

# Key Information United Gulf Bank



2006



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



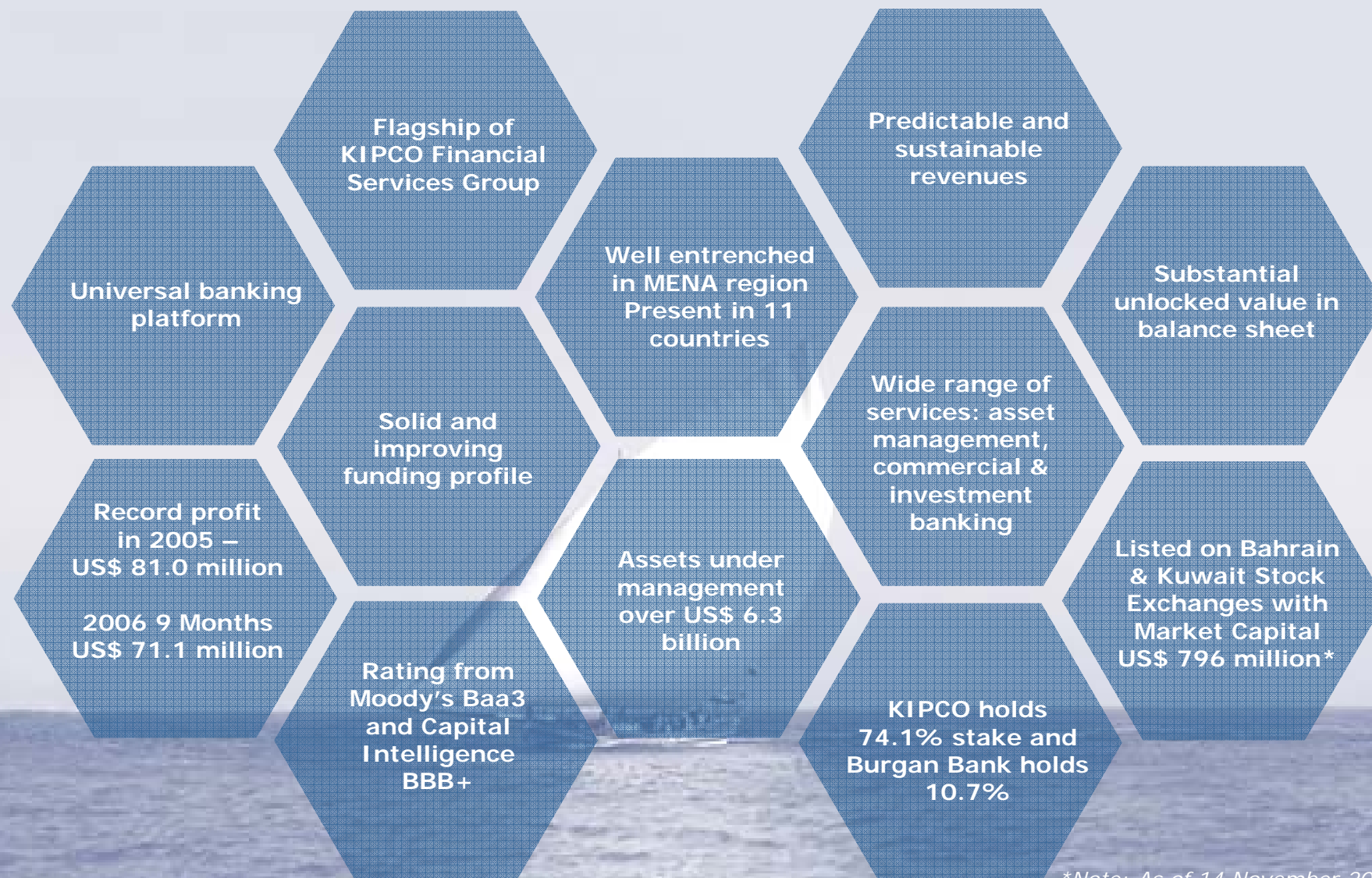
- **UGB Overview**

- UGB Strategy and Franchise
- Financial Highlights
- Summary





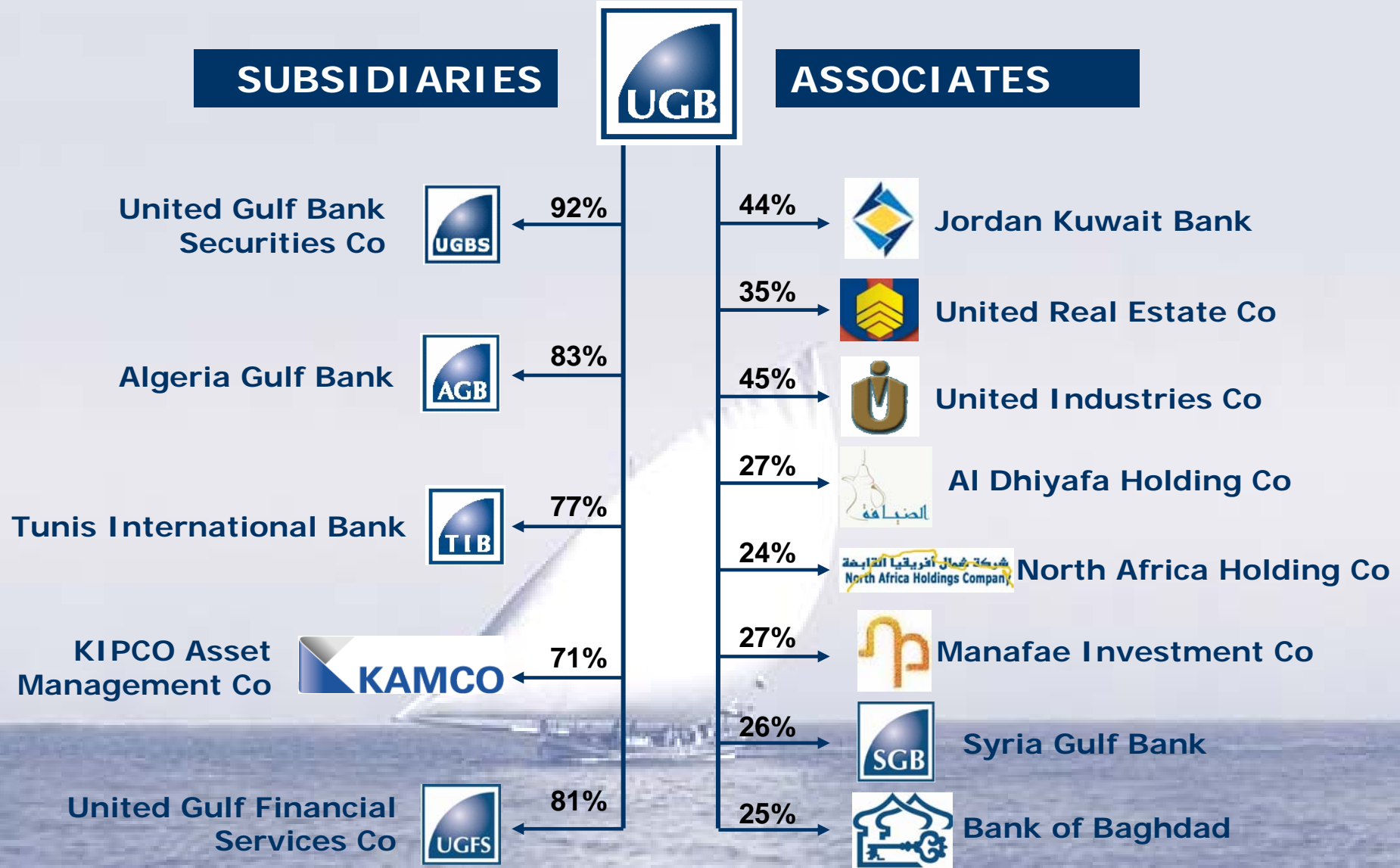
# UGB-Key Highlights



*\*Note: As of 14 November 2006*



# UGB: Major Subs and Associates as of 30 Sept 2006





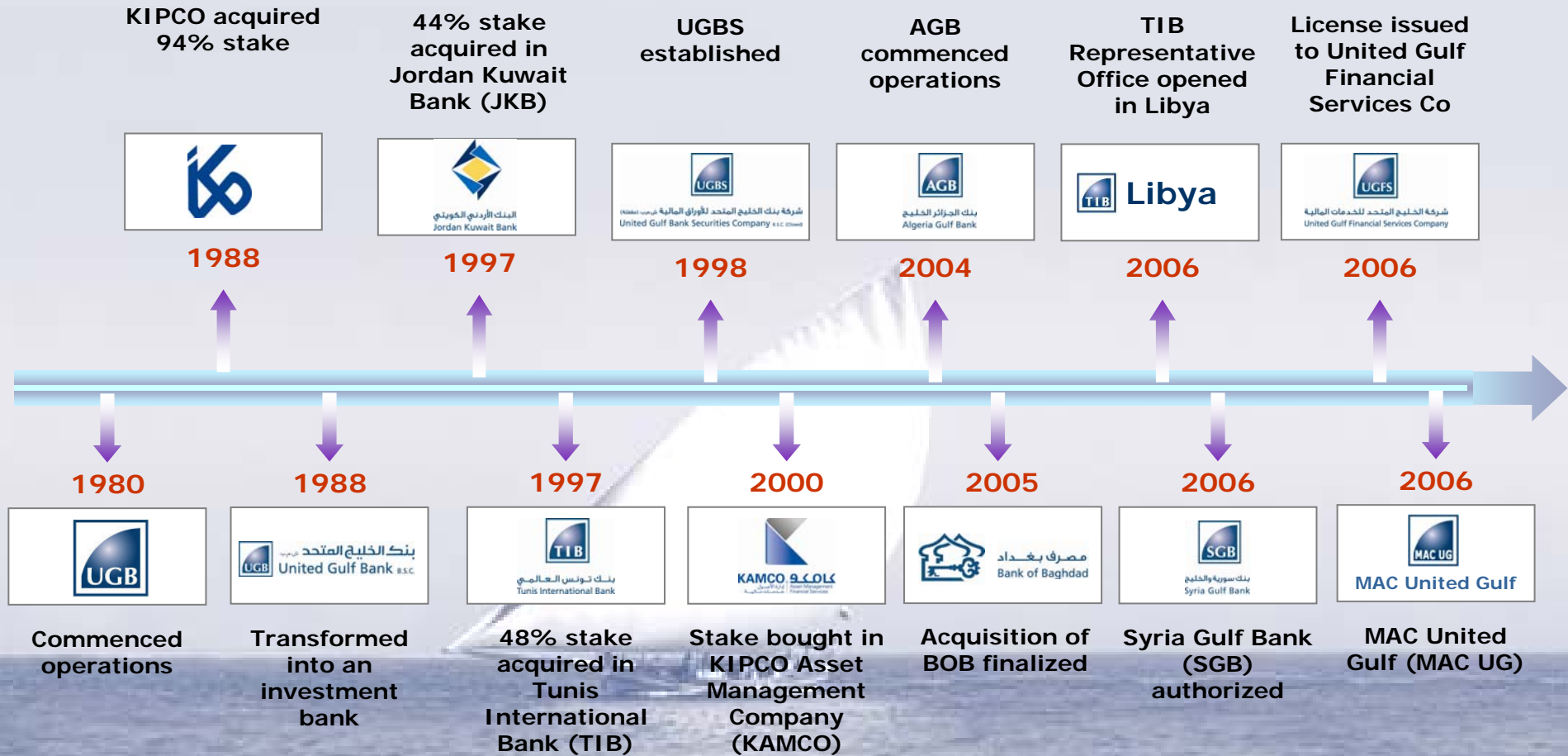
## UGB: Business Profile

- ❖ UGB, a Pan-Arab bank, was founded in March 1980 in Bahrain and is regulated as a wholesale license by the Central Bank of Bahrain (formerly Bahrain Monetary Agency)
- ❖ Kuwait Projects Company (KIPCO) purchased 94% equity stake in 1988 and UGB transformed into an offshore investment bank
- ❖ As at 30 September 2006 KIPCO held a direct effective interest of 75.2% and Burgan Bank held a 10.7% stake in UGB
- ❖ UGB is listed on the Bahrain Stock Exchange and the Kuwait Stock Exchange having more than 1,800 shareholders
- ❖ UGB offers comprehensive investment banking and asset management services through its head office in Bahrain and financial services entities in Kuwait Qatar and soon Tunisia. Commercial banking services are offered through its extensive banking network in Jordan, Tunisia, Algeria, Iraq and soon in Syria
