

# Company Profile

United Gulf Bank B.S.C. (UGB) is a leading asset management and investment banking group, with operations spanning the Middle East and North Africa (MENA) region. From its home base in the Kingdom of Bahrain, and through its regional network of affiliates, the Bank engages primarily in asset and fund management, investment banking, private equity, and corporate finance. Other financial business activities include proprietary investments, treasury, brokerage, and commercial banking. Through its non-financial associate companies, the Bank holds substantial investments in the real estate, hospitality, communications and industrial sectors. Established in 1980, UGB operates under a wholesale banking licence from the Central Bank of Bahrain, and is listed on the Bahrain Bourse and the Kuwait Stock Exchange. Over the past 30 years, the Bank has established a reputation for financial strength, sound governance, prudent management and depth of expertise. At the end of 2010, UGB reported total assets under management of US\$ 8 billion.

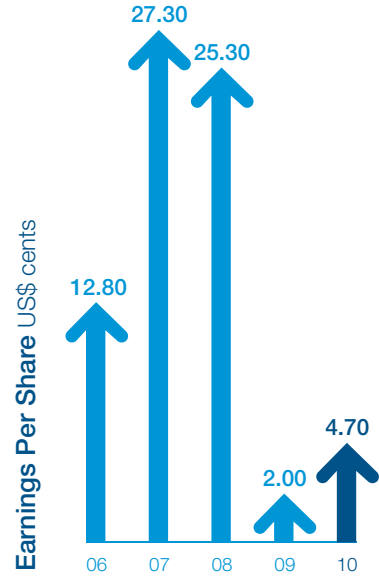
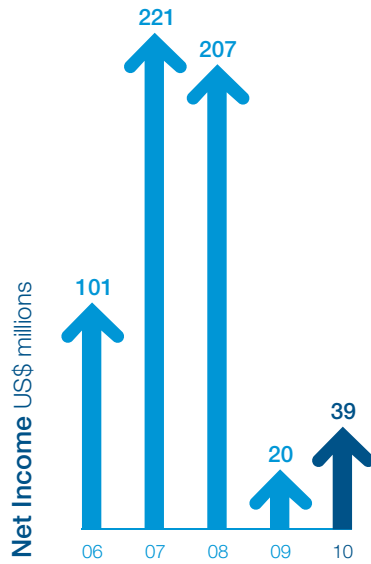
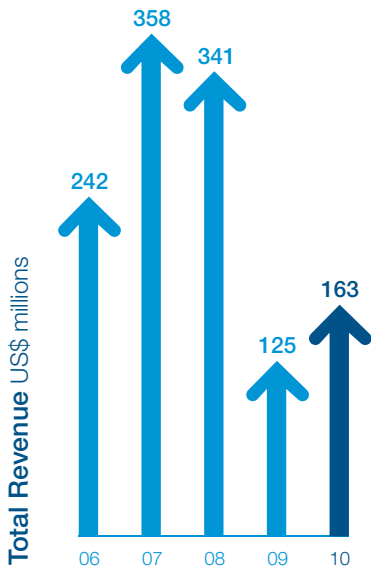
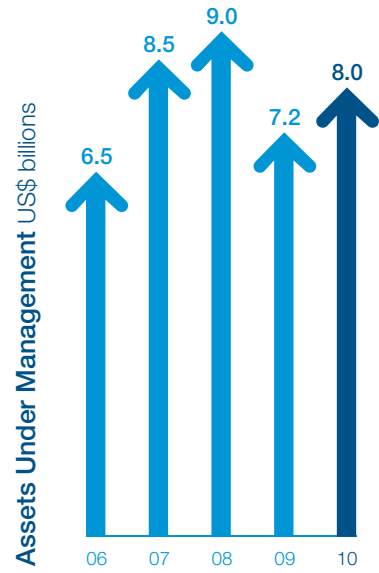
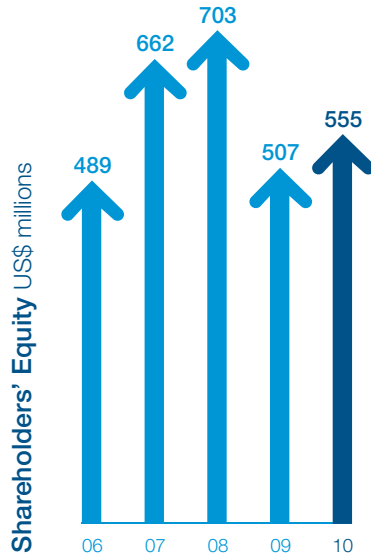
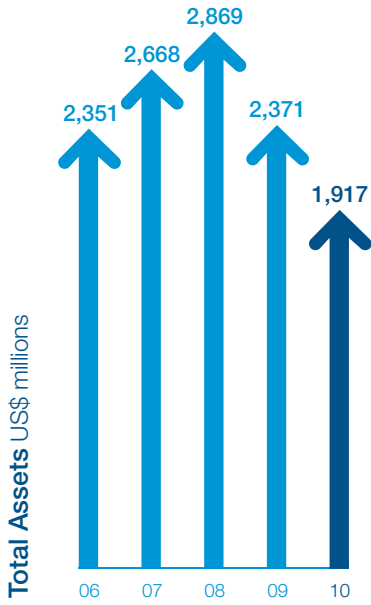
UGB is part of the KIPCO Group – one of the biggest diversified holding companies in the Middle East and North Africa, with consolidated assets of US\$ 20 billion as at 31 December 2010. The Group has significant ownership interests in a portfolio of over 70 companies operating across 26 countries. Its main sector focus is financial services, insurance and media. Through the subsidiaries and affiliates of its core companies, KIPCO has interests in the real estate, industrial, education and management advisory sectors.

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# Financial Highlights



**7.3%**

Return on Average Equity

**1.8%**

Return on Average Assets

**42.6%**

Operating Expense / Operating Income

## Financial Summary

	2010	2009	2008	2007 (Restated)	2006
<b>US\$ million</b>					
Total Income	163	125	341	358	242
Investment Income	109	94	281	194	96
Operating Income	114	73	274	290	176
Shareholders' Equity	555	507	703	662	489
Total Assets	1,917	2,371	2,869	2,668	2,351
Net Income	39	20	207	221	101
<b>%</b>					
Return on Average Equity	7.3	3.3	30.4	38.4	23.5
Return on Average Assets	1.8	0.7	7.5	8.8	5.0
Operating Expense/Operating Income	42.6	55.3	20.6	21.2	30.4
Average Equity to Average Assets	24.8	23.1	24.6	22.9	21.4
<b>US\$</b>					
Book Value Per Share	0.675	0.619	0.864	0.813	0.611
Earnings Per Share	0.047	0.020	0.253	0.273	0.128
Dividend Per Share	-	0.125	0.185	0.165	0.087

### Comparative Average Balances (based on quarterly averages)

<b>US\$ million</b>					
Assets	1,980.7	2,421.3	3,098.8	2,462.7	2,040.3
Liabilities	1,396.3	1,814.1	2,248.5	1,749.7	1,529.6
Minority Interest	50.0	92.9	139.5	125.8	97.9
Shareholder's Equity	534.3	514.4	710.8	587.2	412.8
Total Liabilities + Shareholders' Equity	1,980.7	2,421.3	3,098.8	2,462.7	2,040.3
Guarantees and Letters of Credit	36.8	45.5	210.4	122.5	143.0
Commitments	91.5	104.5	111.0	33.1	37.9
Assets Under Management (US\$ billion)	7.6	7.6	11.5	7.3	6.0

## Chairman's Statement



→ On behalf of the Board of Directors, I have the privilege to present the financials of United Gulf Bank BSC (UGB) for the year ended 31 December 2010. Despite the challenges posed by the continued aftermath of the global financial crisis, I am pleased to report that UGB posted an impressive performance in 2010. Our 31st anniversary year was highlighted by strong financial results, solid operational growth and sound strategic progress.

### Market background

Global and regional market volatility continued during 2010. After finishing 2009 on a mixed note, international and regional markets returned to positive territory by the end of the first quarter. However, in May they posted their worst performance for over a year, and ended the second quarter on a negative note. Following a turnaround during the second half of the year, international markets ended 2010 in positive territory, while regional markets closed the year on a mixed note.

Although equally volatile in nature, the global economy witnessed a mild revival in 2010, accompanied by a moderate improvement in business sentiment and investor confidence. This was due to a number of positive developments such as the latest round of quantitative easing by the Federal Reserve, the stabilisation of oil prices, and attractive market valuations. These events were offset by worries regarding a weakening US dollar; the contagion of EU sovereign debt; increasing global currency tensions; the threat of rising inflation; and the possibility of a double-dip recession in some countries. A stressed banking sector and lethargic credit activity in the region remained a cause for concern; however, the GCC economies illustrated their ability to weather the worst effects of the global financial crisis. Looking ahead, the IMF is projecting GDP to expand at 4.1% in 2010 and 4.5% in 2011 for the GCC, which should provide new growth opportunities for the region's investment banking and asset management sectors as markets continue to recover.

### Financial results

I am delighted to report that UGB delivered a strong financial performance in 2010, despite the ongoing volatility of global and regional markets. Income before interest and other expenses increased by 31% to US\$ 163.3 million from US\$ 124.6 million in 2009. Net profit was US\$ 38.7 million, up 93% compared with US\$ 20.1 million the previous year, with a 91% increase in earnings per share to 4.71 cents from 2.46 cents in 2009. Contributing to these results were exceptional gains of US\$ 69.6 million on acquisition of a 17% stake in Burgan Bank, and US\$ 43.8 million on the sale of Tunis International Bank to Burgan Bank. These were partially offset by a loss

of US\$ 31.4 million as dilution impact on non-subscription to the rights issue of United Real Estate Company, due to large exposure restrictions by the Central Bank of Bahrain (CBB); and impairment losses of US\$ 29.2 million, mainly against Millennium Private Equity Limited (MPE), a joint venture company engaged in asset management based out of the UAE, and against two funds managed by MPE.

Total assets stood at US\$ 1.9 billion at the end of 2010 compared with US\$ 2.4 billion at the end of 2009, with the decrease mainly due to the sale of Tunis International Bank, as part of UGB's consolidation strategy. Total equity at the end of the year increased to US\$ 600.7 million from US\$ 572.3 million at the end of 2009, with return on average equity rising to 7.3% from 3.3% the previous year. UGB retained a strong balance sheet with a consolidated capital adequacy ratio under Basel II requirements implemented by the CBB of 19.46%, well above the CBB's threshold of 12%. The Bank's strong and diversified asset base has continued to deliver profitability during the financial crisis, with exits from mature investments differentiating UGB from most of its peers.

I would like to point out that 2010 was the Bank's 20th successive year of profitability and the 27th year of positive performance in our 31-year history. Our strategy to maintain a strong level of liquidity and equity base has enabled UGB to emerge stronger from the difficulties facing the regional investment banking industry. During the year, UGB took concrete steps to further bolster the maturity profile of its liabilities. Accordingly, a US\$ 1 billion Euro Medium-Term Note (EMTN) program was established in February 2010 for possible future issuance of debt. UGB is rated by both Capital Intelligence Limited and Moody's Investor Services. In July 2010, Capital Intelligence downgraded by one notch UGB's foreign currency long-term rating to BBB from BBB+ and short-term rating to A3 from A2; while in October 2010, Moody's downgraded by one notch the deposit rating of UGB to Ba1 from Baa3. In order to strengthen the balance sheet and retain resources for future growth, the Board has decided not to recommend a dividend for the year ended 31 December 2010 (2009: 5% 1.25 cents per share).

## Operational growth

Overall, our subsidiaries and associates performed well during 2010, despite the challenging market conditions. UGB's flagship subsidiary, KIPCO Asset Management Company (KAMCO) maintained profitability, with net income for the year of US\$ 6.5 million. The Bank's associated companies contributed a total profit of US\$ 9.2 million compared with a loss of US\$ 12.5 million in 2009. Key contributors during the year were United Industries Company with US\$ 6.4 million and United Real Estate Company with US\$ 5.6 million; and also Burgan Bank with US\$ 4.5 million subsequent to UGB's 17% acquisition, which occurred during the fourth quarter.

