

United Gulf Bank B.S.C. (c)
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

31 MARCH 2021 (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 31 March 2021, comprising the interim consolidated statement of financial position as at 31 March 2021 and the related interim consolidated statements of income and comprehensive income, cash flows and changes in equity for the three-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.

Other matter

Due to the outbreak of the novel coronavirus (COVID-19) in early 2020, the Central Bank of Bahrain vide its circular OG/124/2020 dated 30 March 2020 had exempted all public shareholding companies and locally incorporated banks from preparation and publication of interim condensed financial statements for the three-month period ended 31 March 2020. We have not reviewed the comparative information for the three-month period ended 31 March 2020 presented in these interim condensed consolidated financial statements which have been extracted from management accounts and, we do not express any review conclusion on them.



12 May 2021
Manama, Kingdom of Bahrain

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021 (Reviewed)

		Reviewed 31 March 2021 US\$ 000	Audited 31 December 2020 US\$ 000	Not Reviewed 31 March 2020 US\$ 000
	Notes			
ASSETS				
Demand and call deposits with banks		95,042	111,000	64,945
Placements with banks		101,511	72,486	154,861
Investments carried at fair value through statement of income		83,800	71,836	77,192
Investments carried at fair value through other comprehensive income		121,787	120,089	122,064
Loans and receivables		33,323	33,098	27,816
Other assets		57,579	62,729	66,490
Investments in associates		66,730	64,675	63,681
Investment properties	6	134,570	98,716	100,592
Property and equipment	6	15,101	47,666	49,863
Goodwill and other intangible assets		64,040	64,242	64,819
Assets of disposal group held for sale		-	-	42,944
TOTAL ASSETS		773,483	746,537	835,267
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		186,014	167,519	174,416
Deposits from customers		42,563	42,053	20,537
Loans payable		30,051	32,906	129,339
Long term bonds	7	132,371	131,497	127,028
Other liabilities		81,489	79,601	86,328
TOTAL LIABILITIES		472,488	453,576	537,648
EQUITY				
Share capital	8	116,132	116,132	116,132
Share premium		5,687	5,687	5,687
Statutory reserve		52,032	52,032	52,032
General reserve		31,763	31,763	31,763
Fair value reserve		(6,920)	(10,720)	(8,975)
Foreign currency translation reserve		(5,138)	(4,693)	(8,692)
(Accumulated deficit)/ Retained earnings		(7,824)	(8,959)	686
CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		185,732	181,242	188,633
Perpetual Tier 1 capital	9	33,000	33,000	33,000
Non-controlling interests		82,263	78,719	75,986
TOTAL EQUITY		300,995	292,961	297,619
TOTAL LIABILITIES AND EQUITY		773,483	746,537	835,267

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

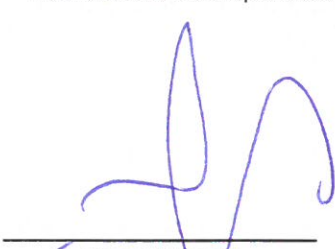

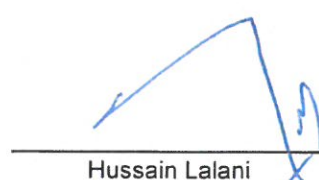
Hussain Lalani
Chief Executive Officer

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three-month period ended 31 March 2021 (Reviewed)