- ❖ UGB Group has over US\$ 6.3 billion of Assets Under Management



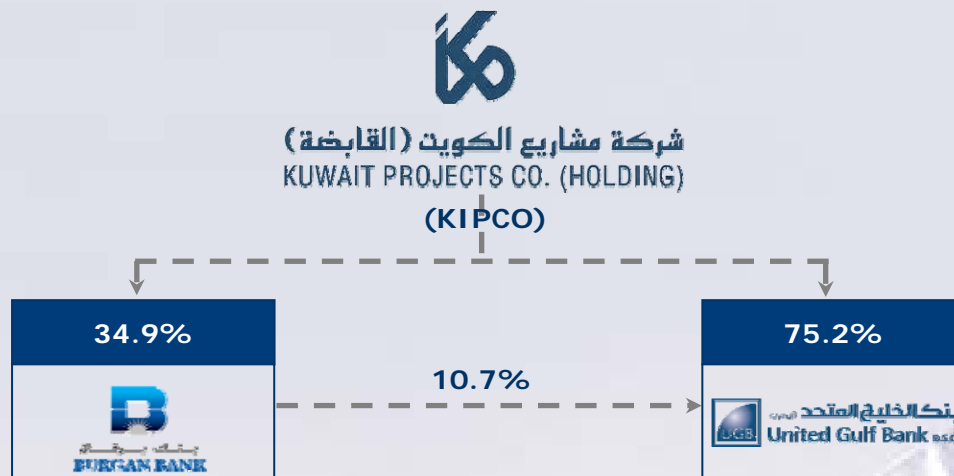
# Unique Franchise - Key Milestones

## Financial Services Network Expansion





# Demonstrated Shareholder Support



- **KIPCO** is Kuwait based premier investment holding company operating in the MENA region with ownership interests in close to 70 companies and with assets in excess of US\$ 18 billion in Europe, Middle East & US (Rated BBB- with positive outlook by S&P)
- **Burgan Bank** (A2/BBB+) commercial bank

## KIPCO group lends stability and support to UGB:

- ❖ **In a stress scenario, the shareholders are expected to support UGB:**
  - KIPCO has capacity and incentive to support UGB which is its major subsidiary contributing significant revenue and dividends
  - Financial Services are core to KIPCO – UGB is the primary vehicle for expansion
  - UGB contributes in excess of 25% to the total income of KIPCO
- ❖ **Back-up provided in the past includes:**
  - Burgan Bank (BB) lent support during the Second Gulf War in 2003 and post September 2001
  - Support from BB was through placement of deposits and purchase of certificate of deposits issued by UGB



