

IMPORTANT: You must read the following before continuing. The following applies to the base prospectus following this notice (the **Base Prospectus**), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer, the Arranger and/or the Dealers (each as defined in the Base Prospectus) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED IN THE BASE PROSPECTUS IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. IN ORDER TO BE ELIGIBLE TO READ THE BASE PROSPECTUS OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE SECURITIES DESCRIBED THEREIN, YOU MUST NOT BE A **U.S. PERSON** WITHIN THE MEANING OF REGULATION S OF THE SECURITIES ACT.

WITHIN THE UNITED KINGDOM, THE BASE PROSPECTUS MAY NOT BE PASSED ON EXCEPT TO INVESTMENT PROFESSIONALS OR OTHER PERSONS IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (AS AMENDED) DOES NOT APPLY TO THE ISSUER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS **RELEVANT PERSONS**). THE BASE PROSPECTUS MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THE BASE PROSPECTUS RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

THE BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: The Base Prospectus is being sent at your request and by accepting the email and accessing the Base Prospectus, you shall be deemed to have represented to us that you are not a U.S. Person and that you consent to delivery of the Base Prospectus by electronic transmission.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the relevant dealer or any affiliate of the relevant dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the relevant or such affiliate on behalf of the Issuer in such jurisdiction.

The Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Standard Chartered Bank nor any person who controls Standard Chartered Bank nor any director, officer, employee or agent or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format herewith and the hard copy version available to you on request from Standard Chartered Bank.



UNITED GULF BANK B.S.C.
(incorporated with limited liability in the Kingdom of Bahrain)

U.S.\$1,000,000,000
Euro Medium Term Note Programme

Under this U.S.\$1,000,000,000 Euro Medium Term Note Programme (the **Programme**), United Gulf Bank B.S.C. (the **Issuer**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may only be issued in registered form. The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$1,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Overview of the Programme*” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see “Risk Factors”.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the London Stock Exchange’s regulated market.

References in this Base Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange’s regulated market and have been admitted to the Official List. The London Stock Exchange’s regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “*Terms and Conditions of the Notes*”) of Notes will be set out in a final terms document (the **Final Terms**) which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger

Standard Chartered Bank

Dealers

CALYON
Crédit Agricole CIB

Standard Chartered Bank

The date of this Base Prospectus is 29 January 2010.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the *Prospectus Directive*).

The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Neither the Central Bank of Bahrain nor the Bahrain Stock Exchange assumes responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and each expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Base Prospectus.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Base Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

Copies of Final Terms will be available from the registered office of the Issuer and the specified office set out below of the Principal Paying Agent (as defined below) save that, if the relevant Notes are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer or, as the case may be, the Principal Paying Agent as to its holding of such Notes and identity.

Certain information under the heading “*Operating Environment*” has been extracted from the Standard & Poor’s GCC Public Ratings, the report of the International Monetary Fund (IMF) for 2008, the World Factbook published by the Central Intelligence Agency and the World Economic Outlook published by the IMF. The rating information under the headings “*Recent Restructuring*” and “*External Credit Ratings*” has been extracted from information provided by Standard & Poor’s Rating Services, Moody’s Investor Services, Inc. and Capital Intelligence. The financial information of the Issuer’s Associates and Subsidiaries (as defined in “*Business Overview and Strategy—Group Structure*”) under the headings “*Principal Companies*” and “*Brief Profile of Major Non-Financial Core Investments*” has been extracted from the financial statements of the relevant Associate or Subsidiary. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time

subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the *Securities Act*). Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see “*Subscription and Sale*”).

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom), Japan, Kingdom of Bahrain and Kingdom of Saudi Arabia, see “*Subscription and Sale*”.

This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a *Relevant Member State*) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

All references in this document to *U.S. dollars*, *U.S.\$* and *\$* refer to United States dollars, to *BD* and *Bahrain dinars* refer to the lawful currency of the Kingdom of Bahrain and to *KD* and *Kuwait dinars* refer to the lawful currency of the State of Kuwait. For convenience only, the exchange rate between the Bahrain dinar and the United States dollar was, on 25 January 2010, U.S.\$1.00=BD0.377. Such translation should not be construed as representing that Bahrain dinar amounts have been or could have been converted into United States dollars at this or any other rate of exchange. All references to *euro* and *€* refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended. In addition, all references in this document to *Bahrain* are to the Kingdom of Bahrain.

Where financial information is set out in this Base Prospectus in U.S. dollars in respect of the Issuer's Subsidiaries or Associates (each as defined herein) that do not report in U.S. dollars, the following exchange rates have been used:

Currency	Exchange rates used		
	31 Dec 2007	31 Dec 2008	30 Sep 2009
Kuwaiti dinars (KD)	U.S.\$1 = KD0.27303	U.S.\$1 = KD0.27572	U.S.\$1 = KD0.28638
Bahraini dinars (BD)	U.S.\$1 = BD0.377	U.S.\$1 = BD0.377	U.S.\$1 = BD0.377
Syrian pounds (SYP)	U.S.\$1 = SYP51.05	U.S.\$1 = SYP46.6	U.S.\$1 = SYP45.95
United Arab Emirates dirhams (AED) . . .	U.S.\$1 = AED3.674	U.S.\$1 = AED3.673	U.S.\$1 = AED3.673
Jordanian dinars (JOD)	U.S.\$1 = JOD0.709	U.S.\$1 = JOD0.709	U.S.\$1 = JOD0.709

Certain figures contained in this Base Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Base Prospectus may not conform exactly to the total figure given for that column or row. Percentages in tables have been rounded and accordingly may not add up to 100 per cent.

NOTICE TO RESIDENTS IN THE KINGDOM OF BAHRAIN

Any offer of Notes in the Kingdom of Bahrain will be undertaken by way of private placement. *Such offers are not subject to the regulations of the Central Bank of Bahrain that apply to public offerings of securities and the disclosure requirements and other protections that these regulations contain.* This Base Prospectus is therefore intended only for “accredited investors” (as defined below, see “*Subscription and Sale - Kingdom of Bahrain*”).

The Notes offered in the Kingdom of Bahrain may only be offered in minimum denominations of U.S.\$100,000 (or equivalent in other currencies).

KINGDOM OF SAUDI ARABIA NOTICE

This document may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the *Capital Market Authority*).

The Capital Market Authority does not make any representations as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If a prospective purchaser does not understand the contents of this document he or she should consult an authorised financial adviser.

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OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only and if appropriate, a supplemental Base Prospectus will be published.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this Overview.

Issuer: United Gulf Bank B.S.C.

Risk Factors: There are certain factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme. These are set out under “*Risk Factors*” below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “*Risk Factors*” and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.

Description: Euro Medium Term Note Programme

Arranger: Standard Chartered Bank

Dealers: CALYON
Standard Chartered Bank

and any other Dealers appointed in accordance with the Programme Agreement.

Certain Restrictions: Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “*Subscription and Sale*”) including the following restrictions applicable at the date of this Base Prospectus.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “*Subscription and Sale*”.

Issuing and Principal Paying Agent: The Bank of New York Mellon

Registrar: The Bank of New York Mellon (Luxembourg) S.A.

Programme Size: Up to U.S.\$1,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 5.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes may only be issued in registered form as described in “ <i>Form of the Notes</i> ”.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	<p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.</p>

Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	<p>The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.</p> <p>The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.</p> <p>The Notes may be redeemable by the Noteholders following the occurrence of a Change of Control Event as described below.</p> <p>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see “<i>Certain Restrictions – Notes having a maturity of less than one year</i>” above.</p>
Change of Control:	The applicable Final Terms may provide that each Noteholder has the right to require the redemption of its Notes upon Kuwait Projects Company (Holding) K.S.C. (Closed) (KIPCO) ceasing to own (directly or indirectly) 51 per cent. of the issued share capital of the Issuer.
Denomination of Notes:	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “ <i>Certain Restrictions – Notes having a maturity of less than one year</i> ” above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €50,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 9. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 4.1.
Cross Default:	The terms of the Senior Notes will contain a cross default provision as further described in Condition 11.1.

Status of the Senior Notes:	The Senior Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4.1) unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Status of the Subordinated Notes:	The Subordinated Notes will constitute subordinated obligations of the Issuer, ranking <i>pari passu</i> without any preference amongst themselves. In the event of the compulsory liquidation of the Issuer for the purposes of Article 156 of The Central Bank of Bahrain and Financial Institutions Law, Decree No. 64/2006 (compulsory liquidation), the payment obligations of the Issuer under the Subordinated Notes shall rank after unsubordinated and unsecured creditors of the Issuer but <i>pari passu</i> with all other subordinated obligations of the Issuer that are not expressed by their terms to rank junior or senior to the Subordinated Notes and in priority to the claims of all shareholders of the Issuer (including the holders of all preference shares of the Issuer).
Rating:	The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold Notes and may be revised or withdrawn by the rating agency at any time.
Listing and admission to trading:	<p>Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market.</p> <p>Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.</p>
Governing Law:	The Notes, except Condition 3.2, and any non-contractual obligations arising out of or in connection with the Notes, will be governed by, and shall be construed in accordance with, English law. Condition 3.2 of the Notes will be governed by, and construed in accordance with, Bahraini law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom), Japan, Bahrain and Kingdom of Saudi Arabia and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see " <i>Subscription and Sale</i> ".
United States Selling Restrictions:	Regulation S, Category 2.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme

General

Investors should note that the Issuer is a Bahraini company and the majority of its operations and assets are located in Kuwait. Accordingly there may be insufficient assets of the Issuer located outside Bahrain or Kuwait to satisfy in whole or part any judgment obtained from an English court relating to amounts owing under the Notes. If investors were to seek enforcement of an English judgment in Bahrain or Kuwait or to bring proceedings in relation to the Notes in Bahrain or Kuwait, then certain limitations would apply (see "*Legal investment considerations may restrict certain investments—Enforcing foreign judgments in Bahrain*" and "*Legal investment considerations may restrict certain investments—Enforcing foreign judgments in Kuwait*" below).

Concentration of shareholding

As of 31 December 2009, over 95 per cent. of UGB's shares are held by a single entity, KIPCO, a shareholding company listed on the Kuwait Stock Exchange.

This consolidated interest of KIPCO in UGB exposes UGB to the risk of potential erosion in the market value of the Notes if KIPCO as the major shareholder disposed of its holding or a substantial part of it. Any change in strategy at the shareholder level may have an adverse impact on UGB's business, financial conditions, performance, profitability or prospects. Additionally, independent oversight of UGB's strategy may be affected by the fact that its board of directors comprises only one independent member.

No third party guarantees

Investors should be aware that no guarantee is given in relation to the Notes by the shareholders of the Issuer or any other person.

Concentration of earnings from a few key companies

Profitability and revenues have been substantially dependent on the performance of UGB's core investments and a significant part of UGB's profitability and revenues is derived from a few key Subsidiaries and Associates (each as defined in the section "*Description of the Issuer*"). Any adverse impact in the performance or financial conditions of these companies may affect UGB's business, financial condition, performance, profitability or prospects. Furthermore, UGB may sell its holdings in both current and future Subsidiaries and Associates. Such sale could have a material adverse effect on UGB's revenues and profitability.

Operational cash flows from Subsidiaries and Associates mostly restricted to dividend income/subordination to creditors of UGB's Subsidiaries

UGB derives substantial revenues from its Subsidiaries and Associates and does not have access to the cash flows of such companies. UGB receives cash flows from its Subsidiaries, Associates and other affiliates in which

it has a shareholding in the form of dividends and share of profits, as well as proceeds from its own trading activities or sales of its assets. Any change in the profitability or in the dividend policy of such companies would adversely impact UGB's cash flow position and its ability to service its debt obligations, including the Notes issued under the Programme. In particular, UGB does not, and will not in the future, control its Associates or other companies in which UGB (directly or indirectly) holds shares, and may not have control over the dividend policy or strategy of such Associates or other companies (including, for the avoidance of doubt, Burgan Bank S.A.K. (**Burgan Bank**), following the proposed purchase by UGB of an equity stake in it (as further described below in "*Sale of UGB's stakes in commercial banking entities*"). In addition, the payment of dividends by certain of UGB's Subsidiaries, Associates and other companies in which UGB (directly or indirectly) holds shares, is subject to restrictions contained in banking, securities and corporate laws and regulations imposing solvency and capital standards on such companies.

In the event of bankruptcy, insolvency, liquidation or similar proceedings relating to one of UGB's Subsidiaries, UGB's right to participate in any distribution of the assets of such Subsidiary will rank behind such Subsidiary's creditors (senior and subordinated).

Sale of UGB's stakes in commercial banking entities

KIPCO, UGB's parent company, has decided to consolidate the commercial banking activities of the KIPCO group under the umbrella of Burgan Bank and to consolidate the asset management and investment banking business in UGB. As part of this business alignment, UGB transferred its stakes in three of its commercial banks, and intends to transfer its stake in Tunis International Bank in 2010, to Burgan Bank (see "*Description of the Issuer—Business Overview and Strategy—Recent Restructuring*"). These transfers had a negative effect on the net income of UGB.

The success of UGB's business model after the sale of these stakes in commercial banks and in particular, UGB's focus on the asset management and investment banking business is untested as of the date of this Base Prospectus and there can be no assurance that these transfers of UGB's stakes in the commercial banks will not have a material adverse effect on UGB's business, financial condition, performance, profitability or prospects. If UGB's strategy for the development of its business does not meet with success in a highly competitive market, the financial condition, performance, profitability and prospects of UGB and its Subsidiaries and Associates could be adversely affected.

The intended purchase of an equity stake in Burgan Bank (as further described in "*Description of the Issuer—Business Overview and Strategy—Recent Restructuring*") is subject to receipt of the relevant regulatory approvals, including an Amiri decree in Kuwait and Burgan Bank completing a rights issue, neither of which is under UGB's control. Although UGB expects these regulatory approvals to be received and the rights issue at or around the market price of Burgan Bank's shares to be forthcoming, it cannot guarantee when or if any of this will be the case, and if so, the price at which the rights are offered and whether KIPCO will assign its rights to allow UGB to participate in the rights issue by Burgan Bank. If this transaction cannot be completed for whatever reason, or cannot be completed in the form as, or is completed significantly later than, anticipated this could have a material adverse effect on the business, financial condition, performance, profitability and prospects of UGB and its Subsidiaries and Associates. In particular, UGB would not have access to a revenue stream from the commercial banking business sold to Burgan Bank and may not be able to redeem its subordinated loan to Burgan Bank (see "*Description of the Issuer—Business Overview and Strategy—Recent Restructuring*").

Funding strategy exposes UGB to roll-over risk

In addition to the internal generation of cash flows through upstream dividends and income from trading, UGB relies on external borrowings to fund its investments. These are primarily in the form of money market borrowings and medium term loans and bonds, which are refinanced on an ongoing basis. These liabilities are used to fund UGB's assets which are of longer maturity thus resulting in a mismatch in tenor.

As of 31 December 2008, UGB's unconsolidated debt excluding interbank and customer deposits was U.S.\$427.9 million. UGB follows an active liability management policy focused on managing debt mix, currency, maturity and cost of funds. All of UGB's unconsolidated debt is unsecured.

UGB's future ability to originate new debt and pay or refinance its existing and future obligations as they become due will depend not only on its financial condition and performance at the time but also on certain factors over which UGB has no control such as:

- investor sentiment towards companies conducting business in similar markets and sectors;
- prevailing capital and financial market conditions, including interest and exchange rates; and
- political conditions in the Middle East and North Africa (MENA) region.

In addition, debt financing, refinancing or equity funding may be materially more expensive due to the lack of liquidity in the market and the general lack of confidence in the equity markets.

Therefore, and due to the current economic uncertainty and the recent downturn in the global financial markets, UGB has no assurance that it will be able to obtain funding in the financial markets on satisfactory terms. UGB's failure to raise funds when needed would limit its ability to pay or refinance its existing and future obligations as they become due and would have an adverse impact on its business, financial condition, profitability, performance and prospects.

Investors face additional liquidity risks given the strategic nature of many of UGB's investments, where the free float and general market liquidity may be limited.

Managing liquidity

In the process of managing its liquidity, UGB may experience market pressure to liquidate a part or all of its investment in one or more of its core or non core investments. UGB may face limitations on its ability to liquidate such holdings given the limited size of float in the market. This may restrict the ability of UGB to raise sufficient liquidity to service its obligations, including in respect of the Notes issued under the Programme.

UGB has been given support from its shareholders and from Burgan Bank in managing its liquidity in the past, particularly during a period of tight market liquidity. While such support may be available in the future, there is a possibility that such support may not be forthcoming. This may adversely impact the liquidity position of UGB and its ability to service its debt obligations, including in respect of the Notes issued under the Programme, in a tightening market liquidity situation.

UGB's liquidity management focuses on maintaining a diverse and appropriate funding strategy for its operations, in controlling the mis-match of maturities and on carefully monitoring its undrawn commitments and contingent liabilities. UGB's ability to access sources of liquidity may be constrained as a result of circumstances beyond its control such as market-wide liquidity stress similar to that experienced in particular in the second half of 2008 and in 2009.

UGB may be impacted by financial market disruptions

Since the second half of 2007, the global disruption of financial markets has adversely impacted the availability of, and has increased the cost of, wholesale market funding and has caused a large number of banks and other financial institutions to write down the value of their securities portfolios and/or to seek additional capital, to merge with other institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have substantially reduced and, in some cases, halted their funding to borrowers, including other financial institutions. The resulting lack of credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity could materially and adversely affect UGB's business, financial condition, performance, profitability and prospects.

This global disruption of financial markets has impacted the economic conditions and financial markets in the GCC and wider MENA region and in particular in Kuwait, where a substantial portion of the assets and investments of UGB and its Subsidiaries and Associates are concentrated and has adversely affected the business, financial condition, performance and profitability of UGB and its Subsidiaries and Associates. To the extent the current disruption of the financial markets persists, UGB may have to significantly reduce the carrying value of its stakes in some or all of its Subsidiaries and Associates, and the business, financial conditions, performance, profitability and prospects of UGB and its Subsidiaries and Associates may continue to be adversely affected.

Moreover, since mid-2007 and the more widespread dislocation in international financial markets, it has become increasingly difficult to accurately predict likely short to medium-term trends in the economies in which UGB

and its Subsidiaries and Associates operate. Nonetheless, there is evidence of significant weakening in each of these economies, including the Issuer's key market, Kuwait, where a number of concerns continue to impact consumer and investor confidence. Although the Issuer intends to continue its focus on controlled growth and asset quality, any contraction of its key markets will impact the Issuer and other participants in the financial sector.

Developing markets risk

A substantial proportion of the assets and operations of UGB and its Subsidiaries and Associates are concentrated in developing markets in the GCC (which comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (the UAE)) and the wider MENA region. The majority of UGB's consolidated assets as of 31 December 2009 were concentrated in Kuwait. Accordingly, its business may be affected by the financial, political and general economic conditions prevailing from time to time in any of the member states of the GCC or the MENA region.

Investors are advised to make, and will be deemed by the relevant Dealer and the Issuer to have made, their own investigations in relation to such factors before making any investment decisions in relation to the Notes. Investors should also be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

The economies of Kuwait and of other countries in the GCC and wider MENA region are largely driven by revenues from oil exports and as such are exposed to volatility in oil prices.

The operations and investments of UGB and its Subsidiaries and Associates in the markets of the GCC and wider MENA region are subject to the usual risks of operating in developing countries, which include potential political and social instability, downturns in economic conditions, application of exchange controls, nationalisation or expropriation, empowerment legislation and policy, crime and lack of law enforcement, political insurrection, external interference, terrorist activity, currency fluctuations, lack of upkeep of public infrastructure, natural disasters, regulatory, taxation and legal structure changes and other changes in government policy. Such factors and any other unexpected change in the political, social, economic or other conditions in these markets may have a material adverse effect on the business, financial condition, performance, profitability or prospects of UGB and its Subsidiaries and Associates, in particular (but without limitation) by causing interruptions to operations, increasing the costs of operating in those countries or by limiting the ability to extract profits and may adversely affect UGB's plans for international expansion and investment.

Investors should note that the Issuer's business, financial condition, performance, profitability or prospects could be adversely affected by political, economic and related developments both within and outside the countries in which it operates because of the inter-relationships with global financial markets. The economies of developing countries are often affected by developments in other countries, and, accordingly, adverse changes in markets elsewhere in the world could have a negative impact on the markets in which UGB and its Subsidiaries and Associates operate.

It is not possible to predict the occurrence of events or circumstances such as or similar to those outlined above or the impact of such occurrences and no assurance can be given that the business of UGB and its Subsidiaries and Associates would be able to sustain its current profit levels if such events or circumstances were to occur.

Expansion into new markets, start up or early stage businesses

UGB's strategy is to expand further into markets or businesses within the GCC and wider MENA region, which may include markets in which it has not operated previously. These new markets may pose additional challenges, including different competitive conditions and political and regulatory systems, with which UGB is not familiar, and UGB may not be able to rely on its reputation and relationships to the extent that it can in its established markets. UGB may also be impacted by the ability to compete or successfully integrate strategic transactions, develop and introduce new products and services in a timely manner and to respond effectively to technological changes.

UGB's growth strategy involves expanding its operations by acquiring new companies. If UGB encounters difficulties in acquiring such companies at a commercially reasonable price, or not at all, or if the companies

acquired by UGB fail to produce anticipated synergies, UGB's growth strategy could be unsuccessful, which would have a material adverse effect on UGB's business, financial condition, performance, profitability and prospects. UGB also acquires or creates new businesses with limited or no previous operating experience. While these investments potentially offer the opportunity for significant capital gains, they involve a high degree of business and financial risk that can result in substantial losses.

Historic level of growth may not be sustained

The business, operations, financial conditions and prospects of UGB and its Subsidiaries and Associates are closely linked to the economic conditions of the GCC and the wider MENA region. Any deterioration in economic conditions in the MENA regions due to deterioration in oil, gas or related industries or in banking and financial services industries or other factors could have an adverse effect on the financial condition, performance, profitability or prospects of UGB and its Subsidiaries and Associates.

In addition, any negative change in one or more macroeconomic factors, such as a disruption of global money markets, interest rates, inflation, wage levels, unemployment, foreign investment and international trade could have an adverse impact on certain aspects of the operations of UGB and its Subsidiaries and Associates. Such deterioration may adversely affect their ability to access funds on commercially acceptable terms or at all and impact further expansion and growth, and could have an adverse effect on the financial condition and results of operations.

Competition from global competitors

The governments of the MENA region are liberalising their economies and initiating economic reforms. The MENA region is emerging as an investment opportunity, thereby attracting international companies. The increased competition could have an adverse impact on the business, financial condition, performance, profitability or prospects of UGB and its Subsidiaries and Associates.

Most of UGB's revenue has been derived from its Subsidiaries and Associates. UGB may be impacted by the ability of these companies to compete or successfully integrate strategic transactions, develop and introduce new products and services in a timely manner and to respond effectively to technological changes.

General economic and market conditions risk

A general deterioration in the GCC, wider MENA region or the global economic conditions or systemic risks in financial systems could adversely affect the business, financial condition, performance, profitability or prospects of UGB and its Subsidiaries and Associates and the recoverability and value of their assets. Equity market conditions and levels of corporate activity could affect the performance, profitability or prospects of their asset management and investment banking businesses.

Regulation

UGB and many of its Subsidiaries and Associates operate in regulated businesses across multiple jurisdictions. Local regulations may change in a manner adverse to the business of UGB and/or one or more of its Subsidiaries or Associates. This may be as a result, *inter alia*, of increased competition from additional licences being issued or changes to licence conditions affecting activities or profitability of a particular business. Ownership restrictions or limitations on the scope of activities could also be imposed.

UGB and its principal Subsidiaries and Associates operate in the financial sector. In light of the current liquidity crisis and difficulties with the international financial system, regulators are expected to monitor closely and regulate more aggressively the activities of financial companies, notably banks and investment companies. No assurance can be given that the government of any of the jurisdictions in which UGB and its Subsidiaries and Associates operate will not implement regulation or fiscal or monetary policies, including policies, regulations, or new legal interpretations of existing regulations, relating to or affecting expropriation, nationalisation, taxation, interest rates, exchange controls or capital adequacy requirements or otherwise take actions which could have a material adverse effect on the business, financial condition, performance, profitability or prospects of UGB or its Subsidiaries and Associates.

Dependence on key individuals

In order to develop, support and market its products, UGB and its Subsidiaries and Associates must hire and retain skilled employees with particular expertise. Failure to maintain this capacity at a high level or to maintain its effective organisational leadership process, which can capture shared learning and leverage global synergies and expertise, could jeopardise UGB's growth potential.

In addition, various aspects of UGB's business depend on the continuing services and skills of key individuals within UGB, in particular, the chairman and senior management. UGB has entered into employment contracts and taken other steps to encourage the retention of these individuals, and to identify and retain additional personnel, but if one or more of these key individuals retire or are unable or unwilling to continue in their present positions, UGB may not be able to replace them easily or at all and its business, results of operations and financial condition could be materially adversely affected if certain key individuals either cease to be employed by UGB or their services cease to be available to UGB.

Interest rate and equity price risk

UGB is exposed to interest rate and equity price risks associated with its investment and asset and liability management activities. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between UGB's investment activities and its borrowing costs.

Changes in equity prices may affect the value of and returns on UGB's investment portfolios. It is difficult to accurately predict changes in economic and market conditions and to anticipate the effects that such changes could have on UGB's financial performance and business operations.

Foreign exchange risk

UGB holds significant assets, and generates together with its Subsidiaries and Associates, a significant proportion of their earnings denominated in Kuwaiti dinar. From January 2003 to 20 May 2007, the Kuwaiti dinar was pegged to the U.S. dollar. On 20 May 2007, this policy was replaced with one stated by the Governor of the Central Bank of Kuwait to be based on an undisclosed weighted basket of the currencies of Kuwait's major trade and financial partner countries. The U.S. dollar continues to play a significant role in determining the Kuwaiti dinar exchange rate, although the relationship with any given currency or basket of currencies cannot be readily ascertained. During 2009 the Kuwaiti dinar depreciated by almost 4 per cent. against the U.S. dollar.

With the removal of the peg to the U.S. dollar, any weakening of the Kuwaiti dinar against the U.S. dollar may adversely impact the ability of UGB and its Subsidiaries and Associates to repay principal and interest on borrowings denominated in a currency other than Kuwaiti dinars. UGB and its Subsidiaries and Associates are exposed to the potential impact of any alteration to the Central Bank of Kuwait's foreign exchange policy. In addition, although UGB and its Subsidiaries and Associate attempt to hedge their exposure or manage their cost of financing through the use of swaps and other derivatives with parties believed to be solvent, it is possible that a counterparty may default on its obligations, leaving UGB and its Subsidiaries and Associates unprotected against such fluctuations.

Risk of litigation

UGB and its Subsidiaries and Associates operate in a legal and regulatory environment that exposes them to potentially significant litigation and regulatory risk. In the ordinary course of their businesses, legal actions and claims against UGB or its Subsidiaries and Associates may arise. The publicity associated with, and the outcome of, such legal proceedings could adversely affect the business, financial condition, performance, profitability and prospects of UGB.

Risks relating to UGB's business

In the course of its business activities, UGB is exposed to a variety of other risks, including credit risk, market risk, liquidity risk, legal risk, and reputational risk. Whilst UGB believes it has implemented appropriate policies, systems and processes to control and mitigate these risks, investors should note that any failure to adequately control these risks could be greater than anticipated which could result in adverse effects on UGB's reputation and its business, financial condition, performance, profitability and prospects. Moreover, UGB relies on local management of its Subsidiaries and Associates to implement day-to-day risk management of their assets and liabilities. A detailed description of UGB's risk management processes is included in the section "*Description of the Issuer*" on pages 88 to 96 and as outlined below.

Counterparty credit risk: A substantial part of the activities of UGB and some of its Subsidiaries and Associates involves extending credit to customers and holding financial and real estate assets as investors or as security for loans. The concentration of loans and assets in Kuwait and the MENA region and the possible prevalence of borrowers active in similar or related industries among each lender's customers may result in higher default rates than have been experienced historically or cause UGB or its Subsidiary or Associate to make material provisions (or be obligated by a regulator to make material provisions) against potential losses. In addition, adverse changes in the credit quality of the borrowers and counterparties, a general deterioration in economic conditions or systemic risks in financial systems could affect the recoverability and value of the assets of UGB and its Subsidiaries and Associates and require increased allowances for credit losses. Changes in economic conditions may result in deterioration in the value of security held against loans and advances and may increase the risk of loss in the event of borrower default.

Operational risk: Operational risk and losses at UGB or its Subsidiaries and Associates can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures, natural disasters or the failure of external systems (for example, those of counterparties or vendors) which may have an impact on UGB's performance. Although UGB has implemented risk controls and loss mitigation actions and devotes resources to developing internal procedures and controls and to staff training, it is not possible to be certain that such procedures and controls will be effective in controlling each of the operational risks of UGB. Notwithstanding anything in this risk factor, this risk factor should not be taken to imply that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

Reputational risk: The business, financial condition, performance and prospects of UGB could be adversely affected by damage to the reputation of UGB or its Subsidiaries and Associates. UGB takes steps to protect itself against reputational risk by means of its internal controls and processes, including formal approval processes for new business and operational procedures for the conduct of business, and for minimising the risk of conflicts of interest. However, should an event occur which damages the reputation of UGB or its Subsidiaries and Associates, this could result in a loss of business which would have an adverse impact on the financial condition, performance, profitability or prospects of UGB.

Liquidity risk: The inability of UGB or its Subsidiaries and Associates to raise or renew funding or to access lending markets to meet its financial obligations could have adverse consequences on its ability to meet its obligations when they fall due. Liquidity risk is inherent in banking operations and can be heightened by an over-reliance on a particular source of funding, changes in credit rating or by market-wide phenomena such as market dislocation and major disasters. UGB has implemented liquidity management and monitoring processes designed to maintain a diverse and appropriate funding strategy for its operations, but it is not possible to predict with accuracy all circumstances that might affect UGB's liquidity.

Market risk: The businesses of UGB and its Subsidiaries and Associates are subject to the risk of market fluctuations. In particular, UGB and its Subsidiaries and Associates are exposed to the level of volatility of interest rates, currency values and equity market indices. Changes in interest rates, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates affect the value of assets and liabilities and may affect foreign exchange dealing results. The performance of financial markets may cause changes in the value of investment and trading portfolios of UGB and its Subsidiaries and Associates. UGB has implemented risk management processes to mitigate and control the market risks to which it is exposed. However, it is difficult to predict with accuracy changes in market conditions and to anticipate the effect that such changes could have on UGB's financial performance and business operations.

Political, economic and related considerations in regards to the Kingdom of Bahrain

Bahrain has enjoyed significant economic growth and relative political stability. There can be no assurance that such growth or stability will continue. Moreover, while the Government of Bahrain's policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained. The Issuer may also be adversely affected generally by political and economic developments in or affecting Bahrain.

No assurance can be given that the Government of Bahrain will not implement regulations or fiscal or monetary policies, including policies, regulations, or new legal interpretations of existing regulations, relating to or affecting taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on the Issuer's business, financial condition, performance, profitability or prospects or which could adversely affect the market price and liquidity of the Notes.

A downturn or instability in certain sectors of the Bahraini, Kuwaiti or regional economy could have an adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference (if any is so incorporated) in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;

- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The Issuer's obligations under Subordinated Notes are subordinated

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to unsubordinated liabilities (including all deposits) in the event of the compulsory liquidation of the Issuer. As a result, the Issuer may not have enough assets remaining after making payments of unsubordinated liabilities to pay amounts due under Subordinated Notes. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries.) A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The conditions of the Notes are based on English law or, in the case of Condition 3.2, Bahraini law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law and/or Bahraini law, as the case may be, or administrative practice after the date of this Base Prospectus.

Notes where denominations involve integral multiples: definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes issued under the Programme.

Legal investment considerations may restrict certain investments

General

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Enforcing foreign judgments in Bahrain

Under the Conditions of the Notes, the courts of England have exclusive jurisdiction to settle any dispute arising from the Notes. In the event that proceedings are brought against the Issuer in Bahrain, certain provisions of Bahraini law would apply, including Article 76 of the Bahraini Law of Commerce (No 7 of 1987) (**Article 76**)

which provides that Bahraini courts are to enforce contractual rates of interest, unless they exceed the legally prescribed maximum rate of interest. No rate has been prescribed as a maximum rate of interest and as a result the courts in Bahrain have discretion, having regard to custom and practice, to determine the legally prescribed maximum rate. Accordingly, there is a risk that a Bahraini court might enforce interest on any Notes at the lower of the applicable contractual rate and the maximum rate which it considers to be then current legally prescribed maximum rate of interest.

Enforcing foreign judgments in Kuwait

Under the Conditions of the Notes, the courts of England have exclusive jurisdiction to settle any dispute arising from the Notes. Although submission to the English courts is valid and binding, if a claim is brought before the Kuwaiti courts, the Kuwaiti courts may still accept jurisdiction in any suit, action or proceedings in the situations identified in Articles 24 and 26 of the Decree Law No. 38 of 1980, Enactment of the Civil and Commercial Procedure Law. These situations are where (a) the defendant in the proceedings expressly or impliedly accepted the jurisdiction of the Kuwaiti courts, (b) the defendant is a Kuwaiti citizen or is resident, domiciled, or has a place of business or a chosen domicile in Kuwait, or (c) if such legal proceedings relate to a property (movable or immovable) located in Kuwait, an obligation is created, executed or to be performed in Kuwait or a bankruptcy declared in Kuwait.

FORM OF THE NOTES

The Notes of each Series will be in registered form, without interest coupons attached. Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**).

Each Tranche of Notes will initially be represented by a global note in registered form (a **Global Note**). Global Notes will be deposited with a common depositary (the **Common Depositary**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and will be registered in the name of a nominee for the Common Depositary. Persons holding beneficial interests in Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest and any other amount in respect of the Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7.2) as the registered holder of the Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7.2) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Note) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

General

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

For so long as any of the Notes are represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the registered holder of the relevant Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the **Deed of Covenant**) dated 29 January 2010 and executed by the Issuer.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

UNITED GULF BANK B.S.C.

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.\$1,000,000,000
Euro Medium Term Note Programme**

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 29 January 2010 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing during normal business hours at the registered office of the Issuer at UGB Tower, P.O. Box 5964, Manama, Kingdom of Bahrain and the Principal Paying Agent at One Canada Square, London E14 5AL, United Kingdom and copies may be obtained from those offices.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated *[original date]*. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated 29 January 2010 which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated *[original date]* and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated 29 January 2010 and *[original date]*. Copies of such Base Prospectuses are available for viewing during normal office hours at the registered office of the Issuer at UGB Tower, P.O. Box 5964, Manama, Kingdom of Bahrain and the Principal Paying Agent at One Canada Square, London E14 5AL, United Kingdom and copies may be obtained from those offices.

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. Issuer: United Gulf Bank B.S.C.
2. (a) Series Number: []
(b) Tranche Number: []

(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)

3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
 (a) Series: []
 (b) Tranche: []
5. Issue Price: [] per cent. of the Aggregate Nominal Amount
 [plus accrued interest from [insert date] (if applicable)]
6. (a) Specified Denominations: []
(This means the minimum integral amount in which transfers can be made)
(N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €50,000 minimum denomination is not required.)
(N.B. If an offer of Notes is made in Bahrain the minimum denomination of Notes must be U.S.\$100,000 or its equivalent in other currencies)
- (b) Calculation Amount: []
(If only one Specified Denomination, insert the Specified Denomination.
If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)
7. (a) Issue Date: []
 (b) Interest Commencement Date: [specify/Issue Date/Not Applicable]
(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)
8. Maturity Date: [Fixed rate—specify date/
 Floating rate—Interest Payment Date falling in or nearest to [specify month]]
9. Interest Basis: [[] per cent. Fixed Rate]
 [[LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Dual Currency Interest]
 [specify other]
 (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency Redemption]
 [Partly Paid]
 [Instalment]
 [specify other]
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

11. Change of Interest Basis or Redemption/ Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]
[Change of Control Put]
[Issuer Call]
[(further particulars specified below)]
13. (a) Status of the Notes: [Senior/Subordinated]
(b) [Date [Board] approval for issuance of Notes obtained: [] [and []], respectively]]
- (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]
(If payable other than annually, consider amending Condition 6)
- (b) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]/[specify other]
(N.B. This will need to be amended in the case of long or short coupons)
- (c) Fixed Coupon Amount(s): [] per Calculation Amount
(Applicable to Notes in definitive form)
- (d) Broken Amount(s): [] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []
(Applicable to Notes in definitive form)
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or [specify other]]
- (f) [Determination Date(s): [] in each year
(Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon
N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration
N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))]
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: []
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ [specify other]]

- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): []
- (f) Screen Rate Determination:
- Reference Rate: []
(*Either LIBOR, EURIBOR or other, although additional information is required if other—including fallback provisions in the Agency Agreement*)
 - Interest Determination Date(s): []
(*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
 - Relevant Screen Page: []
(*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
- (g) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (h) Margin(s): [+/-] [] per cent. per annum
- (i) Minimum Rate of Interest: [] per cent. per annum
- (j) Maximum Rate of Interest: [] per cent. per annum
- (k) Day Count Fraction: [Actual/Actual (ISDA)
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
30E/360 (ISDA)
Other]
(*See Condition 6 for alternatives*)
- (l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
17. Zero Coupon Note Provisions [Applicable/Not Applicable]
(*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (a) Accrual Yield: [] per cent. per annum
(*N.B. This should factor in consequences of the occurrence of a Step Up Event in accordance with Condition 4.2*)
 - (b) Reference Price: []

- (c) Any other formula/basis of determining amount payable: []
- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 8.5(c) and 8.10 apply/specify other] *(Consider applicable day count fraction if not U.S. dollar denominated)*
18. Index Linked Interest Note Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
- (a) Index/Formula: [give or annex details]
- (b) Calculation Agent: [give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)]
- (c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent): []
- (d) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (e) Specified Period(s)/Specified Interest Payment Dates: []
- (f) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/specify other]
- (g) Additional Business Centre(s): []
- (h) Minimum Rate of Interest: [] per cent. per annum
- (i) Maximum Rate of Interest: [] per cent. per annum
- (j) Day Count Fraction: []
19. DualCurrency Interest Note Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
- (a) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Principal Paying Agent): []
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (d) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other/see Appendix]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: []
- (ii) Maximum Redemption Amount: []
- (d) Notice period (if other than as set out in the Conditions): []
- (N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent)*
21. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other/see Appendix]
- (c) Notice period (if other than as set out in the Conditions): []
- (N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent)*
22. Change of Control Put: [Applicable/Not Applicable]
- (a) Change of Control Redemption Amount: [[] per Calculation Amount/specify other]
- (b) Any other provisions relating to Change of Control Put: [Applicable/give details]
23. Final Redemption Amount: [[] per Calculation Amount/specify other/see Appendix]
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
24. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8.5): [[] per Calculation Amount/specify other/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes:
(a) Form: Global Note registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg
26. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details]
(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 16(c) and 18(g) relate)
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details]
28. Details relating to Instalment Notes:
(a) Instalment Amount(s): [Not Applicable/give details]
(b) Instalment Date(s): [Not Applicable/give details]
29. Redenomination applicable: Redenomination [not] applicable
(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
30. Provisions relating to purchases of Subordinated Notes: [For the purposes of Condition 8.8, the Issuer or any Subsidiary may only purchase Notes on or after [insert date of first Issuer call/specify other]][Not Applicable]
31. Other final terms: [Not Applicable/give details]
(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)

DISTRIBUTION

32. (a) If syndicated, names of Managers: [Not Applicable/give names]
(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers)
- (b) Date of [Subscription] Agreement: []
(The above is only relevant if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies)
- (c) Stabilising Manager(s) (if any): [Not Applicable/give name]
33. If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
34. U.S. Selling Restrictions: [Reg. S Compliance Category]
35. Additional selling restrictions: [Not Applicable/give details]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on [*specify relevant regulated market (for example the London Stock Exchange's regulated market) and, if relevant listing on an official list (for example, the Official List of the UK Listing Authority)*] of the Notes described herein pursuant to the U.S.\$1,000,000,000 Euro Medium Term Note Programme of United Gulf Bank B.S.C.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[*Relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its components*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of

United Gulf Bank B.S.C.

By: _____
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market (for example the London Stock Exchange’s regulated market) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)*] with effect from [].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market (for example the London Stock Exchange’s regulated market) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)*] with effect from [].] [Not Applicable]
- (ii) Estimate of total expenses related to admission to trading: []

2. RATINGS

- Ratings: The Notes to be issued have been rated:
- [S & P: []]
[Moody’s: []]
[Fitch []]
[[Other]: []]
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating)*

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

- [Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.—*Amend as appropriate if there are other interests*]
- [(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive)]*

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i) Reasons for the offer: []
[(ii)] Estimated net proceeds: []
[(iii)] Estimated total expenses: []]

(N.B.: Delete unless the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required)

5. YIELD *(Fixed Rate Notes only)*

- Indication of yield: []
- The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-Linked Notes only*)

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*]] [does not intend to provide post-issuance information].

(N.B. This paragraph 6 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

7. PERFORMANCE OF RATE[S] OF EXCHANGE (*Dual Currency Notes only*)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

(N.B. This paragraph 7 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

8. OPERATIONAL INFORMATION

- (i) ISIN Code: []
- (ii) Common Code: []
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): []

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which, save for the text in italics, will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by United Gulf Bank B.S.C. (the **Issuer**) pursuant to the Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes (whether or not issued in exchange for a Global Note).

