

Ahli United Bank Annual Report and Accounts 2000

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البنك الأهلي المتحد 
ahli united bank

A merger of minds, a merger of markets

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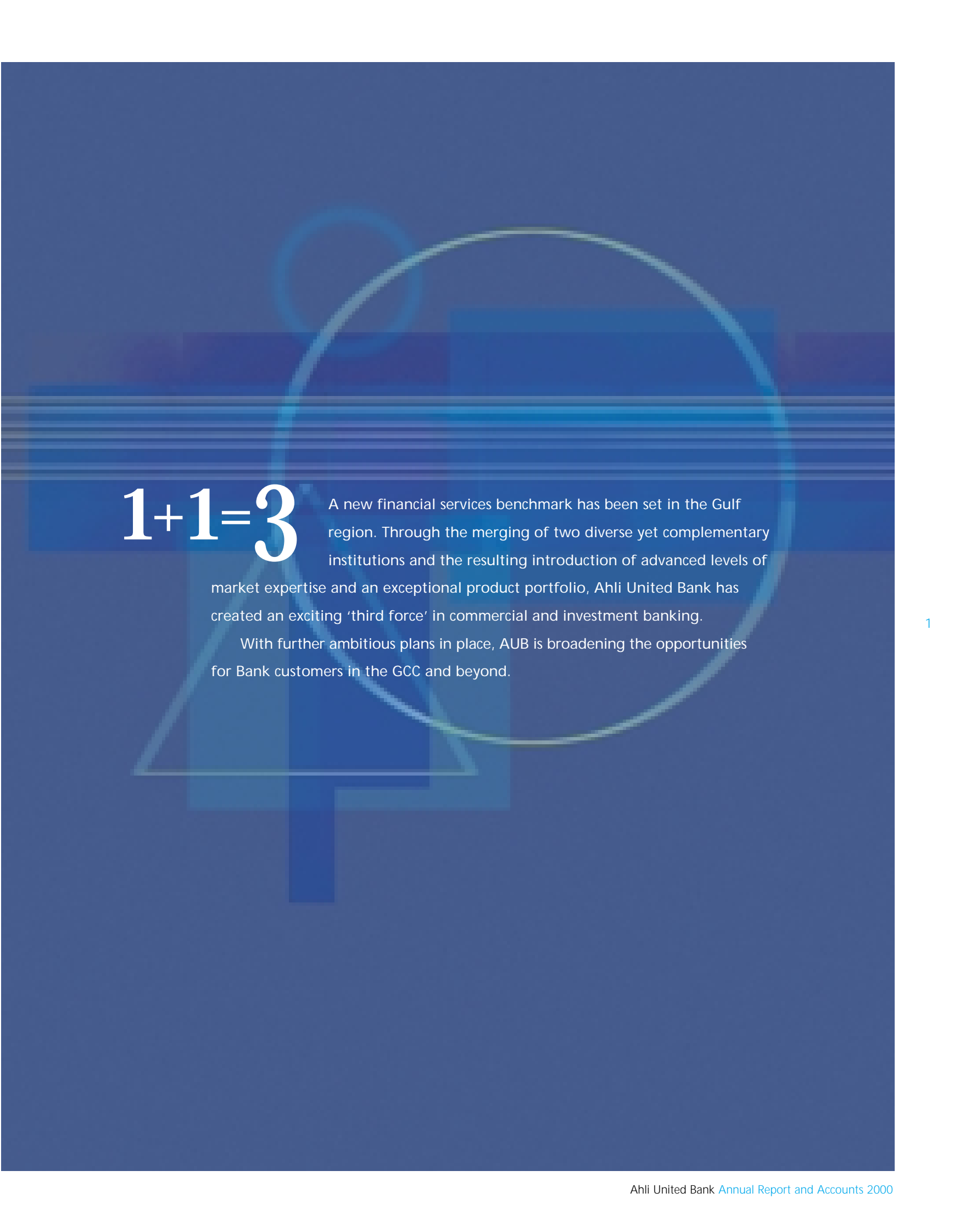
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*Headquartered in London
Offices and branches in Kuwait,
Dubai and Guernsey.*

Ten branches in Bahrain.

Contents

Introduction 1 Board of Directors' Report 2 Financial Highlights 3 Board of Directors 4 Management Review 7
Group-wide Risk Management 20 Management Profiles 23 Auditors' Report 24 Financial Statements 25



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A new financial services benchmark has been set in the Gulf region. Through the merging of two diverse yet complementary institutions and the resulting introduction of advanced levels of market expertise and an exceptional product portfolio, Ahli United Bank has created an exciting 'third force' in commercial and investment banking.

With further ambitious plans in place, AUB is broadening the opportunities for Bank customers in the GCC and beyond.

The Directors of Ahli United Bank (AUB) are pleased to submit the Annual Report and accompanying Financial Statements for the year ended 31st December 2000. This marks the first Annual Report of AUB, following the merger of United Bank of Kuwait (UBK) and Al-Ahli Commercial Bank (ACB).

2000 proved to be a memorable first year for the new Bank. It was a period characterised not only by the successful integration of two complementary institutions in their own right, but also by a very satisfactory financial performance in AUB's different activities.

Net profit of US\$40.1 million represented an 18 per cent increase over the comparable figure for 1999. At the year end total assets stood at US\$3,512.4 million and shareholders' equity totalled US\$399.7 million. Total income declined slightly to US\$136.8 million due to currency translation effects, whilst total deposits amounted to US\$2,740.2 million, a 5 per cent increase on 1999. In summary, during a period of consolidation and integration, a year of solid achievement and positive growth.