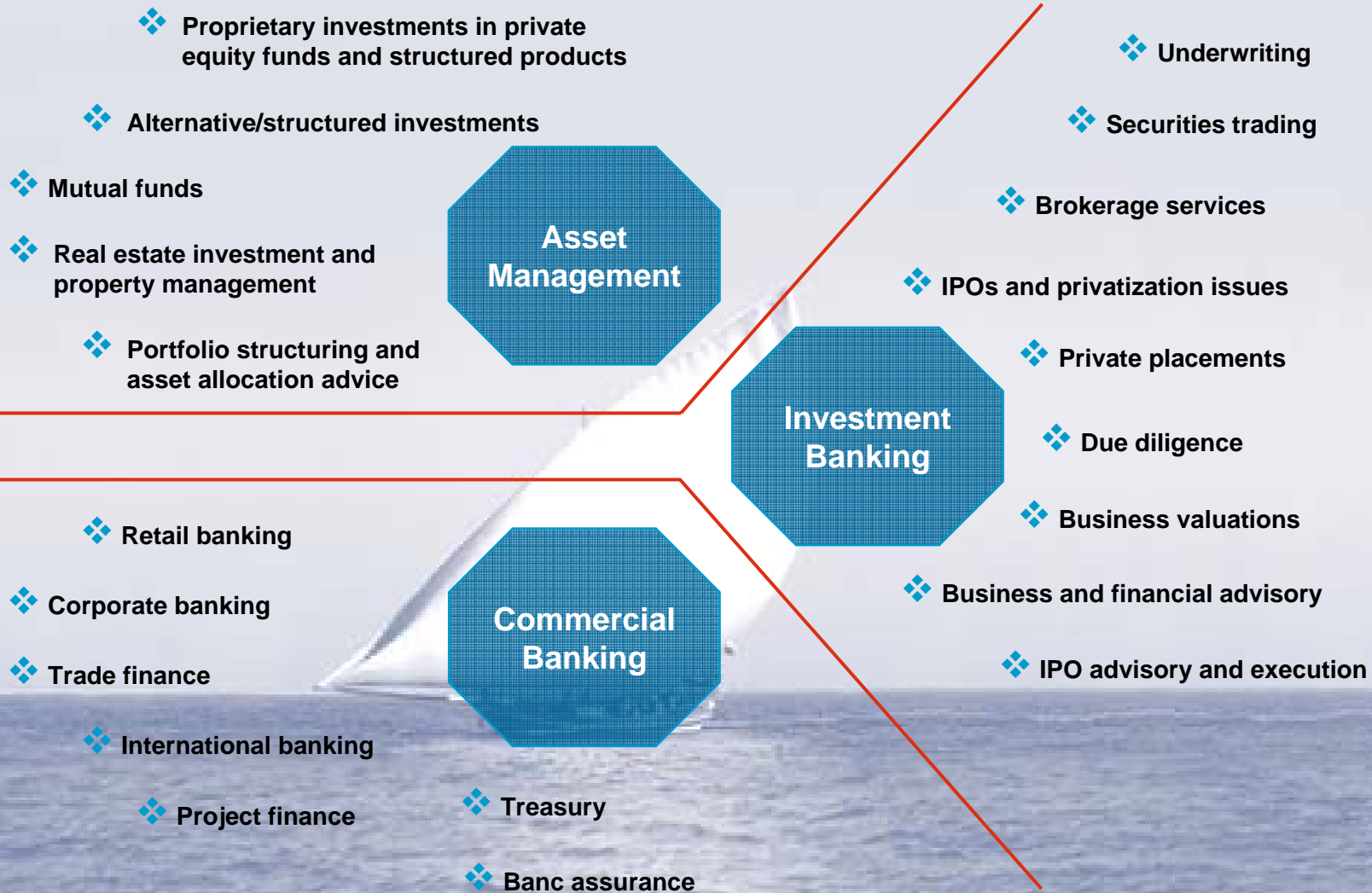
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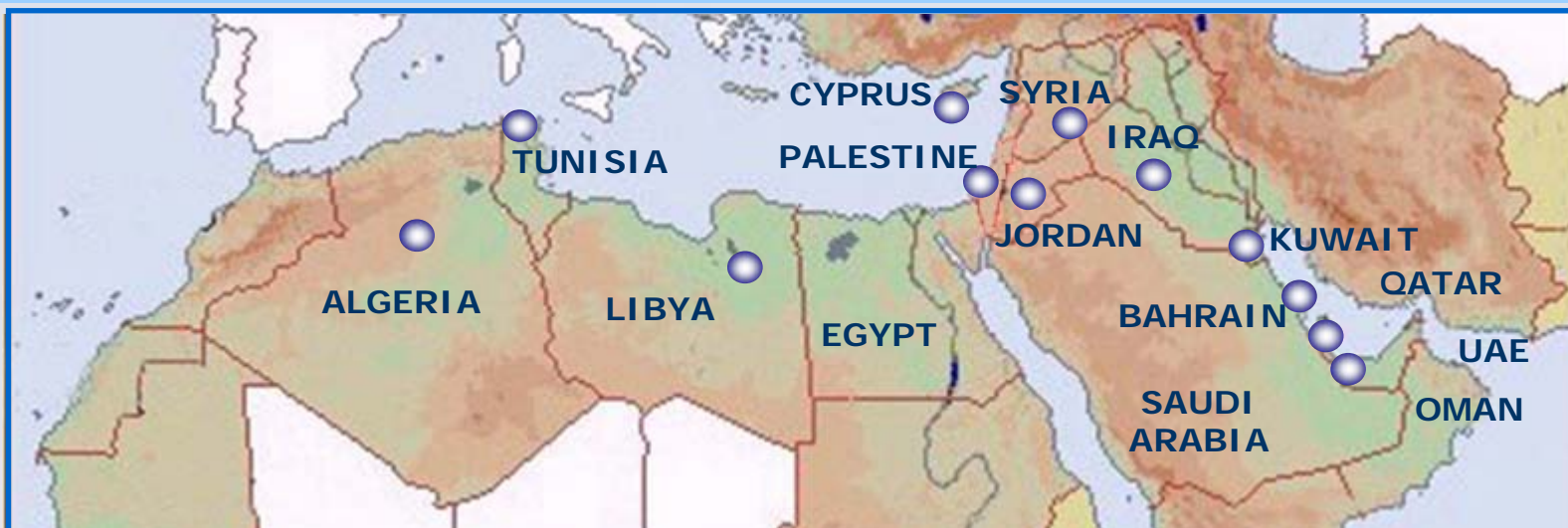
# UGB: A Pan Arab Universal Bank

A wide range of services are offered by UGB





# Regional Footprint



- Bank of Baghdad – improving prospects, **Iraq**
- KAMCO – successful asset management company, **Kuwait**
- Jordan Kuwait Bank – successful commercial bank, **Jordan**
  - Jordan Kuwait Bank, Branch in **Cyprus**
  - Jordan Kuwait Bank, Branch in **Nablus (Palestine)**
- Algeria Gulf Bank – profitable and operational commercial bank, **Algeria**
- Tunis International Bank – successful and operational commercial bank, **Tunisia**
- UGB Securities – brokerage company, **Bahrain**
- Syria Gulf Bank, **Syria** (not operational)
- United Gulf Financial Services Company (UGFS), **Qatar** (not operational)
- TIB representative office in **Libya**
- Investment company joint venture in **UAE** (under formation)
- MAC-UGBS – investment company, **Tunisia** (under formation)
- Investment company in **Jordan** (planned)
- Investment company in **Syria** (planned)



# Business Strategy

## Cornerstones of UGB's Strategy



*Combining growth with sustainable revenues*

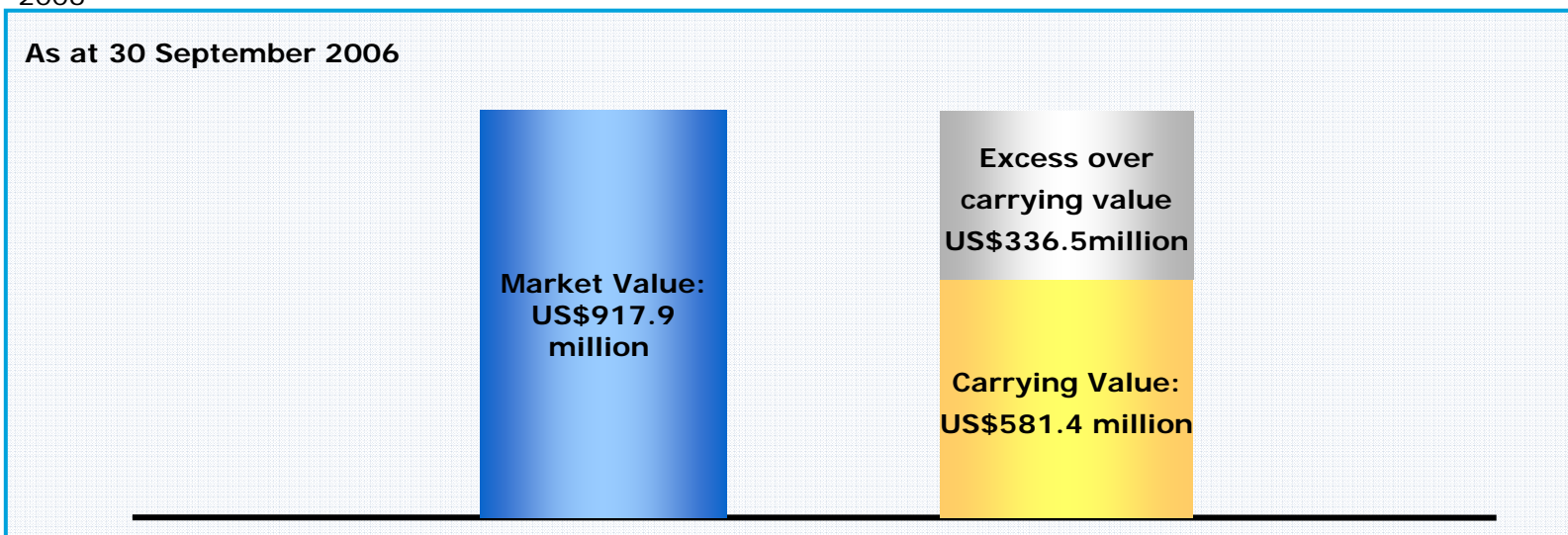


# Key Accounting Policies

## Accounting Policies for Associates and Subsidiaries

### Conservative policies leading to unrealised gains

- ❖ Associates are entities in which the company has between 20% to 50% of equity share capital and are equity accounted. Subsidiaries are entities controlled by the Bank, other than in a fiduciary capacity
- ❖ Associates are carried in the balance sheet at cost plus adjustment for post-acquisition changes in group's share of net assets of investee; Financial statements of subsidiaries are included in consolidated financial statement using the purchase method of accounting
- ❖ Market value of these investments does not get reflected in the financial accounts thus leading to unrealised gains. This provides a vital cushion of financial strength to the Bank's balance sheet, its equity base and strength to the income base
- ❖ Hidden value in Investment in listed subsidiaries and associates amounts to US\$ 336.5 million as of 30<sup>th</sup> September 2006