		<i>Three-month period ended 31 March</i>	
		2021	2020
		US\$ 000	US\$ 000
<i>Note</i>		<i>Reviewed</i>	<i>Not Reviewed</i>
Continuing operations			
	Investment income (loss) - net	4,872	(10,517)
	Interest income	1,683	1,714
		6,555	(8,803)
	Fees and commissions - net	11,733	20,172
	Foreign currency translation gains - net	(366)	(1,481)
	Share of results of associates - net	1,228	(7,255)
	Total income	19,150	2,633
	Interest expense	(3,447)	(4,620)
	Operating income (loss) before expenses and provisions	15,703	(1,987)
	Salaries and benefits	(8,388)	(10,742)
	General and administrative expenses	(3,910)	(6,577)
	Operating income (loss) before provisions and tax	3,405	(19,306)
5	Expected credit losses - net	(237)	(2,621)
	Profit (loss) before tax from continuing operations	3,168	(21,927)
	Taxation - net	(7)	(80)
	PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS	3,161	(22,007)
Discontinued operations			
	Net profit from discontinued operations	-	418
	PROFIT (LOSS) FOR THE PERIOD	3,161	(21,589)
Net profit (loss) for the period attributable to:			
Shareholders of the parent			
	- from continuing operations	1,135	(15,394)
	- from discontinued operation	-	251
		1,135	(15,143)
Non-controlling interests			
	- from continuing operations	2,026	(6,613)
	- from discontinued operation	-	167
		2,026	(6,446)
			
Masaud Hayat Chairman		Faisal Al Ayyar Vice Chairman	
			
		Hussain Lalani Chief Executive Officer	

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three-month period ended 31 March 2021 (Reviewed)

	<i>Three-month period ended 31 March</i>	
	2021	2020
	US\$ 000	US\$ 000
	<i>Reviewed</i>	<i>Not Reviewed</i>
NET PROFIT (LOSS) FOR THE PERIOD	3,161	(21,589)
Other comprehensive profit (loss)		
<i>Items that may be reclassified to profit or loss in subsequent periods</i>		
Foreign currency translation reserve	28	(7,443)
Fair value changes of investments carried at fair value through other comprehensive income	2,179	(1,413)
Cash flow hedges	-	(129)
	2,207	(8,985)
<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	1,835	(2,719)
Total other comprehensive profit (loss)	4,042	(11,704)
TOTAL COMPREHENSIVE PROFIT (LOSS) FOR THE PERIOD	7,203	(33,293)
Total comprehensive income (loss) attributable to:		
- shareholders of the parent	4,490	(22,314)
- non-controlling interests	2,713	(10,979)
	7,203	(33,293)

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three-month period ended 31 March 2021 (Reviewed)

		Three-month period ended 31 March	
		2021	2020
	Note	US\$ 000 Reviewed	US\$ 000 Not Reviewed
OPERATING ACTIVITIES			
Profit (loss) after tax		3,168	(21,927)
Net profit from discontinued operations		-	418
		3,168	(21,509)
Adjustments for non-cash items:			
Interest expense		3,447	4,620
Depreciation and amortisation		708	1,409
Interest income		(1,683)	(1,714)
(Gain) loss on investments carried at fair value through statement of income		(3,332)	13,534
Share of results of associates - net		(1,228)	7,255
Expected credit losses - net		237	2,621
Gain on sale of an associate		-	(1,380)
Gain from the sale of assets held for sale		-	(418)
		1,317	4,418
Operating profit before working capital changes			
Changes in operating assets and liabilities:			
Placements with banks with original maturities of more than ninety days		10,045	9,644
Investments carried at fair value through statement of income		(8,632)	7,053
Investments carried at fair value through other comprehensive income		(2,147)	(2,350)
#REF!		-	280
Loans and receivables		(46)	288
Other assets		4,498	(3,748)
Due to banks and other financial institutions		18,495	(133,368)
Deposits from customers		510	(2,110)
Other liabilities		1,827	(2,309)
		25,867	(122,202)
Interest received		1,918	1,824
Interest paid		(3,141)	(6,551)
Directors' remuneration paid		(195)	(195)
Donations paid		(50)	(200)
		24,399	(127,324)
Net cash flows from (used in) operating activities			
INVESTING ACTIVITIES			
Acquisition of assets held for sale		-	(42,527)
Investments in associates - net		96	6,218
Property and equipment - net		(82)	(33)
		14	(36,342)
Net cash flows from (used in) investing activities			
FINANCING ACTIVITIES			
Proceeds from new term loans		3,309	170,145
Repayments of term loans		(6,315)	(76,697)
		(3,006)	93,448
Net cash flows (used in) from financing activities			
Foreign currency translation adjustments - net		874	(2,799)
Movement in non-controlling interests		831	(2,093)
		23,112	(75,110)
NET CHANGE IN CASH AND CASH EQUIVALENTS		23,112	(75,110)
Cash and cash equivalents at 1 January		168,334	267,314
CASH AND CASH EQUIVALENTS AT 31 March	4	191,446	192,204