Whilst the full benefits of the merger have yet to fully impact on the balance sheet, operating costs at US\$68.7 million showed a reduction of 11.4 per cent. Overall, the Bank's cost-to-income ratio improved to 50.2 per cent, from 54.9 per cent the previous year. Just as important, the Bank's risk asset ratio easily met regulatory levels at 20.7 per cent. These excellent first year results have enabled the Directors to recommend a dividend of US 2.5 cents per share.

This strong financial performance was underpinned by clear strategic direction that was implemented single mindedly and efficiently by a well qualified and committed management team. It is the Bank's stated intention to expand both through organic growth and acquisition in order to act as a 'multi faceted financial bridge' between the Western financial markets and our Middle East clients. The first phase of this goal sees the Bank ideally placed to offer a comprehensive range of services to a wide customer base in the Arabian Gulf and beyond, whilst also focusing on diversified sources of low risk income and business flows with Gulf counterparties.

At the core of the Bank's strategic planning are two key concepts. Firstly: complementarity – of customers, products, service, expertise and resources; and secondly: synergy – of people, markets and objectives. The Bank's faith in these attributes has proved to be well founded, and the future looks extremely promising as the potential of the demographically attractive Gulf customer base is matched by an enhanced product repertoire and distribution network. This will be further reinforced through the mobilisation of AUB's marketing expertise to capitalise on an acknowledged reputation for product, technological and corporate initiatives in identified business sectors based on the long standing involvement of its two subsidiary banks in the region. AUB is not a newcomer to the region. It is an extension of UBK's 35 year history with the Gulf and of ACB's 24 year commitment to the region.

Ahli United Bank's commitment to these objectives is illustrated by the smooth introduction of a streamlined approach to business characterised by teamwork and focus on goal achievement. This progressive stance has enabled us to attract highly talented people, keen to work with the most sophisticated technology in an exciting, refreshingly different and commercially oriented environment.

Functionally, the year was dominated by the successful integration of the two operational structures. This complex process was achieved with minimal disruption to business, technology or staff, and was accompanied by typically disciplined attention to costs. Further investment in state of the art technology and skilled human resources are planned in order to reinforce the Bank's position at the cutting edge of the region's banking services.

Change is exciting, but demanding also. It requires flexibility, understanding and the ability to adapt to new methods and procedures if efficiency and the quality of service to the customer are to be maintained and improved. Following the merger and AUB's creation, management and staff responded with enthusiasm to these challenges and their efforts lie at the heart of the new Bank's reputation and expected potential. AUB could not have navigated so successfully in its first year without the essential elements of professionalism, teamwork and enlightened working practices that constitute such an integral part of its culture. It is these factors that have not only created a new and unique international bank but, more importantly, provided such a strong basis for future growth and development.

Appropriations

On the basis of the results of the Bank for the year ended 31st December 2000, the Board of Directors recommend for approval by the shareholders the appropriation of the Bank's net profit detailed in the table opposite.

Shareholding Interests

Shareholding interests in the Bank held by Directors and Executive Management are detailed in the table opposite.

Appreciations

We would like to take this opportunity to thank all our regulators and partners – shareholders, clients, business allies and staff. It is the joint commitment of all these groups that has seen Ahli United Bank enjoy such a remarkable start.

Mohammed Yousuf Jalal
Chairman

	2000 US\$ '000	1999 US\$ '000	1998 US\$ '000	1997 US\$ '000	1996 US\$ '000
Net Profit	40,126	34,057	2,310	40,104	33,922
Total Assets	3,512,348	3,286,680	3,273,575	3,662,449	3,654,436
Total Loans	1,766,304	1,751,405	1,533,785	1,545,619	1,613,487
Total Liabilities and Subordinated Debts	3,112,611	2,907,062	2,910,595	3,310,249	3,302,051
Shareholders' Equity	399,737	379,618	362,980	352,200	352,385
Return on Average Assets	1.18%	1.04%	0.07%	1.10%	0.96%
Return on Average Equity	10.30%	9.17%	0.65%	11.38%	10.07%
Cost Income	50.21%	54.85%	76.01%	52.18%	55.24%
Financial Leverage	7.58	7.44	7.83	9.12	9.11
Earnings per Share (cents)	3.10	2.63	0.18	3.10	2.62

Shareholding Interests		Appropriations	
	Shares held at 31 December, 2000		US\$ '000
Directors	13,090,231	Transfer to statutory reserve	4,013
Executive Management	1,352,148	Proposed dividend	32,350
Total Shares held	14,442,379	Proposed directors' remuneration	33
		Retained earnings	3,730
			40,126

Year	Net Profit (US\$ '000)
1998	2,310
1999	34,057
2000	40,126

Mohammed Yousuf Jalal *Chairman*

Chairman, Al-Ahli Commercial Bank; Chairman, Mohammed Jalal & Sons; Chairman, Bahrain Tourism Company; Director, Arabian Investment Banking Corporation (Investcorp); Deputy Chairman, National Imports and Exports Company; Director, Bahrain Airport Services; Deputy Chairman, Humanitarian Assistance Committee (Bahrain); Vice Chairman, Bahrain International Golf Course Co.; Chairman, Al Zakat Fund (Bahrain); Chairman, Bayan School; Former President of Bahrain Chamber of Commerce and Industry.