The Notes have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 29 January 2010 and made between the Issuer, The Bank of New York Mellon as issuing and principal paying agent and agent bank (the **Principal Paying Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents), The Bank of New York Mellon (Luxembourg) S.A. as registrar (the **Registrar**, which expression shall include any successor registrar) and The Bank of New York Mellon as transfer agent and the other transfer agents named therein (if any) (the **Transfer Agents**, which expression shall include any additional or successor transfer agents).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders are entitled to the benefit of the Deed of Covenant (the **Deed of Covenant**) dated 29 January 2010 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of the Principal Paying Agent, the Registrar and each of the Paying Agents and Transfer Agents (such Agents and the Registrar being together referred to as the **Agents**). Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer and of the Principal Paying Agent and copies may be obtained from those offices save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will

only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in registered form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

This Note is a Senior Note or a Subordinated Note depending on the Status specified in the applicable Final Terms.

Subject as set out below, title to the Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and any Paying Agent will (except as otherwise required by law) deem and treat the registered holder of any Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the registered holder of the relevant Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2. TRANSFERS OF NOTES

2.1 Transfers of interests in Global Notes

Transfers of beneficial interests in Global Notes will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A

beneficial interest in a Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement.

2.2 Transfers of Notes in definitive form

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (i) the holder or holders must (A) surrender the Note for registration of the transfer of the Note (or the relevant part of the Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (ii) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 7 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Note in definitive form of a like aggregate nominal amount to the Note (or the relevant part of the Note) transferred. In the case of the transfer of part only of a Note in definitive form, a new Note in definitive form in respect of the balance of the Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 8, the Issuer shall not be required to register the transfer of any Note, or part of a Note, called for partial redemption.

2.4 Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

3. STATUS OF THE NOTES

3.1 Status of the Senior Notes

The Senior Notes are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4.1) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding. The Issuer shall execute such instruments and do such acts as may be required under the laws of the Kingdom of Bahrain to ensure the effectiveness of such ranking following any change in any law or regulation relating thereto which becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Senior Notes and which requires the Issuer to take such action.

3.2 Status of the Subordinated Notes

The Subordinated Notes constitute subordinated obligations of the Issuer and rank *pari passu* and without any preference between themselves. In the event of the compulsory liquidation of the Issuer for the purposes of Article 156 of The Central Bank of Bahrain and Financial Institutions Law, Decree Law No. 64/2006 (**compulsory liquidation**), the payment obligations of the Issuer under the Subordinated Notes shall rank after unsubordinated and unsecured creditors of the Issuer but *pari passu* with all other subordinated obligations of the Issuer that are not expressed to rank junior or senior to the Subordinated

Notes and in priority to the claims of all shareholders of the Issuer (including the holders of all preference shares of the Issuer). The Issuer shall execute such instruments and do such acts as may be required by the laws of the Kingdom of Bahrain to ensure the effectiveness of such ranking following any change in any law or regulation relating thereto which becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Subordinated Notes and which requires the Issuer to take such action.

Each holder of a Subordinated Note unconditionally and irrevocably waives any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Note. No collateral is or will be given for the payment obligations under the Subordinated Notes and any collateral that may have been or may in the future be given in connection with other indebtedness of the Issuer shall not secure the payment obligations of the Subordinated Notes.

4. COVENANTS

4.1 Negative Pledge

This Condition 4.1 only applies to Senior Notes.

So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer shall not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Indebtedness or Guarantee of Indebtedness, other than a Permitted Security Interest, without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution made by the Noteholders pursuant to Condition 15.

In these Conditions:

Guarantee means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (i) any obligation to purchase such Indebtedness;
- (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (iv) any other agreement to be responsible for such Indebtedness;

Indebtedness means any indebtedness of any Person for money borrowed or raised including (without limitation) deposits and any indebtedness for or in respect of:

- (i) amounts raised by acceptance under any acceptance credit facility;
- (ii) amounts raised under any note purchase facility;
- (iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

Non-recourse Project Financing means any financing of all or part of the costs of the acquisition, construction or development of any project, provided that (i) any Security Interest given by the Issuer is limited solely to assets of the project, (ii) the Person or Persons providing such financing expressly agrees to limit their recourse to the project financed and the revenues derived from such project as the principal source of repayment for the moneys advanced and (iii) there is no other recourse to the Issuer in respect of any default by any Person under the financing;

Permitted Security Interest means:

- (i) any Security Interest created or outstanding as a result of an Extraordinary Resolution made by the Noteholders pursuant to Condition 15;
- (ii) any Security Interest existing on the date on which agreement is reached to issue the first Tranche of the Notes;
- (iii) any Security Interest arising by operation of law, provided either that such Security Interest is discharged within 30 days of arising or does not materially impair the business of the Issuer and has not been enforced against the assets to which it attaches;
- (iv) any Security Interest created by the operation of a reservation of title clause contained in a vendor's or supplier's standard terms and conditions of sale in respect of goods acquired by the Issuer in the ordinary course of its business;
- (v) any Security Interest granted under the written direction of the Central Bank of Bahrain;
- (vi) any Security Interest over or affecting any assets or property acquired by the Issuer and which was existing at the time the Issuer acquired such assets or property provided that such Security Interest was not created in contemplation of such acquisition and does not extend to other assets or property (other than proceeds of such acquired assets or property), provided that the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;
- (vii) any Security Interest securing Indebtedness of a Person and/or its Subsidiaries existing at the time that such Person is merged into or consolidated with the Issuer, provided that such Security Interest was not created in contemplation of such merger or consolidation and does not extend to any other assets or property of the Issuer;
- (viii) any Security Interest arising in the ordinary course of banking arrangements or investment transactions (including, without limitation, sale and repurchase transactions and share, loan and bond lending transactions and any netting or set-off arrangements entered into by the Issuer for the purpose of netting debit and credit balances), provided that the Security Interest is limited to the assets which are the subject of the relevant transaction;
- (ix) any Security Interest arising in connection with any payment or close-out netting or set off arrangement pursuant to any hedging transaction entered into by the Issuer for the purpose of (A) hedging any risk to which it is exposed in its ordinary course of business, or (B) its interest rate or currency management operation which are carried out in the ordinary course of business and for non-speculative purposes only, excluding, in each case, any Security Interest under a credit support arrangement in relation to a hedging transaction;
- (x) any Security Interest created in connection with any Non-recourse Project Financing;
- (xi) in addition to any Permitted Security Interest set out in clauses (i) through (x) above or clause (xii) below, any other Security Interest provided that the aggregate outstanding amount secured by such other Security Interest does not, at any time, exceed five per cent. of the aggregate share capital and reserves of the Issuer as shown in its most recent audited consolidated (if then prepared by the Issuer) or non-consolidated (if consolidated financial statements are not then prepared by the Issuer) financial statements prepared in accordance with International Financial Reporting Standards; or
- (xii) any renewal of or substitution for any Security Interest permitted by any of the preceding clauses (i) through (x), provided that with respect to any such Security Interest incurred pursuant to this clause (xii) the principal amount secured has not increased and the Security Interest has not been extended to any additional property (other than the proceeds of such property);

Person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

Security Interest means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

Subsidiary means in relation to any Person (the **first person**) at any particular time, any other Person (the **second person**):

- (a) whose affairs and policies the first person controls or has power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and International Financial Reporting Standards, consolidated with those of the first person.

4.2 Step Up Event

So long as any Note remains outstanding, on the occurrence of a Step Up Event the applicable Rate of Interest payable (i) in respect of such Note, if interest-bearing, shall be increased by 1.25 per cent. per annum from the beginning of the Interest Period immediately subsequent to the occurrence of such Step Up Event; and (ii) in respect of such Note, if not interest-bearing, shall be 1.25 per cent. per annum from, and including, the date of the Step Up Event to, but excluding, the Maturity Date.

On the occurrence of a Step Up Event, the Issuer shall promptly notify the Noteholders in accordance with Condition 14.

For the purposes of this Condition 4.2 only:

Investment Grade Rating means a rating of at least investment grade (BBB-/ Baa3/ BBB-, or their respective equivalents for the time being) from a Rating Agency;

Rating Agency means Moody's Investors Service Limited and its successors or any other internationally recognised rating agency which has at the request of the Issuer for the time being assigned a credit rating to the Issuer; and

Step Up Event will be deemed to have occurred if, for so long as any Note remains outstanding, the solicited rating assigned to the Notes by a Rating Agency is (i) withdrawn either by the Rating Agency or at the request of the Issuer or (ii) reduced from an Investment Grade Rating to a non-Investment Grade Rating (BB+/Ba1/BB or their respective equivalents for the time being) or worse.

4.3 Disposal of Assets

The Issuer undertakes to not enter into a single transaction or a series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, transfer or otherwise dispose of any asset, except in the event that such sale, lease, transfer or other disposal:

- (a) is made in the ordinary course of business of the Issuer for market value and on arm's length terms;
- (b) constitutes a payment of a lawful dividend in the ordinary course of business, approved by the Central Bank of Bahrain in writing prior to any such payment;
- (c) of assets for cash or other consideration, is made in either case for market value and on arm's length terms;
- (d) of receivables by way of securitisation which is or was a result of any securitisation or like arrangement in accordance with established market practice made on arm's length terms and on a non-recourse basis up to a maximum aggregate amount of U.S.\$25,000,000 (or its equivalent in any other currency or currencies);
- (e) where the higher of the market value or consideration receivable (when aggregated with the higher of the market value or consideration receivable for any other sale, lease, transfer or other disposal, other than any permitted under paragraphs (a) to (c) above) does not exceed 10 per cent. of the book value of the consolidated assets or revenues of the Issuer and its Subsidiaries, taken as a whole, in any financial year; or
- (f) is made in connection with the transfer by the Issuer to Burgan Bank S.A.K. of its shareholding in Tunis International Bank and in Syria Gulf Bank S.A. irrespective of whether the consideration is satisfied by way of cash, the issue of shares in Burgan Bank S.A.K. or otherwise.

5. REDENOMINATION

5.1 Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, on giving prior notice to the Principal Paying Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (a) the Notes shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note equal to the nominal amount of that Note in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Notes in the denomination of euro 50,000 and/or such higher amounts as the Principal Paying Agent may determine and notify to the Noteholders and any remaining amounts less than euro 50,000 shall be redeemed by the Issuer and paid to the Noteholders in euro in accordance with Condition 7; and (ii) in the case of Notes which are not Relevant Notes, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Principal Paying Agent may approve) euro 0.01 and such other denominations as the Principal Paying Agent shall determine and notify to the Noteholders;
- (d) The payment obligations contained in any Notes so issued will also become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes are available for exchange (provided that such securities are so available) although those Notes will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes will be issued in exchange for Notes denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (e) after the Redenomination Date, all payments in respect of the Notes other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
 - (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and
 - (ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of

the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding; and

- (g) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

5.2 Definitions

In the Conditions, the following expressions have the following meanings:

Established Rate means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

Redenomination Date means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 5.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union;

Relevant Notes means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 50,000 and which are admitted to trading on a regulated market in the European Economic Area; and

Treaty means the Treaty on the Functioning of the European Union, as amended.

6. INTEREST

6.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 6.1:

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
 - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed) divided by 360.
- (c) In the Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

6.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 6.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis*

mutandis or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London interbank offered rate (**LIBOR**) or on the Euro-zone interbank offered rate (**EURIBOR**), the first day of that Interest Period or (b) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(ii) **Screen Rate Determination for Floating Rate Notes**

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(c) **Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) **Determination of Rate of Interest and calculation of Interest Amounts**

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

In relation to the amount of interest (the **Interest Amount**), the Principal Paying Agent will calculate the Interest Amount payable on the Floating Rate Notes and the Calculation Agent will calculate the Interest Amount payable on the Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded

upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 6.2:

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

- (vii) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

(e) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6.2, whether by the Principal Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith, manifest error or proven error) be binding on the Issuer, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders and (in the absence of wilful default or bad faith) no liability to the Issuer or the Noteholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

6.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

6.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

6.5 Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

7. PAYMENTS

7.1 Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9.

7.2 Payments in respect of Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Note appearing in the register of holders of the Notes maintained by the Registrar (the **Register**) at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Note appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due

on redemption) and instalments of principal (other than the final instalment) in respect of the Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Note.

Holders of Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Notes.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

7.3 General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

7.4 Payment Day

If the date for payment of any amount in respect of any Note is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 10) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (i) the relevant place of presentation;
 - (ii) London;
 - (iii) each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

7.5 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 9;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8.5); and

- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9.

8. REDEMPTION AND PURCHASE

8.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

8.2 Redemption for tax reasons

The Notes may (subject, in the case of Subordinated Notes, to the prior approval of the Central Bank of Bahrain (the **Regulator**) (where required)) be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 9) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 8.2 will be redeemed at their Early Redemption Amount referred to in Condition 8.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

8.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and
- (b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Principal Paying Agent and the Registrar,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such

redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 8.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

8.4 Redemption at the option of the Noteholders (Investor Put)

- (a) If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 30 nor more than 60 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms. Notes may be redeemed under this Condition 8.4 in any multiple of their lowest Specified Denomination.
- (b) If a Change of Control Put is specified in the applicable Final Terms and upon the occurrence of a Change of Control Event, the Issuer will, upon the holder of any Note giving notice within the Change of Control Put Period to the Issuer in accordance with Condition 14 (unless prior to the giving of the relevant Change of Control Notice (as defined below) the Issuer has given notice of redemption under Condition 8.2 or 8.3), redeem or, at the Issuer's option, purchase (or procure the purchase of) such Note on the Change of Control Put Date at the Change of Control Redemption Amount together (if applicable) with interest accrued to but excluding the Change of Control Put Date.

Promptly upon the Issuer becoming aware that a Change of Control Event has occurred, the Issuer shall give notice (a **Change of Control Notice**) to the Noteholders in accordance with Condition 14 to that effect.

If 90 per cent. or more in nominal amount of the Notes then outstanding have been redeemed or, as the case may be, purchased, pursuant to this Condition 8.4(b), the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (such notice to be given within 30 days of the Change of Control Put Date), redeem or, at the Issuer's option, purchase (or procure the purchase of) all but not some only of the remaining outstanding Notes at their Change of Control Redemption Amount together (if applicable) with interest accrued to but excluding the date fixed for redemption or purchase, as the case may be.

- (c) To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of the Registrar at any time during normal business hours of the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of the Registrar (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Notes so surrendered is to be redeemed an address to which a new Note in respect of the balance of such Notes is to be sent subject to and in accordance with Condition 2.2, in each case accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg

or any common depository for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 8.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 8.4 and instead declare such Note forthwith due and payable pursuant to Condition 11 (if, in the case of a Subordinated Note, it is then entitled to do so under the terms of Condition 11.2).

(d) For the purpose of these Conditions:

a **Change of Control Event** shall occur each time Kuwait Projects Company (Holding) K.S.C. (Closed):

- (A) sells, transfers or otherwise disposes of 51 per cent. or more of the issued share capital of the Issuer, other than to an entity directly or indirectly wholly-owned by Kuwait Projects Company (Holding) K.S.C. (Closed); or
- (B) otherwise ceases to own (directly or indirectly) 51 per cent. or more of the issued share capital of the Issuer;

Change of Control Put Date shall be the thirtieth day after the expiry of the Change of Control Put Period provided that, if such day is not a day on which banks are open for general business in both London and the principal financial centre of the Specified Currency the Change of Control Put Date shall be the next following day on which banks are open for general business in both London and the principal financial centre of the Specified Currency;

Change of Control Put Period shall be the period of 30 days commencing on the date that a Change of Control Notice is given; and

Change of Control Redemption Amount shall mean, in relation to each Note to be redeemed or purchased pursuant to Condition 8.4(b), an amount equal to the nominal amount of such Note or such other amount as specified in the applicable Final Terms.

8.5 Early Redemption Amounts

For the purpose of Condition 8.2 above and Condition 11, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

8.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 8.5.

8.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

8.8 Purchases

Subject, in the case of Subordinated Notes, as provided in the applicable Final Terms, the Issuer or any Subsidiary of the Issuer may at any time purchase Notes at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

8.9 Cancellation

All Notes which are redeemed will forthwith be cancelled. All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 8.8 above shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

8.10 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 8.1, 8.2, 8.3 or 8.4 above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

9. TAXATION

All payments of principal and interest in respect of the Notes by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note:

- (a) presented for payment in a Tax Jurisdiction; or
- (b) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7.4); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) **Tax Jurisdiction** means the Kingdom of Bahrain or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

10. PRESCRIPTION

The Notes will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9) therefor.

11. EVENTS OF DEFAULT

11.1 Events of Default relating to Senior Notes

This Condition 11.1 only applies to Senior Notes. If any one or more of the following events (each an **Event of Default**) shall occur and be continuing:

- (a) **Non Payment:** if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of five days in the case of principal and 10 days in the case of interest; or
- (b) **Breach of Obligations:** if the Issuer fails to perform or observe any of its other obligations under the Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days following the service by a Noteholder on the Issuer of written notice requiring the same to be remedied; or
- (c) **Cross Default:** if (i) any Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period, (ii) any such Indebtedness becomes due and payable prior to its stated maturity by reason of default (however described) or (iii) the Issuer or any of its Material Subsidiaries fails to pay when due (or as the case may be) within any originally applicable grace period any amount payable by it under any Guarantee of any Indebtedness, provided that the amount of indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds U.S.\$7,500,000 (or its equivalent in any other currency or currencies); or
- (d) **Unsatisfied Judgments:** if one or more judgments or orders for the payment of any sum (being an amount of not less than U.S.\$7,500,000 or its equivalent in any other currency or currencies) is rendered against the Issuer or any of its Material Subsidiaries and continues unsatisfied, unstayed and unappealed (or, if appealed, the appeal is unsuccessful and thereafter the judgment continues unsatisfied and unstayed for a period of 30 days) for a period of 30 days after the date thereof or if later, the date therein specified for payment; or
- (e) **Security Enforced:** a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or substantially the whole of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries; or
- (f) **Insolvency, etc:** (i) the Issuer or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or any of its Material Subsidiaries or the whole or substantially the whole of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries is appointed (or application for any such appointment is made), (iii) the Issuer or any of its Material Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) save in connection with a Permitted Reorganisation, the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or substantially the whole of its business; or

- (g) **Winding up, etc:** an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries, save in connection with a Permitted Reorganisation; or
- (h) **Similar Event:** if any event occurs which, under the laws of the Kingdom of Bahrain or any other jurisdiction in which the Issuer has operations has an analogous effect to any of the events referred to in paragraphs (f) and (g) above; or
- (i) **Failure to take action, etc:** any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes admissible in evidence in the courts of Bahrain, is not taken, fulfilled or done; or
- (j) **Unlawfulness:** it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes,

then any holder of a Note may, by written notice to the Issuer at the specified office of the Principal Paying Agent, effective upon the date of receipt thereof by the Principal Paying Agent, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

For the purposes of this Condition 11:

- (i) a **Material Subsidiary** is a Subsidiary of the Issuer the book value of the assets of which exceeds 10 per cent. of the book value of the consolidated assets of the Issuer and its Subsidiaries, taken as a whole, or the revenues of which exceed 10 per cent. of the consolidated revenues of the Issuer and its Subsidiaries, taken as a whole and, for these purposes:
 - (A) the book value of the assets and the revenues of each Subsidiary which is, or might be, a Subsidiary shall be determined by reference to its then most recently audited annual financial statements (consolidated if the same are prepared) or, if none, its then most recent annual management accounts; and
 - (B) the book value of the consolidated assets and the consolidated revenues of the Issuer and its Subsidiaries, taken as a whole, shall be determined by reference to the Issuer's then most recently audited consolidated annual financial statements;

all as more fully set out in the Agency Agreement. A report by two Directors of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or through any particular period a Subsidiary shall (in the absence of manifest or proven error) be conclusive and binding on the parties); and

- (ii) **Permitted Reorganisation** means:
 - (A) any disposal by any Material Subsidiary (including, but not limited to, on its solvent winding up) of the whole or substantially the whole of its undertaking and assets to the Issuer or any other Material Subsidiary;
 - (B) any amalgamation, consolidation or merger of a Material Subsidiary with the Issuer or any other Material Subsidiary; or
 - (C) any amalgamation, consolidation, restructuring, merger or reorganisation on terms previously approved by an Extraordinary Resolution made by the Noteholders pursuant to Condition 15.

11.2 Events of Default relating to Subordinated Notes

This Condition 11.2 only applies to Subordinated Notes. If any one or more of the following events (each an **Event of Default**) shall occur and be continuing:

- (a) **Non-Payment:** default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of five days in the case of principal and 10 days in the case of interest; or

- (b) **Liquidation and other events:** any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, save in connection with a Permitted Reorganisation, or administration of the Issuer is assumed by the Central Bank of Bahrain under its statutory powers,

then, in the case of Condition 11.2(a), the holder of such Note may, at its discretion, and subject to any applicable laws, without further notice, institute proceedings for the compulsory liquidation of the Issuer and/or prove in any compulsory liquidation of the Issuer but may take no other action in respect of such default, and, in the case of Condition 11.2(b), the holder of such Note may, by written notice to the Issuer at the specified office of the Principal Paying Agent, effective upon the date of receipt thereof by the Principal Paying Agent, declare any Note held by it to be forthwith due and repayable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind and/or prove in the compulsory liquidation of the Issuer.

12. REPLACEMENT OF NOTES

Should any Note be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

13. AGENTS

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent and a Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

14. NOTICES

All notices regarding the Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Notes are listed on a stock exchange or admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper

of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Registrar. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

15. MODIFICATION AND WAIVER

The Agency Agreement, which is governed by English law, contains provisions by which modifications may be made to the Notes or any of the provisions of the Agency Agreement. These provisions include requirements for holders holding defined nominal amounts of the Notes outstanding to consider and approve modifications proposed by the Issuer. The nominal amount of Notes outstanding required varies in certain circumstances but where the proposed modification involves a change to certain significant provisions (including, but not limited to, the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes) holders holding at least 75 per cent. (or, in certain defined circumstances, 25 per cent.) of the nominal amount of the Notes outstanding must consider the proposal which will only become effective if approved by not less than 75 per cent. of the holders considering it. A modification approved by not less than 75 per cent. of the holders considering it is referred to in these Conditions and the Agency Agreement as an **Extraordinary Resolution**. Extraordinary Resolutions shall be binding on all Noteholders, whether or not they approved the modification.

The Principal Paying Agent and the Issuer may agree, without the consent of the Noteholders to:

- (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes or the Agency Agreement which, in the opinion of the Issuer, is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes or the Agency Agreement which, in the opinion of the Issuer, is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

16. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing law

The Agency Agreement, the Deed of Covenant, the Notes (except for Condition 3.2) and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant and the Notes are governed by, and shall be construed in accordance with, English law. Condition 3.2 is governed by, and shall be construed in accordance with, the laws of Bahrain.

18.2 Arbitration

Subject to Condition 18.3, any dispute arising out of or connected with the Notes (including a dispute regarding the existence, validity or termination of the Notes or a dispute relating to any non-contractual

obligations arising out of or in connection with the Notes) (a **Dispute**) shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the London Court of International Arbitration (**LCIA**) (the **Rules**), which Rules (as amended from time to time) are incorporated by reference into this Condition 18.2. For these purposes:

- (a) the place of arbitration shall be London;
- (b) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions; and
- (c) the language of the arbitration shall be English.

18.3 Option to litigate

Notwithstanding Condition 18.2 above, any Noteholder may, in the alternative, and at its sole discretion, by notice in writing to the Issuer:

- (a) within 28 days of service of a Request for Arbitration (as defined in the Rules); or
- (b) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If the Noteholder gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 18.4 and any arbitration commenced under Condition 18.2 in respect of that Dispute will be terminated. Each of the parties to the terminated arbitration will bear its own costs in relation thereto.

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Noteholder must also promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

- (i) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;
- (ii) his entitlement to be paid his proper fees and disbursements; and
- (iii) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

18.4 Jurisdiction of the English courts

In the event that a notice pursuant to Condition 18.3 is issued, the following provisions shall apply:

- (a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute;
- (b) the Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and
- (c) this Condition 18.4 is for the benefit of the Noteholders only. As a result, and notwithstanding paragraph (a) above, any Noteholder may take proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Noteholders may take concurrent Proceedings in any number of jurisdictions.

18.5 Appointment of Process Agent

The Issuer appoints United Gulf Management Limited at its registered office at 7 Old Park Lane, London, W1K 1QR as its agent for service of process, and undertakes that, in the event of United Gulf Management Limited ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

18.6 Other documents

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for the repayment of short-term debt and/or its general corporate purposes, which includes making a profit. If, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation No 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF THE ISSUER

INTRODUCTION

United Gulf Bank B.S.C. (**UGB**, the **Bank** or the **Issuer**), the investment banking arm of Kuwait Projects Company (Holding) K.S.C. (Closed) (**KIPCO**) and its subsidiaries and associates (the **KIPCO Group**), is licensed by the Central Bank of Bahrain (the **CBB**), and operates as a wholesale bank.

The Bank's current business model is focused on asset management and investment banking (**AMIB**) (which includes private equity services) and financial brokerage services through a network of financial service entities with footprints across the Middle East and North Africa (**MENA**) region. UGB's business revolves around the following major services: conventional and Islamic investment banking, wealth and fund management, corporate finance, business and financial advisory, commercial banking and treasury. In addition to financial services, UGB has investments in non-financial service companies engaged in real estate development, hospitality, healthcare, communications, proprietary investment in private equities, private equity funds, structured products and quoted equities.

UGB's business model is currently in the process of being realigned. As part of the restructuring of the KIPCO Group, UGB will focus mainly on asset management and investment banking services while Burgan Bank S.A.K. (**Burgan Bank**) will focus on commercial banking. Burgan Bank is a commercial banking entity which is majority-owned by KIPCO.

Incorporation

UGB is incorporated under the Commercial Companies Law Decree Law No 21/2001 (which replaced Decree Law No. 28/1975) of the Kingdom of Bahrain (**Bahrain**) as a Bahraini joint stock company. Its commercial registration number is 10550.

UGB operated under an investment banking licence issued by the CBB. On 1 July 2006, the CBB implemented a new regulatory and supervisory framework for licensing banks in Bahrain. Under this new framework, UGB is licensed as a "conventional wholesale bank". The change in licensing did not affect its business or strategy.

Registered office

UGB's registered office is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain. Its telephone number is +973 17 533 233.

History

United Gulf Bank B.S.C. was established in the Kingdom of Bahrain as an offshore commercial bank in March 1980 and obtained its commercial registration in June 1980. Initially it was formed as a closed Bahraini shareholding company with an authorised capital of U.S.\$150 million and paid up capital of U.S.\$74.5 million. In October 1981, the authorised and paid up capital was increased to U.S.\$250 million and U.S.\$200 million respectively and its shares were publically listed. KIPCO acquired 94 per cent. of the Bank's equity in 1988 and in the same year, UGB transformed itself from an offshore commercial bank to an offshore investment bank. To provide further liquidity for its shares with a secondary listing, UGB took the decision to list on the Kuwait Stock Exchange in January 1998. This decision was taken in view of the fact that a significant number of UGB's assets are concentrated in Kuwait, and its parent company, KIPCO, is Kuwait-based and listed on the Kuwait Stock Exchange. In 2006 the licensing regime of banks in Bahrain was modified and divided into two main categories, as defined by their regulated activities. United Gulf Bank was licensed afresh by the CBB as a conventional wholesale bank.

UGB has an established track record of investment banking transactions including corporate finance, advisory, new issues placement, underwriting, mergers and acquisitions, bond issuance and investment product structuring and placements. Assets under management have witnessed continued growth over the years and have increased to U.S.\$9.0 billion and U.S.\$7.4 billion as at 31 December 2008 and 30 September 2009. Some of the businesses which were launched or acquired are given below:

Key Milestones

General

- 1980 UGB commenced operations
- 1988 KIPCO acquired stake in UGB
- 1988 UGB transformed into an investment bank

Commercial Banking

- 1997 Acquisition of stakes in Tunis International Bank (**TIB**) and Jordan Kuwait Bank (**JKB**)
- 2004 Algeria Gulf Bank (**AGB**) commenced operations
- 2005 TIB representative office opened in Libya
- 2005 Acquisition of Bank of Baghdad (**BoB**) finalised
- 2006 Syria Gulf Bank S.A. (**SGB**) authorised
- 2008 Stake in JKB transferred to Burgan Bank
- 2009 Stakes in AGB and BoB transferred to Burgan Bank

Asset Management and Investment Banking

- 1998 Establishment of United Gulf Bank Securities Company (**UGBS**)
- 2000 Stake acquired in KIPCO Asset Management Company (**KAMCO**)
- 2004 UGB participated in Kuwait Private Equity Opportunities Fund (**KPEOF**)
- 2005 Al Dhiyafa Holding Company (**ALD**) established
- 2006 License issued to United Gulf Financial Services Company (Qatar)
- 2006 UGB acquired a stake in North Africa Holding Company (**NAHC**)
- 2007 Stake acquired in Royal Capital PJSC (**RCP**)
- 2005 UGB acquired a stake in Manafae Investment Company (**Manafae**)
- 2007 Kuwait Education Fund (**KEF**) launched
- 2008 UGB acquired a stake in Al Sharq Financial Brokerage Company (**ASFB**)
- 2008 UGB established United Gulf Financial Services Company (North Africa) (**UGFS-NA**)
- 2008 UGB acquired stake in Millennium Finance Corporation (**MFC**)
- 2009 UGB's stake in MFC swapped for stake in Millennium Private Equity Ltd. (**MPE**)
- 2009 United Gulf Financial Services Company (Qatar) discontinued operations in January

Non Core

- 2001 UGB acquired a stake in United Real Estate Company, Kuwait (**URC**)
- 2003 Acquisition of stake in Asia Cell Telecommunication Company in Iraq
- 2004 UGB invested in United Cable Company (**UCC**)
- 2004 United Health Care Company (**UHC**) established through KAMCO
- 2004 KAMCO acquired stake in United Industries Company (**UIC**)
- 2006 UGB acquired stake in United Real Estate Company Jordan (**URCJ**)
- 2007 Sale of stake in Asia Cell Telecommunication Company to Qatar Telecom (QTel) Q.S.C.

The Board of Directors of UGB has been actively involved in analysing strategic options with the objective of enhancing stakeholders' value and improving performance. In line with this objective, it was announced in May 2008 that a decision was taken by KIPCO's board of directors, UGB's parent company, to consolidate the commercial banking activities under the Burgan Bank umbrella and the asset management and investment banking activities under UGB. In the first phase of the business alignment, UGB's board of directors approved the sale of four of its regional commercial banking subsidiaries (AGB, BoB, JKB and TIB) to Burgan Bank. These arrangements are more fully described in the section "*Recent Restructuring*".

Listing

At the close of 31 December 2009 UGB's share price was KD0.355 (U.S.\$1.24) (31 December 2008: KD0.480 (U.S.\$1.74)) on the Kuwait Stock Exchange and Bahraini fils 400 (U.S.\$1.06) (31 December 2008: Bahraini fils 575 (U.S.\$1.53)) on the Bahrain Stock Exchange. The market capitalisation of UGB stood at U.S.\$870.4 million (31 December 2008: U.S.\$1.2 billion) based on its market price as of 31 December 2009 on the Bahrain Stock Exchange.

PRINCIPAL SHAREHOLDERS

Authorised and Paid Up Capital

As of 30 September 2009, UGB's authorised share capital was U.S.\$250 million comprising 1 billion shares of U.S.\$0.25 each. UGB's issued share capital as at 30 September 2009 was U.S.\$207 million, all of which was fully paid up.

Ownership

UGB's principal shareholder is KIPCO, a closed Kuwaiti shareholding company, which held an effective interest of 95.2 per cent. (effective interest calculated by dividing the number of shares held by the paid up share capital after netting of treasury shares) of UGB's share capital as at 31 December 2009.

At 31 December 2009, UGB held treasury shares of 1.3 per cent. of the Bank's capital. As of 31 December 2009, the remaining shares are held by over 1,747 shareholders.

As of 31 December 2009, members of the Board of Directors owned 636,600 shares (636,600 shares in 2008) and Executive/Senior Management owned 986,254 shares (1,906,597 shares in 2008) of the Bank. This is mainly through the exercise of stock options. The staff of UGB have been granted 37.4 million shares under the Bank's employee stock option plan, as approved at the EGM held on 24 March 2004.

KIPCO

Incorporated in 1975, KIPCO has since grown substantially into a multi-sector holding company headquartered in Kuwait with operating entities across the GCC and the wider MENA region. KIPCO's business is acquiring or creating businesses, building and growing them and then realising their value. With a workforce of over 8,000 employees, KIPCO has an experienced management team and benefits from key relationships in the region. KIPCO's shares are publicly listed and traded on the Kuwait Stock Exchange.

KIPCO is the ultimate holding company of over 60 subsidiaries and associates operating through several business units. Its assets are mainly comprised of shares in these companies.

KIPCO's principal subsidiaries (UGB, Gulf Insurance Company K.S.C. (**GIC**), Burgan Bank and Orbit/Showtime (Gulf DTH LDC)) are in the financial services and media sectors. Its associate entities operate in the real estate, service and industrial sectors and are primarily controlled by KIPCO's principal subsidiaries.

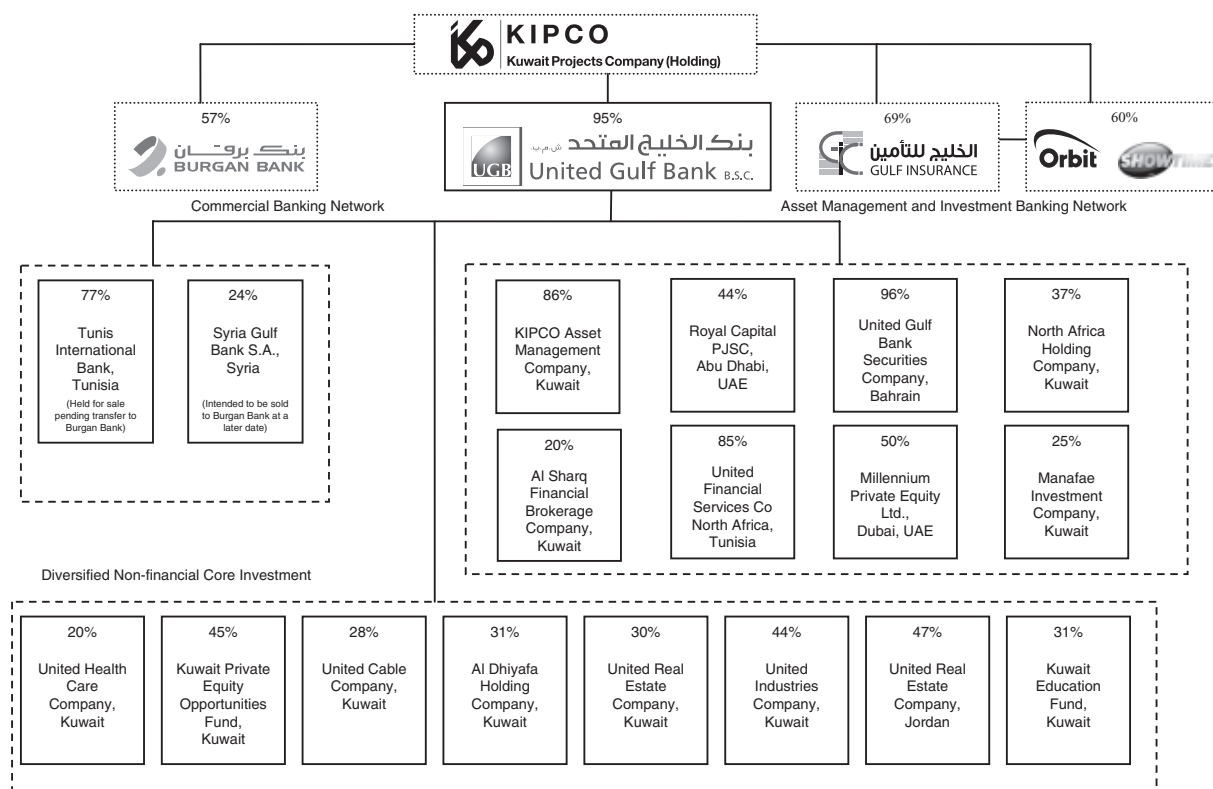
KIPCO supports UGB by giving UGB access to funding from its other banking subsidiaries and the client base of KIPCO's other banking subsidiaries.

BUSINESS OVERVIEW AND STRATEGY

Group Structure

UGB together with its subsidiaries (companies in which UGB, directly or indirectly, exercises control over their operations, generally accompanying a direct or indirect shareholding of more than 50 per cent. of the equity share capital, each a **Subsidiary**) form the group (the **Group**). **Associates** are companies in which UGB exercises significant influence (but not control) over their operations, generally accompanying a direct or indirect shareholding of between 20 and 50 per cent. of the equity share capital.

The chart below sets out UGB's sister companies, its Subsidiaries and major Associates as at 31 December 2009:



Percentages given in regards to UGB's Subsidiaries and Associates reflect UGB's consolidated effective interest in the relevant entity. Please note that carrying values of these shareholdings are given as of 30 September 2009, the date of the most recent unaudited interim condensed consolidated financial statements of UGB discussed in this Base Prospectus.

Asset Management and Investment Banking, Financial Brokerage and other business activities

UGB and the principal companies of the Group and its Associates (the **Principal Companies**) are in the asset management, investment banking and financial brokerage business. In addition, they perform commercial banking, proprietary investment and treasury services. A further description of each of these services is set out below:

Asset Management and Investment Banking

- asset and fund management (including discretionary and non-discretionary portfolio management, securities trading, portfolio structuring and asset allocation advice, brokerage services, mutual funds investments and structuring, and alternative/structured investments) covering local, regional and international markets;
- conventional and Islamic investment banking (including equity and debt underwriting, private placements, capital restructuring and mergers & acquisitions); and
- private equity activity focusing on telecoms, media and technology and energy, primarily through MPE and NAHC.

Financial Brokerage

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

Other Business Activities

- commercial banking services through its Subsidiary, TIB, and Associate, SGB, and limited commercial banking services by UGB (see also "*Recent Restructuring*"). UGB currently also manages BoB and SGB under respective management contracts, but intends to transfer such management responsibilities to Borgan Bank in the future;
- non-core investments in Associates, ranging across the sectors of real estate development, hospitality, communications, healthcare, education and other non-core investments (see also "*Brief Profile of Major Non-Financial Core Investments*");

- proprietary investments in private and quoted equities as well as private equity funds, structured products, managed funds and debt securities, managed through its own asset management department (see “*Proprietary Investments*”); and
- treasury functions to manage UGB’s liquidity and in particular funding and cash management (see also “*Treasury*”).

Investment decisions are taken by an Investment Committee (comprising members of management) on the recommendation of the relevant business head for investments (comprising members of UGB’s Board of Directors) depending on the nature and size of the transaction (for further details see “*Board, Management and Employees—Management Committees—Investment Committee*”).

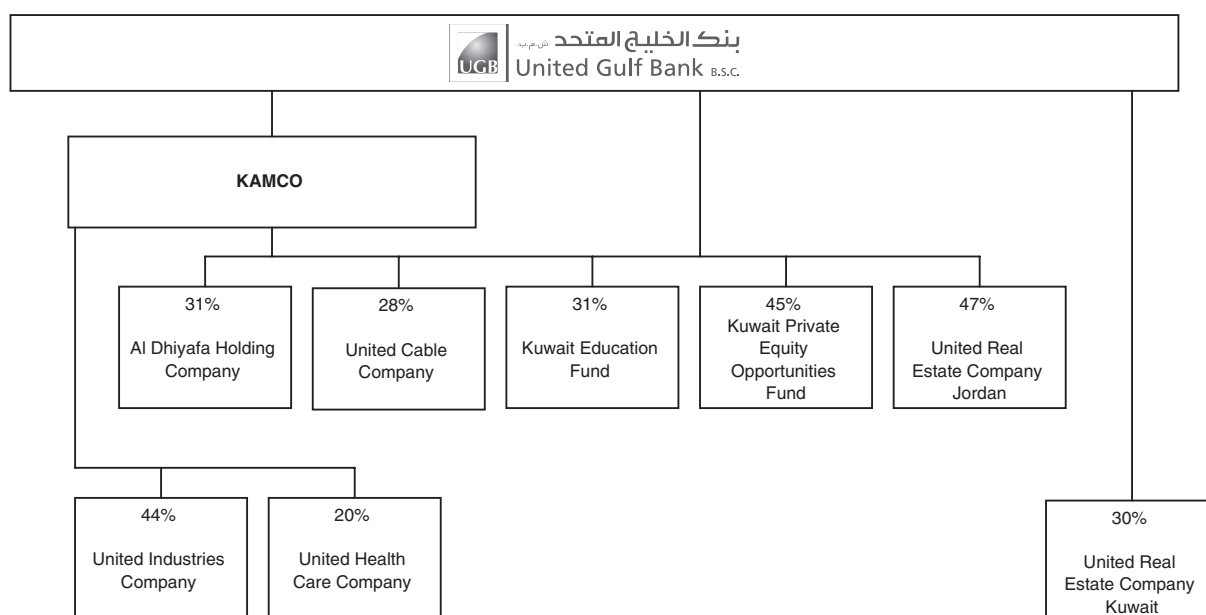
The table below sets out UGB’s consolidated effective interest in its Principal Companies as at 31 December 2009:

<u>Company</u>	<u>Jurisdiction of Incorporation</u>	<u>Status</u>	<u>Year of Initial Investment</u>	<u>Group’s Consolidated Interest %¹</u>	<u>Board Representation Seats / Total Seats</u>
United Gulf Bank Securities Company	Bahrain	Subsidiary	1998	95.7	3/5
United Financial Services Company North Africa	Tunisia	Subsidiary	2008	84.8	1/3
Tunis International Bank	Tunisia	Subsidiary	1997	76.6	3/5
KIPCO Asset Management Company	Kuwait	Subsidiary	2002	85.5	2/5
Millennium Private Equity Ltd.	UAE	Associate	2009	50.0	1/2
Manafae Investment Company	Kuwait	Associate	2005	25.4	4/7
North Africa Holding Company	Kuwait	Associate	2006	37.4	1/8
Royal Capital PJSC	UAE	Associate	2007	44.0	3/7
Syria Gulf Bank	Syria	Associate	2006	24.5	2/9
Al Sharq Financial Brokerage Company . . .	Kuwait	Associate	2008	19.6	1/5

¹Percentage figures represent UGB’s consolidated effective interest, including stakes held through its subsidiaries KAMCO and TIB.