The attached notes 1 to 15 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 three-month period ended 31 March 2021 (Reviewed)

	<i>Attributable to shareholders of the parent</i>								<i>Perpetual Tier 1 capital US\$ 000</i>	<i>Non- controlling interests US\$ 000</i>	<i>Total equity US\$ 000</i>
	<i>Share capital US\$ 000</i>	<i>Share premium US\$ 000</i>	<i>Statutory reserve US\$ 000</i>	<i>General reserve US\$ 000</i>	<i>Fair value reserve US\$ 000</i>	<i>Foreign currency translation reserve US\$ 000</i>	<i>(Accumulated deficit) Retained earnings US\$ 000</i>	<i>Total before non- controlling interests US\$ 000</i>			
Reviewed											
Balance at 1 January 2021	116,132	5,687	52,032	31,763	(10,720)	(4,693)	(8,959)	181,242	33,000	78,719	292,961
Profit for the period	-	-	-	-	-	-	1,135	1,135	-	2,026	3,161
Other comprehensive income (loss) for the period	-	-	-	-	3,800	(445)	-	3,355	-	687	4,042
Total comprehensive income (loss) for the period	-	-	-	-	3,800	(445)	1,135	4,490	-	2,713	7,203
Other movements in non-controlling interests - net	-	-	-	-	-	-	-	-	-	831	831
Balance at 31 March 2021	116,132	5,687	52,032	31,763	(6,920)	(5,138)	(7,824)	185,732	33,000	82,263	300,995
Not Reviewed											
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	-	-	-	-	-	-	(15,143)	(15,143)	-	(6,446)	(21,589)
Other comprehensive loss for the period	-	-	-	-	(3,048)	(4,123)	-	(7,171)	-	(4,533)	(11,704)
Total comprehensive loss for the period	-	-	-	-	(3,048)	(4,123)	(15,143)	(22,314)	-	(10,979)	(33,293)
Transfer upon disposal of equity investments carried at fair value through other comprehensive income	-	-	-	-	82	-	(82)	-	-	-	-
Other movements in non-controlling interests - net	-	-	-	-	-	-	-	-	-	(2,092)	(2,092)
Balance at 31 March 2020 (Not Reviewed)	116,132	5,687	52,032	31,763	(8,975)	(8,692)	686	188,633	33,000	75,986	297,619

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (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).

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 12 May 2021.

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 CBB circulars issued 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.
- (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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (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'.

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 2020. In addition, results for the three-month period ended 31 March 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

These interim condensed consolidated financial statements are reviewed, not audited. Due to the outbreak of the novel coronavirus (COVID-19), the Central Bank of Bahrain had exempted all public shareholding companies and locally incorporated banks from preparation and publication of their interim condensed consolidated financial statements for the three-month period ended 31 March 2020. Accordingly, the comparatives for the interim consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2020 while the comparatives for the interim consolidated statements of income, comprehensive income, cash flows and changes in equity and related notes have been extracted from the management accounts for the three month period ended 31 March 2020. Further, the comparative information included in the statements of income, comprehensive income, cash flows and changes in owners' equity and related notes are not reviewed by external auditors.

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 2020, except for the modifications disclosed earlier and the adoption of new standards and interpretations effective as of 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

New and amended standards and interpretations adopted by the Group

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform phase 1)

On August 27, 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the amendments). The amendments introduce various practical expedients with respect to changes arising due to IBOR reform as explained below:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the IBOR reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the interim condensed consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (Reviewed)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**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 2020.