Fahad Al-Rajaan *Deputy Chairman*

Chairman, The United Bank of Kuwait PLC; Director General, The Public Institution for Social Security (Kuwait); Chairman, Wafra Investment Advisory Group (New York); Chairman, Wafra International Investment Company (Kuwait); Director, National Industries Group (Kuwait); Director, The International Investor (Kuwait).

Hamad A. Al-Marzouq *Chairman of the Executive Committee*

Deputy Chairman, The United Bank of Kuwait PLC; Director, Al-Ahli Commercial Bank; Former Manager, Head of Supervision Department of the Central Bank of Kuwait; Former Investment Officer and member of the Strategy Committee, Kuwait Investment Company.

Mohammed Abdul Ghaffar Al-Alawi *Member of the Executive Committee*

Director, Al-Ahli Commercial Bank; Director, National Imports and Exports Company; Director General, The Pension Fund Commission; member of the PFC Board (Bahrain); Director, The General Organisation of Social Institution (GOSI); Former Director, Bahrain Development Bank.

Mohammed Saleh Behbehani *Member of the Executive Committee*

Chairman, Kuwait Insurance Company; Former Deputy Chairman, Al-Ahli Bank of Kuwait; Director, Swiss Kuwaiti Bank; Director, ALUBAF.

Andrew Buxton *Chairman of the Audit Committee*

Former Director and Member of the Audit Committee, The United Bank of Kuwait PLC; Chairman, The British Bankers' Association; Former Chairman, Barclays Bank PLC; Deputy Chairman, Xansa PLC; Member of the Governing Council, Imperial College of Science Engineering & Medicine (London).

Nooruddin A. Nooruddin *Member of the Audit Committee*

Chairman, National Imports and Exports Company; Deputy Chairman, Gulf Arab Investments Company (Egypt); Vice Chairman, United Cement Company; Director, Gulf Investments Company (Kuwait); Director, Saudi Cement Company (Saudi Arabia); Director, Arab Insurance Group; Director in Specific Council for Vocational Training, Business Administration College Council (Bahrain); Minors Estate Guardianship.

Abdulla MH Al-Sumait *Director*

Head, Legal Department, The Public Institution for Social Security (Kuwait); Director, Commercial Facilities Company (Kuwait); Former Director, Kuwait Real Estate Investment Consortium; Former Director, The United Bank of Kuwait PLC (London).

Adel A. El-Labban *Group Chief Executive Officer and Managing Director, Member of the Executive Committee*

Director and former Chief Executive Officer, The United Bank of Kuwait PLC; Director, Al-Ahli Commercial Bank; Former Managing Director, Commercial International Bank of Egypt; Chairman, Commercial International Investment Company; Vice President, Corporate Finance, Morgan Stanley; Manager – Loans and Syndications, Arab Banking Corporation; General Manager – Corporate Banking Group, Chase National Bank.

Michael Fuller *Director*

Chief Executive Officer and member of the Executive Committee, Al-Ahli Commercial Bank; Former Chief Executive of the UK Banking Division, Midland Bank; various Board appointments with Midland Group including Chairmanship of the Joint Credit Card Company and directorships of Northern Bank Ltd and Thomas Cook Ltd.

Mr Nasser Bourslli served as a Director between 30th July 2000 and 16th May 2001.



shared vision, shared success

Ahli United Bank is a commercially-driven organisation, committed to providing the highest levels of service to an increasing customer base, and to planned evolution through both organic growth and acquisition.

The Bank has brought together an experienced and talented professional team, dedicated to implementing management's vision through the application of market expertise and the latest technology.

Transition and integration characterised the Bank's principal activities over the course of an inspiring year. The merged institution now enjoys a stronger critical mass, wider geographical coverage and a broader customer base.

Ahli United Bank (AUB) does not merely constitute a larger version of United Bank of Kuwait (UBK) or Al-Ahli Commercial Bank (ACB), but a stronger and better institution altogether, with fresh challenges and greater growth potential than both predecessors. By continuing to focus on our clients' needs and relying on management's professional skills, we aim to achieve excellent performance for our shareholders on a year-by-year basis.