Other businesses

UGB and its Associates also carry out real estate investments primarily through URC and URCJ, through UGB’s ownership of UGB Tower (which holds the office of UGB in Bahrain), Areo Reit Limited (which manages two properties in the United States of America) and through ALD’s management of hospitality assets (see also “*Brief Profile of Major Non-Financial Core Investments—United Real Estate Company Jordan (URCJ)*” and “*Al Dhiyafa Holding Company (ALD), Kuwait*”). As of 31 December 2009, UGB also held investments in entities engaged in hospitality, healthcare, communication and education. The most significant of these entities appear in the chart below:



Given percentages reflect UGB’s consolidated effective interests in the relevant entity.

Recent Restructuring

UGB previously operated across the MENA region, offering investment banking services as well as limited commercial banking facilities. Such commercial banking facilities were offered from Bahrain, Jordan (through its Associate, JKB), Tunisia (through its Subsidiary, TIB), Algeria (through its Subsidiary, AGB), Iraq (through its Associate, BoB) and Syria (through its Associate, SGB).

KIPCO, UGB's parent company, has decided to consolidate the commercial banking activities of the KIPCO group under the umbrella of Burgan Bank (a commercial banking entity majority-owned by KIPCO and listed on the Kuwaiti Stock Exchange) and to consolidate the asset management and investment banking business under UGB. As part of this business alignment, UGB transferred its directly held stakes in three of its commercial banks to Burgan Bank: its 43.9 per cent. interest in JKB was transferred in July 2008 at a price of U.S.\$450 million. UGB realised a profit on this sale of approximately U.S.\$276 million. In March 2009, UGB transferred its 60 per cent. stake in AGB and its 45.3 per cent. stake in BoB at an aggregate price of U.S.\$150 million, thereby realising a profit of U.S.\$26.2 million. UGB later purchased a 10 per cent. stake in AGB from its Subsidiary, TIB which UGB intends to transfer to Burgan Bank in 2010. The transfer of UGB's 76.6 per cent. stake in TIB is expected to be completed in 2010.

In the short term, these sales have had a negative effect on the net income of UGB. Due to the sale of JKB, AGB and its interest in BoB, the Group's net income from commercial banks decreased to U.S.\$9.9 million as of 30 September 2009 compared to U.S.\$50.4 million during the nine month period ended 30 September 2008.

SGB, in which UGB directly holds a 24 per cent. stake as of 31 December 2009, is intended to be sold to Burgan Bank at a later date. In accordance with regulations of the Central Bank of Syria, the sponsoring shareholders can sell/transfer their shares only after three years since commencement of operations and only if such operations are profitable as of the end of the third year.

The sales of UGB's interests in these commercial banks are made for cash consideration at arm's length. Following the completion of the restructuring, and subject to market conditions and regulatory approvals, UGB intends to acquire up to a 17 per cent. stake in Burgan Bank (which was rated BBB+/A-2 as at 16 July 2009 by Standard & Poor's Rating Services, and A2/D+ as at 26 August 2009 by Moody's Investor Services, Inc.) which will be accounted for as an investment in an Associate. This forms part of UGB's strategy to finance the expansion of its AMIB activities from its own resources by giving UGB access to a stable revenue stream from commercial banking. In October 2008, UGB advanced a subordinated loan to Burgan Bank amounting to KD96.25 million (U.S.\$350 million as at the original date of the loan), thereby providing it with interim Tier II capital. As at the date of this Base Prospectus, no amount of such loan has been repaid by Burgan Bank. The intention is for Burgan Bank to redeem this subordinated loan and, simultaneously, for UGB to invest an amount up to the amount of the subordinated loan in a rights issue by Burgan Bank. It is anticipated that Burgan Bank will initiate such rights issue and that KIPCO will assign to UGB its right to participate in the rights issue after receipt of the required regulatory approvals, including approval from the Central Bank of Kuwait and an Amiri Decree in Kuwait. The initial approval from the Central Bank of Kuwait for the transaction, at a price of KD1 per share, lapsed when the required Amiri Decree was not procured prior to the Central Bank of Kuwait's stipulated deadline of 31 December 2008. Although UGB expects renewed approval from the Central Bank of Kuwait for the rights issue by Burgan Bank, the proposed acquisition of a stake in Burgan Bank by UGB and the procurement of the Amiri Decree required to complete these transactions in 2010, it cannot guarantee when or if this will be the case.

UGB also plans to expand and enhance its asset management and investment banking network reach across the MENA region as further described under "*Strategy*".

Strategy

UGB's core strategy is to focus on and expand its AMIB business and further develop its AMIB capabilities across the MENA region, to retain revenues from commercial banking activities of the KIPCO Group and to further diversify into non-financial investments.

AMIB Business

UGB's core strategy to expand its AMIB business and further develop its AMIB capabilities across the GCC and wider MENA region is based on a two pillar strategy. First, to use its own experience in the markets generated during the time UGB (through its Subsidiaries and Associates) carried on commercial banking business in Jordan, Tunisia, Algeria and Syria. Second, UGB intends to build on the relationships of the commercial banks consolidated in the KIPCO Group. These two pillars, combined with KAMCO's experience in the sector, are

expected to provide a true MENA-wide distribution platform for asset management, investment banking and financial brokerage products and services.

The key elements of the strategy to expand the Group's AMIB business and further develop its AMIB capabilities across the MENA region are as follows:

- **Grow the market share in the existing markets and expand the AMIB network**

UGB's focus is on regional expansion within the MENA region, both through strategic equity investment in selected investment companies outside Kuwait, and by developing relationships with investment companies and other financial institutions.

Through its network of relationships, product lines, business practices and track record of launching and managing green field businesses in Algeria, Syria and Iraq, the Group believes it is well positioned to identify opportunities for growth. Based on its previous commercial banking services through JKB, AGB, BoB and TIB, UGB was able to develop a wide network of relationships in Jordan, Algeria and Tunisia and also gained significant investment banking experience in these regions. Through its management of these commercial banks in the past, UGB knows the markets, the players and their management. Based on these relationships, its experience and its current presence in Kuwait, Bahrain, the UAE and Tunisia, UGB believes it has a niche and an advantage in positioning itself to further infiltrate these markets in offering AMIB services in the future and considers itself as being well positioned to grow the market share in the AMIB business.

UGB evaluates opportunities on a continuous basis. In terms of geographic growth and reach, it plans to expand its AMIB operations beyond Kuwait, Bahrain and the UAE and to roll out new operations in Abu Dhabi, Tunisia and Algeria (through a joint venture with an existing Tunisian investment company). In addition, UGB aims to leverage its commercial banking footprints (see "*Building on relationships of commercial banks consolidated in the KIPCO Group*" below) and is in the process of evaluating further market entries in the Kingdom of Saudi Arabia, Jordan and Iraq. Such evaluation involves understanding the macro-economic environment and analysing industry, competitive advantages and key financial and operating fundamentals of the target and the expected return on investment.

In addition, UGB has a portfolio of entities that are at various stages of growth including fully operational entities such as KAMCO and ASFB which UGB considers to be market leaders and therefore well positioned to capitalise on local and regional opportunities. Newly established entities such as NAHC, RCP and Manafae, which UGB considers to be cash-rich and well-suited to take advantage of the acquisition and consolidation opportunities the market presents, are in a position to benefit from the experience and opportunities that are presented from within the Group and being in the region (given the long-term growth prospects of GCC and MENA).

- **Building on relationships of commercial banks consolidated in the KIPCO Group**

UGB's expansion and growth strategy is closely aligned to that of the wider KIPCO Group and seeks to penetrate the nascent market for AMIB services in the MENA region, which UGB considers to be under-served, through leveraging KIPCO's position and experience in providing other services in this region.

In particular, UGB seeks to leverage the client base of the commercial banking entities consolidated in the KIPCO Group. The strategy is to target customers of KIPCO Group's commercial banking network for placement of its AMIB products and services allowing UGB and the KIPCO Group to benefit from offering AMIB services which complement and function in tandem with commercial banking. This also includes the development of new AMIB products.

- **KAMCO's experience**

UGB's execution strategy for its AMIB expansion also focuses on KAMCO's experience in the sector and UGB's track record of establishing and growing businesses. As such, the strategy is being jointly executed by UGB and KAMCO, and ownership of the newly established or acquired entities in countries where KIPCO has a commercial banking presence is expected to be consolidated under UGB/KAMCO. In addition, UGB will seek representation at board level and strong management teams to be appointed at each entity level. UGB and KAMCO intend to adopt the same management philosophy that the Group has adopted for the last two decades, namely providing guidance to the management team of the entity and pre-sales and/or execution support where requested and feasible. To continue to grow its presence in Kuwait, UGB intends to focus on fund management, increase its product range (international funds and investment vehicles), and follow a strategy of prudent asset allocation and diversification through its subsidiary KAMCO. In addition, it will aim to be amongst the top private equity firms in the GCC capturing investment opportunities in new growth areas.

Retain Commercial Banking through Investment in Burgan Bank

The planned investment in the equity of Burgan Bank is expected to provide a stable and recurring revenue stream and the customer base for the expansion of the AMIB network as described above.

Achieve Diversification

UGB is diversifying its non-financial investments through other segments of the businesses with the goal to achieve stable revenue streams to UGB. These include hospitality, education, healthcare, real estate development, communication and proprietary investments, most of which are seen as growth areas irrespective of the business cycle and hence provide a stable and recurring revenue streams to the operations of the Bank. UGB regards many of these fields (in particular, healthcare) as underdeveloped in the MENA region and UGB's current investments in these non-core areas include sectors such as healthcare and medical (through UHC), education (through KEF) and property management and development (through URC with URCJ and United Real Estate Company Syria).

External Credit Ratings

On 1 September 2009, Moody's confirmed a Baa3/Prime-3 bank deposits ratings and a D+ financial strength rating for UGB, with all ratings carrying negative outlooks.

In July 2009, Capital Intelligence confirmed UGB's foreign currency long-term rating of BBB+ and foreign currency short-term rating of A2, with a financial strength rating of BBB+. All these ratings carry stable outlooks.

Recent Developments

In October 2009, KIPCO placed KD40 million in a one-year deposit with UGB, in an arm's length arrangement.

During the fourth quarter of 2009, UGB advanced short term loans to two affiliates in an arm's length transaction. The loans were supported by a deposit covering 100 per cent. of the exposure. The loans were off-set against such deposit on their maturity in January 2010.

UGB intends to acquire a further 7 per cent. stake in SGB from Global Investment House K.S.C. (closed) by the end of the first quarter in 2010, subject to regulatory approval, and to transfer this additional stake to Burgan Bank together with its interest of 24 per cent. held as of 31 December 2009. (See "Recent Restructuring")

During the last quarter of 2009, UGB purchased a total of 5 per cent. of the shares in KAMCO and KAMCO purchased a total of 5 per cent. of its own treasury shares, thereby increasing UGB's consolidated effective interest in KAMCO from 75.5 per cent. to 85.5 per cent.

In the course of the last quarter of 2009, the Group sold its 17 per cent. interest in Kuwait Clearing Company at fair market value (assessed by independent consultants) to a related party for a cash consideration which resulted in profits of US\$32.1 million. UGB further consolidated its holding in URCJ by increasing its effective interest from 27 per cent. to 47 per cent.

As of 31 December 2009, Mr. Masaud J Hayat resigned as Managing Director of UGB to take over as the Managing Director of Burgan Bank. The Managing Director's responsibilities are for the time being discharged jointly by the Chairman and Acting Chief Executive Officer, until a new Chief Executive Officer assumes these responsibilities.

On 10 January 2010, UGB's Board of Directors approved the winding up of UGBS, subject to regulatory approvals. The decision of the Board of Directors envisages that the brokerage business will be conducted directly by UGB for non-resident clients. Established in November 1998, UGBS provided brokerage services to clients primarily on the Bahrain Stock Exchange. UGBS's operations were limited and winding up of its operations will have a negligible impact on UGB's revenues and balance sheet.

OPERATING ENVIRONMENT

The Group and its Associates operate in the MENA region, a region characterised by a growing population, varying levels of per capita income and relatively nascent markets presenting significant opportunities.

The majority of the assets of the Group and its Associates are located in the member states of the GCC, which are on average A-rated stable economies (*Source: Standard & Poor's GCC Public Ratings, 8 December 2009 which includes ratings for the Emirate of Abu Dhabi and the Emirate of Ras Al Khaimah, but does not provide a rating for the UAE or other Emirates of the UAE, in particular Dubai*). These economies offer a market for premium goods and services derived from their high per capita income and favourable demographic trends. A number of these countries are major oil producers.

The following table sets out the key socio-economic indicators for the GCC economies:

Country	Population (in millions) ^{A, 1}	Population Growth Rate (% per annum) ^{A, 2}	GDP Growth Rate (% per annum) ^{B, 3}	GDP	Proven Oil Reserves (Billion barrels) ^{A, 5}
				Per Capita Income (Purchasing Power Parity in U.S.\$) ^{A, 4}	
Bahrain	0.7	1.3	6.1	37,400	0.1
Kuwait	2.7	3.6	6.3	57,500	104
Oman	3.4	3.1	7.8	20,200	5.5
Qatar	0.8	1	16.4	111,000	15.2*
Saudi Arabia	28.7	1.9	4.4	20,500	266.7
UAE	4.8	3.7	7.4	44,600	97.8

¹ Estimate as of July 2009

² Estimate for 2009

³ As reported by the International Monetary Fund (the **IMF**) for the year 2008

⁴ Estimate as of 1 July 2008

⁵ Estimate as of 1 January 2009

* Also has large gas reserves

Sources:

^A Figures extracted from the World Factbook published by the Central Intelligence Agency (the **CIA**) as of 31 December 2009

^B Figures extracted from the World Economic Outlook published by the IMF, in October 2009

In addition to the GCC economies, the Group and its Associates also have investments in other Middle Eastern (non-GCC) and North African economies. These economies are characterised by a large population base and offer mass markets with currently low penetration.

The table below sets out the key socio-economic indicators for the other Middle Eastern (non-GCC) and North African economies:

Country	Population (in millions) ^{A, 1}	Population Growth Rate (% per annum) ^{A, 2}	GDP Growth Rate (% per annum) ^{B, 3}	Per Capita Income
				(Purchasing Power Parity in U.S.\$) ^{A, 4}
Algeria	34.2	1.2	3.0	6,900
Egypt	83.1	1.6	7.2	5,800
Jordan	6.3	2.3	7.9	5,200
Lebanon	4.0	1.1	8.5	11,100
Syria	20.2	2.1	5.2	4,600
Tunisia	10.5	1.0	4.6	7,900

¹ Estimate as of July 2009

² Estimate for 2009

³ As reported by the IMF for the year 2008

⁴ Estimate as of 1 July 2008

Sources:

^A Figures extracted from the World Factbook published by the CIA as of 31 December 2009

^B Figures extracted from the World Economic Outlook published by the IMF, in October 2009

FINANCIAL SUMMARY OF THE GROUP

General

The financial information of UGB contained in this section has been extracted from, and must be read in conjunction with, UGB's audited consolidated financial statements for the two financial years ended 31 December 2007 and 2008 and UGB's unaudited interim condensed consolidated financial information for the nine months ended 30 September 2008 and 2009. UGB's audited consolidated financial statements for the two financial years ended 31 December 2007 and 2008 are set out in full on pages F-70 and F-20 and UGB's unaudited interim condensed consolidated financial information for the nine months ended 30 September 2009 are set out in full in pages F-4 to F-17. The unaudited interim financial condensed consolidated information for 30 September 2008 is not included in this Base Prospectus.

Consolidated Income Statement

For the year ended 31 December 2008, the consolidated income of UGB was U.S.\$341.4 million, compared to the consolidated total income of U.S.\$358.1 million for the year ended 31 December 2007 (excluding income from discontinued operations). Consolidated total income for the year ended 31 December 2008 included a gain of U.S.\$276.9 million from the transfer of UGB's 43.8 per cent. interest in JKB to Burgan Bank.

Investment income increased by 45 per cent. for the year ended 31 December 2008 in comparison with the previous year, primarily due to the sale of its 43.8 per cent. stake in JKB and its 30.4 per cent. stake in United Medical Services Company (UMSC). Other revenues came from dividends of U.S.\$22.7 million, gain on sale of investments of U.S.\$23.9 million and fees and commission income of U.S.\$56.3 million. The financial performance of associated companies resulted in a loss of U.S.\$17.8 million, down from a profit of U.S.\$75.9 million in 2007, primarily due to a loss of U.S.\$17.9 million incurred by UIC against profit of U.S.\$45.5 million in 2007. UIC's net income in 2007 was primarily the result of a U.S.\$68.6 million exceptional gain from its sale of its investment in United Fisheries of Kuwait (UFK).

The consolidated profit of UGB was U.S.\$214.6 million for the year ended 31 December 2008, compared to consolidated profit of U.S.\$268.3 million for the year ended 31 December 2007. During 2008, a gain of U.S.\$346.1 million was booked from the sale of associated companies and subsidiaries. In 2007, a gain of U.S.\$111.9 million was derived from the sale of investments in UFK, Wataniya Telecom and United Projects Aviation Services Company. However, UGB booked a trading loss of U.S.\$115.1 million for 2008 and impairment provisions of U.S.\$56.7 million, as the severity of the global financial crisis spread to the region's stock markets in the fourth quarter of 2008. This contrasted with a trading gain of U.S.\$80.7 million achieved in 2007.

In the nine months ended 30 September 2009, the consolidated profit of UGB was U.S.\$19.9 million compared to U.S.\$375.9 million in the nine months ended 30 September 2008. The decline of 94 per cent. in net profit is mainly attributable to the previous period's financial results including the profit of U.S.\$276.9 million earned on the sale of JKB. Consolidated income was affected by the sales of BoB and AGB in March 2009, with income from discontinued operations down from U.S.\$50.4 million for the nine months ended on 30 September 2008 to U.S.\$9.9 million for the nine months ended on 30 September 2009. Additionally, fees and commission income declined from U.S.\$46.9 million for the nine months ended on 30 September 2008 to U.S.\$17.5 million for the nine months ended on 30 September 2009 due to the decline in market performance and decline in the value of assets under management.

The following table sets out extracts from UGB's consolidated income statements for the two financial years ended 31 December 2007 and 2008 and for the nine months ended 30 September 2008 and 2009, followed by a brief discussion of specific line items for the nine months ended 30 September 2009:

	Financial year ended 31 Dec 2007	Financial year ended 31 Dec 2008	Nine months ended 30 Sept 2008	Nine months ended 30 Sept 2009
	In U.S.\$ million			
Total income	358.1	341.4	422.4	91.7
Investment income	194	281	345.7	63.8
Fees and commissions	68.5	56.3	46.9	17.5
Share of results of associated companies	76	(17.8)	15.1	(5.12)
Total expenses (excluding interest expenses)	(61.4)	(56.5)	(48.1)	(28.7)
Interest expense	(67.9)	(67.4)	(50.2)	(38.7)
Salaries and benefits	(40.7)	(38.6)	(31.9)	(17.9)
General and administrative expenses	(20.7)	(17.9)	(16.2)	(10.7)
Impairment loss on non-trading investments	(3.8)	(56.7)	—	(15.7)
Provision (write back) of provision and doubtful loans and guarantees and other assets, net	(9.3)	—	1.5	1.3
Profit for the period	268.3	214.6	375.9	19.9
Income attributable to minority interests	47.4	7.3	27	1.7
Income attributable to equity shareholders of the parent	220.9	207.3	348.9	18.2
Basic/Diluted earnings per share	27.3/26.9	25.3/25.1	42.6/42.2	2.3/2.2

Investment income was mainly impacted by market performance during the nine months ended 30 September 2009 resulting in a significant decrease compared to the same period in 2008. Investment income in 2009 includes profits realised from the sale of the BoB and AGB amounting to U.S.\$26.2 million. In 2008, U.S.\$314.3 million was realised from the sale of JKB and the sale of an interest in United Medical Services.

Income from fees and commissions dropped in 2009, mainly due to the decrease in assets under management to U.S.\$7.4 billion as at 30 September 2009.

The share of results of associated companies recorded a loss of U.S.\$5.2 million for the nine months ended 30 September 2009 compared to a gain of U.S.\$15.1 million for the nine months ended 30 September 2008 mainly due to losses by UIC and the reduced profit at URC. The negative results achieved were mainly market driven. Further details are set out in the section "Principal Companies".

Interest income increased by U.S.\$1.3 million for the nine months ended 30 September 2009 compared to the same period in 2008. Incremental interest income has been earned on UGB's subordinated loan of KD96.25 million (U.S.\$350 million as at the original date of the loan) to Burgan Bank in October 2008. Interest expense decreased by 22.9 per cent. due to reduction in market rates with savings on long-term loans compared to the nine month period ended 30 September 2008.

An impairment loss of U.S.\$9.5 million on associated companies was recorded in 2009 on Millennium Finance Company which was later swapped for a 50 per cent. interest in MPE.

Consolidated Total Assets

As of 31 December 2008, the consolidated total assets of UGB stood at U.S.\$2.9 billion, an increase of 7.4 per cent. compared to U.S.\$2.7 billion as of 31 December 2007. The increase in total assets was due to the transfer of JKB which was successfully completed in the third quarter of 2008 for a cash payment of U.S.\$450 million in July 2008 against which a subordinated loan was advanced to Burgan Bank of KD96.25 million (U.S.\$350 million as at the original date of the loan) in October 2008. Investments in associated companies accounted for 21.8 per cent. of consolidated total assets in 2008 (compared to 29.6 per cent. in 2007). Non-trading investments and investments carried at fair value through the statement of income accounted for 30.6 per cent. and 8.5 per cent. (respectively) of consolidated total assets as of 31 December 2008 (compared to 21.2 per cent. and 13.3 per cent. (respectively) as of 31 December 2007).

Goodwill and intangibles represented 1.6 per cent. of consolidated total assets in 2008 (compared to 0.4 per cent. in 2007).

As of 31 December 2008, assets held for sale amounted to U.S.\$859.9 million comprising UGB's stakes in BoB, AGB, and TIB. Stakes in AGB and BoB were sold subsequently in March 2009.

As of 30 September 2009, the consolidated total assets of UGB were U.S.\$2.3 billion, a decrease of 34 per cent. compared to as of 31 December 2008 driven by the sale of AGB (an entity in which UGB held a 60 per cent. stake and which was previously consolidated in UGB's financial statements) and BoB to Burgan Bank and liquidation of the trading portfolio during 2009. Investments in associated companies accounted for 27.3 per cent. of consolidated total assets as of 30 September 2009 (compared to 19.1 per cent. of consolidated total assets as of 30 September 2008). Non-trading investments and investments carried at fair value through the statement of income accounted for 34.4 per cent. and 6.5 per cent. (respectively) of consolidated total assets as of 30 September 2009 (compared to 26.3 per cent. and 10.9 per cent. (respectively) of consolidated total assets as of 30 September 2008).

The following table sets out UGB's consolidated total assets as of 31 December 2007 and 2008 and 30 September 2008 and 2009:

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>	<u>30 Sept 2008</u>	<u>30 Sept 2009</u>
	In U.S.\$ million			
Total assets	2,667.6	2,869.1	3,538.2	2,335.7
Investments carried at fair value through statement of income	356.5	245.2	387.9	151.9
Non-trading investments	565.2	878.0	929.1	804.6
Loans and advances	291.9	7.8	16.7	81.6
Investments in associated companies	790.4	626.2	677.5	637.9
Goodwill	11.4	46.6	43	46.6
Assets of disposal group classified as held for sale	—	859.9	943.9	438.6

The following tables sets out UGB's consolidated total assets broken down by geographical concentration and financial assets by segment as of 31 December 2007 and 2008:

<u>Geographical Concentration</u>	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	In U.S.\$ million	
GCC	1,447.4	1,740.6
MENA (excluding GCC)	768.6	782.4
European Union	286.4	215.7
Asia	0.7	0.5
Others	164.5	129.9

Financial Assets by Segment*	31 Dec	31 Dec
	2007	2008
	In U.S.\$ million	
Trading & Manufacturing	172.1	—
Banks & Financial Institutions	789.8	527.3
Construction & Real Estate	1.0	2.8
Government & Public sector	7.9	—
Individuals	8.9	5.0
Others	85.8	31.5

* Financial Assets by Segment exclude UGB's investments in Subsidiaries, Associates and investments available for sale. The classification only includes demand and call deposits, time deposits, non trading investment, loans and advances, other assets and off balance sheet items.

Revenues per segment	31 Dec 2007	31 Dec 2008	30 Sep 2009
	In U.S.\$ million		
AMIB ¹	290.5	75.6	69.5
Brokerage	0.4	0.0	1.3
Commercial banking ²	83.6	89.8	21.9
Non-financial operating Associates ³	53.9	(17.6)	(6.5)
Real estate Associates ⁴	12.8	7.3	1.5
Gain on sale of commercial bank	—	276.9	26.2
Total revenues including discontinued operations	441.2	432.0	113.9
Discontinued operations ⁵	(83.1)	(90.9)	(22.2)
Continuing operations ⁶	358.1	341.1	91.7

¹ Includes all the AMIB operations and financial entities except the commercial banks in point 2 below

² Includes AGB, BoB, TIB, JKB and SGB

³ Includes all Associates except financial Associates (see footnote 1 above), commercial banking Associates (see footnote 2 above) and real estate Associates (see footnote 4 below)

⁴ Includes URC, URCJ and URC Syria

⁵ Includes AGB, BoB, TIB and JKB

⁶ Includes SGB and all other AMIB operations and financial entities

Consolidated Total Liabilities and Equity

The consolidated total liabilities of UGB increased from U.S.\$1.9 billion as of 31 December 2007 to U.S.\$2.1 billion as of 31 December 2008. Consolidated total liabilities comprised:

- amounts due to banks and other financial institutions – 24.2 per cent. of consolidated total liabilities for the year ended 31 December 2008 compared to 31.5 per cent. for the year ended 31 December 2007;
- deposits from customers – 3.0 per cent. of total liabilities for the year ended 31 December 2008 compared to 23.5 per cent. for the year ended 31 December 2007. The reason for this decrease is the reclassification of AGB and TIB from subsidiaries to 'held for sale' assets in the 31 December 2008 financials. The customer deposits in the 31 December 2007 financials resulted from the consolidation in the Group's consolidated financial statements of the customer deposits held by AGB and TIB as at December 2007;
- loans and murabaha payable – 28.6 per cent. of total liabilities for the year ended 31 December 2008 compared to 31.0 per cent. for the year ended 31 December 2007;
- bonds – 3.5 per cent. of consolidated total liabilities for the year ended 31 December 2008 compared to 3.9 per cent. for the year ended 31 December 2007;
- subordinated debt – 4.9 per cent. of consolidated total liabilities for the year ended 31 December 2008 compared to 5.4 per cent. for the year ended 31 December 2007;
- other liabilities – 3.2 per cent. of consolidated total liabilities for the year ended 31 December 2008 compared to 4.7 per cent. for the year ended 31 December 2007; and
- liabilities of disposal group classified as held for sale – 32.6 per cent. of consolidated total liabilities for the year ended 31 December 2008 compared to nil for the year ended 31 December 2007.

As of 30 September 2009, the consolidated total liabilities of UGB decreased by 32 per cent. from U.S.\$2.5 billion as of 30 September 2008 to U.S.\$1.7 billion, primarily due to the sale of BoB and AGB. Consolidated total liabilities comprised:

- amounts due to banks and other financial institutions – 29.4 per cent. of consolidated total liabilities as of 30 September 2009 compared to 24.9 per cent. as of 30 September 2008;

- (b) deposits from customers – 6.1 per cent. of consolidated total liabilities as of 30 September 2009 compared to 2.2 per cent. as of 30 September 2008;
- (c) loans and murabaha payable – 30.1 per cent. of consolidated total liabilities as of 30 September 2009 compared to 31.4 per cent. as of 30 September 2008;
- (d) bonds – 4.0 per cent. of consolidated total liabilities as of 30 September 2009 compared to 3.0 per cent. as of 30 September 2008;
- (e) subordinated debt – 5.9 per cent. of consolidated total liabilities as of 30 September 2009 compared to 4.0 per cent. as of 30 September 2008;
- (f) other liabilities – 4.0 per cent. of consolidated total liabilities as of 30 September 2009 compared to 3.6 per cent. as of 30 September 2008; and
- (g) liabilities of disposal group classified as held for sale – 20.5 per cent. of consolidated total liabilities as of 30 September 2009 compared to 29.9 per cent. as of 30 September 2008.

Equity attributable to the shareholders of the parent increased from U.S.\$661.8 million as of 31 December 2007 to U.S.\$703 million as of 31 December 2008 mainly due to an increase in retained earnings and decreased to U.S.\$524.6 million as of 30 September 2009 from U.S.\$889.5 million as of 30 September 2008. Major movements in equity from 31 December 2008 to 30 September 2009 include:

- net profit of U.S.\$18.2 million for the nine month period ended 30 September 2009;
- dividend payment of U.S.\$150.7 million;
- net negative foreign currency translation reserves of U.S.\$29.2 million;
- a decline in fair value reserves amounting to U.S.\$20 million due to the depreciation of the Kuwaiti dinar and revaluation of assets; and
- new shares issued of U.S.\$3.2 million (employee stock option plan).

The following table sets out UGB’s consolidated total liabilities and total equity (including equity attributable to KIPCO and minority interests) as of 31 December 2007 and 2008 and as of 30 September 2008 and 2009:

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>	<u>30 Sept 2008</u>	<u>30 Sept 2009</u>
	In U.S.\$ million			
Total liabilities	1,862.8	2,053.9	2,503.9	1,708.1
Total equity	804.8	815.2	1,034.3	627.6
Equity attributable to shareholder of the parent	661.8	703.0	889.5	524.6
Minority interests	143.0	112.2	144.8	103.0

The following table sets out the Group’s consolidated liabilities broken down by region as of 31 December 2007 and 2008:

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	In U.S.\$ million	
GCC	556.9	661.7
MENA	896.0	1,015.0
Europe	374.6	346.9
Asia	31.2	23.5
North America	4.1	6.8
Total	<u>1,862.8</u>	<u>2,053.9</u>

PRINCIPAL COMPANIES

In line with its strategy outlined above under “*Strategy*”, UGB undertakes activities through its Principal Companies, both Subsidiaries and Associates. Further details of the principal companies through which it seeks to implement its strategic growth in each key area of AMIB and financial brokerage both within Kuwait and across the MENA region are set out below, as well as its Islamic finance capability, and its current commercial banking operations in Syria and Tunisia.

Asset Management and Investment Banking

KIPCO Asset Management Company (KAMCO), Kuwait

KAMCO is a Kuwaiti closed shareholding company which was incorporated in Kuwait on 28 September 1998 under the Commercial Companies Law. It is registered as an investment company with the Central Bank of Kuwait. At the end of 2002, UGB directly owned 96 per cent. of the share capital of KAMCO. Following a capital increase through a private placement of 50 million new shares at KD 0.25 per share in July-September 2003 and the partial sales of KAMCO shares, UGB's ownership was diluted to 75.5 per cent as at 30 September 2009. This facilitated KAMCO's listing on the Kuwait Stock Exchange on 20 October 2003. Other shareholders in KAMCO include Al Zumorrodah Holding Company (7.4 per cent.) and other investors (9 per cent.). After the purchase of additional shares and treasury shares in KAMCO by UGB and KAMCO, respectively, during the last quarter of 2009, UGB's consolidated interest in KAMCO was increased to 85.5 per cent. As of 31 December 2009, UGB's consolidated interest in KAMCO was 85.5 per cent. (see "Recent Developments").

KAMCO's three major activities are asset management, financial services and investment advisory and research. These are offered to a diverse local, regional and international client base. KAMCO is the leading asset manager in Kuwait in terms of assets under management, with U.S.\$7.4 billion in assets under management as of 30 September 2009. The asset management services include brokerage, portfolio management, forward trading, IPOs and local and international fund management. The company offers both own-label and third-party mutual and private equity funds. The financial services offered by the company comprise a range of corporate finance and advisory services, including mergers and acquisitions, underwriting, private placements, strategy development and strategic planning, project and investment evaluations/consultancy, and private equity. KAMCO also offers investment advisory and research services covering bonds and equities. KAMCO is well experienced in developing the regional capital markets.

KAMCO's strategy is focused on developing a stable stream of revenues in addition to trading and proprietary investments. Such a stable stream of revenues is sought to be developed through innovative products, customer focus, leveraging group synergies and creating and maintaining competitive advantage. KAMCO also has an equity interest of 43.5 per cent. in UIC.

KAMCO currently manages the following funds:

<u>Fund Name</u>	<u>Fund Objective</u>	<u>Fund Size (NAV) as at NAV Date (U.S.\$ million)</u>	<u>NAV Date*</u>
KAMCO Investment Fund	To provide both investors with attractive returns in the form of capital gains and of income by investing selectively in companies listed on the Kuwait Stock Exchange, treasury bills and IPOs.	118.2	31 October 2009
KAMCO Bond & High-Yield Fund	To provide investors with higher returns than time deposits by investing selectively in Kuwaiti Government debt instruments, corporate bonds and other high-quality debt investments and money market instruments yielding good returns.	138.7	30 September 2009
Al Jazi Money Market Fund	To offer a return superior to short-term and medium-term Islamic Sharia-compliant financial and money market instruments, domiciled inside/outside Kuwait and denominated in Kuwaiti dinar or any other foreign currency, issued by governments, financial institutions, banks and investment companies. The Fund may invest in Islamic financial and money market instruments issued by local and international financial institutions. The Fund may also invest in financial and money market funds.	54.3	10 November 2009
Kuwait Private Opportunities Fund	To achieve attractive returns on the invested funds by acquiring shares, participation shares, capital and securities of all types of Kuwaiti companies and entities that are not listed on the securities markets.	36.8	30 September 2009

<u>Fund Name</u>	<u>Fund Objective</u>	<u>Fund Size (NAV) as at NAV Date (U.S.\$ million)</u>	<u>NAV Date*</u>
KAMCO Energy Services Fund	The fund aims to achieve medium to long-term capital appreciation, through investing internationally in Sharia compliant listed and unlisted securities in the energy ancillary services and alternative energy sectors.	25.6	30 September 2009
Kuwait Education Fund	The fund's primary objective is to invest in programmes and projects that aim at improving and developing learning and education in Kuwait through investments in products and services that develop the students and teachers in schools and universities in both the public and private sectors.	20.0	30 June 2009

* NAV sizes are the latest reported and Funds' valuation frequency is weekly, monthly, quarterly or semi-annual

Principal risk factors in KAMCO's operations are:

- (a) market risk on investments;
- (b) liquidity risk;
- (c) staff retention risk;
- (d) country risk; and
- (e) legal risk.

In 2008, KAMCO's revenues decreased by 58 per cent. (from U.S.\$201.2 million in 2007 to U.S.\$83.3 million in 2008) and net income decreased by 98 per cent. (from U.S.\$136.0 million in 2007 to U.S.\$4.2 million in 2008) compared to 2007. KAMCO's fee income from its investment banking activities decreased from U.S.\$69.0 million for the year ended 31 December 2007 to U.S.\$57.1 million for the year ended 31 December 2008. Fee income includes income from advisory services, custody and management fees, and incentive fees. Trading investments incurred a loss of U.S.\$20.3 million during the year ended 31 December 2008, compared to a profit of U.S.\$18.6 million for the year ended 31 December 2007.

The major reason for the decrease in revenue is a decline in the share of results from its associates, which declined from a profit of U.S.\$62.3 million in 2007 to a loss of U.S.\$19.5 million in 2008. The major reason for the decline is the loss reported by UIC for the year ended 31 December 2008 of U.S.\$57.3 million. KAMCO holds a 43.5 per cent. stake in UIC.

Fees and commissions income also declined from U.S.\$69.0 million in 2007 to U.S.\$57 million in 2008 mainly due to reduction in the trust and fiduciary fees from U.S.\$47.0 million to U.S.\$40.5 million as a result of a decrease in the average balance of assets under management and a decrease in incentive fees.

Total assets decreased by 8.4 per cent. to U.S.\$653.0 million as at 31 December 2008, from U.S.\$712.7 million as at 31 December 2007.

Investments in available-for-sale and associated companies amounted to U.S.\$553 million in 2008, as compared to U.S.\$564 million in 2007. Shareholders' equity decreased to U.S.\$342 million in 2008 from U.S.\$427 million in 2007.

As at 31 December 2008, KAMCO had U.S.\$9 billion worth of assets under custody and management, of which a material portion was for related parties. UGB's carrying value of its investment in KAMCO was U.S.\$300.3 million.

A summary of KAMCO's financial performance for the year ended 31 December 2007 compared to the year ended 31 December 2008 appears below.

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	201.2	83.3
Net Income	136.0	4.2
Total Assets	712.7	653.0
Total Equity	426.9	341.5
ROE (%)	31.8	1.2
ROA (%)	19.1	0.6

September 2009 Performance Update

KAMCO's net profit for the nine months ended 30 September 2009 was U.S.\$2.9 million, compared to U.S.\$77.5 million at 30 September 2008. Total revenues decreased 73.4 per cent. reaching U.S.\$31.4 million during the nine month period ended 30 September 2009, compared to U.S.\$118.3 million during the nine month period ended 30 September 2008. Note that the total revenues for the year ended 31 December 2008 decreased to U.S.\$83.3 million, as a result of investment income declining from U.S.\$62.4 million as at 30 September 2008 to U.S.\$42.1 million as at 31 December 2008. This was mainly due to significant decline in the performance of the Kuwait Stock Exchange during the last quarter of 2008. In addition, for the nine months ended 30 September 2008, a profit of U.S.\$4.4 million was recorded in respect of share of results from associated companies.

Total assets as at 30 September 2009 amounted to U.S.\$605 million, compared to U.S.\$794 million as at 30 September 2008. Shareholder equity was at U.S.\$336.3 million as at 30 September 2009, compared to U.S.\$453 million as at 30 September 2008. Share in profit from associated companies decreased from a profit of U.S.\$4.4 million for the nine month period ended 30 September 2008 to a loss of U.S.\$5.5 million for the nine months ended 30 September 2009. Fees and commissions decreased by 51 per cent. from U.S.\$47.3 million for the nine months ended 30 September 2008 to U.S.\$23 million for the same period in 2009. For the nine months ended 30 September 2008, KAMCO recorded a gain from sale of securities held for trading amounting to U.S.\$6.8 million. For the nine months ended 30 September 2009, due to the financial crisis, KAMCO incurred a loss from sale of securities held for trading of U.S.\$0.52 million. Trading losses during 2008 amounted to U.S.\$20.4 million.

UGB's carrying value of its interest in KAMCO was U.S.\$251.4 million as of 30 September 2009 (U.S.\$328.6 million as of 30 September 2008).

Manafae Investment Company (Manafae), Kuwait

Manafae is an Islamic investment company established in 2005 with a capital of U.S.\$73.3 million, with business activities in Sharia compliant investment products and consultancy services. Manafae offers Sharia compliant asset management, financial services, investment services, real estate investment, financing and advisory services.

UGB's investment in Manafae is a result of the high demand in Islamic investment products. Manafae is focused on niche markets such as private equity and Islamic business advisory.

As at 31 December 2009, UGB held a consolidated interest of 25 per cent. in the equity capital of Manafae. Other shareholders in Manafae include Al Imtiaz Investment Company Kuwait and Al Zad Real Estate Company, Kuwait.

During the year ended 31 December 2008, Manafae made a profit of U.S.\$5.7 million compared to a profit of U.S.\$17.3 million for the year ended 31 December 2007. Total assets (mostly invested in unquoted equities) were at U.S.\$118.8 million at 31 December 2008, compared to U.S.\$112.2 million at 31 December 2007. Shareholders' equity rose from U.S.\$93.3 million as at 31 December 2007 to U.S.\$96.9 million as at 31 December 2008. Manafae shares are not listed.

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

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	27.7	14.3
Net Income	17.3	5.7
Total Assets	112.2	118.8
Total Equity	93.3	96.9
ROE (%)	18.5	5.9
ROA (%)	15.4	4.7

September 2009 Update

Manafae reported a net profit of U.S.\$0.2 million for the nine months ended 30 September 2009. Total assets were U.S.\$115.3 million with shareholders' equity at U.S.\$92.2 million.

As at 30 September 2009, the carrying value of UGB's consolidated investment in Manafae stood at U.S.\$ 26.9 million.

Royal Capital PJSC (RCP), UAE

RCP was incorporated as a new joint venture between UGB, KAMCO and the Royal Group of the UAE. As at 31 December 2009, UGB's consolidated stake in RCP was 44 per cent.

