

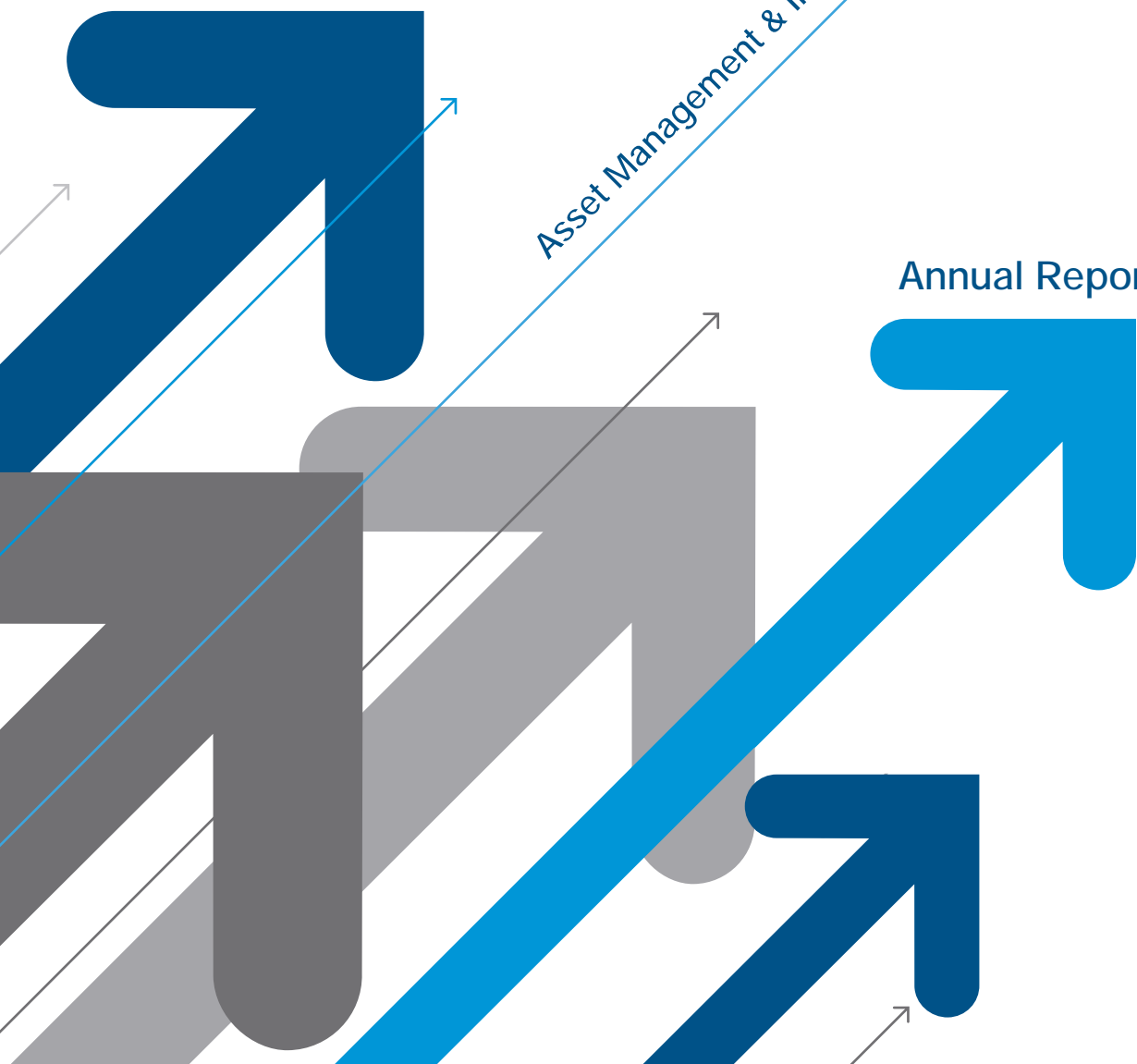


بنك الخليج المتحد  
ش.م.ب.  
United Gulf Bank B.S.C.

A member of the KIPCO Group

Asset Management & Investment Banking

Annual Report 2009





H. M. King Hamad Bin Isa Al Khalifa  
King of the Kingdom of Bahrain



H. H. Sheikh Sabah Al Ahmed Al Jaber Al-Sabah  
Amir of the State of Kuwait

Major Financial Subsidiaries and Affiliates



Bahrain | Kuwait | Libya | Syria | Tunisia | UAE

## A Member of the KIPCO Group

- **United Gulf Bank B.S.C. (UGB)** is part of the KIPCO Group - one of the biggest diversified holding companies in the Middle East and North Africa, with consolidated assets of US\$ 18.6 billion. The Group has substantial ownership interests in a portfolio of over 60 companies operating across 26 countries.

The company's main business sectors are financial services and media. Through the subsidiaries and affiliates of its core companies, KIPCO also has interests in the real estate, manufacturing, aviation, education and management advisory sectors.

## → Contents

1	Mission Statement
3	Company Profile
4	Financial Highlights
6	Chairman's Statement
9	Board of Directors
10	Executive Management
12	Business, Financial and Management Review
20	Financial Review
27	Risk Framework
35	Financial Statements



## Mission Statement

---

- To be a leading wholesale bank providing asset management and investment banking services, delivered through a network of local investment companies across the Middle East and North Africa region.



## Company Profile

### History

UGB, the investment banking arm of the KIPCO Group, is a wholesale bank incorporated under commercial registration number 10550 of the Commercial Companies Law No 21/2001, Kingdom of Bahrain (Bahrain). It was initially formed as a closed Bahraini shareholding company with an authorised capital of US\$ 150 million and paid up capital of US\$ 74.5 million. In October 1981, the authorised and paid up capital was increased to US\$ 250 million and US\$ 200 million respectively and its shares were publicly listed on the Bahrain Stock Exchange.

The Bank's parent company is Kuwait Projects Company (Holding) KSC (Closed) (KIPCO), a company registered in Kuwait and listed on the Kuwait Stock Exchange. KIPCO acquired 94% of the Bank's equity in 1988. In line with its new strategy, UGB converted its license from a commercial bank to that of an offshore investment bank during the same year. The Bank listed its shares on the Kuwait Stock Exchange in January 1998 through a secondary listing. In 2006, the licensing regime of banks in Bahrain was modified and divided into two main categories by the Central Bank of Bahrain (CBB), depending on the underlying nature of business. UGB was licensed afresh by the regulator as a conventional wholesale bank.

### Registered office

UGB's registered office is UGB Tower, Diplomatic Area, PO Box 5964, Manama, Kingdom of Bahrain. Its telephone number is +973 17 533 233. Further details on the profile of the Bank are available on its website [www.ugbbah.com](http://www.ugbbah.com).

### Employees

On a consolidated basis, UGB's group staff strength as at the year end 2009 was 318 (2008: 524). On a standalone basis, UGB had 64 employees at the year end (2008: 66) of which 75% were Bahrainis.

### Ratings

In September 2009, Moody's reaffirmed a Baa3/Prime-3 bank deposits ratings and a D+ financial strength rating for UGB, with all ratings carrying a 'negative' outlook. In July 2009, Capital Intelligence confirmed UGB's foreign currency long-term and short term rating of BBB+ and A2 respectively, with a financial strength rating of BBB+. All these ratings were assigned a 'stable' outlook.

### Ownership

UGB's parent company – KIPCO, is one of the biggest diversified holding companies in the Middle East and North Africa, with consolidated assets of US\$ 18.6 billion. The Group has substantial ownership interests in a portfolio of over 60 companies operating across 26 countries. The company's main business sectors are financial services and media. Through the subsidiaries and affiliates of its core companies, KIPCO also has interests in the real estate, manufacturing, aviation, education and management advisory sectors.

KIPCO's financial performance for the year ended 2009, represents its eighteenth consecutive year of profitability. It announced a net profit of KD 46.3 million (US\$ 161.4 million) for 2009, an increase of 92.1% on the KD 24.1 million (US\$ 87.3 million) profit reported in 2008. The earnings per share increased by 100% in 2009 to 43.65 Kuwaiti fils (US 15.2 cents) per share from 21.82 Kuwaiti fils (US 7.9 cents) per share in 2008. These results were achieved while applying conservative accounting practices across all of its Group companies. KIPCO's consolidated accounts include over KD 92 million (US\$ 320.8 million) in provisions taken against assets. The results are a testimony of the firm's strict financial discipline and its sound financial position in difficult market conditions.

As at year end 2009, KIPCO had liquid assets of over KD 314 million (US\$ 1.1 billion) and a low leverage at the parent level, consisting mainly of medium term debt. As of year end Standard & Poor's (S&P) assigned the company a long term and short term credit rating of BBB+ and A2 respectively. Moody's Investor Services (Moody's) awarded the firm, a Baa1 long-term credit rating and a Prime-2 short-term rating.

As of 31 December 2009, the Board of Directors of UGB owned 636,600 shares (636,600 shares in 2008). Executive/Senior Management owned 1,043,735 shares (2008: 1,906,597 shares) of UGB; the latter largely through the exercise of stock options. Executive/Senior Management and other staff were granted 36.5 million share options under the Bank's Employee Stock Option Plan as approved at the EGM held on 24 March 2004. These options vest at varying dates and are expensed over the vesting period of options.

During 2009, KIPCO increased its ownership in UGB to 95% (2008: 92%). The shareholding structure of the Bank as at 31 December 2009 was as follows:

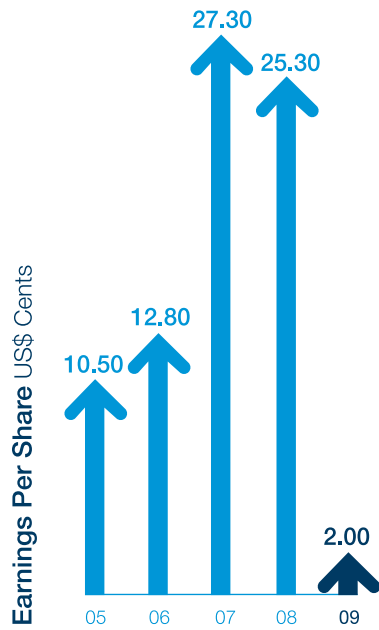
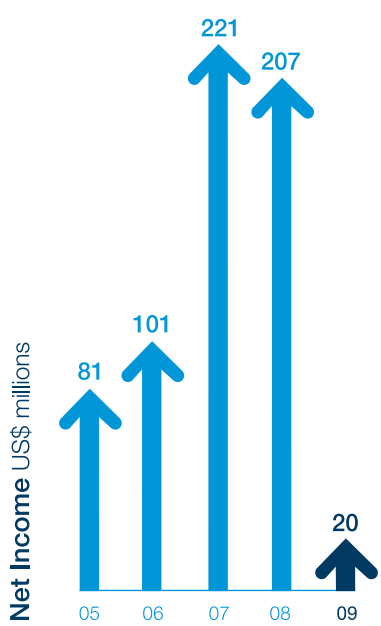
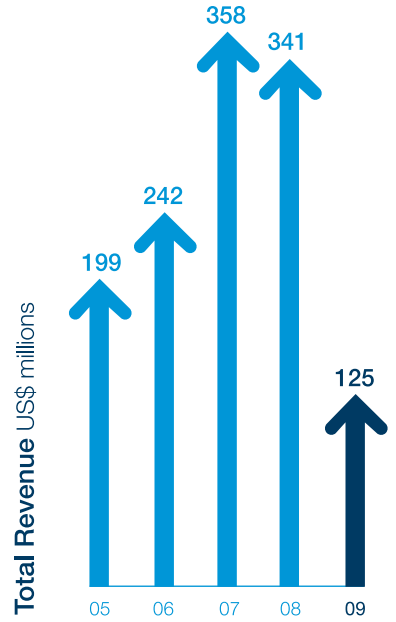
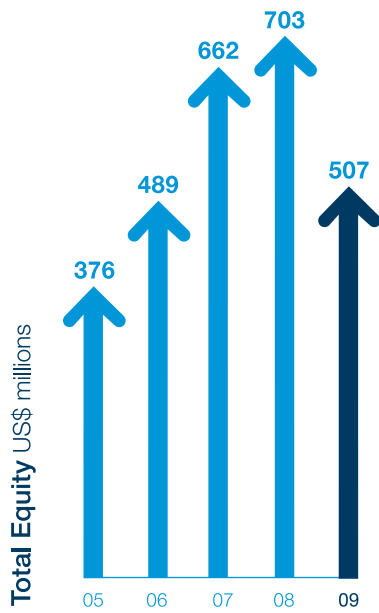
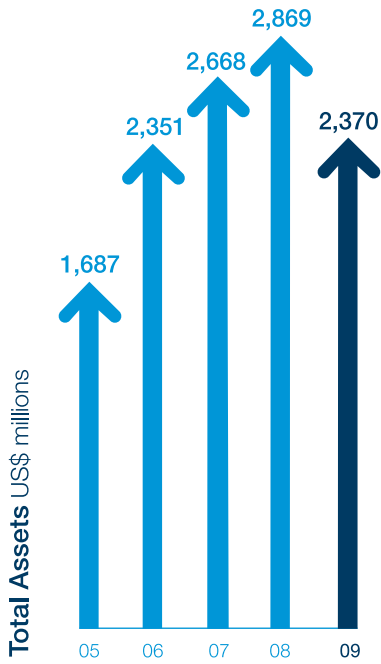
Holding	Number of Shareholders
0 to 1%	1,747
1% up to less than 5%	1
5% up to less than 10%	-
10% up to less than 20%	-
20% up to less than 50%	-
50% and above.	1
<b>Total</b>	<b>1,749</b>

The breakdown of nationality of UGB's shareholders as at 31 December 2009 was as follows:

Nationality	Number of Shareholders	%	Number of Shares	%
Bahrain	1,145	65.5	17,190,747	2.1
France	1	0.1	2,413	0.0
India	4	0.2	114,634	0.0
Jordan	1	0.0	62	0.0
Kuwait	573	32.8	812,447,373	97.8
Oman	2	0.1	3,638	0.0
Qatar	6	0.3	24,593	0.0
Saudi Arabia	14	0.8	977,647	0.1
United Arab Emirates	1	0.1	1,039	0.0
United States of America	1	0.0	764	0.0
United Kingdom	1	0.1	13,367	0.0
<b>Total</b>	<b>1,749</b>	<b>100.0</b>	<b>830,776,277</b>	<b>100.0</b>

*Note: This includes 11 million Treasury shares held by UGB.*

## Financial Highlights



**3.3%**

Return on  
Average Equity

**0.7%**

Return on  
Average Assets

**55.3%**

Operating Expense /  
Operating Income

# Financial Highlights

Continued

	2009	2008	2007 (restated)	2006	2005
<b>US\$ millions</b>					
Total Revenue	125	341	358	242	199
Investment Income	94	281	194	96	78
Operating Income	73	274	290	176	160
Shareholders' Equity	507	703	662	489	376
Total Assets	2,370	2,869	2,668	2,351	1,687
Net Income	20	207	221	101	81

<b>%</b>					
Return on Average Equity	3.3	30.4	38.4	23.5	24.7
Return on Average Assets	0.7	7.5	8.8	5.0	5.3
Operating Expense / Operating Income	55.3	20.6	21.2	30.4	27.0
Average Equity to Average Assets	23.1	24.6	22.9	21.4	21.3

<b>US\$</b>					
Book Value Per Share	0.619	0.864	0.813	0.611	0.489
Earnings Per Share	0.020	0.253	0.273	0.128	0.105
Dividend Per Share	0.125	0.185	0.165	0.087	0.069

## Comparative Average Balances (based on quarterly averages)

<b>US\$ millions</b>					
Assets	2,421.3	3,098.8	2,462.7	2,040.3	1,520.9
Liabilities	1,814.1	2,248.5	1,749.7	1,529.6	1,118.3
Minority Interest	92.9	139.5	125.8	97.9	76.8
Shareholders' Equity	514.4	710.8	587.2	412.8	325.8
Total Liabilities & Shareholders' Equity	2,421.3	3,098.8	2,462.7	2,040.3	1,520.9

Guarantees & Letters of Credit	45.5	210.4	122.5	143.0	142.7
Commitments	104.5	111.0	33.1	37.9	44.5
Assets Under Management (US\$ billions)	7.6	11.5	7.3	6.0	5.0



## Chairman's Statement



Dear Shareholder,

**ON MY AND YOUR BOARD OF DIRECTORS' BEHALF, I am pleased to present the Annual Report of United Gulf Bank B.S.C., for the financial year ended 31 December 2009.**

The financial and economic conditions characterized as the 'panic of 2008' have ushered in an era of uncertainty. There are doubts regarding the global economy's recovery from the financial crisis and recession. Equally, there are uncertainties about the speed of recovery in various countries, despite the support and commitment from their Central Banks. The increasing number of financial institutions seeking restructuring or extension of their liabilities is a stark reminder that the impact of past excesses is still working its way through the global financial system. Governments are no longer willing to extend guarantees to quasi-public entities, partly because the global crisis has moderated, and partly because governments are realizing the fiscal and social cost of repeated bailouts. It is evident that real growth will commence only when there is lower unemployment and tangible evidence of restored consumer spending, independent of fiscal stimulus.

The ongoing lack of confidence and liquidity concerns during 2009 resulted in regional stock markets ending the year on a mixed note with four out of seven GCC bourses posting a gain. Saudi Arabia's Tadawul Al Share Index recorded a year on year increase of 27.5%, while the Bahrain Stock Exchange was the worst performing regional market with a negative return of 19.2%. The Kuwait Stock Exchange also had a lackluster performance with a drop of 9.9% in its price index during the course of 2009. The combined market capitalizations of the seven GCC bourses fell by 2.03% to US\$ 682.6 billion.

From the beginning of 2009, our expectations were that the year would be a challenging one for investment banking. The continued erosion in asset values added further pressure to many sectors and to the overall economic situation. Commercial banking and investment banking sectors were the hardest hit by the financial turmoil as financial institutions grappled with the issues of poorly performing loans and investments. Under these difficult circumstances, I am pleased to report that your Bank posted its twenty sixth year of positive performance in its 30 year history, with a net income of US\$ 20.1 million for 2009. While this is significantly below last year's results of US\$ 207.2 million, we note that the 2008 results included the exceptional gains resulting from the sale of Jordan Kuwait Bank.

### UGB's performance in 2009

UGB's business model is based on the three pillars of asset management and investment banking, commercial banking, and financial brokerage, through its network of financial and non financial subsidiaries and associates in the MENA region. As part of our parent company's ongoing strategy to enhance shareholder value, UGB transferred its holdings in Gulf Bank Algeria and the Bank of Baghdad for US\$ 150 million in the first quarter of 2009. This resulted in UGB recording a gain of US\$ 26.2 million after expenses on this transaction.

Another significant divestment made by UGB during the year was the 17% consolidated stake in the Kuwait Clearing Company for US\$ 78.4 million, which resulted in a gain of US\$ 33.7 million after expenses.

Other contributors to revenues in 2009 came from investment related income, interest income and fees and commissions. Total revenue for 2009 was US\$ 124.5 million, down from US\$ 341.4 million in 2008.

The Bank's drive to reduce costs during the year resulted in a 28.3% fall in operating expenses to US\$ 40.5 million from US\$ 56.5 million in 2008. This reflects our commitment to observe the prudent financial discipline that is demanded by a difficult environment. It is also significant that the impairment loss on investments held in UGB's 'available for sale' book was significantly lower at US\$ 10.2 million compared to US\$ 56.6 million in 2008.

Other key performance indicators in 2009 include earnings per share of US 2.46 cents (2008: US 25.3 cents), a return on average equity of 3.4% (2008: 30.4%), and a return on average assets of 0.9% (2008: 7.5%). Assets under management at the end of 2009 were US\$ 7.2 billion (2008: US\$ 9 billion). As mandated by the Central Bank of Bahrain, the Bank became Basel II compliant on 1 January 2008. The capital adequacy ratio defined by these standards stood at 14.5% as at 31 December 2009 on a consolidated basis (2008: 17.2%).

### UGB's regional network

Business and asset diversification has been the cornerstone of UGB's strategy for many years. This strategy provides a balance to our income streams and allows UGB to manage a varied and promising investment portfolio. As a result, while our primary focus continues to be in financial services companies, UGB also holds investments in sectors such as real estate, manufacturing, hospitality, healthcare, communication and education. UGB's strategy of expanding its asset management and investment banking capabilities across the GCC and MENA region is based on our ability to leverage the experience and market knowledge we have gained, through launching green-field or developing commercial banking businesses in Algeria, Syria, Jordan and Iraq.

During 2009, UGB increased its stake in KIPCO Asset Management Company (KAMCO), our flagship Kuwaiti subsidiary, to 85.5%. KAMCO is Kuwait's leading asset manager with over US\$ 7.6 billion in assets under management. KAMCO posted almost a 422% increase in net income to US\$ 21.1 million during 2009, up from US\$ 4.2 million in 2008. The company achieved this increase through realizing gains on sales of investments 'available for sale' and its dividend income. KAMCO's three business divisions consist of asset management, financial services, and investment advisory and research.

The firm was appointed by KIPCO as the sole and exclusive acquisition advisor for KIPCO's KD 100 million Acquisition Program which is committed to supporting the national economy. This program is targeting Kuwaiti companies identified as having growth potential, through cash acquisitions, asset swaps, or subscription in capital increases. KAMCO's shortlisting in the 'Best Asset Management House' category at the *Banker Middle East Industry Awards 2009* by

**“UGB’s strategy of expanding its asset management and investment banking capabilities across the GCC and MENA region is based on our ability to leverage the experience and market knowledge we have gained.”**

a jury comprising industry experts, rating agencies and independent consultants, is a testimony to its in-depth equity research capabilities. It is also significant that KAMCO was the only company from Kuwait to be nominated in the ‘Best Asset Management House’ category in those awards.

During 2009, UGB acquired an additional 14% stake in the North Africa Holding Company (NAFH), a Kuwait-based company that is a private equity partner in startup ventures and former state-controlled companies in emerging North African countries. NAFH’s net income for 2009 was US\$ 9.5 million, compared to a loss of US\$ 34.4 million in 2008. Despite the challenging environment, NAFH realized solid earnings from the value of its trading securities and dividend income.

2009 was a year of expansion for UGB’s Syrian commercial banking operation, Syria Gulf Bank (SGB), which UGB co-founded in September 2006 with a 24% stake. Five new branches were opened during the year as SGB continued to build its brand recognition campaign. SGB’s progress was recognized when it won ‘The Best Bank in Syria 2009’ award from *The Banker* magazine. The award measures overall results, including qualitative achievements and strategic initiatives.

A leading factor in SGB’s performance during the year was its adoption of a new corporate philosophy where it combined excellence with market-leading products, and a strong visual identity to forge brand recognition and a closer relationship with consumers. It is remarkable that within three years, SGB has established such a strong image within the Syrian market. In January 2010, UGB acquired an additional 7% stake in the bank, signifying its belief in the future prospects of SGB.

UGB’s Tunisian subsidiary, Tunis International Bank (TIB), set a historical record in 2009 when it posted an income of US\$ 30.9 million – its highest ever consolidated operating total. This is an increase of 15.7% over the US\$ 26.7 million achieved in 2008. The strong revenues came from the sale of stakes in investments, net interest income, fees and commissions, dividend income and foreign exchange gains. Loan loss provisions of US\$ 10.8 million dampened an otherwise stellar performance and resulted in net income decreasing to US\$ 12.6 million for 2009, compared to US\$ 19.9 million in 2008.

Other important investments in UGB’s diversified non financial portfolio are United Real Estate Company (one of the largest real estate companies in Kuwait in the business of real estate investment and property development, as well as the management of commercial hospitality and entertainment properties in and outside Kuwait), United Networks Company (a communications company in Kuwait), Kuwait Education Fund (a fund investing in education related companies and projects), and the United Industries Company (a holding company holding various industrial and commercial interests).

Within the framework of the KIPCO Group’s restructuring plan, UGB was to use the proceeds of the US\$ 725 million gained from the sale of its regional banks to acquire a maximum 20% equity stake in Burgan Bank by subscribing to a special rights share issue. This deal was subject to procuring the necessary regulatory approvals including a Kuwaiti Amiri Decree. The Decree was not received within the Central Bank of Kuwait’s stipulated deadline of 31 December 2008, and consequently, this aspect of the transaction could not be completed. Burgan Bank is still moving forward with the regulatory process to increase its capital, and UGB stands by its intention to invest in the equity as it will provide opportunities for enhancing its asset management and investment banking business.

#### Credit ratings

UGB is rated by both Capital Intelligence Ltd and Moody’s Investor Services. In an economic climate where downgrades are increasingly common, it is a reflection of the soundness of UGB’s strategy and management that the Bank’s investment grade ratings remains unchanged.

In August 2009, Capital Intelligence reaffirmed its assignment of a BBB+ long term rating and A2 short term rating, with a ‘stable outlook.’ UGB’s financial strength was also affirmed at BBB+. In September 2009, Moody’s reaffirmed its Baa3/Prime-3 deposit rating and D+ bank financial strength rating. While the outlook remained negative, Moody’s stated that this was more of a systemic issue driven by the ‘increasingly challenging operating environment for investment banking and asset management.’

#### Liquidity

UGB’s liquidity position continues to be strong. In order to strengthen it further and also to demonstrate its support, in October 2009 our parent company, KIPCO, placed KD 40 million (US\$ 140 million) in a one year deposit with UGB at an arm’s length arrangement. Our liquidity continues to be monitored on a daily basis, in accordance with the Central Bank of Bahrain’s requirements.

#### Corporate governance

UGB’s corporate governance framework is centered on the fundamental premise that it is critical for creating long term value for our stakeholders. The Bank aspires to the highest standards of ethical conduct and best practices in reporting results with accuracy and transparency and maintaining full compliance with the laws, rules and regulations that govern its businesses in different jurisdictions. Our tradition of financial strength, good governance, conservative management and depth of expertise allow us to contribute towards creating a more stable financial sector within our region.

## Chairman's Statement

Continued

UGB is also committed to maintaining excellent external and internal professional relationships. We maintain proactive dialogue with the regulators, our shareholders, credit rating agencies and the business communities where we operate. The strong, integrated working relationship between the Bank's Board of Directors, its Senior Management team and our Board and Management committees help UGB's efficiency and performance.

After twelve successful years at the helm of UGB as the Managing Director, Mr Masaud Hayat stepped down from this position at the end of 2009 to accept the role of Managing Director at Burgan Bank, Kuwait. I thank Mr Hayat for guiding the Bank successfully through challenging times. His contribution to UGB's progress has been immense and we are grateful that he continues to remain on the Board of Directors to share his valuable expertise.

In March 2010 Mr Mohammad Haroon retired as Acting Chief Executive Officer after twenty nine years of service to UGB. I thank Mr Haroon for his loyalty and contribution towards the progress and success of the Bank, and am delighted that he has agreed to continue his association as Advisor and Secretary to the Board of Directors. His knowledge and business focus is invaluable to UGB. I also welcome Mr David Rhodes who was appointed as Chief Executive Officer to UGB in March 2010, having previously served as Group Head for KIPCO's financial services businesses. Given his experience and expertise, I am confident he will continue UGB's track record of creating shareholder value and profitability.

As of 31 December 2009, Directors own 636,600 shares (636,600 shares in 2008) and Executive/Senior Management own 1,043,735 shares (1,906,597 shares in 2008) of the Bank, through the exercise of stock options. The staff of UGB have been granted 36.5 million shares, under the Bank's employee stock option plan as approved at the EGM held on 24 March 2004.

### Thanks

On behalf of the Board, I extend our gratitude and best wishes to His Majesty, King Hamad Bin Isa Al Khalifa, His Royal Highness, Prince Khalifa bin Salman Al Khalifa, the Prime Minister of the Kingdom of Bahrain and His Royal Highness, Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander of the Kingdom of Bahrain. Our gratitude is also extended to the Central Bank of Bahrain and its Governor H E Mr Rasheed Mohammed Al Maraj, the Wholesale Banking Supervision Directorate, the Capital Markets Supervision Directorate, the Ministry of Industry and Commerce, the Bahrain Stock Exchange and the Kuwait Stock Exchange, whose support and guidance are sincerely appreciated.

I thank our shareholders and all stakeholders for their faith and continued support, and extend my appreciation to our management and staff who have maintained their commitment and loyalty in contributing to our achievements and success. Based on our combined effort, I have no doubt that we can meet the goals that we have set for ourselves.