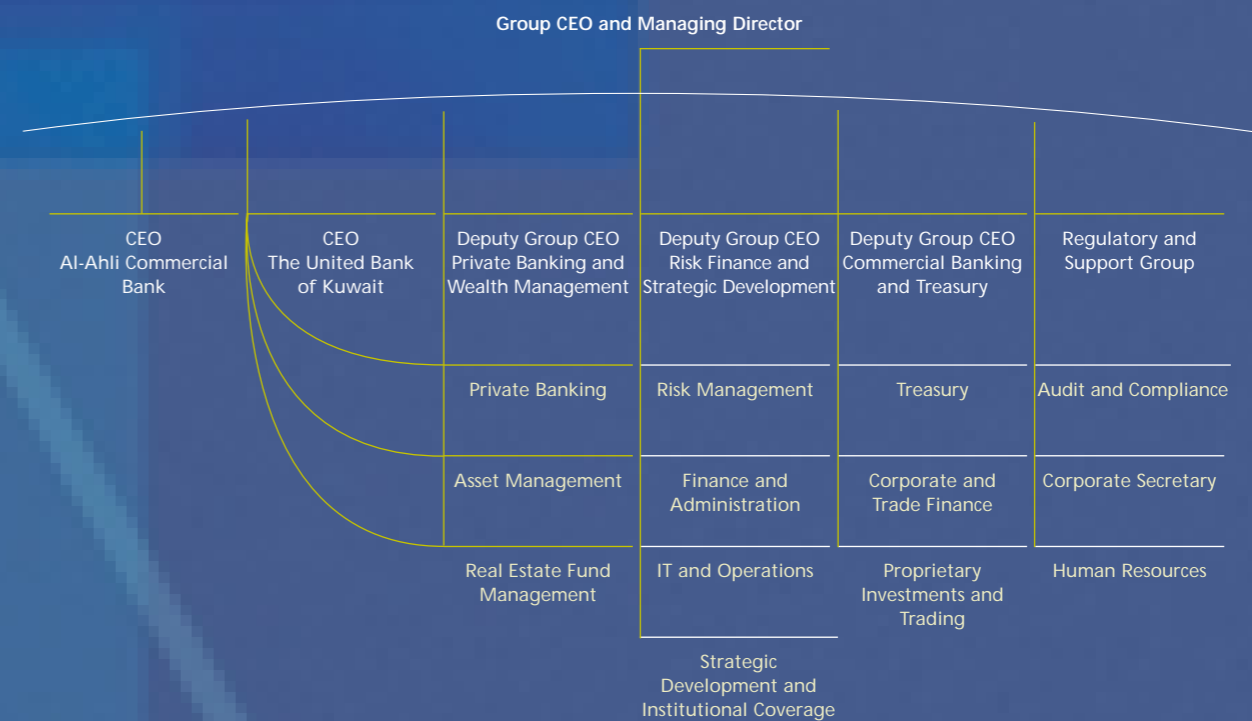
In addition to our stated intention of growing through mergers and acquisitions, the Bank's size and ability to move swiftly make it perfectly suited to a strategy of systematic growth, improved liquidity, greater market capitalisation and enhanced quality of earnings. It is intended to achieve this through fully utilising AUB's larger geographic footprint and distribution network, and providing a high quality service to our customers through a wider portfolio of commercial and investment banking services. At the same time, streamlining our business will instil even greater financial discipline as we enter new markets, enhancing our technological capabilities and

continuing to apply a very effective risk management strategy. These combined efforts will assist in unlocking value and augmenting it for our shareholders.

Management is confident that the Bank has in place the expertise and resources to meet these challenges and to satisfy the evolving needs of its growing client base in each key market.

Headquartered in Bahrain, the AUB Group operates within the regulatory framework of the Bahrain Monetary Agency (BMA), whilst its UK subsidiary is regulated by the Financial Services Authority (FSA) and Investment Management Regulatory Organisation (IMRO).

As illustrated in the diagram below, AUB's revenue businesses are organised into two divisions: Private Banking and Wealth Management and Commercial Banking and Treasury. The Risk, Finance and Strategic Development Group supports both these divisions and is responsible for the Group's expansion through mergers and acquisitions. The Regulatory and Support Group is responsible for internal and external compliance, and corporate governance issues.



This division includes all the non capital-intensive sectors of the business, offering customers an integrated wealth management service based on performance and a balanced product mix.