RCP provides investment banking and consultancy services in the Gulf region. RCP commenced operations in October 2007 and for its financial year ended 31 March 2008, earned a net profit of U.S.\$1.6 million. Due to the ongoing financial crises, RCP has not yet made any investments and holds almost all of its assets in cash.

RCP has equity of U.S.\$84.7 million as at 31 March 2009.

	<u>31 Mar 2008</u>	<u>31 Mar 2009</u>
	U.S.\$ million	
Total Revenue	1.8	3.6
Net Income	1.6	1.3
Total Assets	83.3	84.7
Total Equity	83.3	84.7
ROE (%)	1.9	1.6
ROA (%)	1.9	1.6

As at 30 September 2009, the carrying value of UGB's consolidated investment in RCP stood at U.S.\$37.2 million (compared to U.S.\$35.9 million as of 30 September 2008).

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

UGFS-NA was established in November 2008 as a public limited liability under Tunisian law with a share capital of TND1 million (U.S.\$0.770 million). As at 31 December 2009 the shareholders are UGB (60 per cent.), KAMCO (20 per cent.), TIB (10 per cent.), and NAHC (10 per cent.). As at 30 September 2009, the carrying value of UGB's consolidated investment in UGFS-NA stood at U.S.\$0.5 million.

The company is licensed from the Conseil du Marché Financier (CMF) to offer Asset Management services in Tunisia. As per the licence, UGFS-NA's asset management services will encompass portfolio management services and fund services. The licence also allows UGFS-NA to offer corporate finance services but only in connection with the portfolio management services. UGFS-NA has just recently commenced operations and considers its target market to be North Africa.

Millennium Private Equity (MPE), UAE

MPE was incorporated in April 2008 as a Sharia-compliant private equity management company licenced by the Dubai Financial Services Authority. As at 31 December 2009, UGB was a 50 per cent. shareholder in MPE. The other 50 per cent. was held by Dubai Islamic Bank.

MPE has launched three private equity funds focusing on telecommunications, media, and technology as well as the energy sectors. Details of these are set out below:

- (a) Millennium India I Fund. U.S.\$100 million has been fully committed and paid up by Investment Corporation of Dubai. This fund has invested in an Indian mobile infrastructure provider called Infratel whose shareholders are Bharti Telecom, Vodafone India, Citibank and Goldman Sachs. The fund receives a portion of a 1.5 per cent. per annum management fee.
- (b) Millennium Energy Fund. This fund comprises U.S.\$175 million of commitments and U.S.\$40.4 million paid up. The fund has two investments and has a U.S.\$5 million exposure to Lets Buy It. The fund earns 1.5 per cent. per annum on commitments. Sponsors of the fund include Kuwait Finance House, Islamic Development Bank and Dubai Islamic Bank.
- (c) Millennium Telecom Media and Technology Fund. This fund comprises U.S.\$125 million of commitments of which U.S.\$26 million have been paid up. The fund has three investments including Lets Buy It. The fund earns 1.5 per cent. per annum on commitments. Sponsors of the fund include Islamic Development Bank and Dubai Islamic Bank.

MPE was a fully owned subsidiary of MFC, an investment banking and financial advisory services platform operating out of the Dubai International Financial Centre. Recently, the ownership structure was restructured whereby UGB acquired a 50 per cent. stake in MPE by swapping its share in MFC.

North Africa Holding Company (NAHC), Kuwait

NAHC was established in Kuwait in 2006 as a private company and has a capital of U.S.\$181.8 million. UGB holds a consolidated interest in NAHC of 37 per cent. as of 31 December 2009.

NAHC is positioning itself as a private equity partner investing in start-up companies, in companies emerging out of state control and in listed securities. NAHC is initially targeting five countries: Algeria, Egypt, Libya, Morocco and Tunisia. The industries it targets are healthcare, real estate and the service sector.

For the year ended 31 December 2008, NAHC made a loss of U.S.\$33.7 million compared to a profit of U.S.\$9.1 million for the year ended 31 December 2007. Assets invested in trading and non-trading investments amounted to U.S.\$44.4 million as at 31 December 2008, compared to U.S.\$42.1 million as at 31 December 2007. Shareholders' equity decreased from U.S.\$192.2 million in 2007 to U.S.\$156.6 million in 2008. NAHC shares are not listed.

A summary of NAHC's recent financial performance appears below.

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	1.3	15.8
Net Income	9.1	(33.7)
Total Assets	204.4	175.5
Total Equity	193.1	158.2
ROE (%)	4.7	(21.3)
ROA (%)	4.4	(19.2)

As at 30 September 2009, the carrying value of UGB's consolidated investment in NAHC stood at U.S.\$60.0 million (compared to U.S.\$51.0 million as of 30 September 2008).

Financial Brokerage

Al Sharq Financial Brokerage Company (ASFB), Kuwait

ASFB was established in March 1985, with the main objective of providing financial brokerage activities in relation to the Kuwait Stock Exchange and is one of the largest local brokerage firms in Kuwait. As at 31 December 2009 UGB directly owned 15 per cent. in ASFB and indirectly owned additional 4.6 per cent. through

its subsidiary KAMCO. In 2007, ASFB was the largest brokerage firm in Kuwait in terms of the number of transactions carried out and commissions attained.

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

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	32.6	27.5
Net Income	22.8	14.9
Total Assets	38.2	37.6
Total Equity	35.9	34.2
ROE (%)	63.5	43.6
ROA (%)	59.7	39.2

September 2009 Update

ASFB reported a net profit of KD0.129 million (U.S.\$0.5 million) for the nine months ended 30 September 2009. As of 30 September 2009, total assets were KD8 million (U.S.\$28 million) (compared to KD 9.8 million (U.S.\$36.7 million) as of 30 September 2008) with shareholders' equity at KD7.2 million (U.S.\$25.1 million) (compared to KD9 million (U.S.\$34.1 million) as of 30 September 2008).

As at 30 September 2009, the carrying value of UGB's consolidated investment in ASFB stood at U.S.\$19.3 million (compared to U.S.\$21.9 million as of 30 September 2008).

United Gulf Bank Securities Company (UGBS), Bahrain

UGBS was incorporated in November 1998 as a securities and brokerage company operating primarily on the Bahrain Stock Exchange and as at 31 December 2009 is owned 70 per cent. by UGB and 30 per cent. by KAMCO. On 10 January 2010, UGB's Board of Directors approved the winding-up of UGBS (see "*Recent Developments*"). UGBS has at present limited impact on UGB's revenues and balance sheet.

For the year ended 31 December 2008, UGBS made a loss of U.S.\$0.38 million compared to a profit of U.S.\$0.34 million for the year ended 31 December 2007. Total assets (mostly invested in regional securities portfolios) were at U.S.\$1.8 million at 31 December 2008, compared to U.S.\$2.1 million at 31 December 2007. Shareholders' equity decreased from U.S.\$1.9 million as at 31 December 2007 to U.S.\$1.5 million as at 31 December 2008. UGBS shares are not listed.

A summary of UGBS' recent financial performance appears below.

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	0.45	(0.29)
Net Income	0.34	(0.38)
Total Assets	2.1	1.8
Total Equity	1.9	1.5
ROE (%)	0.18	(0.25)
ROA (%)	0.16	(0.21)

September 2009 Update

UGBS reported a net loss of U.S.\$97 thousand for the nine months ended 30 September 2009. Total assets were U.S.\$2.1 million (compared to U.S.\$2.3 million as of 30 September 2008) with shareholders' equity at U.S.\$1.6 million (compared to U.S.\$2.0 million as of 30 September 2008).

As at 30 September 2009, the carrying value of UGB's consolidated interest in UGBS stood at U.S.\$1.6 million (compared to U.S.\$2.0 million as at 30 September 2008).

Commercial Banking

Tunis International Bank (TIB)

TIB was incorporated in June 1982 as one of the first offshore banks in Tunis. UGB acquired a 77 per cent. stake in TIB in 1997. TIB provides a comprehensive range of corporate banking and trade finance products to a wide range of companies in Tunisia.

TIB's net income for the year ended 31 December 2008 rose by 22.8 per cent. to U.S.\$19.9 million from U.S.\$16.2 million for the year ended 31 December 2007. The main contributors to revenues came from interest income, foreign exchange, fees and commissions, and dividend income from its available for sale portfolio. Total assets of TIB declined by 3 per cent. to U.S.\$499 million as at 31 December 2008 from U.S.\$514.1 million as at 31 December 2007, while shareholders' equity rose to U.S.\$81.9 million as at 31 December 2008 from U.S.\$75.9 million as at 31 December 2007. The balance sheet of TIB is underpinned by the strength of its liquidity, as cash and bank deposits formed 60.1 per cent. of total assets at 31 December 2008.

As part of the restructuring, UGB's stake in TIB is expected to be transferred to Burgan Bank in 2010.

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	27.5	22.8
Net Income	16.2	19.9
Total Assets	514.1	499
Total Equity	75.9	81.9
ROE (%)	21.4	24.3
ROA (%)	3.2	4.0

September 2009 Update

TIB reported a net profit of U.S.\$13.7 million for the nine months ended 30 September 2009. Total assets were U.S.\$491.7 million with equity at U.S.\$88.7 million as of 30 September 2009.

As at 30 September 2009, the carrying value of UGB's investment in TIB stood at U.S.\$67.9 million (compared to U.S.\$63.9 million as of 30 September 2008).

Syria Gulf Bank (SGB), Syria

SGB was formed in 2006 and licensed as a new commercial bank in April 2006. In September 2006, 26 per cent. of its share capital was publicly offered to Syrian investors. SGB formally started business in June 2007 and raised its paid-in capital from U.S.\$30 million to U.S.\$60 million through a rights share offer to its existing shareholders in September 2007, which was fully subscribed. As of 31 December 2009, UGB directly held 24 per cent. of SGB, GCC and other Arab investors held 21 per cent. and Syrian founders held 29 per cent.

SGB has opened branches in two provinces in 2008 and identified other locations in Damascus and other major cities in Syria for the expansion of its branch network during 2009. UGB has a management agreement with SGB for providing management and advisory services to SGB.

During the year ended 31 December 2008, SGB made a loss of U.S.\$3.4 million. Total assets (mostly invested in a loan portfolio) were at U.S.\$167.7 million as at 31 December 2008, compared to U.S.\$92.5 million as at 31 December 2007. Shareholders' equity increased from U.S.\$55.4 million as at 31 December 2007 to U.S.\$57.3 million as at 31 December 2008. SGB shares are not listed.

A summary of SGB's recent financial performance appears below.

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	0.15	2.97
Net Income	(2.5)	(3.4)
Total Assets	92.5	167.7
Total Equity	55.4	57.3
ROE (%)	(4.5)	(5.9)
ROA (%)	(2.7)	(2.0)

September 2009 Update

SGB reported a net loss of U.S.\$0.8 million for the nine months ended 30 September 2009. As of 30 September 2009, total assets were U.S.\$244.8 million with shareholders' equity at U.S.\$57.3 million.

As at 30 September 2009, the carrying value of UGB's investment in SGB stood at U.S.\$15.7 million (compared to U.S.\$16.2 million as of 30 September 2008).

BRIEF PROFILE OF MAJOR NON-FINANCIAL CORE INVESTMENTS

Included in UGB's core investments portfolio are other non-financial companies classified as Associates. These investments are considered core due to the carrying value of UGB's interest in each company as of the end of 2009. As well as providing additional revenue sources, these companies add to the diversification of UGB's interests.

In line with UGB's strategy, its interests through these Associates range across the sectors of real estate development (through URC and URCJ) hospitality (through ALD), communications (through UCC), healthcare (through UHC), education (through KEF) and other proprietary investments (through UIC and KPEOF).

Real Estate Development

United Real Estate Company (URC), Kuwait

URC, one of the largest Kuwaiti real estate companies, was incorporated in Kuwait in 1973 and is listed on the Kuwait Stock Exchange. As at 31 December 2009, UGB directly owns 30 per cent. of the company. URC is in the business of real estate investment and property development, as well as the management of commercial hospitality and entertainment properties in and outside Kuwait. URC is the developer of the waterfront Marina Mall project in Kuwait (including a shopping mall), which is considered a landmark in Kuwait. The second phase, a seafront leisure and retail area in the Marina Mall project with a hotel, fine dining restaurants, and retail and entertainment centres has been completed and is operational. The company is progressing on its projects in Lebanon in a joint venture with the Hariri Group, to develop a luxury hotel, and shopping and residential complex in Beirut, Lebanon and Amman, Jordan.

For the year ended 31 December 2008, URC recorded a net profit of KD6.1 million (U.S.\$22.1 million), compared to KD10.1 million (U.S.\$37.1 million) earned in the year ended 31 December 2007. Total assets increased from KD243.4 million (U.S.\$891.6 million) as of 31 December 2007 to KD316.8 million (U.S.\$1.1 billion) as of 31 December 2008. Shareholders' equity stood at KD142.0 million (U.S.\$515.2 million) as at 31 December 2008, up from previous KD111.9 million (U.S.\$409.8 million) as at 31 December 2007.

UGB's carrying value of its stake in URC was U.S.\$181.1 million as at 31 December 2008. No impairment provision was taken since the market decline was considered to be temporary.

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

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	70.3	77.8
Net Income	37.1	22.1
Total Assets	891.6	1,149.0
Total Equity	458.7	563.5
ROE (%)	8.1	3.9
ROA (%)	4.2	1.9

September 2009 Update

URC reported a net profit of U.S.\$6.7 million for the nine months ended 30 September 2009 compared to U.S.\$27.9 million for the same period in 2008. The decline in profits reflected the impact of the depreciation of the Kuwaiti dinar against the U.S. dollar, which declined by more than 3 per cent. during 2009. URC reported a foreign exchange loss of KD3.5 million (U.S.\$12.2 million) for the nine months ended 30 September 2009 as against a profit of KD1.6 million (U.S.\$5.9 million) for the same period in 2008. The decline in profits was also due to a decrease in investment income which reduced from KD3.6 million (U.S.\$13.5 million) for the nine

months ended 30 September 2008 to KD1.3 million (U.S.\$4.5 million) for the same period in 2009. This decrease in investment income was market-driven. Total assets were U.S.\$1.1 billion with equity of U.S.\$550.1 million as at 30 September 2009.

As at 30 September 2009, UGB's carrying value of its stake in URC was U.S.\$174 million (compared to U.S.\$187.7 million as of 30 September 2008).

United Real Estate Company Jordan (URCJ)

URCJ was incorporated in May 2006 and increased its capital in 2007 to JOD35 million (U.S.\$49.4 million) through the issue of 34.75 million additional shares at a nominal value of JOD1 (U.S.\$1.41) each.

URCJ's activities include a strategic urban development project in the heart of Amman, Jordan with Abdali Investment and Development.

For the year ended 31 December 2008, URCJ recorded a net loss of JOD0.007 million (U.S.\$0.01 million), compared to a loss of JOD1.01 million (U.S.\$1.4 million) for the year ended 31 December 2007 since inception in August 2006. Total assets decreased from JOD78.7 million (U.S.\$110.9 million) as of 31 December 2007 to JOD74.6 million (U.S.\$105.2 million) as of 31 December 2008. Shareholders' equity stood at JOD34 million (U.S.\$47.9 million) as at 31 December 2008, compared to JOD34.1 million (U.S.\$48.1 million) as at 31 December 2007.

UGB subscribed an interest of 27 per cent. in the course of URCJ's capital increase in 2007 and its consolidated interest has been increased to 47 per cent. as of 31 December 2009. The carrying value of UGB's investment in URCJ stood at U.S.\$15.8 million as at 31 December 2008. URCJ's shares are not listed.

A summary of URCJ's financial performance appears below:

	<u>Period ended 2007</u>	<u>Year ended 2008</u>
	U.S.\$ million	
Total Revenue	1.3*	1.7
Net Income	(1.4)*	(0.01)
Total Assets	110.9	105.2
Total Equity	71.9	71.9
ROE (%)	1.98	0.01
ROA (%)	1.28	0.01

* Since inception August 2006

September 2009 Update

URCJ reported a net profit of U.S.\$226 thousand for the nine months ended 30 September 2009. Total assets were U.S.\$121.7 million with equity at U.S.\$47.8 million as of 30 September 2009.

As at 30 September 2009, the carrying value of UGB's investment in URCJ stood at U.S.\$15.6 million (compared to U.S.\$16.0 million as of 30 September 2008).

Hospitality

Al Dhiyafa Holding Company (ALD), Kuwait

ALD is a hospitality company established in Kuwait in November 2005. As at 31 December 2009, UGB owned a consolidated interest of 31 per cent. in ALD. ALD holds all shares in Gulf Egypt for Hotels & Tourism Company (GEHT) in Cairo. GEHT owns and operates the Sheraton Heliopolis Hotel in Oruba Street in Cairo, near the Cairo International Airport, a commercial plot adjacent to the hotel and one commercial plot in Sharm El Sheikh. ALD's investments further include a 55 per cent. stake in United Lebanese Real Estate Company (owner of a five star luxury hotel under development in Raouche, Beirut), all shares in United Bhamdoun Real Estate Company in Lebanon and the new five star Marina Hotel in Kuwait, which is part of the Marina World development.

For the year ended 31 December 2008, ALD recorded a net loss of KD1.2 million (U.S.\$4.4 million), compared to a profit of KD0.3 million (U.S.\$1.3 million) earned for the year ended 31 December 2007. Total assets

increased from KD94.2 million (U.S.\$344.9 million) as of 31 December 2007 to KD100 million (U.S.\$362.8 million) as of 31 December 2008. Shareholders' equity stood at KD53 million (U.S.\$193 million) as at 31 December 2008, up from KD53.7 million (U.S.\$196.8 million) as at 31 December 2007.

As at 30 September 2009, the carrying value of UGB's consolidated investment in ALD stood at U.S.\$53.4 million (compared to U.S.\$50.6 million as of 30 September 2008). ALD's shares are not listed.

A summary of ALD's financial performance appears below:

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	28.6	42.9
Net Income	1.3	(4.4)
Total Assets	344.9	362.8
Total Equity	229.3	223.2
ROE (%)	0.6	(1.9)
ROA (%)	0.4	(1.2)

Communications

United Cable Company (UCC), Kuwait

UCC offers solutions and services in Kuwait in the field of communications for the information sector. UCC operates under the brand "United Networks", distributes "Showtime" channels in Kuwait and continues to develop and launch services with interactive features supported by a high-speed network. Through its five subsidiaries, UCC also offers data transfer, integrated communications solutions, and fast internet services via satellite to a wide range of companies and government establishments.

For the year ended 31 December 2008, UCC recorded a net profit of KD0.5 million (U.S.\$1.9 million), compared to a loss of KD0.2 million (U.S.\$0.6 million) for the year ended 31 December 2007. Total assets decreased from KD36.9 million (U.S.\$135.3 million) as of 31 December 2007 to KD21.6 million (US\$78.4 million) as of 31 December 2008. Shareholders' equity stood at KD8.1 million (U.S.\$29.3 million) as at 31 December 2008, up from KD6.7 million (U.S.\$24.7 million) as at 31 December 2007.

As at 31 December 2009, UGB owned a consolidated interest of 28 per cent. in UCC. The carrying value of UGB's investment in UCC as at 30 September 2009 was U.S.\$12.8 million (compared to U.S.\$13.8 million as of 30 September 2008). UCC's shares are not listed.

A summary of UCC's financial performance appears below:

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	72.3	45.0
Net Income	(0.6)	1.9
Total Assets	135.3	78.4
Total Equity	31.3	31.3
ROE (%)	(1.9)	6.2
ROA (%)	(0.4)	2.5

Healthcare

United Health Care Company (UHC), Kuwait

UHC is a Kuwaiti closed joint stock company. It was incorporated in November 2005. During the second half of 2008, UHC increased its capital to KD100 million (U.S.\$343.6 million) by issuing in the form of a private placement 990 million shares at a price of 110 Kuwaiti fils (U.S.\$0.38) each. KAMCO, which owns a 20 per cent. interest in UHC as at 31 December 2009, acted as one of two lead managers.

UHC started to offer an array of specialised health care services in Kuwait, the GCC and the MENA region in 2008. It aims to expand the range of services it offers with the intention of thereby increasing its market share and profitability. For the fifteen month period ended 31 March 2009, UHC's first commercial year in operation,

the company recorded a consolidated net profit of KD1.9 million (U.S.\$6.5 million) and total assets of KD157.3 million (U.S.\$540.3 million) as at 31 March 2009. The shareholders' equity was KD98.9 million (U.S.\$339.7 million) as at 31 March 2009.

The carrying value of UGB's consolidated investment in UHC as at 30 September 2009 was U.S.\$71.1 million (compared to U.S.\$67.5 million as of 30 September 2008). UCC's shares are not listed.

A summary of UHC's financial performance appears below:

	<u>31 Dec 2007</u>	<u>31 March 2009¹</u>
	U.S.\$ million	
Total Revenue	2.1	54.3
Net Income	1.3	6.5
Total Assets	4.4	540.3
Total Equity	4.3	404.3
ROE (%)	30.2	1.7
ROA (%)	29.5	1.3

¹ Financial year end has been altered to March 2009. Consequently, the last accounting period amounted to 15 months.

Education

Kuwait Education Fund (KEF)

KEF is one of the largest private sector funds of its kind, it is designed to benefit Kuwait's education sector through investing in companies and financially feasible projects that add to the development of students, teachers and parents in the private and public education systems. As at 31 December 2009, UGB owns a consolidated interest of 31 per cent. in KEF. The fund started its activities in June 2007 with a variable capital of KD50 million (U.S.\$183.1 million). The fund is managed by KAMCO.

The carrying value of UGB's consolidated investment in KEF as at 30 September 2009 was U.S.\$5.9 million (as compared to U.S.\$7.1 million as of 30 September 2008). KEF's shares are not listed.

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	0.8	0.96
Net Income	0.5	(0.6)
Total Assets	22.1	22.3
Total Equity	21.9	21.5
ROE (%)	2.2	(2.9)
ROA (%)	2.3	(2.8)

Other Non-core Investments

United Industries Company (UIC), Kuwait

UIC is a holding company holding varied industrial and commercial interests and, as at 31 December 2009 was 43.5 per cent. owned by KAMCO.

UIC's core investments are in Qurain Petrochemical Industries Company, Saudia Dairy & Foodstuff Company, Hempel Paints Middle East, Amaken United Real Estate Company and Al Atoun Steel Industries Company.

During 2008, UIC's performance was adversely affected by the global financial crisis. For the year ended 31 December 2008, UIC recorded a loss of KD15.8 million (U.S.\$57.3 million), compared to a profit of KD27.5 million (U.S.\$100.7 million) earned for the year ended 31 December 2007. Total assets increased from KD187.2 million (U.S.\$685.6 million) as of 31 December 2007 to KD197.9 million (U.S.\$717.9 million) as of 31 December 2008. Shareholders' equity stood at KD71.6 million (U.S.\$259.7 million) as at 31 December 2008, down from KD89.7 million (U.S.\$328.5 million) as at 31 December 2007.

UIC's shares are listed on the Kuwait Stock Exchange. The carrying value of UGB's consolidated investment in UIC at the end of 2008 stood at U.S.\$114.3 million.

A summary of UIC's financial performance appears below:

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	59.4	11.2
Net Income	100.7	(57.3)
Total Assets	685.6	717.9
Total Equity	375.6	290.8
ROE (%)	26.8	(19.7)
ROA (%)	14.7	(8)

September 2009 Update

UIC reported a net loss of U.S.\$16.8 million for the nine months ended 30 September 2009. Total assets were U.S.\$458.5 million with equity at U.S.\$250.8 million as of 30 September 2009.

At 30 September 2009, the carrying value of UGB's consolidated investment in UIC stood at U.S.\$107 million (U.S.\$140.3 million as of 30 September 2008).

Kuwait Private Equity Opportunities Fund (KPEOF), Kuwait

As at 31 December 2009, UGB owned a consolidated interest of 45 per cent. in KPEOF. The fund which started its activities in February 2005 with an authorised capital of U.S.\$47 million is managed by KAMCO. As at 30 September 2009, the fund owned minority interests in 19 companies that are incorporated in Kuwait.

Due to adverse market conditions, KPEOF recorded a net loss of KD0.6 million (U.S.\$2.1 million) for the year ended 31 December 2008, compared to a profit of KD2.4 million (U.S.\$8.8 million) for the year ended 31 December 2007. Total assets decreased from KD12.8 million (U.S.\$46.9 million) as at 31 December 2007 to KD11.1 million (U.S.\$40.2 million) as at 31 December 2008. Its shareholders equity decreased from KD12.5 million (U.S.\$45.6 million) as at 31 December 2007 to KD10.7 million (U.S.\$39.0 million) as at 31 December 2008.

The carrying value of UGB's consolidated investment in KPEOF as at 31 December 2008 was U.S.\$17.7 million. KPEOF's shares are not listed.

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

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Total Revenue	11.4	0.2
Net Income	8.8	(2.1)
Total Assets	46.9	40.2
Total Equity	45.9	39.2
ROE (%)	19.2	(5.4)
ROA (%)	18.7	(5.3)

As at 30 September 2009, UGB's carrying value of its consolidated stake in KPEOF was U.S.\$16.8 million (compared to U.S.\$21.8 million as of 30 September 2008).

PROPRIETARY INVESTMENTS

UGB's proprietary investments are classified as investments carried at fair value through the statement of income and non-trading investments.

Investments carried at fair value through the statement of income were at U.S.\$151.9 million at 30 September 2009 compared to U.S.\$387.9 million at 30 September 2008. This portfolio comprised securities of U.S.\$22.3 million and U.S.\$129.6 million funds held for trading purposes. Securities held in the trading portfolio consisted mainly of equities listed on the Bahrain, Kuwait and Saudi Arabian stock exchanges.

Non-trading investments of U.S.\$804.6 million as at 30 September 2009 (30 September 2008: U.S.\$929.1 million) include the “available for sale” and the “held to maturity” investment portfolio. As at 30 September 2009, these investments comprised U.S.\$84.8 million of quoted securities (30 September 2008: U.S.\$149.7 million) and U.S.\$719.8 million (30 September 2008: U.S.\$779.4 million) of unquoted investments in equities, real estate managed funds, other managed funds and debt securities. Non-trading investments at 30 September 2009 also includes subordinated debt of KD96.25 million (U.S.\$335.7 million) advanced by UGB to Burgan Bank under the KIPCO restructuring (see “*Business Overview and Strategy—Recent Restructuring*”).

BOARD, MANAGEMENT AND EMPLOYEES

Management

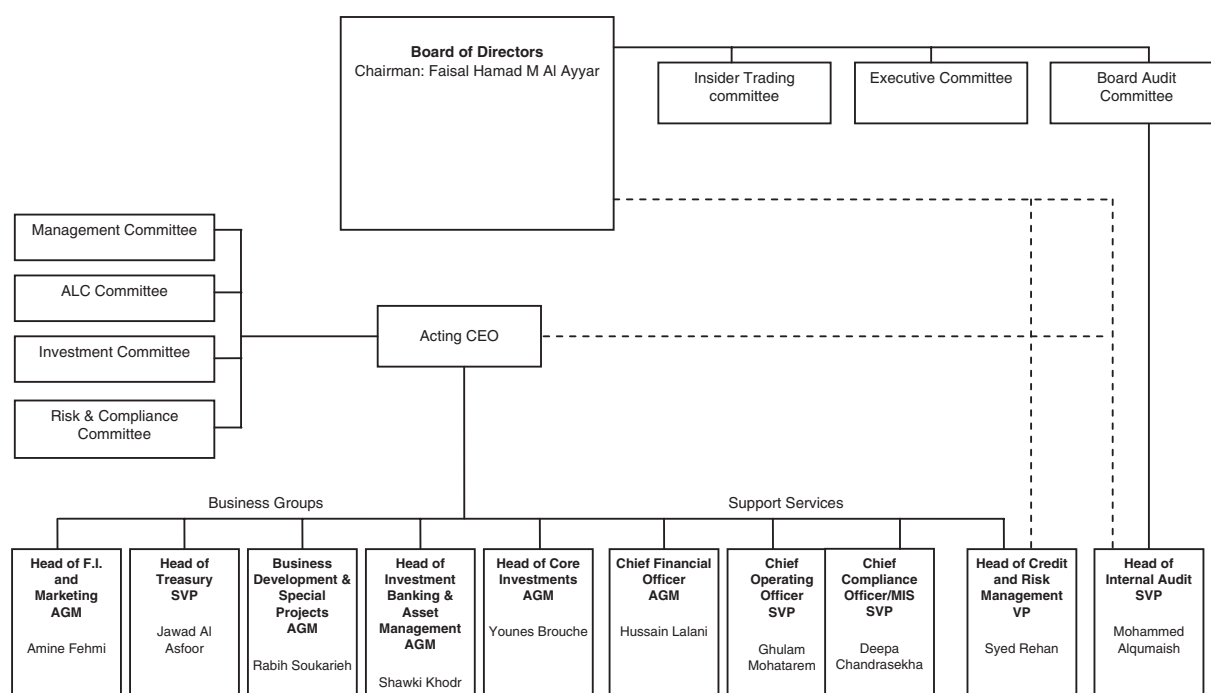
The board of directors of UGB (the **Board of Directors**) comprises six members (including the Chairman) one of whom is an independent non-executive director. Members of the Board of Directors are appointed for terms not exceeding three years and on the expiry of their term are subject to re-election at the annual general meeting of shareholders.

The Board of Directors is ultimately responsible for UGB’s affairs and performance. It has delegated powers to various committees, including the Executive Committee, the Board Audit Committee, the Insider Trading Committee and several Management Committees (such as the Management Committee, the Assets and Liabilities Committee, the Investment Committee and the Risk and Compliance Committee).

The Board of Directors currently holds scheduled meetings every quarter and unscheduled meetings may be called by the Chairman or any two directors. The quorum required for a meeting of the Board of Directors is three directors and resolutions are adopted by a simple majority vote of the director’s present in person or by proxy.

The members of the Board of Directors are based in Kuwait and the management of UGB is based in Bahrain.

The following chart sets out the organisational structure of the Board of Directors and UGB’s management committees which are described further under “*Board of Directors*” and “*Executive Management*” below (see also “*Recent Developments*”).



Board of Directors

The Board of Directors is mainly responsible for ensuring the continuity of UGB as a viable institution with adequate capital and well defined organisational and strategic policies to be implemented by the senior management. The Board of Directors ensures compliance with the laws and regulations in the jurisdictions in which UGB operates and, protects shareholders, depositors and creditors by frequently monitoring internal and external controls.

The Deputy Chairman Sheikh Hamad Sabah Al Ahmad Al Sabah is a member of the Kuwait ruling family. A brief profile of the members of the Board of Directors is set out below:

Faisal Hamad M Al Ayyar

Chairman

Member of the Executive Committee

Vice Chairman of Kuwait Projects Company (Holding), Kuwait, GIC, Kuwait, and JKB, Jordan. Chairman of United Broadcasting Company (ShowTime), International Trust Insurance Company, Beirut and Saudi Pearl Insurance Company, Bahrain. Board Member of United Gulf Investments Ltd., Grand Cayman; Saudia Dairy & Foodstuff Company (SADAFCO), Kingdom of Saudi Arabia; Gulf Egypt for Hotels & Tourism Company, Egypt, and Swiss Premium Food Company, Egypt. Trustee of American University of Kuwait and Member of the National Committee for Learning Difficulties, Kuwait. Winner 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.

Sheikh Hamad Sabah Al Ahmad Al Sabah

Deputy Chairman

Member of the Executive Committee

Member of the Board Audit Committee

Chairman of Kuwait Projects Company (Holding), Kuwait; Masharie Al Khair Establishment, Kuwait; SADAFCO, Kingdom of Saudi Arabia, Gulf Egypt for Hotels & Tourism Company, Egypt and United Building Company, Egypt. He received his education in Kuwait, Lebanon and the United States of America.

Masaud M J Hayat

Executive Director

Member of the Executive Committee

Member of the Insider Trading Committee

Chairman of KAMCO and SGB, Syria. Chairman and chairman of investment committee of TIB, Tunis. Deputy Chairman of AGB, Algeria. Board member of JKB, Jordan and BoB, Iraq. Board member and chairman of the executive committee of NAHC, Kuwait. Vice chairman of The Royal Capital Group, Abu Dhabi. Board member and treasurer of Union of Investment Companies, Kuwait. He has also recently been appointed as Managing Director of Burgan Bank. He has a BSc degree with a major in Economics from Kuwait University and a High Diploma in Banking Studies from the Institute of Banking Studies in Kuwait. Mr. Hayat resigned as Managing Director of UGB with effect from 31 December 2009 (see “Recent Developments”).

Samer Khanachet

Executive Director

Member of the Executive Committee

Member of the Board Audit Committee

Member of the Insider Trading Committee

Chief Operating Officer of Kuwait Projects Company (Holding). Trustee of the American University of Kuwait. Member of the Corporation Development Committee and the Educational Council of MIT. Member of the Advisory Board, Center for Middle Eastern Studies, Harvard. Trustee of the Forsyth Institute. Past President of the Arab Bankers Association of North America. Past member of the Board of the American-Arab Anti-Discrimination Committee. Former trustee of Buckingham Browne & Nicols, a private school in Cambridge, Massachusetts. Former director of Fuel Tech Inc; a NASDAQ listed company and former member of the advisory board of DFJ New England, a venture capital fund. Joined KIPCO in 1990 and has spent over 30 years in the investment and banking sectors. He holds BScs in Chemical Engineering and in Management Science from MIT, and an MBA from the Harvard Business School.

Sheikh Abdulla Nasser Sabah Al Ahmad Al Sabah

Executive Director

Chairman of URC; Board Member of Kuwait Projects Company (Holding), Kuwait; United Gulf Bank, Bahrain. He graduated from the Royal Military Academy, Sandhurst, United Kingdom in 1996. He also holds a BSc in Business Administration from the New York Institute of Technology, United States of America.

Mubarak Mohammed Al Maskati
Independent Non-executive Director
Member of the Board Audit Committee

Chairman of the Royal Aviation Company, Kuwait. He holds a BSc in Political Studies and Economics from the University of Pennsylvania, United States of America.

Board Committees

Executive Committee

While the role of the Board of Directors 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 Executive Committee meets between meetings of the Board of Directors to approve investment proposals over the Investment Committee's delegated thresholds. In the event that the Executive Committee is unable to meet, the Chairman has delegated authority to act on its behalf.

Insider Trading Committee

In accordance with the CBB rules, the Board of Directors have approved the formation of an Insider Trading Committee, to manage insiders' holdings and trading. The Committee consists of three members – namely two members of the Board of Directors, and the Acting Chief Executive Officer.

Board Audit Committee (BAC)

The BAC assists the Board in carrying out its responsibilities regarding internal controls, internal and external audit, compliance with laws, financial reporting practices, accounting policies, corporate governance and in the review of UGB's strategy and business plans. The BAC comprises of members with sufficient technical expertise to enable the BAC to perform its functions and includes a number of independent non-executive directors. The BAC must meet at least four times in a year.

Executive Management

The Board of Directors have delegated the executive management of UGB to the Acting Chief Executive Officer (who is not a director) and has appointed several Board Committees as discussed above to work with him and to form and define policies and approve procedures in all spectrum of the Bank's activities.

The Executive Management of UGB is headed by the Acting Chief Executive Officer who is broadly responsible for the day-to-day conduct of UGB's business in line with policies and procedures approved by the Board of Directors and complements and facilitates the Board of Directors towards meeting its responsibility towards all stakeholders. A brief profile of the members of the Executive Management is set out below:

Mohammad Haroon

Acting Chief Executive Officer and Board Secretary

Mr. Haroon joined UGB in November 1981. He has more than 42 years of experience in investment and commercial banking gained in Pakistan and Bahrain. He worked previously with National Bank of Pakistan (OBU), Bahrain as Head of Credit & Marketing, and in the same bank in Pakistan in senior management positions. Before that he worked with the Investment Corporation of Pakistan in management positions in Corporate Finance, Investment Advisory and Asset Management. Mr. Haroon holds a BSc (Hons) from Peshawar University in Pakistan, and a Diploma in Banking. He is also a Director of KAMCO, Kuwait; UGBS, Bahrain; and United Gulf Investments Ltd, Cayman Islands.

Rabih Soukarieh

Assistant General Manager, Head of Special Projects and Business Development

Mr. Soukarieh rejoined United Gulf Bank 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 in 2008. He previously held the position of Head of Corporate Finance at UGB between 2003 and 2004 where 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 the Wataniya Telecom Group into Tunisia, Iraq, Algeria, Saudi Arabia, Maldives, and Palestine, and co-managed 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 Wataniya Telecom Algérie, Algeria and MPE, Dubai. Mr. Soukariéh has an MBA in General Management (Hons) from Northeastern University, Boston, a BSc. in Finance (Hons) from Indiana University, Bloomington, and is a Chartered Financial Analyst.

Shawki Khodr

Assistant General Manager, Head of Investment Banking and Asset Management

Mr. Khodr joined the Bank in December 2004. He has more than 15 years of investment banking and corporate banking experience, and has held a number of positions in financial institutions in the Middle East, including at the National Bank of Kuwait as Senior Manager – Investment Banking. He holds the Chartered Financial Analyst (CFA) designation, and has a BSc in Business Administration with emphasis in “Banking and Finance” and an MBA from the Lebanese American University. Mr. Khodr is a Board member of UGBS, Bahrain; and United Gulf Financial Services Company North Africa, Tunisia.

Younes Brouche

Assistant General Manager, Head of Core Investments

Dr. Brouche joined the Bank in February 2006. He has more than 23 years of experience in banking and has held a number of key positions at major financial institutions in the Middle East and Europe including Head of International Department at CGB Citibank, France and Head of Main Branch at Samba, Saudi Arabia. Before joining UGB he was employed by CENEW (Investment Holding Company), France as a Managing Director in Financial Advisory and Project Management and Real Estate Investment and Management from 2003 to January 2006. He has a PhD in Business Law from Paris X University, and he has a Banking Diploma from the French University, Beirut. Dr. Brouche is a Board member and an Executive Committee member at SGB, and Vice Chairman and Executive Committee member at BoB.

Hussain A. Lalani

Assistant General Manager, Chief Financial Officer

Mr. Lalani joined the Bank in 2002. He has more than 12 years of experience in public accounting and financial control. He was previously employed by Ernst & Young, Bahrain and PriceWaterhouseCoopers, Pakistan. He is a Chartered Accountant (ACA), a Certified Information System Auditor (CISA) and holds a Bachelor of Commerce degree.

Amine P. Fehmi

Assistant General Manager, Head of Financial Institutions & Marketing

Mr. Fehmi joined the Bank in September 2004. He has more than 24 years of experience in international capital markets, asset management and Islamic banking, and has held a number of positions at major financial institutions in the Middle East, Europe and the US, including Head of Marketing for Société Générale Asset Management, Bahrain; Regional Director for Société Générale, Dubai; Vice President—Head of the Islamic Banking Division for Gulf International Bank, Bahrain; Vice President—Head of Financial Institutions for Arab American Bank, New York; Banking Officer for Gulf International Bank, Bahrain; and Economic/Commercial Specialist for the US Embassy in the UAE. Mr. Fehmi holds a BA degree (with distinction), from the American University of Beirut. He successfully completed post graduate programme 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 the Bank in October 2006. He has more than 27 years of banking experience in treasury and Islamic banking. He was previously employed by Indosuez (Calyon) as Chief Dealer, and BNP Paribas Islamic Banking, Liquidity Management Centre (LMC) as Head of Sales and Marketing. He holds a Diploma certificate in Accounting and Finance from the Association of Certified Chartered Accountants and a Diploma Certificate in Islamic Banking & Finance.

Ghulam Ahmed Mohatarem

Senior Vice President, Chief Operating Officer

Mr. Mohatarem joined the Bank in October 2003. As UGB’s Chief Operating Officer, he is responsible for Operations, IT, HR and Administration departments. He previously worked with Citigroup for over 25 years,

working at various Citibank branches and subsidiaries around the world. His last assignment with Citibank was as Deputy Head of Compliance for Citibank's Central and Eastern Europe/Middle East Division in London. Prior to that, he was Head of Operations and Compliance for Samba Capital Management in London. Mr. Mohatarem also worked with Citibank in Pakistan as Head Of Operations, and with Saudi American Bank, now renamed Samba Financial Group, in Jeddah as Regional Operations Head for Samba's Western Province. He holds a BSc and an MBA degree from Karachi University.

Mohammed Alqumaish

Senior Vice President, Head of Internal Audit & Quality Control

Mr. Alqumaish joined the Bank in September 2001. He has more than 12 years of experience in internal auditing, risk assessment, compliance and quality assurance and was previously employed by Ahli United Bank and Shamil Bank of Bahrain. He is a Certified Internal Auditor (CIA), and Certified Information Systems Auditor (CISA). Mr. Alqumaish is a Board member of TIB, Tunisia and Bahrain Kuwait Insurance Company, Bahrain. He is a member of the Board Audit Committees of KAMCO, Kuwait; TIB, Tunisia, AGB, Algeria, SGB, Syria; and BoB, Iraq.

Deepa Chandrasekhar

Senior Vice President, Chief Compliance Officer

Mrs. Chandrasekhar joined the Bank in 2008. She has over 21 years of experience in the areas of risk management, treasury, operations, internal audit and compliance. She started her career with Citibank as a foreign exchange dealer, and since then has worked extensively in the Middle East in Bahrain, Lebanon and the UAE. She was previously Head of Risk at RAKBANK in the UAE where she was actively involved in implementing Basel II with a special emphasis on Operational Risk. Mrs. Chandrasekhar holds an MBA degree from the University of Alberta, Canada. She is also a Certified Anti-Money Laundering Specialist (CAMS) and Certified Fraud Examiner (CFE), and has been awarded the Islamic Finance Qualification by the Securities and Investment Institute of the UK.