During 2010, we maintained our substantial investment in human capital and information technology. We continued to sponsor our staff to gain professional qualifications, and took steps to enhance information security. A new disaster recovery site became operational in early March 2011.

## Strategic progress

UGB made sound strategic progress in 2010. The realignment and consolidation of the business through the sale of our commercial banking assets to Burgan Bank, was completed during the year with the transfer of Tunis International Bank. This consolidation will allow us to concentrate on our core expertise in asset management and investment banking (AM&IB), and develop UGB's strategy to create a platform of long-term growth for our shareholders and investors. The acquisition of a 17% stake in Burgan Bank in 2010 will provide UGB with a stable and recurring revenue stream, and also the opportunity to access the Bank's regional client base to cross-sell AM&IB services.

## Corporate social responsibility

As a leading financial institution, we have long recognised UGB's responsibility to contribute to the social and economic well-being of the Kingdom of Bahrain, and to support the development of the regional banking and financial services sector. During 2010, we continued to implement our corporate responsibility programme in a number of different ways. These included financial and practical support for numerous charitable, cultural, social, medical, educational, and environmental organisations and initiatives; membership of professional and banking-related institutions; and active participation in regional financial sector conferences and seminars. In addition, we encouraged and supported our staff to participate in community activities and major annual events that raise funds for charity.

## Corporate governance

UGB views sound corporate governance as a critical factor in ensuring organisational integrity and efficiency, creating long-term value for shareholders, and protecting the interests of all stakeholders. We aspire 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 our businesses in different

jurisdictions. During the year, we continued to strengthen the Bank's corporate governance framework, and implemented a number of new initiatives, particularly in the areas of compliance, internal controls, and risk management. We put in place an internal capital adequacy assessment process (ICAAP), and introduced initiatives to further strengthen the Bank's risk and compliance functions.

In March 2010, a Code of Corporate Governance for the Kingdom of Bahrain was introduced by the Ministry of Industry and Commerce, and came into effect on 1 January 2011. UGB adopted a proactive response to the Code, and implemented a familiarisation programme for the Board, executive management and staff. We also benchmarked the Bank's corporate governance structure with both the Code and additional disclosure requirements of revised Modules of the CBB's Rulebook. As at 31 December 2010, the Directors owned 636,600 shares in UGB (2009: 636,600) and executive senior management owned 1,351,521 shares (2009: 1,043,735) through the exercise of stock options. The staff of UGB were granted 36.5 million shares under the Bank's Employee Stock Option Plan, as approved at the EGM held on 24th March 2004.

## Changes to the Board

In April 2010, Mr Faisal Al-Ayyar resigned as Chairman of the Board. On behalf of my fellow Directors, I would like to pay tribute to his valuable service to the Bank as Chairman since 1997, and his previous contribution from 1990 as Managing Director and Vice Chairman. During this time, Mr Al-Ayyar has led the transformation of UGB from a small local investment bank to a well-diversified and respected regional asset management and investment banking group with a MENA focus. I am pleased that he will remain as a member of the Board and Chairman of the Board Audit Committee. We will continue to benefit from his expertise and experience.

In turn, I am honoured to have been elected as UGB's new Chairman. I look forward to working with my fellow Directors and the Management team to guide the Bank's strategic direction, and to ensure the future success of UGB as a leading regional financial institution.

## Acknowledgements

On behalf of the Board of Directors, I would like to gratefully acknowledge the longstanding support and guidance that we receive from the Government of the Kingdom of Bahrain; and the constructive cooperation of the regulatory and supervisory authorities in the jurisdictions where UGB operates.

I express my sincere thanks for the financial support and confidence of our shareholders; the trust and loyalty of our clients; and the positive collaboration of our business partners. Finally, I would like to pay tribute to the professionalism and dedication of the Bank's management and staff, and their positive contribution in yet another challenging year.



## Chairman's Statement

Continued

### Thirty-first anniversary

Our strong performance in 2010 is all the more pleasing given that this marked the Bank's 31st anniversary. UGB commenced operations in the Kingdom of Bahrain in March 1980 as a commercial bank, with a paid-up capital of US\$ 74.5 million. In 1988, the Bank became a subsidiary of Kuwait Projects Company (KIPCO), and changed its licence to an investment bank. It was listed on the Bahrain Bourse (formerly the Bahrain Stock Exchange) in 1989. A listing on the Kuwait Stock Exchange followed in 1998. Over the years, UGB has steadily evolved into a large diversified asset management and investment banking group, with subsidiaries and associates spanning the MENA region, and total equity exceeding US\$ 600 million. Our unique heritage and tradition of financial strength, good governance, prudent management and depth of expertise, have contributed towards UGB helping to create a more stable financial sector within the MENA region. We will continue to leverage our long experience and deep market knowledge to ensure UGB's continued growth and development in 2011 and the years to come.



**Masaud M J Hayat**

Chairman

## Board of Directors

### Masaud M. J. Hayat

Chairman

Member of the Executive Committee

Chief Executive Officer, Banking Sector at Kuwait Projects Company (Holding), Kuwait

Chairman of Syria Gulf Bank, Syria

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

Deputy Chairman and Chairman of the Executive Committee of Algeria Gulf Bank, Algeria

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

Board Member of Jordan Kuwait Bank, Jordan

Board Member of Bank of Baghdad, Iraq

Board Member of KIPCO Asset Management Company (KAMCO), Kuwait

Vice Chairman of the Royal Capital PJSC, United Arab Emirates  
Degree with a major in Economics from Kuwait University; and High Diploma in Banking Studies from the Institute of Banking Studies, Kuwait

### Sheikh Hamad Sabah Al Ahmad Al Sabah

Deputy Chairman

Member of the Executive Committee and Member of the Board Audit Committee

Chairman of Kuwait Projects Company (Holding), Kuwait

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

Chairman of Gulf Egypt Hotels & Tourism Company SAE, Egypt  
Educated in Kuwait, Lebanon and the United States of America

### Faisal Hamad M. Al-Ayyar

Executive Director

Member of the Executive Committee and Chairman of the Board Audit Committee

Vice Chairman of Kuwait Projects Company (Holding), Kuwait  
Chairman of United Broadcasting Company Limited, Cayman Islands

Chairman of Orbit-ShowTime Network, United Arab Emirates

Chairman of Saudi Pearl Insurance, Kingdom of Saudi Arabia

Vice Chairman, Gulf Insurance Company, Kuwait

Vice Chairman, Jordan Kuwait Bank, Jordan

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

Board Member of Gulf Egypt for Hotels & Tourism Company, Egypt

Board Member of United Assets Management Company, Luxembourg

Board Member of Swiss Premium Food Company, Egypt

Trustee of American University of Kuwait, Kuwait

Honorary Chairman of the National Committee for Learning Difficulties, Kuwait

Recipient of Arab Bankers Association of North America (ABANA) Achievement Award in 2005. Award winner at Tunis Arab Economic Forum 2007, and Lifetime Achievement Award winner at Beirut Arab Economic Forum 2007. Awarded at the Kuwait Financial Forum 2009 for his contribution to the investment sector in Kuwait and his successes in the global financial market.

### Samer Khanachet

Executive Director

Member of the Executive Committee and Member of the Board Audit Committee

Group Chief Operating Officer of Kuwait Projects Company (Holding), Kuwait

Board Member of United Real Estate Company, Kuwait

Board Member of Taka'ud Savings & Pensions BSC (under formation), Kingdom of Bahrain

Trustee of the American University of Kuwait, Kuwait

Member of the Corporation Development Committee and the Educational Council of MIT, United States of America

Past President of the Arab Bankers Association of North America  
MBA from the Harvard Business School, United States of America

BSc in Chemical Engineering and BSc Management Science from MIT, United States of America

### Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah

Executive Director

Chairman of KIPCO Asset Management Company (KAMCO), Kuwait

Board Member of Kuwait Projects Company (Holding), Kuwait  
Graduated from the Royal Military Academy, Sandhurst, United Kingdom

BSc in Business Administration from the New York Institute of Technology, United States of America

### Mubarak Mohammed Al-Maskati

Executive Director

Member of the Board Audit Committee

Chairman of the Royal Aviation Company, Kuwait

Past Board Member of Kuwait Projects Company (Holding); and Kuwait Aviation Services, Kuwait

BSc in Political Studies and Economics from the University of Pennsylvania, United States of America





## Executive Management



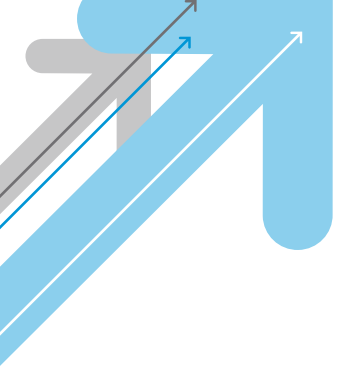
- 1** **Mohammad Haroon**  
Acting Chief Executive Officer
- 2** **Rabih Soukarieh CFA**  
Assistant General Manager, Head of Special Projects and Business Development
- 3** **Shawki Khodr CFA**  
Assistant General Manager, Head of Investment Banking and Asset Management
- 4** **Younes Brouche**  
Assistant General Manager, Head of Core Investments
- 5** **Hussain A. Lalani ACA CISA**  
Assistant General Manager, Chief Financial Officer
- 6** **Amine P. Fehmi**  
Assistant General Manager, Head of Financial Institutions & Marketing





- 7 Jawad Al Asfoor**  
Senior Vice President, Head of Treasury
- 8 Ghulam Ahmed Mohatarem**  
Senior Vice President, Chief Operating Officer
- 9 Mohammed Alqumaish CIA CISA**  
Senior Vice President, Head of Internal Audit & Quality Assurance
- 10 Deepa Chandrasekhar CAMS MICA CFE**  
Senior Vice President, Chief Compliance Officer
- 11 Syed Rehan Ashraf ACA**  
Senior Vice President, Head of Credit & Risk Management
- 12 Khalil El Khoury**  
Senior Vice President, Asset Management Projects

Profiles of the Executive Management are included in the Corporate Governance section of this annual report.



# Review of Operations

## Business Overview and Strategy

Either directly or through its subsidiaries, associate companies and joint venture, UGB engages primarily in asset and fund management, investment banking, private equity, and corporate finance. Other business activities include brokerage, commercial banking, proprietary investments and treasury.

### Asset Management & Investment Banking (AMIB)

#### Asset Management

Asset and fund management activities cover local, regional and international markets and embrace discretionary and non-discretionary portfolio management, securities trading, portfolio structuring and asset allocation advice, mutual funds, investments and structuring, and alternative/structured investments.

#### Investment Banking

Conventional and Islamic investment banking activities cover equity and debt underwriting, private placements, capital restructuring, and merger and acquisitions.

#### Private Equity

Private equity activity focuses on key growth of demand sectors such as telecoms, media and technology, and energy.

#### Corporate Banking

Corporate banking advisory services include IPO and private placement advisory and execution, business valuation, financial feasibility studies, project finance, and due diligence.

### Other Business Activities

#### Commercial Banking

UGB has consolidated its commercial banking assets under Burgan Bank with the exception of Syria Gulf Bank, which is planned to be sold at a later date, once regulatory requirements have been met.

#### Proprietary Investments

UGB's proprietary investments are mainly in private and quoted equities, private equity funds, structured products, managed funds and debt securities. These are managed directly by the Bank or through its subsidiaries and associates, across a range of sectors including finance, real estate development, hospitality, media, healthcare and education.

#### Brokerage

UGB provides financial brokerage services for clients within the MENA region.

#### Treasury

UGB's corporate treasury function manages the Bank's liquidity and funding requirements, and is responsible for developing conventional and Islamic counterparty relationships.

## Non-Financial Activities

Through its non-financial associate companies, the Bank carries out investments in the real estate, industry, hospitality and media sectors.

## Strategy

UGB's strategic objective is to create the MENA region's premier asset manager and investment bank. The Bank plans to expand its business and become the regional market leader in asset management, investment banking, brokerage and financial solutions; and the preferred gateway to the region for its clients and global partners through the delivery of both conventional and Islamic services backed by world-class standards of support, infrastructure and processes. The Bank will work with strategic partners to create opportunities that will position UGB as a leading financial institution for the region.