PRIVATE BANKING AND WEALTH MANAGEMENT

Private Banking

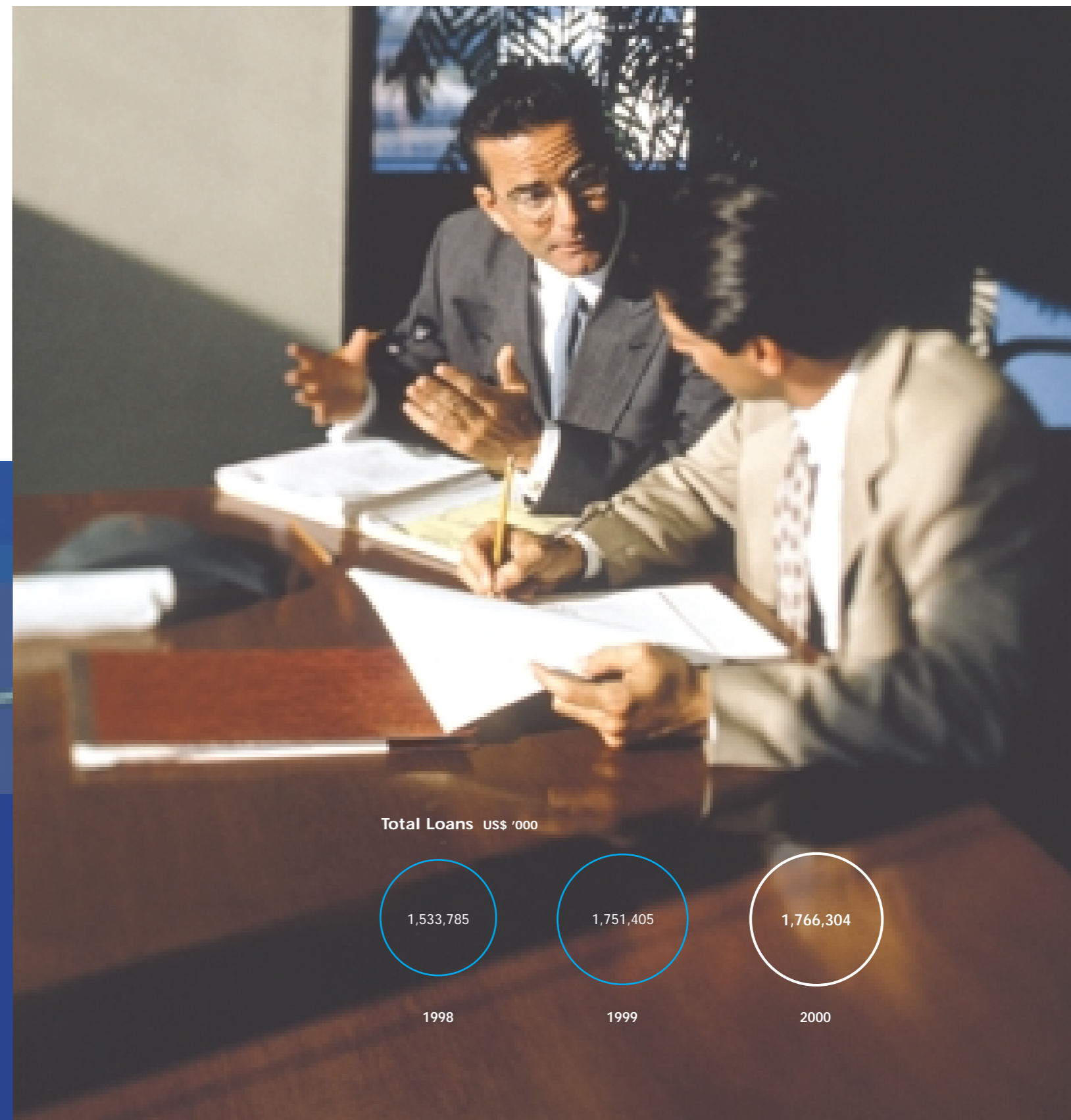
Private banking is a key strategic element in AUB's expansion plans for the immediate and long-term future, and this was reflected in a number of important structural developments during the year. Most significant was the formation of the AUB private banking unit in Bahrain. The Bank's private banking activity is now managed from Bahrain, enabling better communication with clients, whether they are in UBK's traditional Kuwait market, in ACB's home market of Bahrain, in the other Gulf States where new opportunities are emerging every day, or further afield in the MENA region.

The Bahrain and London units now work essentially as one, ably supported by the Kuwait service office. New senior staff have been recruited from major international banks and placed in key roles. Personnel have been organised into three teams: private bankers, who manage high net worth client relationships and provide personalised advice across the services spectrum; service staff,

who receive and implement client instructions on a daily basis; and product specialists, who contribute portfolio counselling, advisory and trust services.

The division also refocused its services on the contemporary requirements of high net worth customers by significantly expanding the range of services. By the year's end a comprehensive product portfolio was in place which included banking, investments, finance, tax, inheritance, trusts, wealth protection, structured lending, foreign exchange and advisory services, as well as a wide range of traditional funds and alternative investment vehicles.

After what amounted to a major reconfiguration of private banking operations during 2000, challenges for the year ahead will include the consolidation of the new product range, continued improvements in methodology and team quality, and concerted marketing efforts in each of the key Gulf markets.



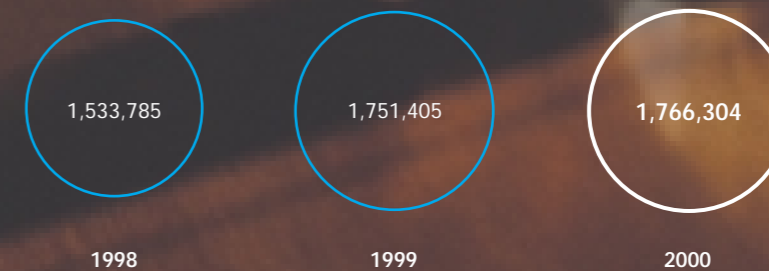
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Private banking is a key strategic element in AUB's expansion plans

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Total Loans uss '000



Retail Banking

UBK's retail operation in London provides a range of banking and investment services for Gulf nationals with business or personal interests in the UK and continental Europe. During 2000 the unit focused on enhancing the overall customer experience, further strengthening UBK's reputation as the offshore bank of choice.

Clients' individual circumstances and requirements are analysed in order to provide the best possible solution to the individual. As well as offering the core products and services – current, deposit, fixed deposit, credit card and offshore accounts – the Bank provides a range of financial packages tailored to the special requirements of expatriate Arab clients. For instance, UBK offers a competitive range of mortgage products which are continually reviewed to ensure they remain appropriate in an ever changing marketplace. To support clients who travel frequently or wish to reduce the everyday tasks involved with maintaining a UK residence, the Bank can also arrange the payment of household expenses.

All customers are provided with a safe deposit box, ensuring the safety of any items of value and providing peace of mind.

UBK's retail services are designed to complement the Group's portfolio of wealth management and trust services, all coordinated and professionally managed by specialists based in London. The objective is to offer a highly personalised and seamless service.

The year 2000 again saw a strong performance from ACB's retail division in Bahrain. Overall customer numbers increased by 18 per cent and in ACB's strongest sector – working Bahraini nationals – market penetration reached an impressive 44 per cent.

The Bank continued to build on its creative reputation as the first institution in the Bahrain market to offer internet banking, providing the first savings certificate scheme, the first to introduce drive through ATMs and other innovations. In future the branch network will provide a natural distribution channel for the Group's expanded range of services, as well as a source of new business for AUB's other key divisions.

