

**United Gulf Bank B.S.C.**  
**INTERIM CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**

**30 SEPTEMBER 2010 (UNAUDITED)**

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

**Introduction**

We have reviewed the accompanying interim consolidated financial statements of United Gulf Bank B.S.C. (the Bank) and its subsidiaries (together the Group) as at 30 September 2010, comprising of the interim consolidated statement of financial position as at 30 September 2010 and related interim consolidated statements of income, comprehensive income, cash flows and changes in equity for the nine-month period then ended and explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of Review**

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

**Conclusion**

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



2 November 2010  
Manama, Kingdom of Bahrain

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2010 (Unaudited)

**1 INCORPORATION AND PRINCIPAL ACTIVITY**

United Gulf Bank B.S.C. [the Bank] is a joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550, and listed on the Bahrain and Kuwait Stock Exchanges. The address of the Bank's registered office is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

The Bank operates in Bahrain under a Wholesale Banking License issued by the Central Bank of Bahrain [the CBB].

The principal activities of the Bank and its principal subsidiaries [together the Group] comprise of investment and commercial banking. Investment banking includes asset portfolio management, corporate finance, advisory, investment in quoted and private equity / funds, real estate, capital markets, international banking and treasury functions. Commercial banking includes extending loans and other credit facilities, accepting deposits and current accounts from corporate and institutional customers.

The Bank's parent and ultimate holding company is Kuwait Projects Company (Holding) K.S.C. [KIPCO], a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. As at 30 September 2010, KIPCO owned 95.62% of the Bank's outstanding shares (31 December 2009: 95.22%).

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 2 November 2010.

**2 SIGNIFICANT ACCOUNTING POLICIES**

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" [IAS 34].

The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards [IFRS], and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2009. In addition, results for the nine-month period ended 30 September 2010 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2010.

The significant accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2009. However, during the period, the Group has adopted the following standards which are effective for the annual periods beginning on or after 1 January 2010.

***IFRS 2 Share-based payments (Revised) - Cash settled share based transactions***

The International Accounting Standards Board [IASB] issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group for the nine-month period ended 30 September 2010.

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

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The change in accounting policy was applied prospectively and had no impact for the Group for the nine-month period ended 30 September 2010.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2010 (Unaudited)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk in particular situations. The Group adopted this amendment as of 1 January 2010. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group for the nine-month period ended 30 September 2010, as the Group has not entered into any such hedges.

***IFRIC 17 Distributions of non-cash assets to owners***

This interpretation explains how non-cash dividends distributed to shareholders should be measured. A dividend obligation is recognised when the dividend is authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in the statement of income. The Group adopted this interpretation as of 1 January 2010. The Group has concluded that the adoption of this interpretation does not affect the Group.

**3 BASIS OF CONSOLIDATION**

These interim condensed consolidated financial statements incorporate the interim condensed financial statements of the Bank and its principal subsidiaries [together the Group].

**4 NON - TRADING INVESTMENTS**

Included under non-trading investments are unquoted available for sale investments, primarily representing nominal equity stakes of upto 10% in various geographically and sectorally dispersed entities, amounting to US\$ 81,608 thousand (31 December 2009: US\$ 77,843 thousand) for which fair value cannot be determined with sufficient accuracy, as future cash flows are not determinable.

**5 OTHER ASSETS**

As at 30 September 2010, other assets include the following:

- a) an amount of US\$ 189,009 thousand (December 2009: nil) representing advance paid to the Parent to acquire an associate. This transaction has been completed subsequent to the reporting date;
- b) an amount of US\$ 92,071 thousand (December 2009: nil) representing receivable from sale of certain assets (including receivable from a third party in respect of sale of investment in an associate amounting to US\$ 76,135 thousand). This amount is expected to be received within twelve months from the reporting date; and
- c) an amount of US\$ 38,177 thousand (December 2009: nil) receivable relating to the sale of one of the Group's associates. This amount has been collected subsequent to the reporting date.