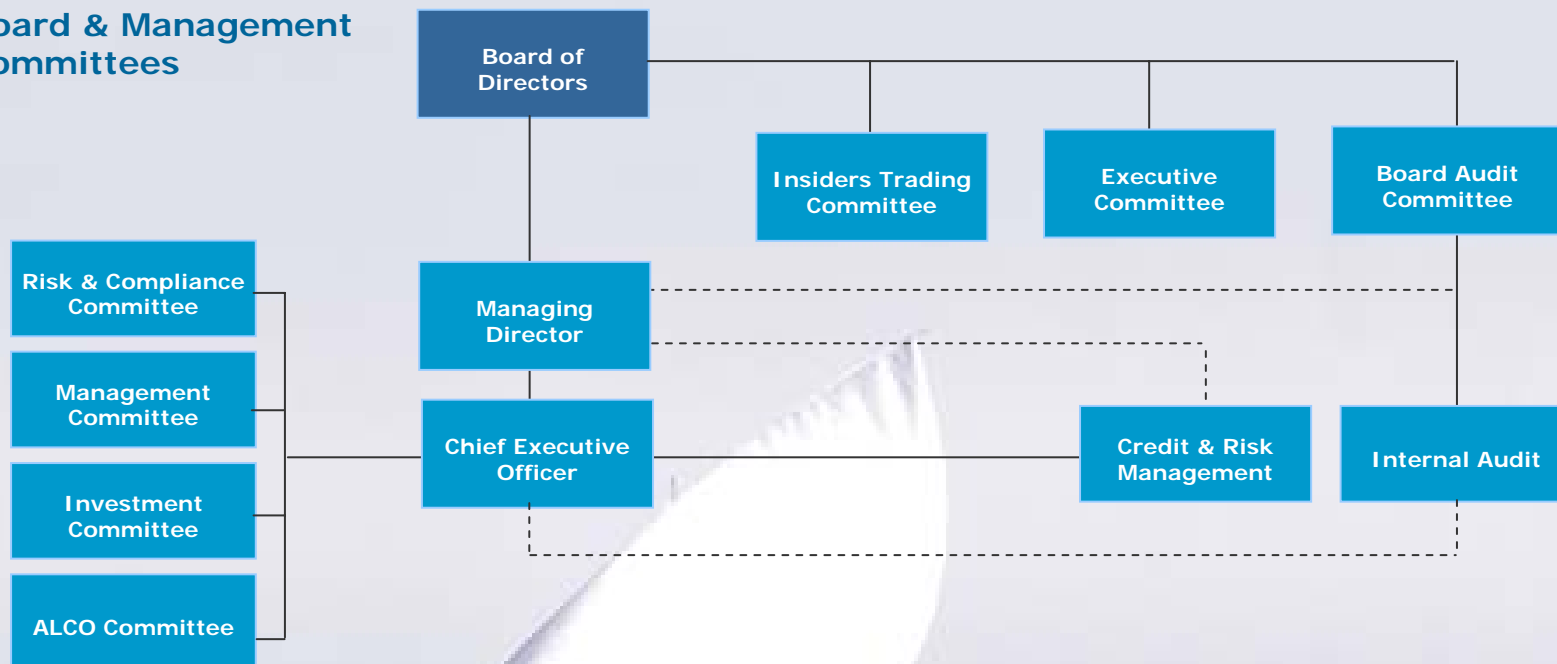
Note- Listed associates include : JKB, UREC, UIC, BoB; Listed Subsidiary includes: KAMCO



# Risk Management Framework / Sound Corporate Governance Practices

## Corporate Governance Culture

### Board & Management Committees



### Compliance & Anti Money Laundering

- ❖ UGB has set up a compliance function within the ambit of Risk Management Department
- ❖ Head of Credit and Risk Management acts in the capacity of Compliance Officer
- ❖ The bank has implemented sound anti money laundering, Know Your Customer and terrorism financing prevention policies

### Transparency and Disclosure

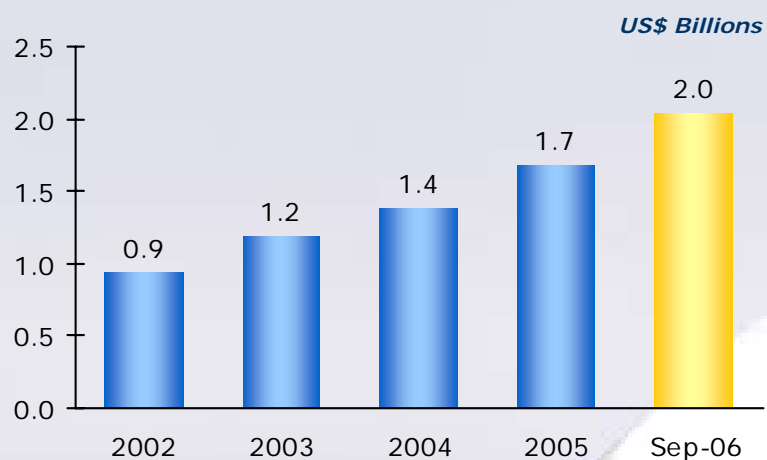
- ❖ Board ensures fair and transparent disclosures, which are comprehensive and timely and reflect the character of the bank and the nature, complexity and risks inherent in the bank's business activities
- ❖ Actively participates in the annual Shafafiyah Forum launched by KIPCO to promote transparency and enhanced communication with stakeholders



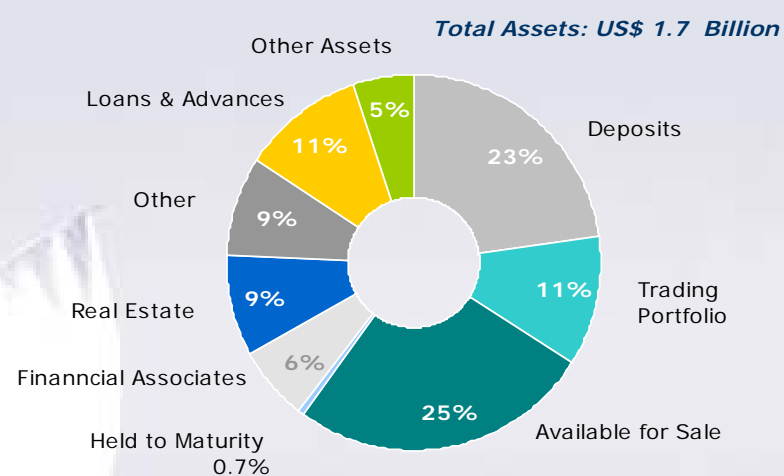
# Diversification of Risk Portfolio

## Asset Mix

### Asset Growth (UGB Group)



### Asset Mix (UGB Group) 2005



- ❖ UGB's portfolio composition has been stable with an optimum mix between liquid assets (deposits, trading assets) and long term/strategic assets (associate companies, direct investments, loans etc); thus not only lending stability but also ensuring sustained growth in revenues
- ❖ UGB core assets provide a stable source of revenue
- ❖ UGB also plans to exit mature non-core investments to realize profits