In March a new and innovative branch was opened in Seef Mall, Bahrain's premier shopping mall. The branch is intended as a sales outlet accessible to the public for 12 hours each day, seven days a week – whenever the Mall is open.

ACB's retail customer base has grown consistently over the last eight years through a philosophy of friendliness, flexibility and accessibility. This approach will continue in the future with the development of further small, customer-friendly branches, stand-alone ATMs and an ongoing programme of continual staff training schemes which emphasise customer service.

Asset Management

Market conditions throughout 2000 were dominated by a steep decline in equity markets. Performance fees were therefore lower and, in line with overall market sentiment. This trend notwithstanding, the highlight of the 12 months was the excellent showing recorded by our High Grade Bond. The Bond's success positioned the Bank's Asset Management resource as the first or second placed manager for significant institutional accounts.

Of equal importance, major clients further illustrated their confidence by clearly registering their desire to earmark additional finances to the UBK's Alternative Funds during the forthcoming year. We expect 2001 to be marked by sustained growth for the Bank in the sector, especially as Alternatives are widely expected to outperform traditional asset classes. More specifically, High Yields are expected to enjoy a record year. With an increasing number of assets under management and an integrated marketing schedule under way, the immediate future looks very optimistic.

Real Estate

Real Estate Fund Management reported a record period for both its property assets under management, and for fee income generated. The year was crowned by the Euro 150 million launch of the UBK European Property Partnership, a response that exceeded all expectations. The Bank is now firmly perceived as being at the forefront of property fund product provision to GCC investors seeking to participate in key European markets.

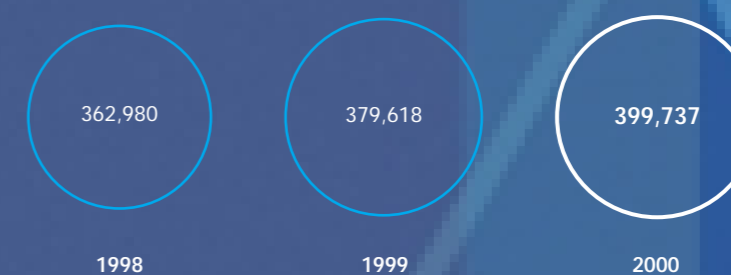
In the wider context, 2000 was a year of consolidation. The generation of new assets continued, while older assets were subject to careful restructuring in order to maximise the potential offered by the formation of AUB. Existing UBK residential and commercial property funds were strategically remodelled to widen their potential and customer base.

Islamic Banking

Continued product innovation and greater access to customers in the Gulf has sustained steady progress in this important area of the Bank's activities. Finance and asset-based business have become increasingly popular, and look set to be joined by property products as more Sharia'a based services complement conventional options in the Bank's product portfolio. Consistency in both quality and breadth of service means that GCC customers now have access to standard and sophisticated international banking and fund management services through their existing network.