In 2010, the Bank completed a major realignment and consolidation of its business through the sale of all its commercial banking assets to Burgan Bank, with the exception of Syria Gulf Bank, which will be sold at a later date once regulatory requirements have been met. This consolidation will allow UGB to concentrate on its core expertise in asset management and investment banking, and develop its strategy to create a platform of long-term growth for shareholders and investors. The acquisition of a 17% equity stake in Burgan Bank during the year will provide UGB with a stable and recurring revenue stream. It will also allow the Bank the opportunity to access Burgan Bank's regional client base to cross-sell asset management and investment banking services. At the same time, UGB will leverage its own experience and relationships developed in markets across the MENA region, through its 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 market niche in identifying opportunities for growth. Through the management of its commercial banks in the past, UGB has a deep knowledge and understanding of the markets, the players and their management. Based on these relationships, its experience, and its current presence in Kuwait, Bahrain, the UAE, Syria and Tunisia, UGB will use its niche advantage to further tap these markets.

The combined experience of UGB and its subsidiary, KIPCO Asset Management Company (KAMCO) is expected to provide a true MENA-wide distribution platform for asset management, investment and financial solutions. UGB and KAMCO intend to adapt the same management philosophy that the Group has practiced in the past; namely to seek representation at board level, appoint strong management teams, and provide them with guidance and execution support to achieve targets and enhance performance. Realising the benefits of diversification, UGB has also made investments in the non-financial sector which include real estate, education, healthcare, hospitality and media. These are perceived as growth and demand areas that are largely non-cyclical and will contribute to stable and recurring revenue streams.

# Review of Operations

Continued

## Review of Subsidiaries & Associates

UGB Network (consolidated)



# Review of Operations

Continued

## Key Business Developments in 2010

### Financial Highlights

- UGB's assets under management stood at US\$ 8.0 billion at the end of 2010 compared with US\$ 7.2 billion at the end of 2009
- UGB's share of profit from associate companies was US\$ 9.2 million compared with a loss of US\$ 12.5 million in 2009
- Key contributors were United Industries Company with US\$ 6.4 million, United Real Estate Company with US\$ 5.6 million, and Burgan Bank with US\$ 4.5 million, while Al Sharq Financial Brokerage Company contributed US\$ 345,000
- KAMCO recorded net income of US\$ 6.5 million compared with US\$ 21 million in 2009

### Acquisitions

- UGB increased its shareholding in Burgan Bank to 17%
- UGB acquired an additional 7% equity stake in Syria Gulf Bank
- UGB acquired an additional 7% equity stake in North Africa Holding Company
- KAMCO acquired a 44% equity stake in Overland Real Estate Company

### Divestitures

- UGB sold Tunis International Bank to Burgan Bank
- UGB commenced its liquidation of United Gulf Bank Securities Company
- KAMCO sold its 22% equity stake in United Healthcare Company
- KAMCO sold a 12% stake in United Industries Company

### New Initiatives

- UGB and KIPCO worked towards establishing a joint venture for a savings and pensions company. Approval for this was procured in January 2011

## Asset Management & Investment Banking

### KIPCO Asset Management Company (KAMCO)

#### UGB Consolidated Subsidiary based in Kuwait

Established in 1998, KAMCO is a leading asset management and financial institution regulated by the Central Bank of Kuwait. KAMCO is listed on the Kuwait Stock Exchange. Its three principal business lines are asset management, financial services and investment advisory research services, which are offered to a diverse local, regional and international client base. In 2010, KAMCO sold its 22% equity stake with a carrying value of

US\$ 73.2 million in United Healthcare Company, and a 12% stake in United Industries Company with a carrying value of US\$ 34 million. Proceeds from these sales were partially reinvested to acquire a 44% stake in Overland Real Estate Company with a carrying value of US\$ 46.5 million. KAMCO recorded net income of US\$ 6.5 million in 2010 compared with US\$ 21 million in 2009. At the end of the year, total assets under management stood at US\$ 8.8 billion (2009: US\$ 7.6 billion).

UGB owns 86% of KAMCO. It is listed on the Kuwait Stock Exchange.

### Financial Performance Summary

US\$ million	31 Dec 10	31 Dec 09
Total Revenue	37.2	61.1
Net Income	6.5	21.1
Total Assets	581.4	575.7
Total Equity	313.7	307.9
ROE (%)	2.1	6.9
ROA(%)	1.1	3.7

### United Gulf Financial Services Company North Africa (UGFS-NA)

#### UGB Consolidated Subsidiary based in Tunisia

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). UGFS-NA's activities encompass portfolio management services (PMS), fund management services, and limited corporate finance services offered in connection with portfolio management services.

The firm commenced operations officially in 2009 and has been active in all three areas:

- PMS: the Company has 20 clients in Tunisia (institutional as well as individual clients) with total AUM of TND 1.5 million (US\$ 1.04 million) as at 31 December 2010.
- Fund services: UGFS-NA has launched two funds to date, namely Tunisian Equity Fund for a size of TND 8.2 million (US\$ 5.7 million) and Tunisian Development Fund for a size of TND 5.5 million (US\$ 3.8 million), and has plans to launch two more funds in 2011.
- Corporate finance: UGFS-NA has established a corporate finance subsidiary, United Gulf Advisory Services (UGAS). The Company has built a healthy pipeline of financial advisory transactions which are expected to be closed in 2011.
- The company submitted an application form to obtain a licence to establish a brokerage company in Algeria.

As at 31 December 2010, UGB's effective consolidated shareholding in UGFS-NA stood at 77%. Other prominent shareholders in the company include KAMCO, TIB and NorAH.



# Review of Operations

Continued

The Company's shares are not listed. UGFS-NA reported net income of TND 5,000 (US\$ 3,455) for 2010 compared with a loss of TND 320,000 (US\$ 242,242) in 2009. UGFS-NA equity was TND 1 million (US\$ 690,322).

The company's shares are not listed.

## North Africa Holding Company (NorAH)

### UGB Associate Company based in Kuwait

Established in 2006, NorAH focuses on acquiring significant stakes in companies in Morocco, Algeria, Tunisia, Libya and Egypt, which have demonstrated the ability, or have the potential, to deliver real value. It is regulated by the Ministry of Commerce and Industry, Kuwait. In 2010, UGB acquired an additional 7% equity stake in NorAH, bringing its total consolidated interest to 44%. The Company reported a net loss of US\$ 22.6 million compared with a net profit of US\$ 9.5 million in 2009, mainly due to the losses incurred on account of provisions. At the end of the year, total assets stood at US\$ 217 million (2009: US\$ 226 million).

In 2010, NorAH acquired a 50% stake in Kandil Glass SAE, one of Egypt's leading manufacturers of glass containers. NorAH acquired also a majority stake in Egyptian International Medical Center (EIMC) and its affiliate, EIMC United Pharmaceuticals (EUP). EIMC is one of Egypt's leading pharmaceutical distributors that focuses on oncology, intensive care products and blood derivatives. EUP is a pioneer in manufacturing a wide range of oncology and intensive care products. NorAH shares are not listed.

### Financial Performance Summary

US\$ million	31 Dec 10	31 Dec 09
Total Revenue	1.8	21.3
Net Income (loss)	(22.6)	9.5
Total Assets	216.6	226.0
Total Equity	158.2	177.6
ROE (%)	(14.3)	5.3
ROA(%)	(10.5)	4.2

## Manafae Investment Company (Manafae)

### UGB Associate Company based in Kuwait

An Islamic investment company, Manafae was established in 2005. It offers a wide range of Sharia'a-compliant products and services including asset management, investment services, extension of financing and credit, and advisory services. The Firm was one of the first to launch an Islamic mutual fund in 2007. The Manafae First Fund invests in listed and private companies, incorporated primarily in Kuwait and the GCC. The Company reported a net loss of US\$ 3.14 million in 2010 compared with a net income of US\$ 0.3 million in 2009.

UGB owns a 30% of the company, through its subsidiary KAMCO. Manafae was listed on Kuwait Stock Exchange in 2010.

## Financial Performance Summary

US\$ million	31 Dec 10	31 Dec 09
Total Revenue	2.4	6.3
Net Income (loss)	(3.1)	0.3
Total Assets	92.4	115.4
Total Equity	90.6	93.9
ROE (%)	(3.5)	0.3
ROA(%)	(3.4)	0.3

## Millennium Private Equity Limited (MPEL)

### UGB 50-50 Joint Venture with Dubai Islamic Bank based in the UAE

MPE is regulated by the Dubai Financial Services Authority. It is a Sharia'a compliant private equity management firm. MPEL currently manages three funds – the Millennium Global Energy Fund, the Millennium India Fund and the Millennium Telecoms, Media & Technology Fund. MPEL was awarded the 'Best Deal' of the Year Award 2010, by Islamic Finance, for a US\$ 10 million Sukuk structure that it developed for an investment in a United Kingdom based company, International Innovative Technologies. This Musharakah transaction is notable for creating a model that private equity firms could use to develop capital structures which allow efficiency and exits for acquisitions. As a result of adverse market conditions in 2010, UGB took provisions of US\$ 28.8 million against MPEL and its funds, as a prudent measure.

UGB owns 50% of MPEL. Its shares are not listed.

## Royal Capital PJSC (RCP)

### UGB Associate Company based in the UAE

RCP was established in 2007 and commenced business activities in 2009. It is regulated by the Central Bank of the UAE. RCP provides investment banking services and asset management services and products. The primary focus of RCP is centered on the MENA region and its services are targeted at regional and international investors. The primary objective of RCP's asset management business is to deliver superior risk-adjusted returns. RCP offers active and passive portfolio management products spanning the equities and fixed income asset classes. RCP's investment banking business emphasises long-term risk alignment and commitment to building relationships and services include M&A, corporate finance and restructuring.

RCP launched its first investment fund, the Royal Capital MENA Fixed Income Plus Fund in March 2010 and the second fund, the Royal Capital MENA Multi-Market Strategy Fund, in January 2011. These Funds are structured as open-ended collective investment schemes registered in the Kingdom of Bahrain. RCP reported a net loss for the nine months ended 31 December 2010 of US\$ 1.2 million in 2010 compared to a loss of US\$ 1.6 million for the nine months ended 31 December 2009.

UGB owns 43% of RCP. Its shares are not listed.

# Review of Operations

Continued

## Financial Performance Summary

US\$ million	9 months ended	
	31 Dec 10	31 Dec 09
Total Revenue	3.8	2.5
Net Loss	(1.2)	(1.6)
Total Assets	81.7	83.2
Total Equity	81.4	83.0
ROE (%)	(1.5)	(1.9)
ROA(%)	(1.5)	(1.9)

## Brokerage

### United Gulf Bank Securities Company (UGBS) (under liquidation)

#### UGB Consolidated Subsidiary based in Bahrain

The liquidation of UGBS commenced in 2010. Following a licensing regime change, UGBS was requested by the Central Bank of Bahrain to change its status from a brokerage firm to an investment firm. After discussions with the regulatory authorities and an internal cost impact assessment, UGB decided to liquidate the firm.

UGB and KAMCO own 70% and 30% of the company respectively. Its shares are not listed.

## Financial Performance Summary

US\$ million	31 Dec 10	31 Dec 09
Total Revenue	0.1	0.07
Net Income (loss)	(0.2)	(0.2)
Total Assets	1.1	2.0
Total Equity	1.1	1.3
ROE (%)	(14.9)	(18.5)
ROA(%)	(14.9)	(12.0)

### Al Sharq Financial Brokerage Company (Al Sharq)

#### UGB Associate Company based in Kuwait

Established in 1985, Al Sharq has grown to become one of the largest brokerage firms in Kuwait, as measured by the number of transactions conducted on the Kuwait Stock Exchange (KSE). In 2010, the Firm was impacted by lower trading volumes and lacklustre performance of the KSE. Al Sharq reported net income of US\$ 2.6 million in 2010 compared with US\$ 4.9 million in 2009.

UGB owns 20% of Al Sharq on a consolidated basis. Its shares are not listed.