3 BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements include the interim condensed financial statements of the Bank and its subsidiaries as at 31 March 2021. 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 the date of these interim condensed consolidated financial statements. The basis of consolidation used in these interim condensed consolidated financial statements of the Group is consistent to the basis of consolidation used and disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2020.

The principal subsidiaries of the Bank are as follows:

Name of the subsidiary	Country of incorporation	Legal ownership		Year of incorporation
		31 March 2021	31 December 2020	
Held directly				
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	60%	60%	1998
United Gulf Financial Services Company - North Africa [UGFS-NA]	Tunisia	84%	84%	2008
United Gulf Asset Company W.L.L.	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%	96%	2017
Al Zad Real Estate W.L.L.	Kuwait	99%	99%	2007
Bukeye Power Project Advisory Co	U.S.A.	48%	48%	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%	100%	2020
First Brokerage	Kuwait	93%	93%	1985
Global Saudi	Saudi Arabia	100%	100%	2016
KAMCO Investment Company (DIFC) Limited	U.A.E.	100%	100%	2016
KAMCO Egypt Holding Ltd	U.A.E.	100%	100%	2018
Kamco GCC Opportunistic Fund	Kuwait	100%	100%	2013
KAMCO Mena Plus (DIFC)	U.A.E.	58%	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.	100%	100%	2019
Nawasi United Holding Co	Kuwait	96%	96%	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
Held through UGFS-NA				
United Gulf Financial Services UGAS	Tunisia	100%	100%	2010

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (Reviewed)

4 CASH AND CASH EQUIVALENTS

	<i>Reviewed</i> 31 March 2021 US\$ 000	<i>Audited</i> 31 December 2020 US\$ 000	<i>Reviewed</i> 31 March 2020 US\$ 000
Demand and call deposits with banks	95,042	111,000	64,945
Placements with banks	101,511	72,486	154,861
	196,553	183,486	219,806
Adjusted for:			
Mandatory reserves	318	318	318
Time deposits with original maturities of more than ninety days	4,789	14,834	30,371
Expected credit losses	-	-	(3,087)
Cash and cash equivalents	191,446	168,334	192,204

5 ANALYSIS OF MOVEMENT IN ECL ALLOWANCES

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

	<i>Stage 1</i> US\$ 000	<i>Stage 2</i> US\$ 000	<i>Stage 3</i> US\$ 000	<i>Total</i> US\$ 000
<i>Reviewed</i>				
As at 1 January 2021	14,277	928	8,506	23,711
Transfers to stage 3	-	(142)	142	-
Provided (reversed) during the period - net	416	-	(179)	237
Written-off during the period	(224)	-	-	(224)
Foreign exchange adjustments	72	1	50	123
As at 31 March 2021	14,541	787	8,519	23,847

An analysis of movement in ECL allowances during the three-month period ended 31 March 2020 is as follows:

	<i>Stage 1</i> US\$ 000	<i>Stage 2</i> US\$ 000	<i>Stage 3</i> US\$ 000	<i>Total</i> US\$ 000
<i>Not Reviewed</i>				
As at 1 January 2020	14,130	503	8,903	23,536
Transfers to stage 3	-	(322)	322	-
(Reversed) provided during the period - net	(352)	2,919	54	2,621
Written-off during the period	-	-	33	33
Foreign exchange adjustments	(260)	(13)	(320)	(593)
As at 31 March 2020	13,518	3,087	8,992	25,597

6 INVESTMENT PROPERTIES / PROPERTY AND EQUIPMENT

During the period, a property consisting of land and building was transferred from property and equipment to investment properties in accordance with IAS 40 - Investment Property, since the majority of the property is being leased out to third parties and no longer being occupied by the Group. At the date of reclassification, the fair value was determined by an independent valuer. At the date of the reclassification, the carrying value of the property was US\$ 32,383 thousand and its fair value was estimated to be US\$ 35,854 thousand. Accordingly, the increase of US\$ 3,471 thousand was recorded in the interim consolidated statement of comprehensive income. The valuation techniques and significant unobservable inputs used in measuring the fair value of the building at the date of transfer were the same as those applied to investment properties as at 31 December 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (Reviewed)