Syed Rehan Ashraf

Vice President, Head of Credit & Risk Management

Mr. Ashraf joined the Bank in 2005. He has 12 years of experience in the areas of credit, risk management, compliance and assurance services with Islamic and conventional banks and big four audit firms. He was previously employed by Shamil Bank of Bahrain, Deloitte & Touche, Bahrain, Faysal Bank, Pakistan and PriceWaterhouseCoopers, Pakistan. He is a Chartered Accountant (ACA) from the Institute of Chartered Accountants of Pakistan. Mr. Ashraf is also serving as a member of the Board Audit Committees of KAMCO, Kuwait; TIB, Tunisia; AGB, Algeria; and SGB, Syria.

The business address for each member of the Board of Directors and the Executive Management of UGB is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

Conflicts

There are no conflicts of interest between the duties of either the members of the Board of Directors or the Executive Management listed above to UGB and their private interests or other duties.

Management Committees

In order to discharge its monitoring effectively, several management committees have been formed which are mostly chaired by the Acting Chief Executive Officer. Main functions and responsibilities of these Committees are briefly discussed below.

Management Committee

The Management Committee acts as the steering committee of the Bank. It provides a forum for discussing all relevant issues pertaining to the Bank's day on day 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 the daily conduct of the Bank's business activities.

Investment Committee

The five-member Investment Committee is constituted by a majority motion passed in the Executive Committee. It comprises the Acting Chief Executive Officer, the Chief Financial Officer and the Heads of Investment

Banking and Core Investment. The Head of Credit and Risk Management is the Secretary of this Committee and a non-voting member. Under the terms of reference, the committee is responsible for approving or recommending approval to the Executive Committee, limits for individual exposures, investments and concentrations towards banks, countries, industries, risk rating classes or other special risk asset categories. In addition, the Committee also monitors the overall risk profile of the Bank and recommends provision levels to the Executive Committee.

Pursuant to its investment approval guidelines, the Investment Committee undertakes its function first 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 trends, competition and seeks market expert opinions. Next, it reviews the business model and product lines, seeking customer/client commentary and references, details of manufacturing/service processes, distribution, client mix and concentration and product development. The Investment Committee will then focus on company operations for such investment: ownership, relationships to parent or other industrial group, key managers and their backgrounds (with independent references), corporate governance practices, organisational structure, employee retention and labour issues, management information systems and internal controls.

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

For any investment, legal/regulatory issues, such as intellectual property, compliance with relevant statutes and regulations, constitutive documents and pending litigation will also be reviewed and considered. The Investment Committee reviews the use of investment proceeds, other parties involved in the proposed transaction and their roles and the proposed deal structure, together with expected exits, and the risks involved in the investment, (technology shift, market shift, regulatory changes, financial structure, etc) and possible alternative scenarios.

Asset and Liability Committee

The nine-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 and evaluates the Bank's balance sheet both from interest rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity and foreign exchange exposures and positions.

Risk & Compliance Committee

The primary function of the Risk and Compliance Committee is to assist the Board of Directors in fulfilling its responsibilities for 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 appraises senior management on the impact of newly introduced regulatory requirements. It is headed by the Acting Chief Executive Officer and includes the Heads of Risk Management, Compliance and four other senior management team members. The Head of Internal Audit attends the meetings in his capacity as an observer.

Employees

As at 31 December 2008, UGB, together with its consolidated Subsidiaries, employed 524 (31 December 2007: 394) people, of which 66 were employed directly by UGB (31 December 2007: 63).

RISK MANAGEMENT

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

- a sound knowledge base, 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; and
- policies and procedures must be clear, well communicated, understood and implemented in letter and spirit.

UGB's ability properly to identify, assess, manage, measure and report risk, is critical to its financial strength and profitability. A comprehensive set of risk management policies, processes and limits, are in place to set guidelines and parameters. These are continuously updated with the objective of incorporating best practice, changes in market factors and changes in the regulatory environment. Risk Management is staffed by a team of six individuals.

The Board of Directors is the ultimate authority for setting overall risk parameters, limits and tolerances, within which the Bank operates. The Board of Directors reviews the Bank's overall risk profile and significant risk exposures, as well as the policies, procedures and controls that have been incorporated. The Board of Directors has delegated day-to-day decision making to the Executive Committee (the EC) that comprises four directors. The EC meets between meetings of the Board of Directors to approve all proposals that exceed the threshold of the Investment Committee. The Investment Committee is responsible for approving, or recommending approval to the EC, limits for individual exposures, investments and concentrations towards banks, countries, industries, risk rating classes or other special risk asset categories.

As mandated by the CBB towards the implementation of the guidelines of all Basel II pillars, UGB has recently completed a detailed Risk Profile Review which entailed validation of risk management practices by external consultants, and submitted to CBB.

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 risk management philosophies of the Bank for the main types of risk are as follows:

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.
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.
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.

Types of Risk

In accordance with the CBB's guidelines and the Bank of International Settlements, UGB has adopted Basel II standards effective 1 January 2008. This has been done with the view of determining capital adequacy, as well as adopting sound practices for the management of risk. The major types of risk that UGB is primarily exposed to include credit, market, operational (including reputational), liquidity and funding, interest rate, concentration, and legal risks.

Credit Risk

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

Credit risk is mitigated through:

- establishing an appropriate credit risk environment;
- operating under a sound credit and investment approval process;
- maintaining appropriate credit administration, measurement and monitoring processes; and
- ensuring adequate controls over the credit risk management process.

Defined policies approved by the Board of Directors are in place. These provide documented guidelines for credit risk management. The Bank manages and controls credit risk by setting limits on the amount of the risk it is willing to accept for individual counterparties, related parties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

There is a two-tier committee structure to approve and review credit and investment risk. The Investment Committee (the **IC**) includes the Acting Chief Executive Officer, the Chief Financial Officer, the Head of Investment Banking and the Head of Core Investments, with the Head of Credit and Risk Management as a non-voting member and secretary. Exposures beyond IC 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 the case of exposures to counterparties is calculated daily as the sum of mark-to-market values. In certain cases the Bank has entered into 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 financial and commodity trading institutions in the overseas markets. With regard to the credit risk in off-balance sheet exposures, third-party guarantees are obtained whenever possible as a mitigation measure.

Continuous monitoring of the Bank's assets through various reports and reviews is key to early and timely identification of any actual or potential impairment. A monthly risk asset review report is produced by the Credit and Risk Management Department, in which all assets are assessed based on rating, industry, geographic exposure and 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 assets is prepared detailing performance and outlining recent developments. A quarterly review of UGB's loans is prepared for the purpose of identifying impairments and providing an update on the status of each facility. The risk asset review report is reviewed on a monthly basis by management and the Risk and Compliance Committee of the Bank.

UGB has adopted the Standardised Approach for calculating the charge for credit risk. The Standardised Approach entails the use of external credit ratings agencies to quantify the required capital for each credit risk.

Non-performing loans for the Group stood at U.S.\$21.08 million as at 30 September 2009 against which a provision of U.S.\$5.52 million is made.

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

All extensions of credit are made on an arm's-length basis. In particular, credit to related companies and individuals must be authorised on an exception basis and monitored with particular care and other appropriate steps must be taken to control or mitigate the risks of non-arm's length lending.

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 compliance with the rules and guidelines provided by the CBB. CBB guidelines introduced a risk measurement framework whereby all locally incorporated banks in Bahrain are required to measure and apply a capital charge in respect of their market risk in addition to a capital requirement for credit risk. The market risk subject to capital charge normally arises from a change in value due to market forces in the following exposures:

- interest rate instruments and securities in the trading book; and
- foreign exchange (and commodities) throughout the banking book.

The Bank has entered into forward contracts and interest rate swaps for hedging purposes and does not trade commodities or derivatives. Thus UGB's market risk capital adequacy requirements cover (i) the securities trading book, and (ii) the foreign exchange book.

The minimum capital charge for interest rate exposure is expressed as the sum of two separately calculated charges, one relating to the specific risk of each position and the other to the interest rate risk in the portfolio (a general market risk). For the general market risk capital charge, the Bank applies the maturity method with its respective rules.

In the equity position book, again two separately calculated charges are applied. One on the "specific risk" of holding a long or short position in an individual equity, and the other the "general market risk" of holding that position in the market as a whole. In the case of foreign exchange risk, the open currency position is taken both in the banking book and in the trading book.

The Bank seeks to manage the market risks it faces through diversification of exposures across dissimilar markets, industries and products. In order to manage market risk exposures in addition to the exercise of business judgment and management experience, the Bank utilises limit structures including those relating to positions, portfolios, maturities and maximum allowable losses.

For the measurement of its market risk, UGB currently adopts the Standardised Approach in accordance with the CBB guidelines. The capital charge under this approach is the arithmetical sum of the risk measures obtained from the measurement framework. Under the Standardised Approach the "building block" method is used in which the specific and the general market risks arising from foreign exchange and equity positions are calculated separately.

Operational Risk

The Bank has defined operational risk as the risk of losses, including damage to its reputation, arising through unforeseen events or failure in the Bank's internal processes due to inadequate internal controls and procedures, human error, deliberate acts and/or business interruptions. Internal control systems have been introduced and include the 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. Anti-money laundering procedures and controls are also in place to check for misuse of the Bank's services for such purposes. These anti-money laundering procedures are reviewed by the external auditors on a yearly basis and their report is sent to the CBB.

In accordance with Basel II guidelines, UGB has developed a comprehensive operational risk framework to analyse the Bank's activities and processes and to identify, measure and report (as appropriate) major residual risks. The Operational Risk framework is built around a detailed risk control self assessment (RCSA) exercise covering all department and business activities of the Bank conducted on a semi-annual basis. The exercise involves identifying risks emanating from the activities of each individual department of the Bank and assessing the probability of occurrence and the potential severity of the risks. Existing controls against each probable risk event are plotted and assessed in terms of their effectiveness; residual risks after taking into account the effectiveness of controls are established and action plans to reduce or mitigate the residual risks are set. The results of the RCSA are periodically reviewed by the Risk and Compliance Committee. Heat maps are produced to alert senior management to potential increased operational risk.

In calculating operational risk, the Bank uses the Basel II Basic Indicator Approach which calculates capital charge for operational risk at 15 per cent. of the average annual gross income over the preceding three years.

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, there is a close monitoring of UGB's assets and liabilities position. Besides other functions, an Asset and Liability Committee evaluates the balance sheet from a structural, liquidity and sensitivity point of view. The whole process is aimed at ensuring availability of sufficient liquidity to fund the Bank's ongoing business activities, effectively managing maturity mismatches between assets and liabilities, managing market sensitivities, and ensuring the Bank's ability to fund

its obligations as they fall due. Daily and weekly reports are generated which monitors deposits by counterparty to ensure maintenance of a diversified funding base in terms of individual depositor, their ratings, geographical concentration and maturities.

A diversified funding base has evolved around the deposits raised from the interbank market, Sharia-compliant market deposits received from customers and medium-term funds raised through 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. Moreover, during 2008 the Bank raised U.S.\$115 million medium-term money with a three-year maturity, which has further enhanced the liability profile. The Bank has a liquidity ratio of 29 per cent. as of 30 September 2009. The Bank strictly monitors this to ensure that the regulatory level of 25 per cent. is maintained at all times.

The Bank uses a combination of limits to ensure that liquidity risk is managed and controlled from both asset and liability perspective:

- **Maturity gap limits:** Assets and liabilities in the Bank's balance sheet are grouped in specific maturity time buckets. The maximum liquidity mismatch between assets and liabilities in each defined time bucket (e.g. one to seven days, eight days to one month, one to three months, three to six months, six to 12 months, one to three years, three to five years and more than five years) is controlled by liquidity gap limits in each time bucket. The Credit 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 for the liquidity risk management such as: current ratio, liquid assets/total assets, liquid assets/total liabilities, short-term liabilities/total liabilities etc.

UGB's medium-term debt maturity profile as at 30 September 2009 is as follows:

	Debt amount (U.S.\$)	Percentage of total
Within 1 year	151,379,149	22
1-2 years	116,627,459	17
2-3 years	415,000,000	61
Total	683,006,608	100

Interest Rate Risk in the Banking Book

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

UGB identifies the sources of interest rate risk and the interest rate risk sensitive products and activities. It measures and monitors the interest rate risk in the banking book. The Bank also periodically carries out stress testing 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 and floating rate notes, 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 risk. The actual levels of exposure are monitored against approved limits and regularly reviewed by senior management and the Board of Directors.

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

Legal Risk

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

TREASURY

The Treasury function at UGB manages liquidity for the Bank particularly funding and cash management.

UGB's funding strategy divides funding into different maturity profiles. Subject to market conditions, UGB will look to replace its existing short-term and interbank facilities and deposits with investments in equity and longer-term finance in order to support its operations. The table below sets out the current profile of UGB's funding and the targets.

	<u>Actual as at 30 September 2009 (%)</u>	<u>Balance Sheet as at 30 September 2009</u> (U.S.\$ million)	<u>Target (%)</u>
Equity	33	627.6	35
Medium Term	36	683.0	45–50
Short Term	31	606.7	15–20
Total	100	1,917.3	

As of 30 September 2009, UGB's funding is comprised as follows:

- (a) Short-term funding (primarily sourced from money markets, Murabaha facilities, bank lines and customer deposits);
- (b) Syndicated Loan Facility of U.S.\$200 million (maturing in July 2012) and a Club Loan of U.S.\$115 million (maturing in June 2011); and
- (c) Medium term facility, through the issue of Lower Tier II notes of U.S.\$100 million maturing on October 2016.

As of 30 September 2009, UGB has a number of advised interbank funding lines, of which the majority originate in the Middle East. The funding lines are available through, in aggregate, 69 banks.

UGB has had no shortfall in its liquidity requirements in the last ten years. Burgan Bank extended support to UGB to bolster liquidity resources during a period of market uncertainty for Bahraini investment banks in 2003. The support was in the form of interbank deposits and purchase of certificate of deposits issued by UGB.

INFORMATION TECHNOLOGY

UGB's information technology needs are managed by an IT department comprising five staff. UGB's banking system runs MIDAS software licensed from MISYS. It is UGB's intention to move towards a single IT platform for its banking operations and those of its Subsidiaries and Associates. KAMCO, being primarily engaged in asset management, uses a different IT system.

UGB has in place a disaster recovery plan. Regular back-ups of data are made and are stored off site. A Disaster Recovery alternate site is under preparation with the assistance of consultants.

LITIGATION

In the normal course of its business, UGB is from time to time named as defendant or co-defendant in various legal actions on different grounds in various jurisdictions. Although there can be no assurances, based on the information currently available as at the date of this Base Prospectus, UGB's management does not believe the outcome of any of the various existing legal actions will have a material adverse effect on UGB's financial position, results of operations or cash flows.

US Securities and Exchange Commission (SEC) initiated legal proceedings against UGB and others in relation to certain trading activities. These trades were undertaken by a Subsidiary under specific instructions of their client. UGB and the relevant Subsidiary provided custody and transaction execution services for those trades in their ordinary course of business. Neither UGB nor the relevant Subsidiary had or has any proprietary investment or any interest in these trades and thus has not benefited or gained from these trades other than through customary commissions. The time within which UGB and the relevant Subsidiary have to answer or otherwise respond to the SEC has not yet elapsed. No further proceedings in the matter have been scheduled. UGB does not believe that there is a basis for liability against it based upon the allegations of the complaint, and has co-operated extensively with the SEC in connection with their ongoing investigation of the matter.

INTERNAL AUDIT AND FINANCE

The strategic objective of UGB's Internal Audit & Quality Assurance Department is to provide the Board of Directors through the Bank's dedicated Board Audit Committee with an independent professional service to review, monitor, assess and report on the efficiency and effectiveness of the Bank's overall internal control structure and an assessment of the degree of compliance with the laid down policies and procedures and applicable regulatory requirements throughout scheduled reviews of various departments, both support service and/or business lines. Identification of gaps in the control environment, highlighting the risk that they pose for the Bank along with making appropriate recommendations for improvement are among the basic responsibilities of the Internal Audit & Quality Assurance Department.

The internal audit function reports directly to the Board Audit Committee and administratively to the Chief Executive Officer. The Internal Audit & Quality Assurance Department comprises three dedicated staff members.

The finance department is headed by the Chief Financial Officer and has seven staff. The finance department is responsible for the preparation of budgets and business plans as well as liaison with UGB's external auditors.

CAPITAL ADEQUACY

The following table sets out the consolidated capital adequacy position of UGB in accordance with the applicable regulations of the Central Bank of Bahrain:

	<u>31 Dec 2007</u>	<u>31 Dec 2008</u>
	U.S.\$ million	
Tier 1 Capital	572.5	459.4
Tier 2 Capital	294.0	232.1
Total regulatory capital (Tier 1 + Tier 2)	866.5	691.5
Credit risk weighted exposures	2,171.1	3,514.7
Market risk weighted exposure	454.9	147.5
Operational risk weighted exposure	[—]	366.1
Total risk weighted exposure	2,626.0	4,028.4
Capital Adequacy Ratio	33.0%	17.2% ¹

¹ This reflects the change from Basel I to Basel II capital adequacy requirements as stipulated by the Central Bank of Bahrain. The minimum Capital Adequacy Requirement for a bank of UGB's type is 12 per cent.

The solo capital adequacy ratio of UGB as at 31 December 2008 stood at 15.31 per cent.

September 2009 Update

As at 30 September 2009 the consolidated capital adequacy ratio stood at 15.18 per cent. and the solo capital adequacy ratio stood at 10.48 per cent.

CORPORATE GOVERNANCE, COMPLIANCE AND DISCLOSURE

Corporate Governance

The Board of Directors and senior management of UGB are committed to fostering a culture of good corporate governance. UGB has designed its corporate governance practices to ensure that it is focused on its responsibilities to its shareholders and stakeholders and on creating long term shareholder value.

This involves developing and implementing a sound framework of policies and processes that are encapsulated in the Compliance Charter and the Code of Ethics. These documents define, clarify, assert and enforce the role in governance and have been approved by the Board of Directors. UGB 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.

UGB's corporate governance manual sets out the remit of each board and management committee, including their respective roles, relationships, reporting lines and structures and is subject to ongoing review.

UGB actively discusses risk management and compliance with each of its Subsidiaries and related entities. UGB actively engages in regular dialogue with the CBB. It participates in consultation papers circulated by the CBB, monitors the introduction of new rules, and modifies its policies and practices to meet any additional requirements.

UGB shares a strong rapport with its local regulators in Bahrain: the CBB, the Ministry of Commerce, the Labour Market Regulatory Authority and the Bahrain Stock Exchange. There is proactive dialogue as and when warranted. In addition, the CBB calls for a prudential meeting with senior management once every two years. This forum involves the regulators getting an overview of the bank's performance, its business model, its strategic two-year plan, its outlook on overall market conditions and the risk management and capital adequacy framework. The CBB communicates with local banks on proposed changes to existing rules and regulations by circulating consultation papers on various issues. UGB's compliance function evaluates and analyses the impact of these changes, and provides feedback on a regular basis.

The various Subsidiaries of UGB have their own ongoing relationship with their local regulators. Responsibility for adherence to the relevant rules and regulations is delegated to them. However, if there are any important changes imposed by the CBB or local regulators that would have an impact on their existing processes/UGB's strategy, this is communicated by UGB to them and vice versa.

Compliance

In accordance with CBB guidelines, the Bank has a designated Chief Compliance Officer, who acts as the central co-coordinator for all matters relating to CBB regulatory reporting and other requirements. Under the terms of the compliance charter, the function covers the areas of corporate governance, code of conduct and conflicts of interest. The Bank maintains a compliance checklist against which it monitors adherence to internal and external regulations. Forthcoming deadlines, as well as feedback on ongoing consultations are highlighted at the quarterly Risk and Compliance Committee meetings. The Chief Compliance Officer is also responsible for ensuring that ad-hoc requests for information from the regulatory authority are met immediately and that corrective action is taken if warranted.

The Bank also has a designated Money Laundering Reporting Officer (**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. UGB has in place strict 'Know Your Customer' policies. New business relationships are established only after proper due diligence is conducted on the nature of business of the counterparties, and upon satisfactory evidence of their identity. The Bank's anti-money laundering measures are annually audited by independent external auditors.

As UGB is licensed as a 'wholesale' bank, it does not deal with retail customers or 'cash' transactions. None the less, the Bank 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 procedures, systems and controls for anti-money laundering and combating the financing of terrorism (AML/CFT) at least once each calendar year. The review covers UGB and its Subsidiaries in and outside Bahrain. It is also mandatory for the Bank's external auditors to provide a separate assurance to the Compliance Directorate of the CBB by 30 April each year.

UGB also uses software provided by Complanet to manage its ongoing compliance obligations and prevent breaches of CBB regulations. UGB subscribed to the Complanet service in 2009 with the objective of strengthening its anti-money laundering programme. Complanet provides access to the politically exposed persons (PEP) database, media alerts, the sanction lists of the Office of Foreign Assets Control (OFAC) and 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.

Disclosure

UGB is transparent and open with its regulators, shareholders, lenders and other stakeholders. In April 2008, its Board of Directors approved the Disclosure and Transparency Policy, which laid 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 information with regards to the affairs of the bank. Adequate consideration has been given to regulatory requirements that UGB is subject to. The policy was also introduced to enable the Board of Directors, senior management and outside readers to monitor the transparency adopted, and enhance the Bank's image through accurate and timely disclosure of information.

COMPETITION

UGB Group faces market competition in all countries where it operates. Such competition is likely to increase as more institutions enter these markets and local institutions become more sophisticated in their product offerings and the way they run their businesses.

Due to the broad range of services UGB provides through its group companies and the market sectors and jurisdictions in which it operates, UGB's competitors vary according to the context. The UGB group's relatively early start of operations in the jurisdictions in which it operates (such as Iraq, Syria and Algeria), and in the activities it undertakes, such as the, in some regions nascent, AMIB market and the provision of essential non-financial core activities such as healthcare across the MENA region and its presence in Algeria, Tunisia and Syria gives it a niche and, in its view, a competitive advantage.

TAXATION

General

The following is a general description of certain Bahraini and other tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

Bahrain

Bahrain currently has no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. Under existing Bahraini laws, payments under the Notes will not be subject to taxation in Bahrain, no withholding will be required on such payments to any holder of Notes and gains derived from the sale of Notes will not be subject to Bahraini income, corporation or capital gains tax. In the event of the imposition of any such withholding, the Issuer has undertaken to gross-up any payments subject to such withholding, as described under Condition 9.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 29 January 2010, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has offered and sold any Notes, and will offer and sell any Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as determined and certified as provided below, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer who has purchased Notes of a Tranche hereunder (or in the case of a sale of a Tranche of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Tranche purchased by or through it or, in the case of a syndicated issue, the relevant Lead Manager) shall determine and certify to the Principal Paying Agent the completion of the distribution of the Notes of such Tranche. On the basis of such notification or notifications, the Principal Paying Agent has agreed to notify such Dealer/Lead Manager of the end of the distribution compliance period with respect to such Tranche. Each Dealer has also agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S.”

Terms used in this sub-section have the meanings given to them by Regulation S.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

- (b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression **an offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No.25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan ((as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, and will not offer, Notes to (i) the public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain) or (ii) any person in Bahrain who is not an “accredited investor”. For this purpose, an “accredited investor” means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or

- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires Notes pursuant to the offering should note that the offer of Notes is a limited offer under Article 11 of the “Offer of Securities Regulations” as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the **KSA Regulations**).

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Notes to a Saudi Investor will comply with the KSA Regulations. The offer of Notes shall not therefore constitute a “public offer” pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Notes pursuant to a limited offer may not offer or sell those Notes to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Notes are offered or sold to a “Sophisticated Investor” (as defined in Article 10 of the KSA Regulations); (b) the price to be paid for the Notes in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer dated 17 November 2009.

Listing of Notes

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Programme in respect of Notes is expected to be granted on or before 2 February 2010.

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection during normal business hours from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (a) the memorandum and articles of association (with an English translation thereof) of the Issuer;
- (b) the consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2007 and 31 December 2008. The Issuer currently prepares audited consolidated accounts on an annual basis;
- (c) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements (if any) of the Issuer, in each case together with any audit or review reports prepared in connection therewith. The Issuer currently prepares consolidated interim accounts on a quarterly basis. The Issuer's consolidated financial statements are currently audited on an annual basis;
- (d) the Programme Agreement, the Agency Agreement, the Deed of Covenant, the form of the Global Note and the Notes in definitive form;
- (e) a copy of this Base Prospectus;
- (f) any future base prospectuses, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus; and
- (g) in the case of each issue of Notes admitted to trading on the London Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

Save as disclosed in this Base Prospectus under the headings “*Risk Factors – Sale of UGB’s stakes in commercial banking entities*” and, “*Description of the Issuer – Recent Restructuring*” there has been no significant change in the financial or trading position of the Group since 30 September 2009. Save as disclosed in this Base Prospectus under headings “*Risk Factors – Sale of UGB’s stakes in commercial banking entities*”, “*Description of the Issuer – Recent Restructuring*” and “*Description of the Issuer – Financial Summary of the Group*”, there has been no material adverse change in the financial position or prospects of the Group since 31 December 2008.

Litigation

Neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Group.

Auditors

The consolidated financial statements of the Issuer have been audited in accordance with International Standards on Auditing for each of the two years ended 31 December 2008 and 31 December 2007 by Ernst & Young, Bahrain as stated in their reports appearing elsewhere herein.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

FINANCIAL INFORMATION

Auditors' review report in respect of the consolidated interim financial statements for the nine months ended 30 September 2009	F-3
Consolidated interim financial statements for the nine months ended 30 September 2009	F-4
Auditors' report in respect of the consolidated financial statements for the year ended 31 December 2008	F-19
Consolidated financial statements for the year ended 31 December 2008	F-20
Auditors' report in respect of the consolidated financial statements for the year ended 31 December 2007	F-69
Consolidated financial statements for the year ended 31 December 2007	F-70

United Gulf Bank B.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 SEPTEMBER 2009 (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 statement of financial position of United Gulf Bank B.S.C. [the Bank] and its subsidiaries [the Group] as at 30 September 2009 and the 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 [IAS 34] *Interim Financial Reporting*. 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 and 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.



3 November 2009
Manama, Kingdom of Bahrain

United Gulf Bank B.S.C.

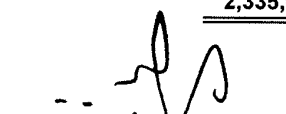
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2009 (Unaudited)

	<i>Unaudited</i> 30 September 2009	<i>Audited</i> 31 December 2008	<i>Unaudited</i> 30 September 2008
	US\$ 000	US\$ 000	US\$ 000
ASSETS			
Demand and call deposits with banks	38,608	27,418	172,721
Time deposits with banks	77,351	79,103	273,519
Investments carried at fair value through statement of income	151,893	245,164	387,913
Non-trading investments	804,620	878,008	929,084
Loans and advances	81,643	7,770	16,687
Investment properties	33,193	23,311	27,031
Other assets	23,534	73,828	64,918
Investments in associated companies	637,932	626,180	677,456
Property and equipment	1,761	1,879	1,934
Goodwill	46,573	46,573	43,033
Assets of disposal group classified as held for sale	4 438,564	859,889	943,878
TOTAL ASSETS	2,335,672	2,869,123	3,538,174
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	502,096	497,795	622,897
Deposits from customers	104,603	61,039	55,413
Loans and murabaha payable	514,042	588,070	810,661
Other liabilities	68,452	65,552	91,218
Bonds	68,964	71,630	74,012
Subordinated debt	100,000	100,000	100,000
Liabilities of disposal group classified as held for sale	4 349,892	669,786	749,716
TOTAL LIABILITIES	1,708,049	2,053,872	2,503,917
EQUITY			
Share capital	207,518	206,232	206,209
Share premium	9,305	8,171	8,149
Treasury shares	(12,725)	(12,725)	(341)
Statutory reserve	89,495	89,495	68,767
General reserve	69,980	69,980	49,252
Treasury shares reserve	14,308	14,308	13,551
Fair value reserve	(26,869)	2,375	43,362
Foreign currency translation reserve	52,225	72,102	64,691
Retained earnings	121,398	253,100	435,854
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	524,635	703,038	889,494
Non-controlling interests	102,988	112,213	144,763
TOTAL EQUITY	627,623	815,251	1,034,257
TOTAL LIABILITIES AND EQUITY	2,335,672	2,869,123	3,538,174



Faisal Hamad Al-Ayyar
Chairman



Masaud Johar Hayat
Managing Director



Mohammad Haroon
Acting Chief Executive Officer

The attached explanatory notes 1 to 11 form part of these interim condensed consolidated financial statements.

United Gulf Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the nine-month period ended 30 September 2009 (Unaudited)

	Note	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
		2009	<i>2008</i>	2009	<i>2008</i>
		US\$ 000	<i>US\$ 000</i>	US\$ 000	<i>US\$ 000</i>
Investment income		10,018	283,123	63,832	345,706
Interest income		4,425	6,343	14,120	12,772
		14,443	289,466	77,952	358,478
Fees and commissions		7,281	18,488	17,560	46,889
Foreign exchange revaluation (losses) gains, net		(127)	(237)	1,351	1,919
Share of results of associated companies	5	4,273	1,738	(5,127)	15,122
Total income		25,870	309,455	91,736	422,408
Interest expense		(12,167)	(17,591)	(38,716)	(50,194)
Operating income before expenses and provisions		13,703	291,864	53,020	372,214
Salaries and benefits		(5,343)	(9,534)	(17,985)	(31,933)
General and administrative expenses		(3,198)	(5,447)	(10,669)	(16,211)
Operating income before provisions		5,162	276,883	24,366	324,070
Impairment loss on investments		-	-	(15,712)	-
Write-back of provision for doubtful loans, guarantees and other assets, net		273	313	1,283	1,477
Profit for the period from continuing operations		5,435	277,196	9,937	325,547
(Loss) profit for the period from discontinued operations	4	(2,339)	11,419	9,929	50,334
PROFIT FOR THE PERIOD		3,096	288,615	19,866	375,881
(Loss) profit attributable to non-controlling interests		(194)	11,255	1,710	27,019
Profit attributable to shareholders of the parent		3,290	277,360	18,156	348,862
Basic earnings per share (US cents)		0.40	33.57	2.23	42.62
Diluted earnings per share (US cents)		0.40	33.20	2.22	42.15
Basic earnings per share for continuing operations (US cents)		0.61	32.34	1.14	37.10
Diluted earnings per share for continuing operations (US cents)		0.61	31.98	1.13	36.69

The attached explanatory notes 1 to 11 form part of these interim condensed consolidated financial statements.

United Gulf Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine-month period ended 30 September 2009 (Unaudited)

	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	2009	2008	2009	2008
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
PROFIT FOR THE PERIOD	3,096	288,615	19,866	375,881
Other comprehensive income (loss):				
Foreign currency translation reserve	764	(6,854)	(22,949)	18,650
Fair value reserve	(269)	(44,648)	(27,742)	(12,460)
Cash flow hedges	(948)	(956)	(491)	487
Other comprehensive (loss) income for the period	(453)	(52,458)	(51,182)	6,677
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	2,643	236,157	(31,316)	382,558
Attributable to:				
Shareholders of the parent	2,557	233,825	(30,965)	356,415
Non-controlling interests	86	2,332	(351)	26,143
	2,643	236,157	(31,316)	382,558

The attached explanatory notes 1 to 11 form part of these interim condensed consolidated financial statements.

United Gulf Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine-month period ended 30 September 2009 (Unaudited)

	Note	Nine-month period ended 30 September	
		2009 US\$ 000	2008 US\$ 000
OPERATING ACTIVITIES			
Profit for the period		19,866	375,881
Adjustments for:			
Depreciation		553	1,842
Gain on disposal of assets held for sale	8	(26,181)	(314,289)
Changes in fair value of investment property, net		(5,106)	-
Share of results of associated companies	5	5,127	(15,122)
Share of results of disposal group	4	(9,929)	(50,334)
Impairment loss on investments		15,712	-
Writeback of provision for doubtful loans, guarantees and other assets, net		(1,283)	(1,477)
Interest income		(14,120)	(12,772)
Interest expense		38,716	50,194
Dividend income		(16,342)	(21,333)
The effect of employee share option plan under IFRS 2		806	822
Other non-cash items		(2,666)	1,676
Operating profit before changes in operating assets and liabilities		5,153	15,088
Changes in operating assets and liabilities:			
Time deposits with maturities of more than ninety days		1,511	20,648
Investments carried at fair value through statement of income		93,271	(31,444)
Non-trading investments		40,473	(373,299)
Loans and advances		(72,590)	276,656
Other assets		48,337	9,381
Due to banks and other financial institutions		4,301	36,214
Deposits from customers		43,564	(382,699)
Other liabilities		13,091	6,400
Net assets of disposal group classified as held for sale		111,360	(61,826)
Interest received		16,076	12,930
Interest paid		(48,480)	(52,671)
Dividends received		16,342	21,333
Donations		(500)	(500)
Directors' remuneration		(420)	(420)
Net cash from (used in) operating activities		271,489	(504,209)
INVESTING ACTIVITIES			
Investments in associated companies, net		(2,245)	357,093
Acquisition of investment properties, net		(4,776)	(216)
Purchase of property and equipment, net		(435)	7,769
Goodwill		-	(31,624)
Net cash (used in) from investing activities		(7,456)	333,022
FINANCING ACTIVITIES			
Loans and murabaha payable		(74,028)	233,112
Shares issued		2,420	6,251
Dividends		(150,664)	(132,520)
Movement in non-controlling interests		(10,935)	(25,239)
Net cash (used in) from financing activities		(233,207)	81,604
Foreign currency translation adjustments		(19,877)	16,935
NET CHANGE IN CASH AND CASH EQUIVALENTS		10,949	(72,648)
Cash and cash equivalents at 1 January		104,957	511,711
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	6	115,906	439,063

The attached explanatory notes 1 to 11 form part of these interim condensed consolidated financial statements.

United Gulf Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2009 (Unaudited)

	Attributable to shareholders of the parent											
	Share capital US\$ 000	Share premium US\$ 000	Treasury shares US\$ 000	Statutory reserve US\$ 000	General reserve US\$ 000	Treasury share reserve US\$ 000	Fair value reserve US\$ 000	Foreign currency translation reserve US\$ 000	Retained earnings US\$ 000	Total US\$ 000	Non-controlling interests US\$ 000	Total equity US\$ 000
Balance at 1 January 2009	206,232	8,171	(12,725)	89,495	69,980	14,308	2,375	72,102	253,100	703,038	112,213	815,251
Shares issued	1,286	1,134	-	-	-	-	-	-	-	2,420	-	2,420
Dividends	-	-	-	-	-	-	-	-	(150,664)	(150,664)	-	(150,664)
Effect of employee share option plan under IFRS 2	-	-	-	-	-	-	-	-	-	-	(1,171)	(1,171)
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	806	806	-	806
Comprehensive (loss) income for the period	-	-	-	-	-	-	(29,244)	(19,877)	18,156	(30,965)	(351)	(7,703)
Balance at 30 September 2009	207,518	9,305	(12,725)	89,495	69,980	14,308	(26,869)	52,225	121,398	524,635	102,988	627,623
Balance at 1 January 2008	203,747	4,360	(341)	68,767	49,252	13,551	52,744	47,756	221,919	661,755	142,983	804,738
Shares issued	2,462	3,789	-	-	-	-	-	-	-	6,251	-	6,251
Dividends	-	-	-	-	-	-	-	-	(132,520)	(132,520)	-	(132,520)
Other movements in equity of subsidiaries and associated companies	-	-	-	-	-	-	-	-	(3,229)	(3,229)	-	(3,229)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(16,062)	(16,062)
Effect of employee share option plan under IFRS 2	-	-	-	-	-	-	-	-	822	822	-	822
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(8,301)	(8,301)
Comprehensive (loss) income for the period	-	-	-	-	-	-	(9,382)	16,935	348,862	356,415	26,143	382,558
Balance at 30 September 2008	206,209	8,149	(341)	68,767	49,252	13,551	43,362	64,691	435,854	889,494	144,763	1,034,257

The attached explanatory notes 1 to 11 form part of these interim condensed consolidated financial statements

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2009 (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 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 2009 KIPCO owned 95.15% of the Bank's outstanding shares (31 December 2008: 91.72%).

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 3 November 2009.

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, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2008. In addition, results for the nine-month period ended 30 September 2009 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2009.

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 2008.

However, during the period, the Group has adopted the following standards which are effective for the annual periods beginning on or after 1 January 2009.

IAS 1 'Presentation of Financial Statements' (Revised)

The revised standard requires changes in equity arising from transactions with shareholders of the parent in their capacity as owners (i.e. owner changes in equity) to be presented in the interim consolidated statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in the interim consolidated statement of comprehensive income. Components of comprehensive income are not permitted to be presented in the interim consolidated statement of changes in equity.

IFRS 8 'Operating Segments'

The new standard which replaced IAS 14 'Segment Reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. As such, this change has no impact on the Group's results for the nine-month period ended 30 September 2009 and 30 September 2008.

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2009 (Unaudited)

3 BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements incorporate the interim financial statements of the Bank and its principal subsidiaries.

4 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

At 31 December 2008, the Bank had classified its two subsidiaries Algeria Gulf Bank (AGB) and Tunis International Bank (TIB) and an associated company, Bank of Baghdad (BOB) as investments held for sale (disposal group) in accordance with International Financial Reporting Standard (IFRS 5).

In March 2009, Bank transferred the ownership of AGB and BOB to Burgan Bank a related party, for a total consideration of US\$ 150,000 thousand. The transfer of ownership of TIB is expected to be completed by the end of 2009 or 31 March 2010 subject to regulatory approvals.

The major classes of assets and liabilities of disposal group classified as held for sale as at 30 September 2009 are as follows.

	<i>30 September 2009 US\$ 000</i>	<i>31 December 2008 US\$ 000</i>
Subsidiaries		
ASSETS		
Demand and call deposits with banks	3,019	71,637
Time deposits with banks	262,738	257,565
Investments carried at fair value through statement of income	38	-
Non-trading investments	41,583	40,530
Loans and advances	99,488	387,952
Other assets	665	12,303
Investments in associated companies	27,799	7,106
Property and equipment	3,234	15,198
	<u>438,564</u>	<u>792,291</u>
Associated company		
Share of net assets	-	67,598
Total assets of disposal group classified as held for sale	<u><u>438,564</u></u>	<u><u>859,889</u></u>
LIABILITIES		
Due to banks and other financial institutions	117,658	151,332
Deposits from customers	228,753	495,938
Loans and murabaha payable	-	4,265
Other liabilities	3,481	18,251
Total liabilities of disposal group classified as held for sale	<u><u>349,892</u></u>	<u><u>669,786</u></u>

The net movement in fair value reserve and foreign currency translation reserve of disposal group reported in the interim consolidated statement of comprehensive income amounted to US\$ 2.2 million and US\$ nil respectively (30 September 2008: US\$ 3 million and US\$ 10.5 million).

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2009 (Unaudited)

4 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>	
	2009	2008	2009	2008
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Investment income	21	(1,216)	2,505	6,096
Interest income	1,566	10,807	6,245	28,153
Fees and commissions	656	5,323	2,037	15,766
Foreign exchange revaluation gains, net	720	1,097	2,514	2,865
Share of results of associated companies				
- Algeria Gulf Bank	586	-	6,682	-
- Bank of Baghdad	-	4,603	2,201	8,610
- Jordan Kuwait Bank	-	986	-	17,999
Total income	3,549	21,600	22,184	79,489
Interest expense	(328)	(2,490)	(2,254)	(8,854)
Operating income before expenses and provisions	3,221	19,110	19,930	70,635
Salaries and benefits	(831)	(1,757)	(2,399)	(5,129)
General and administrative expenses	(654)	(4,310)	(3,377)	(11,458)
Operating income before provisions	1,736	13,043	14,154	54,048
Provision for doubtful loans, guarantees and other assets, net	(4,075)	(1,624)	(4,225)	(3,714)
(Loss) profit for the period from discontinued operations	(2,339)	11,419	9,929	50,334
Earnings per share of discontinued operations				
Basic, from discontinued operations (US cents)	(0.21)	1.23	1.09	5.52
Diluted, from discontinued operations (US cents)	(0.21)	1.22	1.09	5.46

The net cash flows incurred by disposal group are as follows:

	<i>Nine-month period ended 30 September</i>	
	2009	2008
	US\$ 000	US\$ 000
Net cash from operating activities	6,196	12,845
Net cash from (used in) investing activities	6,091	(9,612)
Net cash used in financing activities	(4,999)	(4,636)
Net cash from (used in) disposal group	7,288	(1,403)

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2009 (Unaudited)

5 SHARE OF RESULTS OF ASSOCIATED COMPANIES

	<i>Nine-month period ended 30 September</i>	
	2009	2008
	US\$ 000	US\$ 000
Al Dhiyafa Holding Company	(591)	539
Al Sharq Financial Brokerage Company	1,138	-
Kuwait Education Fund	(338)	42
Kuwait Private Equity Fund	(293)	585
Manafae Investment Company	155	1,232
North Africa Holding Company	(1,236)	795
Royal Capital	731	-
Salem Al-Marzouk & Sabah Abi Hana	650	585
Syria Gulf Bank	(245)	(567)
United Real Estate Company	1,463	9,129
United Industries Company	(6,075)	2,633
United Medical Services Company	-	(638)
United Health Care Company	(504)	787
United Real Estate Company - Jordan	(39)	-
United Real Estate Company - Syria	(5)	-
United Universal Real Estate Company	62	-
	(5,127)	15,122

6 CASH AND CASH EQUIVALENTS

	<i>30 September</i>	
	2009	2008
	US\$ 000	US\$ 000
Demand and call deposits with banks	38,608	172,721
Time deposits with maturities of ninety days or less	77,298	266,342
	115,906	439,063

7 RECLASSIFICATION OF FINANCIAL ASSETS

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

The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the IAS 39 amendments. The amendments 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.