## Financial Performance Summary

US\$ million	31 Dec 10	31 Dec 09
Total Revenue	8.7	12.1
Net Income (loss)	2.6	4.9
Total Assets	25.3	27.6
Total Equity	22.4	24.7
ROE (%)	11.4	19.8
ROA(%)	10.1	17.8

## Commercial Banking

### Burgan Bank (BB)

Established in 1977, Burgan Bank (BB) is a subsidiary of KIPCO. It is listed on the Kuwait Stock Exchange and regulated by the Central Bank of Kuwait. Over the years it has acquired a leading role in the retail, corporate and investment banking sector in the MENA region. Its achievements in product innovation, information technology, efficiency, quality and corporate governance have been recognised by numerous awards, with several of them being either first or unique in the region. BB is also the only bank in the GCC to have achieved ISO 9001:2008 accreditation. In 2010, BB reported net profits of US\$ 16.6 million compared to US\$ 21.7 million in 2009, with reduced provisions.

In 2010, UGB completed the transfer of its commercial banking assets to Burgan Bank with the exception of Syria Gulf Bank, which will be sold at a later date, once regulatory requirements have been met. This consolidation will allow UGB to concentrate on its core expertise in asset management and investment banking. Also during the year, UGB increased its stake in BB to 17% and will benefit from a stable and recurring revenue stream, and the opportunity to access BB's regional client base.

## Financial Performance Summary

US\$ million	31 Dec 10	31 Dec 09
Total Revenue	824.7	889.0
Net Income	16.6	21.7
Total Assets	14,771.0	14,306.8
Total Equity	1,926.1	1,521.0
ROE (%)	0.9	1.4
ROA(%)	0.1	0.2

### Syria Gulf Bank (SGB)

#### UGB Associate Company based in Syria

SGB was licensed as a new commercial bank in Syria in 2006 when the country opened up its financial sector for foreign investment after years of relative isolation. The bank commenced operations in June 2007, and offers a range of retail and commercial banking services through 12 branches across the country. SGB was named 'Best Bank in Syria 2009' by The Banker magazine.

SGB reported a net loss of US\$ 4.3 million in 2010 compared with a net profit of US\$ 43.5 thousand the previous year. Provisions for loan losses were US\$ 1.8 million, mainly due to the initial application of the new provision decree issued by the Central Bank of Syria. In a prudent effort, the Bank has taken further precautionary measures to reinforce its financial position in the local market by making provisions for certain customers. Total assets increased by US\$ 77 million to US\$ 336 million at the end of 2010, and total deposits grew by 38% to US\$ 253 million. Focused business development activities helped SGB to show positive growth. This underscores the fact that maintaining and establishing new customer relationships drives the Bank's business and



# Review of Operations

Continued

continues to be an important part of its strategy. Loans increased by 64% to reach US\$ 159 million by year-end. In 2010, UGB increased its stake in SGB to 31.5%, and the Bank was listed on the Damascus Securities Exchange.

## Financial Performance Summary

US\$ million	31 Dec 10	31 Dec 09
Total Revenue	14.6	12.6
Net Income (loss)	(4.3)	0.04
Total Assets	336.0	264.0
Total Equity	52.7	58.2
ROE (%)	(8.2)	0.1
ROA(%)	(1.2)	0.0

## Tunis International Bank (TIB)

### Discontinued Operations

TIB was transferred to Burgan bank in 2010, as part of UGB's realignment and consolidation of its business. UGB's share of profit from discontinued operations of TIB in 2010 was US\$ 3.5 million compared with a loss of US\$ 1.8 million in 2009.

## Non-Financial Associates

### Al Dhiyafa Holding Company (Al Dhiyafa)

#### UGB Associate Company based in Kuwait

Established in 2005, Al Dhiyafa is a hospitality company that invests in real estate and operates hotels. Its investments include an 85.5% stake in Gulf Egypt for Hotels & Tourism Company, which owns and operates the Sheraton Heliopolis Hotel in Cairo; and a 55% stake in United Lebanese Real Estate Company. Al Dhiyafa operates the luxury boutique five-star Marina Hotel in Kuwait. In 2010, the Company recorded a net loss of US\$ 1.6 million compared with a net loss of US\$ 6.9 million in 2009.

UGB owns 32% of Al Dhiyafa on a consolidated basis. The company's shares are not listed.

### United Industries Company (UIC)

#### UGB Associate Company based in Kuwait

UIC was incorporated in 1979 with the aim of establishing and developing industrial projects, and providing technical consultancy services relating to industrial investments. It is also involved in the incorporation, marketing and management of investment funds specialised in the industrial and services sectors in Kuwait and the region. Investments include United Cement Company, United Industrial Gas Company, and United Gulf Industries Company. UIC posted a net profit of US\$ 14.3 million in 2010 compared with a net loss of US\$ 25.7 million in 2009. UGB's share of profit from UIC in 2010 was US\$ 6.4 million compared with a net loss of US\$ 11.3 million the previous year.

UGB owns 32% of UIC on a consolidated basis. The Company is listed on the Kuwait Stock Exchange.

## Financial Performance Summary

US\$ million	31 Dec 10	31 Dec 09
Total Revenue	34.5	(4.9)
Net Income (loss)	14.4	(25.7)
Total Assets	633.9	452.2
Total Equity	365.4	246.0
ROE (%)	3.9	(10.4)
ROA(%)	2.3	(5.7)

## United Real Estate Company (URC)

### UGB Associate Company based in Kuwait

Established in 1973, URC is involved in real estate activities that include the purchase, sale, leasing and renting of land and buildings. The Company handles the construction of private and public buildings and projects, and manages third party properties in Kuwait, Egypt, Lebanon and Jordan. URC is the developer of the benchmark Marina Mall project in Kuwait. The Company recorded a net profit of US\$ 15 million in 2010 compared with US\$ 13.5 million the previous year. UGB's share of profit from URC in 2010 was US\$ 5.6 million compared with US\$ 756 thousand in 2009.

UGB owns 19% of URC. The Company is listed on the Kuwait Stock Exchange.

## Financial Performance Summary

US\$ million	31 Dec 10	31 Dec 09
Total Revenue	62.8	96.9
Net Income	15.0	13.5
Total Assets	1,301.5	1,142.0
Total Equity	714.1	551
ROE (%)	2.1	2.4
ROA(%)	1.2	1.2

## United Real Estate Company Jordan (URCJ)

### UGB Associate Company based in Jordan

Incorporated in 2006, 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 leisure properties in Jordan. Two of its main urban development activities are the construction, leasing and management of the Pedestrian Spine (Boulevard) project and the Mall project in downtown Amman. URCJ reported a net loss of US\$ 1 million in 2010 compared with a net loss of US\$ 400,000 the previous year.

UGB owns 47% of URCJ. The Company's shares are not listed.

# Review of Operations

Continued

## Financial Performance Summary

US\$ million	31 Dec 10	31 Dec 09
Total Revenue	0.5	0.5
Net Income (loss)	(1.1)	(0.4)
Total Assets	145.8	127.0
Total Equity	70.6	71.7
ROE (%)	(1.5)	(0.6)
ROA(%)	(0.7)	(0.3)

### United Real Estate Company Syria (URCS)

#### UGB Associate Company based in Syria

The main activities of URCS, which was established in 2007, include the purchase, development, management and trade of real estate.

### United Healthcare Company (UHC)

#### Discontinued Operations

UGB, through its subsidiary KAMCO, divested its stake in UHC during 2010.

### United Networks

#### UGB Associate Company based in Kuwait

Incorporated in 2001, United Networks is Kuwait's pioneering communications and media solutions provider. The company's innovative and progressive product and service range offers media and communications solutions. The company is leveraging the convergence of voice, video and data to create new business opportunities.

UGB owns 28% of United Networks on a consolidated basis. The company's shares are not listed.

### Overland Real Estate Company (Overland)

#### UGB Associate Company based in Kuwait

A limited liability company incorporated in Kuwait in 2010, Overland invests in equities and real estate as its principal activity, having a total asset base of US\$ 194.4 million. Its major investments include 43% in the health care sector and 20% in the Islamic Investment Company.

UGB owns 44% of Overland Real Estate on a consolidated basis. The company's shares are not listed.

## Operations & Support Services

Throughout 2010, UGB continued to invest in enhancing its institutional capability. Initiatives in operations, information technology and human resources are listed below, while corporate governance and risk management are covered by separate sections in this annual report.

## Operations

During 2010, the Bank continued to streamline its back office systems in order to support the growing needs of the business divisions. Operating processes and procedures were comprehensively reviewed and revised with the aim of enhancing efficiency and productivity.

## Information Technology

UGB views the utilisation of cutting-edge information and communications technology as a key strategic driver and critical business enabler. Other developments include the enhancement of information security through the successful conclusion of external penetration testing; and final preparation for the installation of a new 'hot' disaster recovery site in early 2011 to support UGB's business continuity planning process.

## Human Resources

UGB maintained its headcount in 2010. On a consolidated basis, the Bank's group staff strength was 210, while head office staff numbered 65 at the end of the year, of which 74% were Bahraini nationals. UGB continued its investment in training and development, with professional training from external providers such as the Bahrain Institute of Banking & Finance (BIBF), and in-house workshops covering anti-money laundering, corporate governance and operational risk management. UGB also continued to sponsor staff to gain business-related graduate and postgraduate qualifications, and professional accreditations such as BSc, ACCA, MBA, CFA, CMA and CPA. Around 25% of head office staff are currently undertaking study programmes in these areas. The Bank also encourages staff to maintain memberships with professional institutions and associations.

The merit-based Mashare' Al Khair UGB Scholarship Programme assists dependants of qualified Bank staff to obtain degrees from accredited colleges, universities or other academic institutions. Five employees' children are currently benefiting from this programme. During 2010, the UGB Staff Committee organised a number of events for Bank staff to foster team work and improve inter-departmental relationships; and also raise awareness of health-related issues such as breast cancer through support for 'Think Pink Bahrain'. Special events were also arranged for UGB staff and their families. The Bank continued to absorb the Bahrain Government's 1% unemployment levy on behalf of its employees.

## Financial Review

This review provides a detailed description of the financial performance of UGB for the period ended 31 December 2010. The Notes to the Consolidated Financial Statements provide additional relevant details, with some of these notes being 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 row may not conform exactly to the total figure given for that column or row.

### Revenues

UGB's total revenues in 2010 were US\$ 163.2 million compared with US\$ 124.5 million in 2009. Apart from investment income and interest income, significant sources of income included gains of US\$ 43.8 million on the sale of Tunis International Bank (TIB), US\$ 69.7 million on acquisition of a 17% stake in Burgan Bank (BB) and a loss of US\$ 31.4 million on dilution of equity stake in United Real Estate Company on non-subscription to the rights issue due to large exposure restrictions by the Central Bank of Bahrain (CBB).

In accordance with IFRS disclosure standards, the following table illustrates the total revenues of UGB for the years ended 2010 and 2009.

	Excluding Discontinued Operations 2010	Excluding Discontinued Operations 2009
US\$ million		
Total Revenues	163.2	124.5

	Including Discontinued Operations 2010	Including Discontinued Operations 2009
US\$ million		
Total Revenues	174.9	156.2

Other sources of revenue in 2010 consisted of US\$ 9.7 million (2009: US\$ 17 million) from dividends received, US\$ 12.7 million of interest income (US\$ 18.1 million) and US\$ 30.5 million of fees and commissions (2009: US\$ 23.7 million). Dividend income was significantly lower as a result of sale of Kuwait Clearing Company (KCC) in Q4 2009, which had contributed US\$ 10.4 million in revenues last year. Apart from interest income and dividend income, the main source of revenue in 2009 stemmed from the sale of two commercial banking entities to Burgan Bank for a total cash consideration of US\$ 150 million, realising a net gain of US\$ 26.2 million.

The following table indicates the contribution of revenues from UGB's activities and investments in various sectors. Each of the sectors is also discussed in detail.