7 LONG TERM BONDS

	Reviewed 31 March 2021 US\$ 000	<i>Audited</i> <i>31 December</i> <i>2020</i> <i>US\$ 000</i>	<i>Not Reviewed</i> <i>31 March</i> <i>2020</i> <i>US\$ 000</i>
Fixed interest of 6.00% per annum and maturing on 26 July 2023, (KD 14.9 million)	49,308	48,983	47,318
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)	83,063	82,514	79,710
	132,371	131,497	127,028

* Central Bank of Kuwait

8 SHARE CAPITAL

	Reviewed 31 March 2021	<i>Audited</i> <i>31 December</i> <i>2020</i>	<i>Not Reviewed</i> <i>31 March</i> <i>2020</i>
Authorised share capital			
Number of shares (in thousands)	500,000	500,000	500,000
Par value (US\$)	0.50	0.50	0.50
Authorised share capital (US'000)	250,000	250,000	250,000
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
Issued and fully paid up share capital (US'000)	116,132	116,132	116,132

9 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (Reviewed)

10 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 three-month period are included in the interim condensed consolidated financial statements and are as follows:

	<i>Reviewed</i>			
	<i>Three-month period ended 31 March 2021</i>			
	<i>Major shareholder</i>	<i>Associates</i>	<i>Other related parties</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Fees and commissions - net*	538	559	3,480	4,577
Dividend income	-	-	119	119
Rental income	-	-	548	548
Interest income	-	-	901	901
Interest expense	(302)	-	(967)	(1,269)
General and administrative expenses	-	-	(360)	(360)
Others	-	-	32	32

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 charge for such services to the parent

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (Reviewed)

10 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related party transactions during the three-month period 31 March 2020 are as follow:

	<i>Not Reviewed</i>		
	<i>Three-month period ended 31 March 2020</i>		
	<i>Major shareholder</i>	<i>Associates</i>	<i>Other related parties</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
			<i>Total US\$ 000</i>
Gain on investments carried at fair value through statement of income - net	-	-	180
Fees and commissions - net*	1,539	511	-
Rental income	-	-	544
Interest income	-	-	151
Interest expense	(127)	-	(1,281)
General and administrative expenses	-	-	(270)

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 charge for such services to the parent

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (Reviewed)

10 RELATED PARTY TRANSACTIONS (continued)

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

	<i>Reviewed</i> <i>31 March 2021</i>			
	<i>Major shareholder</i>	<i>Associates</i>	<i>Other related parties</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Demand and call deposits with banks	-	-	3,232	3,232
Placements with banks	-	-	27,170	27,170
Investments carried at fair value through statement of income	-	-	2,762	2,762
Investments carried at fair value through other comprehensive income*	-	-	83,770	83,770
Loans and receivables	-	-	12,684	12,684
Other assets	-	6,930	6,091	13,021
Due to banks and other financial institutions	-	-	(104,042)	(104,042)
Deposits from customers	(30,132)	(1)	(4,086)	(34,219)
Other liabilities	(8)	-	(3,624)	(3,632)
Perpetual Tier 1 Capital	-	-	(10,000)	(10,000)
<i>Off statement of financial position items:</i>				
Letters of guarantee	-	-	150	150

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

For other transactions with related parties refer to note 11 to these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (Reviewed)

10 RELATED PARTY TRANSACTIONS (continued)

The 31 December year-end balances in respect of related parties included in the audited consolidated financial statements are as follows:

	<i>Audited</i> 31 December 2020		
	<i>Major shareholder</i> US\$ 000	<i>Associates</i> US\$ 000	<i>Other related parties</i> US\$ 000
			<i>Total</i> US\$ 000
Demand and call deposits with banks	-	-	3,903
Placements with banks	-	-	28,370
Investments carried at fair value through statement of income	-	-	2,052
Investments carried at fair value through other comprehensive income	-	-	83,428
Loans and receivables	-	-	7,534
Other assets	191	6,842	7,128
Due to banks and other financial institutions	-	-	(97,627)
Deposits from customers	(28,073)	(166)	(5,234)
Other liabilities	35	-	(3,813)
Perpetual Tier 1 Capital	-	-	(10,000)
<i>Off statement of financial position items:</i>			
Letters of guarantee	-	-	150

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

Compensation of key management personnel was as follows:

	<i>Reviewed</i> <i>31 March</i> <i>2021</i> <i>US\$ 000</i>	<i>Unreviewed</i> <i>31 March</i> <i>2020</i> <i>US\$ 000</i>
Employee benefits	871	929

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (Reviewed)

11 COMMITMENTS, CONTINGENCIES AND OTHER OFF BALANCE SHEET ITEMS**Commitments**

Credit-related commitments include commitments to extend 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 31 March 2021 US\$ 000	Audited 31 December 2020 US\$ 000	Not Reviewed 31 March 2020 US\$ 000
Credit-related commitments:			
Letters of guarantee	2,286	2,277	2,034
	2,286	2,277	2,034
Investments and loan related commitments	-	273	4,862
	2,286	2,550	6,896

Off-balance sheet items (Offsetting)

The Group has interest bearing receivables from and payables to related parties amounting to US\$ 325 million (2020: US\$ 325 million). These receivables and payables have been offset in these interim condensed consolidated financial statements as the criteria for offsetting financial instruments has been met. Interest income and interest expense on these related party balances amounting to US\$ 740 thousand and US\$ 382 thousand respectively for the three month period ended March 2021 (31 March 2020: US\$ 20 thousand and 16 thousand respectively) have been recorded in these interim condensed consolidated financial statements.

12 DERIVATIVES

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

	Positive fair value US\$ 000	Negative fair value US\$ 000	Notional amount Total US\$ 000
31 March 2021 (Reviewed)			
Derivatives held for trading			
Forward foreign exchange contracts *	4,032	(5,286)	867,319
Derivatives used as hedge of net investments in foreign operations			
Forward foreign exchange contracts	28	(9)	151,437

* 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 operation 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (Reviewed)

12 DERIVATIVES (continued)

	Positive fair value US\$ 000	Negative fair value US\$ 000	Notional amount Total US\$ 000
31 December 2020 (Audited)			
<i>Derivatives held for trading</i>			
Forward foreign exchange contracts*	3,000	(4,005)	960,903
<i>Derivatives used as hedge of net investments in foreign operations</i>			
Forward foreign exchange contracts	463		149,382
<i>Derivatives used as cash flow hedges</i>			

* 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 operation 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.

13 FINANCIAL INSTRUMENTS

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

	Designated at FVTPL US\$ 000	FVOCI US\$ 000	Amortised cost US\$ 000	Total US\$ 000
31 March 2021				
Demand and call deposits with banks	-	-	95,042	95,042
Placements with banks	-	-	101,511	101,511
Investments carried at fair value through statement of income	83,800	-	-	83,800
Investments carried at fair value through other comprehensive income	-	121,787	-	121,787
Loans and receivables	-	-	33,323	33,323
Other assets	-	19	55,511	55,530
Total financial assets	83,800	121,806	285,387	490,993
Due to banks and other financial institutions	-	-	186,014	186,014
Deposits from customers	-	-	42,563	42,563
Loans payable	-	-	30,051	30,051
Long term bonds	-	-	132,371	132,371
Other liabilities	1,254	-	80,235	81,489
Total financial liabilities	1,254	-	471,234	472,488

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (Reviewed)