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2009 (Unaudited)

7 RECLASSIFICATION OF FINANCIAL ASSETS (continued)

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

	Unaudited 30 September 2009 US\$ 000	<i>Audited</i> <i>31 December</i> <i>2008</i> <i>US\$ 000</i>
Carrying value	19,082	19,082
Fair value	13,273	13,171

Additional fair value gains that would have been recognised in the interim consolidated statement of income for the nine month period ended 30 September 2009 had the financial assets not been reclassified amount to US\$ 102 thousand (30 September 2008: US\$ 3,381 thousand).

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2009 (Unaudited)

8 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 parties transacted at commercial terms and included in the interim condensed consolidated financial statements are as follows:

	Nine-month period ended 30 September 2009		Year ended 31 December 2008 US\$ 000	Nine-month period ended 30 September 2008 US\$ 000
	Major shareholder US\$ 000	Other related parties US\$ 000		
Gain (loss) on investment carried at fair value through statement of income, net	474	(1,656)	(14,681)	6,738
Loss on sale of non-trading investments	(17)	(93)	(859)	(170)
Gain on disposal of assets held for sale	-	26,181	276,918	243,918
Fees and commissions	1,778	7,204	32,870	11,045
Dividend income	-	616	3,066	2,891
Interest income	266	170	10,979	4,305
Interest expense	(700)	(57)	(16,658)	(10,367)
Others	-	166	1,783	283

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

	30 September 2009		31 December 2008	
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Demand and call deposits with banks	-	8,665	10,239	163,101
Time deposits with banks	-	50,000	18,134	55,253
Investments carried at fair value through statement of income	4,145	383	64,717	80,140
Investments carried at fair value through statement of income, in funds managed by related party	-	-	13,663	13,735
Non-trading investments	4,941	377,461	429,753	452,913
Loans and advances	-	11,349	6,116	4,241
Other assets	1,335	966	9,307	8,451
Due to banks and other financial institutions	-	(337,780)	(182,418)	(306,860)
Deposits from customers	(67,741)	(12,236)	(7,363)	(9,792)
Loans and murabaha payable	-	(137,514)	(146,869)	(185,536)
Other liabilities	(26)	(51)	(3,586)	(6,148)
Letters of credit	-	-	20,614	22,547
Guarantees	-	931	825	873
Funds managed or advised by the Group (including funds under management)	-	91,059	115,144	164,344

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2009 (Unaudited)

8 RELATED PARTY TRANSACTIONS (continued)

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

These related party transactions include amounts of disposal group subsidiaries.

9 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on their nature of operations and services and has two reportable operating segments as '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 on an arm's length basis.

Segmental information for the nine-month period ended **30 September 2009** was as follows:

	<i>Continuing operations</i>			<i>Discontinued operations</i>	
	<i>Investment banking US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>
Total income	91,981	(245)	91,736	22,184	113,920
Operating income before provisions	24,611	(245)	24,366	14,154	38,520
Impairment loss on investments	(15,712)	-	(15,712)	-	(15,712)
Write-back of (provision for) doubtful loans, guarantees and other assets - net	1,283	-	1,283	(4,225)	(2,942)
Profit for the period	10,182	(245)	9,937	9,929	19,866
Segment assets	1,881,360	15,748	1,897,108	438,564	2,335,672
Segment liabilities	1,358,157	-	1,358,157	349,892	1,708,049

Segmental information for the nine-month period ended 30 September 2008 was as follows:

	<i>Continuing operations</i>			<i>Discontinued operations</i>	
	<i>Investment banking US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>
Total income (loss)	422,751	(343)	422,408	79,489	501,897
Operating income (loss) before provisions	324,484	(414)	324,070	54,048	378,118
Write-back of (provision for) doubtful loans, guarantees and other assets - net	1,477	-	1,477	(3,714)	(2,237)
Profit (loss) for the period	325,961	(414)	325,547	50,334	375,881
Segment assets	2,575,963	18,333	2,594,296	943,878	3,538,174
Segment liabilities	1,754,114	87	1,754,201	749,716	2,503,917

United Gulf Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2009 (Unaudited)

10 COMMITMENTS, CONTINGENCIES AND OTHER OFF BALANCE SHEET ITEMS

Credit-related commitments and contingencies

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

The Group has the following credit and investment related commitments:

	<i>Unaudited</i> 30 September 2009 <i>US\$ 000</i>	<i>Audited</i> 31 December 2008 <i>US\$ 000</i>	<i>Unaudited</i> 30 September 2008 <i>US\$ 000</i>
Credit related:			
Letters of credit	23,074	25,319	22,901
Guarantees	21,290	209,476	191,491
	44,364	234,795	214,392
Investment related commitments	104,037	107,592	107,112
	148,401	342,387	321,504

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

The Group does not anticipate any material losses in respect of the above.

On July 23, 2009, a foreign regulatory authority initiated litigation against the Group based on the trading activity at one of the Group's subsidiaries. The Group is cooperating with the regulator and contesting the litigation.

Other off-balance sheet financial instruments

Following are the outstanding notional amounts at the balance sheet date:

	<i>Unaudited</i> 30 September 2009 <i>US\$ 000</i>	<i>Audited</i> 31 December 2008 <i>US\$ 000</i>	<i>Unaudited</i> 30 September 2008 <i>US\$ 000</i>
<i>Derivatives held for trading:</i>			
Forward foreign exchange contracts *	308,389	346,851	261,225
<i>Derivatives held for hedging:</i>			
Forward foreign exchange contracts	347,601	1,089,020	1,153,039
<i>Derivatives held for hedging:</i>			
Interest rate swap	300,000	325,000	225,000

* The Group has undertaken these forward foreign exchange transactions for hedging purposes but as these did not qualify for hedge accounting, these are classified as derivatives held for trading. These include forward foreign exchange contracts undertaken by the disposal group subsidiaries.

Funds under management

The Group holds assets amounting to US\$ 7.4 billion (31 December 2008: US\$ 9 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS

As at 30 September 2009 (Unaudited)

11 FAIR VALUES

Financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

Included under non-trading investments are unquoted available for sale investments amounting to US\$ 71,677 thousand (31 December 2008: US\$ 161,726 thousand) for which fair value cannot be reliably determined.

The fair values of other on-balance sheet financial instruments are not significantly different from their carrying values.

Independent Auditors' Report to the Shareholders

of United Gulf Bank B.S.C.

We have audited the accompanying consolidated financial statements of United Gulf Bank B.S.C. [the Bank] and its subsidiaries [together the Group], which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statements of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2008 that might have had a material adverse effect on the business of the Bank or on its financial position and that the Bank has complied with the terms of its banking license.



25 February 2009

Manama, Kingdom of Bahrain

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 US\$ 000	2007 US\$ 000
ASSETS			
Demand and call deposits with banks		27,418	79,613
Time deposits with banks		79,103	459,923
Investments carried at fair value through statement of income	4	245,164	356,469
Non-trading investments	5	878,008	565,167
Loans and advances	6	7,770	291,866
Investment properties	7	23,311	26,815
Other assets	8	73,828	74,459
Investments in associated companies	9	626,180	790,367
Property and equipment		1,879	11,545
Goodwill	10	46,573	11,409
Assets of disposal group classified as held for sale	11	859,889	-
TOTAL ASSETS		2,869,123	2,667,633
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		497,795	586,683
Deposits from customers		61,039	438,112
Loans and murabaha payable	12	588,070	577,549
Other liabilities	13	65,552	88,215
Bonds	14	71,630	72,336
Subordinated debt	15	100,000	100,000
Liabilities of disposal group classified as held for sale	11	669,786	-
TOTAL LIABILITIES		2,053,872	1,862,895
EQUITY			
Share capital	16	206,232	203,747
Share premium	16	8,171	4,360
Treasury shares	16	(12,725)	(341)
Statutory reserve	16	89,495	68,767
General reserve	16	69,980	49,252
Treasury share reserve	16	14,308	13,551
Fair value reserve	17	2,375	52,744
Foreign currency translation reserve	16	72,102	47,756
Retained earnings		253,100	221,919
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		703,038	661,755
MINORITY INTERESTS		112,213	142,983
TOTAL EQUITY		815,251	804,738
TOTAL LIABILITIES AND EQUITY		2,869,123	2,667,633



Faisal Hamad Al-Ayyar
Chairman



Masaud Johar Hayat
Managing Director



Mohammad Haroon
Acting Chief Executive Officer

The attached explanatory notes 1 to 31 form part of these consolidated financial statements

Consolidated Statement of Income

Year ended 31 December 2008

	Note	2008 US\$ 000	Restated 2007 US\$ 000
Investment income	18	280,982	194,112
Interest income	19	20,742	16,120
		301,724	210,232
Fees and commissions	20	56,251	68,484
Foreign exchange revaluation gains - net		1,252	3,383
Share of results of associated companies	21	(17,834)	75,977
Total income		341,393	358,076
Interest expense	22	(67,408)	(67,938)
Operating income before expenses and provisions		273,985	290,138
Salaries and benefits		(38,619)	(40,739)
General and administrative expenses		(17,902)	(20,688)
Operating income before provisions		217,464	228,711
Impairment loss on non-trading investments		(56,651)	(3,831)
Provision for doubtful loans, guarantees and other assets - net		(16)	(9,319)
Profit for the year from continuing operations		160,797	215,561
Profit for the year from discontinued operations	11	53,820	52,715
PROFIT FOR THE YEAR		214,617	268,276
Income attributable to minority interests		7,339	47,421
Income attributable to equity shareholders of the parent		207,278	220,855
Basic earnings per share (US cents)		25.31	27.29
Diluted earnings per share (US cents)		25.10	26.90
Basic earnings per share for continuing operations (US cents)		19.35	21.37
Diluted earnings per share for continuing operations (US cents)		19.19	21.06

The attached explanatory notes 1 to 31 form part of these consolidated financial statements

Consolidated Statement of Cash Flows

Year ended 31 December 2008

	Note	2008 US\$ 000	2007 US\$ 000
OPERATING ACTIVITIES			
Profit for the year		214,617	268,276
Adjustments for:			
Depreciation		2,367	1,911
Other non-cash items		374	3,435
Loss (gain) on investments carried at fair value through statement of income		92,738	(30,111)
Share of results of associated companies	21	17,834	(75,977)
Impairment loss on non-trading investments		56,651	3,831
Provision for doubtful loans, guarantees and other assets - net		16	12,306
Change in fair values of investment properties	7	1,352	(2,386)
Gain on sale of investments properties		(1,438)	-
(Gain) loss on sale of associated companies and subsidiaries	18	(346,077)	2,106
Interest income		(20,742)	(46,121)
Interest expense		67,408	81,545
Dividend income	18	(22,707)	(16,696)
Operating profit before changes in operating assets and liabilities		62,393	202,119
Changes in operating assets and liabilities:			
Time deposits with banks		26,261	(3,700)
Investments carried at fair value through statement of income		18,567	17,643
Non-trading investments		(410,409)	(54,041)
Loans and advances		284,081	4,108
Other assets		(13,888)	(24,894)
Due to banks and other financial institutions		(88,888)	(136,838)
Deposits from customers		(377,073)	46,460
Other liabilities		(18,575)	28,838
Net assets of disposal group classified as held for sale		(122,505)	-
Interest received		22,054	44,926
Interest paid		(70,575)	(73,385)
Dividends received	18	22,707	16,696
Donations		(500)	(500)
Directors' remuneration		(420)	(420)
Net cash (used in) from operating activities		(666,770)	67,012

Consolidated Statement of Cash Flows

Year ended 31 December 2008

STATEMENT OF CASH FLOWS YEAR ENDED 31 DECEMBER 2008 (Continued)

	Note	2008 US\$ 000	2007 US\$ 000
INVESTING ACTIVITIES			
Investments in associated companies - net		425,355	(137,647)
Acquisition of investment properties	7	-	(7,426)
Disposal of investment properties		3,590	646
Property and equipment - net		7,299	(6,485)
Goodwill - net		(36,244)	-
Net cash from (used in) investing activities		400,000	(150,912)
FINANCING ACTIVITIES			
Increase in loans and murabaha payable		10,522	211,150
Shares issued (including treasury shares)		(4,223)	7,974
Dividends paid		(132,520)	(69,758)
Bonds		-	(55,906)
Movement in minority interest		(38,109)	(14,223)
Net cash (used in) from financing activities		(164,330)	79,237
Foreign currency translation adjustments		24,346	34,132
NET CHANGE IN CASH AND CASH EQUIVALENTS		(406,754)	29,469
Cash and cash equivalents at 1 January		511,711	482,242
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25	104,957	511,711

The attached explanatory notes 1 to 31 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity

for the Year 31 December 2008

	Attributable to equity shareholders of the parent											
	Share capital US\$ 000	Share premium US\$ 000	Treasury shares US\$ 000	Statutory reserve US\$ 000	General reserve US\$ 000	Treasury share reserve US\$ 000	Fair value reserve US\$ 000	Foreign currency translation reserve US\$ 000	Retained earnings US\$ 000	Total US\$ 000	Minority interest US\$ 000	Total equity US\$ 000
Balance at 1 January 2008	203,747	4,360	(341)	68,767	49,252	13,551	52,744	47,756	221,919	661,755	142,983	804,738
Net movement in cumulative changes in fair values	-	-	-	-	-	-	(50,369)	-	-	(50,369)	(8,960)	(59,329)
Foreign currency translation adjustment	-	-	-	-	-	-	-	24,346	-	24,346	337	24,683
Other movements in equity of subsidiaries and associated companies	-	-	-	-	-	-	-	-	(3,229)	(3,229)	-	(3,229)
Net income recognised directly in equity	-	-	-	-	-	-	(50,369)	24,346	(3,229)	(29,252)	(8,623)	(37,875)
Profit for the year	-	-	-	-	-	-	-	-	207,278	207,278	7,339	214,617
Total recognised income and expense for the year	-	-	-	-	-	-	(50,369)	24,346	204,049	178,026	(1,284)	176,742
Transfers during the year	-	-	-	20,728	20,728	-	-	-	(41,456)	-	-	-
Net purchase of treasury shares	-	-	(12,384)	-	-	757	-	-	-	(11,627)	-	(11,627)
Other movements in minority interests	-	-	-	-	-	-	-	-	-	-	(13,906)	(13,906)
Shares issued	2,485	3,811	-	-	-	-	-	-	-	6,296	-	6,296
Effect of employee share option plan under IFRS 2	-	-	-	-	-	-	-	-	1,108	1,108	-	1,108
Dividends - 2007 (note 16)	-	-	-	-	-	-	-	-	(132,520)	(132,520)	-	(132,520)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(15,581)	(15,581)
Balance at 31 December 2008	206,232	8,171	(12,725)	89,495	69,980	14,308	2,375	72,102	253,100	703,038	112,213	815,251
Balance at 1 January 2007	200,526	1,136	(341)	46,681	27,166	13,551	71,234	13,624	115,584	489,161	103,690	592,851
Net movement in cumulative changes in fair values	-	-	-	-	-	-	(18,490)	-	-	(18,490)	6,095	(12,395)
Foreign currency translation adjustment	-	-	-	-	-	-	-	34,132	-	34,132	-	34,132
Other movements in equity of subsidiaries and associated companies	-	-	-	-	-	-	-	-	(2,119)	(2,119)	-	(2,119)
Net income recognised directly in equity	-	-	-	-	-	-	(18,490)	34,132	(2,119)	13,523	6,095	19,618
Profit for the year	-	-	-	-	-	-	-	-	220,855	220,855	47,421	268,276
Total recognised income and expense for the year	-	-	-	-	-	-	(18,490)	34,132	(2,119)	13,523	6,095	19,618
Transfers during the year	-	-	-	22,086	22,086	-	-	-	(44,172)	-	-	-
Other movements in minority interests	-	-	-	-	-	-	-	-	-	-	(55)	(55)
Shares issued	3,221	3,224	-	-	-	-	-	-	-	6,445	-	6,445
Effect of employee share option plan under IFRS 2	-	-	-	-	-	-	-	-	1,529	1,529	-	1,529
Dividends - 2006 (note 16)	-	-	-	-	-	-	-	-	(69,758)	(69,758)	-	(69,758)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(14,168)	(14,168)
Balance at 31 December 2007	203,747	4,360	(341)	68,767	49,252	13,551	52,744	47,756	221,919	661,755	142,983	804,738

The attached explanatory notes 1 to 31 form part of these consolidated financial statements

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1 INCORPORATION AND PRINCIPAL ACTIVITIES

United Gulf Bank B.S.C. [the Bank] is a joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550 and is 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 subsidiaries [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. (Closed) [KIPCO], a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. As at 31 December 2008 KIPCO owned 91.72% of the Bank's outstanding shares (2007: 88%).

These consolidated financial statements were authorised for issue by the Board of Directors on 25 February 2009.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and the relevant provisions of the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

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

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

Changes in accounting policy and disclosures

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

The following IASB Standards and IFRIC Interpretations have been issued and adopted by the Group during the year:

Amendments to IAS 39:	Financial Instruments (Recognition and Measurement) and IFRS 7: Financial Instruments (Disclosures)
IFRIC 11:	IFRS 2 - Group and Treasury Share Transactions

Amendments to IAS 39: Financial Instruments (Recognition and Measurement) and IFRS 7: Financial Instruments (Disclosures):

On 13 October 2008, IASB approved and published amendments to IAS 39 and IFRS 7 to allow reclassifications of certain financial instruments held for trading to either held to maturity, loans and receivables or available-for-sale categories with effect from 1 July 2008. As a result, the Group adopted the amendments and reclassified certain financial assets held for trading with a carrying value of US\$ 19.1 million from the 'fair value through statement of income category to the 'available-for-sale' with effect from 1 July 2008 as these investments are no longer held for the purpose of selling or repurchasing in the near term.

The application of IFRIC 11 does not have material impact on the consolidated financial statements of the Group.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policy and disclosures (continued)

Future changes in accounting policies

The following IASB Standards and IFRIC Interpretations have been issued as at 31 December 2008 but are effective for the financial years beginning on or after the dates mentioned below:

		Effective
IAS 1 Revised	Presentation of Financial Statements. This will result in amendments to the presentation of financial statements.	1 January 2009
Amendment to IAS 16	Property, plant and equipment	1 January 2009
IAS 23	Borrowing cost (Revised)	1 January 2009
IAS 27	Consolidated and separate financial statements (Revised)	1 July 2009
Amendment to IAS 28	Investment in associates	1 January 2009
Amendment to IAS 36	Impairment of assets	1 January 2009
Amendment to IAS 38	Intangible assets	1 January 2009
Amendment to IAS 39	Financial instruments: recognition and measurement	1 January 2009
Amendment to IAS 40	Investment property	1 January 2009
IFRS 2	Share based payments (Revised)	1 January 2009
IFRS 3	Business Combinations (Revised)	1 July 2009
IFRS 8	Operating Segments. This will result in additional disclosures relating to operating segments	1 January 2009
IFRS 16	Hedges of a Net Investment in a Foreign Operation	1 October 2009

The application of the above standards are not expected to have a material impact on the consolidated financial statements as and when they become effective. However, the application of IAS 1 (Revised) will result in amendments to the preparation of the financial statements.

Comparatives

The Group has re-presented the consolidated statement of income for the prior period presented relating to discontinued operations. This re-presentation did not affect previously reported profit or the shareholders' equity.

Principles of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries [the Group]. Subsidiaries are those entities controlled by the Bank, other than in a fiduciary capacity. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The reporting dates of the subsidiaries and the Group are identical and the subsidiaries' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Minority interests represent the portion of statement of income and net assets not owned, directly or indirectly, by the Bank and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is recognised directly in the consolidated statement of income in the year of acquisition.

The principal subsidiaries of the Group are as follows:

Name of the subsidiary	Country of incorporation	Effective ownership as at 31 December 2008	Effective ownership as at 31 December 2007	Year of Incorporation
Algeria Gulf Bank *	Algeria	83%	83%	2003
KIPCO Asset Management Company (KAMCO)	Kuwait	75%	72%	1998
Tunis International Bank (TIB) *	Tunisia	77%	77%	1982
United Gulf Bank Securities Company	Bahrain	93%	92%	1998
United Gulf Financial Services Company	Qatar	90%	89%	2006
Hatoon Real Estate Company	Kuwait	98%	-	2008
Syria Gulf Investment Company	Syria	99%	-	2007
United Gulf Financial Services Company-North Africa	Tunisia	83%	-	2008

Held through KAMCO

Al-Nuzoul Holding Company K.S.C. (Closed) (Formerly Al-Ahlia Arabian Markets Company K.S.C. (Closed))	Kuwait	60%	60%	2005
Al-Janah Holding Company K.S.C. (Closed) (Formerly First Arabian Markets Company K.S.C. (Closed))	Kuwait	60%	60%	2005
KAMCO Real Estate Company S.P.C.	Bahrain	100%	100%	2005
Advantage Management Consulting Company K.S.C. (Closed)	Kuwait	58%	58%	2005
Al Zad Real Estate W.L.L.	Kuwait	100%	100%	2007
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	100%	2007
First North Africa Real Estate Co. W.L.L.	Kuwait	100%	100%	2007
Al Raya Real Estate Projects Company W.L.L.	Kuwait	100%	100%	2007
Orange Real Estate Co. W.L.L.	Kuwait	100%	-	2005

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Associated companies

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

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

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

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets of the acquired subsidiary or associate at the date of the acquisition. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the balance sheet. Any excess, at the date of acquisition, of the Group's share in the fair value of the net identifiable assets acquired over the cost of the acquisition is recognised as negative goodwill. Negative goodwill arising on an acquisition is recognised immediately in the consolidated statement of income.

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

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

Non-current assets held for sale and discontinued operations

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

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

Investments

All investments are initially recognised at cost being the fair value of consideration given including, in the case of investments not at fair value through statement of income, incremental acquisition charges associated with the investment. After initial recognition, investments other than investments in associated companies are remeasured using the following policies:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Investments carried at fair value through statement of income

Investments carried at fair value through statement of income comprise securities held for trading and investments in funds. Investments are classified as carried at fair value through the statement of income if they are acquired principally for the purpose of selling in the short term or if so designated by management. All subsequent gains and losses arising from remeasurement at fair value are recognised in the consolidated statement of income.

Investments held for trading

All investments held for trading are recorded in the consolidated balance sheet at fair value and are listed on active markets, therefore, the fair value of these securities is determined by reference to their quoted bid prices. Realised and unrealised gains and losses on investments held for trading are included in the consolidated statement of income. Dividends are included in dividend income. Interest income is recorded in "gain on investments held for trading".

Investments designated at fair value through statement of income

The Group classifies its investments in managed portfolios as investments designated at fair value through statement of income. These investments are recorded in the consolidated balance sheet at fair value. The fair values of the funds that are listed on active markets are determined by reference to their quoted bid prices. The fair values of unlisted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor or the market value of a comparable company.

Non-trading investments

These are classified as follows:

- Held to maturity
- Available-for-sale

Held to maturity

The Group classifies investments as held to maturity if the requirements of IAS 39 are met and in particular the Group has the intention and ability to hold these investments to maturity.

After initial recognition investments held to maturity are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Investments available-for-sale

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

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

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

Investment properties

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

All investment properties are initially recorded at cost, being the fair value of the consideration given including acquisition charges associated with the property.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments Properties (continued)

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income.

Loans and advances

Debt instruments which have fixed or determinable payments but are not quoted in an active market are classified as loans and advances. Loans and advances are carried at amortised cost, less any amount written off, and net of any provision for impairment.

Derivatives

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

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

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

Derivatives are stated at fair values and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

Fair value hedge

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

Cash flow hedge

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

Hedge of net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of income. On the disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the consolidated statement of income.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of income for the year.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

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

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

Loans, murabaha payable, bonds and subordinated debt

These are stated at amortised cost. Transaction costs are amortised over the period of the debt using the effective yield method.

Treasury shares and treasury share reserve

Treasury shares are stated at cost. Any gain or loss arising on reissuance of treasury shares is taken directly to treasury share reserve in the statement of changes in equity.

Cash and cash equivalents

Cash and cash equivalents are cash, demand and call deposits and time deposits with original maturities up to ninety days.

Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group in the consolidated balance sheet.

Dividends on ordinary shares

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

Taxes

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

Derecognition

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

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

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

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

Offsetting

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and settlement date accounting

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

Employees benefits

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

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

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

Provisions

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

Impairment of financial assets

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

Impairment is determined as follows:

- (a) for assets carried at fair value, impairment loss is the difference between carrying value and fair value.
- (b) for assets carried at amortised cost, impairment is based on estimated future cash flows discounted at the original effective interest rate.
- (c) for assets carried at cost, impairment is present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For non equity financial assets the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. For available-for-sale equity investments no allowance account is used and subsequent increases are reflected as cumulative changes in fair value through equity.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Fair values

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)

For financial instruments where there is no active market fair value is normally based on one of the following:

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

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

Foreign currencies

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

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

Translation of foreign currency transactions

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

Translation of financial statements of foreign operations

Assets (including goodwill) and liabilities of foreign operations are translated at the exchange rates prevailing at the balance sheet date. Income and expense items are translated at average exchange rates for the relevant period. All resulting exchange differences are taken directly to a foreign currency translation reserve in the consolidated statement of changes in equity.

On disposal of a foreign operation, the deferred cumulative amount in equity related to that particular foreign operations is recognised in the consolidated statement of income.

Recognition of income and expenses

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

Commission income and other fees is recognised when earned. Rental income on investment properties is recognised on a straight line basis. Dividend income is recognised when the Group's right to receive dividend is established.

Recognition of interest income is suspended when loans become impaired. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value.

Contingent liabilities and contingent assets

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Segment information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Classification of investments

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

Classification of investments as fair value through statement of income depends on how management monitors the performance of these investments.

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

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

Estimation uncertainty

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

Impairment of investments

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

Impairment of goodwill

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

Impairment losses on loans and advances

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

Collective impairment provisions on loans and advances

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

Collective impairment provisions on loans and advances (continued)

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

Valuation of unquoted equity investments

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

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; and
- other valuation models.

3 FINANCIAL ASSETS AND LIABILITIES

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

	Held for trading US\$ 000	Designated at fairvalue US\$ 000	Available-for-sale US\$ 000	Amortised cost / Loans and receivable US\$ 000	Total US\$ 000
31 December 2008					
Demand and call deposits with banks	-	-	-	27,418	27,418
Time deposits with banks	-	-	-	79,103	79,103
Investments carried at fair value through statement of income	48,466	196,698	-	-	245,164
Non-trading investments	-	-	878,008	-	878,008
Loans and advances	-	-	-	7,770	7,770
Other assets	-	-	-	69,312	69,312
Total financial assets	48,466	196,698	878,008	183,603	1,306,775
Due to banks and other financial institutions	-	-	-	497,795	497,795
Deposits from customers	-	-	-	61,039	61,039
Loans and murabaha payable	-	-	-	588,070	588,070
Other liabilities	-	-	-	65,552	65,552
Bonds	-	-	-	71,630	71,630
Subordinated debt	-	-	-	100,000	100,000
Total financial liabilities	-	-	-	1,384,086	1,384,086

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

31 December 2007	Held for trading US\$ 000	Designated at fair value US\$ 000	Available - for - sale US\$ 000	Amortised cost / Loans and receivable US\$ 000	Total US\$ 000
Demand and call deposits with banks	-	-	-	79,613	79,613
Time deposits with banks	-	-	-	459,923	459,923
Investments carried at fair value through statement of income	89,624	266,845	-	-	356,469
Non-trading investments	-	-	565,167	-	565,167
Loans and advances	-	-	-	291,866	291,866
Other assets	-	-	-	64,349	64,349
Total financial assets	89,624	266,845	565,167	895,751	1,817,387
Due to banks and other financial institutions	-	-	-	586,683	586,683
Deposits from customers	-	-	-	438,112	438,112
Loans and murabaha payable	-	-	-	577,549	577,549
Other liabilities	-	-	-	88,215	88,215
Bonds	-	-	-	72,336	72,336
Subordinated debt	-	-	-	100,000	100,000
Total financial liabilities	-	-	-	1,862,895	1,862,895

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

4 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2008 US\$ 000	2007 US\$ 000
Investments held for trading		
Quoted equities	48,466	89,624
Investments designated at fair value through statement of income		
Managed funds	196,698	266,845
	245,164	356,469

Managed funds primarily represent private equity funds invested through unlisted companies and limited partnership interests. The fund managers have created these legal structures for tax efficiency and to meet other investors' requirements. The underlying investments in these funds are primarily in quoted debt and equity instruments in Kuwait and international markets. Please refer to note 29.3 for geographical distribution.

5 NON-TRADING INVESTMENTS

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

	2008 US\$ 000	2007 US\$ 000
Quoted		
Equities	88,317	130,353
Debt securities	-	17,497
	88,317	147,850
Unquoted		
Equities	198,693	179,994
Real estate managed funds	20,203	10,677
Other managed funds	210,816	225,181
Debt securities	359,979	1,465
	789,691	417,317
	878,008	565,167

In October 2008, the IASB issued "Reclassification of Financial Assets: Amendments to IAS 39 - Recognition and Measurement and IFRS 7: Disclosures" which permits the reclassification of certain financial assets under such rare circumstances. The deterioration in the financial markets in the third quarter of 2008 has been viewed globally as a rare circumstances to have occurred in the financial sector. Accordingly, the Group has performed the following reclassification.

Financial assets classified into the "Available-for-sale" category from "Investments held for trading" category

	2008 US\$ 000
Carrying value as at date of reclassification	19,082
Carrying value and fair value as at 31 December 2008	13,171
Net losses recognised in the consolidated statement of income upto the date of reclassification	(1,071)
Fair value losses recognised in the cumulative changes in available-for-sale reserve subsequent to reclassification	(3,757)

Investments in other managed funds primarily represents investment in fund of fund structure. The underlying investments of these funds are mainly private equity securities.

Included under unquoted equity investments are unquoted available for sale equity investments amounting to US\$ 161,726 thousand (2007: US\$ 164,993 thousand), which are carried at cost due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments. Managed funds are carried at their net asset value provided by the fund managers.

6 LOANS AND ADVANCES

	2008 US\$ 000	2007 US\$ 000
Commercial loans	10,499	268,892
Overdrafts	-	33,281
Staff loans	2,466	2,973
	12,965	305,146
Less: Provision for doubtful loans	(5,195)	(13,280)
	7,770	291,866

The composition of the loans and advances portfolio is as follows:

	Middle East/ Africa US\$ 000	Europe US\$ 000	Total 2008 US\$ 000	Total 2007 US\$ 000
Corporate businesses and others	12,965	-	12,965	230,947
Banks and financial institutions	-	-	-	74,199
	12,965	-	12,965	305,146
Less: Provision for doubtful loans	(5,195)	-	(5,195)	(13,280)
31 December	7,770	-	7,770	291,866
31 December 2007	287,866	4,000	-	291,866

The movements in provision for doubtful loans are as follows:

	2008 US\$ 000	2007 US\$ 000
At 1 January	13,280	6,486
Relating to assets held for sale	(8,940)	-
Charge for the year	1,000	3,877
Write backs	(891)	(636)
Other adjustments	746	3,553
At 31 December	5,195	13,280

	2008 US\$ 000	2007 US\$ 000
Individual impairment	4,169	8,080
Collective impairment	1,026	5,200
	5,195	13,280
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	4,169	8,135

The majority of the provision for doubtful loans relates to the commercial loans.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

7 INVESTMENT PROPERTIES

	2008 US\$ 000	2007 US\$ 000
Cost	23,210	25,362
Accumulated fair value adjustments	101	1,453
	23,311	26,815

The movements are as follows:

At 1 January	26,815	17,649
Additions	-	7,426
Disposals	(2,152)	(646)
Change in fair values (note 18)	(1,352)	2,386
At 31 December	23,311	26,815

Investment properties at 31 December consist of the following:

Buildings	15,638	16,109
Land	7,673	10,706
	23,311	26,815

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

8 OTHER ASSETS

	2008 US\$ 000	2007 US\$ 000
Accounts receivable	42,864	14,521
Due from customers	19,730	30,903
Prepayments	4,516	10,110
Interest receivable	152	3,451
Others	6,566	15,474
	73,828	74,459

Due from customers is stated net of provision of US\$ 9,682 thousand (2007: US\$ 9,644 thousand). The charge for the year amounted to US\$ 132 thousand (2007: US\$ 9,424 thousand).

9 INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies comprise the following:

	Activity	Carrying value 2008 US\$ 000	Ownership % 2008	Carrying value 2007 US\$ 000	Ownership % 2007
a)	Al-Dhiyfa Holding Company K.S.C. (closed)	49,130	27	50,110	27
b)	Arab Leadership Academy Company K.S.C.	-	20	550	25
c)	Al Sharq Financial Brokerage Company	21,274	20	-	-
d)	Bank of Baghdad *	-	-	58,714	45
e)	Dhow Development Company	-	20	399	20
f)	Jordan Kuwait Bank	-	-	156,788	44
g)	Kuwait Education Fund	6,722	31	6,808	31
h)	Kuwait Private Equity Opportunities Fund	17,748	45	20,910	45
i)	Millennium Finance Corporation	21,703	33	-	-
j)	Manafae Investment Company	25,558	26	24,857	27
k)	North Africa Holding Company	41,455	23	44,842	23
l)	Royal Capital Company P.S.C.	35,634	44	35,941	44
m)	Salem Al-Marzouk & Sabah Abi Hana	1,607	29	1,224	29
n)	Syria Gulf Bank	15,767	28	15,233	28
o)	Syrian Real Estate Development Company	108	40	-	-
p)	United Cable Company	13,364	28	13,494	28
q)	United Medical Services Company K.S.C. (Closed)	-	-	28,391	30
r)	United Real Estate Company Jordan	15,843	27	15,570	27
s)	United Industries Company	114,242	45	143,985	45
t)	United Health Care Company	64,178	20	-	-
u)	United Real Estate Company	181,122	30	171,820	35
v)	United Universal Real Estate Company	725	20	731	20
		626,180		790,367	

* Classified as held for sale as at 31 December 2008. Please refer note 11 for further details.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

9 INVESTMENTS IN ASSOCIATED COMPANIES (continued)

Summarised financial information in respect of the Group's associated companies is set out below:

	2008 US\$ 000	2007 US\$ 000
Total assets	3,433,478	5,685,867
Total liabilities	(1,508,992)	(3,705,682)
Net assets	1,924,486	1,980,185
Revenue	160,045	455,788
(Loss) profit for the year	(26,517)	306,426

- a) Al-Dhiyfa Holding Company K.S.C. (Closed) is a closed company incorporated in State of Kuwait during 2005. The Bank directly owns 16.6% (2007: 16.6%) of the associate and indirectly owns additional 10.17% (2007: 10.2%) interest through its subsidiaries KAMCO and TIB.
- c) Al Sharq Financial Brokerage Company is a closed company incorporated in State of Kuwait during 2005. The Bank directly owns 15% (2007: nil) of the associate and indirectly owns additional 4.6% (2007: nil) interest through its subsidiary KAMCO.
- d) Bank of Baghdad (BoB) is a bank incorporated in Iraq in 1992 and listed on the Iraq Stock Exchange. The Bank directly own 46% (2007: 45%) of the associate. During the year, the BoB has been classified as held for sale. Please refer to note 11 for discontinued operation.
- f) Jordan Kuwait Bank (JKB) is a bank incorporated in the Kingdom of Jordan in 1976 and listed on the Amman Stock Exchange. In July 2008, Bank has transferred the JKB ownership to Burgan Bank for US\$ 450 million on which Group has realised a gain of US\$ 284 million (before expenses).
- g) Kuwait Education Fund is a fund with a variable capital of KD 50 million. The Bank directly owns 14.6% (2007: 14.6%) of the associate and indirectly owns additional 16.6% (2007: 16.6%) interest through its subsidiary KAMCO.
- h) The Bank directly owns 15% (2007: 15%) of Kuwait Private Equity Opportunities Fund, a closed company incorporated in Kuwait in 2004, and indirectly owns an additional 30% (2007: 30%) through its subsidiary KAMCO.
- i) Millennium Finance Corporation (MFC) is a closed company incorporated in United Arab Emirates during 2008. The Bank acquired 33% equity stake of MFC in 2008.
- j) The Bank directly owns 1% (2007: 1%) of Manafae Investment Company, a closed company incorporated in State of Kuwait in 2005 and indirectly owns an additional 25.19% (2007: 25.5%) through its subsidiaries KAMCO and TIB.
- k) The Bank directly owns 15.3% (2007: 15.3%) of North Africa Holding Company, a closed company incorporated in State of Kuwait in 2006, and indirectly owns an additional 8% (2007: 8%) through its subsidiary KAMCO.
- l) The Bank directly owns 18% (2007: 18%) of Royal Capital, a closed company incorporated in United Arab Emirates in 2007, and indirectly owns an additional 26% (2007: 25%) through its subsidiaries KAMCO and TIB.
- n) Syria Gulf Bank (SGB) is a commercial bank incorporated in the Syrian Arab Republic. SGB commenced commercial operations in 2007. The Bank directly own 27.5% (2007: 27.5%) of SGB.
- o) Syrian Real Estate Development is a closed company incorporated in Syria in 2008. The Bank directly owns 20% (2007: nil) of the associate and indirectly owns additional 20% (2007: nil) interest through its subsidiary KAMCO.
- p) The Bank directly owns 20.15% (2007: 20.14%) of United Cable Company (UCC), a closed company incorporated in State of Kuwait in 2001, and indirectly owns an additional 8% (2007: 8%) through its subsidiary KAMCO.

9 INVESTMENTS IN ASSOCIATED COMPANIES (continued)

- q) During the year, the Bank's subsidiary KAMCO sold its entire equity interest of 30.35% in United Medical Services Company K.S.C. (Closed), an associate, with a carrying value of US\$ 27.9 million (KD 7.47 million) to United Health Care Company (UHC) for a total consideration of US\$ 70.4 million (KD 18.8 million) resulting in total gain of US\$ 34 million (KD 9 million) net of elimination. Profit resulting from the downstream transactions between the Group and UHC is eliminated to the extent of the KAMCO's interest in UHC.
- r) The Bank directly owns 17% (2007: 17%) of United Real Estate Company Jordan, a closed company incorporated in Jordan in 2006, and indirectly owns an additional 10% (2007: 10%) through its subsidiary KAMCO.
- s) The Bank owns 45% (2007: 45%) of United Industries Company (UIC), which is a company incorporated in the State of Kuwait in 1979 and listed on the Kuwait Stock Exchange, through its subsidiary KAMCO.
- t) During the year, the Bank's subsidiary (KAMCO) invested US\$ 75.3 million (KD 20.1 million) for a 20.1% equity interest in United Healthcare Company (UHC).
- u) United Real Estate Company (URC), is a company listed on the Kuwait Stock Exchange. The Bank directly owns 30% (2007: 35%) of URC.

b), e), m) & v) These companies are owned through Bank's subsidiary KAMCO and are incorporated in State of Kuwait.

10 GOODWILL

	2008 US\$ 000	2007 US\$ 000
Cost at 1 January	11,409	10,775
Additions	38,074	-
Disposal	(1,830)	-
Exchange adjustment	(1,080)	634
	46,573	11,409

The goodwill is related to the KAMCO (a subsidiary of the UGB) which is considered as the cash generating unit for the Bank. KAMCO is listed on the Kuwait Stock Exchange and the recoverable amount of the KAMCO is determined with reference to its listed price per share as at the balance sheet date.

11 DISCONTINUED OPERATIONS

In July 2008, Bank has transferred the Jordan Kuwait Bank (JKB) ownership to Burgan Bank for US\$ 450 million on which Bank has realised a gain of US\$ 284 million (before expenses).

The transfer of ownership of following commercial banks is expected to be completed in 2009 for US\$ 275 million subject to regulatory approvals:

- Algeria Gulf Bank (83% equity stake).
- Bank of Baghdad (46% equity stake).
- Tunis International Bank (77% equity stake).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

11 DISCONTINUED OPERATIONS (continued)

The Bank has received the approvals from the Central Bank of Bahrain (CBB) and the Central Bank of Kuwait (CBK) to transfer the commercial banks to Burgan Bank. Subsequent to the receipt of the approvals from the CBB and CBK, the Bank has classified the investments in commercial banks as investments held for sale (discontinued operation) in accordance with International Financial Reporting Standard 5 (IFRS 5).

As per the Master Transfer Agreement, Burgan Bank was required to issue 200 million new shares to the Bank within the validity period of Central Bank of Kuwait's (CBK) approval issued to UGB for purchase of Burgan Bank shares. CBK approval for purchase of Burgan Bank share expired on 31 December 2008, therefore UGB is not liable to subscribe for the shares.