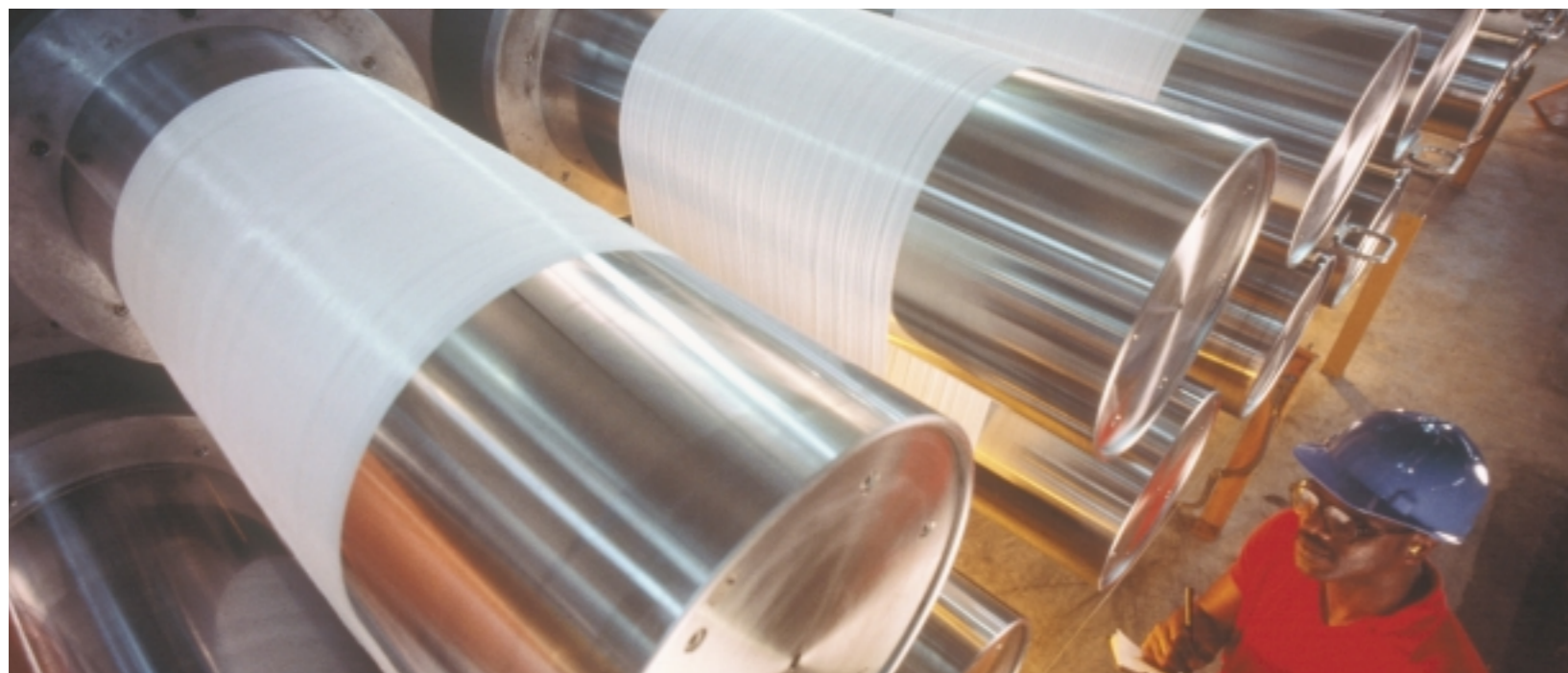
Shareholders' Equity us\$ '000



ACB's retail customer base has grown consistently over the last eight years

through a philosophy of friendliness, flexibility and accessibility. This approach will continue in the future with the development of further small, customer friendly branches, stand-alone ATMs and a programme of continual staff training schemes which emphasise customer service.

The division, which encompasses all the Bank's capital intensive activities, enjoyed an impressive 12 months and clearly benefited from the synergy resulting from more efficient use of resources and expertise.



COMMERCIAL BANKING AND TREASURY

Corporate and Trade Finance

UBK corporate and trade finance produced a solid performance, with a strong contribution from commercial and residential property finance. The Bank's traditional role as a key financial link was further supplemented by improved access to more Middle East markets for European exporters and we now enjoy a significant further commercial advantage in the ability to offer a service that is individually tailored as well as highly competitive.

As an offshore banking unit, AUB's corporate banking role is poised to grow through 2001 as regional opportunities are identified and new corporate relationships are established. ACB's activity will also be supported by leveraging the Group's network and enhanced capital base.

In Bahrain, ACB's corporate banking client base has included major private companies, financial institutions and the government. During 2000 business increased and a number of new client

relationships were established in the manufacturing, construction, trading and tourism sectors. Exporting manufacturers were targeted, notably in Bahrain's burgeoning textile trade.

As evidence of the division's focus on customer service, a planned calling programme was carried out and a series of trade finance seminars was hosted to facilitate better client understanding of international trade business and finance issues.

In the financial institutions area, ACB offered new Bahraini Dinar based services to its local and international correspondents and participated in high level syndications, including a large underwriting.

ACB's commercial banking unit finances a substantial share of private sector commercial activity in Bahrain. Moderate growth in total assets was achieved during 2000, however new customers were won in the construction, tourism and trading sectors, the benefits of which will be seen in the coming year. Commission income from letters of credit, negotiation fees and handling charges showed a significant increase.

Return on Average Equity per cent



new client relationships in the manufacturing, construction, trading and tourism sectors

The Bank's traditional role as a key financial link was further supplemented by improved access to more Middle East markets for European exporters and we now enjoy a significant further commercial advantage in the ability to offer a service that is individually tailored as well as highly competitive.



Treasury

The year saw a formidable contribution from Treasury. Returns were attractively above target, and also surpassed the market average. Considering the volatile nature of both the foreign exchange and interest rate markets, this was an impressive feat. There was also a significant rise in earnings from both customer and proprietary trading, fuelled by a productive expansion into fixed income products as well as notable progress in core market activity.

With well established dealing operations in both London and Bahrain, late 2000 saw the formation of a centralised AUB treasury function based in Bahrain. An important aspect of the current reorganisation is the development of Group-wide risk analysis techniques. Bahrain's operational focus will be on the trading of Gulf and regional currencies in a location convenient to the Bank's client base, whilst the UK desk will remain the acknowledged 'centre of excellence' for OECD currencies, money market services, and off-balance sheet instruments.

ACB has developed a solid local client base in the area of margin trading and the Bank will continue to provide a personal and efficient service to its Bahraini clients in the future.

Property Finance

Following the planned closure of operations in New York, UBK's property activities during 2000 were focused on the diverse UK portfolio. In a market that continued to exhibit strong growth, commercial property turned in another solid year of achievement. Over £100 million of commitments were made, most of which will benefit from considerably enhanced value through industrious borrower management. The Bank also continued its policy of asset sell-downs, with £35 million in residential mortgages being completed.

The Bank will benefit further from the upcoming crystallisation of a number of profit sharings. Positive results are expected in a harmoniously balanced supply-demand market. The residential mortgage business has also seen a substantial increase in specialist mortgage services to high net worth Gulf customers, contributing further to escalating returns in a market with an attractively low loss ratio for the Bank.

Aviation

The last 12 months were exceptional in the area of Aviation Finance. Financially, the Bank enjoyed its best year ever, revealing an outstanding level of experience and expertise in a highly specialised market sector. Revenues were strong, buoyed by a sustained transatlantic flow, and with a considerable amount of new assets in 2000 there was a notable upsurge in interest and fee income. In spite of an expected constriction in future market conditions, even more impressive earnings are anticipated in the coming year.

Structured Finance

Whilst UBK has long been active in structured finance, the operation now enjoys a formal framework. This high profile new division has been created to originate and transact structured business via acquisition finance (including large MBOs), and project finance geared to the Middle Eastern client base.