Faisal Al Ayyar  
Chairman

## Board of Directors

### Faisal Hamad M Al Ayyar

Chairman

Member of the Executive Committee

Vice Chairman, Kuwait Projects Company (Holding), Kuwait

Vice Chairman, Gulf Insurance Company, Kuwait

Vice Chairman, Jordan Kuwait Bank, Jordan

Chairman, United Broadcasting Company (ShowTime)

Chairman, Panther Media Group Ltd (Orbit-Showtime), UAE

Chairman, International Trust Insurance Company, Beirut

Chairman, Saudi Pearl Insurance Company, Bahrain

Board Member of:

- United Gulf Investments Ltd, Grand Cayman
- Saudia Dairy & Foodstuff Company (SADAFCO), Kingdom of Saudi Arabia
- Gulf Egypt for Hotels & Tourism Company, Egypt
- Swiss Premium Food Company, Egypt

Trustee of American University of Kuwait

Member of the Kuwait Association for Learning Difficulties, Kuwait

Mr Al Ayyar is an Achievement Award winner at the Kuwait Financial Forum, 2009 and the Tunis Arab Economic Forum, 2007; Lifetime Achievement Award winner at the Beirut Arab Economic Forum, 2007; Winner of Arab Bankers Association of North America (ABANA) Achievement Award, 2005.

### Sheikh Hamad Sabah Al Ahmad Al Sabah

Deputy Chairman

Member of the Executive Committee

Member of the Board Audit Committee

Chairman, Kuwait Projects Company (Holding), Kuwait

Chairman, Masharie Al Khair Establishment, Kuwait

Chairman, Saudia Dairy & Foodstuff Company (SADAFCO), Kingdom of Saudi Arabia

Chairman, Gulf Egypt Hotels & Tourism Company, Egypt

Chairman, United Building Company, Egypt

Board Member of Burgan Bank, Kuwait

Sheikh Hamad Al Sabah received his education in Kuwait, Lebanon and the United States of America.

### Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah

Executive Director

Chairman of United Real Estate Company, Kuwait

Board Member of:

- Kuwait Projects Company (Holding), Kuwait
- United American Real Services Company, Kuwait

Sheikh Abdullah Al Sabah graduated from the Royal Military Academy, Sandhurst, United Kingdom in 1996. He also holds a BSc in Business Administration from the New York Institute of Technology, USA.

### Masaud M J Hayat

Executive Director

Member of the Executive Committee

Member of the Insider Trading Committee

Chairman, KIPCO Asset Management Company, Kuwait

Chairman, Syria Gulf Bank, Syria

Chairman, and Chairman of the Investment Committee of Tunis International Bank, Tunisia

Deputy Chairman, Gulf Bank Algeria, Algeria

Vice Chairman, Royal Capital Group, UAE

Vice Chairman, United Gulf Bank Securities Company, Bahrain

Chairman of the Executive Committee of North Africa Holding Company, Kuwait

Board Member and Managing Director of Burgan Bank, Kuwait

Board Member and Treasurer of Union of Investment Companies, Kuwait

Board Member of Jordan Kuwait Bank, Jordan

Mr Hayat has a BSc degree with a major in Economics from Kuwait University and a Diploma in Banking Studies from the Institute of Banking Studies in Kuwait.

### Samer Khanachet

Executive Director

Member of the Executive Committee

Member of the Board Audit Committee

Member of the Insider Trading Committee

Chief Operating Officer of Kuwait Projects Company (Holding), Kuwait  
Trustee of the American University of Kuwait and the Forsyth Institute, Kuwait

Member of the Corporation Development Committee and the Educational Council of MIT, USA

Member of the Advisory Board, Center for Middle Eastern Studies, Harvard Business School, USA

Past President of the Arab Bankers Association of North America

Mr Khanachet holds a BSc in Chemical Engineering and in Management Science from MIT, and an MBA from the Harvard Business School, USA.

### Mubarak Mohammed Al Maskati

Independent Non-Executive Director

Member of the Board Audit Committee

Chairman, Royal Aviation, Kuwait

Past Board Member of Kuwait Projects Company (Holding), Kuwait

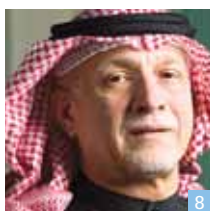
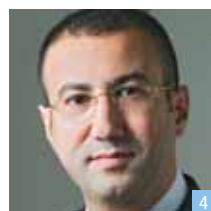
Past Board Member of Kuwait Aviation Services Company, Kuwait

First Secretary, Kuwait Embassy at London UK

Deputy General Manager, Kuwait Airways Corporation, Kuwait

Mr Al Maskati holds a BS in Political Studies and Economics from the Pennsylvania State University, USA.

## Executive Management



### 1 David J. Rhodes

Chief Executive Officer

Mr Rhodes took over as the Chief Executive Officer on 29 March 2010. He was formerly the Group Head of Financial Services at UGB's parent company, Kuwait Projects Company (Holding). Mr Rhodes has over 25 years of experience in the United States, Europe, MENA and Asia Pacific. Prior to joining KIPCO in 2009, he held senior operating positions with Fifth Third Bank, Security Pacific National Bank and Lehman Brothers. He holds a BA in Economics from the University of Rochester and an MBA from the Johnson Graduate School of Management, Cornell University.

### 2 Mohammad Haroon

Advisor and Secretary to the Board of Directors

Mr Haroon joined the Bank in November 1981. He has more than 43 years of experience in investment and commercial banking gained in Pakistan and Bahrain. He worked previously with National Bank of Pakistan (OBU), Bahrain as Head of Credit & Marketing, and in the same bank in Pakistan in senior management positions. Before that he worked with the Investment Corporation of Pakistan in management positions in Corporate Finance, Investment Advisory and Asset Management. He is a Director of KIPCO Asset Management Company (KAMCO), Kuwait, United Gulf Bank Securities Company, Bahrain and United Gulf Investments Ltd, Cayman Islands. Mr Haroon holds a BSc (Hons) from Peshawar University in Pakistan, and a Diploma in Banking.

Mr Haroon has relinquished his position as the Acting Chief Executive Officer effective end March 2010 and has assumed his new role as Advisor to the Board. He will continue to act as Secretary to the Board.

### 3 Rabih Soukarieh

Assistant General Manager, Head of Special Projects & Business Development

Mr Soukarieh rejoined United Gulf Bank in Bahrain in early 2009 having held the position of Head of Corporate Finance at UGB between 2003 and 2004 where he established the Investment Banking Division of the Bank, and after relocating from Qatar where he held the post of Chief Executive Officer at United Gulf Financial Services Company in 2008. Between 2005 and 2007 he was the Group Chief Financial Officer of Wataniya International and co-led

the expansion of the Wataniya Telecom Group into Tunisia, Iraq, Algeria, Saudi Arabia, Maldives, and Palestine. He also co-managed their activities in these countries. He is presently a Director as well as the Senior Executive Officer of Millennium Private Equity Ltd, a private equity management firm based in Dubai, a Director as well as the Chairman of the Board Audit Committee and a member of the Board Executive Committees of Wataniya Telecom Algérie (Nedjma), Algeria, a Director as well as a member of the Board Executive Committee of Tunis International Bank, Tunisia, a Director of Mobility Telecom International Holding Ltd (Friendi Group), a mobile virtual network operator active in the MENA region, and a Director of Gulf Bank Algeria, Algeria. Mr Soukarieh's career spans over 20 years. He has an MBA from Northeastern University, Boston, a BSc in Finance from Indiana University, Bloomington, and is a Chartered Financial Analyst (CFA).

### 4 Shawki Khodr

Assistant General Manager, Head of Investment Banking & Asset Management

Mr Khodr joined the Bank in December 2004. He has more than 16 years of investment banking and corporate banking experience, and has held a number of positions in financial institutions in the Middle East, including the National Bank of Kuwait as Senior Manager - Investment Banking. Mr Khodr is a Board member of United Gulf Bank Securities Company BSC (Closed), Bahrain; United Gulf Financial Services Company North Africa, Tunisia and Hannibal Lease SA, Tunisia. He holds the Chartered Financial Analyst (CFA) designation, and has a BSc in Business Administration with emphasis in "Banking and Finance" and an MBA from the Lebanese American University.

### 5 Younes Brouche

Assistant General Manager, Head of Core Investments

Dr Brouche joined the Bank in February 2006. He has more than 24 years of experience in banking and has held a number of key positions at major financial institutions in the Middle East and Europe including Head of International Department at CGB Citibank, France and Head of Main Branch at Samba, Saudi Arabia. Before joining UGB he was employed by CENEW (Investment Holding Company), France as a Managing Director in Financial Advisory and Project Management and Real Estate Investment and Management from 2003 to January 2006. Dr Brouche is the Vice Chairman and an Executive Committee

## Executive Management

Continued

member at Syria Gulf Bank, Syria and Vice Chairman and Executive Committee member at the Bank of Baghdad, Iraq. He has a PhD in Business Law from Paris X University and also a Banking Diploma from the French University, Beirut.

### 6 Hussain A. Lalani

Assistant General Manager, Chief Financial Officer

Mr Lalani joined the Bank in 2002. He has more than 12 years of experience in Public Accounting and Financial Control. He was previously employed by Ernst & Young, Bahrain and PriceWaterHouseCoopers, Pakistan. He is a Chartered Accountant (ACA), a Certified Information System Auditor (CISA) and holds a Bachelor of Commerce degree from the University of Karachi.

### 7 Amine P. Fehmi

Assistant General Manager, Head of Financial Institutions & Marketing

Mr Fehmi joined the Bank in September 2004. He has more than 24 years of experience in international capital markets, asset management as well as Islamic banking, and has held a number of positions at major financial institutions in the Middle East, Europe and the US, including Head of Marketing for Société Générale Asset Management, Bahrain; Regional Director for Société Générale, Dubai; Vice President - Head of the Islamic Banking Division for Gulf International Bank, Bahrain; Vice President - Head of Financial Institutions for Arab American Bank, New York; Banking Officer for Gulf International Bank, Bahrain; and Economic/Commercial Specialist for the US Embassy in the UAE. Mr Fehmi holds a BA degree (with distinction), from the American University of Beirut. He successfully completed post graduate programs at the Foreign Services Institute, US Department of State, US Department of Commerce and Citibank Institute of Banking.

### 8 Jawad Al Asfoor

Senior Vice President, Head of Treasury

Mr Al Asfoor joined the Bank in October 2006. He has more than 28 years of banking experience in Treasury and Islamic Banking. He was previously employed by Indosuez (Calyon) as Chief Dealer and BNP Paribas Islamic Banking, Liquidity Management Centre (LMC) as Head of Sales and Marketing. He holds a Diploma certificate in Accounting and Finance from the Association of Certified Chartered Accountants and a Diploma Certificate in Islamic Banking & Finance.

### 9 Ghulam Ahmed Mohatarem

Senior Vice President, Chief Operating Officer

Mr Mohatarem joined the Bank in October 2003. As UGB's Chief Operating Officer, he is responsible for the Operations, IT, HR and Administration departments. He previously worked with Citigroup for over 26 years, working at various Citibank branches and subsidiaries around the world. His last assignment with Citibank was as Deputy Head of Compliance for Citibank's Central and Eastern Europe/ Middle East & Africa Division in London. Prior to that, he was Head of Operations and Compliance for Samba Capital Management in London. Mr Mohatarem also worked with Citibank in Pakistan as Head of Operations and with Saudi American Bank, now renamed Samba Financial Group, in Jeddah as Regional Operations Head for Samba's Western Province. He holds a BSc and an MBA degree from University of Karachi.

### 10 Mohammed Alqumaish

Senior Vice President, Head of Internal Audit & Quality Assurance

Mr Alqumaish joined the Bank in September 2001. He has more than 13 years of experience in Internal Auditing, Risk Assessment, Compliance and Quality Assurance and was previously employed by Ahli United Bank and Shamil Bank of Bahrain. Mr Alqumaish is a Board member of Tunis International Bank, Tunisia and Bahrain Kuwait Insurance Company, Bahrain. He is a member of the Board Audit Committees of KIPCO Asset Management Company (KAMCO), Kuwait; Tunis International Bank, Tunisia; Gulf Bank Algeria, Algeria; and Syria Gulf Bank, Syria. He is a Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA) and holds an MBA from the University of Strathclyde Business School, UK.

### 11 Deepa Chandrasekhar

Senior Vice President, Chief Compliance Officer

Mrs Chandrasekhar joined the Bank in 2008. She has over 22 years of experience in the areas of Risk Management, Treasury, Operations, Internal Audit and Compliance. She started her career with Citibank as a foreign exchange dealer, and since then has worked extensively in the Middle East in Bahrain, Lebanon and the UAE. She was previously Head of Risk at RAKBANK in the UAE where she was actively involved in implementing Basel II with a special emphasis on Operational Risk. Mrs Chandrasekhar holds an MBA degree from the University of Alberta, Canada. She is also CAMS, MICA and CFE certified, and has been awarded the Islamic Finance Qualification by the Securities and Investment Institute of the UK. She is a frequent speaker at AML, Compliance and Risk Management forums and has published articles in each of these areas.

### 12 Syed Rehan Ashraf

Vice President, Head of Credit & Risk Management

Mr Ashraf joined the Bank in 2005. He has 13 years of experience in the areas of Credit, Risk Management, Compliance and Assurance services with Islamic and conventional banks and big four audit firms. He was previously employed by Shamil Bank of Bahrain, Deloitte & Touche, Bahrain, Faysal Bank, Pakistan and PriceWaterHouseCoopers, Pakistan. Mr Ashraf is also a member of the Board Audit Committees of KIPCO Asset Management Company (KAMCO), Kuwait; Tunis International Bank, Tunisia; Gulf Bank Algeria, Algeria; and Syria Gulf Bank, Syria. He is a Chartered Accountant (ACA) from the Institute of Chartered Accountants of Pakistan.

# Business, Financial and Management Review

## Business Overview and Strategy

The UGB Group provides asset management and investment banking, financial brokerage and other business activities, through its network of subsidiaries and associates in the areas of financial and non financial services. A further description of each of the services offered by the UGB Group is discussed below.

### Asset Management and Investment Banking (AMIB)

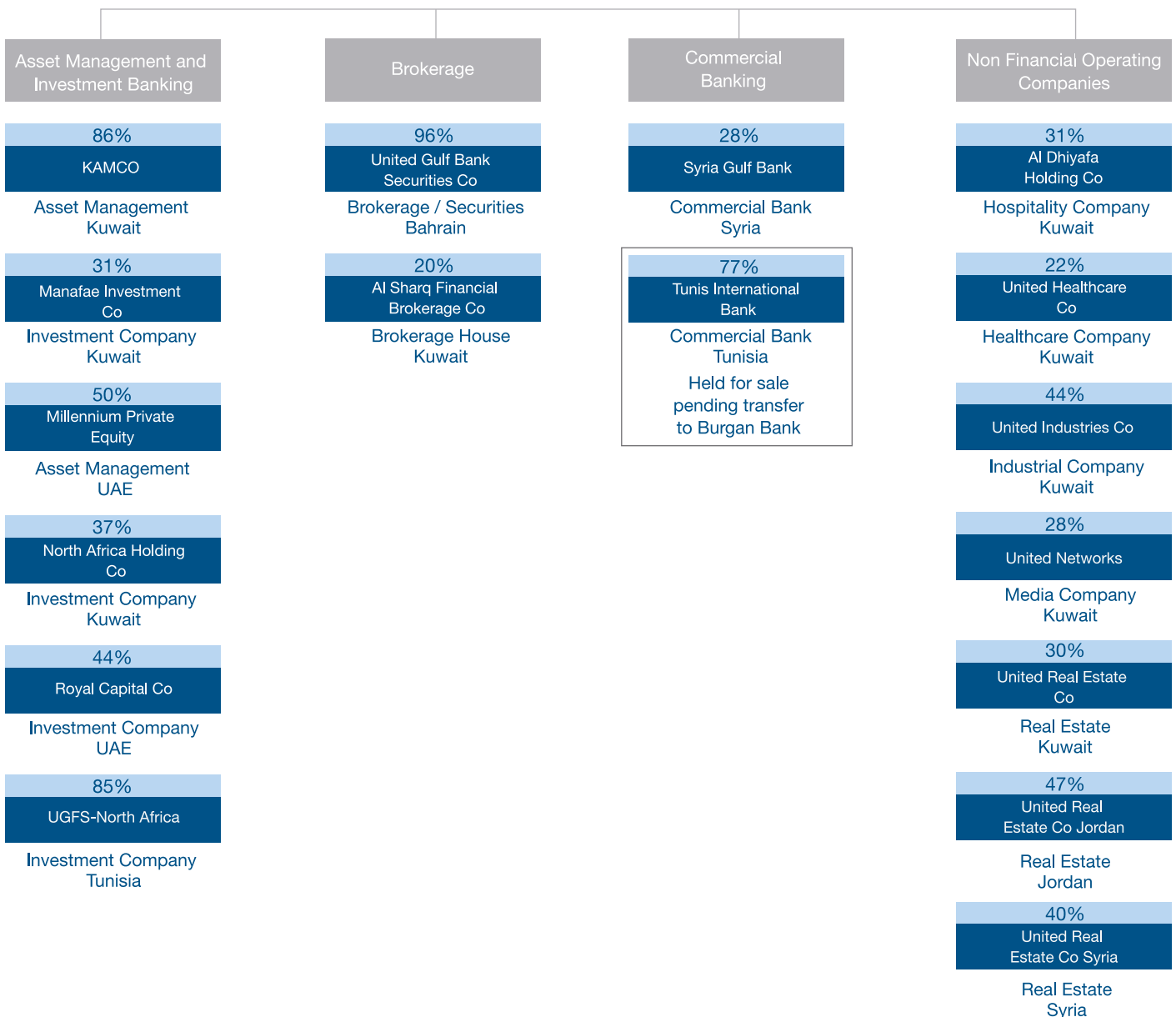
- Asset and fund management (including discretionary and non-discretionary portfolio management, securities trading, portfolio structuring and asset allocation advice, brokerage services, mutual funds investments and structuring, and alternative/structured investments) covering local, regional and international markets.

- Conventional and Islamic investment banking (including equity and debt underwriting, private placements, capital restructuring and merger & acquisitions).
- Private equity activity focusing on telecoms, media and technology and energy, primarily through Millennium Private Equity and North Africa Holding Company.

### Financial Brokerage

- Corporate finance (including IPO advisory and execution, private placement, business valuation, financial feasibility studies, project finance, due diligence and other corporate finance advisory services).

## UGB Network



# Business, Financial and Management Review

Continued

## Other Business Activities

- Commercial banking services through its subsidiary, Tunis International Bank and its associate Syria Gulf Bank, and limited commercial banking services by UGB. The Bank also provides management services to the Bank of Baghdad under a management contract. Tunis International Bank is however classified as 'Discontinued Operations' as it is the Bank's intention to transfer its stake to Burgan Bank, Kuwait. This is in line with KIPCO's strategy of consolidating all commercial banking operations under Burgan Bank, and all asset management and investment banking businesses under UGB. Syria Gulf Bank, in which UGB held a 27.5% stake as at 31 December 2009, is expected to be sold at a later date after regulatory requirements are met.
- Proprietary investments in private and quoted equities as well as private equity funds, structured products, managed funds and debt securities, managed through its own asset management department and through its associates, ranging across the sectors of finance, real estate development, hospitality, communications, healthcare and education.
- Treasury functions to manage UGB's liquidity, in particular funding and cash management.

## Non Financial Services

UGB and its associates also carry out real estate investments primarily through United Real Estate Company, Kuwait, United Real Estate Company Jordan, Areo Reit Limited (which manages two properties in the United States of America) and through Al Dhiyafa Holding Company's management of hospitality assets.

## Strategy

In 2007, KIPCO, UGB's parent company, decided to consolidate the commercial banking activities of the KIPCO Group under the umbrella of Burgan Bank SAK, Kuwait and to consolidate the asset management and investment banking business (AMIB) under UGB. As part of this business alignment, UGB transferred its directly held stakes in three of its commercial banks (Jordan Kuwait Bank, Gulf Bank Algeria and the Bank of Baghdad) to Burgan Bank. In October 2008, it also advanced a subordinated loan to Burgan Bank amounting to KD 96.25 million (US\$ 350 million as at the original date of the loan). The intention is for Burgan Bank to redeem this subordinated loan and simultaneously for UGB to invest an amount up to the amount of the subordinated loan in a rights issue by Burgan Bank. Burgan Bank has already initiated the process of launching a rights issue and is in the process of completing regulatory approvals in Kuwait. It is KIPCO's intention to assign its stake in the rights issue to UGB to enable the Bank to make an equity investment in Burgan Bank, after receiving the necessary regulatory approvals. The planned investment in the equity of Burgan Bank is expected to provide a stable and recurring revenue stream to UGB and opportunities for the expansion of the AMIB network.

UGB's strategy to expand its AMIB business and further develop its pan-regional capabilities is based on its ability to leverage its own experience and relationships developed in markets across the MENA region through its network of previous and current subsidiaries and associates in Kuwait, Jordan, Tunisia, Algeria, Iraq and Syria. The Bank's track record of launching and managing green-field businesses, has enabled it to develop a niche in identifying opportunities of growth. Through its management of these commercial banks in the past, UGB knows the markets, the players and their management. Based on these relationships, its experience and its current presence in Kuwait, Bahrain,

the UAE and Tunisia, UGB believes it has a niche and an advantage in positioning itself to further tap these markets. It aims to enhance AMIB services in these countries and grow its market share in this business going forward. In terms of geographic growth and reach, UGB plans to expand its AMIB operations beyond Kuwait and Bahrain, and expand its presence in the UAE, Tunisia and Algeria (through a joint venture within an existing Tunisian investment company). It is also in the process of evaluating further opportunities in the Kingdom of Saudi Arabia, Jordan and Iraq. This involves due diligence in terms of understanding the macro economic environment and industry, determining competitive advantages, reviewing key financial and operating fundamentals of the venture, and the expected return on investment.

The second line of UGB's strategy involves building on relationships of other entities consolidated within the KIPCO Group. The focus is to develop distribution channels for the placement of AMIB products and services, by targeting customers of the Group's commercial banking network. This will allow UGB and KIPCO to benefit from the synergies of offering traditional commercial banking services and customized asset management and investment banking products.

UGB and KAMCO's combined experience in the sector is expected to provide a true MENA-wide distribution platform for asset management, investment banking and financial services. UGB and KAMCO intend to adopt the same management philosophy that the Group has practiced in the past two decades, namely seeking representation at board level, appointing strong management teams and providing them with guidance and execution support as necessary to achieve targets and enhance performance.

Realizing the benefits of diversification, UGB has also made investments in the non financial sector that include hospitality, education, healthcare, real estate and communication. These are perceived as growth areas irrespective of the business cycle and are also expected to contribute to stable and recurring revenue streams.

The table below sets out UGB's consolidated effective interest in its main subsidiaries and associates in the financial sector, as at 31 December 2009. A further discussion on each entity is included in the next section.

Company	Jurisdiction of Incorporation	Status	Year of Initial Investment
United Gulf Bank Securities Company	Bahrain	Subsidiary	1998
KIPCO Asset Management Company	Kuwait	Subsidiary	1998
United Gulf Financial Services Company North Africa	Tunisia	Subsidiary	2008
Tunis International Bank	Tunisia	Subsidiary	1997
Millennium Private Equity Ltd	UAE	Associate	2009
Manafae Investment Company	Kuwait	Associate	2005
North Africa Holding Company	Kuwait	Associate	2006
Royal Capital PJSC	UAE	Associate	2007
Syria Gulf Bank	Syria	Associate	2006
Al Sharq Financial Brokerage Company	Kuwait	Associate	2008



# Business, Financial and Management Review

Continued

Company	Group's Consolidated Interest % <sup>1</sup>	Board Representation Seats / Total Seats
United Gulf Bank Securities Company	95.7	3/5
KIPCO Asset Management Company	85.5	2/5
United Gulf Financial Services Company North Africa	84.8	1/3
Tunis International Bank Millennium Private Equity Ltd	76.6	3/5
Manafae Investment Company	50.0	1/3*
North Africa Holding Company	31.0	4/7
Royal Capital PJSC	37.4	1/8
Syria Gulf Bank	44.0	3/7
Al Sharq Financial Brokerage Company	24.5	2/9
	19.6	1/5

<sup>1</sup> Percentage figures represent UGB's consolidated effective interest, including stakes held through its subsidiaries KAMCO and TIB.

\* 50% of voting rights.

## Asset Management and Investment Banking

### KIPCO Asset Management Company (KAMCO), Kuwait (Consolidated Subsidiary)

KAMCO was incorporated under the Commercial Companies Law of the State of Kuwait in September 1998. It is licensed as an investment company and regulated by the Central Bank of Kuwait. KAMCO's three principal business lines comprise asset management, financial services and investment advisory research services that are offered to a diverse local, regional and international client base. Asset management services include brokerage, portfolio management, forward trading, IPOs, local and international fund management. The financial services offered by the company comprise a range of corporate finance and advisory services, including mergers and acquisitions, underwriting, private placements, strategy development and strategic planning, project and investment evaluations/consultancy, and private equity. It also offers investment advisory and research services covering bonds and equities.

KAMCO is one of the leading asset management and financial institutions in Kuwait with assets under management of approximately US\$ 7.6 billion as of 31 December 2009 (2008: US\$ 9.4 billion). The company won recognition from the *Banker Middle East* magazine, which shortlisted and nominated KAMCO for the 'Best Asset Management House' category at the Middle East Industry Awards, 2009. The firm's competency in strategic investment advisory, investment research and risk mitigation has seen it emerging as a strong investment company, well positioned to meet the challenges of the market.

A summary of KAMCO's financial performance for the years 2009 and 2008 appear below:

US\$ millions	31 Dec 2009	31 Dec 2008
Total Revenues	61.1	82.4
Net Income	21.1	4.2
Total Assets	575.7	653.0
Total Equity	307.9	341.5
ROE (%)	6.9	1.2
ROA (%)	3.7	0.6

KAMCO's revenues were reduced by 26% to US\$ 61.1 million, compared to US\$ 82.4 million in 2008. The fall in revenue is attributed mainly to a 51% decline in management fees and commission income, which was US\$ 28 million in 2009 (2008: US\$ 57 million). This is reflective of the weak performance of regional stock markets. The main contributors to KAMCO's revenue of 2009 came from the gain of US\$ 25.4 million on the sale of Kuwait Clearing Company and US\$ 13 million from dividends received. KAMCO has also recorded its share of loss of US\$ 11.3 million (2008: US\$ 19.5 million) from its 44% stake in United Industries Company.

In 2008, the main contributors to the revenue of KAMCO were from the gain of US\$ 32.7 million on the sale of its 30.4% stake in United Medical Services Company, US\$ 12.9 million from dividends received and US\$ 12.7 million on the exit of non trading investments. As a prudent measure, KAMCO has recorded conservative impairment provisions against non trading investments of US\$ 5.6 million, compared to US\$ 28.7 million in 2008.

During 2009, UGB increased its stake in KAMCO by 10%. It owned a direct stake of 85.5% in the company as at year end 2009 (2008: 75.2%), with a carrying value of US\$ 316 million (2008: US\$ 300.3 million). KAMCO's shares are listed on the Kuwait Stock Exchange.

### United Gulf Financial Services Company North Africa (UGFS-NA), Tunisia (Consolidated Subsidiary)

UGFS-NA was established as a limited liability company under the Tunisian Law in November 2008. It is licensed as an asset management entity and regulated by the Conseil du Marché Financier (CMF). As per its license, UGFS-NA's activities encompass portfolio management, fund services and limited corporate finance services offered in connection with portfolio management services. The firm commenced operations officially in 2009 and so far has launched a Tunisian Equity Fund for an initial size of TND 8.0 million.

As at 31 December 2009, UGB held a consolidated interest of 85% in the equity capital of UGFS-NA (2008: 83%) with a carrying value of US\$ 455,000 (2008: US\$ 460,000). Other prominent shareholders include KAMCO, TIB and NorAH. The company's shares are unlisted.

### North Africa Holding Company (NorAH), Kuwait (Associate)

NorAH was incorporated under the Commercial Companies Law of the State of Kuwait in September 2006. It is licensed as a private investment company and regulated by the Ministry of Commerce & Industry, Kuwait. NorAH's strategy is based on acquiring significant stakes in companies in Morocco, Algeria, Tunisia, Libya and Egypt. These are countries which have registered impressive GDP growth rates in recent years and account for two thirds of the MENA population in aggregate. Investments are made in companies who have superior management teams, and have

# Business, Financial and Management Review

Continued

the potential to transform into premier regional and global players. The industries that NorAH targets are primarily in the healthcare, real estate and the service sector.

A summary of NorAH's recent financial performance appears below:

US\$ millions	31 Dec 2009	31 Dec 2008
Total Revenue	21.3	(15.6)
Net Income	9.5	(34.4)
Total Assets	226.0	175.5
Total Equity	177.6	156.6
ROE (%)	5.3	(22.0)
ROA (%)	4.2	(19.6)

The main contributor to the company's net income came from the gain in value of securities held in trading, investment income and 'other income' related to a real estate transaction in Morocco.