**6 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

Pursuant to a master transfer agreement [MTA] with Burgan Bank, a related party, the Group had, at 31 December 2008, classified two subsidiaries Gulf Bank Algeria [GBA] and Tunis International Bank [TIB] and an associated company, Bank of Baghdad [BOB] as assets held for sale (disposal group) in accordance with IFRS 5. Subsequently, the transfers of GBA and BOB was completed in March 2009.

In June 2010, the Bank has transferred the ownership of TIB to Burgan Bank for a total consideration of US\$ 120,000 thousand to conclude the transfer of disposal group to Burgan Bank as per the MTA.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2010 (Unaudited)

**6 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)**

The results of the disposal group for the nine-month period ended are as follows:

	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Investment income	-	21	<b>1,983</b>	2,505
Interest income	-	1,566	<b>3,412</b>	6,245
Fees and commissions	-	656	<b>1,574</b>	2,037
Foreign exchange revaluation gains - net	-	720	<b>2,109</b>	2,514
Share of results of associated companies				
- Gulf Bank Algeria	-	586	<b>2,585</b>	6,682
- Bank of Baghdad	-	-	-	2,201
<b>Total income</b>	-	3,549	<b>11,663</b>	22,184
Interest expense		(328)	<b>(959)</b>	(2,254)
<b>Operating income before expenses and provisions</b>	-	3,221	<b>10,704</b>	19,930
Salaries and benefits	-	(831)	<b>(1,812)</b>	(2,399)
General and administrative expenses	-	(654)	<b>(2,331)</b>	(3,377)
<b>Operating income before provisions</b>	-	1,736	<b>6,561</b>	14,154
Provision for doubtful loans, guarantees and other assets - net		(4,075)	<b>(475)</b>	(4,225)
<b>(Loss) profit for the period from discontinued operations</b>	-	(2,339)	<b>6,086</b>	9,929
<b>Earnings per share of discontinued operations</b>				
Basic, from discontinued operations (US cents)	-	0.21	<b>0.39</b>	1.09
Diluted, from discontinued operations (US cents)	-	0.21	<b>0.39</b>	1.09

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2010 (Unaudited)

**7 SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURE ACCOUNTED FOR UNDER THE EQUITY METHOD - NET**

	<i>Nine month period ended 30 September</i>	
	<i>2010</i>	<i>2009</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>
Al Dhiyafa Holding Company	(22)	(591)
Al Sharq Financial Brokerage Co.	6	1,138
Kuwait Education Fund	(211)	(338)
Kuwait Private Equity Opportunities Fund	(381)	(293)
Millennium Private Equity Limited	(1,906)	-
Manafae Investment Company	(312)	155
North Africa Holding Company	(965)	(1,236)
Royal Capital P. S. C.	(887)	731
Salem Al-Marzouk & Sabah Abi Hana	456	650
Syria Gulf Bank	(1,024)	(245)
United Health Care Company	-	(504)
United Industries Company	6,607	(6,075)
United Network Company	179	-
United Universal Real Estate Company	49	62
United Real Estate Company - Kuwait	2,644	1,463
United Real Estate Company - Jordan	(248)	(39)
United Real Estate Company - Syria	-	(5)
	<b>3,985</b>	<b>(5,127)</b>

**8 CASH AND CASH EQUIVALENTS**

	<i>30 September</i>	
	<i>2010</i>	<i>2009</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>
Demand and call deposits with banks	41,451	38,608
Time deposits with maturities of ninety days or less	160,332	77,298
	<b>201,783</b>	<b>115,906</b>

**9 RECLASSIFICATION OF FINANCIAL ASSETS**

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

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

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2010 (Unaudited)

**9 RECLASSIFICATION OF FINANCIAL ASSETS (continued)**

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

	<i>Unaudited</i> <b>30 September</b> <i>2010</i> <b>US\$ 000</b>	<i>Audited</i> <b>31 December</b> <i>2009</i> <b>US\$ 000</b>
Carrying value and fair value	<b>12,554</b>	12,968

Fair value loss that would have been recognised in the interim consolidated statement of income for the period from the date of reclassification to 30 September 2010 had the financial assets not been reclassified amounts to US\$ 4,374 thousand (for the period from the date of reclassification to 30 September 2009: US\$ 3,654 thousand).