Total Revenues US\$ million	2010		Total
	Continued Operations	Discontinued Operations	
Financial Services	(3.4)	2.6	(0.8)
Real Estate	5.3	-	5.3
Other Associates	7.3	-	7.3
Management fees from fiduciary activities	16.7	-	16.7
Credit related fees and commission	-	1.6	1.6
Advisory fees	13.8	-	13.8
Other fees received	-	-	-
Interest income	12.7	3.4	16.1
Realized gain on non- trading investments	3.2	1.4	4.6
Gain on acquisition of an associate	69.7	-	69.7
Gain on trading investment	11.9	-	11.9
Dividend	9.7	0.6	10.3
Other income	3.8	2.1	5.9
Loss on dilution of investment in an associate	(31.4)	-	(31.4)
Gain on sale of associates and subsidiaries	44.0	-	44.0
<b>Total</b>	<b>163.2</b>	<b>11.7</b>	<b>174.9</b>

Total Revenues US\$ million	2009		Total
	Continued Operations	Discontinued Operations	
Financial Services	0.1	11.4	11.5
Real Estate	0.6	-	0.6
Other Associates	(13.2)	-	(13.2)
Management fees from fiduciary 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 received	-	0.8	0.8
Interest income	18.1	9.0	27.1
Realized gain on non- trading investments	40.0	1.0	41.0
Gain on trading investment	(2.3)	-	(2.3)
Dividend	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>

# 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 these entities are included in the Business Activities section of the Review of Operations in this annual report).

In 2010, revenues from financial associates were US\$ (0.8) million compared with US\$ 11.5 million in 2009. The decline is mainly attributed to the transfer of disposal group which had contributed US\$ 2.6 million in 2010 compared to US\$ 11.4 million in 2009. This is mainly attributable to Burgan Bank - US\$ 4.5 million, and Gulf Bank Algeria - US\$ 2.6 million, which was offset by losses of other associate companies.

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

Revenues US\$ million	2010		
	Continued Operations	Discontinued Operations	Total
Burgan Bank	4.5	-	4.5
Gulf Bank Algeria	-	2.6	2.6
Al Sharq Financial Brokerage Company	0.3	-	0.3
Manafae Investment Company	(0.6)	-	(0.6)
Kuwait Private Equities Opportunity Fund	(1.2)	-	(1.2)
Syria Gulf Bank	(1.1)	-	(1.1)
North Africa Holding Company	(2.7)	-	(2.7)
Millennium Private Equity Limited	(1.9)	-	(1.9)
Royal Capital	(0.8)	-	(0.8)
<b>Total</b>	<b>(3.4)</b>	<b>2.6</b>	<b>(0.8)</b>

Revenues US\$ million	2009		
	Continued Operations	Discontinued Operations	Total
Gulf Bank Algeria	-	9.2	9.2
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
Royal Capital	0.3	-	0.3
<b>Total</b>	<b>0.1</b>	<b>11.4</b>	<b>11.5</b>

## Real Estate

UGB's real estate revenues are derived from United Real Estate Company – URC (also refer to Business Activities section of the Review of Operations). Despite the downturn in the real estate sector during the year, URC posted a net profit of US\$ 5.6 million compared with US\$ 0.8 million in 2009.

## Other Non-Financial Associates

UGB posted a net income of US\$ 7.3 million from its non-financial associates in 2010 compared with a net loss of US\$ 13.2 million in 2009. United Industries Company (UIC) posted a profit of US\$ 6.4 million mainly from the sale of subsidiary SNZP by Saudia Dairy & Foodstuff Company, and a gain arising from an additional acquisition of a 50% stake in Kuwait National Industrial Projects Company KSC (closed). In 2009, UIC had posted a loss of US\$ 11.3 mainly on its sale of equity interest in Danish Paints Middle East Holding (BSC) (DPME), Hempel Paints LLC and Hempel Paints WLL.

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

Revenues US\$ million	2010		
	Continued Operations	Discontinued Operations	Total
Al-Dhiyafa Holding Company KSC (Closed)	(0.4)	-	(0.4)
SSH Dar International WLL	1.3	-	1.3
United Network Company	0.2	-	0.2
United Industries Company	6.4	-	6.4
United Health Care Company (Closed)	-	-	-
Kuwait Education Fund	(0.2)	-	(0.2)
<b>Total</b>	<b>7.3</b>	<b>-</b>	<b>7.3</b>

Revenues US\$ million	2009		
	Continued Operations	Discontinued Operations	Total
Al-Dhiyafa Holding Company KSC (Closed)	(2.0)	-	(2.0)
SSH Dar International WLL	0.9	-	0.9
United Industries Company	(11.3)	-	(11.3)
United Health Care Company (Closed)	(0.2)	-	(0.2)
Kuwait Education Fund	(0.6)	-	(0.6)
<b>Total</b>	<b>(13.2)</b>	<b>-</b>	<b>(13.2)</b>

# Financial Review

Continued

## Management Fees from Asset Management Activities

UGB's assets under management increased to US\$ 8 billion in 2010 compared to US\$ 7.2 billion in 2009. As a result, management fees increased by 19.3% to US\$ 16.7 million in 2010 compared with US\$ 14 million in 2009.

## Credit Related Fees and Commissions

Credit related fees and commissions originating from trade finance activities declined by 50% to US\$ 1.6 million in 2010 (2009: US\$ 3.2 million). TIB had contributed US\$ 2.7 million towards fee income in 2009. UGB had no access to this source of income after it transferred its stake in TIB in June 2010.

## Advisory Fees

Advisory fees for the year 2010 increased by 48% to US\$ 13.8 million compared with US\$ 9.3 million in 2009. The increase is mainly attributed to various consultancy services provided during the year to group companies. All the transactions were conducted on arm's length basis. For details, please refer to Related Party Note 27 of the Consolidated Financial Statements.

## 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 subordinated debt issued by BB. Interest income in 2010 decreased by 30% to US\$ 12.7 million compared with US\$ 18.1 million in 2009 largely as a result of redemption of BB subordinated debt in May and September.

## Realised Gains on Non-Trading Investments

Realised gains on non-trading investments declined to US\$ 3.2 million compared with US\$ 40 million in 2009. In 2009, the Bank had realised capital gain from the sale of its consolidated stake of 17% in KCC. UGB realised a gain of US\$ 33.6 million from this exit.

## Gain on Acquisition of an Associate

The Bank has recognised a gain of US\$ 69.7 million on acquisition of 17% stake in Burgan Bank (BB). UGB has acquired significant influence on BB through acquisitions of equity stake in stages. At the date of significant influence achieved, previously held equity interest was fair valued, and the resulting gain of US\$ 69.9 million was recycled to income statement from equity. UGB has exercised the significant influence on BB through representation of two directors on the Board of the Bank.

## Gain on Trading Investments

UGB's trading positions recorded a market to market gain of US\$ 11.9 million (2009: trading loss of US\$ 2.3 million) resulting from the improved performance of the Kuwait Stock Exchange (KSE) compared to the previous year.

## Dividend Income

The main contributors were listed and private equity investments located in Kuwait and GCC countries. Dividend income was significantly lower in 2010 at US\$ 9.7 million compared with US\$ 17 million in 2009 as a result of the sale of KCC in Q4 2009, which had contributed US\$ 10.4 million as dividend in 2009.

## Other Income

Other income consisted mainly of gains on foreign currencies and rental income on investment property. In 2009, UGB's other income was derived from the gains of foreign currencies of US\$ 4.6 million and reversal of contingency provisions of US\$ 13 million recorded as a precautionary measure related to the transfer of commercial banking assets to BB.

## Loss on Dilution of Investment in an Associate

The Bank did not participate in the right shares (400 million) issued by URC in December 2010 due to large exposure restrictions by the CBB. As a result, the Bank's shareholding in URC has been diluted to 19.4% at December 2010 from 30% in September 2010. A loss of US\$ 31.4 million was recorded as dilution impact/deemed disposal in 2010.

## Gain on Sale of Associates and Subsidiaries

In 2010, UGB recorded a net gain of US\$ 43.8 million from the transfer of its stake in TIB to BB. In 2009, UGB recorded a net gain of US\$ 26.2 million from the transfer of its stake in Gulf Bank Algeria (GBA) and Bank of Baghdad (BOB) to BB.

## 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\$ 49.3 million during the year (2009: US\$ 51.3 million).

The table below illustrates UGB's interest expenses for the years 2010 and 2009:

	Excluding Discontinued Operations 2010	Excluding Discontinued Operations 2009
US\$ million	2010	2009
Interest Expense	49.3	51.3

	Including Discontinued Operations 2010	Including Discontinued Operations 2009
US\$ million	2010	2009
Interest Expense	50.2	55

# Financial Review

Continued

## Operating Expenses

Operating expenses increased by 19.7% to US\$ 48.5 million in 2010 compared with US\$ 40.5 million in 2009. Salaries and benefits marginally increased by 5.5% to US\$ 26.9 million (2009: US\$ 25.5 million) while general and administration expenses increased by 44% to US\$ 21.6 million (2009: US\$ 15 million). The main contributor to higher general and administration expenses was an increase in consultancy and legal fees for strategic consultancy services.

The table below shows operating expenses for the years 2010 and 2009:

US\$ million	Excluding Discontinued Operations 2010	Excluding Discontinued Operations 2009
Salaries and benefits	26.9	25.5
General & administrative	21.6	15.0
<b>Total</b>	<b>48.5</b>	<b>40.5</b>

US\$ million	Including Discontinued Operations 2010	Including Discontinued Operations 2009
Salaries and benefits	28.7	28.8
General & administrative	24.0	19.3
<b>Total</b>	<b>52.7</b>	<b>48.1</b>

## Net Operating Income

UGB's net operating income increased by 100% to US\$ 65.4 million in 2010 from US\$ 32.7 million in 2009. The table below shows net operating income excluding and including discontinued operations:

US\$ million	Excluding Discontinued Operations 2010	Excluding Discontinued Operations 2009
Net operating income	65.4	32.7

US\$ million	Including Discontinued Operations 2010	Including Discontinued Operations 2009
Net operating income	71.9	53.1

## Provisions

The erosion in asset prices continued in 2010 due to the global financial meltdown, resulting in UGB recording an impairment loss on its investments of US\$ 29.3 million. Impairment loss of US\$ 15.78 million (2009: US\$ 9.5 million) was recorded against joint venture Millennium Private Equity Limited (MPEL) and US\$ 13.5 million against non-trading investments compared to US\$ 10.3 million in 2009.

Impairment provisions of US\$ 0.5 million were also charged against non-performing loans and advances at TIB compared to US\$ 10.8 million in 2009. This is in accordance with conservative accounting principles and assumptions.

US\$ million	Excluding Discontinued Operations 2010	Excluding Discontinued Operations 2009
Impairment loss on investments	29.3	19.7
(Write-back-of) Provision for doubtful loan, guarantees and others, net	(0.1)	(1.3)
<b>Total</b>	<b>29.2</b>	<b>18.4</b>

US\$ million	Excluding Discontinued Operations 2010	Excluding Discontinued Operations 2009
Impairment loss on investments	29.3	19.7
(Write-back-of) Provision for doubtful loan, guarantees and others, net	0.3	9.5
<b>Total</b>	<b>29.6</b>	<b>29.2</b>

## Net Income

UGB's net income in 2010 was US\$ 38.7 million, up 93% compared with US\$ 20.1 million the previous year, with a 91% increase in earnings per share to 4.71 cents from 2.46 cents in 2009. As discussed earlier, contributing to these results were exceptional gains of US\$ 69.6 million on the acquisition of a 17% stake in BB, and US\$ 43.8 million on the sale of TIB to BB. These were partially offset by a loss of US\$ 31.4 million as dilution impact on non-subscription to the rights issue of URC, due to large exposure restrictions by the CBB; and impairment losses of US\$ 29.2 million, mainly against MPE, a joint venture engaged in asset management based out of the UAE, and against two funds managed by MPEL.

## Consolidated Balance Sheet

### Consolidated Assets

UGB's consolidated assets stood at US\$ 1.9 billion at the end of 2010 compared with US\$ 2.4 billion at the end of 2009, with the decrease mainly due to the sale of TIB, as part of UGB's realignment and consolidation of the business. A comparison of the two years is provided on the next page:



# Financial Review

Continued

Assets US\$ million	2010
	Continued Operations
Demand and call deposits with banks	27.9
Time deposits with banks	167.3
Investments carried at fair value through statement of income	126.7
Non-trading investments	385.8
Loans and advances	57.9
Investment properties	21.2
Other assets	47.0
Investments in associates and joint venture accounted for under the equity method	1026.1
Property and equipment	1.1
Goodwill	56.3
<b>Total</b>	<b>1,917.1</b>

Assets US\$ million	2009		
	Continued Operations	Discontinued Operations	Total
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	0.0	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>

## Demand, Call and Time Deposits with Banks

Demand, call and time deposits with banks were US\$ 195.2 million in 2010 compared with US\$ 196.5 million in 2009. 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, liquid securities and other assets represented 24.6% of the balance sheet as at end 2010 (2009: 27.1%).