As at 31 December 2009, UGB held a consolidated interest of 37% (2008: 23%) in the equity capital of NorAH with a carrying value of US\$ 63 million (2008: US\$ 41.4 million). The Bank directly owns 27% (2008: 15%) and indirectly owns an additional 10.4% (2008: 8%) through its subsidiary – KAMCO. Other prominent shareholders include Jordan Kuwait Bank, Jordan, Al Zomorrodah Holding Company, Kuwait and the Royal Group, UAE. The company's shares are not listed.

## Manafae Investment Company (Manafae), Kuwait (Associate)

Manafae was incorporated under the Commercial Companies Law of the State of Kuwait in July 2005. It is licensed as an Islamic investment company and regulated by the Central Bank of Kuwait. The firm offers a wide range of investment products and services that are compliant with Islamic Sharia'a law. These include asset management, investment services, extension of financing and credit and advisory services.

UGB's consolidated investment in Manafae (through KAMCO) was to focus on the niche markets of private equity and Islamic business advisory. The firm was one of the first to launch an Islamic compliant mutual fund in June 2007. The objective of the Manafae First Fund is to achieve good returns for investors by investing its capital in listed and private companies incorporated primarily in Kuwait and the GCC. Adequate care is taken to ensure that all business carried out by the Fund conforms to the standards set by its Sharia'a supervisory board.

A summary of Manafae's recent financial performance appears below:

US\$ millions	31 Dec 2009	31 Dec 2008
Total Revenue	6.3	14.3
Net Income	0.3	6
Total Assets	115.4	118.8
Total Equity	93.9	96.9
ROE (%)	0.3	6.2
ROA (%)	0.3	5.1

The firm's net income was negatively impacted by the weak stock market and the ongoing economic recession. There was a drop in income on a year on year basis in fees, commissions, Murabaha fees, income from financing transactions, dividends and foreign exchange. On the positive side, there was a decrease in the levels of provisions. This fell to US\$ 0.6 million in 2009 compared to the impairment charges of approximately US\$ 3 million taken in 2008.

As at 31 December 2009, UGB held a consolidated interest of 31% (2008: 26%) in the equity capital of Manafae with a carrying value of US\$ 28.3 million (2008: US\$ 25.6 million). The Bank holds this stake through its subsidiaries – KAMCO and TIB. Other prominent shareholders include the Public Institution for Social Services, the Public Authority for Minors, the Securities House Company, and the Secretariat General for Awkaf and Bait Al Zakat. The company's shares were listed on the Kuwait Stock Exchange in March 2010.

## Millennium Private Equity (MPE), UAE (Joint Venture)

MPE was established in April 2006 as a subsidiary of Millennium Finance Corporation (MFC) in the Dubai International Financial Centre. It is licensed as a Sharia'a compliant investment company and is regulated by the Dubai Financial Services Authority, UAE. UGB's initial investment comprised a 32.5% stake in MFC in March 2008. The shareholders of MFC took a strategic decision in September 2009 to separate the advisory business from the private equity business. This resulted in all advisory services being conducted by MFC while the private equity and asset management business would be routed through MPE. As part of this agreement, MPE was reorganized as a joint venture in which UGB and Dubai Islamic Bank have equal stakes. The company is regulated by the Dubai Financial Services Authority (DFSA).

MPE is the manager of the Millennium Global Energy Fund and the Telecoms, Media & Technology Fund, two lead funds within MPE's family of funds that invest globally in private equity initiatives in each of their respective sectors that are compatible with Sharia'a principles. The Energy Fund made its first investment in Kuwait Energy Company KSCC – one of Kuwait's largest independent exploration and production companies. The TMT Fund made its initial investment in the Friendi Group, a Mobile Virtual Network Operator covering the MENA region.

As at 31 December 2009, UGB held a consolidated interest of 50% with a carrying value of US\$ 16.7 million in the equity capital of MPE. Dubai Islamic Bank owns the remaining 50% stake in this joint venture.

## Royal Capital PJSC (RCP), UAE (Associate)

RCP was established in October 2007 as a private joint stock company registered and incorporated in the Emirate of Abu Dhabi, United Arab Emirates. It is regulated by the Central Bank of the UAE. The entity offers investment banking and asset management investment solutions. The cornerstone of RCP's business philosophy is to provide unique investment opportunities and innovative financial solutions to its investors and clients. RCP's primary focus is centered on the MENA region, and its services are targeted at regional and international institutional and high net worth clients and investors.

RCP's asset management business aims at delivering superior risk-adjusted returns on active and passive portfolio management products spanning the equities and fixed income arena. RCP's investment banking business takes a client-centric approach and places emphasis on long term risk alignment and commitment to building relationships. Its services include M&A, corporate finance and restructuring services.

The advent of the financial crisis soon after incorporation resulted in RCP holding almost all of its assets in cash during 2008. In 2009, the company hired a high quality team who have been involved in establishing the infrastructure (system, processes and procedures) to enable it to launch its operations. It is RCP's intention to commence full fledged operations in the market by end 2010 with a special focus on launching asset management services.

# Business, Financial and Management Review

Continued

A summary of RCP's recent financial performance appears below:

US\$ millions	9 months ended	
	31 Dec 2009	31 Mar 2009
Total Revenue	2.5	3.6
Net Income	(1.6)	1.3
Total Assets	83.2	84.7
Total Equity	83.0	84.7
ROE (%)	(1.9)	1.6
ROA (%)	(1.9)	1.9

2009 represented the first full year of RCP's complete operations. The loss is attributed mainly to establishment and infrastructure related expenses that were incurred at inception.

As at 31 December 2009, UGB held a consolidated interest of 44% (2008: 44%) in the equity capital of RCP with a carrying value of US\$ 35.8 million (2008: US\$ 35.6 million); 18% is held directly, while the additional 26% is held through UGB's subsidiary – KAMCO and the Royal Group of the UAE. The company's shares are not listed.

## Brokerage

### United Gulf Bank Securities Company (UGBS), Bahrain (Consolidated Subsidiary)

UGBS was established in November 1998, with the objective of providing proprietary and brokerage services for clients wishing to transact in shares listed on the Bahrain Stock Exchange. It was licensed as a securities brokerage house and its activities are supervised by the Central Bank of Bahrain.

Following the change in the licensing regime, UGBS was asked by the Central Bank to move from its status as a brokerage firm to that of an investment firm. After various discussions with the regulatory authorities and assessing the cost impact internally, it was decided to close down the company and conduct the brokerage business for non resident clients through UGB itself. Accordingly, on 10 January 2010, UGBS' Board of Directors approved the winding-up of UGBS, subject to regulatory approvals.

UGBS has a limited impact on UGB's revenues and balance sheet; liquidation of this company will not have a material effect on UGB's operations.

A summary of UGBS' recent financial performance appears below:

US\$ millions	31 Dec 2009	31 Dec 2008
Total Revenue	0.07	(0.3)
Net Income	(0.2)	(0.4)
Total Assets	2.0	1.8
Total Equity	1.3	1.5
ROE (%)	(18.5)	(25.0)
ROA (%)	(12.0)	(21.0)

UGBS' gain on its proprietary book was overshadowed by lower revenues from customer related fees and income, due to the decreased trading volumes.

As at 31 December 2009, UGB held 70% of the equity capital of UGBS (2008: 70%) while the remaining 30% was held by KAMCO. The company's shares are not listed.

### Al Sharq Financial Brokerage Company (Al Sharq), Kuwait (Associate)

Al Sharq was established in March 1985 as a closed shareholding company and is incorporated in Kuwait. It is regulated by the Ministry of Commerce & Industry, Kuwait. The main objective of the company is to provide financial brokerage activities on the Kuwait Stock Exchange. It has been successful in doing so, and is one of the largest brokerage firms in Kuwait in terms of the number of transactions conducted.

A summary of Al Sharq's recent financial performance is presented below:

US\$ millions	31 Dec 2009	31 Dec 2008
Total Revenue	12.1	27.4
Net Income	4.9	14.9
Total Assets	27.6	37.6
Total Equity	24.7	34.2
ROE (%)	19.9	43.6
ROA (%)	17.8	39.2

The Kuwait Stock Exchange witnessed a drop of 9.9% in its price index and 5.5% in its weighted index during 2009. The negative market sentiment resulted in a 'flight to quality' as investors preferred cash and deposits over equity investments. Lower trading volumes resulted in a decline in net income from fees and brokerage commission earned; this is the main reason for the lower financial results of the company.

As at 31 December 2009, UGB held a consolidated stake of 20% (2008: 20%) with a carrying value of US\$ 19.6 million (2008: US\$ 21.3 million) in the equity capital of Al Sharq Financial Brokerage Company. The Bank directly owns 15% (2008: 15%) of the associate and indirectly owns an additional 5% (2008: 5%) through its subsidiary – KAMCO. The company's shares are not listed.

## Commercial Banking

### Tunis International Bank (TIB), Tunisia (Discontinued Operations)

TIB was established in June 1982. In line with the Bank's strategy of investing in financial companies in the MENA region, UGB's investment was made in 1997. TIB is registered as an offshore bank and is regulated by the Central Bank of Tunisia. TIB provides a comprehensive range of international financial services for corporations, financial institutions, governments and individuals, both in Tunisia and abroad, that encompasses exchange and money market operations in all convertible currencies, international trade financing, private banking facilities, loan syndications and forfaiting, commercial banking, investments, and credit cards.

A summary of TIB's recent financial performance appears below:

US\$ millions	31 Dec 2009	31 Dec 2008
Total Revenue	34.6	37.2
Net Income	12.6	19.9
Total Assets	496.9	499.0
Total Equity	87.9	81.9
ROE (%)	14.3	24.3
ROA (%)	2.5	4.0

TIB generated total revenues of US\$ 34.6 million, which represents a decrease of 7% on a year on year basis. It is now more than ten years in a row that TIB's net operating earnings have been setting a

# Business, Financial and Management Review

Continued

new record on an annual basis. While interest income decreased by 54.5%, interest expenses dropped by 64.8%, reflecting the success of the bank in accessing low cost funding sources. The strong growth in non-interest income also contributed to the bottom line.

The stellar performance of TIB was marred by a specific impairment allowance of US\$ 10.8 million on account of its exposure to two Bahrain based financial institutions that were impacted by the economic down turn. This resulted in TIB's consolidated net income for the year decreasing by US\$ 7.3 million to US\$ 12.6 million. All exposures pertaining to non performing loans that are over 90 days past due, or in a non accrual status have been fully provided for.

As at 31 December 2009, UGB's carrying value of its interest in TIB is US\$ 67.3 million (2008: US\$ 62.7 million) with a consolidated interest of 76.7% (2008: 76.7%) in the equity capital. Other shareholders comprise private entities and shareholders from the MENA region. TIB's shares are not listed. UGB's stake in TIB is expected to be transferred to Burgan Bank in 2010.

## Syria Gulf Bank (SGB), Syria (Associate)

SGB was licensed as a new commercial bank in Syria in April 2006 as the country opened up its financial sector for foreign investment after years of relative isolation. It is regulated by the Central Bank of Syria. The bank offers a variety of retail and commercial banking services through its network of eight branches across the country. SGB adopted a new corporate philosophy in 2009 in which it combined excellence with market-leading products, and a strong visual identity that focused on brand recognition and high standards of service quality for its customers. The progress of SGB was recognized by *The Banker* magazine, when it awarded the title of 'Best Bank in Syria, 2009'. The award measures the overall performance of the Bank during 2009, and incorporates performance, qualitative achievements and strategic initiatives.

As at 31 December 2009, UGB held a direct interest of 27.5% in the equity capital of SGB (2008: 27.5%) with a carrying value of US\$ 15.8 million (2008: US\$ 15.8 million). In January 2010, it increased its stake by 7% to 34.5% after procuring the necessary regulatory approvals. Other shareholders of SGB include prominent GCC and Syrian investors. SGB's shares are not listed.

## Non Financial Associates

This section discusses some of the significant, non financial associated companies that comprise UGB's core investment portfolio.

### Al Dhiyafa Holding Company (Al Dhiyafa), Kuwait (Associate)

Al Dhiyafa was established in Kuwait in November 2005 as a closed shareholding company. It is regulated by the Ministry of Commerce & Industry, Kuwait. It is a hospitality company that has investments in real estate and operates hotels. Al Dhiyafa's investments comprise an ownership of 85.5% in Gulf Egypt for Hotels & Tourism Company (GEHT). GEHT owns and operates the Sheraton Heliopolis Hotel in Oruba Street in Cairo, near the Cairo International Airport, and owns a commercial plot adjacent to the hotel in Sharm El Sheikh. Other investments include 55% of United Lebanese Real Estate Company - the owner of a five star luxury hotel and commercial mall in Beirut, and 100% of United Bhamdoun Real Estate Company - also incorporated in Lebanon. Al Dhiyafa also operates the luxury boutique five star Marina Hotel in Kuwait.

A summary of Al Dhiyafa's recent financial performance appears below:

US\$ millions	31 Dec 2009	31 Dec 2008
Total Revenue	15.6	43.0
Net Income	(6.9)	(4.4)
Total Assets	1,136.0	362.8
Total Equity	550.0	223.2
ROE (%)	2.0	(1.9)
ROA (%)	1.2	(1.2)

As at 31 December 2009, UGB owned a consolidated stake of 31% (2008 : 27%) in Al Dhiyafa, with a carrying value of US\$ 54 million (2008: US\$ 49 million); 21% is held directly through the Bank, while the additional 10% (2008: 10%) is held through its subsidiaries KAMCO and TIB. The other major shareholder of Al Dhiyafa is the United Real Estate Company, Kuwait. The company's shares are unlisted.

### United Industries Company (UIC), Kuwait (Associate)

UIC was established in 1979 as a closed shareholding company, registered and incorporated in Kuwait. It is regulated by the Ministry of Commerce & Industry, Kuwait. The main activities of the company encompass establishing and developing industrial projects and providing technical and economical consultancy services relating to industrial investments. UIC is also involved in the incorporation, marketing and management of investment funds specialized in the industrial and service sector, in the State of Kuwait and abroad. Some of its prominent investments include United Cement Company, United Industrial Gas Company, Badael Energy Company, Amaken United Real Estate Company and United Gulf Industries Company.

A summary of UIC's recent financial performance appears below:

US\$ millions	31 Dec 2009	31 Dec 2008
Total Revenue	(4.9)	(14.7)
Net Income	(25.7)	(40.7)
Total Assets	452.2	717.9
Total Equity	246.0	290.8
ROE (%)	(10.4)	(14.0)
ROA (%)	(5.7)	(5.7)

The loss posted in UIC during 2009 is mainly attributed to the sale of the company's equity interests in Danish Paints Middle East Holdings (BSC) (DPME), Hempel Paints LLC and Hempel Paints WLL, for a total consideration of KD 10.5 million (US\$ 36.5 million). As a result of this transaction, UIC incurred a loss of KD 3.3 million (US\$ 11.4 million).

UGB owns 44% of this company through its subsidiary - KAMCO (2008: 45%). The carrying value of this investment at the end of year 2009 stood at US\$ 100.7 million (2008: US\$ 114.2 million). UIC's shares are listed on the Kuwait Stock Exchange.

## Business, Financial and Management Review

Continued

### United Real Estate Company (URC), Kuwait (Associate)

URC was incorporated in 1973 and is listed on the Kuwait Stock Exchange. It is regulated by the Ministry of Commerce & Industry, Kuwait. URC is involved in real estate activities that include purchase, sale, leasing and renting of land and buildings. The company handles the construction of private and public buildings and projects and manages the third party properties in Kuwait, Egypt, Lebanon and Jordan. URC is the developer of the extensive waterfront Marina Mall project in Kuwait with a prestigious shopping mall, which is considered a landmark in Kuwait. It has also developed a seafront leisure and retail area in the Marina Mall project with a hotel, fine dining restaurants, and retail and entertainment centers. The company is progressing on its projects in Lebanon in a joint venture with the Hariri Group to develop a luxury hotel, and shopping and residential complex in Beirut, Lebanon and Amman, Jordan.

A summary of URC's recent financial performance appears below:

US\$ millions	31 Dec 2009	31 Dec 2008
Total Revenue	96.9	77.8
Net Income	13.5	22.1
Total Assets	1,142.0	1,149.0
Total Equity	551.0	563.5
ROE (%)	2.4	3.9
ROA (%)	1.2	1.9

Despite the ongoing recessionary conditions, URC registered an increase from rentals and hospitality related hotel revenues. Higher operating costs, and an increase in general and administrative expenses resulted in net income being lower in 2009 compared to the previous year. It is envisaged that URC has the ability to earn significant revenues as economic conditions improve and when some of its projects that are currently under construction are completed.

UGB owns a direct stake of 30% as at year end 2009 (2008: 30%) at a carrying value of US\$ 172.9 million (2008: US\$ 181.1 million). The company's shares are listed on the Kuwait Stock Exchange.

### United Real Estate Company (URCJ), Jordan (Associate)

URCJ was incorporated in Jordan in 2006. It is regulated by the Ministry of Industry & Trade, Jordan. URCJ is involved in various real estate projects aimed at developing the Abdali and Aqaba zones, as well as contributing to the development of residential and entertainment properties in Jordan. Two of its main activities include the construction, development, leasing and management of the Pedestrian Spine (Boulevard) Project and the Mall Project in downtown Amman. These projects are an endeavor to deliver urban development in the residential, commercial and leisure oriented properties.

A summary of URCJ's financial performance appears below:

US\$ millions	31 Dec 2009	31 Dec 2008
Total Revenue	0.5	1.1
Net Income	(0.4)	(0.1)
Total Assets	127.0	105
Total Equity	71.7	71.9
ROE (%)	(0.6)	0.01
ROA (%)	(0.3)	0.01

UGB increased its direct stake in URCJ by 20% during 2009. As at year end, the Bank's equity holding was 37% (2008: 17%); an additional indirect stake of 10% (2008: 10%) is held through its subsidiary – KAMCO. The consolidated investment is recorded at a carrying value of US\$ 27.2 million (2008: US\$ 15.8 million).

### United Real Estate Company (URCS), Syria (Associate)

URCS was incorporated in October 2007 as a closed shareholding company. It is regulated by the Ministry of Economy & Foreign Trade, Syria. The main objectives of the company include purchase, development, management and trade of real estate.

UGB holds a direct stake of 20% and an indirect stake of 20% at an aggregate carrying value of US\$ 2.8 million. Other shareholders include URC Kuwait and the Al Dhiyafa Holding Company.

### United Healthcare Company (UHC), Kuwait (Associate)

UHC was established in Kuwait in November 2005 as a closed shareholding firm. It is regulated by the Ministry of Commerce & Industry, Kuwait. The company's business model is aimed at building a healthcare holding company with a diversified spectrum of healthcare related subsidiaries and medical investments, in order to tap the growing demand for quality healthcare services across the GCC and the MENA region. In line with this strategy, UHC acquires and develops the targeted healthcare related companies in Kuwait in the short term, focuses on expanding within the GCC region – in particular the UAE, Qatar and the Kingdom of Saudi Arabia in the medium term, and intends to expand in the MENA region – particularly North Africa, in the long run.

As at 31 December 2009, UGB recorded a carrying value of US\$ 74.5 million (2008: US\$ 64.1 million) in UHC. The Bank owned a consolidated stake of 22% (2008: 20%) of this company through its subsidiary - KAMCO. The other major shareholders of UHC include private Kuwaiti firms in the healthcare industry. The company's shares are not listed.

## Financial Review

This section focuses on a detailed description of the financial performance of UGB during the year ended 31 December 2009. The notes in the audited consolidated financial statements provide additional relevant details; some of these notes are cross-referenced here. Figures contained in the financial review are subject to rounding adjustments and in certain instances, the sum of the numbers in a column or a row in tables contained in this financial review may not conform exactly to the total figure given for that column or row.

### Revenues

UGB's total revenues of US\$ 156.2 million in 2009 were significantly down from US\$ 432 million in 2008 (this included a non-recurring income of US\$ 346.1 million from the sale of associated companies and subsidiaries). The fall in revenues is attributed to the ongoing impact of the severity of the global financial crisis that resulted in an erosion of asset values and a volatile investment climate. Income from brokerage and fees from asset management were also adversely impacted.

Apart from interest income and dividend income, the main source of revenues in 2009 stemmed from the sale of two commercial banking units to Burgan Bank, Kuwait, and the exit of certain mature non trading investments. In the first half of 2009, UGB's 60% stake in Gulf Bank Algeria (AGB) (formerly Algeria Gulf Bank) and its 46% stake in the Bank of Baghdad were transferred to Burgan Bank, for a total cash consideration of US\$ 150 million. The net gain on these two transactions was US\$ 26.2 million. In the last quarter of 2009, the Bank sold its consolidated ownership of 17% in Kuwait Clearing Company for a cash consideration of US\$ 78.4 million. This contributed US\$ 33.6 million to the revenue stream of the Bank.

In accordance with IFRS disclosure standards, the following table illustrates the total revenues of UGB for the years ended 2009 and 2008:

US\$ millions	Excluding Discontinued Operations 2009	Excluding Discontinued Operations 2008
Total Revenues	124.5	341.3

US\$ millions	Including Discontinued Operations 2009	Including Discontinued Operations 2008*
Total Revenues	156.2	432

\* Included Gulf Bank Algeria, classified as held for sale at 31 December 2008 and transferred during the year. Refer to consolidated financial statements Note 11 for details.

Other sources of revenues in 2009 consisted of US\$ 17 million from dividends received, US\$ 18 million of interest income and US\$ 23.7 million of fees and commissions. In 2008, the main contributor to revenues comprised a gain of US\$ 277 million recognized from the sale of UGB's 44% stake in Jordan Kuwait Bank, and US\$ 32.7 million from the sale of its 30.4% stake in United Medical Services Company. Other contributors to income in 2008 included a US\$ 23.9 million gain on the sale of investments available for sale, US\$ 22.7 million from dividends received and US\$ 56.3 million from fees and commissions on continued operations.

The following tables indicate the contribution of revenues from UGB's activities and investment in various sectors. Each of the sectors is also discussed in detail.

Total Revenues US\$ millions	Continued Operations	Discontinued Operations	Total 2009
Financial services associates	0.1	11.4	11.5
Real estate	0.6	-	0.6
Other non financial associates	(13.2)	-	(13.2)
Management fees from asset management activities	14.0	-	14.0
Credit related fees and commission	0.4	2.7	3.2
Advisory fees	9.3	0.2	9.5
Other fees & commission income	-	0.8	0.8
Interest income	18.1	9.0	27.1
Realised gain on non trading investments	40.0	1.0	41.0
Gain on trading investments	(2.3)	-	(2.3)
Dividend income	17.0	3.1	20.1
Other income	13.8	3.6	17.4
Gain on sale of associates and subsidiaries	26.7	-	26.7
<b>Total</b>	<b>124.5</b>	<b>31.7</b>	<b>156.2</b>

Total Revenues US\$ millions	Continued Operations	Discontinued Operations*	Total 2008
Financial services associates	(7.5)	24.3	16.8
Real estate	7.8	-	7.8
Other non financial associates	(18.1)	-	(18.1)
Management fees from asset management activities	40.5	-	40.5
Credit related fees and commission	(1.0)	22.7	21.8
Advisory fees	14.4	0.9	15.2
Other fees & commission income	2.4	-	2.4
Interest income	20.7	34.6	55.4
Realised gain on non trading investments	24.0	1.7	25.7
Gain on trading investments	(115.1)	-	(115.1)
Dividend income	22.7	1.8	24.5
Other income	4.6	4.5	9.1
Gain on sale of associates and subsidiaries	346.1	-	346.1
<b>Total</b>	<b>341.4</b>	<b>90.6</b>	<b>432.0</b>

\* Included Gulf Bank Algeria, classified as held for sale at 31 December 2008 and transferred during the year. Refer to consolidated financial statements Note 11 for details.

## Financial Review

Continued

### Financial Services Associates

UGB's financial services related revenues are derived from its investment in associates involved in asset management and investment banking, commercial banking and brokerage (details of each of these entities are available in the Business Description Section). In 2009, revenues from financial associates recorded a decline of 31.5% to US\$ 11.5 million. This is mainly attributed to the transfer of Jordan Kuwait Bank in June 2008 and to the transfer of Gulf Bank Algeria and Bank of Baghdad in March 2009 to Burgan Bank. The commercial banks that were transferred in 2009, contributed US\$ 11.4 million to total revenues compared to US\$ 24.3 million in 2008.

The table below indicates the performance of each of UGB's financial associates:

Revenues – Financial Associates US\$ millions	Continued Operations	Discontinued Operations	Total 2009
Jordan Kuwait Bank	-	-	-
Gulf Bank Algeria	-	9.2	9.2
Bank of Baghdad	-	2.2	2.2
Al Sharq Financial Brokerage Company	1.1	-	1.1
Manafae Investment Company	0.1	-	0.1
Kuwait Private Equities Opportunity Fund	(1.6)	-	(1.6)
Syria Gulf Bank	(0.2)	-	(0.2)
North Africa Holding Company	0.4	-	0.4
Millennium Finance Corporation	-	-	-
Royal Capital	0.3	-	0.3
<b>Total</b>	<b>0.1</b>	<b>11.4</b>	<b>11.5</b>

Revenues – Financial Associates US\$ millions	Continued Operations	Discounted Operations	Total 2008
Jordan Kuwait Bank	-	18.0	18.0
Gulf Bank Algeria	-	-	-
Bank of Baghdad	-	6.3	6.3
Al Sharq Financial Brokerage Company	-	-	-
Manafae Investment Company	1.6	-	1.6
Kuwait Private Equities Opportunity Fund	(1.2)	-	(1.2)
Syria Gulf Bank	(0.8)	-	(0.8)
North Africa Holding Company	(3.3)	-	(3.3)
Millennium Finance Corporation	(4.3)	-	(4.3)
Royal Capital	0.5	-	0.5
<b>Total</b>	<b>(7.5)</b>	<b>24.3</b>	<b>16.8</b>

### Real Estate

UGB's real estate revenues are derived from United Real Estate Company (URC) (also refer to the Business Description section). Despite the downturn in the real estate sector, URC posted a net profit of US\$ 13.5 million (KD 3.8 million) in 2009 compared to US\$ 22.1 million (KD 6.1 million) in 2008.

In 2009, the Central Bank of Bahrain mandated all banks incorporated in its jurisdiction to exclude any unrealized gains derived from the revaluation of investment property, from the income statement. In accordance with this directive, UGB did not record a potential unrealized gain of US\$ 2.8 million recorded by URC in its financial statement from the revaluation of investment properties.

### Other Non Financial Associates

UGB posted a net loss of US\$ 13.2 million from its non financial associates in 2009, of which a loss of US\$ 11.3 million in 2009 came from its indirect ownership stake of 44% in United Industries Company. The loss was incurred on the sale of UIC's equity interests in Danish Paints Middle East Holdings (BSC) (DPME), Hempel Paints LLC and Hempel Paints WLL for a total consideration of KD 10.5 million (US\$ 36.5 million). As a result of this transaction, UIC posted a loss of KD 3.3 million (US\$ 11.4 million). In 2008, UIC had posted a loss of US\$ 17.9 million. UIC continues to have underlying investments in a well diversified portfolio of petrochemicals, real estate, oil and dairy and food products. Each of these sectors is expected to rebound as market conditions improve.

### Management Fees from Asset Management Activities

UGB's assets under management fell to US\$ 7.2 billion at year end 2009 compared to US\$ 9 billion in 2008. This sector had grown steadily over the years and reached a high of US\$ 14.5 billion in June 2008 before the meltdown of the regional stock markets. Management fees consequently declined by 65% to US\$ 14 million in 2009 (2008: US\$ 40.5 million) which is reflective of the performance of the regional stock markets.

### Credit Related Fees and Commissions

Credit related fees and commissions originating from trade finance activities declined by 85% to US\$ 3.2 million in 2009 (2008: US\$ 21.8 million). Gulf Bank Algeria had contributed US\$ 19 million towards fee income in 2008. UGB had no access to this source of income after it transferred its stake in AGB in the first half of 2009.

### Advisory Fees

Advisory fees for the year 2009 declined by 37% to US\$ 9.5 million from US\$ 15.2 million in 2008 as a result of the impact of the financial crisis on the Bank's capital markets activities.

### Other Fees and Commission Income

Revenues from custody fees, subscription and other fees, declined by 67% to US\$ 0.8 million, compared to US\$ 2.4 million in 2008.

### Interest Income

The main source of interest income for UGB is derived from its loan book, interbank placements and US\$ 335 million (KD 96 million) investment in the subordinated debt issued by Burgan Bank. Interest income for the year ended 2009, decreased by 51% to US\$ 27.1 million (2008: US\$ 55.4 million in 2008). The main reasons for this decline were the reduction in LIBOR and the decreased revenues in this category following the transfer of Gulf Bank Algeria during the year. In 2008, AGB had contributed US\$ 15.5 million of interest income.