13 FINANCIAL INSTRUMENTS (continued)

	<i>Designated at FVTPL</i>	<i>FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
<i>31 December 2020</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Demand and call deposits with banks	-	-	111,000	111,000
Placements with banks	-	-	72,486	72,486
Investments carried at fair value through statement of income	71,836	-	-	71,836
Investments carried at fair value through other comprehensive income	-	120,089	-	120,089
Loans and receivables	-	-	33,098	33,098
Other assets	-	463	60,993	61,456
Total financial assets	71,836	120,552	277,577	469,965
Due to banks and other financial institutions	-	-	167,519	167,519
Deposits from customers	-	-	42,053	42,053
Loans payable	-	-	32,906	32,906
Long-term bonds	-	-	131,497	131,497
Other liabilities	1,005	-	78,596	79,601
Total financial liabilities	1,005	-	452,571	453,576

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.

14 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (Reviewed)

14 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 March 2021:

	<i>Level 1</i> <i>US\$ 000</i>	<i>Level 2</i> <i>US\$ 000</i>	<i>Level 3</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
Assets measured at fair value				
Investments carried at fair value through statement of income				
Equities - quoted	16,355	-	-	16,355
Equities - unquoted	-	-	2,547	2,547
Debt securities - quoted	12,640	-	-	12,640
Managed funds	4,270	37,898	10,090	52,258
Investments carried at fair value through other comprehensive income				
Equities - quoted	2,567	-	-	2,567
Equities - unquoted	-	-	119,187	119,187
Managed funds	-	-	33	33
Investment properties	-	-	134,570	134,570
Derivatives				
Forward foreign exchange contracts	-	19	-	19
	<u>35,832</u>	<u>37,917</u>	<u>266,427</u>	<u>340,157</u>
Liabilities measured at fair value				
Derivatives				
Forward foreign exchange contracts	-	1,254	-	1,254
	<u>-</u>	<u>1,254</u>	<u>-</u>	<u>1,254</u>

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 2020:

	<i>Level 1</i> <i>US\$ 000</i>	<i>Level 2</i> <i>US\$ 000</i>	<i>Level 3</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
Assets measured at fair value				
Investments carried at fair value through statement of income				
Equities - quoted	7,916	-	-	7,916
Equities - unquoted	-	-	2,555	2,555
Debt securities - quoted	12,436	-	-	12,436
Managed funds	1,313	34,285	13,331	48,929
Investments carried at fair value through other comprehensive income				
Equities - quoted	2,506	-	-	2,506
Equities - unquoted	-	-	117,550	117,550
Managed funds	-	-	33	33
Derivatives				
Interest rate swap	-	463	-	463
Investment properties	-	-	98,716	98,716
	<u>24,171</u>	<u>34,748</u>	<u>232,185</u>	<u>291,104</u>
Liabilities measured at fair value				
Derivatives				
Forward foreign exchange contracts	-	1,005	-	1,005
	<u>-</u>	<u>1,005</u>	<u>-</u>	<u>1,005</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021 (Reviewed)

14 FAIR VALUE MEASUREMENT (continued)

Transfers between Level 1, Level 2 and Level 3

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

	As at 1 January 2020 US\$'000	Net purchases, sales, transfer and settlement US\$'000	Gain (loss) recorded in the statement of income US\$'000	Gain (loss) recognised in other comprehensive income US\$'000	As at 31 March 2021 US\$'000
<i>Investments carried at fair value through statement of income</i>					
Equities - unquoted	2,555	-	(8)	-	2,547
Managed funds	13,331	(3,481)	240	-	10,090
	15,886	(3,481)	232	-	12,637
<i>Investments carried at fair value through other comprehensive income</i>					
Equities - unquoted	117,550	1,010	-	627	119,187
Managed funds	33	-	-	-	33
	117,583	1,010	-	627	119,220
Investment properties (Note 6)	98,716	35,854	-	-	134,570