# United Gulf Bank B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2010 (Unaudited)

### 10 RELATED PARTY TRANSACTIONS

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

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

	Nine-month period ended 30 September 2010		Year ended 31 December 2009	Nine-month period ended 30 September 2009
	Major shareholder US\$ 000	Other related parties US\$ 000		
Gain (loss) on investments carried at fair value through statement of income-net	126	3,634	(2,133)	(1,182)
(Loss) gain on sale of non-trading investments	(1)	(1,450)	37,093	(110)
Gain on disposal of assets held for sale	-	43,850	26,181	26,181
Fees and commissions	7,608	10,769	13,595	9,999
Dividend income	7	300	11,912	11,690
Interest income	-	1,089	16,091	12,397
Interest expense	(6,754)	(3,227)	(19,425)	(5,313)
Other - net	-	477	13,336	166
		<b>Total</b>		
		US\$ 000	US\$ 000	US\$ 000
		3,766	(1,451)	(1,182)
		(1,450)	43,883	(110)
		43,850	26,181	26,181
		10,769	13,595	9,999
		300	11,912	11,690
		7,950	16,091	12,397
		(3,227)	(19,425)	(5,313)
		418	13,336	166

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

	At 30 September 2010		At 31 December 2009	
	At 30 September 2010	At 31 December 2009	At 31 December 2009	At 30 September 2009
Demand and call deposits with banks	-	16,183	1,798	8,665
Time deposits with banks	-	12,258	62,845	50,000
Investments carried at fair value through statement of income	-	24,186	43,425	44,142
Investments carried at fair value through statement of income in funds managed by related party	-	12,055	13,001	13,579
Non-trading investments	23	164,406	386,891	382,402
Loans and receivables	-	2,481	24,668	51,888
Other assets	194,852	14,139	27,402	5,229
Due to banks and other financial institutions	-	(2,790)	(337,279)	(361,098)
Deposits from customers	(90,950)	(14)	(210,470)	(91,454)
Loans payable	-	(106,254)	(121,705)	(137,514)
Other liabilities	(37,448)	(1,051)	(5,422)	(2,684)
<i>Off statement of financial position items:</i>				
Letters of credit	-	15,439	19,655	19,363
Letters of guarantee	-	18,000	807	931
Funds managed or advised by the Group (including funds under management)	-	81,704	81,371	91,059

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2010 (Unaudited)

**10 RELATED PARTY TRANSACTIONS (continued)**

All related party exposures are performing and are free of any provision for possible credit losses.

**11 SEGMENTAL INFORMATION**

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

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

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

**Segmental results**

Segmental results for the nine-month period ended 30 September 2010 were as follows:

	<i>Unaudited</i>		
	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking* US\$ 000</i>	<i>Total US\$ 000</i>
Income from external customers	101,717	9,078	110,795
Share of results of associates and joint venture accounted for under the equity method	5,009	1,561	6,570
<b>Total income</b>	<b>106,726</b>	<b>10,639</b>	<b>117,365</b>
Operating income before provisions	39,787	5,537	45,324
Write-back of (provision for) guarantees and other assets - net	119	(475)	(356)
<b>Net profit for the period</b>	<b>39,906</b>	<b>5,062</b>	<b>44,968</b>
Income attributable to equity shareholders of the parent			41,428
Income attributable to non-controlling interests			3,540
			<b>44,968</b>

\* includes disposal group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2010 (Unaudited).