## Financial Review

Continued

### Realized Gains on Non Trading Investments

The Bank realized capital gains of US\$ 41 million (2008: US\$ 25.7 million) mainly derived from the sale of its consolidated stake of 17% in Kuwait Clearing Company (KCC). UGB recorded a gain of US\$ 33.6 million from this exit.

### Gain on Investments

UGB incurred a trading loss of US\$ 2.3 million for 2009 on its trading activities, compared to a loss of US\$ 115.1 million in 2008. This stemmed from the volatile trading conditions of the GCC equity markets.

### Dividend Income

Dividend income was lower by 18% to US\$ 20.1 million in 2009 from US\$ 24.5 million in 2008. The main contributors were listed and private equity investments located in Kuwait and GCC countries. Prior to its sale, the Kuwait Clearing Company, contributed US\$ 10.4 million in 2009, compared to US\$ 7 million in 2008.

### Other Income

UGB's other income is derived from the gains on foreign currencies (US\$ 4.6 million) and reversal of contingency provisions (US\$ 13 million) recorded as a precautionary measure related to the transfer of commercial banking assets to Burgan Bank.

### Gain on Sale of Associates and Subsidiaries

UGB recorded a net gain of US\$ 26.2 million from the transfer of its stake in Gulf Bank Algeria and Bank of Baghdad to Burgan Bank. In 2008, revenues included a US\$ 277 million gain on the sale of its stake in Jordan Kuwait Bank, US\$ 32.7 million earned on the sale of its stake in United Medical Services Company and US\$ 3.7 million on the sale of its equity holding in United Warehousing & Refrigeration Company.

### Expenses

#### Interest Expense

UGB recorded a positive variance through lower interest expenses that it incurred due to a decline in funding costs. Interest expense fell to US\$ 55 million during the year ended 2009 (2008: US\$ 79 million).

The table below illustrates UGB's interest expenses for the years 2009 and 2008:

US\$ millions	Excluding Discontinued Operations 2009	Excluding Discontinued Operations 2008
Interest expense	51.3	67.4

US\$ millions	Including Discontinued Operations 2009	Including Discontinued Operations 2008*
Interest expense	55	79

\* Included Gulf Bank Algeria, classified as held for sale at 31 December 2008 and transferred during the year. Refer to consolidated financial statements Note 11 for details.

### Operating Expenses

Operating expenses decreased by 38.5% to US\$ 48.1 million for the year ended 2009 as compared to US\$ 78.3 million in the previous year

(2008 numbers include AGB's operating expenses of US\$ 15.1 million). General and administrative expenses of US\$ 19.3 million incurred in 2009 fell by 41% as compared to US\$ 32.9 million incurred in 2008. (2008 numbers include AGB's general and administrative expenses of US\$ 12 million). The decline is mainly the result of cost control managed by UGB and its primary subsidiary - KAMCO. A summary of these numbers is provided below.

US\$ millions	Excluding Discontinued Operations 2009	Excluding Discontinued Operations 2008
Salaries and benefits	25.5	38.6
General and administrative	15.0	17.9
<b>Total</b>	<b>40.5</b>	<b>56.5</b>

US\$ millions	Including Discontinued Operations 2009	Including Discontinued Operations 2008*
Salaries and benefits	28.8	45.4
General and administrative	19.3	32.9
<b>Total</b>	<b>48.1</b>	<b>78.3</b>

\* Included Gulf Bank Algeria, classified as held for sale at 31 December 2008 and transferred during the year. Refer to consolidated financial statements Note 11 for details.

### Net Operating Income

UGB's net operating income decreased by 80.6% to US\$ 53.1 million in 2009 from US\$ 274.6 million in 2008. As discussed earlier, 2008 results included exceptional gains of US\$ 346.1 million from the sale of associated companies.

US\$ millions	Excluding Discontinued Operations 2009	Excluding Discontinued Operations 2008
Net operating income	32.7	217.5

US\$ millions	Including Discontinued Operations 2009	Including Discontinued Operations 2008
Net operating income	53.1	274.6

### Provisions

The ongoing erosion in regional asset values resulted in provisions of US\$ 9.5 million taken against the Bank's investment in Millennium Finance Company (associated company) following its restructuring, and US\$ 10.2 million against non trading investments (2008: US\$ 56.6 million).

As a prudent measure, impairment provisions of US\$ 10.8 million were also charged against non performing loans and advances recorded in the books of the Bank's subsidiary - Tunis International Bank (2008: US\$ 3.4 million). This is in accordance with conservative accounting principles and estimates.

## Financial Review

Continued

A summary of this is provided below:

US\$ millions	Excluding Discontinued Operations 2009	Excluding Discontinued Operations 2008
Impairment loss on investments	19.7	56.7
(Write-back of) Provision for doubtful loans, guarantees and others, net	(1.2)	0.1
<b>Total</b>	<b>18.5</b>	<b>56.8</b>

US\$ millions	Including Discontinued Operations 2009	Including Discontinued Operations 2008
Impairment loss on investments	19.7	56.7
(Write-back of) Provision for doubtful loans, guarantees and others, net	9.5	3.4
<b>Total</b>	<b>29.2</b>	<b>60.1</b>

### Net Income

UGB's net income decreased by 90% to US\$ 20.1 million in 2009 from US\$ 207.3 million in 2008. This translates to an earnings per share of US 2.46 cents in 2009, against US 25.31 cents in 2008.

### Consolidated Balance Sheet

#### Consolidated Assets

UGB's consolidated assets declined by 17% to US\$ 2.4 billion in 2009 from US\$ 2.9 billion in 2008. A comparison of the two years is provided below:

Assets US\$ millions	Continued Operations	Discontinued Operations	Total 2009
Demand and call deposits with banks	20.3	1.4	21.7
Time deposits with banks	176.2	258.7	434.9
Investments carried at fair value through statement of income	155.3	-	155.4
Non trading investments	715.3	54.3	769.7
Loans and advances	52.6	100.5	153.1
Investment properties	26.8	-	26.8
Other assets	46.2	1.0	47.2
Investments in associates and joint venture accounted for under the equity method	647.9	54.8	702.6
Property and equipment	1.0	3.2	4.1
Goodwill	55.2	-	55.2
<b>Total</b>	<b>1,896.8</b>	<b>473.9</b>	<b>2,370.7</b>

Assets US\$ millions	Continued Operations	Discontinued Operations*	Total 2008
Demand and call deposits with banks	27.4	71.6	99.1
Time deposits with banks	79.1	257.6	336.7
Investments carried at fair value through statement of income	245.2	-	245.2
Non trading investments	878.0	40.5	918.5
Loans and advances	7.8	388.0	395.7
Investment properties	23.3	-	23.3
Other assets	73.8	12.3	86.1
Investments in associates and joint venture accounted for under the equity method	626.2	74.7	700.9
Property and equipment	1.9	15.2	17.1
Goodwill	46.6	-	46.6
<b>Total</b>	<b>2,009.2</b>	<b>859.9</b>	<b>2,869.1</b>

\* Included Gulf Bank Algeria, classified as held for sale at 31 December 2008 and transferred during the year. Refer to consolidated financial statements Note 11 for details.

#### Demand, Call and Time Deposits with Banks

Demand, call and time deposits were at US\$ 456.6 million in 2009 compared to US\$ 435.8 million in 2008 (2008 numbers include US\$ 63 million of deposits recorded by AGB). By monitoring and managing its asset-liability profile proactively and efficiently, UGB was successful in maintaining adequate liquidity despite the challenges posed by the global financial crisis. Total liquid assets comprising cash, deposits and liquid securities represented 22% of the balance sheet as at year end 2009 (2008: 17%).

#### Trading Investments (investments carried at fair value through the statement of income)

Investments carried at fair value through the statement of income were US\$ 155.4 million in 2009 compared to US\$ 245.2 million in 2008. This portfolio comprised securities and funds held for trading purposes. Securities held for trading decreased to US\$ 24.8 million from US\$ 48.4 million in 2008, due to unrealized losses of US\$ 4.5 million charged to the income statement following the mark to market principle and liquidation of investments. Funds held in the trading portfolio decreased to US\$ 130.5 million in 2009, as opposed to US\$ 196.7 million in 2008, due to a liquidation of US\$ 61 million worth of securities in this portfolio.

Out of the total funds held for trading, structured and alternative investments decreased to US\$ 38.2 million compared to US\$ 58.6 million in 2008. These investments are managed by leading international investment managers. UGB's underlying strategy with respect to structured products was to invest in underlying instruments characterized by low volatility and stable returns. Leverage was used wherever appropriate to enhance net gains. A decision was taken to reduce the exposure to structured products and alternative investments, in line with market developments.



## Financial Review

Continued

As at year end 2009, 54.4% of the outstanding portfolio of funds held for trading, aggregating US\$ 130.4 million, was invested in Kuwait. The balance consisted of funds domiciled in the US, Europe and other GCC countries. In line with UGB's Risk Management policy, the entire portfolio is diversified in terms of products, asset class and industry risk. Securities held in the trading portfolio amounted to US\$ 24.8 million and consisted mainly of equities listed on the Bahrain, Kuwait and Saudi Arabian stock exchanges.

### Non Trading Investments

UGB's non trading investments include those categorized as the 'available for sale' and the 'held to maturity' investment portfolio. Of the aggregate amount of US\$ 769.7 million in 2009 (2008: US\$ 918.5 million), US\$ 13.94 million was invested in bonds and debt securities 'held to maturity' (2008: US\$ 8.1 million) while US\$ 755.7 million of investments was classified as 'available for sale' (2008: US\$ 910 million). Quoted investments represent 12.3% of the portfolio; the balance of 87.7% represents investments in unlisted entities.

The major investments under the 'available for sale' portfolio as at 31 December 2009 were:

- **Al Raya Investments, Kuwait.** UGB made an investment of 15.6% (2008: 9.8%) of the paid up share capital of KD 25 million issued by Al Raya Investments, Kuwait. The entity was incorporated in April 2008, with the objective of offering Sharia'a compliant and international asset management services, advisory, portfolio and alternative investment opportunities to regional investors in the GCC / MENA region. In addition to its primary focus on international Islamic investments, the long term strategy of the company was to offer the full range of Sharia'a compliant investment products across all asset types. The year end value of this investment was US\$ 14.3 million (2008: US\$ 14.8 million).
- **Al Zumorodah Leasing & Financing Company, Kuwait,** was incorporated in 2006 as a closed shareholding company. The company is principally engaged in providing Sharia'a compliant leasing and funding and real estate services. UGB's investment as at year end 2009 of US\$ 20 million (2008: US\$ 21 million) represents an ownership stake of 11%.
- **Burgan Bank, Kuwait – Lower Tier II Capital.** In the third quarter of 2008, UGB invested KD 96.3 million (US\$ 350 million) in subordinated notes issued by Burgan Bank, Kuwait. As explained in the Business Review Section, the investment in Burgan Bank's subordinated debt is anticipated to be redeemed upon receipt of a Kuwaiti Amiri Decree that will permit Burgan Bank to raise fresh capital in the form of a rights issue. It is UGB's intention to reinvest the proceeds from the redemption of the subordinated debt, into Burgan Bank's equity. As of 31 December 2009, the value of the subordinated debt was KD 96.3 million (US\$ 335.6 million).
- **Global Banking Corporation (GBCORP)** is an Islamic investment bank incorporated in Bahrain, with an issued and subscribed capital of US\$ 250 million. GBCORP's business lines include private equity and venture capital, real estate and infrastructure development, asset management, advisory services in corporate finance and capital markets, and portfolio management services. UGB's year end value of this investment of US\$ 13.3 million (2008: US\$ 13.3 million) represents an ownership interest of 10% (2008: 10%). It has a further non funded exposure of US\$ 11.75 million, in the form of capital commitments.
- **Hauck & Aufhauser Bank (Hauck)** is a private investment bank established in Germany in 1796. Hauck is focused on the asset and fund management business and has a strong clientele base. UGB's investment as at year end 2009 was US\$ 19.1 million (2008: US\$18.8 million) and represents an ownership stake of 6.8% (2008: 6.8%).
- **Housing Finance Company SAKC (Iskan).** UGB's investment of US\$ 20 million as at year end 2009 (2008: US\$ 31 million) represents an ownership stake of 15.9% in Iskan Bank (2008: 15.9%). This is a Kuwait based company engaged in providing real estate and housing finance. The company's activities revolve around the three core areas of personal services including housing loans, ijara and funding; real estate services comprising evaluations and engineering consulting; and commercial services, consisting of investment and commercial services. Iskan's investment activities are provided through the Masaref Investment Fund which invests in listed and unlisted shares on stock markets. Iskan's wholly owned subsidiaries include the Iskan Real Estate Company and Iskan General Trading and Contracting Company.
- **Kuwait National Airways (KNA),** was incorporated in Kuwait as a closed shareholding company. The government of Kuwait, by decree from the Council of Ministers, approved the granting of three commercial licenses for new Kuwaiti airlines to private sector investors. These licenses were for limited service passenger transport, cargo transport, and a license for passenger transport with full services - this is the license that was granted to Kuwait National Airways. UGB's year end investment value of US\$ 11.8 million (2008: US\$12.5 million) represents an ownership interest of 6.0 % (2008: 6.0%).
- The **MPE Energy Fund (MPE)** is managed by Millennium Private Equity with the objective of acquiring a stake in companies operating in the energy sector. As at year end 2009, the value of the Bank's investment of the fund was US\$ 21.3 million (2008: US\$ 21.3 million).
- The **MPE Telecom, Media and Technology Fund** is also launched by Millennium Private Equity with the objective of making investments in the media and telecommunication sectors. As at year end 2009, the value of the Bank's investment in the fund was US\$ 10.5 million (2008: US\$ 10.5 million).
- **Private Equity Fund of Funds PEH III & IV.** UGB's year end value of US\$ 43 million (2008: US\$ 50.3 million) is invested with 25 different leading fund managers based in North America and its underlying investments are well diversified in various economic sectors. Many of UGB's private equity funds are coming out of the J-curve effect and are starting to produce positive cash flows and returns. The portfolio value includes a positive fair value reserve of US\$ 3.1 million.

### Loans and Advances

The loans and advances in UGB's books comprise mainly facilities extended by the Bank's consolidated subsidiary in Tunisia – TIB. As a prudent measure during uncertain economic times, TIB proactively reduced its loan book to US\$ 100 million in 2009 from US\$ 129 million in 2008. All non performing loans and advances have been adequately provided for, against any possible future weakness both for continued and discontinued operations.

## Financial Review

Continued

### Investment Properties

Investment properties in UGB's books include the Bank's Head Office building – UGB Tower, located in the Diplomatic Area, Bahrain, as well as a plot of land located at a prime location in Saudi Arabia. As mentioned earlier, the Central Bank of Bahrain mandated the exclusion of booking unrealized gains derived from the revaluation of investment property in the income statement. In line with the CBB directives, UGB has a potential unrealized gain of US\$ 5.6 million on the valuation of its property in Saudi Arabia, which has not been recorded as income.

### Investments in Associated Companies

Investments in associated companies rose slightly to US\$ 702.6 million in 2009 from US\$ 700.9 million in 2008. The increase reflects new investments made by the Bank in North Africa Holding Company and United Real Estate Company Jordan. These investments were partially offset with the sale of the Bank of Baghdad. A detailed discussion on these assets is available in the Business Description section.

### Consolidated Liabilities

Liabilities US\$ millions	Continued Operations	Discontinued Operations	Total 2009
Due to banks and other financial institutions	458.3	134.1	592.5
Deposits from customers	227.2	230.3	457.5
Loans and murabaha payable	501.0	-	501.0
Other liabilities	72.0	6.6	78.6
Bonds	68.9	-	68.9
Subordinate debt	100.0	-	100.0
<b>Total</b>	<b>1,427.4</b>	<b>371.0</b>	<b>1,798.4</b>

Liabilities US\$ millions	Continued Operations	Discontinued Operations*	Total 2008
Due to banks and other financial institutions	497.8	151.3	649.1
Deposits from customers	61.0	495.9	557.0
Loans and murabaha payable	588.1	4.3	592.3
Other liabilities	65.6	18.2	83.8
Bonds	71.6	-	71.6
Subordinate debt	100.0	-	100.0
<b>Total</b>	<b>1,384.1</b>	<b>669.8</b>	<b>2,053.9</b>

\* Included Gulf Bank Algeria, classified as held for sale at 31 December 2008 and transferred during the year. Refer to consolidated financial statements Note 11 for details.

UGB's consolidated liabilities reduced by 12% to US\$ 1,798.4 million at year end 2009 from US\$ 2,053.9 million in 2008 (this included AGB's stake of US\$ 286.3 million). Despite the disruption in the credit market, UGB successfully repaid a medium term loan of US\$ 91.3 million in the third quarter of 2009.

The rise in customer deposits from continued operations, stems from the placement of KD 40 million (US\$ 139.4 million) by the Bank's parent,

KIPCO, for a period of one year. This transaction was conducted on an arm's length basis. UGB profoundly values its relationships and is grateful to all banks and financial institutions who have continued to support its activities.

### Shareholders' Equity

As at year end 2009, UGB's shareholders' equity was US\$ 507.5 million (2008: US\$ 703 million). The decrease is attributed to dividend of US\$ 150.6 million for 2008 paid out in 2009 and the reduction in fair value reserves of US\$ 31 million compared to US\$ 2.4 million in 2008. Fair value reserves were impacted after the sale of Kuwait Clearing Company. A further decrease was attributed to changes in the foreign currency translation reserves. This was reduced to US\$ 36 million in 2009 (2008: US\$ 72.1 million), and also includes an average 3.9% depreciation of the Kuwaiti Dinar against the US Dollar during 2009.

Minority interests declined to US\$ 64.9 million in 2009 from US\$ 112.2 million as at year end 2008, owing to the 10% increase of the Bank's ownership in KAMCO to 85.53% in 2009.

The following table reflects the composition of liabilities, minority interest and shareholders' equity at year end 2009 compared with 2008:

Equity US\$ millions	2009	2008
Share capital	207.7	206.2
Share premium	9.6	8.2
Treasury shares	(12.7)	(12.7)
Statutory reserve	91.5	89.5
General reserve	72.0	70.0
Treasury share reserve	14.3	14.3
Fair value reserve	(31.0)	2.4
Foreign currency translation reserve	36.2	72.1
Retained earnings	119.9	253.1
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>	<b>507.5</b>	<b>703.0</b>
<b>MINORITY INTERESTS</b>	<b>64.9</b>	<b>112.2</b>
<b>TOTAL EQUITY</b>	<b>572.3</b>	<b>815.3</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,370.7</b>	<b>2,869.1</b>

### Off Balance Sheet Commitments

UGB's off balance sheet commitment comprises guarantees, letters of credit, credit commitments, undrawn investment commitments, bankers' acceptances, financial instruments to cover foreign exchange risks, forward purchase and sale contracts and interest rate swaps. The Bank's investments and credit related commitments aggregated to US\$ 168 million as at year end 2009 (2008: US\$ 342 million). This decrease is attributed to the non-inclusion of AGB's trade finance related commitments, after it was sold to Burgan Bank. The Bank's contingent liabilities mainly include forward contracts and interest rate swaps that were undertaken to hedge existing balance sheet exposure. The Bank does not trade derivatives nor engage in proprietary foreign exchange trading. Further information on off balance sheet commitments is provided in Note 28 of the Consolidated Financial Statements.

### Capital Adequacy

UGB's capital adequacy ratio of 14.5% under the Basel II regulations as mandated by the CBB is higher than the minimum requirement of 12.0% with a buffer of an additional 0.5%. This provides UGB with the cushion to face any adverse market conditions.

The following table provides a closer look at the capital adequacy position of the Bank:

US\$ millions	2009	2008
Capital base:		
Tier 1 capital	412.8	459.4
Tier 2 capital	57.9	232.1
Total capital base (a)	470.7	691.5
Credit risk weighted exposure	2,716.9	3,514.7
Market risk weighted exposure	260.2	147.5
Operational risk weighted exposure	277.0	366.2
Total risk weighted exposure	3,254.1	4,028.4
Capital adequacy (a / b * 100)	14.5%	17.2%
Minimum requirement	12.0%	12.0%

## Risk Framework

### Risk Management

UGB's risk management framework and governance structure is intended to provide comprehensive controls and ongoing management of the major risks inherent in the Bank's business activities. Its philosophy is based on principles that reiterate:

- A sound knowledge base, experience and judgment of Senior Management and Risk Management staff are the cornerstone of a successful risk mitigation program.
- Vigilance, discipline and attention to detail are mandatory.
- Complete segregation of duties and reporting authorities must exist between business lines and support functions.
- Policies and procedures must be clear, well communicated, understood and implemented in letter and spirit.

The Risk Management Department and the Compliance function of the Bank is staffed by a dedicated and well qualified team of five individuals. UGB's ability to properly identify, assess, manage, measure and report risk, is critical to its financial strength and profitability. A comprehensive set of risk management policies, processes and limits, are in place to provide guidelines and parameters. These are continuously updated with the objective of incorporating best practice, changes in market factors and changes in the regulatory environment in various jurisdictions where the Bank operates.

The Board of Directors of UGB has the ultimate authority for setting the overall risk appetite, risk tolerance, parameters and limits, within which the Bank operates. The Board approves the Bank's overall risk profile, significant risk exposures as well as the policies, procedures and controls that have been extensively documented. The Board has delegated day to day decision making to the Executive Committee (EC) that comprises four Directors. The EC meets in between Board meetings to approve all proposals that exceed the threshold of the Investment Committee. The Investment Committee is responsible for approving or recommending approvals to the Executive Committee, limits for individual exposures, investments and concentrations towards banks, countries, industries, risk rating classes or other special risk asset categories. Further information on the constitution and responsibilities of these committees is disclosed in the Corporate Governance section of the Annual Report.

As part of the implementation of guidelines of Basel II, the CBB mandated that all financial institutions incorporated in Bahrain should undertake a detailed risk assessment. UGB undertook a detailed Risk Profile Review exercise whereby the effectiveness and efficiency of risk management systems, models and processes were assessed and validated by external consultants. The risk infrastructure employed at UGB was found to be satisfactory and a detailed report on the same was submitted to the CBB during June 2009. Considerable work has since been completed towards implementing the recommended enhancements as proposed by the consultants in their Risk Profile Review report.

The overall risk management strategy of UGB focuses on optimising the risk-return profile of the Bank's exposures (a portfolio approach) as well as avoiding losses. The management philosophy of the Bank for managing the main types of risk are summarised below.

#### Risk type

##### Credit risk

##### Market risk

##### Interest rate risk

##### Liquidity risk

#### Risk Management Philosophy

To discipline its lending activities and ensure that credit facilities are granted on a sound basis and that the Bank's funds are invested in a profitable manner.

To minimise the loss of the value of financial instruments or a portfolio of financial instruments due to an adverse change in market prices or rates.

To capture all material sources of interest rate risk and assess the effect of interest rate changes on the income stream and equity of the Bank.

To identify, capture, monitor and manage the various dimensions of liquidity risk with the objective of protecting asset values and income streams such that the interests of the Bank's shareholders are safeguarded, while maximising the returns to shareholders.

#### Types of Risk

In accordance with the Central Bank of Bahrain's guidelines and the Bank for International Settlements, UGB adopted Basel II standards effective 1 January 2008. This has been done with the view of determining capital adequacy, as well as adopting sound practices for the management of risk. The major types of risk that UGB is primarily exposed to include credit, market, operational, liquidity and funding, interest rate, concentration, reputational and legal risks. Details on each of these are provided in the Pillar III Risk Management and Capital Adequacy Disclosures that is available on the Bank's website: [www.ugbbah.com](http://www.ugbbah.com).

The following section provides a brief synopsis of the different types of risk and the processes adopted to identify, assess and monitor them.

#### Credit Risk

Credit risk arises from the extension of credit facilities in the Bank's banking, investment and trading activities, where there is a possibility that a counterparty may fail to honor its commitments.

Credit risk is mitigated through:

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

Well documented policies and subsequent updates are approved by UGB's Board of Directors. These provide the guidelines for credit risk management. The Bank manages credit risk through its limit structure, that controls the amount of risk that it is willing to accept for individual counterparties, related parties and for geographical and industry concentrations. Exposures with respect to the adherence of these limits, is monitored on a regular basis.



## Risk Framework

Continued

There is a two tier committee structure to approve and review credit and investment risk. The Investment Committee (IC) includes one Director, the Chief Executive Officer, the Chief Financial Officer, the Head of Asset Management and Investment Banking and the Head of Core Investments. In line with the principles of segregation of duties, the Head of Credit and Risk Management is a non voting member on the Committee and acts as its secretary. Exposures beyond IC delegated limits are approved by the Board's Executive Committee or the full Board of Directors.

The credit risk inherent in trading activities is also actively managed and in case of exposures to counterparties, is calculated daily as the sum of mark-to-market values. In certain cases, the Bank has entered into legally enforceable netting agreements covering its money market and foreign exchange trading activities, whereby only the net amount may be settled at maturity. In areas where the Bank acts as an agent for commodity trading on behalf of certain Islamic financial institutions, the risk is managed through simultaneous spot and forward trading in commodities, through well established financial and commodity trading institutions that have been subject to a detailed credit review. The Bank seeks to procure third party guarantees wherever feasible to mitigate the inherent credit risk in its off balance sheet exposures.

Continuous monitoring of the Bank's assets through various reports and reviews is key to early and timely identification of any impairment. A monthly risk asset review report is produced by the Credit and Risk Management Department in which all investments are assessed based on rating, industry, and geographic exposure in addition to a number of other parameters. The purpose of this report is also to ensure compliance with both external regulatory requirements and internal risk policy guidelines. Additionally, a semi annual review of all investments is conducted for monitoring performance and highlighting any recent developments that may have occurred. A quarterly review of loans is prepared for the purpose of identifying impairments and providing an update on the status of each facility. The risk asset review report is reviewed on a monthly basis by management and quarterly by the Risk and Compliance Committee of the Bank.

UGB has adopted the Standardized Approach for calculating the charge for credit risk. Non performing loans for the Group stood at US\$ 19.8 million as at 31 December 2009 (2008: US\$ 13.7 million) against which a provision of US\$ 13.5 million has been made (2008: US\$ 11.6 million).

The Bank identifies and manages credit risk inherent in all products and activities. It ensures that inherent risks of any new products and activities are assessed in depth and well understood. These activities are then subject to adequate risk management procedures and controls and approved by the Board of Directors, before being introduced or undertaken. The Bank operates within a sound, well-defined credit criteria. These criteria include a clear indication of the Bank's target market and a thorough understanding of the borrower or the counterparty, as well as the purpose and structure of the credit and its source of repayment. The Bank has established overall credit limits at the level of individual borrowers and counterparties, as well as groups of connected or comparable counterparties that are aggregated in a meaningful manner to indicate different types of exposures, both in the banking and trading book and on and off the balance sheet. The credit limits recognise and reflect the risks associated with the near-term liquidation of positions in the event of counterparty default. Limits also factor in any unsecured exposure in a liquidation scenario.

All extensions of credit are made on an arm's-length basis. Any credit extended to related companies and individuals that are outside the approved policy parameters are avoided or are authorised on an exception basis by the appropriate authorities. A detailed review of connected party exposure is conducted on a monthly basis to monitor assets of this nature, and ensure that they adhere to regulatory guidelines.

Detailed information on the Bank's credit risk exposures, including geographical distribution, industry/sector allocation, details of the collaterals and other credit enhancements, and bifurcation based on internal ratings, has been provided in Note 30.2 of the Consolidated Financial Statements.

### Market Risk

Market risk is defined as the risk of losses in the value of on or off balance sheet financial instruments caused by a change in market prices or rates (including changes in interest rates and foreign exchange rates). UGB's policy guidelines for market risk have been vetted by the Board of Directors in accordance with the rules and guidelines provided by the Central Bank of Bahrain. As early as 1996, the CBB required all locally incorporated banks in Bahrain to measure and include a capital charge for market risk in addition to the capital requirement for credit risk.

UGB has adopted the Standardized Approach for the measurement of its market risk. This involves a "building block" methodology that aggregates charges for interest rate exposure, equities, foreign exchange, commodities and options. The Bank has entered into forward contracts and interest rate swaps for hedging purposes and does not trade commodities or derivatives. Thus UGB's market risk capital adequacy requirements cover, (i) the securities trading book, and, (ii) the foreign exchange book.

The minimum capital charge for interest rate exposure is expressed as the sum of two separately calculated charges, one relating to specific risk of each position and the other to the interest rate risk in the portfolio (general market risk). For the general market risk capital charge, the Bank applies the maturity method with its respective rules. Information on the interest rate sensitivity in the Bank's asset and liability structure is detailed in Note 30.3 of the Consolidated Financial Statements.