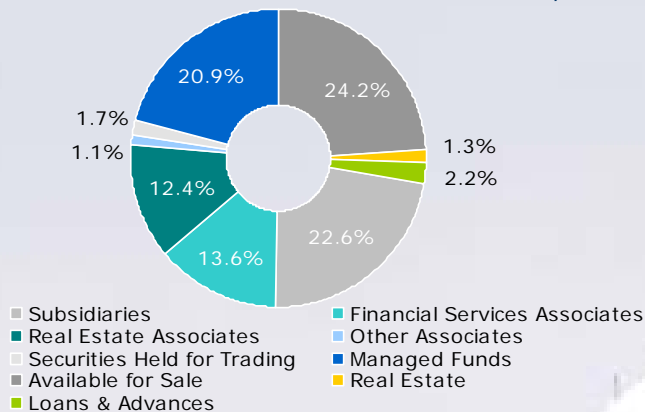


# Asset Quality

## Diversification of Risk Portfolio (UGB Parent)

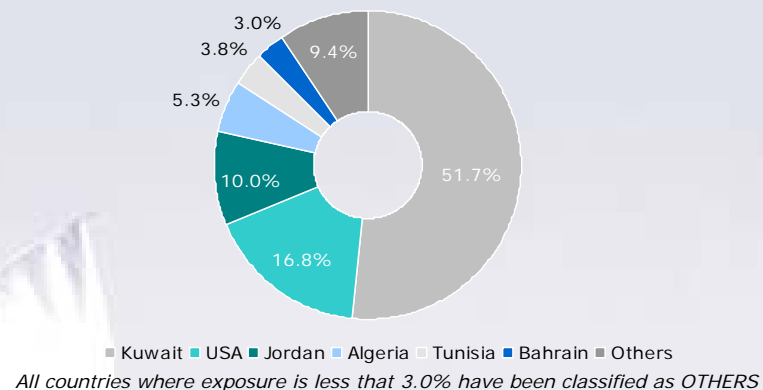
### Portfolio by Asset Class

Total Risk Assets = US\$ 1,154 million



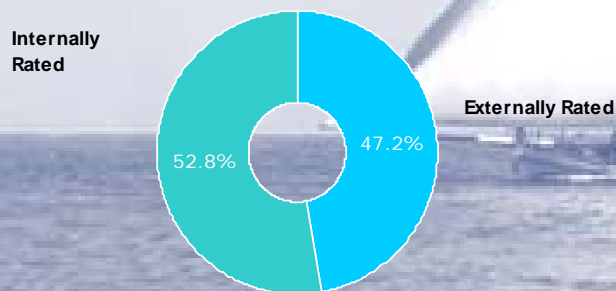
### Portfolio by Geography

Total Risk Assets = US\$ 1,154 million



### Portfolio by Issuer Rating

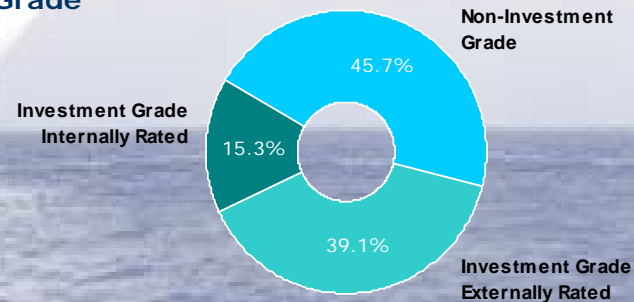
Total Risk Assets = US\$ 1,154 million



### Portfolio by Rating Grade

Total Risk Assets = US\$ 1,154 million

54.4% Investment Grade



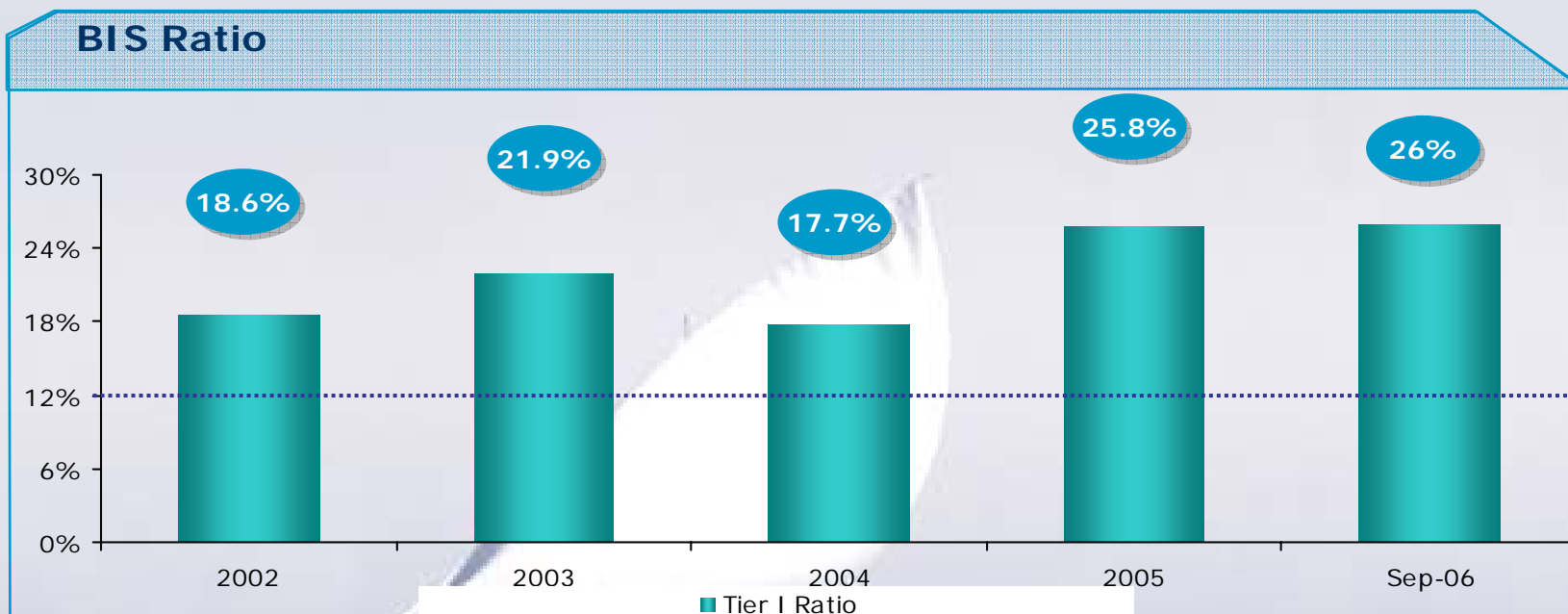
Investment Grade: AAA/AA/A/BBB. Non investment grade: BB/B/CCC/CC/C/D. UGB uses rating issued by Moody's /S&P/Fitch/CI Ratings/Internal



# Capital Position

## Capital Position at UGB Group

As per the BMA (now CBB) regulations, a bank must have a minimum Risk Asset Ratio (RAR) of 12.0% p.a. on a consolidated basis. UGB has also set itself more conservative capital adequacy targets



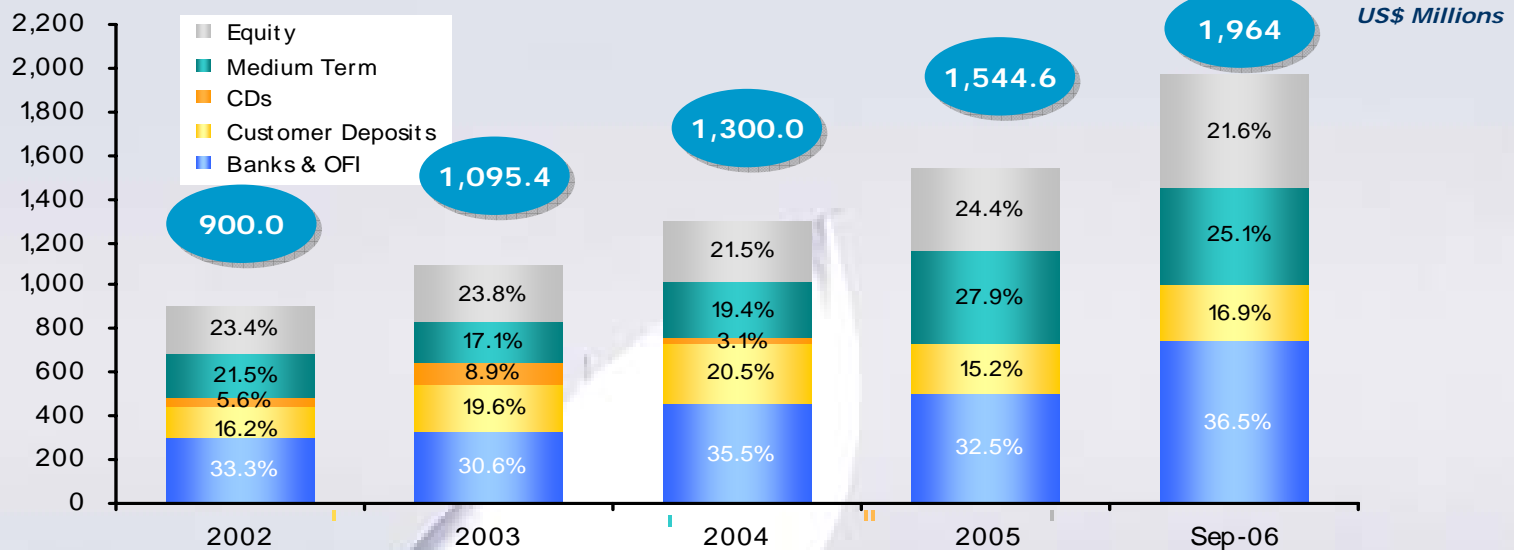
- ❖ With a BIS Ratio of 26% (2005 UGB Group), UGB is one of the best capitalised regional universal banks. ***BIS ratio after LT2 issue (which was raised in October 2006) the ratio increases to 31% on a consolidated basis and 18% on an unconsolidated basis.***



# Funding Mix

## UGB Group – Funding Mix

### Total Funds



Note – Short term includes Deposits from Banks, Customer Deposits and Certificates of Deposits  
 Medium Term includes bonds and term loans. Dividends payable and other liabilities have been excluded  
 Current funding mix (30 September 2006) for the UGB Group comprises of deposits from banks and other financial institutions (36.5%), customer deposits (16.9%), medium term funds (25.1%) and equity (21.6%)

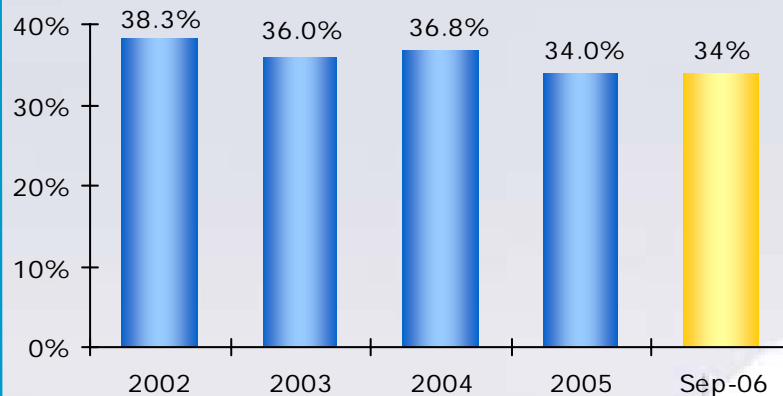
Short term funding lines exceed US\$ 1 billion at present. Average blended spread on total deposits (including US\$ 175 million medium term facility) significantly declined from 75bp in December 2004 to 44bp in September 2006. Average spread on money market lines declined from 62bp in December 2004 to 16bp in September 2006

