority interest in these entities.

7 LONG TERM BONDS

	Reviewed 30 June 2020 US\$ 000	Audited 31 December 2019 US\$ 000	Reviewed 30 June 2019 US\$ 000
Fixed interest of 6.00% per annum and maturing on 26 July 2023, (KD 14.9 million)	48,418	49,151	49,112
Floating interest of CBK* discount rate + 2.75% per annum (capped at 7% per annum) and maturing on 26 July 2023, (KD 25.1 million)	81,562	82,797	82,732
	129,980	131,948	131,844

* Central Bank of Kuwait

United Gulf Bank B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2020 (Reviewed)

8 SHARE CAPITAL

	<i>Reviewed</i> 30 June 2020 US\$ 000	<i>Audited</i> 31 December 2019 US\$ 000	<i>Reviewed</i> 30 June 2019 US\$ 000
<hr/>			
Authorised share capital			
Number of shares (in thousands)	500,000	500,000	500,000
Par value (US\$)	0.50	0.50	0.50
	250,000	250,000	250,000
<hr/>			
Issued and fully paid up share capital			
Number of shares (in thousands)	232,263	232,263	232,263
Par value (US\$)	0.50	0.50	0.50
	116,132	116,132	116,132
<hr/>			

9 GOVERNMENT GRANT

Government assistance amounting to US\$ 524 thousand is recorded in profit or loss during the current period as the Group had no modification losses to be recorded in equity (in line with note 2). The amount was recorded as a deduction from related expenses in the interim consolidated statement of profit or loss.

10 PERPETUAL TIER 1 CAPITAL

On 28 March 2016, the Bank issued Perpetual Additional Tier 1 Capital (the "AT1 Capital") amounting to US\$ 33,000 thousand.

The AT1 Capital constitutes subordinated obligations of the Bank 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 the Bank 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.

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

11 RELATED PARTY TRANSACTIONS

The Group enters into transactions with its parent, associated companies, directors, senior management and entities which are either controlled or significantly influenced by such parties.

The income and expenses in respect of related party transactions during the six-month period are included in the interim condensed consolidated financial statements and are as follows:

	Reviewed				Reviewed Six-month period ended 30 June 2019	
	Six-month period ended 30 June 2020					
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000		
Investment income	-	-	433	433	1,958	
Fees and commissions - net*	2,992	965	3,944	7,901	5,592	
Dividend income	-	-	8	8	566	
Rental income	-	-	668	668	1,153	
Interest income	-	-	356	356	1,057	
Interest expense	(408)	-	(2,291)	(2,699)	(3,510)	
General and administrative expenses	-	-	(1,115)	(1,115)	(123)	

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

*The Bank and its parent entered into arrangement for service sharing between the two group entities. In line with the arrangement, the Bank will provide certain services and incur certain expenses on behalf of its parent.

11 RELATED PARTY TRANSACTIONS (continued)

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

	Reviewed 30 June 2020				Audited 31 December 2019 US\$ 000	
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000		
Demand and call deposits with banks	-	-	4,233	4,233	1,689	
Placements with banks	-	-	18,328	18,328	25,270	
Investments carried at fair value through statement of income	-	-	2,143	2,143	3,084	
Investments carried at fair value through other comprehensive statement of income	-	-	98,342	98,342	91,280	
Loans and receivables	-	-	7,179	7,179	7,441	
Other assets	-	6,772	7,731	14,503	10,719	
Due to banks and other financial institutions	-	-	(96,145)	(96,145)	(214,811)	
Deposits from customers	(62,515)	(3)	(6,084)	(68,602)	(14,392)	
Other liabilities	(55)	-	(4,099)	(4,154)	(3,277)	
Perpetual Tier 1 Capital	-	-	(10,000)	(10,000)	(10,000)	
<i>Off statement of financial position items:</i>						
Letters of guarantee	-	-	150	150	150	
Investment related commitments	-	-	3,195	3,195	3,195	

All related party exposures are performing as of the reporting date.

The ultimate parent has committed to acquire specific FVOCI investment from the Group at its carrying value of US\$ 28 million.

As at 30 June 2020 (Reviewed)

12 COMMITMENTS, CONTINGENCIES AND OTHER OFF STATEMENT OF FINANCIAL POSITION ITEMS

Commitments

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

Letters of credit, letters of guarantee (including standby letters of credit) and acceptances commit 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:

	Reviewed 30 June 2020 US\$ 000	Audited 31 December 2019 US\$ 000	Reviewed 30 June 2019 US\$ 000
Credit-related commitments:			
Letters of guarantee	2,073	2,237	2,165
	2,073	2,237	2,165
Investments and loan related commitments	5,154	5,152	5,150
	7,227	7,389	7,315