The capital charge for equities held in the Bank's trading book, is also an aggregate of two separate components. One applies to "specific risk" of holding a long or short position in an individual equity, and the other pertains to "general market risk" of holding that position in the market as a whole. In case of foreign exchange risk, the open currency position is taken both in the banking and the trading book. The currency exposures are detailed in Note 30.3 of the Consolidated Financial Statements. The capital charge under this approach is the arithmetical sum of the risk measures obtained from the measurement framework.

The Bank seeks to manage the market risks that it faces through diversification of exposures across dissimilar markets, industries and products. In addition to the exercise of business judgment and management experience, UGB utilizes limit structures related to positions, portfolios, maturities and maximum allowable losses, to control the extent of such risk.

## Risk Framework

Continued

### Operational Risk

The Bank has defined operational risk as the risk of losses, arising from a failure in its internal processes due to inadequate internal controls and procedures, human error, deliberate acts and/or business interruptions caused by technology, systems or external disasters beyond the Bank's control. Internal control systems have been introduced that are based on the tenet of adequate segregation of duties. Exception and excess exposure reporting by the Credit and Risk Management Department, succession planning, business continuity planning, reliable management reporting and supervision of the Internal Audit and Quality Assurance Department and the Board Audit Committee, is also adhered to by the Bank. Anti-money laundering procedures and controls are also in place to mitigate any possible misuse of the Bank's services. These anti-money laundering procedures are reviewed by the external auditors on a yearly basis; their report is then sent to the Central Bank of Bahrain as mandated by local regulations.

In accordance with Basel II guidelines, UGB has developed a comprehensive operational risk framework, whereby all activities and processes of the Bank are analyzed and residual risks are identified, measured and reported as appropriate. The management of operational risk in the Bank is the responsibility of every employee. The operational risk framework is built around a detailed Risk Control Self Assessment (RCSA) that identifies all risks stemming from activities of each department of the Bank. The probability of occurrence and potential severity of the risks are assessed, existing controls against each probable risk event are plotted and reviewed in terms of their effectiveness, residual risks after taking into account after the effectiveness of controls are documented, and action plans to reduce or mitigate the residual risks are set. The results of the RCSA are periodically reviewed by the Risk and Compliance Committee. Heat maps are produced to alert senior management to areas that may be subject to an increased level of operational risk.

UGB uses Basel II's Basic Indicator Approach (BIA) to calculate the capital charge for operational risk. This is prescribed as 15% of the average annual gross income of the current year and the preceding two years. The detailed working for the capital charge on operational risk is provided in the Prudential Disclosures related to Basel II – Pillar III.

### Liquidity Risk and Funding

Liquidity risk stems from the inability to procure sufficient cash flow to meet UGB's financial obligations as and when they fall due. The risk arises due to the timing differences between the maturity profile of the Bank's assets and liabilities.

In order to ensure that the Bank can meet its financial obligations as they fall due, the tenors of UGB's assets and liabilities are closely monitored across different maturity time bands. An Asset and Liability Committee evaluates the balance sheet from a structural, liquidity and sensitivity point of view. The whole process is aimed at ensuring availability of sufficient liquidity to fund the Bank's ongoing business activities, effectively managing maturity mismatches between assets and liabilities, managing market sensitivities, and ensuring the Bank's ability to fund its obligations as they fall due. Daily and weekly reports are generated which monitor deposits by counterparties to ensure maintenance of a diversified funding base in terms of individual depositors, their ratings, geographical concentration and maturities.

A diversified funding base has evolved around the deposits raised from the interbank market, Sharia'a compliant market deposits received from customers, and medium term funds raised through the syndicated

borrowings. Access to available but uncommitted short-term funding from the Bank's established relationships, internationally and across the MENA region, provides additional comfort. As at year end 2009, UGB's liquidity ratio was 29% (2008: 37%). The Bank monitors this on a daily basis to ensure that the regulatory level of 25% is maintained at all times.

Liquidity risk is minimized by actively managing mismatches and through diversification of assets and liabilities. The Bank uses a combination of limits to ensure that liquidity risk is managed and controlled from the asset and liability perspective:

- **Maturity gap limits:** assets and liabilities in the Bank's balance sheet are grouped in specific maturity time buckets. The maximum liquidity mismatch between assets and liabilities in each defined time bucket (e.g. one to seven days, eight days to one month, one to three months, three to six months, six to 12 months, one to three years, three to five years and more than five years), is controlled by gap limits that have been set for each time bucket. The Risk Management team tracks these limits on a monthly basis.
- **Liquidity ratio limits:** the Bank has limits on a set of ratios which it uses proactively for monitoring liquidity risk. These include the current ratio, liquid assets as a percentage of total assets, liquid assets as a percentage of total liabilities, short-term liabilities as a percentage of total liabilities, etc.

Information on the liquidity risk and maturity profile of our asset and liability structure as at 2009 year end is detailed in Note 30.4 of the Consolidated Financial Statements. As of this date, 43% of total assets and 59% of total liabilities were contracted to mature within one year (2008: 36% and 57% respectively). A significant portion of assets with longer term maturities comprise readily realizable securities or listed assets with active markets.

### Interest Rate Risk in the Banking Book

Interest rate risk in the banking book arises as a result of mismatches in the repricing or maturity of interest rate sensitive financial assets and liabilities. This is also known as re-pricing risk. Additionally, UGB is exposed to basis value risk which results from a change in the relationship between the yields/yield curves of long and short positions with the same maturity in different financial instruments. This in effect means that the long and short positions no longer fully hedge each other.

UGB clearly identifies the sources of interest rate risk and the interest rate risk sensitive products and activities. It proactively measures and monitors the interest rate risk in the banking book. The Bank also periodically carries out stress tests to assess the effect of extreme movements in interest rates that could expose the Bank to high risks. A conscious effort is also made to match the amount of floating rate assets with floating rate liabilities in the banking book. All new products/transactions are evaluated with respect to the interest rate risk introduced by it and the identification of mitigating factors. UGB also enters into certain transactions in order to hedge exposures arising from day-to-day banking and investment activities. These hedge transactions may be instruments such as interest rate swaps (IRS) and floating rate notes (FRN), to convert a floating rate asset/liability into a fixed rate one or vice-versa. The Bank continuously monitors the effectiveness of the hedges.

### Concentration Risk

Concentration of exposures in credit portfolios is an important aspect of credit risk that is monitored separately in UGB. This risk can be considered from either a micro (idiosyncratic) perspective or a macro (systemic) perspective. The first type - name concentration, relates to imperfect diversification of risk in the portfolio, either because of its small size or because of large exposures to specific individual obligors/investments. The second type - sector concentration, relates to imperfect diversification across systemic components of risk, namely industry sectoral factors.

Concentration risk is captured in UGB's framework through the use of internal and external regulations that cap the maximum exposure to any single obligor/investment. There are established limits in place that set thresholds for aggregate industry, geography, and counterparty. The actual levels of exposure are monitored against approved limits and regularly reviewed by senior management and the Board of Directors.

The Bank pursues a set of internal policies and limits that ascertain to a large extent, that no defined exposure limits referred to in its various policies are exceeded. If any excess over exposure limits occurs, the Bank reports the excess immediately to the Central Bank for its consideration, along with the necessary action plan to bring the violated exposure back within its applicable limits.

### Legal Risk

Legal risk is defined as the loss that may arise as a result of the inability to enforce contracts and agreements entered into, the failure of these to adequately cover the risks, and liabilities the Bank may face, and their inability to protect the Bank's interests. In order to mitigate this risk, UGB uses industry standard master agreements whenever available. Expert legal advice is sought on all legal structures and arrangements to which the Bank is a party. A retainer agreement is maintained with a Bahrain law firm for the review of ordinary business agreements and, for special assignments documentation, the Bank involves international law firms. Proper execution and completion of all legal contracts is ensured prior to committing funds to the transactions. All legal documents are reviewed on a periodic basis to ensure their ongoing enforceability. These are also maintained under dual custody.

### Monitoring and Reporting

The monitoring and reporting of risk is conducted on a daily basis for market and liquidity risk, on a monthly basis for credit risk, and on a quarterly basis for operational risk. The regular forums in which risk related issues are highlighted and discussed are the weekly Management meetings, the quarterly Risk and Compliance Committee meetings and the Executive Committee meetings. The Board of Directors is also regularly apprised of pertinent risk issues including the semi-annual investment reviews and the proposed corrective action.

### Basel II

UGB's management continuously strives to meet or exceed industry compliance and regulatory standards. The introduction of the New Capital Accord and its adoption by the Central Bank of Bahrain beginning January 2008, is viewed by the Board and management as an opportunity to reassess and further improve upon our risk identification, measurement, control and reporting procedures, thus providing assurance to all the stakeholders on managing and controlling risks inherent in the Bank's business.

The Basel II guidelines aim at allowing qualifying banks to determine capital levels consistent with the manner in which they measure, manage and mitigate risks. The framework provides a spectrum of methodologies, from simple to advanced, for the measurement of both credit and operational risks. More advanced measurement of risks should result in regulatory and economic capital being more closely aligned. In addition, the framework as adopted by the CBB, envisages changes to the computation of Tier 1 and total capital by means of capital deductions for unconsolidated financial associates and large commercial exposure, that are in excess of 15% of the Bank's equity individually and 60% in aggregate.

While the overall objective of the new framework is to neither increase nor decrease the level of overall capital, some financial institutions witnessed an increase in regulatory capital, while others witnessed a decrease. The impact will depend upon the particular institution's business activity, asset mix, risk and loss experience and the ability of its risk management systems to measure and mitigate such risks.

Having fully implemented the Pillar I and Pillar III of the Basel II framework in 2008, as adopted by the Central Bank of Bahrain, the Bank made considerable progress in the implementation of Pillar II during 2009. This was done through the refinement of existing risk management systems and processes, the documentation of the interest rate risk and liquidity policy and the introduction of ICAAP related stress testing. As mandated by the CBB for all locally incorporated banks, UGB also completed its detailed risk review of its underlying activities.

The Risk and Compliance Committee of UGB supervises the adoption of best practices in the areas of risk and compliance and acts as the Basel II steering committee, responsible for monitoring the progress and facilitating a smooth transition towards complete compliance with provisions of the New Capital Accord. During the year the Committee met four times and resolved important matters.

### Capital Sources

UGB's capital is primarily derived from common shareholders' equity and retained earnings. Other sources of capital include subordinated long term debt.

### Capital Management

The Board of Directors of the Bank is responsible for ensuring that adequate levels of capital are maintained at all times. The Board also approves and oversees capital policy and processes adopted for capital management by the Bank.

### Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (ICAAP) is a requirement of Pillar II norms of Basel II and involves appropriate identification, measurement of risks and maintaining an appropriate level of internal capital in alignment with the Bank's overall risk profile and business plan. The objective of the Bank's ICAAP is to ensure that adequate capital is retained at all times to support the risks the Bank undertakes in the course of its business.

The Bank recognizes that its earnings are the first line of defense against losses arising from business risks and that capital is one of the tools to address such risks. Also important, are establishing and implementing documented procedures, defining and monitoring internal limits on the Bank's activities/exposures, strong risk management, compliance and internal control processes, as well as adequate provisions for credit, market and operational losses. However since capital is vital to ensure

## Risk Framework

Continued

continued solvency, the Bank's objective is to maintain sufficient capital such that a buffer above regulatory capital adequacy requirement is available to meet risks arising from fluctuations in asset values, revenue streams, business cycles, expansion and future requirements. The Bank's ICAAP identifies risks that are material to the Bank's business and the capital that is required to be set aside for such risks.

The Bank seeks to achieve the following goals by implementing an effective capital management framework:

- Meet the regulatory capital adequacy requirement and maintain a prudent buffer;
- Generate sufficient capital to support overall business strategy;
- Integrate capital allocation decisions with the strategic and financial planning process;
- Enhance Board and senior management's ability to understand how much capital flexibility exists to support the overall business strategy;
- Enhance the Bank's understanding on capital requirements under different economic and stress scenarios; and
- Build and support the link between risks and capital and tie performance to both of them.

The Bank's ICAAP has been finalized and will be submitted to the Board of Directors and the Central Bank of Bahrain in due course for their review and approvals.

### Corporate Governance

The Board of Directors and senior management of UGB are committed to fostering a culture of good corporate governance. This involves implementing and adhering to a sound framework of policies, processes, laws and customs that ensure that the interests of the shareholders and other stakeholders are protected. In the long run, corporate governance results in better operational performance, greater access to capital markets and funding, lower costs of capital, higher valuations and effective corporate social responsibility.

UGB's corporate governance practices are in adherence to the requirements of the Kingdom of Bahrain, and the countries in which its subsidiaries operate. The Bank actively participates in consultation papers circulated by the CBB, monitors the introduction of new rules, and modifies its policies and practices to meet any additional requirements. The Board of Directors is at the helm of the corporate governance structure that is set out below.

### Board of Directors

The Board of Directors of UGB comprises six Directors including one independent, non executive Director. The Board is ultimately accountable and responsible for the affairs and performance of UGB. It establishes organizational and strategic policies to be implemented on a daily basis by senior management. It also ensures compliance with the laws and regulations in the jurisdictions in which the Bank operates, and protects shareholders, depositors and creditors through the frequent monitoring of internal and external controls.

The Board of Directors is headed by the Chairman and holds scheduled and unscheduled meetings to consider and take decisions on corporate management, business proposals and active review of the implementation of strategic initiatives undertaken. It also reviews and approves quarterly and yearly financial statements. In addition, the Directors work closely with the management team who regularly provide forecasts, year to date financial and business updates, developments

in the market place, and changes to plans. During 2009, the Board held seven meetings to consider various business proposals and financial strategic actions. Apart from this, there were twenty Executive Committee decisions, four Audit Committee meetings and three Insider Trading Committee meetings. As mandated by the CBB, a report on Corporate Governance is submitted to the regulators on a yearly basis.

### Board Committees

#### *Executive Committee (EC)*

While the Board's role is to approve investment strategies for UGB, day to day decision making is delegated to the Executive Committee comprising four Directors. These include the Chairman, Deputy Chairman and two other Directors. The EC meets between Board meetings to approve Investment proposals over the Investment Committee's delegated thresholds. In the event that the Executive Committee is unable to meet, the Chairman and one of the Directors, each have delegated authority to act on its behalf.

#### *Audit Committee*

The Committee assists the Board in carrying out its responsibilities regarding internal controls, internal and external audit, compliance with laws, financial reporting practices, accounting policies, corporate governance and in the review of UGB's Strategy and Business Plans. Its main functions encompass assessing the quality and integrity of UGB's financial reporting; ensuring the independence of UGB's internal audit functions; reviewing the adequacy and overseeing UGB's compliance with all existing and newly introduced laws and regulations. The Board Audit Committee consists of three Directors with sufficient technical expertise to enable the Committee to perform its functions. Issues are reviewed in the meetings that are convened at least 4 times in a year.

#### *Insider Trading Committee*

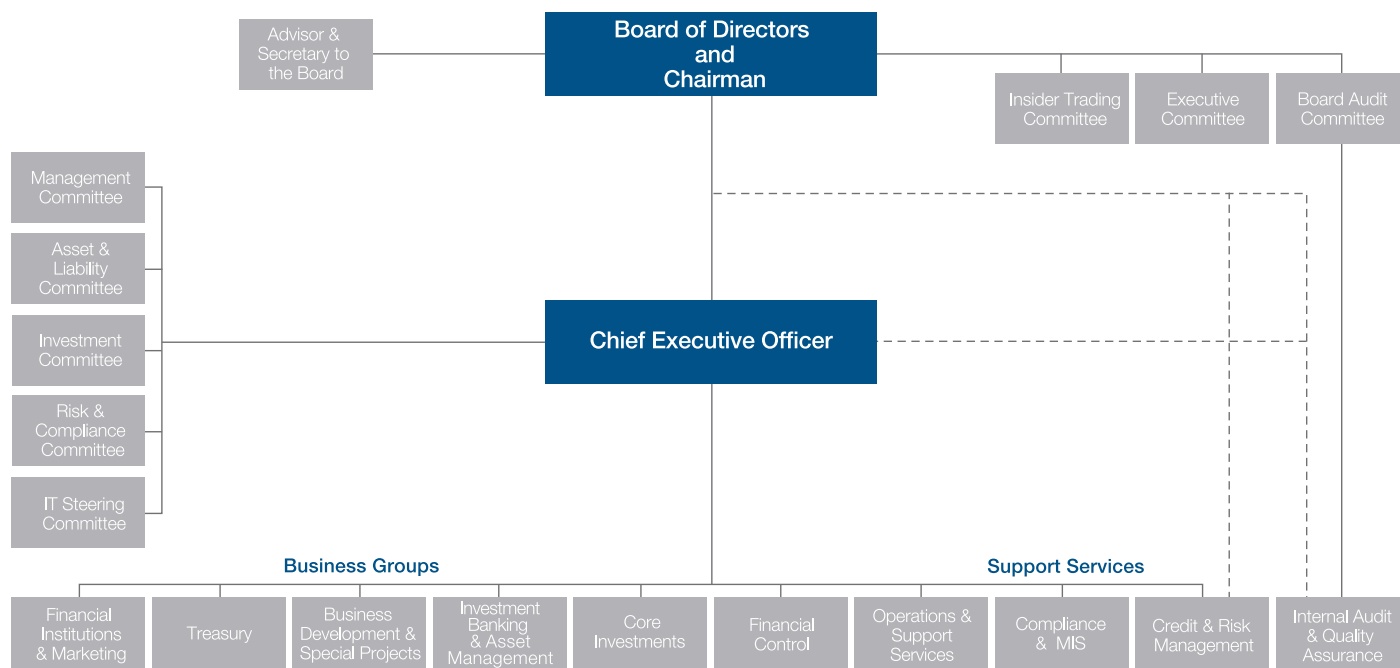
In accordance with the CBB rules, the Board of Directors has constituted an Insider Trading Committee to manage insiders' holdings and trading. The Committee consists of two Directors, and the Chief Executive Officer. This forum met three times last year and ensured that all transactions were within the mandates provided by the CBB's rules on insider trading and UGB's internal policies.

In addition to the Board committees, there are several management committees that have been instituted to ensure that there is adequate supervision of the Bank's activities. The Executive Management of UGB is headed by the Chief Executive Officer who is responsible for the day-to-day conduct of UGB's business in line with policies and procedures approved by the Board of Directors. The management committees complement and facilitate the efforts of the Board of Directors towards meeting its responsibility towards all stakeholders.

# Risk Framework

Continued

The following chart describes the relationship of the various internal committees:



## Management Committees

### Management Committee

The Management Committee acts as the steering body of the Bank. It provides a forum for discussing all relevant issues pertaining to the Bank's ongoing activities. It meets on a weekly basis and consists of the Chief Executive Officer and all Department Heads. It also serves to follow up on any action points that are warranted.

### Investment Committee (IC)

The five member Investment Committee is constituted by a majority motion passed in the Executive Committee. It is headed by a Director and comprises the Chief Executive Officer, the Chief Financial Officer, the Head of Investment Banking and Asset Management and the Head of Core Investments. The Head of Credit and Risk Management is the Secretary of this Committee and participates in meetings as a non voting member. Under the terms of reference, the committee is responsible for approving or recommending approval to the Executive Committee issues related to limits for individual exposures, investments and concentrations towards banks, countries, industries, risk rating classes or other special risk asset categories. In addition, the committee also monitors the overall risk profile of the Bank and recommends provision levels to the Executive Committee.

Pursuant to its investment approval guidelines, the Investment Committee undertakes its function by reviewing the relevant market opportunity - the industry, sector and relevant trends, key business drivers and comparative advantages (market share, brand, cost efficiencies, etc), regulatory requirements, competition and

independent market opinion or credit rating reports. It then reviews the business model and product lines, seeks customer/client background checks and references, procures details of manufacturing/service processes, distribution, client mix and the concentration and product development. The Investment Committee focuses on other relevant information pertaining to the investment: ownership, relationships to the parent or other industrial groups, key managers and their backgrounds (with independent references), corporate governance practices, organisational structure, employee retention and labour issues, management information systems and internal controls.

The Investment Committee also takes into consideration financial information (company financial and operational data represented by financial ratio analysis for the past three to five years). Emphasis is placed on the results of the last financial reporting period, including audits and management letters, the results of Net Present Value (NPV), Internal Rate of Return (IRR), Adjusted IRR, payback period (nominal cash flows), adjusted payback period (discounted cash flows) and tax considerations.

For any investment, legal/regulatory issues, such as intellectual property, compliance with relevant statutes and regulations, constitutive documents and pending litigation are also considered and analysed. The Investment Committee reviews the use of investment proceeds, the background of other co-investors involved in the proposed transaction, their roles and the proposed deal structure, together with expected exit timeframes, and the additional underlying risks involved in the investment, (technology shift, market shift, regulatory changes, financial structure, etc).

## Risk Framework

Continued

### *Asset and Liability Committee (ALCO)*

The nine member Asset and Liability Committee headed by the Chief Executive Officer, is assigned the task of establishing policy and objectives for the asset and liability management of UGB's balance sheet in terms of structure, distribution, risk, return and its impact on profitability. It also monitors the tenor and cost/yield profiles of assets and liabilities and evaluates the Bank's balance sheet both from interest rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions, monitors liquidity and foreign exchange exposures and positions.

### *Risk and Compliance Committee*

The primary function of the Risk and Compliance Committee is to assist the Board of Directors in fulfilling its responsibilities of defining UGB's risk appetite and overseeing the identification, measurement, monitoring and controlling of UGB's principal business risks. It also monitors adherence to stipulated regulatory deadlines, reviews compliance to internal and external policies and apprises senior management on the impact of newly introduced regulatory requirements. It is headed by the Chief Executive Officer and includes the Heads of Credit and Risk Management, Compliance and four other senior management team members. The Head of Internal Audit and Quality Assurance attends the meetings in his capacity as an observer.

### *IT Steering Committee (ITSC)*

The five-member IT Steering Committee headed by the Chief Operating Officer, is responsible for assisting the Board in the supervision of IT related activities. The ITSC ensures that it minimises the risks associated with UGB's investment in information technology and that it contributes to the attainment of corporate objectives. The Head of Internal Audit and Quality Assurance is a non voting member of this committee.

### **Compliance and Anti-Money Laundering**

In accordance with CBB guidelines, the Bank has a designated Chief Compliance Officer who acts as the central coordinator for all matters relating to CBB regulatory reporting and other requirements. A framework of relevant policies and processes covering the areas of corporate governance, code of conduct and conflict of interest are encapsulated in the Compliance Charter and the Code of Conduct. These documents have been approved by the Board of Directors and help define, clarify, assert and enforce the role in governance within UGB. The Bank uses a Compliance Checklist which is linked to the relevant section of the CBB's rulebook. This enables it to adhere to impending deadlines for statutory reporting. A Compliance Report is presented every quarter by the Chief Compliance Officer, to members of the Risk and Compliance Committee. Forthcoming deadlines, as well as feedback on ongoing consultations are highlighted at quarterly Risk and Compliance Committee meetings. Compliance is also responsible to ensure that all ad-hoc requests for information from regulatory authorities are met immediately and that corrective action is taken if warranted. The function has access to the Board's Audit Committee, in line with policy dictated by best practices.

UGB shares a strong rapport with its local regulators - the Central Bank of Bahrain (CBB), the Ministry of Industry & Commerce, the Labour Market Regulatory Authority and the Bahrain Stock Exchange. There is proactive dialogue as and when warranted. In addition, the CBB calls for a Prudential Meeting with Senior Management once a year. This forum involves the regulators getting an overview of the bank's performance, its business model, its strategic two year plan, its outlook on overall market conditions and the risk management and capital adequacy framework.

The Bank also has a designated Money Laundering Reporting Officer (MLRO) and a Deputy MLRO. It has implemented an anti-money laundering and terrorism financing policy, and periodically trains its staff with the objective of raising awareness of identifying and reporting suspicious transactions. It follows prudent practices related to 'Customer Due Diligence', 'Beneficial Ownership' and the 'Know Your Customer' principles. In accordance with the regulatory requirements, the MLRO reviews the effectiveness of its AML/CFT procedures, systems and controls, at least once each calendar year. The review covers UGB and its subsidiaries inside and outside of Bahrain. The Bank's anti-money laundering measures are annually audited by independent external auditors to provide a separate assurance to the Compliance Directorate of the CBB.

UGB subscribed to the Complanet service in early 2009 with the objective of strengthening its AML program. Complanet provides access to the PEP database, media alerts, the OFAC and sanction lists of other regulators, and also enables the Bank to conduct a search on the background of potential entities or individuals with whom it may enter into a relationship. It also provides a reassurance to the Bank that no angle has been inadvertently overlooked.

### **Transparency and Disclosure**

UGB is transparent and open with its regulators, shareholders, lenders and other stakeholders. The Board of Directors, has approved a Disclosure and Transparency Policy, which lays down the set disclosure standards for UGB. The objective of this policy is to facilitate understanding and compliance with the disclosure and transparency requirements for all material and non material information with regards to the affairs of the bank. Adequate consideration has been given to regulatory requirements that UGB is subject to. The policy was also introduced to enable the Board of Directors, senior management and outside readers to monitor the transparency adopted, and enhance the Bank's image through accurate and timely disclosure of information.

As part of its communication strategy, UGB's website ([www.ugbbah.com](http://www.ugbbah.com)) is the repository of financial information, together with the Directors' reports and financial commentary, the financial statements, relevant information on the Group/Bank, key products and services, and press releases that are issued periodically to the media. As mandated by the Central Bank of Bahrain, the detailed risk management and capital adequacy calculations that relate to Basel II – Pillar III have also been uploaded under the 'Reports and Financials' section of the website.

Group: large, diversified and quality portfolio

Portfolio Highlights		Activities						
MENA	Country	CB	AMR	IM	RE	IS	PS	IT
GCC	Bahrain							
	Kuwait							
	Oman							
	Qatar							
	KSA							
	UAE							
Non-GCC	Algeria							
	Egypt							
	Jordan							
	Lebanon							
	Syria							
	Tunisia							
	Iraq							
Palestine								

MENA	Country	CB
GCC	Bahrain	
	Kuwait	
	Oman	
Non-GCC	Qatar	
	KSA	
	UAE	
	Algeria	
Egypt		

ICB INVESTOR PRESENTATION

DELL

## Independent Auditors' Report to the Shareholders of United Gulf Bank B.S.C.

We have audited the accompanying consolidated financial statements of United Gulf Bank B.S.C. [the Bank] and its subsidiaries [together the Group], which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2009 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking license.