**The funding mix for the UGB Group is expected to comprise equally of short term, medium term and long term sources**

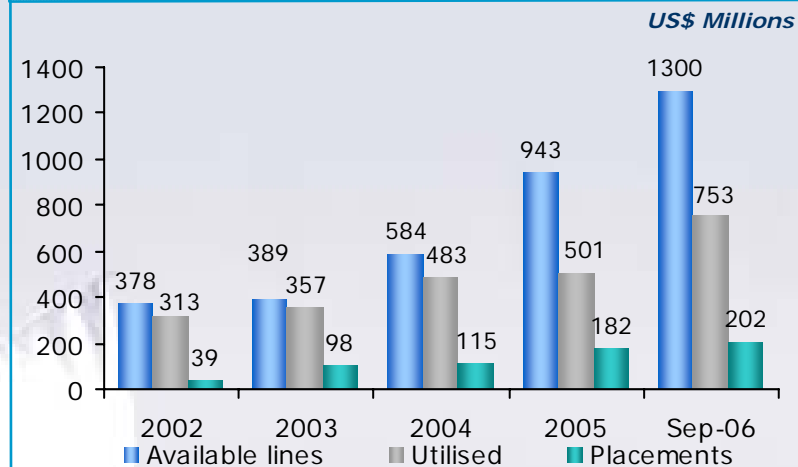


# Liquidity Policy

### Liquidity Ratio (UGB Group)



### Inter-Bank Lines (UGB Group)



- ❖ A comfortable liquid balance sheet with a ratio that is maintained well above the 25% regulatory requirement
- ❖ Only 42% of bank lines (net of placements) have been used by UGB currently

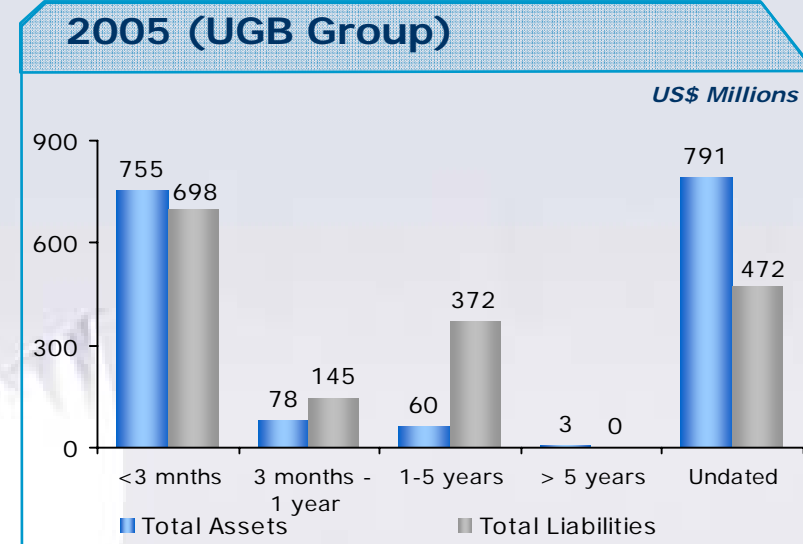
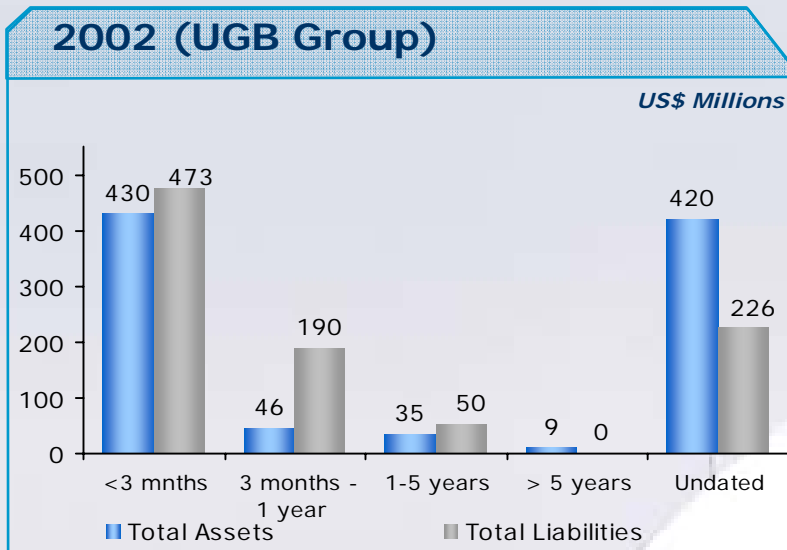
#### ALCO evaluates and closely monitors UGB's assets/liabilities position to:

1. Ensure availability of sufficient liquidity to fund the ongoing business activities
2. Effectively manage maturity mismatches between assets and liabilities
3. Manage market sensitivities
4. Ensure the bank's ability to fund its obligations as they fall due



# Asset Liability Management

## Asset Liability Maturity Profile



- ❖ Over the past four years, UGB's liability mix has gradually shifted towards medium and long term sources
- ❖ This has helped address the asset liability maturity mismatch inherent in UGB's books
- ❖ The issue of our US\$ 100 million subordinated bond has further helped to correct this mismatch.

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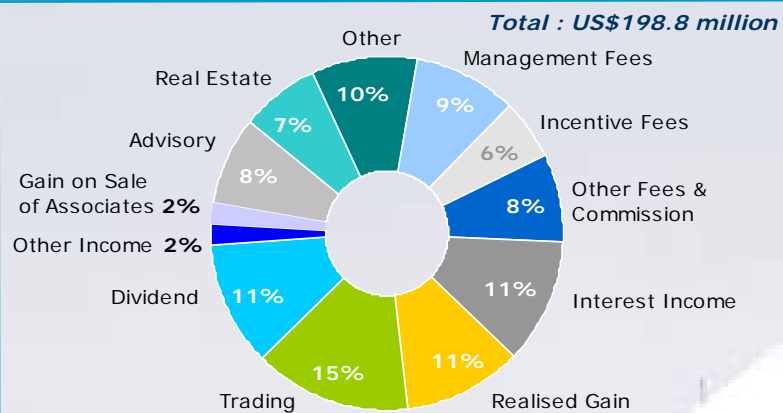




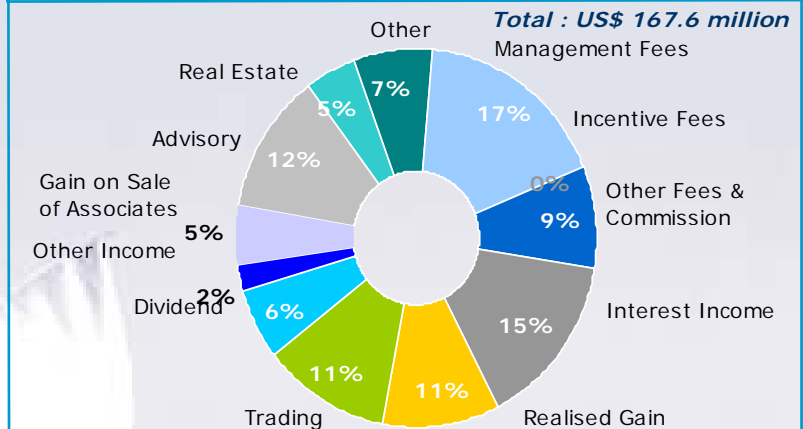
# Financial Performance: Key Highlights

## Summarised Break-up of Financial statements (UGB Group)

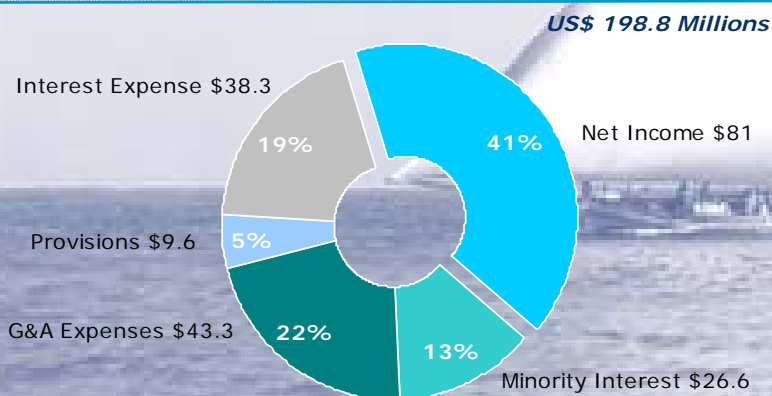
### Total Revenues (2005)



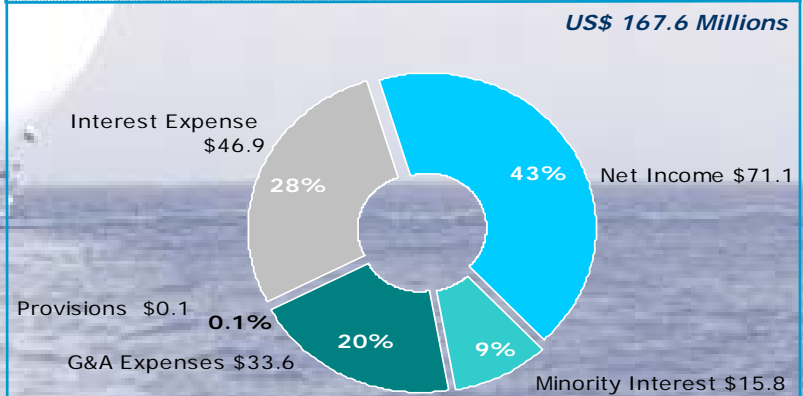
### Total Revenues (Sept 2006)