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

Investments carried at fair value through the statement of income were US\$ 126.7 million in 2010 compared with US\$ 155.3 million in 2009. This portfolio comprised securities held for trading and managed funds designated held for trading. Securities held for trading increased to US\$ 29.2 million from US\$ 24.8 million in 2009, mainly due to additional investments listed on the KSE. The securities held for trading portfolio is well diversified and consisted mainly of equities listed on the Bahrain, Kuwait and Saudi Arabia stock exchanges.

Managed funds designated as 'held for trading' decreased to US\$ 97.4 million in 2010 as opposed to US\$ 130.4 million in 2009, due to a liquidation of US\$ 28.3 million worth of funds in this portfolio. As at year end 2010, 49.2% of the outstanding portfolio of managed funds designated as 'held for trading', aggregating US\$ 47.9 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.

## Non-Trading Investments

Non-trading investments were US\$ 385.8 million in 2010 compared with US\$ 715.3 million in 2009. The portfolio mainly comprised listed equities of US\$ 45.1 million (2009: US\$ 67.4 million), unlisted equities of US\$ 132.6 million (2009: US\$ 104 million), real estate and other managed funds of US\$ 197.7 million (2009: 197.4 million) and debt securities of US\$ 10.4 million (2009: US\$ 346.2 million). Decline in debt securities is mainly due to redemption of BB sub debt US\$ 335 million in May and September 2010.

The major investments under the non-trading investments portfolio as at 31 December 2010 were:

- Al Raya Investments, Kuwait.** UGB made an investment of 15.6% (2009: 15.6%) 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 and MENA regions. In addition to its primary focus on international Islamic investments, the long-term strategy of the company is to offer the full range of Sharia'a-compliant investment products across all asset types. The year-end value of this investment was US\$ 14.6 million (2009: US\$ 14.3 million).
- Burgan Equity Fund** is an open-ended fund managed by BB, Kuwait and mainly focused on investing in shares of Kuwaiti companies listed on the KSE. The fund adopts a balanced investment policy and its objective is to earn long term capital gains with minimum possible risk. The year-end value of this investment was US\$ 50.2 million (2009: US\$ 59 million).



# Financial Review

Continued

- **Global Banking Corporation (GBCORP)** is an Islamic investment bank incorporated in Bahrain, with an issued and paid-up 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. In 2010, UGB paid the remaining balance portion of the capital call of US\$ 7.63 million, increasing its equity stake in GBCORP from an initial 10% to 12.50%. The year-end value of this investment was US\$ 20.9 million (2009: US\$ 13.3 million).
- **Hauck & Aufhauser Bank (Hauck)** is a private investment bank established in Germany in 1796. Hauck focuses on asset fund management, and has a strong clientele base. UGB's investment as at year-end 2010 was US\$ 17.6 million (2009: US\$ 19.1 million) and represents an ownership stake of 6.8% (2009: 6.8%).
- **Housing Finance Company SAKC (Iskan).** UGB's investment of US\$ 15.6 million as at year-end 2010 (2009: US\$ 20 million) represents an ownership stake of 12.9% (2009: 15.9%). Iskan is a Kuwait-based company engaged in providing real estate and housing finance. The company's activities revolve around three core areas of personal services: 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. The company's wholly-owned subsidiaries include Iskan Real Estate Company and Iskan General Trading & Contracting Company.
- **KAMCO Energy Service Fund** is an open-ended fund managed by KAMCO. The fund's aim is to achieve medium to long-term capital appreciation, through investing internationally in Sharia'a compliant listed and unlisted securities in the energy ancillary services and alternative energy sectors. The year-end value of this investment was US\$ 13.1 million (2009: US\$ 6.3 million).
- **Kuwait Investment Fund** is an open-ended fund managed by KAMCO. The fund invests in securities of companies listed on the Kuwait Stock Exchange, in primary issues, government bonds and public issues that are expected to be listed, including securities of companies listed on the exchanges in the MENA region. The year-end value of this investment was US\$ 12.3 million (2009: US\$ 13.6 million).
- The **MPE Energy Fund (MPE)** is managed by MPEL with the objective of acquiring a stake in companies operating in the energy sector. At year-end 2010, UGB's investment on the Fund was US\$ 16 million (2009: US\$ 21.3 million).
- **Private Equity Fund of Funds PEH III & IV.** UGB's year-end value of US\$ 50 million (2009: US\$ 43 million) is invested with 25 leading fund managers based in North America. 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 of US\$ 13.5 million mainly contributed by Accel IX LP of US\$ 10.2 million on the back of strong underlying assets in IT sector. Subsequent to year end, the Accel IX LP's net asset value has increased to US\$ 18.9 million compared with US\$ 10.1 million as at 31 December 2010.
- **United Towers Company** is Kuwaiti Shareholding Company incorporated in the state of Kuwait. The principal activity of the company is that of an investment holding company and property development. The year-end value of this investment was US\$ 38 million (2009: US\$ nil).

## Loans and Advances

The loans and advances in UGB's books comprise facilities mainly extended to individuals and related parties. All loans and advances are secured and have been adequately provided for any possible future weakness.

## 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 in a prime location in Saudi Arabia. The CBB mandated the exclusion of booking unrealised gains derived from the revaluation of investment property in the income statement. UGB has a potential unrealised gain of US\$ 5.6 million on the valuation of the property in Saudi Arabia, which has not been recorded as income.

## Investments in Associate Companies

Investments in the Bank's associate companies and joint venture accounted for under the equity method, increased by 58% in 2010 to US\$ 1.1 billion compared with US\$ 648 million in 2009. In 2010, UGB increased its shareholding in BB to 17%; acquired an additional 7% equity stake in Syria Gulf Bank; and an additional 7% equity stake in North Africa Holding Company. The Bank also acquired a 44% equity stake in Overland Real Estate Company for US\$ 46.5 million through its consolidated subsidiary – KAMCO. These additional investments were partially offset with the sale of a 12% equity stake in United Industries Company (UIC) and a 22% equity stake in United Health Care Company.

The Bank's associate companies contributed a total profit of US\$ 9.2 million compared with a loss of US\$ 12.5 million in 2009. Key contributors during the year were UIC with US\$ 6.4 million and URC with US\$ 5.6 million; and also BB with US\$ 4.5 million, which occurred during the last quarter of 2010.

# Financial Review

Continued

## Consolidated Liabilities

UGB's consolidated liabilities were reduced by 26.8% to US\$ 1.3 billion in 2010 compared with US\$ 1.8 billion in 2009; the decrease is mainly due to the sale of TIB to BB in 2010. A comparison of the two years is provided below:

Liabilities US\$ million	2010
	Continued Operations
Due to banks and other financial institutions	435.6
Deposits from customers	139.6
Loans and murahaba payable	501.4
Other liabilities	68.5
Bonds	71.2
Subordinated debt	100.0
<b>Total</b>	<b>1,316.3</b>

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

## Shareholders' Equity

As at year-end 2010, shareholders' equity increased to US\$ 555 million compared to US\$ 507 million in 2009. The foreign currency translation reserve increased by 20% to US\$ 43.5 million from US\$ 36.2 million in 2009 mainly due to the appreciation of the Kuwaiti Dinar against the US Dollar during 2010. Minority interests declined to US\$ 46.1 million (2009: US\$ 64.8 million) owing to the sale of TIB to BB.

The following table reflects the composition of shareholders' equity and minority interest at year-end 2010 compared with 2009:

Equity US\$ millions	2010	2009
Share capital	208.2	207.7
Treasury shares	(12.7)	(12.7)
Share premium	10.6	9.6
Statutory reserve	95.4	91.5
General reserve	75.9	72.0
Treasury share reserve	14.3	14.3

	2010	2009
Fair value reserve	(21.4)	(31.0)
Foreign currency translation reserve	43.5	36.2
Retained earnings	140.9	119.9
Capital and reserves attributable to the shareholders of the parent	554.6	507.5
Non-controlling interests in equity	46.1	64.9
Total Equity	600.8	572.3
<b>Total Liabilities and Equity</b>	<b>1,917.1</b>	<b>2,370.7</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 sales contracts, and interest rate and currency swaps. The Bank's investments and credit related commitments aggregated to US\$ 39.8 million as at year-end 2010 (2009: US\$ 65 million). This decrease is attributed to the non-inclusion of TIB's trade finance related commitments, after it was sold to BB. UGB'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 about off balance sheet commitments is provided in Note 29 to the Consolidated Financial Statements.

## Capital Adequacy

UGB's capital adequacy ratio of 19.5% under the Basel II regulations as mandated by the CBB, is well above the minimum requirement of 12% 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\$ million	2010	2009
Capital base:		
Tier 1 capital	414.50	412.80
Tier 2 capital	77.53	57.87
Total capital base (a)	492.03	470.67
Credit risk weighted exposure	2186.78	2,716.89
Market risk weighted exposure	275.18	260.21
Operational risk weighted exposure	66.83	276.98
Total risk weighted exposure (b)	2,528.79	3,254.08
Capital adequacy (a/b*100)	19.5%	14.5%
Minimum requirements	12.0%	12.0%





# Risk Management

UGB's risk management framework is developed to provide comprehensive controls and ongoing management of the major risks inherent in the Bank's business model and operational activities.

The Bank's risk philosophy is based on principles that reiterate:

- A sound knowledge base, and the experience and judgment of Senior Management and Risk Management staff, are the cornerstone of a successful risk mitigation programme.
- 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, properly documented, well communicated, understood, and implemented in letter and spirit.

The Risk Management Department of the Bank is staffed by a dedicated and well qualified team of five individuals. UGB's ability to properly identify, assess, manage, measure, monitor 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. The Board approves the Bank's overall risk profile and 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 this annual 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 is summarised below.

Risk type	Risk Management Philosophy
Credit risk	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.

Market risk	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.
Operational risk	To mitigate or insure the risk of loss arising from a failure in the Bank's 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.
Liquidity risk	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.
Interest rate risk	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.

## 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 to which UGB is primarily exposed 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 honour its commitments. Credit risk is mitigated through:

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



# Risk Management

Continued

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, which 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 are monitored on a regular basis.

There is a two-tier committee structure to approve and review credit and investment risk. The Investment Committee (IC) includes the Acting Chief Executive Officer, the Chief Financial Officer, the Head of Investment Banking and Asset Management, and the Head of Business Development and Special Projects. 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 the Bank's 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\$ 2.78 million as at 31 December 2010 (2009: US\$ 19.8 million) against which a provision of US\$ 1.7 million has been made (2009: US\$ 14.8 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 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.

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.

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 the securities trading book and 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 the 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



# Risk Management

Continued

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 utilises limit structures related to positions, portfolios, maturities and maximum allowable losses, to control the extent of such risk.

## Operational Risk

The Bank has defined operational risk as the risk of losses arising from a failure in its internal processes due to inadequate or failed 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 the 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 analysed 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 the effectiveness of controls are documented; and action plans are developed to reduce or mitigate the residual risks. 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.

UGB is in the process of automating its Operational Risk framework through the implementation of a robust Operational Risk system. The system comprises of four key modules namely the operational loss database, risk and control self assessments, key risk indicators and exposure monitoring. Once implemented, the software will allow the Bank to monitor, mitigate and report its operational risk exposures on a real time basis.

## 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. The 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 2010, UGB's solo liquidity ratio was 35.3% (2009: 29%). The Bank monitors this on a daily basis to ensure that the regulatory level of 25% is maintained at all times.

Liquidity risk is minimised 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:

# Risk Management

Continued

- **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, and short-term liabilities as a percentage of total liabilities.

Information on the liquidity risk and maturity profile of UGB's asset and liability structure as at 2010 year end is detailed in the Note 30.4 of the Consolidated Financial Statements. As of this date, 25% of total assets and 56% of total liabilities were contracted to mature within one year (2009: 43% and 59% respectively). A significant portion of assets with longer term maturities comprise readily realisable 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 re-pricing or maturity of interest rate sensitive financial assets and liabilities. This is also known as re-pricing risk. Additionally, UGB is exposed to minimal basis 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. In effect, this 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 the Senior Management and 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 potential exposure is deemed to result in breach of regulatory and / or internal limits, the Bank obtains due approvals from the appropriate authority (Central Bank of Bahrain and / or the Bank's relevant approving authority) before executing the respective business transaction.