The major classes of assets and liabilities of commercial banks (disposal group) classified as held for sale as at 31 December 2008 are as follows:

	31 December 2008		
	Tunis International Bank US\$ 000	Algeria Gulf Bank US\$ 000	Total US\$ 000
ASSETS			
Demand and call deposits with banks	8,768	62,869	71,637
Time deposits with banks	257,565	-	257,565
Non-trading investments	40,305	225	40,530
Loans and advances	129,292	258,660	387,952
Other assets	1,514	10,789	12,303
Investments in associated companies	7,106	-	7,106
Property and equipment	3,245	11,953	15,198
	447,795	344,496	792,291
Investment in associated company - Bank of Baghdad			67,598
Total assets of disposal group classified as held for sale			859,889
LIABILITIES			
Due to banks and other financial institutions	133,961	17,371	151,332
Deposits from customers	241,791	254,147	495,938
Loans and murabaha payable	-	4,265	4,265
Other liabilities	7,666	10,585	18,251
Total liabilities of disposal group classified as held for sale	383,418	286,368	669,786

The fair value reserve and the foreign currency translation reserve of the Group reported in the consolidated statement of changes in equity includes the fair value reserve and foreign currency translation reserve of the disposal group amounting to US\$ (0.9) million and US\$ 7.3 million respectively.

11 DISCONTINUED OPERATIONS (continued)

The results of commercial banks (disposal group) are as follows:

	2008 US\$ 000	2007 US\$ 000
Investment income	2,973	5,983
Interest income	34,619	30,001
Fees and commissions	23,619	12,900
Foreign exchange revaluation gains, net	5,051	3,331
Share of results of discontinued associates:		
Bank of Baghdad	6,306	3,081
Jordan Kuwait Bank	17,995	27,875
Total income	90,563	83,171
Interest expense	(11,616)	(13,607)
Operating income before expenses and provisions	78,947	69,564
Salaries and benefits	(6,763)	(5,570)
General and administrative expenses	(14,949)	(8,292)
Operating income before provisions	57,235	55,702
Provision for doubtful loans, guarantees and other assets - net	(3,415)	(2,987)
Profit for the year from discontinued operations	53,820	52,715
The net cash flows incurred by disposal group subsidiaries are as follows:		
Net cash from operating activities	39,305	100,042
Net cash used in investing activities	(9,307)	(8,025)
Net cash used in financing activities	(11,671)	(4,782)
Net cash from disposal group	18,327	87,235
Earnings per share from discontinued operations		
Basic (US cents)	5.96	5.92
Diluted (US cents)	5.91	5.84

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12 LOANS AND MURABAHA PAYABLE

Total loans and murabaha payables outstanding at **31 December 2008**

	Currency	Parent US\$ 000	Subsidiary US\$ 000	Total US\$ 000
Floating rate loans				
Loan due on 17 June 2009	KWD	-	27,202	27,202
Loan due on 20 June 2009	US\$	41,500	-	41,500
Loan due on 20 September 2009	KWD	-	29,015	29,015
Loan due on 30 November 2009	US\$	12,870	-	12,870
Loan due on 28 August 2010	US\$	-	50,051	50,051
Loan due on 2 April 2011	KWD	-	45,336	45,336
Loan due on 30 June 2011	US\$	115,000	-	115,000
Loan due on 2 July 2012	US\$	200,000	-	200,000
Fixed rate loans				
Loan due on 08 January 2009	KWD	-	9,067	9,067
Loan due on 15 January 2009	KWD	-	10,880	10,880
Loan due on 18 January 2009	KWD	-	12,694	12,694
Loan due on 3 February 2009	KWD	-	5,440	5,440
Loan due on 30 April 2009	KWD	-	3,627	3,627
Loan due on 30 April 2009	KWD	-	16,321	16,321
Loan due on 20 September 2009	KWD	-	2,720	2,720
Loan due on 20 September 2009	KWD	-	2,720	2,720
Loan due on 20 September 2009	KWD	-	3,627	3,627
		369,370	218,700	588,070
Total loans and murabaha payables outstanding at 31 December 2007		395,000	182,549	577,549

13 OTHER LIABILITIES

	2008 US\$ 000	2007 US\$ 000
Accrued expenses	21,563	16,190
Staff related payables	18,373	17,538
Interest payable	12,651	17,612
Due to customers and other payables	11,022	35,199
Dividends payable	1,939	1,112
Others	4	564
	65,552	88,215

14 BONDS

	2008 US\$ 000	2007 US\$ 000
Bonds - issued by a subsidiary	71,630	72,336

In June 2004, the Bank's subsidiary KAMCO issued floating rate bonds of KD 10 million and fixed rate bonds of KD 10 million each for a term of 5 years. In 2007, KD 250,000 of the issued bonds were redeemed prior to their maturity date. The remaining bonds will mature at their principal amount on 21 June 2009.

15 SUBORDINATED DEBT

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

16 EQUITY

Share capital

The authorised share capital as of 31 December 2008 comprised 1 billion shares of US\$ 0.25 each (2007: 1 billion shares of US\$ 0.25 each).

The issued and fully paid up share capital as of 31 December 2008 comprised 824,930,155 shares of US\$ 0.25 each (2007: 814,989,567 shares of US\$ 0.25 each). The increase is due to exercise of share options by employees under the employee share option plan.

Share premium

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

Treasury shares and treasury shares reserve

During the year, the Bank purchased 14,180,953 shares (2007: nil) and sold 4,000,000 shares (2007: nil). At the end of the year the Bank held 11,056,255 shares (2007: 875,302 shares). These treasury shares do not carry any voting rights and are not entitled to dividends. The net gain or loss on reissuance of treasury shares is taken to treasury share reserve in the consolidated statement of changes in equity and is not available for distribution. The value of treasury shares based on the last bid price as of 31 December 2008 is US\$ 16.9 million (2007: US\$ 1.4 million).

Statutory reserve

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

General reserve

The Directors have approved a transfer of 10% of the profit of the Group for the year to general reserve in accordance with the Bank's Articles of Association. The transfer is subject to shareholder's approval at the forthcoming Annual General Meeting. The general reserve is distributable subject to the approval of the CBB.

Foreign currency translation reserve

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

Dividend paid and proposed

During the year, the Bank paid final dividend of 2007 for US cents 16.25 per issued share (2006: US cents 8.71) for a total amount of US\$ 132,520 thousand (2006: US\$ 69,758 thousand).

The Board of Directors have recommended to the Annual General Meeting (AGM) to be held on 31 March 2009 a dividend of US cents 18.50 (2007: US cents 16.25) per issued share of US cents 25 each. Dividend would be paid to the shareholders who hold the shares on the date of the AGM.

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17 FAIR VALUE RESERVE

	2008 US\$ 000	2007 US\$ 000
Non-trading investments		
Balance at 1 January	52,405	68,937
Transferred to consolidated statement of income on sale related to continuing operations (note 18)	(23,975)	(93,635)
Transferred to consolidated statement of income on sale related to the disposal group	(1,707)	(6,162)
Transferred to consolidated statement of income on impairment	56,651	-
Net movement in unrealised fair value during the year	(68,130)	83,265
Balance at 31 December	15,244	52,405
Cash flow hedge		
Balance at 1 January	339	2,297
Net movement in unrealised fair value during the year	(13,208)	(1,958)
Balance at 31 December	(12,869)	339
	2,375	52,744

18 INVESTMENT INCOME

	2008 US\$ 000	2007 US\$ 000
(Loss) gain on investments designated at fair value through statement of income	(90,618)	61,181
(Loss) gain on investments held for trading	(24,531)	19,534
Dividend income	22,707	16,696
Gain (loss) on sale of associates and subsidiaries.	346,077	(2,106)
Gain on sale of investments available-for-sale (note 17)	23,975	93,635
Rental income from investment properties	1,186	1,101
Gain on sale of investments properties	1,438	-
Changes in fair value of investments properties (note 7)	(1,352)	2,386
Others	2,100	1,685
	280,982	194,112

Gain on sale of available-for-sale investments includes a gain of US\$ 7.8 million (2007: US\$ 7.3 million) on the sale of securities having a carrying value of US\$ 64.9 million (2007: US\$ 12.1 million) that were carried at cost.

19 INTEREST INCOME

	2008 US\$ 000	2007 US\$ 000
Time deposits with banks	6,373	9,436
Loans and advances	5,206	2,517
Non-trading investments	4,787	3,061
Demand and call deposits with banks	4,376	1,106
	20,742	16,120

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22 INTEREST EXPENSE

	2008 US\$ 000	2007 US\$ 000
Loans and murabaha payable	35,262	32,970
Due to banks and other financial institutions	19,398	16,715
Subordinated debt	5,026	6,738
Deposits from customers	4,126	4,060
Bonds	3,596	7,455
	67,408	67,938

23 EARNINGS PER SHARE

Basic

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

	2008 US\$ 000	2007 US\$ 000
Profit attributable to equity shareholders of the parent	207,278	220,855
Weighted average number of shares outstanding during the year (in thousands)	818,823	809,192
Basic earnings per share (US cents)	25.31	27.29

Diluted

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

	2008 US\$ 000	2007 US\$ 000
Profit attributable to equity shareholders of the parent	207,278	220,855
Weighted average number of shares outstanding during the year (in thousands)	818,823	809,192
Effect of dilutive potential ordinary shares:		
Share options (in thousands)	6,935	10,804
	825,758	819,996
Diluted earnings per share (US cents)	25.10	26.90

24 FUNDS UNDER MANAGEMENT

The Group holds assets amounting to US\$ 9,015 million (2007: US\$ 8,510 million) under its management on behalf of third parties. As these are third party funds managed in a fiduciary capacity, without risk or recourse to the Group, these are not included in the assets on the consolidated balance sheet.

20 FEES AND COMMISSIONS

	2008 US\$ 000	2007 US\$ 000
Management fees from fiduciary activities	40,510	47,044
Advisory fees	14,352	19,377
Credit related fees and commission	1,389	1,145
Other fees received	-	918
	56,251	68,484

21 SHARE OF RESULTS OF ASSOCIATED COMPANIES

	2008 US\$ 000	2007 US\$ 000
Al-Dhiyfa Holding Company K.S.C. (Closed)	540	-
Arab Leadership Academy Company K.S.C.	(545)	-
Dhow Development Company	(546)	-
Kuwait Education Fund	67	71
Kuwait Private Equity Opportunities Fund	(1,197)	3,874
Millennium Finance Corporation	(4,297)	-
Manafae Investment Company	1,571	4,512
North Africa Holding Company	(3,298)	1,322
Royal Capital Company P.S.C.	497	-
Salem Al-Marzouk & Sabah Abi Hana	656	519
Syria Gulf Bank	(795)	(482)
United Cable Company	-	(3,831)
United Medical Services Company K.S.C. (Closed)	(618)	13,986
United Real Estate Company Jordan	14	-
United Industries Company	(17,904)	45,502
United Health Care Company	273	-
United Real Estate Company	7,745	12,743
United Universal Real Estate Company	3	-
United Warehousing and Cooling	-	(2,239)
	(17,834)	75,977

25 CASH AND CASH EQUIVALENTS

	2008 US\$ 000	2007 US\$ 000
Time deposits with original maturities of ninety days or less	77,539	432,151
Demand and call deposits with banks	27,418	79,560
	<u>104,957</u>	<u>511,711</u>

26 SEGMENTAL INFORMATION

Primary segment information

For management reporting purposes the Group is organised into two major business segments:

Investment banking	Principally undertaking, asset portfolio management, corporate finance, advisory, investments in quoted and private equity/funds, real estate, capital markets, international banking and treasury activities.
Commercial banking	Principally loans and other credit facilities, deposit and current accounts from corporate and institutional customers.

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

	Continuing operations		Discontinued operations		Total US\$ 000
	Investment banking US\$ 000	Commercial banking US\$ 000	Total US\$ 000	Commercial banking US\$ 000	
Share of results of associated companies	(17,039)	(795)	(17,834)	24,301	6,467
Total income	342,205	(812)	341,393	90,563	431,956
Operating income before provisions	218,327	(863)	217,464	57,235	274,699
Impairment loss on non trading investments	(56,651)	-	(56,651)	-	(56,651)
Provision for doubtful loans, guarantees and other assets - net	(16)	-	(16)	(3,415)	(3,431)
Segment result	161,660	(863)	160,797	53,820	214,617
Income attributable to equity shareholders of the parent					207,278
Income attributable to minority					7,339
OTHER INFORMATION					
Investments in associated companies	610,413	15,767	626,180	67,598	693,778
Segment assets	1,991,333	17,901	2,009,234	859,889	2,869,123
Segment liabilities	1,383,787	299	1,384,086	669,786	2,053,872

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26 SEGMENTAL INFORMATION (continued)

Segmental information for the year ended 31 December 2007 was as follows:

	Continuing operations			Discontinued operations	
	Investment banking US\$ 000	Commercial banking US\$ 000	Total US\$ 000	Commercial banking US\$ 000	Total US\$ 000
Share of results of associated companies	76,772	(795)	75,977	30,956	106,933
Total income	358,112	(36)	358,076	83,171	441,247
Operating income before provisions	228,871	(160)	228,711	55,702	284,413
Impairment loss on non trading investments	(3,831)	-	(3,831)	-	(3,831)
Provision for doubtful loans, guarantees and other assets - net	(9,319)	-	(9,319)	(2,987)	(12,306)
Segment result	215,721	(160)	215,561	52,715	268,276
Income attributable to equity shareholders of the parent					220,855
Income attributable to minority					47,421
					268,276

OTHER INFORMATION

Investments in associated companies	775,134	15,233	790,367	-	790,367
Segment assets	2,650,359	17,274	2,667,633	-	2,667,633
Segment liabilities	1,862,750	145	1,862,895	-	1,862,895

Secondary segment information

Geographic

The Group operates in four geographic markets: Middle East/Africa, Europe, North America and Asia. The following tables show the distribution of the Group's total income, total assets and total liabilities by geographical segment, allocated based on the location in which the assets and liabilities are located, for the years ended 31 December 2008 and 2007:

	Middle East/ Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Asia US\$ 000	Total US\$ 000
31 December 2008					
Total income	456,555	(13,090)	(11,425)	(84)	431,956
Total assets	2,523,027	215,755	129,899	442	2,869,123
Total liabilities	1,676,724	346,923	6,725	23,500	2,053,872
31 December 2007					
Total income	404,329	22,779	14,099	40	441,247
Total assets	2,216,058	286,374	164,543	658	2,667,633
Total liabilities	1,452,885	374,627	4,133	31,250	1,862,895

27 RELATED PARTY TRANSACTIONS

The Group enters into transactions with its parent, major shareholders, 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 parties transacted at commercial terms and included in the consolidated financial statements are as follows:

	Major shareholders US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total 2008 US\$ 000	Total 2007 US\$ 000
Gain (loss) on investments carried at fair value through statement of income	3,754	(18)	(18,417)	(14,681)	18,336
Loss on sale of non-trading investments	-	-	(859)	(859)	-
Gain on sale of investment in associated companies	-	-	276,918	276,918	-
Fees and commissions income	10,749	9,365	12,756	32,870	31,283
Dividend income	410	75	2,581	3,066	2,517
Interest income	429	36	10,514	10,979	3,641
Interest expense	(1,059)	(606)	(14,993)	(16,658)	(8,701)
Others	-	1,936	(153)	1,783	(6,653)

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

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27 RELATED PARTY TRANSACTIONS (continued)

	Major shareholders US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total 2008 US\$ 000	Total 2007 US\$ 000
Demand and call deposits with banks	26	118	10,095	10,239	11,403
Time deposits with banks	-	-	18,134	18,134	45,000
Investments carried at fair value through statement of income	7,755	399	56,563	64,717	42,715
Investments, carried at fair value through statement of income, in funds managed by related party	-	-	13,663	13,663	13,869
Non-trading investments	6,030	-	423,723	429,753	109,047
Loans and advances	-	-	6,116	6,116	1,895
Other assets	2,337	2,160	4,810	9,307	10,791
Due to banks and other financial institutions	-	10,374	172,044	182,418	122,823
Deposits from customers	720	14	6,629	7,363	12,480
Loans taken by a subsidiary (KAMCO)	-	-	110,619	110,619	39,373
Murabaha payable	-	-	36,250	36,250	31,250
Other liabilities	-	-	3,586	3,586	5,790
Letters of credit	-	-	20,614	20,614	13,079
Guarantees	-	-	825	825	-
Funds managed or advised by the Group (included in funds under management)	-	-	115,144	115,144	173,222

Compensation of the key management personnel and directors' remuneration are as follows:

	2008 US\$ 000	2007 US\$ 000
Short term employee benefits	18,439	19,016
Share based payments	1,019	3,072
Total compensation	19,458	22,088

27 RELATED PARTY TRANSACTIONS (continued)

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

The above related party transactions include amounts of disposal group subsidiaries.

In addition to the above, other transactions with related parties included in the consolidated financial statements are as follows:

	2008 US\$ 000	2007 US\$ 000
Carrying value of associate sold to an associated company	-	40,308

28 OFF BALANCE SHEET ITEMS

Credit-related commitments

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

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

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

The Group has the following credit and investment related commitments:

	2008 US\$ 000	2007 US\$ 000
Credit related		
Letters of credit	25,319	31,651
Guarantees	209,476	119,286
	234,795	150,937
Investment related *	107,592	28,036
	342,387	178,973

All credit related commitments mature within one year. It also includes the letter of credit and guarantees of the disposal group subsidiaries.

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

The Group does not anticipate any material losses in respect of the above.

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28 OFF BALANCE SHEET ITEMS (continued)

Other off-balance sheet financial instruments

It is the policy of the Group not to engage in derivatives trading or market-making activities. The main off balance sheet financial instruments used to cover foreign exchange risks are forward foreign exchange purchases and sales contracts.

	Positive fair value US\$ 000	Negative fair value US\$ 000	Notional amounts by term to maturity			
			Notional amount Total US\$ 000	Within 3 months US\$ 000	3 - 12 months US\$ 000	1 - 5 years US\$ 000
31 December 2008						
Derivatives held for trading						
Forward foreign exchange contracts*	2,160	(472)	346,851	219,187	127,664	-
Derivatives held for hedging						
Forward foreign exchange contracts	36,861	-	1,089,020	296,246	792,774	-
Interest rate swap	-	(12,868)	325,000	-	75,000	250,000
31 December 2007						
Derivatives held for trading						
Forward foreign exchange contracts*	3	(73)	305,482	305,482	-	-
Derivatives held for hedging						
Interest rate swap	339	-	75,000	-	50,000	25,000

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

* The Group has undertaken these forward foreign exchange transactions for hedging purposes but as these did not qualify for hedge accounting under IAS 39, these are accounted as derivatives held for trading. It includes forward foreign exchange contracts undertaken by the disposal group subsidiaries.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Fair value hedges

Fair value hedges are used by the Bank to protect against changes in fair value of the financial assets due to movement in the exchange rates. The Bank uses forward foreign exchange contracts to hedge against specifically identified currency exchange risk.

For the year ended 31 December 2008, the Bank recognised a net gain of US\$ 4.2 million (2007: nil), representing the gain on the hedging instrument. The total loss on the hedged items attributable to the hedged risk amounted to US\$ 2.3 million (2007: nil).

Cash flow hedges

The Group is exposed to variability in interest cash flows on liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. A schedule indicating as at 31 December 2008 the periods when the net cash flows are expected to occur and when they are expected to affect the consolidated statement of income is as follows:

	Within	
	1 year US\$ 000	1-5 years US\$ 000
Net Cash outflows (Liabilities)	10,413	21,287
Income statement	(449)	(12,419)

The ineffectiveness on cash flow hedges on reclassification from equity to consolidated statement of income is not material.

Hedge of net investments in foreign operations

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

The ineffectiveness on hedge of net investments in foreign operations on reclassification from equity to statement of income is not material.

29 RISK MANAGEMENT

29.1 Introduction

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

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

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

Risk management structure

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

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

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

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

The Executive Committee comprises of four directors including the Chairman, Vice Chairman, Managing Director and another director. It meets in between Board meetings to approve all proposals not within the Investment Committee's risk authority, as well as to act on all matters within the Board's remit.

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

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

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29 RISK MANAGEMENT (Continued)

29.1 Introduction (Continued)

Risk management structure (Continued)

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

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

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

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

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

Risk mitigation

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

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

Where warranted, the Bank enters into legally enforceable netting arrangements covering its money market and foreign exchange trading activities whereby only net amount may be settled at maturity. In areas where Bank acts as agent for commodity trading on behalf of certain financial institutions, the risk is managed through simultaneous spot and forward trading in commodities through well established financial and commodity trading institutions in the overseas market. With regard to the credit risk in the off balance sheet exposures, third party guarantees are obtained wherever possible as a risk mitigation measure.

Concentration risk

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

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

29.2 Credit risk

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

Credit risk is mitigated through:

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

The Group has well defined policies approved at the Board level. These provide carefully documented guidelines for credit risk management. There is a two tier committee structure to approve and review credit and investment risk. The Investment Committee (IC) includes the Managing Director, Acting Chief Executive Officer, Head of Investment Banking and Asset Management. Exposures beyond IC limits are approved by the Board's Executive Committee or by the full Board.

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

The table below shows the maximum exposure to credit risk for the components of on and off balance sheet. The maximum exposure shown is gross before effect of mitigation through the use of master netting and collateral arrangements.

	2008 US\$ 000	2007 US\$ 000
Demand and call deposits with banks	27,418	79,613
Time deposits with banks	79,103	459,923
Non-trading investments	359,979	18,962
Loans and advances	7,770	291,866
Other assets	69,312	64,349
Off balance sheet items	23,107	150,937
	566,689	1,065,650

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any single client or counterparty as of 31 December 2008 was US\$ 349 million (2007: US\$ 45.6 million) before taking account of collateral or other credit enhancements.

	Gulf Co operation Council countries (G.C.C.) US\$ 000	Middle East and North Africa (excluding G.C.C.) US\$ 000	European Union countries US\$ 000	Asia US\$ 000	Others US\$ 000	Total US\$ 000
31 December 2008						
Demand and call deposits with banks	25,588	168	944	135	583	27,418
Time deposits with banks	78,286	817	-	-	-	79,103
Non-trading investments	359,979	-	-	-	-	359,979
Loans and advances	5,001	2,769	-	-	-	7,770
Other assets	63,482	5,539	122	-	169	69,312
Off balance sheet items	825	22,282	-	-	-	23,107
Total	533,161	31,575	1,066	135	752	566,689
31 December 2007	343,250	531,299	188,367	164	2,570	1,065,650

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

29 RISK MANAGEMENT (Continued)

29.2 Credit risk (Continued)

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

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

	Trading and manufacturing	Banks and other financial institutions	Construction and real estate	Government and public sector	Individuals	Others	Total
31 December 2008	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Demand and call deposits with banks	-	27,418	-	-	-	-	27,418
Time deposits with banks	-	79,103	-	-	-	-	79,103
Non-trading investments	-	359,979	-	-	-	-	359,979
Loans and advances	-	-	2,769	-	5,001	-	7,770
Other assets	-	37,682	45	-	41	31,544	69,312
Off balance sheet items	-	23,107	-	-	-	-	23,107
Total	-	527,289	2,814	-	5,042	31,544	566,689
31 December 2007	172,060	789,849	1,039	7,909	8,979	85,814	1,065,650

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

29 RISK MANAGEMENT (Continued)

29.2 Credit risk (Continued)

Credit risk exposure for each credit rating

	Investment grade	Non-investment grade	Unrated	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
31 December 2008				
Demand and call deposits with banks	24,828	117	2,473	27,418
Time deposits with banks	78,014	-	1,089	79,103
Non-trading investments	359,979	-	-	359,979
Loans and advances	-	-	7,770	7,770
Other assets	2,772	-	66,540	69,312
Off balance sheet items		1,669	21,438	23,107
Total	465,593	1,786	99,310	566,689
31 December 2007	459,652	74,268	531,730	1,065,650

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

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The carrying amount of the loans whose terms have been renegotiated as at 31 December 2008 and 2007 are not material.

29.3 Market risk

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

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

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

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

Interest rate risk

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

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement based on the balance sheet position as of 31 December 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

29 RISK MANAGEMENT (Continued)

29.3 Market risk (Continued)

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

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2008, including the effect of hedging instruments.

There are no material interest bearing securities in non trading investments, hence no sensitivity of equity has been disclosed.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement based on the balance sheet position as of 31 December 2007.

<i>Currency</i>	Increase in basis points 2007	Sensitivity of net interest income 2007 US\$ 000
Kuwaiti Dinar	+ 25	(421)
United States Dollar	+ 25	(1,517)
Euro	+ 25	68
Pound Sterling	+ 25	(14)
Others	+ 25	116

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

29 RISK MANAGEMENT (continued)

29.3 Market risk (continued)

Currency risk

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

The table below indicates the effect on profit before tax and on equity for the positions (including net investments) as at balance sheet date as a result of change in the currency rate with all other variables held constant.

<i>Currency</i>	Change in	Effect on	Effect on	Change in	Effect on	Effect on
	currency rate in % 2008 Increase / (decrease)	profit before tax 2008 US\$ 000	equity 2008 US\$ 000	currency rate in % 2007 Increase / (decrease)	profit before tax 2007 US\$ 000	equity 2007 US\$ 000
Kuwaiti Dinar	1	(2,396)	12,488	1	(1,993)	8,878
Euro	1	(878)	237	1	(257)	333
Jordanian Dinar	1	-	221	1	-	1,786
Kuwaiti Dinar	(1)	2,396	(12,488)	(1)	1,993	(8,878)
Euro	(1)	878	(237)	(1)	257	(333)
Jordanian Dinar	(1)	-	(221)	(1)	-	(1,786)

Equity price risk

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

The Group's financial assets available for sale and financial assets at fair value through statement of income by geographical regions are as follows:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

29 RISK MANAGEMENT (continued)

29.3 Market risk (continued)

<i>Geographical distribution</i>	Middle		North		
	East/ Africa 2008 US\$ 000	Europe 2008 US\$ 000	America 2008 US\$ 000	Asia 2008 US\$ 000	Total 2008 US\$ 000
Investments carried at fair value through statement of income					
Equities	40,108	2	8,114	242	48,466
Managed funds	120,323	59,631	16,744	-	196,698
					245,164
Non-trading investments					
Equities - Quoted	88,273	-	44	-	88,317
Equities - Unquoted	137,705	26,060	34,928	-	198,693
Managed funds	169,619	5,332	56,068	-	231,019
					518,029
Total					763,193

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

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

	Middle		North		
	East/ Africa 2007 US\$ 000	Europe 2007 US\$ 000	America 2007 US\$ 000	Asia 2007 US\$ 000	Total 2007 US\$ 000
Investments carried at fair value through statement of income					
Equities	80,393	94	8,695	442	89,624
Managed funds	150,779	71,836	44,230	-	266,845
					356,469
Non trading investments - available for sale					
Equities - Quoted	121,914	3,137	5,302	-	130,353
Equities - Unquoted	122,860	21,412	35,722	-	179,994
Managed funds	164,080	10,991	50,110	-	225,181
					535,528
Total					891,997

29 RISK MANAGEMENT (continued)

29.4 Liquidity risk

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	On demand	1 - 6 months	6 - 12 months	1 - 5 years	5-10 years	Total
At 31 December 2008	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Financial liabilities						
Due to banks and other						
financial institutions	318,091	169,449	2,282	-	-	489,822
Deposits from customers	25,446	16,587	-	-	-	42,033
Loans and murabaha payable	74,270	66,747	39,503	227,202	260,355	668,077
Other liabilities	12,651	39,938	12,963	-	-	65,552
Bonds	351	1,698	2,083	69,445	-	73,577
Subordinated debt	564	2,729	3,347	33,223	111,863	151,726
Total non-derivative undiscounted on balance sheet financial liabilities 2008	431,373	297,148	60,178	329,870	372,218	1,490,787
	On demand	1 - 6 months	6 - 12 months	1 - 5 years	5-10 years	Total
At 31 December 2007	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Financial liabilities						
Due to banks and other						
financial institutions	461,208	191,050	27,607	-	-	679,865
Deposits from customers	431,295	53,643	1,117	-	-	486,055
Loans and murabaha payable	38,580	11,989	204,646	152,554	308,392	716,161
Other liabilities	43,766	-	26,910	17,539	-	88,215
Bonds	354	1,726	2,104	74,303	-	78,487
Subordinated debt	606	2,954	3,600	35,721	119,895	162,776
Total non-derivative undiscounted on balance sheet financial liabilities 2007	975,809	261,362	265,984	280,117	428,287	2,211,559

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

29 RISK MANAGEMENT (continued)

29.4 Liquidity risk (continued)

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

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

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

29 RISK MANAGEMENT (continued)

29.4 Liquidity risk (continued)

	Up to 3 months US\$ 000	3 months to 1 year US\$ 000	Sub total less than 12 months US\$ 000	1 to 5 years US\$ 000	Over 5 years US\$ 000	Sub total over 12 months US\$ 000	Total US\$ 000
31 December 2007							
Demand and call deposits							
with banks	79,560	-	79,560	-	53	53	79,613
Time deposits with banks	432,151	23,653	455,804	4,119	-	4,119	459,923
Investments carried at fair value through statement of income	356,469	-	356,469	-	-	-	356,469
Non-trading investments	135,027	2,202	137,229	419,336	8,602	427,938	565,167
Loans and advances	66,385	143,557	209,942	81,924	-	81,924	291,866
Other assets	64,349	-	64,349	-	-	-	64,349
Total financial assets	1,133,941	169,412	1,303,353	505,379	8,655	514,034	1,817,387
Due to banks and other financial institutions	546,978	39,705	586,683	-	-	-	586,683
Deposits from customers	417,384	20,728	438,112	-	-	-	438,112
Loans and murabaha payable	50,361	195,000	245,361	332,188	-	332,188	577,549
Other liabilities	43,766	26,911	70,677	17,538	-	17,538	72,336
Bonds	-	-	-	72,336	-	72,33	71,630
Subordinated debt	-	-	-	-	100,000	100,000	100,000
Total financial liabilities	1,058,489	282,344	1,340,833	422,062	100,000	522,062	1,862,895
Liquidity gap	75,452	(112,932)	(37,480)	83,317	(91,345)	(8,028)	(45,508)
Cumulative liquidity gap	75,452	(37,480)		45,837	(45,508)		

29.5 Operational risk

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

30 FAIR VALUE

Financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

As explained in note 5, included under non-trading investments are unquoted available for sale investments amounting to US\$ 161,726 thousands (2007: US\$ 164,993 thousands) for which fair value cannot be reliably determined.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

31 CAPITAL ADEQUACY

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

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements of the CBB and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, or issue capital securities.

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

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

	Basel II 2008 US\$ 000	Basel I 2007 US\$ 000
Capital base:		
Tier 1 capital	459,373	572,474
Tier 2 capital	232,132	294,030
Total capital base (a)	691,505	866,504
Credit risk weighted exposure	3,514,705	2,171,150
Market risk weighted exposure	147,525	454,878
Operational risk weighted exposure	366,145	-
Total risk weighted exposure (b)	4,028,375	2,626,028
Capital adequacy (a/b * 100)	17.17%	33%
Minimum requirement	12.0%	12.0%

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

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

UNITED GULF BANK



CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2007

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

We have audited the accompanying consolidated financial statements of United Gulf Bank B.S.C. [the Bank] and its subsidiaries [together the Group] which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the Memorandum and Articles of Association of the Bank, have occurred during the year ended 31 December 2007 that might have had a material adverse effect on the business of the Bank or on its financial position and that the Bank has complied with the terms of its banking licence.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten blue font.

16 February 2008
Manama, Kingdom of Bahrain

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 US\$ 000	2006 US\$ 000
ASSETS			
Demand and call deposits with banks		79,613	47,073
Time deposits with banks		459,923	459,294
Investments carried at fair value through statement of income	3	356,469	344,001
Non-trading investments	4	565,167	526,452
Loans and advances	5	291,866	308,280
Investment properties	6	26,815	17,649
Other assets	7	74,459	50,329
Investments in associated companies	8	790,367	579,910
Property and equipment		11,545	6,971
Goodwill		11,409	10,775
TOTAL ASSETS		2,667,633	2,350,734
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		586,683	723,521
Deposits from customers		438,112	391,652
Loans and Murabaha payable	9	577,549	366,399
Other liabilities	10	88,215	52,138
Bonds	11	72,336	124,173
Subordinated debt	12	100,000	100,000
TOTAL LIABILITIES		1,862,895	1,757,883
EQUITY			
Share capital	13	203,747	200,526
Share premium	13	4,360	1,136
Treasury shares	13	(341)	(341)
Statutory reserve	13	68,767	46,681
General reserve	13	49,252	27,166
Treasury share reserve	13	13,551	13,551
Fair value reserve	14	52,744	71,234
Foreign currency translation reserve	13	47,756	13,624
Retained earnings		221,919	115,584
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		661,755	489,161
MINORITY INTERESTS		142,983	103,690
TOTAL EQUITY		804,738	592,851
TOTAL LIABILITIES AND EQUITY		2,667,633	2,350,734



Faisal Hamad Al-Ayyar
Chairman



Masaud Johar Hayat
Managing Director



William Khouri
Chief Executive Officer

The attached explanatory notes 1 to 26 form part of these consolidated financial statements

Consolidated Statement of Income

Year ended 31 December 2007

	Notes	2007 US\$ 000	2006 US\$ 000
Investment income	15	200,095	96,485
Interest income		46,121	34,505
		246,216	130,990
Fees and commissions	16	81,384	54,452
Foreign exchange revaluation gains, net		6,714	2,840
Share of results of associated companies	17	106,933	53,548
Total income		441,247	241,830
Interest expense		(81,545)	(66,065)
Operating income before expenses and provisions		359,702	175,765
Salaries and benefits		(46,309)	(33,077)
General and administrative expenses		(28,980)	(20,296)
Operating income before provisions		284,413	122,392
Impairment loss on non trading investments		(3,831)	-
Provision for doubtful loans, guarantees and other assets, net		(12,306)	(2,352)
INCOME FOR THE YEAR		268,276	120,040
Income attributable to minority		(47,421)	(18,572)
Income attributable to equity shareholders of the parent		220,855	101,468
Basic earnings per share (US cents)	18	27.3	12.8
Diluted earnings per share (US cents)	18	26.9	12.7

The attached explanatory notes 1 to 26 form part of these consolidated financial statements

Consolidated Statement of Cash Flows

Year ended 31 December 2007

	Notes	2007 US\$ 000	2006 US\$ 000
OPERATING ACTIVITIES			
Income for the year		268,276	120,040
Adjustments for:			
Depreciation		1,911	1,300
Other non-cash items		3,435	1,177
Share of results of associated companies	17	(106,933)	(53,548)
Impairment loss on non trading investments		3,831	-
Provision for doubtful loans and guarantees		12,306	2,352
Change in fair values of investment properties	6	(2,386)	(2,447)
Loss (gain) on sale of associated companies	15	21	(21,524)
Impairment of investment in associate	15	2,085	-
Interest income		(46,121)	(34,505)
Interest expense		81,545	66,065
Dividend income	15	(17,717)	(11,214)
Operating profit before changes in operating assets and liabilities		200,253	67,696
Changes in operating assets and liabilities:			
Time deposits with banks		(3,700)	8,730
Investments carried at fair value through statement of income		(12,468)	(152,648)
Non-trading investments		(54,041)	(47,056)
Loans and advances		4,108	(131,743)
Other assets		(24,894)	10,135
Due to banks and other financial institutions		(136,838)	221,367
Deposits from customers		46,460	156,892
Other liabilities		28,838	3,452
Interest received		44,926	33,198
Interest paid		(73,385)	(62,950)
Dividends received	15	17,717	11,214
Net cash from operating activities		36,976	118,287
INVESTING ACTIVITIES			
Investments in associated companies, net		(106,691)	(110,388)
Acquisition of investment properties, net	6	(6,780)	(683)
Purchase of property and equipment		(6,485)	(2,768)
Net cash used in investing activities		(119,956)	(113,839)
FINANCING ACTIVITIES			
Increase in loans and Murabaha payable		211,150	58,572
Subordinated debt	12	-	100,000
Bonds		(55,906)	-
Shares issued (including treasury shares)		7,974	24,857
Dividends paid		(69,758)	(53,053)
Donations paid		(500)	(500)
Directors' remuneration paid		(420)	(425)
Movement in minority interest		(14,223)	(5,291)
Net cash from financing activities		78,317	124,160
Foreign currency translation adjustments		34,132	4,286
INCREASE IN CASH AND CASH EQUIVALENTS		29,469	132,894
Cash and cash equivalent at 1 January		482,242	349,348
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20	511,711	482,242

The attached explanatory notes 1 to 26 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity shareholders of the parent											
	Share capital US\$ 000	Share premium US\$ 000	Share 673	Treasury shares US\$ 000	Statutory reserve US\$ 000	General reserve US\$ 000	Treasury share reserve US\$ 000	Fair value reserve US\$ 000	Foreign currency translation reserve US\$ 000	Retained earnings US\$ 000	Minority interest US\$ 000	Total equity US\$ 000
Balance at 1 January 2006	200,114	673	(12,052)	36,534	17,019	1,280	39,180	9,338	84,252	376,338	95,803	472,141
Net movement in cumulative changes in fair values	-	-	-	-	-	-	32,054	-	-	32,054	(5,394)	26,660
Foreign currency translation adjustment	-	-	-	-	-	-	-	4,286	-	4,286	-	4,286
Other movements in equity of subsidiaries and associated companies	-	-	-	-	-	-	-	-	2,556	2,556	-	2,556
Net income recognised directly in equity	-	-	-	-	-	-	-	4,286	2,556	38,896	(5,394)	33,502
Income for the year	-	-	-	-	-	-	-	-	101,468	101,468	18,572	120,040
Total recognised income and expense for the year	-	-	-	-	-	-	-	4,286	104,024	140,364	13,178	153,542
Transfers during the year	-	-	-	10,147	10,147	-	-	-	(20,294)	-	-	-
Other movements in minority interests	-	-	-	-	-	-	-	-	-	-	4,660	4,660
Sale of treasury shares	-	-	11,711	-	-	12,271	-	-	-	23,982	-	23,982
Shares issued	412	463	-	-	-	-	-	-	-	875	-	875
Effect of employee share option plan under IFRS 2	-	-	-	-	-	-	-	-	655	655	-	655
Dividends	-	-	-	-	-	-	-	-	(53,053)	(53,053)	-	(53,053)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(9,951)	(9,951)
Balance at 31 December 2006	200,526	1,136	(341)	46,681	27,166	13,551	71,234	13,624	115,584	489,161	103,690	592,851
Net movement in cumulative changes in fair values	-	-	-	-	-	-	(18,490)	-	-	(18,490)	6,095	(12,395)
Foreign currency translation adjustment	-	-	-	-	-	-	-	34,132	-	34,132	-	34,132
Other movements in equity of subsidiaries and associated companies	-	-	-	-	-	-	-	-	(2,119)	(2,119)	-	(2,119)
Net income recognised directly in equity	-	-	-	-	-	-	(18,490)	34,132	(2,119)	13,523	6,095	19,618
Income for the year	-	-	-	-	-	-	-	-	220,855	220,855	47,421	268,276
Total recognised income and expense for the year	-	-	-	-	-	-	(18,490)	34,132	218,736	234,378	53,516	287,894
Transfers during the year	-	-	-	22,086	22,086	-	-	-	(44,172)	-	-	-
Other movements in minority interests	-	-	-	-	-	-	-	-	-	-	(55)	(55)
Shares issued	3,221	3,224	-	-	-	-	-	-	-	6,445	-	6,445
Effect of employee share option plan under IFRS 2	-	-	-	-	-	-	-	-	1,529	1,529	-	1,529
Dividends	-	-	-	-	-	-	-	-	(69,758)	(69,758)	-	(69,758)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(14,168)	(14,168)
Balance at 31 December 2007	203,747	4,360	(341)	68,767	49,252	13,551	52,744	47,756	221,919	661,755	142,983	804,738

The attached explanatory notes 1 to 26 form part of these consolidated financial statements

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1 INCORPORATION AND PRINCIPAL ACTIVITIES

United Gulf Bank B.S.C. ("the Bank") is a joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration (CR) 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 subsidiaries (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 31 December 2007 KIPCO owned 88% of the Bank's outstanding shares (2006: 76%).

These consolidated financial statements were authorised for issue by the Board of Directors on 16 February 2008.

2 SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies which are consistent with those used in the previous year:

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

The consolidated financial statements have been presented in US Dollars being the functional currency of the Bank.

Accounting convention

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

Future changes in accounting policies

The following standards have been issued at 31 December 2007 but are effective for the financial years beginning on or after the dates mentioned below:

		<i>Effective</i>
IFRIC 11	IFRS 2 Group and Treasury Share Transactions. This will result in amendment in accounting of such transactions.	1 March 2007
IFRS 8	Operating Segments. This will result in additional disclosures relating to operating segments.	1 January 2009
IAS 1 Revised	Presentation of Financial Statements. This will result in amendments to the presentation of financial statements.	1 January 2009

The application of the above standards are not expected to have a material impact on the consolidated financial statements as and when they become effective. However the application of IAS 1 (Revised) will result in amendments to the preparation of the financial statements.

The Group adopted the following IFRS in the current year

- IFRS 7 Financial Instruments: Disclosures
The application of IFRS 7 has resulted in amended and additional disclosures relating to financial instruments and associated risks.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

- IAS 1 Presentation of financial statements (amended)

The application of IAS 1 (amended) has resulted in amended and additional disclosures relating to an entity's objectives, policies and processes for managing capital.

Comparatives

Additional prior year figures have been included to conform to the presentation adopted in the current year as a result of adoption of IFRS 7. Such inclusion did not affect previously reported net income or the shareholder's equity.