24 February 2010  
Manama, Kingdom of Bahrain

# Consolidated Statement of Financial Position

At 31 December 2009

	Note	2009 US\$ 000	2008 US\$ 000
<b>ASSETS</b>			
Demand and call deposits with banks		20,328	27,418
Time deposits with banks		176,203	79,103
Investments carried at fair value through statement of income	4	155,315	245,164
Non-trading investments	5	715,321	878,008
Loans and receivables	6	52,595	7,770
Other assets	7	46,203	73,828
Investments in associates and joint venture accounted for under the equity method	8	647,852	626,180
Investment properties	9	26,794	23,311
Property and equipment		983	1,879
Goodwill	10	55,168	46,573
Assets of disposal group classified as held for sale	11	473,937	859,889
<b>TOTAL ASSETS</b>		<b>2,370,699</b>	<b>2,869,123</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks and other financial institutions		458,347	497,795
Deposits from customers		227,183	61,039
Loans payable	12	500,986	588,070
Bonds	13	68,888	71,630
Subordinated debt	14	100,000	100,000
Other liabilities	15	72,002	65,552
Liabilities of disposal group classified as held for sale	11	370,968	669,786
<b>TOTAL LIABILITIES</b>		<b>1,798,374</b>	<b>2,053,872</b>
<b>EQUITY</b>			
Share capital	16	207,694	206,232
Treasury shares	16	(12,725)	(12,725)
Share premium	16	9,612	8,171
Statutory reserve	16	91,505	89,495
General reserve	16	71,990	69,980
Treasury share reserve	16	14,308	14,308
Fair value reserve	17	(30,966)	2,375
Foreign currency translation reserve	16	36,180	72,102
Retained earnings		119,870	253,100
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT</b>		<b>507,468</b>	<b>703,038</b>
Non-controlling interests in equity		64,857	112,213
<b>TOTAL EQUITY</b>		<b>572,325</b>	<b>815,251</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,370,699</b>	<b>2,869,123</b>



**Faisal Hamad Al-Ayyar**  
Chairman



**Samer Khanachet**  
Director



**Mohammad Haroon**  
Acting Chief Executive Officer

The attached explanatory notes 1 to 32 form part of these consolidated financial statements

# Consolidated Statement of Comprehensive Income

Year Ended 31 December 2009

	Note	2009 US\$ 000	2008 US\$ 000
<b>Continuing operations</b>			
Investment income	18	94,248	280,982
Interest income	19	18,111	20,742
		112,359	301,724
Fees and commissions	20	23,736	56,251
Foreign currency translation gains - net		961	1,252
Share of results of associates and joint venture accounted for under the equity method - net	21	(12,510)	(17,834)
<b>Total income</b>		124,546	341,393
Interest expense	22	(51,301)	(67,408)
<b>Operating income before expenses and provisions</b>		73,245	273,985
Salaries and benefits		(25,519)	(38,619)
General and administrative expenses		(14,987)	(17,902)
<b>Operating income before provisions</b>		32,739	217,464
Impairment loss on investments	5,8	(19,747)	(56,651)
Write-back of (provision for) doubtful loans, guarantees and other assets - net		1,261	(16)
<b>Net profit for the year from continuing operations</b>		14,253	160,797
<b>Discontinued operations</b>			
Net profit from discontinued operations	11	9,590	53,820
<b>NET PROFIT</b>		23,843	214,617
<b>Attributable to:</b>			
<b>Shareholders of the parent</b>			
from continuing operations		11,260	158,443
from discontinued operations		8,834	48,835
		20,094	207,278
<b>Non-controlling interests</b>			
from continuing operations		2,993	2,354
from discontinued operations		756	4,985
		3,749	7,339
		23,843	214,617
<b>Earnings per share</b>			
Basic earnings per share (US cents)	23	2.46	25.31
Diluted earnings per share (US cents)	23	2.45	25.10
Basic earnings per share from continuing operations (US cents)		1.38	19.35
Diluted earnings per share from continuing operations (US cents)		1.37	19.19

The attached explanatory notes 1 to 32 form part of these consolidated financial statements

# Consolidated Statement of Comprehensive Income

Year Ended 31 December 2009

	2009 US\$ 000	2008 US\$ 000
<b>NET PROFIT</b>	<b>23,843</b>	<b>214,617</b>
<b>Other comprehensive (loss) income:</b>		
Foreign currency translation reserve	(37,792)	24,683
Fair value reserve	(33,668)	(46,644)
Share of other comprehensive (loss) income of associates and joint venture accounted for under equity method	(2,133)	523
Cash flow hedges	(79)	(13,208)
<b>Other comprehensive loss</b>	<b>(73,672)</b>	<b>(34,646)</b>
<b>TOTAL COMPREHENSIVE (LOSS) INCOME</b>	<b>(49,829)</b>	<b>179,971</b>
<b>Attributable to:</b>		
<b>Shareholders of the parent</b>		
from continuing operations	(56,824)	127,075
from discontinued operations	7,655	54,180
	(49,169)	181,255
<b>Non-controlling interests</b>		
from continuing operations	(1,055)	(5,646)
from discontinued operations	395	4,362
	(660)	(1,284)
	(49,829)	179,971

The attached explanatory notes 1 to 32 form part of these consolidated financial statements

# Consolidated Statement of Cash Flows

Year Ended 31 December 2009

	Note	2009 US\$ 000	2008 US\$ 000
<b>OPERATING ACTIVITIES</b>			
Net profit including profit attributable to non-controlling interests		23,843	214,617
Adjustments for non-cash items:			
Depreciation		838	2,367
Change in fair value of investment properties	9	1,305	1,352
Loss on investments carried at fair value through statement of income		10,118	92,738
Share of results of associates and joint venture accounted for under the equity method - net	21	12,510	17,834
Share of results of disposal group	11	(9,590)	(53,820)
Impairment loss on investments		19,747	56,651
(Write-back of) provision for doubtful loans, guarantees and other assets - net		(1,261)	16
Gain on sale of investment properties	18	(17)	(1,438)
Gain on sale of disposal group	18	(26,748)	(346,077)
Interest income		(18,111)	(20,742)
Interest expense		51,301	67,408
Dividend income	18	(16,997)	(22,707)
Other non-cash items		(1,720)	1,482
		45,218	9,681
Changes in operating assets and liabilities:			
Time deposits with banks with maturities of more than ninety days		(11,807)	26,261
Investments carried at fair value through statement of income		79,731	18,567
Non-trading investments		121,649	(410,409)
Loans and receivables		(43,564)	284,081
Other assets		25,795	(13,888)
Due to banks and other financial institutions		(39,448)	(88,888)
Deposits from customers		166,144	(377,073)
Other liabilities		13,789	(18,575)
Net assets of disposal group classified as held for sale		(26,528)	(241,767)
Interest received		19,939	22,054
Interest paid		(57,799)	(70,575)
Dividends received	18	16,997	22,707
Donations		(500)	(500)
Directors' remuneration		(420)	(420)
Net cash from (used in) operating activities		309,196	(838,744)
<b>INVESTING ACTIVITIES</b>			
Investments in associates and joint venture accounted for under the equity method - net		(45,813)	148,437
Proceeds from sale of disposal group	11	150,000	450,000
Proceeds from disposal of investment properties		457	3,590
Purchase of investment properties	9	(5,228)	-
Property and equipment - net		58	7,299
Acquisition of additional interest in a subsidiary - net		(8,595)	(36,244)
Net cash from investing activities		90,879	573,082
<b>FINANCING ACTIVITIES</b>			
Loans (repaid) raised		(87,084)	10,522
Treasury shares acquired		-	(11,627)
Proceeds from issue of shares		2,903	6,296
Dividends paid		(150,664)	(132,520)
Net cash used in financing activities		(234,845)	(127,329)
Foreign currency translation adjustments		(35,922)	24,346
Movement in non-controlling interests		(51,105)	(38,109)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		78,203	(406,754)
Cash and cash equivalents at 1 January		104,957	511,711
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	25	183,160	104,957

The attached explanatory notes 1 to 32 form part of these consolidated financial statements

# Consolidated Statement of Changes in Equity

Year Ended 31 December 2009

	Attributable to shareholders of the parent											
	Share capital US\$ 000	Treasury shares US\$ 000	Share premium US\$ 000	Statutory reserve US\$ 000	General reserve US\$ 000	Treasury share reserve US\$ 000	Fair value reserve US\$ 000	Foreign currency translation reserve US\$ 000	Retained earnings US\$ 000	Non-controlling interests US\$ 000	Total equity US\$ 000	
Balance at 1 January 2009	206,232	(12,725)	8,171	89,495	69,980	14,308	2,375	72,102	253,100	703,038	112,213	815,251
Profit for the year	-	-	-	-	-	-	-	-	20,094	20,094	3,749	23,843
Other comprehensive loss	-	-	-	-	-	-	(33,341)	(35,922)	-	(69,263)	(4,409)	(73,672)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(33,341)	(35,922)	20,094	(49,169)	(660)	(49,829)
Shares issued	1,462	-	1,441	-	-	-	-	-	-	2,903	-	2,903
Transfers during the year	-	-	-	2,010	2,010	-	-	-	(4,020)	-	-	-
Other movements in equity of subsidiaries and associated companies	-	-	-	-	-	-	-	-	338	338	-	338
Dividends (note 16)	-	-	-	-	-	-	-	-	(150,664)	(150,664)	-	(150,664)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(1,172)	(1,172)
Employee share option plan	-	-	-	-	-	-	-	-	1,022	1,022	-	1,022
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	(45,524)	(45,524)	(45,524)
<b>Balance at 31 December 2009</b>	<b>207,694</b>	<b>(12,725)</b>	<b>9,612</b>	<b>91,505</b>	<b>71,990</b>	<b>14,308</b>	<b>(30,966)</b>	<b>36,180</b>	<b>119,870</b>	<b>507,468</b>	<b>64,857</b>	<b>572,325</b>
Balance at 1 January 2008	203,747	(341)	4,360	68,767	49,252	13,551	52,744	47,756	221,919	661,755	142,983	804,738
Profit for the year	-	-	-	-	-	-	-	-	207,278	207,278	7,339	214,617
Other comprehensive (loss) income	-	-	-	-	-	-	(50,369)	24,346	-	(26,023)	(8,623)	(34,646)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(50,369)	24,346	207,278	181,255	(1,284)	179,971
Shares issued	2,485	-	3,811	-	-	-	-	-	-	6,296	-	6,296
Transfers during the year	-	-	-	20,728	20,728	-	-	-	(41,456)	-	-	-
Net purchase of treasury shares	-	(12,384)	-	-	-	757	-	-	-	(11,627)	-	(11,627)
Other movements in equity of subsidiaries and associated companies	-	-	-	-	-	-	-	-	(3,229)	(3,229)	-	(3,229)
Dividends (note 16)	-	-	-	-	-	-	-	-	(132,520)	(132,520)	-	(132,520)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(15,581)	(15,581)
Employee share option plan	-	-	-	-	-	-	-	-	1,108	1,108	-	1,108
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(13,905)	(13,905)
<b>Balance at 31 December 2008</b>	<b>206,232</b>	<b>(12,725)</b>	<b>8,171</b>	<b>89,495</b>	<b>69,980</b>	<b>14,308</b>	<b>2,375</b>	<b>72,102</b>	<b>253,100</b>	<b>703,038</b>	<b>112,213</b>	<b>815,251</b>

The attached explanatory notes 1 to 32 form part of these consolidated financial statements

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 1 INCORPORATION AND PRINCIPAL ACTIVITIES

United Gulf Bank B.S.C. [the Bank] is a joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550 and listed on the Bahrain and Kuwait Stock Exchanges. 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].

The principal activities of the Bank and its subsidiaries [the Group] comprise 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 and ultimate holding company is Kuwait Projects Company (Holding) K.S.C. (closed) [KIPCO], a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. As at 31 December 2009 KIPCO owned 95.22% of the Bank's outstanding shares (2008: 91.72%).

These consolidated financial statements were authorised for issue by the Board of Directors on 24 February 2010.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board (IASB) and the relevant provisions of the Central Bank of Bahrain and Financial Institutions Law and the Bahrain Commercial Companies Law.

### Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement at fair value of investments carried at fair value through statement of income, non-trading investments, investment properties and derivative financial instruments.

The consolidated financial statements have been presented in US Dollars (US\$) being the functional currency of the Group and rounded to the nearest US\$ thousands except when otherwise indicated.

### Changes in accounting policy and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except that the Group has adopted the following new and amended IASB Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations during the year:

#### *IFRS 2 Share-based payments (Revised) - Vesting Conditions and Cancellations*

The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

#### *Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*

The amendments to IFRS 7 were issued in March 2009 and are effective for financial years beginning on or after 1 January 2009 to enhance fair value and liquidity disclosures.

With respect to fair value, the amendments require disclosure of a three-level hierarchy, by class, for all financial instruments recognised at the fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the consolidated financial position or the comprehensive income of the Group.

Comparative information is not presented as it is not required by the transition provisions of the amendment.

#### *IFRS 8 Operating Segments*

IFRS 8 replaced IAS 14 'Segment Reporting' and is effective for annual periods commencing 1 January 2009. The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting to the chief operating decision-maker. The application of IFRS 8 did not have any material effect for the Group and has no impact on segment disclosure and on the measurement bases within segments.



# Notes to the Consolidated Financial Statements

At 31 December 2009

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### *IAS 1 Presentation of Financial Statements (Revised)*

The revised standard, effective for financial years beginning on or after 1 January 2009, requires changes in equity arising from transactions with shareholders of the Bank in their capacity as owners (i.e. owner changes in equity) to be presented in the consolidated statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in the consolidated statement of comprehensive income. Components of comprehensive income are not permitted to be presented in the consolidated statement of changes in equity. Comparative information has been restated so that it also conforms with the revised standard. Since this change only impacts the presentation of the consolidated financial statements, there is no impact on retained earnings.

### *IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations arising on Liquidation*

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments are effective for financial years beginning on or after 1 January 2009 and did not have any material impact on the consolidated financial position or the comprehensive income of the Group.

### *Amendments to IAS 40 Investment Property: Property under Construction or Development for Future use as Investment Property*

The standard has been amended to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until fair value can be determined or construction is complete. The adoption of these amendments are effective for financial years beginning on or after 1 January 2009 and did not have any material impact on the consolidated financial position or the comprehensive income of the Group.

### *IFRIC 16 Hedges of a Net Investment in a Foreign Operation*

The Interpretation is effective for financial years beginning on or after 1 October 2008. IFRIC 16 provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation does not have a material impact on the Group's consolidated financial statements.

### **Future changes in accounting policies**

The Group has not elected to early adopt the following standards and amendments:

### *IFRS 2 Share-based Payments (Revised) - Cash Settled Share Based Transactions*

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. Application of the amended standard will become mandatory for the Group's 2010 financial statements.

### *IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)*

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. IFRS 3 (Revised 2008) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Application of the revised standards will become mandatory for the Group's 2010 financial statements.

### *IFRS 9 Financial Instruments Part 1: Classification and Measurement*

IFRS 9 was issued by the IASB in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. As per IFRS 9, financial assets are required to be classified into two measurement categories: a) measured subsequently at fair value; and b) measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through the statement of income. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through the statement of comprehensive income rather than the statement of income. There is to be no recycling of fair value gains and losses to the statement of income.

Adoption of IFRS 9 is mandatory from 1 January 2013, but earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### *IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk in particular situations. Adoption of this amendment is effective for financial years beginning on or after 1 July 2009. Application of the amendment will become mandatory for the Group's 2010 financial statements. The adoption of this amendment will not have any material effects for the Group.

### *IFRIC 17 Distributions of Non-cash Assets to Owners*

This interpretation explains how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognised when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. IFRIC 17 was issued in November 2008 and its adoption is effective for financial years beginning on or after 1 July 2009. Application of this interpretation will become mandatory for the Group's 2010 financial statements. The adoption of this interpretation will not have any material effects for the Group.

### Principles of Consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries [the Group]. Subsidiaries are those entities controlled by the Bank, other than in a fiduciary capacity. 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.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group holds the majority of the voting rights and has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interests represent the portion of income and net assets not owned, directly or indirectly, by the Bank and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Acquisition of non-controlling interests and partial/deemed disposals of subsidiaries are accounted for using the parent entity extension method, whereby:

- the difference between the consideration and the book value of the share of net assets is recognised as goodwill;
- in the case of partial disposals, the difference between the proceeds received and the book value of the share of net assets sold is recognised as profit or loss in the consolidated statement of income; and
- in the case of deemed partial disposals resulting from a capital increase, the difference between the book value of the share of net assets in the subsidiary after and before the capital increase is recognised as profit or loss in the consolidated statement of income.

The principal subsidiaries of the Bank are as follows:

<i>Name of the subsidiary</i>	Country of incorporation	Effective ownership as at 31 December 2009	Effective ownership as at 31 December 2008	Year of incorporation
<b><i>Held directly</i></b>				
Gulf Bank Algeria (formerly Algeria Gulf Bank)*	Algeria	-	83%	2003
KIPCO Asset Management Company [KAMCO]	Kuwait	86%	75%	1998
Tunis International Bank [TIB]**	Tunisia	77%	77%	1982
United Gulf Bank Securities Company	Bahrain	96%	93%	1998
United Gulf Financial Services Company	Qatar	-	90%	2006
Hatoon Real Estate Company	Kuwait	98%	98%	2008
Syria Gulf Investment Company	Syria	99%	99%	2007
United Gulf Financial Services Company-North Africa	Tunisia	85%	83%	2008

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### Principles of Consolidation (continued)

<i>Name of the subsidiary (continued)</i>	Country of incorporation	Effective ownership as at 31 December 2009	Effective ownership as at 31 December 2008	Year of incorporation
<b>Held through KAMCO</b>				
Al-Nuzoul Holding Company K.S.C. (Closed)	Kuwait	60%	60%	2005
Al-Janah Holding Company K.S.C. (Closed)	Kuwait	60%	60%	2005
KAMCO Real Estate Company S.P.C.	Bahrain	100%	100%	2005
Advantage Management Consulting Company K.S.C. (Closed)	Kuwait	-	58%	2005
Al Zad Real Estate W.L.L.	Kuwait	100%	100%	2007
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	100%	2007
First North Africa Real Estate Company W.L.L.	Kuwait	100%	100%	2007
Al Raya Real Estate Projects Company W.L.L.	Kuwait	100%	100%	2007
Orange Real Estate Company W.L.L.	Kuwait	100%	100%	2005
Al Rawabi International Real Estate Company W.L.L.	Kuwait	100%	-	2009
First Homes Real Estate Company W.L.L.	Kuwait	100%	-	2009

\* Classified as held for sale at 31 December 2008 and transferred during the year. Refer to note 11 for details.

\*\* Classified as held for sale as at 31 December 2008 and 2009. Refer to note 11 for details.

### Investments in associates and joint venture accounted for under the equity method

#### *Associated companies*

An associated company (or associate) is one in which the Group exercises significant influence (but not control) over its operations, generally accompanying, directly or indirectly, a holding between 20% and 50% of the voting power of the investee and is accounted for by the equity method.

Under the equity method, the investment in the associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commences until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in its comprehensive income that have not been recognised in the associate's statement of income. The Group's share of those changes is recognised directly in the statement of comprehensive income.

Unrealised gains and losses resulting from transactions with an associate are eliminated to the extent of the Group's share in the associate.

An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist. Whenever the impairment requirements of IAS 36 indicate that investment in an associate may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. Goodwill is included in the carrying amount of an investment in associate and, therefore, is not separately tested for impairment.

#### *Joint venture*

A joint venture is a contractual arrangement whereby the Group undertakes an economic activity with another entity that is subject to joint control. The joint venture is accounted for using the equity method of accounting. Under the equity method, the joint venture is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. The statement of income reflects the Group's share of the results of operations of the joint venture. Where there has been a change recognised directly in the other comprehensive income of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income. Unrealised profits and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the Group's interest in the joint venture.

The reporting dates of the associates, joint venture and the Group are identical and the associates' and joint venture's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill

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

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

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

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

### Non-current assets held for sale and discontinued operations

Non-current assets and disposal group classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from the discontinued operations are reported separately from income and expenses relating to continuing operations down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

### Investments carried at fair value through statement of income

Investments classified as carried at fair value through the statement of income comprise two categories: 'investments held for trading' and 'investments designated at fair value through statement of income'.

#### *Investments held for trading*

All investments held for trading are initially recognised at fair value. Transaction costs are immediately expensed in the consolidated statement of income. Subsequent to initial recognition, investments held for trading are remeasured at fair value and gains and losses arising from such remeasurement are included in the consolidated statement of income.

#### *Investments designated at fair value through statement of income*

These are investments that the Group designated at fair value through statement of income which are managed and their performance evaluated on fair value basis in accordance with the Group's investment strategy. These investments are initially recognised at fair value. Transaction costs are immediately expensed in the statement of income. Subsequent to initial recognition, investments held for trading are remeasured at fair value and gains and losses arising from such remeasurement are included in the consolidated statement of income.

### Non-trading investments

These are classified as follows:

- Held to maturity
- Available-for-sale
- Loans and receivables

#### *Held to maturity*

Investments with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold these investments to maturity. These investments are initially recognised at fair value, plus directly attributable transaction costs.



# Notes to the Consolidated Financial Statements

At 31 December 2009

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### Non-trading investments (continued)

#### *Held to maturity (continued)*

After initial recognition investments held to maturity are carried at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'interest income' in the consolidated statement of income. The losses, if any, arising from impairment of such investments are recognised in the statement of income.

#### *Investments available-for-sale*

Investments available-for-sale are those non-derivative financial assets that are designated as available-for-sale or are not classified as investment at fair value through statement of income, investments held to maturity or loans and receivables.

These investments are initially recognised at fair value, plus directly attributable transaction costs.

After initial recognition, investments available-for-sale are measured at fair value with gains and losses being recognised in the consolidated statement of comprehensive income until the investment is derecognised or determined to be impaired at which time the cumulative gains or losses previously reported in consolidated statement of comprehensive income are recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Dividends are included in 'dividend income'. Interest income on available-for-sale investments is recorded in 'interest income' in the consolidated statement of income.

### Loans and receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- (a) those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through statement of income;
- (b) those that the Group, upon initial recognition, designates as available-for-sale; or
- (c) those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs. Subsequently loans and receivables are carried at amortised cost, less any amount written off, and net of any provision for impairment.

### Derivatives and hedge accounting

The Group makes use of derivative instruments to manage exposure to foreign currency risk and interest rate risk. In order to manage a particular risk, the Group applies hedge accounting to transactions which meet the specified criteria.

### Investment properties

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

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

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income. The Group engages independent valuation specialists to determine the fair value of investment properties.

At the inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment properties (continued)

Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at each quarter. A hedge is regarded as highly effective if the changes in the fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

For the purpose of hedge accounting, hedges are classified into three categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction; and (c) hedge of net investment in a foreign operation.

#### *Fair value hedge*

In relation to fair value hedges, that qualify for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated statement of income.

#### *Cash flow hedge*

In relation to cash flow hedges the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in the fair value reserve in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised in the consolidated statement of income.

#### *Hedge of net investments in foreign operations*

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. On the disposal of the foreign operation, the cumulative value of any such gains or losses recognised in equity through other comprehensive income is transferred to the consolidated statement of income.

Derivatives are stated at fair values and carried as assets when their fair value is positive and as liabilities when their fair value is negative. For hedges which do not qualify for hedge accounting and held for trading derivatives, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of income for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For discontinued fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For discontinued cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

### Property and equipment

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

Depreciation is computed on a straight-line basis over estimated useful lives of 3 to 20 years on all property and equipment other than freehold land which is deemed to have an indefinite life. Expenditure for maintenance and repairs is expensed as incurred.

### Financial liabilities

Financial liabilities comprise due to banks and other financial institutions, deposits from customers, loans payable, bonds and subordinated debt and other liabilities. These are stated at amortised cost. Transaction costs are amortised over the period of the debt using the effective yield method. Deposits from customers include deposits from both external customers and other group companies.

### Treasury shares and treasury share reserve

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

### Cash and cash equivalents

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



# Notes to the Consolidated Financial Statements

At 31 December 2009

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fiduciary assets

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

### Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the date of statement of financial position.

### Taxes

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

### Derecognition

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

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

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

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

### Offsetting

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

### Trade and settlement date accounting

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

### Employees benefits

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

The Group operates an equity-settled, share-based Employee Stock Option Plan (ESOP or the plan). Under the terms of the plan, share options are granted to permanent employees, which are exercisable in a future period. The fair value of the options is recognised as an expense over the vesting period with a corresponding credit to equity. The fair value of the options is determined using the Black-Scholes option pricing model.

The proceeds received are credited to share capital (nominal value) and share premium when the options are exercised.

### Provisions

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

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, an impairment loss, is recognised in the consolidated statement of income.

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

#### *Investments available-for-sale*

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income – is removed from other comprehensive income and recognised in the statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the statement of income.

### Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.



# Notes to the Consolidated Financial Statements

At 31 December 2009

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fair values

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

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

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

- brokers' quotes
- recent transactions
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- option pricing models

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 31.

### Foreign currencies

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

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

#### *Translation of foreign currency transactions and balances*

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

#### *Translation of financial statements of foreign operations*

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

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

### Recognition of income and expenses

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

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### Recognition of income and expenses (continued)

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

Commission income and other fees are recognised when earned.

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

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

### Contingent liabilities and contingent assets

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

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

### Segment information

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

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

### Significant accounting judgements and estimates

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

#### *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, the 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.

#### *Classification of investments*

Management decides on acquisition of an investment whether it should be classified as carried at fair value through statement of income, held to maturity or available-for-sale.

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making short term profit. Classification of investments designated as fair value through statement of income depends on how management monitors the performance of these investments.

Securities which are eligible for reclassification in accordance with IAS 39 and the Group has an intention and ability to hold for a foreseeable future are reclassified as non-trading investments. Securities which are not held with the intent of sale in the near term and are eligible per IAS 39 are also reclassified as non-trading investments. An analysis of reclassified assets is disclosed in note 5.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular the Group has the intention and ability to hold these to maturity.

All other investments are classified as available-for-sale.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *Impairment of investments*

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires considerable judgment.



# Notes to the Consolidated Financial Statements

At 31 December 2009

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### Significant accounting judgements and estimates (continued)

#### *Impairment of goodwill*

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

#### *Impairment losses on loans and receivables*

The Group reviews its loans and receivables on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

#### *Collective impairment provisions on loans and receivables*

In addition to specific provisions against individually significant loans and receivables, the Group also makes a collective impairment provision against loans and receivables, which although not specifically identified against a loan have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal gradings take into consideration factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

#### *Fair value of financial instruments*

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

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same; and
- other valuation methods (note 31).

### Reclassification of financial assets

Effective from 1 July 2008, the Group may reclassify, in certain circumstances, non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories. From this date it may also reclassify, in certain circumstances, financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Group may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

For a financial asset reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in other comprehensive income is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in other comprehensive income is recycled to the statement of income.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through statement of income category after initial recognition. An analysis of reclassified assets is disclosed in note 5.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 3 FINANCIAL ASSETS AND LIABILITIES

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

	Held for trading US\$ 000	Designated at fair value through statement of income US\$ 000	Available-for-sale US\$ 000	Amortised cost / Loans and receivables US\$ 000	Total US\$ 000
<b>31 December 2009</b>					
Demand and call deposits with banks	-	-	-	20,328	20,328
Time deposits with banks	-	-	-	176,203	176,203
Investments carried at fair value through statement of income	24,861	130,454	-	-	155,315
Non-trading investments	-	-	379,665	335,656	715,321
Loans and receivables	-	-	-	52,595	52,595
Other assets	-	-	-	42,527	42,527
<b>Total financial assets</b>	<b>24,861</b>	<b>130,454</b>	<b>379,665</b>	<b>627,309</b>	<b>1,162,289</b>
Due to banks and other financial institutions	-	-	-	458,347	458,347
Deposits from customers	-	-	-	227,183	227,183
Loans payable	-	-	-	500,986	500,986
Other liabilities	-	-	-	72,002	72,002
Bonds	-	-	-	68,888	68,888
Subordinated debt	-	-	-	100,000	100,000
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,427,406</b>	<b>1,427,406</b>

	Held for trading US\$ 000	Designated at fair value through statement of income US\$ 000	Available-for-sale US\$ 000	Amortised cost / Loans and receivables US\$ 000	Total US\$ 000
<b>31 December 2008</b>					
Demand and call deposits with banks	-	-	-	27,418	27,418
Time deposits with banks	-	-	-	79,103	79,103
Investments carried at fair value through statement of income	48,466	196,698	-	-	245,164
Non-trading investments	-	-	528,985	349,023	878,008
Loans and receivables	-	-	-	7,770	7,770
Other assets	-	-	-	69,312	69,312
<b>Total financial assets</b>	<b>48,466</b>	<b>196,698</b>	<b>528,985</b>	<b>532,626</b>	<b>1,306,775</b>
Due to banks and other financial institutions	-	-	-	497,795	497,795
Deposits from customers	-	-	-	61,039	61,039
Loans payable	-	-	-	588,070	588,070
Other liabilities	-	-	-	65,552	65,552
Bonds	-	-	-	71,630	71,630
Subordinated debt	-	-	-	100,000	100,000
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,384,086</b>	<b>1,384,086</b>

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 4 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2009 US\$ 000	2008 US\$ 000
<b>Investments held for trading</b>		
Quoted equities	24,861	48,466
<b>Investments designated at fair value through statement of income</b>		
Managed funds	130,454	196,698
	<b>155,315</b>	<b>245,164</b>

Managed funds primarily represent private equity funds invested through unlisted companies and limited partnership interests. The fund managers have created these legal structures for tax efficiency and to meet other investors' requirements. The underlying investments in these funds are primarily in quoted debt and equity instruments in Kuwait and other international markets.

## 5 NON-TRADING INVESTMENTS

Non-trading investments comprise available-for-sale investments as follows:

	2009 US\$ 000	2008 US\$ 000
<b>Quoted</b>		
Equities	67,475	88,317
<b>Unquoted</b>		
Equities	104,139	198,693
Real estate managed funds	12,339	20,203
Other managed funds	185,140	210,816
Debt securities	346,228	359,979
Total unquoted	647,846	789,691
	<b>715,321</b>	<b>878,008</b>

In October 2008, the International Accounting Standards Board [IASB] issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" titled "Reclassification of Financial Assets". The amendments to IAS 39 permit reclassification of financial assets from "held for trading" category to the "available-for-sale" category in certain circumstances.

The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the IAS 39 amendments. The amendments were effective retrospective from 1 July 2008.

As per the amendments, the Group reclassified certain financial assets from "held for trading" category to "available-for-sale" category. The assets were reclassified with retrospective effect as on 1 July 2008. The carrying value of these financial assets, as at date of reclassification, was US\$ 19,082 thousand.

The carrying values and fair values of the financial assets reclassified are as follows:

	2009 US\$ 000	2008 US\$ 000
Carrying value and fair value as at 31 December	12,968	13,171

Fair value loss that would have been recognised in the consolidated statement of income for the period from the date of reclassification to 31 December 2009 had the financial assets not been reclassified amounts to US\$ 3,960 thousand (six month period ended 31 December 2008: US\$ 3,757 thousand).