## 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 local and 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 UGB's risk



identification, assessment, measurement, monitoring 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.

Having fully implemented the Pillar I and Pillar III of the Basel II framework in 2008, as adopted by the Central Bank of Bahrain, UGB made considerable progress in the implementation of Pillar II during 2010. This was done through the refinement of existing risk management systems and processes, the enhancement of investment policies and procedures and the implementation of ICAAP related stress testing.

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 and 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 recognises that its earnings are the first line of defence 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 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, and 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.

## Basel III

The Basel Committee on Banking Supervision issued its final guidelines on Basel III in December 2010. The document provides a comprehensive set of reform measures, developed by the Committee, to strengthen the regulation, supervision and risk management of the banking sector and builds on the International Convergence of Capital Measurement and Capital Standards document (Basel II) issued in 2006.

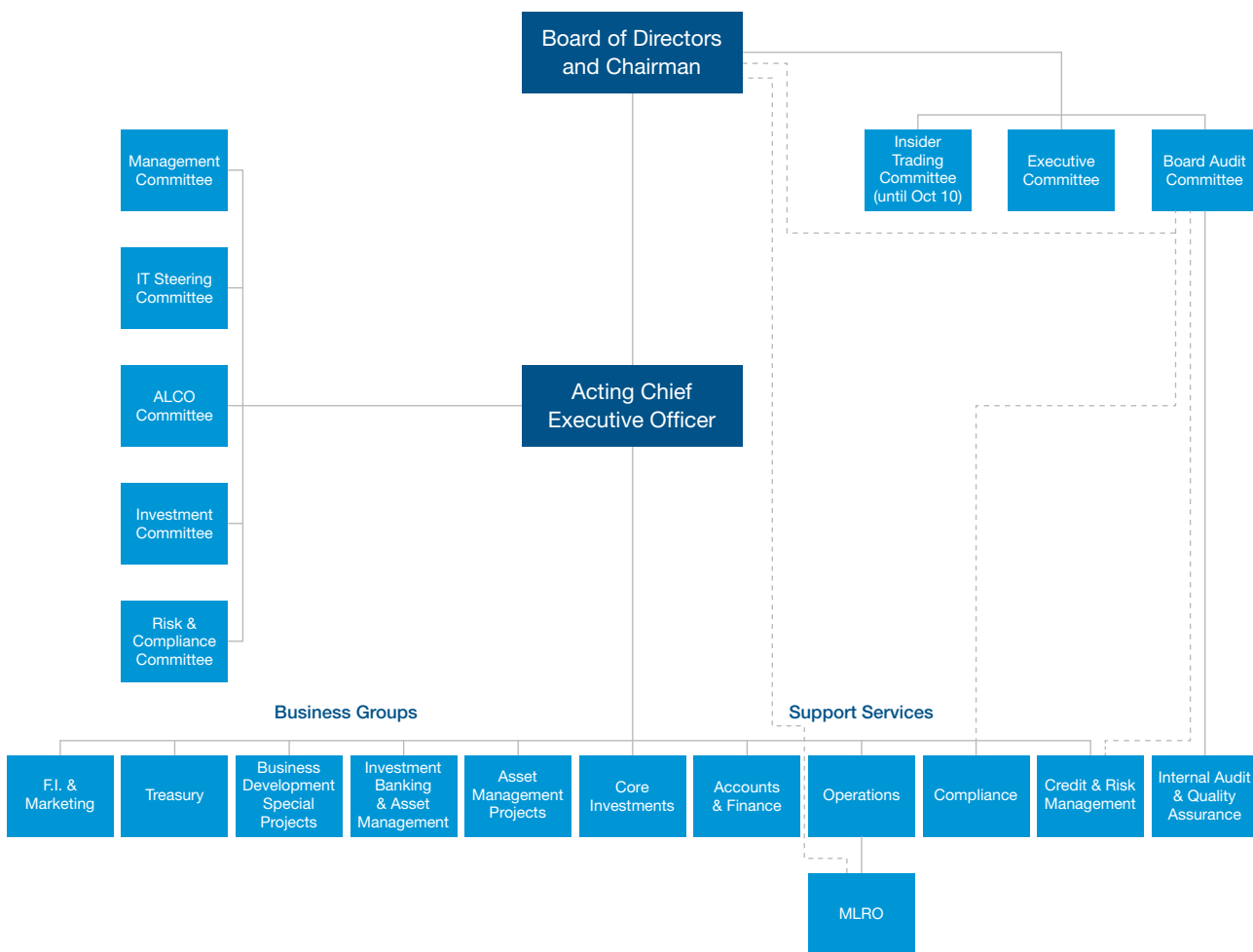
Accordingly, the Central Bank requested all locally incorporated Banks to conduct a detailed Quantitative Impact Assessment in which UGB participated. Although the Basel III provides a transition period of up to 2018 for full implementation, the Bank is currently studying the probable impact on its capital and will be proposing appropriate measures to the Board once Central Bank of Bahrain issues its directives with respect to Basel III implementation.

# 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. Various tenets of the new Code of Corporate Governance, which was introduced in Bahrain in March 2010, were already in place prior to the introduction of the Code. The Bank has drafted additional policies and procedures that are required to comply with the requirements. These are currently in the process of being reviewed internally, and will be submitted to the Board of Directors in 2011.

## Governance Structure & Organisation Chart



# Corporate Governance

Continued

## Ownership of Shares

As at 31 December 2010, KIPCO owned 87.6% of the shares of the Bank. The other shareholder who owned more than a 5% shareholding was the Kuwait United Consultancy Company (KUCC). KIPCO is a major shareholder in KUCC. All the rest of the shares are held by minority shareholders. The distribution of ownership of UGB's shares is as follows:

Nationality	Total		Number of	
	Shareholders	%	Shares	%
Kuwait	600	33.9%	813,598,458	98.99%
Bahrain	1,135	64.2%	7,011,159	0.85%
Saudi Arabia	15	0.8%	1,005,660	0.12%
Emirates	1	0.1%	1,039	0.00%
India	3	0.2%	111,979	0.01%
Qatar	6	0.3%	24,593	0.00%
Oman	2	0.1%	3,638	0.00%
France	1	0.1%	1,495	0.00%
Ireland	1	0.1%	29,928	0.00%
U.K.	4	0.2%	91,390	0.01%
	1,768	100%	821,879,339	100%

The shareholding structure of the Bank as at 31 December 2010 was as follows;

Categories	No of shares	No of shareholders	% of total
			outstanding shares
Less than 1%	26,180,086	1,765	3.2%
1% up to less than 5%	630,000	1	0.1%
5% up to less than 10%	75,440,000	1	9.2%
10% up to less than 20%	-	-	0.0%
20% up to less than 50%	-	-	0.0%
50% and above	719,629,253	1	87.6%
	821,879,339	1,768	100%

The Bank held 11,056,255 Treasury shares as at year end 2010. This represents 1.33% of the total number of issued shares. In accordance with the requirements of the Bahrain Commercial Companies Law, each of the Directors owned 106,100 shares.

## Board of Directors

The Board of Directors of UGB comprises six Executive Directors. All six existing Directors were re-elected for a three year term at the Annual General Meeting held in 2011, subject to the approval of the CBB. The Board is ultimately accountable and responsible for the affairs and performance of UGB. It establishes organisational 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.

Profiles of Directors are listed on page 7 of this annual report.

## Directors' Attendance at Board Meetings and Number of other Directorships

Name of Director	Attendance of Board meetings during 2010	% of attendance	Number of other Directorships (excluding UGB)
Masaud M.J. Hayat	9	100%	8
Sheikh Hamad Sabah Al Ahmad Al Sabah	9	100%	3
Faisal Al Ayyar	9	100%	10*
Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah	9	100%	2
Samer Khanachet	9	100%	2
Mubarak Mohammed Al Maskati	8	89%	1

\*Mr. Ayyar is also on the Board of Trustees of the American University of Kuwait, and is the Honorary Chairman of the Kuwait Association for Learning Difficulties, Kuwait.

Apart from the Board Meetings, there were sixteen Executive Committee decisions, four Audit Committee meetings, and three Insider Trading Committee meetings. The Insider Trading Committee was dissolved in October 2010, following the change in regulatory requirements and the approval of the Key Persons Policy. 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

# Corporate Governance

Continued

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 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 function; and reviewing the adequacy and overseeing UGB's compliance with all existing and newly-introduced laws and regulations. The 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 (dissolved in October 2010)

In accordance with previous CBB rules, the Board of Directors had constituted an Insider Trading Committee to manage insiders' holdings and trading. This Committee consisted 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. The Committee was dissolved in October 2010, following the introduction of the 'Key Persons Policy' by the Bahrain Bourse. This policy lifted the restrictions on closed periods, and provided more flexibility to the definition of insiders as well as their trading activities. In accordance with the Bahrain Bourse's requirements, the Bank's Key Persons Policy is published on the Internet.

## Executive Management

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. 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 Management committees complement and facilitate the efforts of the Board of Directors towards meeting its responsibility towards all stakeholders.

In January 2011, Mr. David Rhodes, the Chief Executive Officer, left the Bank. His responsibilities have been assumed by the Advisor & Secretary to the Board of Directors, Mr. Mohammad Haroon, as Acting Chief Executive Officer.

## 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 Acting 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 Acting Chief Executive Officer, the Chief Financial Officer, the Head of Investment Banking and Asset Management, and the Head of Business Development and Special Projects. 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 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 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 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 and legal / regulatory issues, such as intellectual property, and compliance with relevant statutes and regulations, constitutive documents and pending litigation are also considered and analysed. The Committee reviews the use of investment proceeds, the background of other co-investors involved in the proposed transaction, and 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).

## Asset and Liability Committee (ALCO)

The ten-member Asset and Liability Committee, headed by the Acting 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, 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, and 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 Acting 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, and the Advisor to the Board, attend meetings in their capacity as observers.

## IT Steering Committee (ITSC)

The eight-member IT Steering Committee, headed by the Acting Chief Executive 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

In accordance with CBB guidelines, the Bank has a designated Chief Compliance Officer who acts as the central coordinator for all matters relating to all 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 and the Board Audit Committee. Forthcoming deadlines, as well as feedback on ongoing consultations, are highlighted at these 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 a dotted reporting line to the Board's Audit Committee, in line with policy dictated by best practices.

In 2010, Compliance was formally tasked with the responsibility of ensuring that the CBB requirements on 'Higher Level Controls' and the Code of Corporate Governance, are well understood and implemented. A detailed gap analysis was conducted internally, and familiarisation sessions were held for the Board of Directors, Senior Management and staff, about the requirements of the new regulations. Substantial work has been completed in order to meet these requirements.

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 Bourse. 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 receiving 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.

## Anti-Money Laundering

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 *Complinet* service in early 2009, with the objective of strengthening its AML program. *Complinet* 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



# Corporate Governance

Continued

consideration has been given to regulatory requirements to which UGB is subject. The policy was also introduced to enable the Board of Directors, Senior Management and external 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 Board of 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 - III have also been uploaded under the 'Reports and Financials' section of the website.

## Executive Management Profiles

### Mohammad Haroon

#### Acting Chief Executive Officer

Mr Haroon joined UGB in November 1981. He has more than 44 years' 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 also a Director of United Gulf Investments Ltd, Cayman Islands. Mr Haroon holds a BSc (Hons) from Peshawar University in Pakistan, and a Diploma in Banking.