13 DERIVATIVES

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

	<i>Notional amounts</i>		
	Reviewed 30 June 2020 US\$ 000	Audited 31 December 2019 US\$ 000	Reviewed 30 June 2019 US\$ 000
<i>Derivatives held for trading:</i>			
Forward foreign exchange contracts *	849,807	815,428	425,758
<i>Derivatives used as hedge of net investments in foreign operations</i>			
Forward foreign exchange contracts	269,293	114,776	121,169
<i>Derivatives used as cash flow hedges</i>			
Interest rate swap	-	75,000	75,000

* 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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2020 (Reviewed)

14 FINANCIAL INSTRUMENTS

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

	<i>Designated at FVTPL</i> US\$ 000	<i>FVOCI</i> US\$ 000	<i>Amortised cost</i> US\$ 000	<i>Total</i> US\$ 000
30 June 2020				
Demand and call deposits with banks	-	-	162,091	162,091
Placements with banks	-	-	103,551	103,551
Investments carried at fair value through statement of income	77,975	-	-	77,975
Investments carried at fair value through other comprehensive income	-	120,484	-	120,484
Investments at amortised cost	-	-	-	-
Loans and receivables	-	-	27,841	27,841
Other assets	-	-	61,007	61,007
Total financial assets	77,975	120,484	354,490	552,949
Due to banks and other financial institutions	-	-	154,702	154,702
Deposits from customers	-	-	77,174	77,174
Loans payable	-	-	131,896	131,896
Long term bonds	-	-	129,980	129,980
Other liabilities	785	-	82,985	83,770
Total financial liabilities	785	-	576,737	577,522
31 December 2019				
Demand and call deposits with banks	-	-	71,369	71,369
Placements with banks	-	-	236,110	236,110
Investments carried at fair value through statement of income	97,778	-	-	97,778
Investments carried at fair value through other comprehensive income	-	131,048	-	131,048
Investments at amortised cost	-	-	280	280
Loans and receivables	-	-	27,778	27,778
Other assets	-	148	62,174	62,322
Total financial assets	97,778	131,196	397,711	626,685
Due to banks and other financial institutions	-	-	307,784	307,784
Deposits from customers	-	-	22,647	22,647
Loans payable	-	-	36,875	36,875
Long-term bonds	-	-	131,948	131,948
Other liabilities	360	269	90,336	90,965
Total financial liabilities	360	269	589,590	590,219

The fair values of financial instruments carried at amortised cost are not significantly different from their carrying values included in the interim condensed consolidated financial statements.

As at 30 June 2020 (Reviewed)

15 FAIR VALUE MEASUREMENT

Fair value hierarchy

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.

Fair values of quoted securities are derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The fair values of the funds that are listed on active markets are determined by reference to their quoted bid prices. The fair values of unlisted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor or the market value of a comparable company.

The Group uses the following hierarchy for determining and disclosing the fair value of the Group's assets and liabilities by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of the Group's assets and liabilities recorded at fair value by level of the fair value hierarchy at 30 June 2020:

	Level 1 US\$ 000	Level 2 US\$ 000	Level 3 US\$ 000	Total US\$ 000
Assets measured at fair value				
Investments carried at fair value through statement of income				
Equities - quoted	4,162	-	-	4,162
Equities - unquoted	-		4,011	4,011
Debt securities - quoted	11,857	-	-	11,857
Debt securities - unquoted	-		812	812
Managed funds	3,579	42,836	10,718	57,133
Investments carried at fair value through other comprehensive income				
Equities - quoted	3,137	-	-	3,137
Equities - unquoted	-	-	117,315	117,315
Managed funds	-	-	32	32
Investment properties	-	-	101,884	101,884
	22,735	42,836	234,772	300,343
Liabilities measured at fair value				
Derivatives				
Forward foreign exchange contracts	-	(785)	-	(785)
	-	(785)	-	(785)

As at 30 June 2020 (Reviewed)

15 FAIR VALUE MEASUREMENT (continued)

The following table shows an analysis of the Group's assets and liabilities recorded at fair value by level of the fair value hierarchy at 31 December 2019:

	Level 1 US\$ 000	Level 2 US\$ 000	Level 3 US\$ 000	Total US\$ 000
Assets measured at fair value				
Investments carried at fair value through statement of income				
Equities - quoted	13,545	-	-	13,545
Debt securities - quoted	12,245	-	-	12,245
Unquoted equities	-	-	4,335	4,335
Unquoted debt securities	-	-	825	825
Managed funds	3,494	49,193	14,141	66,828
Investments carried at fair value through other comprehensive income				
Equities - quoted	2,284	-	-	2,284
Equities - unquoted	-	-	127,758	127,758
Managed funds	-	-	1,006	1,006
Derivatives				
Interest rate swap	-	148	-	148
Investment properties	-	-	102,713	102,713
	31,568	49,341	250,778	331,687
Liabilities measured at fair value				
Derivatives				
Forward foreign exchange contracts	-	(629)	-	(629)
	-	(629)	-	(629)

Transfers between Level 1, Level 2 and Level 3

During the three-month period ended 30 June 2020 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement (year ended 31 December 2019: same). The following table shows a reconciliation of the opening and closing amount of level 3 financial instruments which are recorded at fair value:

	As at 1 January 2020 US\$'000	Net purchases, sales, transfer and settlement US\$'000	Loss recorded in the statement of income US\$'000	Loss recognised in OCI US\$'000	As at 30 June 2020 US\$'000
<i>Investments carried at fair value through statement of income</i>					
Equities - unquoted					
Equities - unquoted	4,335	(278)	(46)	-	4,011
Debt securities - unquoted	825	(9)	(4)	-	812
Managed funds	14,141	190	(3,613)	-	10,718
	19,301	(97)	(3,663)	-	15,541
<i>Investments carried at fair value through other comprehensive income</i>					
Equities - unquoted	127,758	117	-	(10,560)	117,315
Managed funds	1,006	-	-	(974)	32
	128,764	117	-	(11,534)	117,347
Investment properties	102,713	-	(829)	-	101,884

As at 30 June 2020

16 NET STABLE FUNDING RATIO

The Net Stable Funding Ratio ("NSFR") is calculated in accordance with the Liquidity Risk Management Module guidelines, as issued by the CBB and is effective from 1 January 2019. As per the recent CBB circular OG/106/2020 dated 17 March 2020, the limit for NSFR has been reduced from 100% to 80% for a period of six months, to provide support against the impacts of COVID-19. The Group's consolidated NSFR as of 30 June 2020 is 100% (31 December 2019: 118%).

99% of the total available stable funding is made up of the Group's capital base with only 1% comprising of funding which is due to be repaid in 6 months or more.

The Group's Required Stable Funding ("RSF") comprises of 82% assets that have indefinite maturity, 13% that have contractual maturities of less than 6 months, and 5% non-HQLA (High Quality Liquid Assets) assets (after application of risk weights).

	<i>Unweighted values</i>				
	<i>No specified maturity</i>	<i>6 months and less than one year</i>			<i>Total weighted value</i>
		<i>Less than 6 months</i>	<i>US\$ 000</i>	<i>Over one year</i>	
Available Stable Funding					
Capital	252,069	-	-	230,384	482,453
Secured and unsecured funding	-	64,571	5,639	-	2,819
Total available stable funding	252,069	64,571	5,639	230,384	485,272
Required Stable Funding					
Unencumbered Non-HQLA securities that are not in default and exchange-traded equities in cases where the issuer is not in default	-	-	47,414	-	23,707
Loans	-	117,269	-	-	17,590
Deposits held at other financial institutions for operational purposes	-	94,042	-	-	47,021
All other assets including fixed assets, items deducted from regulatory capital, insurance assets and defaulted securities	396,115	-	-	-	396,115
<i>Off-Balance Sheet exposures</i>					
Trade finance-related obligations (including guarantees and letters of credit)	2,237	-	-	-	112
Total required stable funding	398,352	211,311	47,414	-	484,545
NET STABLE FUNDING RATIO					100.2%

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SUPPLEMENTARY FINANCIAL INFORMATION

As at 30 June 2020

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

As at 30 June 2020

COVID-19 IMPACT

During the period ended 30 June 2020, there was an outbreak of coronavirus (COVID-19). The existing and anticipated effects of the outbreak on the global economy is expected to continue to evolve. While these developments continue to impact the Bank's operations, the scale and duration of further developments remain uncertain at this stage and could potentially further impact the Bank's financial position, financial performance and cash flows in the future, the extent of which is presently undeterminable. The Group is monitoring the situation closely, and has undertaken various risk minimisation and management practices to limit and minimise the impact on the Group's operations, financial position and performance.

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

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

Since the Bank is does not provide any retail loans to customers within the Kingdom of Bahrain, the aforementioned measures did not impact the Bank's financial position or performance. Moreover, no day-1 modification losses or incremental ECL provisions were recorded or are being added back to the Bank's Tier 1 capital for the purpose of calculating capital adequacy ratios.

The Government of the Kingdom of Bahrain has announced various stimulus programmes to support businesses. The Group received financial assistance in the form of reimbursement of a portion of staff costs and waiver of utility charges during the six-month period to 30 June 2020 amounting to US\$ 524 thousand.

Impact on financial statements

The following table summarises the impact that COVID-19 has had on different classes of assets for the six-month period to 30 June 2020:

Impact on:	<i>Net impact on the Group's consolidated Statement of</i>		
	Statement of	Other	
	Income Statement	Financial Position	Comprehensive income
	US\$ 000	US\$ 000	US\$ 000
Real estate assets	(3,104)	(3,104)	-
Investments at fair value through profit or loss	(16,263)	(16,263)	-
Investments at fair value through other comprehensive income	-	(3,020)	(3,020)
Investments in associates	(9,680)	(9,680)	-
Loans, receivables and other assets	(480)	(480)	-
Other impacts	(5,412)	-	-

COVID-19 IMPACT

Going concern

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

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