### Expenses & Net Income (2005)



### Expenses & Net Income (Sept 2006)



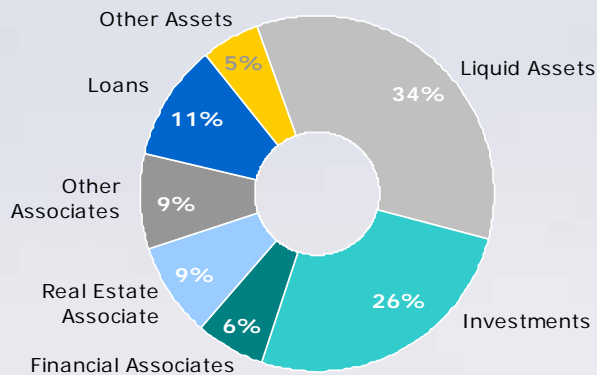


# Financial Performance: Key Highlights

## Summarised Break-up of Financial statements (UGB Group) Cont/...

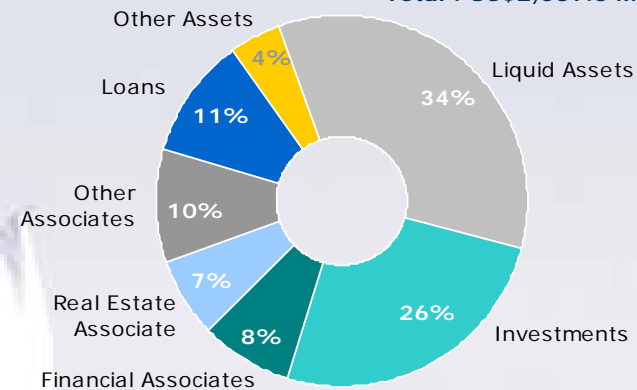
### Total Assets (2005)

Total : US\$ 1,686.9 Million



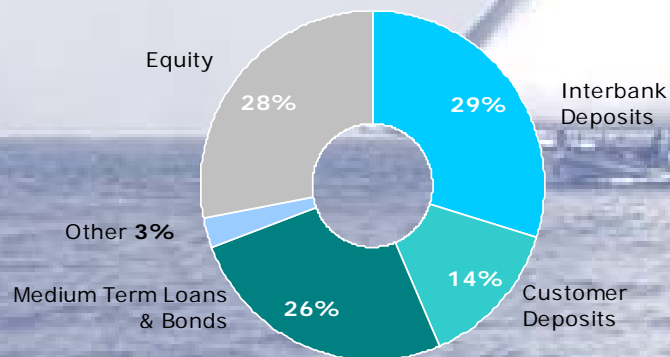
### Total Assets (Sept 2006)

Total : US\$2,037.6 Million



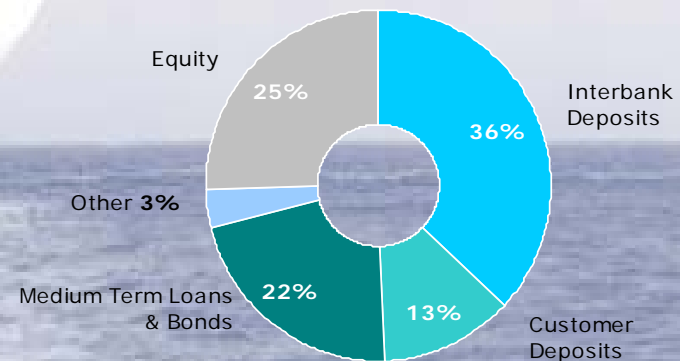
### Total Liabilities & Equity (2005)

Total : US\$ 1,686.9 Million



### Total Liabilities & Equity (Sept 2006)

Total : US\$ 2,037.6 Million





# Financial Performance: Key Highlights

## Sustained Growth with Profitability

### Summary Income Statement (Historical)

<i>(In US\$ millions)</i>	2002	2003	2004	2005	Nine Months ended Sep 2006
Investment Income	16.1	46.1	34.0	78.2	57.1
Interest Income	11.1	10.1	13.6	22.5	25.0
Fees and Commission	16.0	21.4	22.8	45.9	43.9
Share of Profit	11.6	27.8	32.5	49.5	39.6
FX Gains/Other income	2.8	6.6	2.9	2.5	2.0
<b>Total Income</b>	<b>57.6</b>	<b>112.1</b>	<b>105.8</b>	<b>198.8</b>	<b>167.6</b>
Total Expenses	(35.0)	(45.1)	(51.3)	(81.6)	(80.6)
<b>Operating Profit</b>	<b>22.6</b>	<b>67.0</b>	<b>54.5</b>	<b>117.1</b>	<b>87.0</b>
Provisions	(11.1)	(23.7)	(2.2)	(9.6)	(0.1)
Minority Interest	(1.9)	(7.0)	(9.1)	(26.6)	(15.8)
<b>Net Income</b>	<b>9.6</b>	<b>36.2</b>	<b>43.3</b>	<b>81.0</b>	<b>71.1</b>

- ❖ UGB has posted impressive results in the past years (2003-06)
- ❖ Third quarter results for 2006 indicates that UGB is well on target to have another record profitable year



# Financial Performance: Key Highlights

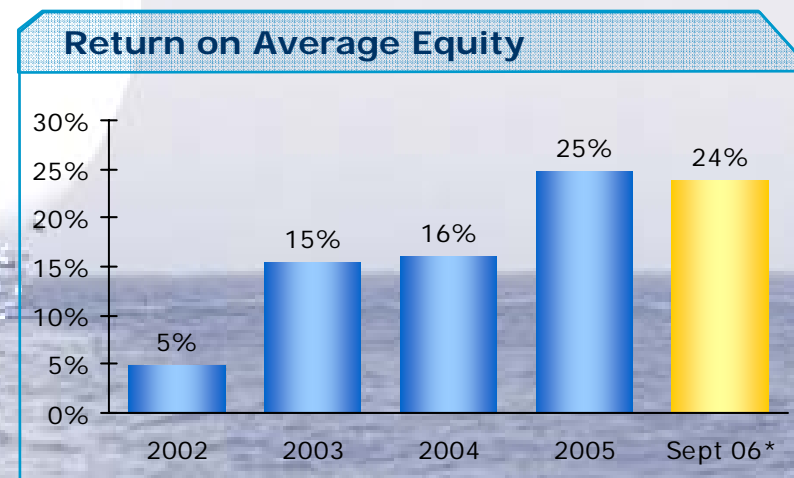
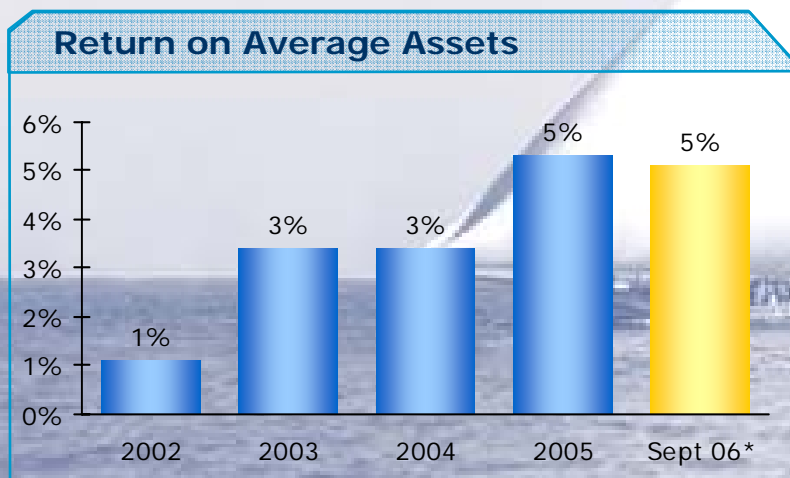
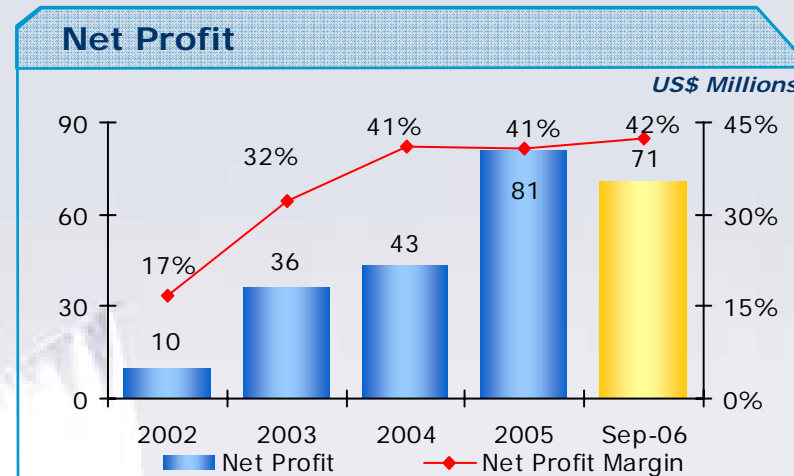
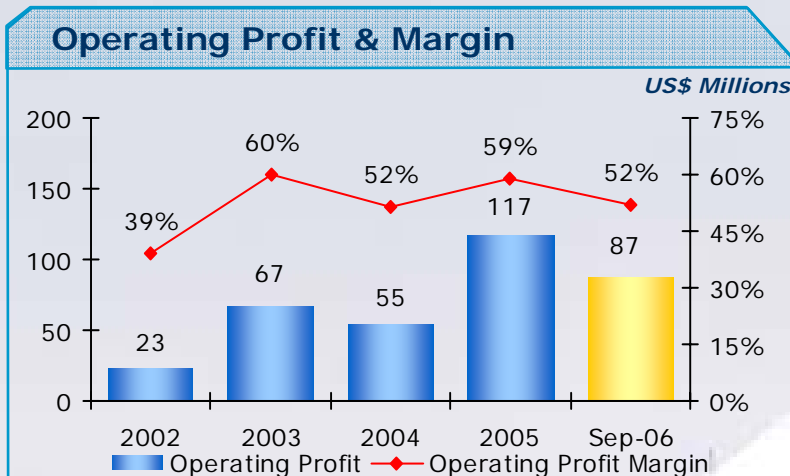
## Steady Growth in Asset Base