### Rabih Soukarieh CFA

#### Assistant General Manager,

#### Head of Special Projects and Business Development

Mr Soukarieh rejoined UGB in Bahrain in early 2009, having relocated from Qatar where he held the post of Chief Executive Officer at UGB's subsidiary, United Gulf Financial Services Company from 2008. He was previously Head of Corporate Finance at UGB between 2003 and 2004, during which time he established the Investment Banking division of the Bank. In 2005 he joined Wataniya International as Group Chief Financial Officer, and co-led the expansion of Wataniya Telecom Group into Tunisia, Iraq, Algeria, Saudi Arabia, Maldives, and Palestine, as well as co-managing their activities in these countries. His career spans over 20 years in the areas of investment and corporate banking as well as mobile telecommunications. He has tenured many board directorships over the years. He is currently a director of Kuwait Energy Company, Kuwait; North Africa Holdings Company, Kuwait; Algeria Gulf Bank, Algeria; Wataniya Telecom Algeria, Algeria; Tunis International Bank, Tunisia; Syria Gulf Bank, Syria; Millennium Private Equity, Dubai; Mobility Telecom International Holding Ltd, Dubai; and International Innovative Technologies, UK. A Chartered Financial Analyst, Mr Soukarieh holds an MBA in General Management (Hons) from Northeastern University, Boston, USA; and a BSc in Finance (Hons) from Indiana University, Bloomington, USA.

### Shawki Khodr CFA

#### Assistant General Manager,

#### Head of Investment Banking and Asset Management

Mr Khodr joined UGB in December 2004. He has more than 17 years of investment banking and corporate banking experience, and has held a number of senior positions in financial institutions in the Middle East. These include the post of Senior Manager - Investment Banking at National Bank of Kuwait. Mr Khodr is a member of the Board of Hannibal Lease S.A., Tunisia; a member of the Board and the Board Executive Committee of United Gulf Financial Services Company - North Africa, Tunisia; and a member of the Investment Committee of the Tunisian Equity Fund. A Chartered Financial Analyst, Mr Khodr holds an MBA from the Lebanese American University, and a BSc in Business Administration with emphasis in Banking and Finance.

### Younes Brouche

#### Assistant General Manager, Head of Core Investments

Dr Brouche joined UGB in February 2006. He has more than 25 years' experience in banking, and has held a number of key positions at major financial institutions in the Middle East and Europe. These include Head of International Department at CGB Citibank, France; and Head of Main Branch at Samba, Saudi Arabia. Before joining UGB he spent three years with CENEW (Investment Holding Company), France, as Managing Director - Financial Advisory and Project Management, and Real Estate Investment and Management from 2003 to January 2006. Dr Brouche is a Board member of Syria Gulf Bank, and Vice Chairman and Executive Committee member of Bank of Baghdad. He holds a PhD in Business Law from Paris X University, and a Banking Diploma from the French University, Beirut.

### Hussain A. Lalani ACA CISA

#### Assistant General Manager, Chief Financial Officer

Mr Lalani joined UGB in 2001. He has more than 13 years' experience in Public Accounting and Financial Control. He was previously employed by Ernst & Young, Bahrain, and PriceWaterhouseCoopers, Pakistan. A Chartered Accountant and a Certified Information System Auditor, Mr Lalani holds a Bachelor of Commerce degree from the University of Karachi.

### Amine P. Fehmi

#### Assistant General Manager,

#### Head of Financial Institutions & Marketing

Mr Fehmi joined UGB in September 2004. He has more than 25 years of experience in international capital markets, asset management and Islamic banking. He has held a number of positions at major financial institutions in the Middle East, Europe and the US. These include 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; and Economic/Commercial Specialist for





## Corporate Governance

Continued

the US Embassy in the UAE. Mr Fehmi holds a BA degree (with distinction) from the American University of Beirut. He successfully completed postgraduate programs at the Foreign Services Institute, US Department of State, US Department of Commerce, and Citibank Institute of Banking.

### **Jawad Al Asfoor**

#### **Senior Vice President, Head of Treasury**

Mr Al Asfoor joined UGB in October 2006. He has more than 29 years' experience in Treasury and Islamic Banking. He was previously Chief Dealer at Indosuez (Calyon) and BNP Paribas Islamic Banking; and Head of Sales and Marketing at Liquidity Management Centre (LMC), Bahrain. Mr Al Asfoor holds a Diploma Certificate in Accounting and Finance from the Association of Certified Chartered Accountants, and a Diploma Certificate in Islamic Banking & Finance.

### **Ghulam Ahmed Mohatarem**

#### **Senior Vice President, Chief Operating Officer**

Mr Mohatarem joined UGB in October 2003. He previously worked with Citigroup for over 25 years, working at various Citibank branches and subsidiaries around the world. His last assignment was with Citibank in London as Deputy Head of Compliance for the CEEMEA Division covering Central and Eastern Europe and MENA. Prior to that, he was Head of Operations & Compliance for Samba Capital Management (SCMI), a London-based Citigroup affiliate in the UK. With SCMI he was involved in setting up a number of Luxembourg registered UCITS Funds including an Islamic Equity Fund. Mr Mohatarem also worked with Citibank in Pakistan as Head of Operations, and with Saudi American Bank, (now Samba Financial Group) in Jeddah as Regional Operations Head for the Western Province. He holds an MBA and BSc degree from Karachi University.

### **Mohammed Alqumaish CIA CISA**

#### **Senior Vice President, Head of Internal Audit & Quality Assurance**

Mr Alqumaish joined UGB in September 2001. He has more than 14 years of commercial and investment banking experience in Internal Auditing, Risk Assessment, Compliance and Quality Assurance Services. He was previously with Ahli United Bank and Shamil Bank in 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; Algeria Gulf Bank, Algeria; and Syria Gulf Bank, Syria. A Certified Internal Auditor and Certified Information Systems Auditor, he holds an MBA from the University of Strathclyde Business School, UK.

### **Deepa Chandrasekhar CAMS MICA CFE**

#### **Senior Vice President, Chief Compliance Officer**

Mrs Chandrasekhar joined UGB in 2008. She has over 22 years' 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. Mrs Chandrasekhar holds an MBA degree from the University of Alberta, Canada. She is also CAMS, MICA and CFE certified, and has received qualifications from the Chartered Institute of Securities and Investment, UK. She is a member of the Steering Committee of the Professional Risk Managers International Association (PRMIA), Bahrain Chapter.

### **Syed Rehan Ashraf ACA**

#### **Senior Vice President, Head of Credit & Risk Management**

Mr Ashraf joined UGB in 2005. He has 15 years of experience in the areas of Credit, Risk Management, Advisory, Compliance and Assurance Services with Islamic and conventional banks, and big four audit firms. He previously worked with Shamil Bank, Bahrain; Deloitte & Touche, Bahrain; Faysal Bank, Pakistan; and PriceWaterhouseCoopers, Pakistan. Mr Ashraf is a member of the Board Audit Committees of KIPCO Asset Management Company (KAMCO), Kuwait; and Syria Gulf Bank, Syria. A Chartered Accountant (ACA) from the Institute of Chartered Accountants of Pakistan, he holds a MBA from DePaul University of Chicago, USA.

### **Khalil El Khoury**

#### **Senior Vice President, Asset Management Projects**

Mr El Khoury joined UGB in October 2010. He has more than 14 years' experience in the asset management and financial services industries. Prior to joining the Bank, Mr El Khoury was Head of Direct Investment and Product Development at KIPCO Asset Management (KAMCO). Previously, he held senior positions with United Industries Company (UIC), Dresdner Kleinwort Wasserstein, Lebanon Invest and Blominvest. He holds a Masters in Management from EM Lyon (École Supérieure de Commerce, France) and a Masters in Economics.

# Corporate Social Responsibility

As a leading and long-established financial institution, UGB has an enduring commitment to contribute to the social and economic well-being of the Kingdom of Bahrain. During 2010, the Bank continued to implement its corporate social responsibility (CSR) programme, which places special emphasis on charitable and community-based activities; education and career development opportunities for young Bahrainis; and development of the regional banking sector. In addition, UGB encourages and supports its staff to personally participate in a variety of community activities and fundraising events for charity.

Examples of the Bank's diversified CSR activities over the past several years are listed below:

## Charitable and Community-Based Activities

The Bank has provided financial and practical support for numerous charitable, cultural, social, medical, educational, and environmental organisations and initiatives, including:

- Support for mentally challenged, psychiatrically sick, handicapped and blind people
- Al Manar Parents Care, UCO Parents Care Centre, Royal Charity Organization, Al Sanabel Orphans Care, Hope Institute, Bahrain Disabled Sports Federation, and Friendship Society for the Blind
- Bait Al Qur'an, Red Crescent Society and Drug Rehabilitation Centre
- Ministry of Social Affairs for welfare of the elderly, orphans, children and mothers
- Over 80 approved Charity Funds across the Kingdom of Bahrain
- Bahrain Society for Children with Behavioural and Communication Difficulties
- Bahrain Society For Child Development
- Protection of Marine Resources, Environmental & Wildlife
- AMH Island Classic Golf Tournament – annual fundraising for American Mission Hospital for upgrading the medical facilities of hospital
- Bahrain Down's Syndrome Society
- Bahrain Association for Mental Retardation
- Bahrain Marathon Relay and American Women's Association Cherry Tree Trot

The Bank has in the recent past also supported the Cardiac Centre at Bahrain Defence Hospital in Bahrain, Bahrain Centre for Studies & Research Centre for their research work on environmental issues and marine life, and was the major donor to the University of Bahrain for establishing their Analytical Laboratory.

## Education and Career Development for Young Bahrainis

UGB is a firm believer in promoting education. The Bank runs a scholarship program for the education of children of its own staff; in 2010, fifteen children have benefited from this program. The Bank also extends financial support to its staff for upgrading their educational and professional qualifications to enhance their skills sets. Other activities in developing education include:

- Silver sponsorship of the Crown Prince's International Scholarship Program (CPISP)
- Supporter of the CPISP Mentoring Program
- Sponsorship of TradeQuest - The Investment Challenge
- University of Bahrain / Bahrain Association of Banks Mentoring Program
- Summer Internships for students to gain work experience

## Development of the Regional Banking Sector

- UGB membership of a wide range of banking-related organisations including: Bahrain Association of Banks, Union of Arab Banks, Arab Bankers Association, Financial Markets Association, International Institute of Finance, International Islamic Financial Market of Bahrain, and Arab Bankers Association of North America
- UGB staff membership of professional institutions and associations
- Support for CFA Bahrain Society in promoting and maintaining the highest standards of professional excellence and integrity in the financial and investment community



## Group Directory

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

United Gulf Bank 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\$ 20 billion as at 31 December 2010. The Group has significant ownership interests in a portfolio of over 70 companies operating across 26 countries. The company's main business sectors are financial services, insurance and media. Through the subsidiaries and affiliates of its core companies, KIPCO has interests in the real estate, industrial, education and management advisory sectors.

#### **United Gulf Bank B.S.C**

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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 28873, 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

##### **Millennium Private Equity**

P O Box 125952,  
The Gate Village, Level 2  
Dubai International Financial Center  
Dubai, United Arab Emirates  
Tel: +971 (4) 373 8888  
Fax: +971 (4) 362 0540  
Email: info@mpefunds.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 PJSC**

P O Box 53883, Khalifa Street,  
Tawan Tower 1, 6th Floor  
Abu Dhabi, United Arab Emirates  
Tel: +971 (2) 659 4300  
Fax: +971 (2) 659 4301  
Email: info@royalcapital.ae  
Website: www.royalcapital.ae

#### **Brokerage**

##### **United Gulf Bank Securities Company (under liquidation)**

P O Box 5964, Diplomatic Area,  
UGB Tower, Manama,  
Kingdom of Bahrain  
Tel: +973 17 533233  
Fax: +973 17 533137

##### **Al Sharq Financial Brokerage Company**

P O Box 187, Kuwait Souk Al Dakhelely  
15252, Kuwait  
Tel: +965 2242 4380  
Fax: +965 2242 4383

#### **Commercial Banking**

##### **Burgan Bank**

P O Box 5389, Safat 12170, Kuwait  
Tel: +965 2298 8000  
Fax: +965 2298 8419  
Email: info@burgan.com  
Website: www.burgan.com

##### **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

#### **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

##### **Overland Real Estate Company**

Shaheed Tower,  
Khalid Bin Waleed Street,  
Sharq, Kuwait  
Tel: +965 2233 6600

##### **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

##### **United Real Estate Company Jordan**

P O Box 5290, Amman 11183, Jordan  
Tel: +962 (6) 566 4372  
Fax: +962 (6) 566 4371  
Email: a.kabariti@urc.com.jo