Included under non-trading investments are unquoted available-for-sale investments, primarily representing nominal equity stakes upto 10% in various geographically and sectorally dispersed companies, amounting to US\$ 77,843 thousand (2008: US\$ 161,726 thousand) for which fair value cannot be determined with sufficient accuracy, as future cash flows are not determinable.

During the year impairment losses of US\$ 10,247 thousand (2008: US\$ 56,651 thousand) have been recognised against non-trading investments.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 6 LOANS AND RECEIVABLES

	2009 US\$ 000	2008 US\$ 000
Commercial loans	55,112	10,499
Overdrafts	478	-
Staff loans	2,163	2,466
	57,753	12,965
Less: Provision for impairment	(5,158)	(5,195)
	52,595	7,770

The movements in the provision for impairment are as follows:

	2009 US\$ 000	2008 US\$ 000
At 1 January	5,195	13,280
Relating to assets held for sale	-	(8,940)
Charge for the year	123	1,000
Write backs	(234)	(891)
Other adjustments	74	746
At 31 December	5,158	5,195

The majority of the provision for impairment relates to the commercial loans:

	2009 US\$ 000	2008 US\$ 000
Individual impairment	4,009	4,169
Collective impairment	1,149	1,026
	5,158	5,195
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	4,009	4,169

## 7 OTHER ASSETS

	2009 US\$ 000	2008 US\$ 000
Due from customers	25,160	19,730
Accounts receivable	4,911	42,864
Prepayments	3,676	4,516
Interest receivable	310	152
Others	12,146	6,566
	46,203	73,828

Due from customers is stated net of provision of US\$ 8,162 thousand (2008: US\$ 9,682 thousand). The net write back for the year amounted to US\$ 1,150 thousand (2008: net write back US\$ 93 thousand).

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE ACCOUNTED FOR UNDER THE EQUITY METHOD

### Investments in associates and joint venture

		Carrying value 2009 US\$ 000	Ownership % 2009 US\$ 000	Carrying value 2008 US\$ 000	Ownership % 2008 US\$ 000	
a)	Al-Dhiyafa Holding Company K.S.C (closed)	Hotel and tourism	54,025	31	49,130	27
b)	Al Sharq Financial Brokerage Company	Brokerage and investment business	19,621	20	21,274	20
c)	Dhow Development Company	Real estate	26	20	-	20
d)	Kuwait Education Fund	Education	5,612	31	6,722	31
e)	Kuwait Private Equity Opportunities Fund	Private equity fund	15,054	45	17,748	45
f)	Manafae Investment Company	Islamic investment	28,289	31	25,558	26
g)	North Africa Holding Company	Investments	63,021	37	41,455	23
h)	Royal Capital Company P.S.C.	Asset management and financial services	35,884	44	35,634	44
i)	SSH Dar International W.L.L.	Architectural consulting services	2,124	29	1,607	29
j)	Syria Gulf Bank	Commercial banking	15,800	28	15,767	28
k)	United Real Estate Company- Syria	Real estate	2,865	40	108	40
l)	United Networks Company	Telecommunication	12,831	28	13,364	28
m)	United Real Estate Company- Jordan	Real estate	27,251	47	15,843	27
n)	United Industries Company	Industrial and manufacturing	100,671	44	114,242	45
o)	United Health Care Company	Health services	74,552	22	64,178	20
p)	United Real Estate Company	Real estate	172,860	30	181,122	30
q)	United Universal Real Estate- Company	Real estate	625	20	725	20
r)	Millennium Finance Corporation	Islamic investment	-	-	21,703	33
s)	Millennium Private Equity Limited	Fund management	16,741	50	-	-
			647,852		626,180	

Summarised financial information of the Group's investments in associates and joint ventures is set out below:

	2009 US\$ 000	2008 US\$ 000
Total assets	3,170,128	3,433,478
Total liabilities	(1,376,769)	(1,508,992)
Net assets	1,793,359	1,924,486
Revenue	253,468	160,045
Profit (loss) for the year	(2)	(26,517)

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE ACCOUNTED FOR UNDER THE EQUITY METHOD (continued)

### Investments in associates and joint venture (continued)

- a) Al-Dhiyafa Holding Company K.S.C. (Closed) is a closed company incorporated in the State of Kuwait during 2005. The Bank directly owns 21% (2008: 17%) of the associate and indirectly owns additional 10% (2008: 10%) interest through its subsidiaries KAMCO and TIB.
- b) Al Sharq Financial Brokerage Company is a closed company incorporated in the State of Kuwait during 2005. The Bank directly owns 15% (2008: 15%) of the associate and indirectly owns additional 5% (2008: 5%) interest through its subsidiary KAMCO.
- d) Kuwait Education Fund is a fund with a variable capital of KWD 50 million. The Bank directly owns 14% (2008: 14%) of the associate and indirectly owns additional 17% (2008: 17%) interest through its subsidiary KAMCO.
- e) The Bank directly owns 15% (2008: 15%) of Kuwait Private Equity Opportunities Fund, a close ended fund incorporated in the State of Kuwait in 2004, and indirectly owns an additional 30% (2008: 30%) through its subsidiary KAMCO.
- f) The Bank directly owns nil (2008: 1%) of Manafae Investment Company and indirectly owns 31% (2008: 25%) through its subsidiaries KAMCO and TIB.
- g) The Bank directly owns 27% (2008: 15%) of North Africa Holding Company, a closed company incorporated in the State of Kuwait in 2006, and indirectly owns an additional 10% (2008: 8%) through its subsidiary KAMCO.
- h) The Bank directly owns 18% (2008: 18%) of Royal Capital Company, a closed company incorporated in the United Arab Emirates in 2007, and indirectly owns an additional 26% (2008: 26%) through its subsidiaries KAMCO and TIB.
- j) Syria Gulf Bank (SGB) is a commercial bank incorporated in the Syrian Arab Republic. SGB commenced commercial operations in 2007. The Bank directly own 28% (2008: 28%) of SGB.
- k) United Real Estate Company - Syria is a closed company incorporated in the Syrian Arab Republic in 2008. The Bank directly owns 20% (2008: 20%) of the associate and indirectly owns additional 20% (2008: 20%) interest through its subsidiary KAMCO.
- l) The Bank directly owns 20% (2008: 20%) of United Networks Company, a closed company incorporated in the State of Kuwait in 2001, and indirectly owns an additional 8% (2008: 8%) through its subsidiary KAMCO.
- m) The Bank directly owns 37% (2008: 17%) of United Real Estate Company Jordan, a closed company incorporated in Jordan in 2006, and indirectly owns an additional 10% (2008: 10%) through its subsidiary KAMCO.
- n) The Bank indirectly owns 44% (2008: 45%) of United Industries Company, which is a company incorporated in the State of Kuwait in 1979 and listed on the Kuwait Stock Exchange, through its subsidiary KAMCO.
- o) At 31 December 2009, the Bank indirectly owns 22% (2008: 20%) interest in United Health Care Company through its subsidiary KAMCO.
- p) United Real Estate Company (URC) is a company listed on the Kuwait Stock Exchange. The Bank directly owns 30% (2008: 30%) of URC.
- r)&s) During the year the Group acquired a 50% stake in Millennium Private Equity Limited (MPE) through a share swap of Millennium Finance Corporation Limited. MPE is a jointly controlled company incorporated in United Arab Emirates and is engaged in managing private equity funds.

c),h)&q) These companies are owned through the Bank's subsidiary KAMCO and are incorporated in the State of Kuwait.

Investments in associates include quoted associates with a carrying value of US\$ 273,532 thousand (2008: US\$ 362,900 thousand) having a quoted market price of US\$ 95,700 thousand (2008: US\$ 152,900 thousand). In accordance with IAS 36 requirement for impairment of assets, the group's carrying value of the associates did not exceed their recoverable amount (higher of fair value less cost to sell and value in use), accordingly no impairment was recognised.

In 2009, an impairment loss of US\$ 9,500 thousand (2008: nil) has been recognised against an unquoted associate.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 9 INVESTMENT PROPERTIES

	2009 US\$ 000	2008 US\$ 000
Cost	28,234	23,210
Cumulative fair value adjustments	(1,440)	101
	<u>26,794</u>	<u>23,311</u>

The movements are as follows:

At 1 January	23,311	26,815
Additions	5,228	-
Disposals	(440)	(2,152)
Change in fair values (note 18)	(1,305)	(1,352)
At 31 December	<u>26,794</u>	<u>23,311</u>

Investment properties at 31 December consist of the following:

Buildings	19,831	15,638
Land	6,963	7,673
	<u>26,794</u>	<u>23,311</u>

Investment properties are stated at fair values, which have been determined based on independent valuations performed by external professional valuers at the year end.

## 10 GOODWILL

	2009 US\$ 000	2008 US\$ 000
At 1 January	46,573	11,409
Additions	10,410	38,074
Disposal	-	(1,830)
Foreign currency translation adjustments	(1,815)	(1,080)
At 31 December 2009	<u>55,168</u>	<u>46,573</u>

The goodwill is related to KAMCO (a subsidiary of UGB) which is part of one asset management and investment banking operating segment (note 26), and is considered as the cash generating unit for the Group. KAMCO is listed on the Kuwait Stock Exchange and the recoverable amount of KAMCO is determined with reference to its listed price per share as at the statement of financial position date. There was no impairment identified in 2009 or 2008.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 11 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Pursuant to a master transfer agreement (MTA) with Burgan Bank, a related party, the Bank had, at 31 December 2008, classified its two subsidiaries Gulf Bank Algeria (AGB) and Tunis International Bank (TIB) and an associated company, Bank of Baghdad (BOB) as assets held for sale (disposal group) in accordance with International Financial Reporting Standard (IFRS) 5.

In March 2009, the Bank transferred the ownership of AGB and BOB to Burgan Bank, for a total consideration of US\$ 150,000 thousand.

The Group has a purchase commitment from Burgan Bank for the transfer of TIB. However the period required to complete the sale has been extended due to factors beyond the Group's control. The Group expects to conclude the transfer during 2010, subject to necessary regulatory approvals.

The major classes of assets and liabilities of the disposal group as at year end are as follows:

### Subsidiaries

	2009 US\$ 000	2008 US\$ 000
<b>ASSETS</b>		
Demand and call deposits with banks	1,390	71,637
Time deposits with banks	258,741	257,565
Investments carried at fair value through statement of income	44	-
Non-trading investments	54,341	40,530
Loans and receivables	100,463	387,952
Other assets	1,031	12,303
Investments in associates accounted for under the equity method*	54,765	7,106
Property and equipment	3,162	15,198
	<b>473,937</b>	<b>792,291</b>
Investment in associate - Bank of Baghdad	-	67,598
<b>Total assets of disposal group classified as held for sale</b>	<b>473,937</b>	<b>859,889</b>
<b>LIABILITIES</b>		
Due to banks and other financial institutions	134,120	151,332
Deposits from customers	230,276	495,938
Loans payable	-	4,265
Other liabilities	6,572	18,251
<b>Total liabilities of disposal group classified as held for sale</b>	<b>370,968</b>	<b>669,786</b>

\* Includes Gulf Bank Algeria, an associate held through TIB. The Bank directly owns 10% and indirectly owns 20% through TIB.

The fair value reserve and the foreign currency translation reserve of the Group reported in the consolidated statement of comprehensive income includes the fair value reserve and foreign currency translation reserve of the disposal group amounting to US\$ (2) million and nil respectively (2008: fair value reserve was US\$ (0.9) million and translation reserve was US\$ 7.3 million).

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 11 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

The results of disposal group are as follows:

	2009 US\$ 000	2008 US\$ 000
Investment income	4,066	2,973
Interest income	8,960	34,619
Fees and commissions	3,649	23,619
Foreign currency translation gains - net	3,589	5,051
Share of results of associates forming part of discontinued operations		
Gulf Bank Algeria	9,196	-
Bank of Baghdad	2,201	6,306
Jordan Kuwait Bank	-	17,995
<b>Total income</b>	<b>31,661</b>	<b>90,563</b>
Interest expense	(3,727)	(11,616)
<b>Operating income before expenses and provisions</b>	<b>27,934</b>	<b>78,947</b>
Salaries and benefits	(3,303)	(6,763)
General and administrative expenses	(4,266)	(14,949)
<b>Operating income before provisions</b>	<b>20,365</b>	<b>57,235</b>
Provision for doubtful loans, guarantees and other assets - net	(10,775)	(3,415)
<b>Profit for the year from discontinued operations</b>	<b>9,590</b>	<b>53,820</b>
<b>Earnings per share from discontinued operations</b>		
Basic earnings per share (US cents)	1.08	5.96
Diluted earnings per share (US cents)	1.08	5.91

The net cash flows of the disposal group subsidiaries are as follows:

	2009 US\$ 000	2008 US\$ 000
Net cash flows (used in) from:		
Operating activities	3,005	39,305
Investing activities	(6,150)	(9,307)
Financing activities	(5,000)	(11,671)
<b>Net cash (used in) from disposal group</b>	<b>(8,145)</b>	<b>18,327</b>

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 12 LOANS PAYABLE

31 December 2009	Currency*	Parent US\$ 000	Subsidiary US\$ 000	Total US\$ 000
<b>Floating rate loans</b>				
<i>Maturing within one year</i>				
Loan due on 17 June 2010	KWD	-	26,160	26,160
Loan due on 14 January 2010	KWD	-	8,720	8,720
Loan due on 21 January 2010	KWD	-	6,976	6,976
Loan due on 31 May 2010	KWD	-	34,879	34,879
Loan due on 28 July 2010	US\$	-	25,014	25,014
Loan due on 20 December 2010	KWD	-	8,719	8,719
		-	110,468	110,468
<i>Maturing after one year</i>				
Loan due on 20 December 2011	US\$	-	27,904	27,904
Loan due on 2 April 2011	KWD	-	43,600	43,600
Loan due on 1 June 2013	SYP	-	4,014	4,014
Loan due on 2 April 2011	KWD	-	-	-
Loan due on 30 June 2011	US\$	115,000	-	115,000
Loan due on 2 July 2012	US\$	200,000	-	200,000
		315,000	75,518	390,518
		315,000	185,986	500,986
<hr/>				
31 December 2008	Currency*	Parent US\$ 000	Subsidiary US\$ 000	Total US\$ 000
<b>Fixed rate loans</b>				
<i>Maturing within one year</i>				
Loan due on 15 January 2009	KWD	-	10,880	10,880
Loan due on 08 January 2009	KWD	-	9,067	9,067
Loan due on 18 January 2009	KWD	-	12,694	12,694
Loan due on 3 February 2009	KWD	-	5,440	5,440
Loan due on 30 April 2009	KWD	-	3,627	3,627
Loan due on 30 April 2009	KWD	-	16,321	16,321
Loan due on 20 September 2009	KWD	-	2,720	2,720
Loan due on 20 September 2009	KWD	-	2,720	2,720
Loan due on 20 September 2009	KWD	-	3,627	3,627
		-	67,096	67,096
<b>Floating rate loans</b>				
<i>Maturing within one year</i>				
Loan due on 17 June 2009	KWD	-	27,202	27,202
Loan due on 20 June 2009	US\$	41,500	-	41,500
Loan due on 20 September 2009	KWD	-	29,015	29,015
Loan due on 30 November 2009	US\$	12,870	-	12,870
		54,370	56,217	110,587
<i>Maturing after one year</i>				
Loan due on 30 June 2011	US\$	115,000	-	115,000
Loan due on 2 July 2012	US\$	200,000	-	200,000
Loan due on 28 July 2010	US\$	-	50,051	50,051
Loan due on 2 April 2011	KWD	-	45,336	45,336
		315,000	95,387	410,387
		369,370	218,700	588,070

\* KWD represents Kuwaiti Dinar and SYP represents Syrian Pound.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 13 BONDS

	2009 US\$ 000	2008 US\$ 000
Bonds - issued by a subsidiary	68,888	71,630

In June 2004, the Bank's subsidiary KAMCO issued floating rate bonds of Kuwaiti Dinar (KWD) 10 million (US\$ 34,880 thousand) (rate: Central Bank of Kuwait discount rate plus 2.75%) and fixed rate bonds of KWD 9.75 million (US\$ 34,008 thousand) (rate: 7.5%) each for a term of 5 years. In a meeting held on 25 May 2009, the bondholders unanimously agreed to extend the maturity of the floating rate bonds and fixed rate bonds from 21 June 2009 to 21 June 2011. Required regulatory approvals have been received with respect to the extension of the bonds.

## 14 SUBORDINATED DEBT

On 13 October 2006, the Bank issued floating rate notes amounting to US\$ 100 million for a term of 10 years maturing on 12 October 2016. For the first five years the notes carry interest at the rate of 1.8% per annum above the LIBOR for 3 month US dollar deposits and after 13 October 2011 the notes will carry interest at the rate of 2.7% per annum above LIBOR for 3 month US dollar deposits. The notes carry a call option exercisable by the Bank after 5 years from the date of issue to repurchase the notes at par value.

## 15 OTHER LIABILITIES

	2009 US\$ 000	2008 US\$ 000
Due to customers and other payables	25,313	11,026
Accrued expenses	20,487	21,563
Staff related payables	16,435	18,373
Interest payable	7,948	12,651
Dividends payable	1,819	1,939
	72,002	65,552

## 16 EQUITY

### Share capital

The authorised share capital as of 31 December 2009 comprised 1 billion shares of US\$ 0.25 each (31 December 2008: 1 billion shares of US\$ 0.25 each).

The issued and fully paid up share capital as of 31 December 2009 comprised 830,776,277 shares of US\$ 0.25 each (31 December 2008: 824,930,155 shares of US\$ 0.25 each). The increase is due to exercise of share options by employees under the employee share option plan.

### Treasury shares and treasury shares reserve

During the year, the Bank purchased no shares (2008: 14,180,953 shares) and sold no shares (2008: 4,000,000 shares). At the end of the year the Bank held 11,056,255 shares (31 December 2008: 11,056,255 shares). These treasury shares do not carry any voting rights and are not entitled to dividends. The net gain or loss on reissuance of treasury shares is taken to treasury share reserve in the consolidated statement of changes in equity and is not available for distribution. The value of treasury shares based on the last bid price as of 31 December 2009 is US\$ 13.1 million (31 December 2008: US\$ 16.9 million).

### Share premium

Share premium represents a non-distributable reserve arising from the exercise of the Bank's employee share options plan. The reserve is credited with the difference between the proceeds from the exercise of share options and the par value of the shares issued under the plan.

### Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the profit for the year is transferred to a statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 16 EQUITY (continued)

### General reserve

The Directors have approved a transfer of 10% (2008: 10%) of the profit of the Group for the year to general reserve in accordance with the Bank's Articles of Association. The transfer is subject to shareholders' approval at the forthcoming Annual General Meeting. The general reserve is distributable subject to the approval of the Central Bank of Bahrain.

### Foreign currency translation reserve

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

### Dividend paid and proposed

During the year, the Bank paid a final dividend for 2008 of US cents 18.50 per issued share (2007: US cents 16.25 per issued share) for a total amount of US\$ 150,664 thousand (2007: US\$ 132,520 thousand).

The Board of Directors has recommended to the Annual General Meeting (AGM) to be held on 29 March 2010 a cash dividend of US cents 1.25 (2008: US cents 18.50) per issued share of US cents 25 each. Dividend will be paid to the shareholders who hold the shares on the date of the AGM.

## 17 FAIR VALUE RESERVE

	2009 US\$ 000	2008 US\$ 000
<b>Non-trading investments</b>		
Balance at 1 January	15,244	52,405
Transferred to consolidated statement of income on sale related to continuing operations (note 18)	(39,989)	(23,975)
Transferred to consolidated statement of income on sale related to the disposal group	(1,010)	(1,707)
Transferred to consolidated statement of income on impairment (note 5)	10,247	56,651
Net movement in unrealised fair value during the year	(2,510)	(68,130)
Balance at 31 December	(18,018)	15,244
<b>Cash flow hedge</b>		
Balance at 1 January	(12,869)	339
Net movement in unrealised fair value during the year	(79)	(13,208)
Balance at 31 December	(12,948)	(12,869)
	(30,966)	2,375

## 18 INVESTMENT INCOME

	2009 US\$ 000	2008 US\$ 000
Loss on investments carried at fair value through statement of income	(2,329)	(115,149)
Dividend income	16,997	22,707
Gain on sale of disposal group	26,748	346,077
Gain on sale of available-for-sale investments (note 17)	39,989	23,975
Rental income from investment properties	803	1,186
Gain on sale of investment properties	17	1,438
Changes in fair value of investments properties (note 9)	(1,305)	(1,352)
Others	13,328	2,100
	94,248	280,982

Gain on sale of available-for-sale investments includes a gain of US\$ 0.9 million (2008: US\$ 7.8 million) on the sale of securities having a carrying value of US\$ 44.7 million (2008: US\$ 64.9 million) that were carried at cost.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 19 INTEREST INCOME

	2009 US\$ 000	2008 US\$ 000
Time deposits with banks	747	6,373
Loans and receivables	2,260	5,206
Non-trading investments	14,819	4,787
Demand and call deposits with banks	285	4,376
	18,111	20,742

## 20 FEES AND COMMISSIONS

	2009 US\$ 000	2008 US\$ 000
Management fees from fiduciary activities	13,955	40,510
Advisory fees	9,339	14,352
Credit related fees, commissions and other income	442	1,389
	23,736	56,251

## 21 SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURE ACCOUNTED FOR UNDER THE EQUITY METHOD - NET

	2009 US\$ 000	2008 US\$ 000
Al-Dhiyafa Holding Company K.S.C. (closed)	(1,956)	540
Al Sharq Financial Brokerage Company	1,138	-
Arab Leadership Academy Company K.S.C.	-	(545)
Dhow Development Company	-	(546)
Kuwait Education Fund	(595)	67
Kuwait Private Equity Opportunities Fund	(1,616)	(1,197)
Millennium Finance Corporation	-	(4,297)
Manafae Investment Company	77	1,571
North Africa Holding Company	439	(3,298)
Royal Capital Company P.S.C.	296	497
SSH Dar International W.L.L.	878	656
Syria Gulf Bank	(244)	(795)
United Networks Company	(19)	-
United Medical Services Company K.S.C. (closed)	-	(618)
United Real Estate Company-Syria	(7)	-
United Real Estate Company-Jordan	(123)	14
United Industries Company	(11,266)	(17,904)
United Health Care Company	(192)	273
United Real Estate Company	756	7,745
United Universal Real Estate Company	(76)	3
	(12,510)	(17,834)

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 22 INTEREST EXPENSE

	2009 US\$ 000	2008 US\$ 000
Loans payable	25,943	35,262
Due to banks and other financial institutions	15,686	19,398
Subordinated debt	2,466	5,026
Deposits from customers	3,228	4,126
Bonds	3,978	3,596
	51,301	67,408

## 23 EARNINGS PER SHARE

### Basic

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

	2009 US\$ 000	2008 US\$ 000
Profit attributable to equity shareholders of the Bank	20,094	207,278
Weighted average number of shares outstanding during the year (in thousands)	816,578	818,823
Basic earnings per share (US cents)	2.46	25.31

### Diluted

Diluted earnings per share is calculated by dividing the income attributable to the equity shareholders of the Bank, adjusted for the effect of conversion of employees' share options, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all employees' share options. The Bank has outstanding share options, issued under the Employee Stock Options Plan, which have a dilutive effect on earnings.

	2009 US\$ 000	2008 US\$ 000
Profit attributable to equity shareholders of the Bank	20,094	207,278
Weighted average number of shares outstanding during the year (in thousands)	816,578	818,823
Effect of dilutive potential ordinary shares:		
Share options (in thousands)	2,468	6,935
	819,046	825,758
Diluted earnings per share (US cents)	2.45	25.10

## 24 FUNDS UNDER MANAGEMENT

At 31 December 2009, the Group holds assets amounting to US\$ 7,223 million (31 December 2008: US\$ 9,015 million) under its management on behalf of third parties. As these are third party funds managed in a fiduciary capacity, without risk or recourse to the Group, these are not included in the assets on the consolidated statement of financial position.

## 25 CASH AND CASH EQUIVALENTS

	2009 US\$ 000	2008 US\$ 000
Demand and call deposits with banks	20,328	27,418
Time deposits with original maturities of ninety days or less	162,832	77,539
	183,160	104,957

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 26 SEGMENTAL INFORMATION

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

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

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

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

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

Segmental information relating to the Group's continuing and discontinued operations for the year ended 31 December 2009 was as follows:

	Asset management and investment banking US\$ 000	Commercial banking* US\$ 000	Eliminations US\$ 000	Total US\$ 000
Income from external customers	125,659	31,661	-	157,320
Inter-segment income	2,779	9,334	(12,113)	-
Share of results of associates and joint ventures accounted for using equity method	(12,266)	11,153	-	(1,113)
<b>Total income</b>	<b>116,172</b>	<b>52,148</b>	<b>(12,113)</b>	<b>156,207</b>
Operating income before provisions	35,762	29,455	(12,113)	53,104
Impairment loss on investments	(19,747)	-	-	(19,747)
Write-back of (provision for) doubtful loans, guarantees and other assets - net	1,261	(10,775)	-	(9,514)
<b>Profit for the year</b>	<b>17,276</b>	<b>18,680</b>	<b>(12,113)</b>	<b>23,843</b>
Income attributable to equity shareholders of the parent				20,094
Income attributable to non-controlling interests				3,749
				<b>23,843</b>

### OTHER INFORMATION

Investments in associates and joint venture accounted for under equity method	632,052	70,565	-	702,617
Segment assets	1,880,962	533,445	(43,708)	2,370,699
Segment liabilities	1,383,698	370,968	43,708	1,798,374

\* Includes assets held as disposal group.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 26 SEGMENTAL INFORMATION (continued)

Segmental information for the year ended 31 December 2008 was as follows:

	Asset management and investment banking US\$ 000	Commercial* banking US\$ 000	Eliminations US\$ 000	Total US\$ 000
Income from external customers	359,227	66,262	-	425,489
Inter-segment income	-	304	(304)	-
Share of results of associates and joint ventures accounted for using equity method	(17,039)	23,506	-	6,467
<b>Total income (loss)</b>	<b>342,188</b>	<b>90,072</b>	<b>(304)</b>	<b>431,956</b>
Operating income (loss) before provisions	218,563	56,440	(304)	274,699
Impairment loss on investments	(56,651)	-	-	(56,651)
Write back of (provision for) doubtful loans, guarantees and other assets - net	(16)	(3,415)	-	(3,431)
<b>Profit (loss) for the year</b>	<b>161,896</b>	<b>53,025</b>	<b>(304)</b>	<b>214,617</b>
Income attributable to equity shareholders of the parent				207,278
Income attributable to non controlling interests				7,339
				214,617
<b>OTHER INFORMATION</b>				
Investments in joint venture accounted for under equity method	610,413	90,471	-	700,884
Segment assets	2,027,192	875,656	(33,725)	2,869,123
Segment liabilities	1,350,361	669,786	33,725	2,053,872

\* Includes assets held as disposal group.

### Geographical

The Group operates in five geographic markets: Domestic region (G.C.C.\*), Middle East/Africa, Europe, North America and others. The following tables show the distribution of the Group's total income and non-current assets by geographical segment, allocated based on the location of the customers and assets for the years ended 31 December 2009 and 2008:

	G.C.C. US\$ 000	Middle East and North Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Others US\$ 000	Total US\$ 000
<b>31 December 2009</b>						
<b>Total income</b>	<b>108,225</b>	<b>42,607</b>	<b>2,990</b>	<b>2,265</b>	<b>120</b>	<b>156,207</b>
<b>Non-current assets</b>	<b>1,195,224</b>	<b>105,761</b>	<b>31,361</b>	<b>64,815</b>	<b>-</b>	<b>1,397,161</b>
<b>31 December 2008</b>						
<b>Total income (loss)</b>	<b>96,864</b>	<b>359,691</b>	<b>(13,090)</b>	<b>(11,425)</b>	<b>(84)</b>	<b>431,956</b>
<b>Non-current assets</b>	<b>1,326,844</b>	<b>42,241</b>	<b>31,391</b>	<b>100,791</b>	<b>-</b>	<b>1,501,267</b>

\* The Gulf Co-operation Council (G.C.C.) countries are Kingdom of Bahrain, State of Kuwait, Kingdom of Saudi Arabia, State of Qatar, the United Arab Emirates and the Sultanate of Oman.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 27 RELATED PARTY TRANSACTIONS

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

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

	2009			Total US\$ 000	2008 US\$ 000
	Parent US\$ 000	Associates and joint ventures US\$ 000	Other related parties US\$ 000		
Gain (loss) on investments carried at fair value through statement of income, net	579	-	(2,712)	(2,133)	(14,681)
(Loss) gain on sale of non-trading investments	(802)	-	37,895	37,093	(859)
Gain on disposal of assets held for sale	-	-	26,181	26,181	276,918
Fees and commissions	2,282	1,365	9,948	13,595	32,870
Dividend income	-	614	11,298	11,912	3,066
Interest income	366	538	15,187	16,091	10,979
Interest expense	(2,525)	(164)	(16,736)	(19,425)	(16,658)
Others	-	(2)	13,338	13,336	1,783

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

	2009			Total US\$ 000	2008 US\$ 000
	Parent US\$ 000	Associates and joint ventures US\$ 000	Other related parties US\$ 000		
Demand and call deposits with banks	-	6	1,792	1,798	10,239
Time deposits with banks	-	-	62,845	62,845	18,134
Investments, carried at fair value through statement of income	999	-	42,426	43,425	64,717
Investments, carried at fair value through statement of income, in funds managed by related party	-	-	13,001	13,001	13,663
Non-trading investments	9,728	-	377,163	386,891	429,753
Loans and receivables	-	17,091	7,577	24,668	6,116
Other assets	812	1,194	25,396	27,402	9,307
Due to banks and other financial institutions	-	(4,027)	(333,252)	(337,279)	(182,418)
Deposits from customers	(172,796)	(29,803)	(7,871)	(210,470)	(7,363)
Loans payable	-	-	(121,705)	(121,705)	(146,869)
Other liabilities	(1,602)	(566)	(3,254)	(5,422)	(3,586)
Off balance sheet items					
Letters of credit	-	-	19,655	19,655	20,614
Letters of guarantee	-	-	807	807	825
Funds managed or advised by the Group (including funds under management)	-	-	81,371	81,371	115,144

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 27 RELATED PARTY TRANSACTIONS (continued)

Compensation of the key management personnel remuneration are as follows:

	2009 US\$ 000	2008 US\$ 000
Short term employee benefits	11,971	18,439
Share based payments	1,177	1,019
<b>Total compensation</b>	<b>13,148</b>	<b>19,458</b>

All related party exposures are performing and are free of any provision for possible credit losses (2008: same).