11 SEGMENTAL INFORMATION (continued)

Segmental results (continued)

Segmental results for the nine-month period ended 30 September 2009 were as follows:

	<i>Unaudited</i>			<i>Total US\$ 000</i>
	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking* US\$ 000</i>	<i>Eliminations US\$ 000</i>	
Income from external customers	96,863	13,301	-	110,164
Inter-segment income	-	524	(524)	-
Share of results of associates and joint venture accounted for under the equity method	(4,882)	8,638	-	3,756
<b>Total income</b>	<b>91,981</b>	<b>22,463</b>	<b>(524)</b>	<b>113,920</b>
Operating income before provisions	24,366	13,909	-	38,520
Impairment loss on investments	(15,712)	-	-	(15,712)
Write-back of (provision for) guarantees and other assets - net	1,283	(4,225)	-	(2,942)
<b>Net profit for the period</b>	<b>9,937</b>	<b>9,684</b>	<b>-</b>	<b>19,866</b>
Income attributable to equity shareholders of the parent				18,156
Income attributable to non-controlling interests				1,710
				<b>19,866</b>

\* includes disposal group

Segmental assets and liabilities

Segmental assets and liabilities at 30 September 2010 were as follows:

	<i>Unaudited</i>		
	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>
Investments in associates and joint venture accounted for under the equity method	<b>565,058</b>	<b>20,088</b>	<b>585,146</b>
Segment assets	<b>1,886,448</b>	<b>20,088</b>	<b>1,906,536</b>
Segment liabilities	<b>1,313,763</b>	<b>-</b>	<b>1,313,763</b>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2010 (Unaudited)

**11 SEGMENTAL INFORMATION (continued)**

**Segmental assets and liabilities (continued)**

Segmental assets and liabilities at 31 December 2009 were as follows:

	<i>Audited</i>			<i>Total US\$ 000</i>
	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking* US\$ 000</i>	<i>Eliminations US\$ 000</i>	
Investments in associates and joint venture accounted for under the equity method	632,052	70,565	-	702,617
Segment assets	1,880,962	533,445	(43,708)	2,370,699
Segment liabilities	1,383,698	370,968	43,708	1,798,374

\* Includes disposal group

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

**Credit-related commitments and contingencies**

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

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

The Group has the following credit and investment-related commitments:

	<i>Unaudited 30 September 2010 US\$ 000</i>	<i>Audited 31 December 2009 US\$ 000</i>	<i>Unaudited 30 September 2009 US\$ 000</i>
Credit-related commitments:			
Letters of credit	15,291	46,986	23,074
Letters of guarantee	18,647	18,740	21,290
	<b>33,938</b>	65,726	44,364
Investment-related commitments	<b>87,886</b>	102,477	104,037
	<b>121,824</b>	168,203	148,401

All credit-related commitments mature within one year. Comparatives include the letters of credit and letters of guarantee of the disposal group subsidiary.

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

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 30 September 2010 (Unaudited)

**12 COMMITMENTS, CONTINGENCIES AND OTHER OFF STATEMENT OF FINANCIAL POSITION ITEMS (continued)****Funds under management**

The Group holds assets amounting to US\$ 8.2 billion (31 December 2009: US\$ 7.2 billion) under its management on behalf of third parties. As these are third party funds managed in a fiduciary capacity, without risk or recourse to the Group, these are not included as assets in the interim consolidated statement of financial position.

**13 DERIVATIVES**

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

	<i>Unaudited</i> <b>30 September</b> <i>2010</i> <i>US\$ 000</i>	<i>Audited</i> <b>31 December</b> <i>2009</i> <i>US\$ 000</i>	<i>Unaudited</i> <b>30 September</b> <i>2009</i> <i>US\$ 000</i>
<i>Derivatives held for trading:</i>			
Forward foreign exchange contracts *	<b>659,960</b>	179,941	308,389
<i>Derivatives held for hedging:</i>			
Forward foreign exchange contracts	<b>302,197</b>	431,380	347,601
Cross currency swaps	<b>401,246</b>	-	-
Interest rate swap	<b>300,000</b>	300,000	300,000
	<b>1,003,443</b>	731,380	647,601

\* The Group uses foreign currency denominated borrowings and forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment in foreign operations hedges and are entered into for periods consistent with currency transaction exposures. Comparatives include forward foreign exchange contracts undertaken by the disposal group subsidiary.