Principles of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries ("the Group"). Subsidiaries are those entities controlled by the Bank, other than in a fiduciary capacity. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is recognised directly in the consolidated statement of income in the year of acquisition.

The principal subsidiaries of the Group are as follows:

Name of the subsidiary	Country of incorporation	Effective ownership as at 31 December 2007	Effective ownership as at 31 December 2006	Year of Incorporation
Algeria Gulf Bank	Algeria	83%	83%	2003
KIPCO Asset Management Company (KAMCO)	Kuwait	72%	71%	1998
Tunis International Bank	Tunisia	77%	77%	1982
United Gulf Bank Securities Company	Bahrain	92%	91%	1998
United Gulf Financial Services Company	Qatar	89%	88%	2006

Held through KAMCO

Al-Nuzoul Holding Company K.S.C. (Closed) [Formerly Al-Ahlia Arabian Markets Company K.S.C. (Closed)]	Kuwait	60%	96%	2005
Al-Janah Holding Company K.S.C. (Closed) [Formerly First Arabian Markets Company K.S.C. (Closed)]	Kuwait	60%	96%	2005
KAMCO Real Estate Company S.P.C.	Bahrain	100%	100%	2005
Advantage Management Consulting Company K.S.C. (Closed)	Kuwait	58%	58%	2005
Al Zad Real Estate W.L.L.	Kuwait	100%	–	2007
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	–	2007
First North Africa Real Estate Company W.L.L.	Kuwait	100%	–	2007
Al Raya Real Estate Projects Company W.L.L.	Kuwait	100%	–	2007

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

Associated companies

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

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

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

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets of the acquired subsidiary or associate at the date of the acquisition. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the balance sheet. Any excess, at the date of acquisition, of the Group's share in the fair value of the net identifiable assets acquired over the cost of the acquisition is recognised as negative goodwill. Negative goodwill arising on an acquisition is recognised immediately in the consolidated statement of income.

Goodwill is stated at cost less impairment losses. Goodwill of subsidiaries is allocated to cash-generating units and is tested annually for impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorata on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a part of subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments

All investments are initially recognised at cost being the fair value of consideration given including, in the case of investments not at fair value through statement of income, incremental acquisition charges associated with the investment. After initial recognition, investments other than investments in associated companies are remeasured using the following policies:

Investments carried at fair value through statement of income

Investments carried at fair value through statement of income comprise securities held for trading and investments in funds. Investments are classified as carried at fair value through the statement of income if they are acquired principally for the purpose of selling in the short term or if so designated by management. All subsequent gains and losses arising from remeasurement at fair value are recognised in the consolidated statement of income.

Investments held for trading

All investments held for trading are listed on active markets, therefore, the fair value of these securities is determined by reference to their quoted bid prices. Realised and unrealised gains and losses on investments held for trading are included in the consolidated statement of income. Dividends are included in dividend income. Interest income is recorded in "gain on investments held for trading".

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments designated at fair value through statement of income

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

Non-trading investments

These are classified as follows:

- Held to maturity
- Available for sale

Held to maturity

The Group classifies investments as held to maturity if the requirements of IAS 39 are met and in particular the Group has the intention and ability to hold these investments to maturity.

After initial recognition investments held to maturity are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Investments available for sale

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

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

Investment properties

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

All investment properties are initially recorded at cost, being the fair value of the consideration given including acquisition charges associated with the property. Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income.

Loans and advances

Debt instruments which do not meet the definition of held to maturity and which have fixed or determinable payments but are not quoted in an active market are classified as loans and advances. Loans and advances are carried at amortised cost, less any amount written off, and net of any provision for impairment.

Derivatives

Derivatives are stated at fair values.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of income for the year.

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

Property and equipment and related depreciation

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

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

Loans, Murabaha payable, bonds and subordinated debt

These are stated at amortised cost. Transaction costs are amortised over the period of the debt using the effective yield method.

Treasury shares and treasury share reserve

Treasury shares are stated at cost. Any gain or loss arising on reissuance of treasury shares is taken directly to treasury share reserve in the statement of changes in equity.

Cash and cash equivalents

Cash and cash equivalents are cash, demand and call deposits, and time deposits with an original maturity up to 90 days.

Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group in the consolidated balance sheet.

Taxes

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

Derecognition

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting

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

Trade and settlement date accounting

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

Employees benefits

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

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

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

Provisions

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

Impairment of financial assets

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

- (a) for assets carried at fair value, impairment loss is the difference between carrying value and fair value.
- (b) for assets carried at amortised cost, impairment is based on estimated future cash flows discounted at the original effective interest rate.
- (c) for assets carried at cost, impairment is present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For non equity financial assets the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. For available for sale equity investments no allowance account is used and subsequent increases are reflected as cumulative changes in fair value through equity.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

Fair values

For financial instruments traded in an active market, fair value is determined by reference to quoted market bid prices for assets and quoted market offer prices for liabilities. The fair value of investments in managed funds or similar investment vehicles, where available, are based on last published bid price.

For financial instruments where there is no active market fair value is normally based on one of the following:

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

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

Foreign currencies

Translation of foreign currency transactions

Exchange differences arising on the retranslation of monetary items, are included in the consolidated statement of income for the year. Exchange differences arising on the retranslation of non-monetary investments carried at fair value through the statement of income are included in the consolidated statement of income for the period. Exchange differences arising on the retranslation of available for sale equity investments, other than those which are carried at cost, are recognised directly in a fair value reserve in the consolidated statement of changes in equity.

Translation of financial statements of foreign operations

Assets (including goodwill) and liabilities of foreign operations are translated at the exchange rates prevailing at the balance sheet date. Income and expense items are translated at average exchange rates for the relevant period. All resulting exchange differences are taken directly to a foreign currency translation reserve in the consolidated statement of changes in equity.

Recognition of income and expenses

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

Commission income and other fees is recognised when earned. Rental income on investment properties is recognised on a straight line basis. Dividend income is recognised when the Group's right to receive dividend is established.

Recognition of interest income is suspended when loans become impaired. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value.

Contingent liabilities and contingent assets

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

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

Segment information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Classification of investments

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

Classification of investments as fair value through statement of income depends on how management monitors the performance of these investments. For those deemed to be held to maturity management ensures that the requirements of IAS 39 are met and in particular the Group has the intention and ability to hold these to maturity.

All other investments are classified as available for sale.

Estimation uncertainty

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

Impairment of investments

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

Impairment of goodwill

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

Impairment losses on loans and advances

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

Collective impairment provisions on loans and advances

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

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

Valuation of unquoted equity investments

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

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; and
- other valuation models.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2007 US\$ 000	2006 US\$ 000
<i>Investments held for trading</i>		
Quoted equities	89,624	57,521
Quoted debt securities	–	1,432
	89,624	58,953
<i>Investments designated at fair value through statement of income</i>		
Managed funds	266,845	285,048
	356,469	344,001

Managed funds primarily represent private equity funds invested through unlisted companies and limited partnership interests. The fund managers have created these legal structures for tax efficiency and to meet other investors' requirements. The underlying investments in these funds are primarily in quoted debt and equity instruments in Kuwait and international markets. Please refer to note 24 for geographical distribution.

4 NON-TRADING INVESTMENTS

These are stated at fair value or at cost net of provision for impairment.

	Held to maturity US\$ 000	Available for sale US\$ 000	Total 2007 US\$ 000	Total 2006 US\$ 000
<i>Quoted</i>				
Equities	–	130,353	130,353	84,504
Debt securities	12,823	4,674	17,497	25,184
	12,823	135,027	147,850	109,688
<i>Unquoted</i>				
Equities	–	179,994	179,994	226,371
Real estate managed funds	–	10,677	10,677	10,301
Other managed funds	–	225,181	225,181	176,574
Debt securities	–	1,465	1,465	3,518
	–	417,317	417,317	416,764
Total	12,823	552,344	565,167	526,452

Investments in other managed funds primarily represents investment in fund of fund structure. The underlying investments of these funds are mainly private equity securities.

Included under unquoted equity investments are unquoted available for sale equity investments amounting to US\$ 165 million (2006: US\$ 119 million), which are carried at cost due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

5 LOANS AND ADVANCES

	2007 US\$ 000	2006 US\$ 000
Commercial loans	268,892	289,934
Overdrafts	33,281	22,752
Staff loans	2,973	2,080
	305,146	314,766
Less: provision for doubtful loans	(13,280)	(6,486)
	291,866	308,280

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

5 LOANS AND ADVANCES (continued)

The composition of the loans and advances portfolio is as follows:

	Middle East/ Africa US\$ 000	Europe US\$ 000	Total 2007 US\$ 000	Total 2006 US\$ 000
Corporate businesses and others	230,947	–	230,947	248,925
Banks and financial institutions	70,199	4,000	74,199	65,841
	301,146	4,000	305,146	314,766
Less: provision for doubtful loans	(13,280)	–	(13,280)	(6,486)
31 December 2007	287,866	4,000	291,866	
31 December 2006	300,780	7,500	–	308,280

The movements in provision for doubtful loans are as follows:

	2007 US\$ 000	2006 US\$ 000
At 1 January	6,486	3,864
Charge for the year	3,877	2,635
Write back of provision	(636)	(234)
Other adjustments	3,553	221
At 31 December	13,280	6,486
	2007 US\$ 000	2006 US\$ 000
Individual impairment	8,080	4,059
Collective impairment	5,200	2,427
	13,280	6,486
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	8,135	6,400

The majority of the provision for doubtful loans relates to the commercial loans.

6 INVESTMENT PROPERTIES

	2007 US\$ 000	2006 US\$ 000
Cost	25,362	17,936
Accumulated fair value adjustments	1,453	(287)
	26,815	17,649
The movements are as follows:		
At 1 January	17,649	14,519
Additions	7,426	1,933
Disposals	(646)	(1,250)
Change in fair values (note 15)	2,386	2,447
At 31 December	26,815	17,649
Investment properties at 31 December consist of the following:		
Buildings	16,109	14,693
Land	10,706	2,956
	26,815	17,649

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

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For the year ended 31 December 2007

7 OTHER ASSETS

	2007 US\$ 000	2006 US\$ 000
Accounts receivable	14,521	16,576
Due from customers	30,903	15,809
Prepayments	10,110	8,023
Interest receivable	3,451	2,256
Others	15,474	7,665
	74,459	50,329

Due from customers is stated net of provision of US\$ 9.6 million (2006: US\$ 3.4 million). The charge for the year amounted to US\$ 9.4 million (2006: US\$ Nil).

8 INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies comprise the following:

	Activity	Carrying		Carrying	
		value 2007 US\$ 000	Ownership 2007 %	value 2006 US\$ 000	Ownership 2006 %
a) Al-Dhiyfa Holding Company	Hotel and tourism	50,110	27	47,225	27
b) Arab Leadership Academy Company K.S.C.	Providing exclusive and sophisticated leadership programs and training services	550	25	–	–
c) Bank of Baghdad	Commercial banking	58,714	45	17,977	25
d) Dhow Development Company	Real estate	399	20	376	20
e) Kuwait Education Fund	Education	6,808	31	–	–
f) Jordan Kuwait Bank	Commercial banking	156,788	44	138,325	44
g) Kuwait Private Equity Opportunities Fund	Private equity fund	20,910	45	21,741	45
h) Manafae Investment Company	Islamic investment	24,857	27	19,229	27
i) North Africa Holding Company	Investments	44,842	23	36,634	21
j) Royal Capital Company P.S.C.	Asset management and financial services	35,941	44	–	–
k) Salem Al-Marzouk & Sabah Abi Hana	Architecture consulting services	1,224	29	1,483	30
l) Syria Gulf Bank	Commercial banking	15,233	28	7,513	26
m) United Cable Company	Telecommunication	13,494	28	16,476	28
n) United Medical Services Company	Healthcare	28,391	30	13,108	30
o) United Real Estate Company Jordan	Real estate	15,570	27	–	–
p) United Industries Company	Industrial and manufacturing	143,985	45	108,202	45
q) United Real Estate Company	Real estate	171,820	35	147,469	35
r) United Universal Real Estate Company	Real estate	731	20	68	20
s) United Warehousing and Cooling	Warehousing and refrigeration	–	–	4,084	25
		790,367		579,910	

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For the year ended 31 December 2007

8 INVESTMENTS IN ASSOCIATED COMPANIES (continued)

Summarised financial information in respect of the Group's associated companies is set out below:

	2007 US\$ 000	2006 US\$ 000
Total assets	5,685,867	4,025,454
Total liabilities	3,705,682	2,810,665
Net assets	1,980,185	1,214,789
Revenue	455,788	433,309
Profit for the year	306,426	160,651

- a) Al-Dhiyfa Holding Company K.S.C. (Closed) is a closed company incorporated in State of Kuwait during 2005. The Bank directly owns 16.6% (2006: 16.6%) of the associate and indirectly owns additional 10.2% (2006: 10.2%) interest through its subsidiaries KAMCO and TIB.
- c) Bank of Baghdad (BoB) is a bank incorporated in Iraq in 1992 and listed on the Iraq Stock Exchange. During the year the Bank's ownership was increased to 45%. The fair value of the Bank's investment in BoB as of 31 December 2007 based on the last bid price of BoB was US\$ 60.2 million (2006: US \$ 19.8 million).
- e) Kuwait Education Fund is a fund with a variable capital of KD 50 million. The Bank directly owns 14.6% of the associate and indirectly owns additional 16.6% interest through its subsidiary KAMCO.
- f) Jordan Kuwait Bank (JKB) is a bank incorporated in the Kingdom of Jordan in 1976 and listed on the Amman Stock Exchange. The fair value of the Bank's investment in JKB as of 31 December 2007 based on the last bid price of JKB was US\$ 382 million (2006: US\$ 303 million).
- g) The Bank directly owns 15% (2006: 15%) of Kuwait Private Equity Opportunities Fund, a closed company incorporated in Kuwait in 2004, and indirectly owns an additional 30% (2006: 30%) through its subsidiary KAMCO.
- h) The Bank directly owns 1% (2006:1%) of Manafae Investment Company, a closed company incorporated in State of Kuwait in 2005 and indirectly owns an additional 25.5% (2006:25.5%) through its subsidiaries KAMCO and TIB.
- i) The Bank directly owns 15.3% (2006: 14%) of North Africa Holding Company, a closed company incorporated in State of Kuwait in 2006, and indirectly owns an additional 8% (2006: 7%) through its subsidiaries KAMCO and TIB.
- j) The Bank directly owns 18% of Royal Capital, a closed company incorporated in United Arab Emirates in 2007, and indirectly owns an additional 25% through its subsidiary KAMCO.
- l) Syria Gulf Bank (SGB) is a commercial bank incorporated in the Syrian Arab Republic in 2006. SGB has commenced commercial operations in 2007.
- m) The Bank directly owns 20.14% (2006: 20.14%) of United Cable Company (UCC), a closed company incorporated in State of Kuwait in 2001, and indirectly owns an additional 8% (2006: 8%) through its subsidiary KAMCO.
- o) The Bank directly owns 17% of United Real Estate Company Jordan, a closed company incorporated in Jordan in 2006, and indirectly owns an additional 10% through its subsidiary KAMCO.
- p) United Industries Company (UIC) is a company owned through its subsidiary KAMCO, incorporated in the State of Kuwait in 1979 and listed on the Kuwait Stock Exchange. The fair value of the Group's investment in UIC as of 31 December 2007 based on the last bid price was US\$139.2 million (2006: US\$ 97.9 million).
- q) United Real Estate Company (URC), is a company listed on the Kuwait Stock Exchange. The listed price of the Bank's investment in URC as of 31 December 2007 based on the last bid price of URC was US\$ 138 million (2006: US\$ 148 million).
- (b,d, k, n, r & s) These companies are owned through Bank's subsidiary KAMCO, and are all incorporated in State of Kuwait.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

9 LOANS AND MURABAHA PAYABLE

	Currency	2007 US\$ 000	2006 US\$ 000
<i>Floating rate loans</i>			
Commodity Murabaha due on October 2008	US\$	175,000	175,000
Loan due on 9 December 2007	US\$	–	65,000
Loan due on 22 December 2008	US\$	20,000	20,000
Loan due on 20 June 2012	US\$	200,000	–
Loan due on 28 August 2010 (note 9.1)	KWD	75,418	–
Loan due on 20 September 2009 (note 9.1)	KWD	29,301	27,674
Loan due on 17 June 2009 (note 9.1)	KWD	27,470	–
Loan due on 30 June 2009 (note 9.1)	KWD	–	51,886
Loan due on 30 June 2009 (note 9.1)	US\$	–	13,002
Loan due on 20 September 2007 (note 9.1)	KWD	–	13,837
<i>Fixed rate loans</i>			
Loan due on 14 January 2008 (note 9.1)	KWD	9,156	–
Loan due on 15 January 2008 (note 9.1)	KWD	14,650	–
Loan due on 15 January 2008 (note 9.1)	KWD	3,663	–
Loan due on 15 January 2008 (note 9.1)	KWD	10,988	–
Loan due on 04 February 2008 (note 9.1)	KWD	11,903	–
		577,549	366,399

9.1 These loans relate to the Bank's subsidiary KAMCO.

10 OTHER LIABILITIES

	2007 US\$ 000	2006 US\$ 000
Due to customers and other payables	35,199	22,069
Accrued expenses	16,190	10,164
Staff related payables	17,538	8,288
Interest payable	17,612	9,452
Dividends payable	1,112	1,407
Others	564	758
	88,215	52,138

11 BONDS

	2007 US\$ 000	2006 US\$ 000
Bonds – issued by the Bank (11.1)	–	54,990
Bonds – issued by a subsidiary (note 11.2)	72,336	69,183
	72,336	124,173

11.1 Bonds were repaid in September 2007.

11.2 On 21 June 2004, the Bank's subsidiary KAMCO issued floating rate bonds of KWD 10 million and fixed rate bonds of KWD 10 million each for a term of 5 years. During the year KD 250,000 of the issued bonds were redeemed prior to their maturity date.

12 SUBORDINATED DEBT

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

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For the year ended 31 December 2007

13 EQUITY

Share capital

The authorised share capital as of 31 December 2007 comprised 1 billion shares of US\$ 0.25 each (2006: 1 billion shares of US\$ 0.25 each).

The issued and fully paid up share capital as of 31 December 2007 comprised 814,989,567 shares of US\$ 0.25 each (2006: 802,104,874 shares of US\$ 0.25 each). The increase is due to exercise of share options by employees under the employee share option plan.

Share premium

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

Treasury shares and treasury shares reserve

At the end of the year the Bank held 875,302 shares (2006: 875,302 shares). These treasury shares do not carry any voting rights and are not entitled to dividends. The net gain or loss on reissuance of treasury shares is taken to treasury share reserve in the consolidated statement of changes in equity and is not available for distribution. The value of treasury shares based on the last bid price as of 31 December 2007 is US\$ 1.4 million (2006: US\$ 0.9 million).

Statutory reserve

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

General reserve

The directors have approved a transfer of 10% of the net profit of the Group for the year to general reserve in accordance with the Bank's Articles of Association. The transfer is subject to shareholders' approval at the forthcoming Annual General Meeting. The general reserve is distributable subject to the approval of the CBB.

Foreign currency translation reserve

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

Proposed dividend

The Board of Directors have recommended to the Annual General Meeting (AGM) to be held on 13 March 2008 a dividend of US 16.25 cents per issued share of US 25 cents par value. Dividend would be paid to the shareholders who hold the shares on the date of the AGM.

14 FAIR VALUE RESERVE

	2007 US\$ 000	2006 US\$ 000
<i>Available for sale investments</i>		
Balance at 1 January	68,937	36,805
Transferred to income statement on sale (note 15)	(99,797)	(25,698)
Net movement in unrealised fair value during the year	83,265	57,830
Balance at 31 December	52,405	68,937
<i>Cash flow hedge</i>		
Balance at 1 January	2,297	2,375
Net movement in unrealised fair value during the year	(1,958)	(78)
Balance at 31 December	339	2,297
	52,744	71,234

Notes to the Consolidated Financial Statements

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15 INVESTMENT INCOME

	2007 US\$ 000	2006 US\$ 000
Gain on investments designated at fair value through statement of income	61,181	31,698
Gain on investments held for trading	19,534	3,357
Dividend income	17,717	11,214
Gain on sale of investments available for sale (note 14)	99,797	25,698
(Loss) / gain on sale of associated companies	(21)	21,524
Impairment loss on associated company	(2,085)	–
Rental income from investment properties	1,101	1,113
Changes in fair value of investments properties (note 6)	2,386	2,447
Others	485	(566)
	200,095	96,485

Gain on sale of available for sale investments includes a gain of US\$ 7.3 million (2006: US\$ 9.6 million) on the sale of securities having a carrying value of US\$ 12.1 million (2006: US\$ 54.6 million) that were carried at cost.

16 FEES AND COMMISSIONS

	2007 US\$ 000	2006 US\$ 000
Management fees from fiduciary activities	47,044	20,493
Credit related fees and commission	11,333	9,318
Advisory fees	19,376	22,554
Other fees received	3,631	2,087
	81,384	54,452

17 SHARE OF RESULTS OF ASSOCIATED COMPANIES

	2007 US\$ 000	2006 US\$ 000
United Industries Company	45,502	10,369
Jordan Kuwait Bank	27,875	24,312
United Medical Services Company	13,986	4,468
United Real Estate Company	12,743	11,860
Manafae Investment Company	4,512	777
Kuwait Private Equity Opportunities Fund	3,874	–
Bank of Baghdad	3,081	1,852
North Africa Holding Company	1,322	–
Salem Al-Marzouk & Sabah Abi Hana	519	470
Kuwait Education Fund	71	–
Syria Gulf Bank	(482)	–
United Warehousing and Cooling	(2,239)	(60)
United Cable Company	(3,831)	(500)
	106,933	53,548

Notes to the Consolidated Financial Statements

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18 EARNINGS PER SHARE

Basic

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

		2007	2006
Income attributable to equity shareholders of the parent	US\$ 000	220,855	101,468
Weighted average number of shares outstanding during the year for the purpose of basic earnings per share (in thousands)		809,192	792,013
Basic earnings per share	US cents	27.3	12.8

Diluted

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

		2007	2006
Income attributable to equity shareholders of the parent	US\$ 000	220,855	101,468
Weighted average number of shares outstanding during the year for the purpose of basic earnings per share (in thousands)		809,192	792,013
Effect of dilutive potential ordinary shares:			
Share options (in thousands)		10,804	5,455
		819,996	797,468
Diluted earnings per share	US cents	26.9	12.7

19 FUNDS UNDER MANAGEMENT

The Group holds assets amounting to US\$ 8.5 billion (2006: US\$ 6.5 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 in the assets on the consolidated balance sheet.

20 CASH AND CASH EQUIVALENTS

	2007	2006
	US\$ 000	US\$ 000
Demand and call deposits with banks	79,560	47,020
Time deposits with maturities of ninety days or less	432,151	435,222
	511,711	482,242

21 SEGMENTAL INFORMATION

Primary segment information

For management reporting purposes the Group is organised into two major business segments:

- Investment banking – Principally undertaking, asset portfolio management, corporate finance, advisory, investments in quoted and private equity/funds, real estate, capital markets, international banking and treasury activities.
- Commercial banking – Principally loans and other credit facilities, deposit and current accounts from corporate and institutional customers.

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Segmental information for the year ended 31 December 2007 was as follows:

	Investment banking US\$ 000	Commercial banking US\$ 000	Total US\$ 000
Total income	388,072	53,175	441,247
Segment result before provisions and impairment	258,832	25,581	284,413
Impairment loss on non trading investments	(3,831)	–	(3,831)
Provision for doubtful loans, guarantees and other assets, net	(9,319)	(2,987)	(12,306)
Segment result	245,682	22,594	268,276
Income attributable to equity shareholders of the parent			220,855
Income attributable to minority			47,421
			268,276
OTHER INFORMATION			
Segment assets	1,961,685	705,948	2,667,633
Segment liabilities	1,282,716	580,179	1,862,895

Segmental information for the year ended 31 December 2006 was as follows:

	Investment banking US\$ 000	Commercial banking US\$ 000	Total US\$ 000
Total income	205,644	36,186	241,830
Segment result before provisions	104,329	18,063	122,392
Provision for doubtful loans, guarantees and other assets, net	283	(2,635)	(2,352)
Segment result	104,612	15,428	120,040
Income attributable to equity shareholders of the parent			101,468
Income attributable to minority			18,572
			120,040
OTHER INFORMATION			
Segment assets	1,873,729	477,005	2,350,734
Segment liabilities	1,297,876	460,007	1,757,883

Secondary segment information

Geographic

The Group operates in four geographic markets: Middle East/Africa, Europe, North America and Asia. The following tables show the distribution of the Group's total income, total assets and total liabilities by geographical segment, allocated based on the location in which the assets and liabilities are located, for the years ended 31 December 2007 and 2006:

	Middle East/ Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Asia US\$ 000	Total US\$ 000
31 December 2007					
Total income	404,329	22,779	14,099	40	441,247
Total assets	2,216,058	286,374	164,543	658	2,667,633
Total liabilities	1,452,885	374,627	4,133	31,250	1,862,895
31 December 2006					
Total income	212,473	21,295	6,711	1,351	241,830
Total assets	1,873,663	282,928	192,443	1,700	2,350,734
Total liabilities	1,450,264	275,604	7,015	25,000	1,757,883

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22 RELATED PARTY TRANSACTIONS

The Group enters into transactions with its parent, major shareholders, 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 parties transacted at commercial terms and included in the consolidated financial statements are as follows:

	Major shareholders US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total 2007 US\$ 000	Total 2006 US\$ 000
Gain on investments carried at fair value through statement of income	–	7	18,329	18,336	3,877
Gain on sale of investment in associated companies	–	–	–	–	8,444
Fees and commissions income	18,554	4,715	8,014	31,283	11,020
Dividend income	633	18	1,866	2,517	1,713
Interest income	674	121	2,846	3,641	4,351
Interest expense	(93)	(634)	(7,974)	(8,701)	(7,246)
Provision for doubtful debts	–	(239)	(6,414)	(6,653)	–

Compensation of the key management personnel and directors' remuneration are as follows:

	2007 US\$ 000	2006 US\$ 000
Short term employee benefits	19,016	8,833
Share based payments	3,072	655
Total compensation	22,088	9,488

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

	Major shareholders US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total 2007 US\$ 000	Total 2006 US\$ 000
Demand and call deposits with banks	67	431	10,905	11,403	5,968
Time deposits with banks	–	10,000	35,000	45,000	–
Investments carried at fair value through statement of income	14,906	1,975	25,834	42,715	47,254
Investments, carried at fair value through statement of income, in funds managed by related party	–	–	13,869	13,869	91,796
Non-trading investments	8,699	916	99,432	109,047	176,082
Loans and advances	–	7	1,888	1,895	94,558
Other assets	90	3,889	6,812	10,791	15,902
Due to banks and other financial institutions	–	26,334	96,489	122,823	35,990
Deposits from customers	825	345	11,310	12,480	57,885
Loans taken by a subsidiaries (KAMCO)	–	–	39,373	39,373	53,639
Murabaha payable	–	–	31,250	31,250	31,250
Other liabilities	–	42	5,748	5,790	3,880
Letters of credit	–	260	12,819	13,079	27,448
Guarantees	–	–	–	–	8,531
Funds managed or advised by the Group (included in funds under management)	–	–	173,222	173,222	147,676

Except as above, all related party exposures are performing and are free of any provision for possible credit losses.

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In addition to the above, other transactions with related parties included in the consolidated financial statements are as follows:

	2007 US\$ 000	2006 US\$ 000
Carrying value of associate sold to an associated company	–	40,308

23 OFF BALANCE SHEET ITEMS

Credit related commitments

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

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

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

The Group has the following credit and investment related commitments:

	2007 US\$ 000	2006 US\$ 000
<i>Credit related</i>		
Letters of credit	31,651	26,378
Guarantees	119,286	109,966
	150,937	136,344
<i>Investment related</i>		
	28,036	36,403
	178,973	172,747

All credit related commitments mature within one year

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

The Group does not anticipate any material losses in respect of the above.

Other off balance sheet financial instruments

It is the policy of the Group not to engage in derivatives trading or market-making activities. The main off balance sheet financial instruments used to cover foreign exchange risks are forward foreign exchange purchases and sales contracts.

	Positive fair value US\$ 000	Negative fair value US\$ 000	Notional amounts by term to maturity			
			Notional amount Total US\$ 000	Within 3 months US\$ 000	3–12 months US\$ 000	1–5 years US\$ 000
31 December 2007						
Derivatives held for hedging: Interest rate swaps	339	–	75,000	–	50,00	25,000
Other derivatives:						
Forward foreign exchange contracts*	42	(85)	305,482	305,482	–	–
31 December 2006						
Derivatives held for hedging: Interest rate swaps	2,297	–	75,000	–	–	75,000
Other derivatives:						
Forward foreign exchange contracts	36	(116)	314,936	314,936	–	–

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23 OFF BALANCE SHEET ITEMS (continued)

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

* The Group has undertaken these forward foreign exchange transactions for hedging purposes but as these did not qualify for hedge accounting under IAS 39, these are accounted as derivatives held for trading.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Cash flow hedges

The Group is exposed to variability in future interest cash flows on liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. A schedule indicating as at 31 December 2007 the periods when the hedged cash flows are expected to occur and when they are expected to affect the income statement is as follows:

	Within 1 year US\$ 000	1–3 years US\$ 000
Cash outflows (Liabilities)	2,125	1,062
Income statement	221	118

The ineffectiveness on cash flow hedges on reclassification from equity to statement of income is not material.

24 RISK MANAGEMENT

24.1 Introduction

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

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

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

Risk management structure

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

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

The Managing Director of the Bank has overall responsibility for representing the Board in managing the affairs of the Bank. The Board of Directors has delegated the Executive Management of the Bank to the Chief Executive Officer (who is not a Director) and has appointed several Board committees to work with him and to form and define policies and approve procedures for all spectrums of the Bank's activities.

The Executive Management of the Bank is headed by the Chief Executive Officer who is broadly responsible for the day to day conduct of the Bank's business in line with the Board's approved policies and procedures and complements and facilitates the Board in meeting its responsibility towards all stakeholders. He is assisted by the Deputy Chief Executive Officer. Additionally, several management committees have been formed which are chaired by the Managing Director/Chief Executive Officer.

The Executive Committee comprises four directors including the Chairman, Vice Chairman, Managing Director and a fourth Director. It meets in between Board meetings to approve all proposals not within the Investment Committee's risk authority, as well as to act on all matters within the Board's remit.

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

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

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

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

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

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

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

Risk mitigation

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

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

Where warranted, the Bank enters into legally enforceable netting arrangements covering its money market and foreign exchange trading activities whereby only net amount may be settled at maturity. In areas where the Bank acts as agent for commodity trading on behalf of certain financial institutions, the risk is managed through simultaneous spot and forward trading in commodities through well established financial and commodity trading institutions in the overseas market. With regard to the credit risk in the off balance sheet exposures, third party guarantees are obtained wherever possible as a risk mitigation measure.

Concentration risk

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

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24 RISK MANAGEMENT (continued)

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

24.2 Credit risk

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

Credit risk is mitigated through:

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

Well defined policies approved at the Board level are in place. These provide carefully documented guidelines for credit risk management. There is a two tier committee structure to approve and review credit and investment risk. The Investment Committee (IC) includes the Managing Director, Chief Executive Officer, Deputy Chief Executive Officer, Head of Investment Banking and Head of Asset Management. Exposures beyond IC limits are approved by the Board's Executive Committee or by the full Board.

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

The table below shows the maximum exposure to credit risk for the components of on and off balance sheet. The maximum exposure shown is gross before effect of mitigation through the use of master netting and collateral arrangements.

	2007 US\$ 000	2006 US\$ 000
Demand and call deposits with banks	79,613	47,073
Time deposits with banks	459,923	459,294
Non-trading investments	18,962	28,702
Loans and advances	291,866	308,280
Other assets	64,349	42,304
Off balance sheet items	150,937	136,344
	1,065,650	1,021,997

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any single client or counterparty as of 31 December 2007 was US\$ 45.6 million (2006: US\$ 30.2 million) before taking account of collateral or other credit enhancements.

	Total 2007 US\$ 000	Total 2006 US\$ 000
Gulf Co-operation Council countries (G.C.C.)	343,250	394,588
Middle East and North Africa (excluding G.C.C.)	531,299	408,026
North America	2,559	13,018
European Union countries	188,367	206,082
Asia	164	264
Others	11	19
Total	1,065,650	1,021,997

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

	Gross maximum exposure 2007 US\$ 000	Gross maximum exposure 2006 US\$ 000
Trading and manufacturing	172,060	157,125
Banks and other financial institutions	789,849	793,762
Construction and real estate	1,039	2,350
Government and public sector	7,909	8,636
Individuals	8,979	4,176
Others	85,814	55,948
Total	1,065,650	1,021,997

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

Credit risk exposure for each credit rating

	Total 2007 US\$ 000	Total 2006 US\$ 000
Risk rating		
Investment grade	459,652	413,899
Non-investment grade	74,268	32,406
Unrated	531,730	575,692
Total	1,065,650	1,021,997

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

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The carrying amount of the loans whose terms have been renegotiated as at 31 December 2007 and 2006 are not material.

24.3 Market risk

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

24 RISK MANAGEMENT (continued)

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

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

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

Interest rate risk

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

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement based on the balance sheet position as of 31 December 2007.

Currency	Increase in basis points 2007	Sensitivity of net interest income 2007 US\$ 000
Kuwaiti Dinar	+ 25	(421)
United States Dollar	+ 25	(1,517)
Euro	+ 25	68
Pound Sterling	+ 25	(14)
Others	+ 25	116

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2007, including the effect of hedging instruments.

There are no material interest bearing securities in non trading investments, hence no sensitivity of equity has been disclosed.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement based on the balance sheet position as of 31 December 2006.

Currency	Increase in basis points 2006	Sensitivity of net interest income 2006 US\$ 000
Kuwaiti Dinar	+ 25	(817)
United States Dollar	+ 25	(1,499)
Euro	+ 25	102
Pound Sterling	+ 25	17
Others	+ 25	177

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

Currency risk

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

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The table below indicates the effect on profit before tax and on equity for the positions (including net investments) as at balance sheet date as a result of change in the currency rate with all other variables held constant.

Currency	Change in	Effect on	Effect on	Change in	Effect on	Effect on
	currency rate	profit	equity	currency	profit	equity
	in %	before tax	2007	rate in %	before tax	2006
	2007	2007	2007	2006	2006	2006
	Increase/ (decrease)	US\$ 000	US\$ 000	Increase/ (decrease)	US\$ 000	US\$ 000
Kuwaiti Dinar	1	(1,993)	8,878	1	(1,231)	6,960
Euro	1	(257)	333	1	20	281
Jordanian Dinar	1	–	1,786	1	–	1,389
Kuwaiti Dinar	(1)	1,993	(8,878)	(1)	1,231	(6,960)
Euro	(1)	257	(333)	(1)	(20)	(281)
Jordanian Dinar	(1)	–	(1,786)	(1)	–	(1,389)

Equity price risk

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

The Group's financial assets available for sale and financial assets at fair value through statement of income by geographical regions are as follows:

Geographical distribution

	Middle		North		Total	Total
	East/ Africa	Europe	America	Asia	2007	2006
	2007	2007	2007	2007	2007	2006
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Investments carried at fair value through statement of income						
Equities	80,393	94	8,695	442	89,624	57,521
Managed funds	150,779	71,836	44,230	–	266,845	285,048
					356,469	342,569
Non trading investments available for sale						
Equities – Quoted	121,914	3,137	5,302	–	130,353	84,504
Equities – Unquoted	122,860	21,412	35,722	–	179,994	226,371
Managed funds	164,080	10,991	50,110	–	225,181	176,574
					535,528	487,449
Total					891,997	830,018

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

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

24.4 Liquidity risk

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

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24 RISK MANAGEMENT (continued)

At 31 December 2007

	On demand	1 – 6	6 – 12	1 – 5	5–10	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Financial liabilities						
Due to banks and other financial institutions	461,208	191,050	27,607	–	–	679,865
Deposits from customers	431,295	53,643	1,117	–	–	486,055
Loans and Murabaha payable	38,580	11,989	204,646	152,554	308,392	716,161
Other liabilities	43,766	–	26,910	17,539	–	88,215
Bonds	354	1,726	2,104	74,303	–	78,487
Subordinated debt	606	2,954	3,600	35,721	119,895	162,776
Total non-derivative undiscounted on balance sheet financial liabilities 2007	975,809	261,362	265,984	280,117	428,287	2,211,559

At 31 December 2006

	On demand	1 – 6	6 – 12	1 – 5	5–10	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Financial liabilities						
Due to banks and other financial institutions	487,814	238,215	1,906	–	–	727,935
Deposits from customers	360,349	26,118	5,982	–	–	392,449
Loans and murabaha payable	–	–	112,685	294,745	–	407,430
Other liabilities	22,752	–	21,097	8,289	–	52,138
Bonds	652	3,156	57,931	75,063	–	136,802
Subordinated debt	618	2,989	3,666	36,405	127,538	171,216
Total non-derivative undiscounted on balance sheet financial liabilities 2006	872,185	270,478	203,267	414,502	127,538	1,887,970

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

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

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

<i>31 December 2007</i>	Up to 3 months US\$ 000	3 months to 12 months US\$ 000	Sub total less than 12 months US\$ 000	1 to 5 years US\$ 000	over 5 years US\$ 000	Sub total over 12 months US\$ 000	Total US\$ 000
Demand and call deposits with banks	79,560	–	79,560	–	53	53	79,613
Time deposits with banks	432,151	23,653	455,804	4,119	–	4,119	459,923
Investments carried at fair value through statement of income	356,469	–	356,469	–	–	–	356,469
Non-trading investments	135,027	2,202	137,229	419,336	8,602	427,938	565,167
Loans and advances	66,385	143,557	209,942	81,924	–	81,924	291,866
Other assets	64,349	–	64,349	–	–	–	64,349
Total financial assets	1,133,941	169,412	1,303,353	505,379	8,655	514,034	1,817,387
Due to banks and other financial institutions	546,978	39,705	586,683	–	–	–	586,683
Deposits from customers	417,384	20,728	438,112	–	–	–	438,112
Loans and Murabaha payable	50,361	195,000	245,361	332,188	–	332,188	577,549
Other liabilities	43,766	26,911	70,677	17,538	–	17,538	88,215
Bonds	–	–	–	72,336	–	72,336	72,336
Subordinated debt	–	–	–	–	100,000	100,000	100,000
Total financial liabilities	1,058,489	282,344	1,340,833	422,062	100,000	522,062	1,862,895
Liquidity gap	75,452	(112,932)	(37,480)	83,317	(91,345)	(8,028)	(45,508)
Cumulative liquidity gap	75,452	(37,480)		45,837	(45,508)		

<i>31 December 2006</i>	Up to 3 months US\$ 000	3 months to 12 months US\$ 000	Sub total less than 12 months US\$ 000	1 to 5 years US\$ 000	over 5 years US\$ 000	Sub total over 12 months US\$ 000	Total US\$ 000
Demand and call deposits with banks	47,020	–	47,020	–	53	53	47,073
Time deposits with banks	435,222	24,015	459,237	57	–	57	459,294
Investments carried at fair value through statement of income	344,001	–	344,001	–	–	–	344,001
Non-trading investments	96,496	3,365	99,861	426,591	–	426,591	526,452
Loans and advances	90,697	144,805	235,502	72,549	229	72,778	308,280
Other assets	42,306	–	42,306	–	–	–	42,306
Total financial assets	1,055,742	172,185	1,227,927	499,197	282	499,479	1,727,406
Due to banks and other financial institutions	486,738	236,783	723,521	–	–	–	723,521
Deposits from customers	363,419	28,233	391,652	–	–	–	391,652
Loans and Murabaha payable	–	79,837	79,837	286,562	–	286,562	366,399
Other liabilities	22,752	21,097	43,849	8,289	–	8,289	52,138
Bonds	–	–	–	124,173	–	124,173	124,173
Subordinated debt	–	–	–	–	100,000	100,000	100,000
Total financial liabilities	872,909	365,950	1,238,859	419,024	100,000	519,024	1,757,883
Liquidity gap	182,833	(193,765)	(10,932)	80,173	(99,718)	(19,545)	(30,477)
Cumulative liquidity gap	182,833	(10,932)		69,241	(30,477)		

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For the year ended 31 December 2007

25 FAIR VALUE

Financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

As explained in note 4, included under non-trading investments are unquoted available for sale investments amounting to US\$ 165 million (2006: US\$ 119 million) for which fair value cannot be reliably determined.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the financial statements.

Investment in associated companies

	2007 US\$ 000	2006 US\$ 000
Quoted investments at last bid price	720,572	568,432
Unquoted investments at cost plus share of post acquisition profits	259,062	167,464
	979,634	735,896
Investments carried at cost plus share of post acquisition profits	790,367	579,910
Excess of listed price over carrying value	189,267	155,986
KAMCO (consolidated subsidiary) – Excess of listed price over book value	158,694	115,838

26 CAPITAL ADEQUACY

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

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements of the CBB and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, or issue capital securities.

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

	2007 US\$ 000	2006 US\$ 000
Capital base:		
Tier 1 capital	572,474	497,218
Tier 2 capital	294,030	139,820
Total capital base (a)	866,504	637,038
Credit risk weighted exposure	2,171,150	1,899,211
Market risk weighted exposure	454,878	349,048
Total risk weighted exposure (b)	2,626,028	2,248,259
Capital adequacy (a/b * 100)	33.0%	28.3%
Minimum requirement	12.0%	12.0%

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

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