These related party transactions include amounts relating to the disposal group subsidiary.

## 28 COMMITMENTS AND CONTINGENCIES

### Credit-related commitments

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

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

Commitments to extend credit represents contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Group has the following credit and investment related commitments:

	2009 US\$ 000	2008 US\$ 000
<b>Credit related</b>		
Letters of credit	46,986	25,319
Letters of guarantee	18,740	209,476
	<b>65,726</b>	<b>234,795</b>
<b>Investment related *</b>	<b>102,477</b>	<b>107,592</b>
	<b>168,203</b>	<b>342,387</b>

All credit related commitments mature within one year. They also include the letters of credit and guarantees of the disposal group subsidiaries.

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

### Legal proceedings

On 23 July 2009, a foreign regulatory authority initiated litigation against the Group based on certain trading activities at one of the Group's subsidiaries. The Group is co-operating with the regulator and contesting the litigation. The Group (after consulting external legal counsel) believes that no provision is considered necessary in respect of this matter in these consolidated financial statements.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 29 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 amounts by term to maturity			
			Notional amount Total US\$ 000	Within 3 months US\$ 000	3 - 12 months US\$ 000	1 - 5 years US\$ 000
<b>31 December 2009</b>						
<b>Derivatives held for trading *</b>						
Forward foreign exchange contracts	388	(226)	179,941	91,433	-	88,508
<b>Derivatives used as hedge of net investments in foreign operations</b>						
Forward foreign exchange contracts	-	(430)	431,380	431,380	-	-
<b>Derivatives used as cash flow hedges</b>						
Interest rate swap	-	(12,948)	300,000	50,000	-	250,000
<b>31 December 2008</b>						
<b>Derivatives held for trading *</b>						
Forward foreign exchange contracts	2,160	(472)	346,851	219,187	127,664	-
<b>Derivatives used as fair value hedges</b>						
Forward foreign exchange contracts	36,861	-	1,089,020	296,246	792,774	-
<b>Derivatives used as cash flow hedges</b>						
Interest rate swap	-	(12,869)	325,000	-	75,000	250,000

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.

\* 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. They also include forward foreign exchange contracts undertaken by the disposal group subsidiary.

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.

### Fair value hedges

Fair value hedges are used by the Bank to protect against changes in fair value of the financial assets due to movement in exchange rates. The Bank uses forward foreign exchange contracts to hedge against specifically identified currency exchange risks. At 31 December 2009, there were no fair value hedges outstanding.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 29 DERIVATIVES (continued)

### Cash flow hedges

The Group is exposed to variability in interest cash flows on liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. A schedule indicating as at 31 December 2009 the periods when the net cash flows are expected to occur and when they are expected to affect the consolidated statement of income is as follows:

	2009		2008	
	Within 1 year US\$ 000	1-5 years US\$ 000	Within 1 year US\$ 000	1-5 years US\$ 000
Net cash outflows (Liabilities)	9,477	8,562	10,413	21,287
Statement of income	-	(12,948)	(450)	(12,419)

### Hedge of net investments in foreign operations

The Bank has designated certain forward foreign exchange contracts to hedge against changes in the value of investment in subsidiaries and associated companies for an amount of US\$ 216 million (KWD 61.9 million) (2008: US\$ 472 million (KWD 130 million)). Gains or losses on the retranslation of these forward foreign exchange contracts are transferred to equity through other comprehensive income to offset any gains or losses on the translation of the net investments in the subsidiaries and associates.

## 30 RISK MANAGEMENT

### 30.1 Introduction

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

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

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

#### Risk management structure

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

The Board's role is to approve investment strategies for the Bank. However, it has delegated authority for day-to-day decision making to the Executive Committee so that risk can be effectively managed within the Bank.

The Board of Directors has delegated the Executive Management of the Bank to the Acting Chief Executive Officer (who is not a Director) and has appointed several Board Committees to work with him and to form and define policies and approve procedures for all of the Bank's activities.



# Notes to the Consolidated Financial Statements

At 31 December 2009

## 30 RISK MANAGEMENT (continued)

### 30.1 Introduction (continued)

#### Risk management structure (continued)

The Executive Management of the Bank is headed by the Acting Chief Executive Officer who is broadly responsible for the day to day conduct of the Bank's business in line with the Board's approved policies and procedures and complements and facilitates the Board in meeting its responsibility towards all stakeholders. He is assisted by the nine members of the Bank's management team, each of them is responsible for his or her respective department. Several management committees have been formed which are chaired by the Acting Chief Executive Officer.

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

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

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

The Risk and Compliance Committee is responsible for the monitoring and assessment of risks facing the Bank, the review of compliance with internal and external guidelines, the review and recommendation of provisioning requirements, the assessment of the impact on the Bank from new regulatory requirements, and review and ratification of Investment Committee decisions. The Committee is headed by the Acting Chief Executive Officer and includes eight other senior executives of the Bank.

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

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

The Insider Trading Committee comprises three members constituted from the Board of Director members and the Acting Chief Executive Officer as the alternate member. The Committee is mainly responsible for the supervision of adequacy of compliance with the Central Bank of Bahrain guidelines on insider trading.

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

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 30 RISK MANAGEMENT (continued)

### 30.1 Introduction (continued)

#### Risk mitigation

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

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

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

#### Concentration risk

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

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

### 30.2 Credit risk

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

Credit risk is mitigated through:

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

The Bank has well defined policies approved at the individual board level. These provide carefully documented guidelines for credit risk management. There is a two tier committee structure to approve and review credit and investment risk. The Investment Committee (IC) includes one Director, Acting Chief Executive Officer, Head of Investment Banking and Asset Management, Head of Core Investments and Chief Financial Officer. The Head of Credit and Risk Management acts as an Advisor to the Committee. Exposures beyond IC limits are approved by the Board's Executive Committee or by the full Board.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 30 RISK MANAGEMENT (continued)

### 30.2 Credit risk (continued)

#### Maximum exposure to credit risk without taking account of any collateral or other credit enhancements

The table below shows the Group's maximum exposure to credit risk for the components of on and off balance sheet exposure. The maximum exposure shown is gross before the effect of mitigation through the use of master netting and collateral arrangements, but after any provision for impairment.

	2009 US\$ 000	2008 US\$ 000
Demand and call deposits with banks	20,328	27,418
Time deposits with banks	176,203	79,103
Non-trading investments	346,228	359,979
Loans and receivables	52,595	7,770
Other assets	42,527	69,312
Letters of credit	19,655	20,613
Letters of guarantee	1,815	2,494
	<b>659,351</b>	<b>566,689</b>

#### Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any single client or counterparty as of 31 December 2009 was US\$ 337 million (2008: US\$ 349 million) before taking account of collateral or other credit enhancements.

	G.C.C. US\$ 000	Middle East and North Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Others US\$ 000	Total US\$ 000
Demand and call deposits with banks	15,857	1,233	1,856	1,201	181	20,328
Time deposits with banks	108,562	7,323	47,000	13,318	-	176,203
Non-trading investments	346,228	-	-	-	-	346,228
Loans and receivables	21,294	2,663	26,638	2,000	-	52,595
Other assets	39,772	1,024	1,522	197	12	42,527
Letters of credit	19,655	-	-	-	-	19,655
Letters of guarantee	1,815	-	-	-	-	1,815
<b>31 December 2009</b>	<b>553,183</b>	<b>12,243</b>	<b>77,016</b>	<b>16,716</b>	<b>193</b>	<b>659,351</b>
Demand and call deposits with banks	25,588	168	944	135	583	27,418
Time deposits with banks	78,286	817	-	-	-	79,103
Non-trading investments	359,979	-	-	-	-	359,979
Loans and receivables	5,001	2,769	-	-	-	7,770
Other assets	63,482	5,539	122	-	169	69,312
Letters of credit	20,613	-	-	-	-	20,613
Letters of guarantee	2,494	-	-	-	-	2,494
31 December 2008	555,443	9,293	1,066	135	752	566,689

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 30 RISK MANAGEMENT (continued)

### 30.2 Credit risk (continued)

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

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

	Trading and manufacturing US\$ 000	Banks and other financial institutions US\$ 000	Construction and real estate US\$ 000	Individuals US\$ 000	Others US\$ 000	Total US\$ 000
<b>At 31 December 2009</b>						
Demand and call deposits with banks	-	20,328	-	-	-	20,328
Time deposits with banks	-	176,203	-	-	-	176,203
Non-trading investments	-	346,228	-	-	-	346,228
Loans and receivables	-	969	19,754	30,294	1,578	52,595
Other assets	2,000	1,538	21	41	38,927	42,527
Letters of credit	-	-	-	-	19,655	19,655
Letters of guarantee	-	1,815	-	-	-	1,815
	2,000	547,081	19,775	30,335	60,160	659,351
<b>At 31 December 2008</b>						
Demand and call deposits with banks	-	27,418	-	-	-	27,418
Time deposits with banks	-	79,103	-	-	-	79,103
Non-trading investments	-	359,979	-	-	-	359,979
Loans and receivables	-	-	2,769	5,001	-	7,770
Other assets	-	37,682	45	41	31,544	69,312
Letters of credit	-	-	-	-	20,613	20,613
Letters of guarantee	-	2,494	-	-	-	2,494
	-	506,676	2,814	5,042	52,157	566,689

#### Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory, trade receivables, bank guarantees; and
- For retail lending, mortgages over residential properties, claim over employees' end of service benefits etc.

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

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

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 30 RISK MANAGEMENT (continued)

### 30.2 Credit risk (continued)

#### Credit risk exposure for each credit rating

	Investment grade US\$ 000	Non-investment grade US\$ 000	Unrated US\$ 000	Total US\$ 000
<b>At 31 December 2009</b>				
Demand and call deposits with banks	18,898	40	1,390	20,328
Time deposits with banks	128,608	40,000	7,595	176,203
Non-trading investments	346,086	-	142	346,228
Loans and receivables	-	-	52,595	52,595
Other assets	-	-	42,527	42,527
Letters of credit	-	-	19,655	19,655
Letters of guarantee	807	-	1,008	1,815
	<b>494,399</b>	<b>40,040</b>	<b>124,912</b>	<b>659,351</b>
<b>At 31 December 2008</b>				
Demand and call deposits with banks	24,828	117	2,473	27,418
Time deposits with banks	78,014	-	1,089	79,103
Non-trading investments	359,979	-	-	359,979
Loans and receivables	-	-	7,770	7,770
Other assets	2,772	-	66,540	69,312
Letters of credit	-	-	20,613	20,613
Letters of guarantee	-	1,669	825	2,494
	<b>465,593</b>	<b>1,786</b>	<b>99,310</b>	<b>566,689</b>

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. All internal risk ratings which are largely subjective are tailored to the various categories and are derived in accordance with the rating policy and practices. The attributable risk ratings are assessed and updated regularly.

#### Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The Group has no material renegotiated loans as of 31 December 2009 or 2008.

### 30.3 Market risk

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

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

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

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 30 RISK MANAGEMENT (continued)

### 30.3 Market risk (continued)

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

#### Interest rate risk

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

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income based on the consolidated statement of financial position as of 31 December:

	Increase in basis points 2009	Sensitivity of net interest income 2009 US\$ 000	Increase in basis points 2008	Sensitivity of net interest income 2008 US\$ 000
<i>Currency</i>				
Kuwaiti Dinar	+ 25	(669)	+ 25	3
United States Dollar	+ 25	(396)	+ 25	(1,005)
Euro	+ 25	(74)	+ 25	(260)
Pound Sterling	+ 25	1	+ 25	-
Others	+ 25	2	+ 25	(63)

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2009, including the effect of hedging instruments.

#### Currency risk

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

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

	Change in currency rate in % 2009	Effect on profit before tax 2009 US\$ 000	Change in currency rate in % 2008	Effect on profit before tax 2008 US\$ 000
<i>Currency</i>				
Kuwaiti Dinar	+1	(4,402)	+1	(733)
	-1	4,402	-1	733
Euro	+1	(331)	+1	(1,081)
	-1	331	-1	1,081
Jordanian Dinar	+1	(29)	+1	-
	-1	29	-1	-

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 30 RISK MANAGEMENT (continued)

### 30.3 Market risk (continued)

#### Equity price risk

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

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

#### Geographical distribution

	Middle East/ Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Asia US\$ 000	Total US\$ 000
<b>At 31 December 2009</b>					
<b>Investments carried at fair value through statement of income</b>					
Quoted equities	24,795	-	66	-	24,861
Managed funds	88,670	26,076	15,708	-	130,454
	113,465	26,076	15,774	-	155,315
<b>Non-trading investments</b>					
Quoted equities	67,475	-	-	-	67,475
Unquoted equities	69,283	25,698	9,158	-	104,139
Managed funds	136,186	5,637	55,656	-	197,479
	272,944	31,335	64,814	-	369,093
Total	386,409	57,411	80,588	-	524,408

	Middle East/ Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Asia US\$ 000	Total US\$ 000
<b>At 31 December 2008</b>					
<b>Investments carried at fair value through statement of income</b>					
Quoted equities	40,108	2	8,114	242	48,466
Managed funds	120,323	59,631	16,744	-	196,698
	160,431	59,633	24,858	242	245,164
<b>Non trading investments</b>					
Quoted equities	88,273	-	44	-	88,317
Unquoted equities	137,705	26,060	34,928	-	198,693
Managed funds	169,619	5,332	56,068	-	231,019
	395,597	31,392	91,040	-	518,029
Total	556,028	91,025	115,898	242	763,193

Any change in equity price index or the net asset values of the above financial instruments will have a direct impact on income or equity. The majority of the equities in the Middle East/Africa region are quoted in the Kuwait Stock Exchange.

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

### 30 RISK MANAGEMENT (continued)

#### 30.4 Liquidity risk

##### Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2009	On demand US\$ '000	1 - 6 months US\$ '000	6 - 12 months US\$ '000	1 - 5 years US\$ '000	5-10 years US\$ '000	Total US\$ '000
<b>Financial liabilities</b>						
Due to banks and other financial institutions	110,377	350,080	-	-	-	460,457
Deposits from customers	189,166	38,994	-	-	-	228,160
Loans payable	15,736	62,547	34,494	411,369	-	524,146
Bonds	392	1,898	2,329	71,064	-	75,683
Subordinated debt	564	2,729	3,348	33,223	105,222	145,086
Other liabilities	7,947	38,742	-	25,313	-	72,002
<b>Total non-derivative undiscounted financial liabilities</b>	<b>324,182</b>	<b>494,990</b>	<b>40,171</b>	<b>540,969</b>	<b>105,222</b>	<b>1,505,534</b>
<b>Off-balance sheet items</b>						
Gross settled foreign currency derivatives	-	-	522,813	-	88,508	611,321
Letters of credit	-	-	13,352	6,303	-	19,655
Letters of guarantee	-	-	-	-	1,815	1,815

## Notes to the Consolidated Financial Statements

At 31 December 2009

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 30 RISK MANAGEMENT (continued)

### 30.4 Liquidity risk (continued)

At 31 December 2008	On demand US\$ 000	1 - 6 months US\$ 000	6 - 12 months US\$ 000	1 - 5 years US\$ 000	5 - 10 years US\$ 000	Total US\$ 000
<b>Financial liabilities</b>						
Due to banks and other financial institutions	328,466	169,449	2,282	-	-	500,197
Deposits from customers	49,895	16,587	-	-	-	66,482
Loans payable	74,270	66,747	39,503	227,202	260,355	668,077
Bonds	351	1,698	2,083	69,445	-	73,577
Subordinated debt	564	2,729	3,347	33,223	111,863	151,726
Other liabilities	12,651	39,938	12,963	-	-	65,552
<b>Total non-derivative undiscounted financial liabilities</b>	<b>466,197</b>	<b>297,148</b>	<b>60,178</b>	<b>329,870</b>	<b>372,218</b>	<b>1,525,611</b>
<b>Off-balance sheet items</b>						
Gross settled foreign currency derivatives	-	-	518,392	917,479	-	917,479
Letters of credit	-	-	-	20,613	-	20,613
Letters of guarantee	-	-	-	2,494	-	2,494

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

## Notes to the Consolidated Financial Statements

At 31 December 2009

### 30 RISK MANAGEMENT (continued)

#### 30.4 Liquidity risk (continued)

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

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

	Up to 3 months US\$ 000	3 months to 1 year US\$ 000	Sub total less than 12 months US\$ 000	1 to 5 years US\$ 000	Over 5 years US\$ 000	Sub total over 12 months US\$ 000	Total US\$ 000
<b>At 31 December 2009</b>							
Demand and call deposits							
with banks	20,275	-	20,275	53	-	53	20,328
Time deposits with banks	162,885	13,318	176,203	-	-	-	176,203
Investments carried at fair value							
through statement of income	155,315	-	155,315	-	-	-	155,315
Non-trading investments	67,475	-	67,475	163,608	484,238	647,846	715,321
Loans and receivables	18,763	30,550	49,313	3,282	-	3,282	52,595
Other assets	310	42,217	42,527	-	-	-	42,527
<b>Total financial assets</b>	<b>425,023</b>	<b>86,085</b>	<b>511,108</b>	<b>166,943</b>	<b>484,238</b>	<b>651,181</b>	<b>1,162,289</b>
Due to banks and other							
financial institutions	247,138	211,209	458,347	-	-	-	458,347
Deposits from customers	80,696	146,487	227,183	-	-	-	227,183
Loans payable	15,696	94,772	110,468	390,518	-	390,518	500,986
Bonds	-	-	-	68,888	-	68,888	68,888
Subordinated debt	-	-	-	-	100,000	100,000	100,000
Other liabilities	7,947	38,742	46,689	25,313	-	25,313	72,002
<b>Total financial liabilities</b>	<b>351,477</b>	<b>491,210</b>	<b>842,687</b>	<b>484,719</b>	<b>100,000</b>	<b>584,719</b>	<b>1,427,406</b>
Liquidity gap	73,546	(405,125)	(331,579)	(317,776)	384,238	66,462	(265,117)
Cumulative liquidity gap	73,546	(331,579)		(649,355)	(265,117)		

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 30 RISK MANAGEMENT (continued)

### 30.4 Liquidity risk (continued)

At 31 December 2008	Up to 3 months US\$ 000	3 months to 1 year US\$ 000	Sub total less than 12 months US\$ 000	1 to 5 years US\$ 000	Over 5 years US\$ 000	Sub total over 12 months US\$ 000	Total US\$ 000
Demand and call deposits							
with banks	27,365	-	27,365	-	53	53	27,418
Time deposits with banks	79,103	-	79,103	-	-	-	79,103
Investments carried at fair value							
through statement of income	245,164	-	245,164	-	-	-	245,164
Non-trading investments	88,317	-	88,317	610,628	179,063	789,691	878,008
Loans and receivables	1,821	2,650	4,471	3,299	-	3,299	7,770
Other assets	1,179	33,694	34,873	693	33,746	34,439	69,312
<b>Total financial assets</b>	<b>442,949</b>	<b>36,344</b>	<b>479,293</b>	<b>614,620</b>	<b>212,862</b>	<b>827,482</b>	<b>1,306,775</b>
Due to banks and other							
financial institutions	474,826	22,969	497,795	-	-	-	497,795
Deposits from customers	61,039	-	61,039	-	-	-	61,039
Loans payable	38,081	139,602	177,683	410,387	-	410,387	588,070
Bonds	-	-	-	71,630	-	71,630	71,630
Subordinated debt	-	-	-	-	100,000	100,000	100,000
Other liabilities	12,651	39,938	52,589	12,963	-	12,963	65,552
<b>Total financial liabilities</b>	<b>586,597</b>	<b>202,509</b>	<b>789,106</b>	<b>494,980</b>	<b>100,000</b>	<b>594,980</b>	<b>1,384,086</b>
Liquidity gap	(143,648)	(166,165)	(309,813)	119,640	112,862	232,502	(77,311)
Cumulative liquidity gap	(143,648)	(309,813)		(190,173)	(77,311)		

### 30.5 Operational risk

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

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 31 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Fair value 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 arm's length 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 financial instruments 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 financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2009:

	Level 1 US\$ 000	Level 2 US\$ 000	Level 3 US\$ 000	Total US\$ 000
<b>Investments carried at fair value through statement of income</b>				
Quoted equities	24,861	-	-	24,861
Quoted managed funds	69,917	-	-	69,917
Unquoted managed funds	-	60,537	-	60,537
	94,778	60,537	-	155,315
<b>Non-trading investments</b>				
Quoted securities				
Equities	67,475	-	-	67,475
Unquoted securities				
Equities	-	37,604	1,040	38,644
Real estate managed funds	-	9,055	-	9,055
Other managed funds	-	146,095	29,981	176,076
Debt securities	-	-	10,572	10,572
	67,475	192,754	41,593	301,822
	162,253	253,291	41,593	457,137

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2009 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.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the consolidated financial statements except for non-trading investments carried at cost (note 5) and the following:

The table below sets out the carrying value and the fair value of the financial instruments where fair values are materially different from their carrying values:

	2009		2008	
	Carrying value US\$ 000	Fair value US\$ 000	Carrying value US\$ 000	Fair value US\$ 000
Subordinated debt	100,000	49,000	100,000	90,500

Except for the above and the non-trading investments carried at cost (note 5), the fair values of the financial instruments are not materially different from their carrying values as of the date of statement of financial position.

## 32 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") as adopted by the Central Bank of Bahrain.

### Capital management

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

The risk asset ratio calculated in accordance with the capital adequacy guidelines issued by the Central Bank of Bahrain, for the Group is as follows:

	2009 US\$ 000	2008 US\$ 000
Capital base:		
Tier 1 capital	412,799	459,373
Tier 2 capital	57,874	232,132
<b>Total capital base (a)</b>	<b>470,673</b>	<b>691,505</b>
Credit risk weighted exposure	2,716,889	3,514,705
Market risk weighted exposure	260,213	147,525
Operational risk weighted exposure	276,978	366,145
<b>Total risk weighted exposure (b)</b>	<b>3,254,080</b>	<b>4,028,375</b>
Capital adequacy (a/b * 100)	14.5%	17.2%
Minimum requirement	12.0%	12.0%

The above risk asset ratio calculation includes the disposal group subsidiary.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, statutory reserve, general reserves, treasury share reserve, foreign currency reserve and non-controlling interests less goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt and fair value reserves.

## United Gulf Bank, the asset management and investment banking arm of the KIPCO Group.

United Gulf Bank B.S.C. is part of the KIPCO Group – one of the biggest diversified holding companies in the Middle East and North Africa, with consolidated assets of US\$ 18.6 billion. The Group had substantial ownership interests in a portfolio of over 60 companies operating across 26 countries. The company's main business sectors are financial services and media. Through the subsidiaries and affiliates of its core companies, KIPCO also has interests in the real estate, manufacturing, airline, education and management advisory sectors.

### United Gulf Bank B.S.C

P O Box 5964, Diplomatic Area  
UGB Tower, Manama, Kingdom of Bahrain  
Tel: +973 17 533233  
Fax: +973 17 533137  
Email: info@ugbbah.com  
Website: www.ugbbah.com

### Parent Company

#### Kuwait Projects Company (Holding)

P O Box 23982, Safat 13100, Kuwait  
Tel: +965 1805 885  
Fax: +965 2243 5790  
Email: kipco@kipco.com  
Website: www.kipco.com

### Asset Management & Investment Banking

#### KIPCO Asset Management Company (KAMCO)

P O Box 28879, Safat 13149, Kuwait  
Tel: +965 1805 885  
Fax: +965 2241 5918  
Email: info@kamconline.com  
Website: www.kamconline.com

#### Manafae Investment Company

P O Box 3132, Safat 13032, Kuwait  
Tel: +965 2247 5550  
Fax: +965 2249 5954  
Email: info@manafae.com  
Website: www.manafae.com

#### North Africa Holding Company

P O Box 1246, Dasman 15463, Kuwait  
Tel: +965 2232 2322  
Fax: +965 2232 2331  
Email: info@northafricaholding.com  
Website: www.northafricaholding.com

#### United Gulf Financial Services

##### North Africa

Rue Lac Biwa - Imm Fraj 2Etg  
Les Berges du Lac, 1053 Tunis, Tunisia  
Tel: +216 (71) 167 500  
Fax: +216 (71) 965 181  
Email: contact@ugfsnorthafrica.com.tn  
Website: www.ugfsnorthafrica.com.tn

### Royal Capital Company

P O Box 53883, Khalifa Street,  
Tawan Tower 1, 6th Floor  
Abu Dhabi, United Arab Emirates  
Tel: +971 (2) 626 6655  
Fax: +971 (2) 626 6644  
Email: mshroyalcapital@gmail.com

### Brokerage

#### United Gulf Bank Securities Company

P O Box 5964, Diplomatic Area,  
UGB Tower, Manama, Kingdom of Bahrain  
Tel: +973 17 533233  
Fax: +973 17 533137  
Email: info@ugbsbah.com

#### Al Sharq Financial Brokerage Company

P O Box 187, Kuwait Souk Al Dakhly 15252,  
Kuwait  
Tel: +965 2245 0271  
Fax: +965 2242 4383

### Commercial Banking

#### Syria Gulf Bank

P O Box 373, 29 Ayyar Street,  
Damascus, Syria  
Tel: +963 (11) 232 6111  
Fax: +963 (11) 232 6112  
Email: info@sgbsy.com  
Website: www.sgbsy.com

#### Tunis International Bank

P O Box 81,  
18 Avenue des Etas Unis d'Amerique,  
Le Belvédère, Tunis 1002, Tunisia  
Tel: +216 (71) 782 411  
Fax: +216 (71) 782 479  
Email: tib1tib@planet.tn  
Website: www.tib.com.tn

#### Representative Office in Libya

Borj El Fatah, 5th Floor, Tripoli, Libya  
Tel: +218 (21) 355 1996  
Fax: +218 (21) 355 1997

### Major Non Financial Operating Companies

#### Al Dhiyafa Holding Company

P O Box 833, Safat 13119, Kuwait  
Tel: +965 2225 7070  
Fax: +965 2225 7099  
Email: f.musallam@dhiyafa.com

#### United Industries Company

P O Box 25821, Safat 13119, Kuwait  
Tel: +965 2242 3487  
Fax: +965 2242 3486  
Email: uic@uickw.com  
Website: www.uickw.com

#### United Networks

(Formerly known as United Cable Company)  
P O Box 25493, Safat 13115, Kuwait  
Tel: +965 1828 444  
Fax: +965 2246 0752  
Email: george.joseph@unitednetworks.com.kw  
Website: www.unitednetworks.com.kw

#### United Real Estate Company

P O Box 2232, Safat 13023, Kuwait  
Tel: +965 1805 255  
Fax: +965 2244 1003  
Email: urc@urc.com.kw  
Website: www.urconline.com



بنك الخليج المتحد ش.م.ب.  
United Gulf Bank B.S.C.

A member of the KIPCO Group

P.O. Box 5964, Diplomatic Area  
UGB Tower, Manama, Kingdom of Bahrain  
Tel: +973 17 533 233, Fax: +973 17 533 137  
[info@ugbbah.com](mailto:info@ugbbah.com)  
[www.ugbbah.com](http://www.ugbbah.com)