Summary Balance Sheet (Historical)					
(In US\$ Millions)	2002	2003	2004	2005	Sep 06
<b>Assets</b>					
Bank demand, call and time deposits	207.0	305.8	337.5	382.2	492.3
Investments held for trading	153.2	121.5	172.9	191.4	277.5
Investments available for sale	157.7	259.0	323.6	436.8	460.6
Investments held to maturity	11.8	10.8	15.2	12.4	-
Investment in associated companies	234.3	259.7	313.5	395.4	501.4
Loans and advance, net	121.0	141.6	163.0	178.9	215.6
Interest receivable and other assets	54.4	89.1	62.2	89.8	90.2
<b>Total Assets</b>	<b>939.4</b>	<b>1,187.5</b>	<b>1,387.9</b>	<b>1,686.9</b>	<b>2,037.6</b>
<b>Liabilities</b>					
Due to banks and OFI's	300.1	335.3	461.4	502.2	753.1
Deposits from customers	145.4	215.1	266.7	234.8	255.4
Certificate of deposits	50.0	97.1	40.0	-	-
Bonds and medium term loans	193.6	187.6	252.1	431.4	439.4
Interest payable and other liabilities	24.4	36.7	37.3	46.5	73.6
Dividends payable					
<b>Total Liabilities</b>	<b>713.5</b>	<b>871.8</b>	<b>1,057.5</b>	<b>1,214.9</b>	<b>1521.5</b>
Minority Interest	15.0	55.4	50.8	95.8	101.1
<b>Total Shareholders' Equity</b>	<b>210.8</b>	<b>260.3</b>	<b>279.7</b>	<b>376.3</b>	<b>415.0</b>
<b>Total liabilities, Minority Interest &amp; Shareholders' Equity</b>	<b>939.4</b>	<b>1,187.5</b>	<b>1,388.0</b>	<b>1,686.9</b>	<b>2,037.6</b>



# Financial Performance: Key Highlights

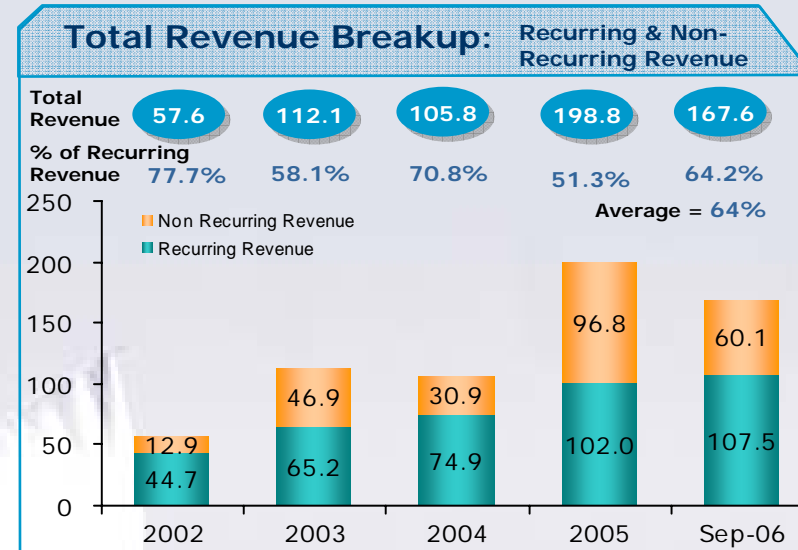
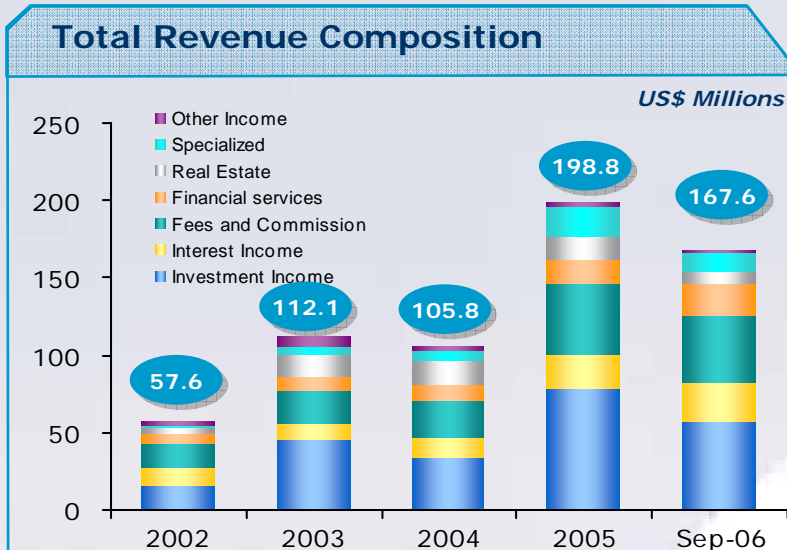
## Translating into Healthy Returns



\* Note: ROAA and ROAE for September 2006 are annualized



# Financial Performance: Key Revenue Sources



- ❖ Broad based revenues with all sources of income registering a double digit growth
- ❖ Highly favourable regional investment markets resulted in investment income growth at CAGR of 69.4% (2002-2005)
- ❖ High growth in UGB's sustainable revenues including:
  - Fee income from asset management and corporate finance services (CAGR 42.0%)
  - Interest income (CAGR 26.8%)
  - Profits from its associated holdings (CAGR 62.2%)

- ❖ On an average, more than 60% of total revenue is derived from recurring sources
- ❖ UGB's exceptional profitability in 2005 resulted from the highly favourable investment market conditions in the region coming mostly in 4<sup>th</sup> Quarter of 2005



## Financial Performance: Principal Companies

30 Sep 2006	KAMCO	TIB	AGB	JKB	BoB	URC	UGB Consolidated
Revenue (US\$ million)	74.8	18.1	7.8	128.9	8.8	67.9	167.6
Net Income (US\$ million)	46.5	8.6	5.7	42.1	4.8	37.4	71.1
Market Cap. (US\$ million)	487.4	Not listed	Not listed	687.6	78.9	477.8	802.8
Total Assets (US\$ million)	449.9	366.7	126.6	2,137	268.9	622.5	2,037.6
Total Equity* (US\$ million)	290.1	56.4	41.2	252.2	43.9	332.3	415.0
UGB Consolidated Effective Interest (%)	71	77	83	44	25	35	

\*Excluding Minority Interest



## Financial Performance: Principal Companies

31 Dec 2005	KAMCO	TIB	AGB	JKB	BoB	URC	UGB Consolidated
Revenue (US\$ million)	119.1	18.9	4.2	128.9	6.6	67.9	198.8
Net Income (US\$ million)	85.8	8.2	1.2	42.1	1.3	37.4	81.0
Market Cap. (US\$ million)	639.9	Not listed	Not listed	687.6	230.6	474.8	913.0
Total Assets (US\$ million)	439.2	340.9	71.2	2,137	216.4	622.5	1,686.9
Total Equity* (US\$ million)	282.2	54.9	22.2	252.2	38.1	332.3	376.3
UGB Consolidated Effective Interest (%)	72	77	83	44	25	35	

\*Excluding Minority Interest



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# In Summary

## Environment

- "Investment grade" rated credit environment
- Favourable demographic profile of key markets
- Growing capital markets and robust economy

## Management

- Strong team with global experience
- Group overview
- Strong risk and business discipline in decision making

## Diversification

- Quality assets and diversified revenue streams
- Growing regional presence
- Access to large customer base

## Stability

- Shareholders have long term view
- Principal companies listed and rated
- Among actively traded stocks on KSE/BSE
- Solid business dynamics

## Growth

- Proven track-record of growth and profitability
- Recurring growth underlying businesses
- Sustainability and predictability of earnings

## Debt

- Overall debt levels are reasonable
- Financial services entities have strong capital adequacy

## Liability Management

- Diversified and under utilized borrowing capacity
- Improving maturity profile
- Interest risk/ALCO focus

## Financial Strength

- Strong debt service coverage ratios
- Investment grade rating
- Significant Group support if required



# Thank You

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