The following table shows a reconciliation of the opening and closing amount of level 3 financial instruments which are recorded at fair value for the year ended 31 December 2020:

	As at 1 January US\$'000	Net purchases, sales, transfer and settlement US\$'000	(Loss) gain recorded in the statement of income US\$'000	Loss recognised in OCI US\$'000	As at 31 December 2020 US\$'000
<i>Investments carried at fair value through profit or loss</i>					
Equities - unquoted	4,335	(1,018)	(762)	-	2,555
Debt securities - unquoted	825	(786)	(39)	-	-
Managed funds	14,141	4,476	(5,286)	-	13,331
	19,301	2,672	(6,087)	-	15,886
<i>Investments carried at fair value through other comprehensive income</i>					
Equities - unquoted	127,758	(3,037)	-	(7,171)	117,550
Managed funds	1,006	-	-	(973)	33
	128,764	(3,037)	-	(8,144)	117,583
Investment properties	102,713	-	(3,997)	-	98,716

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2021

15 REGULATORY RATIOS

Liquidity Coverage Ratio ("LCR")

	31 March 2021	31 December 2020
Solo	104%	86%
Consolidated	365%	386%

The Net Stable Funding Ratio ("NSFR")

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB. The minimum NSFR ratio limit as per CBB is 100%. However, as per CBB circulars OG/106/2020 dated 17 March 2020, OG/296/2020 dated 26 August 2020 and OG/431/2020 dated 29 December 2020, the limit was reduced to 80% until 31 December 2021, to contain the financial repercussions of COVID-19. The Group's consolidated NSFR as of 31 March 2021 is 113% (31 December 2020: 112%).

94% of the total available stable funding is made up of the Group's capital base and 11% of the required stable funding is due to be repaid in 6 months or more.

The Group's Required Stable Funding ("RSF") comprises of 85% assets that have indefinite maturity, 11% that have contractual maturities of less than 6 months, and 4% non-HQLA (High Quality Liquid Assets) assets (after application of risk weights).

	Unweighted values				Total weighted value US\$ 000
	No specified maturity US\$ 000	Less than 6 months US\$ 000	More than 6 months and less than one year US\$ 000	Over one year US\$ 000	
Available Stable Funding					
Capital	246,796	-	-	228,339	475,135
Secured and unsecured funding	-	42,014	64,000	-	32,000
Total available stable funding	246,796	42,014	64,000	228,339	507,135
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	-	-	33,323	-	16,662
Loans	-	95,042	-	-	14,256
Deposits held at other financial institutions for operational purposes	-	74,342	-	-	37,171
All other assets including fixed assets, items deducted from regulatory capital, insurance assets and defaulted securities	378,854	-	-	-	378,854
Off-Balance Sheet exposures					
Trade finance-related obligations (including guarantees and letters of credit)	2,074	-	-	-	104
Total required stable funding	380,928	169,384	33,323	-	447,047
NET STABLE FUNDING RATIO					113.4%

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

SUPPLEMENTARY FINANCIAL INFORMATION

As at 31 March 2021

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

**SUPPLEMENTARY DISCLOSURES TO THE INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 March 2021

COVID-19 IMPACT

During 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.

Impact on financial statements

The following table summarises the impact that COVID-19 has had on different classes of assets for the three-month period to 31 March 2021:

	<i>Net impact on the Group's consolidated</i>		
		<i>Statement of</i>	<i>Other</i>
	<i>Income</i>	<i>Financial</i>	<i>Comprehen-</i>
	<i>Statement</i>	<i>Position</i>	<i>sive income</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Impact on:			
Real estate assets	(2,929)	(2,929)	-
Investments at fair value through profit or loss	1,447	1,447	-
Investments at fair value through other comprehensive income	-	3	3
Investments in associates	(1,237)	(1,237)	-
Loans, receivables and other assets	398	398	-
Other impacts	(3,991)	-	-
Revenues	(6,281)	-	-
Expenses	10,979	-	-

Going concern

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

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