The year saw a highly satisfactory start. The Bank organised and participated in a sophisticated MBO by City Networks Ltd., a leading provider of transaction confirmation, matching and reconciliation software solutions to the financial markets. The Bank is actively engaged in further activity in both London and the Gulf, and by offering a distinct competitive advantage through the AUB client network, structured finance is poised to make a firm impression on revenues.

Technology

The automation of AUB's business units was a major IT challenge in 2000. The general ledger was successfully converted in November, using ACB's Equation Core Banking system. In collaboration with major software suppliers, AUB's IT specialists have established robust technology that can comfortably cope with the demands of a growing, modern and complex financial institution.

AUB's IT strategy is to harness leading edge technology to maximise operational efficiency across the Group. This strategy has three phases:

- ~ **Consolidation** – across the Group so that any one function is carried out using common software and systems, benefiting from the cost efficiencies inherent in such an approach and establishing the platform for growth.
- ~ **Centralisation** – systems and processing will be carried out in Bahrain, avoiding duplication of costs and effort.
- ~ **Connectivity** – between the three institutions, which will be

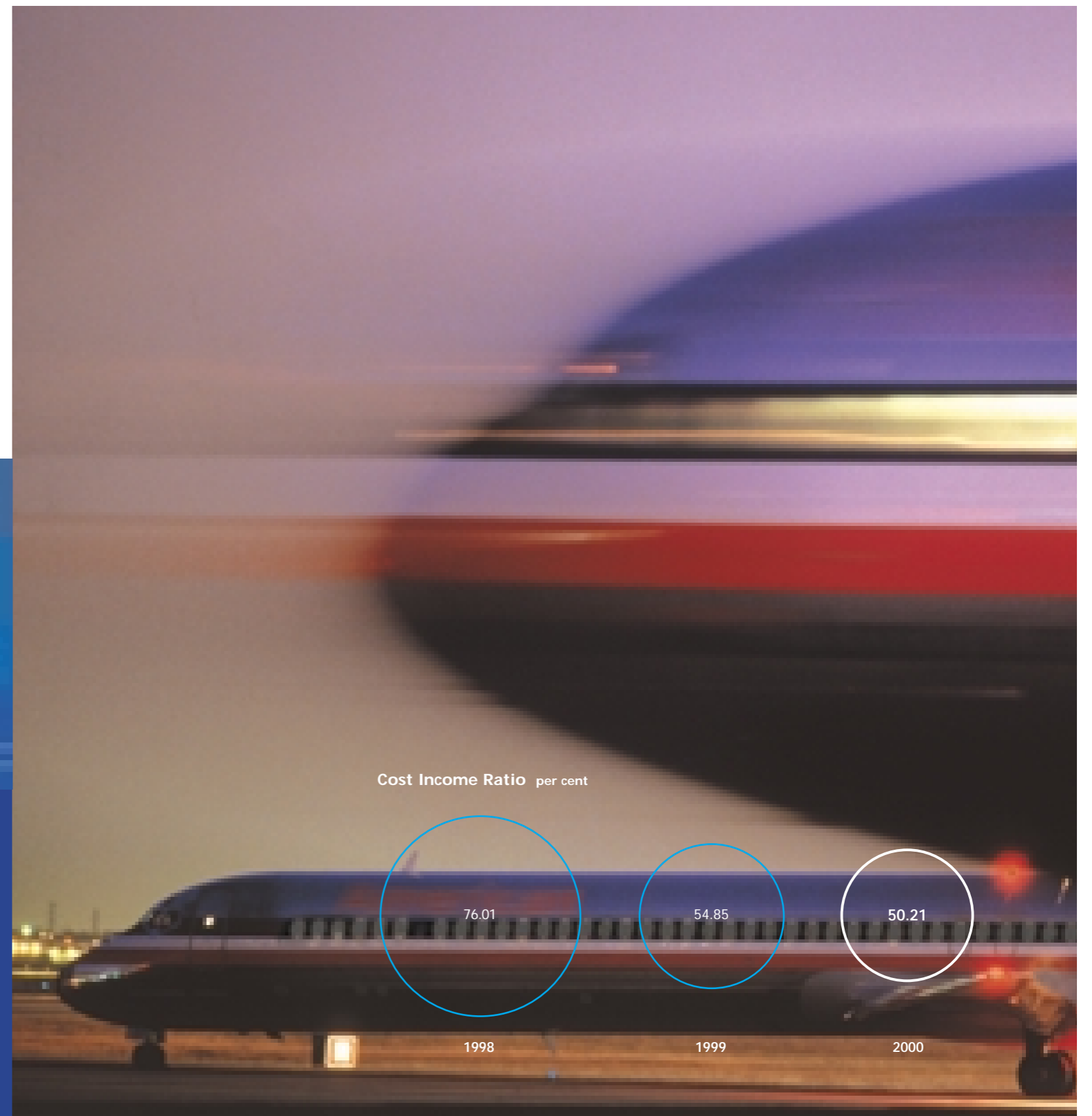
networked via high speed data circuits making information, systems and services available to all customers and staff, irrespective of their location.

Human Resources

The Bank employs some 500 staff in Bahrain, London, Kuwait, Dubai and the Channel Islands. There is great complementarity and little overlap of skills between the various divisions and organisations, and much potential in training and development is being exploited.

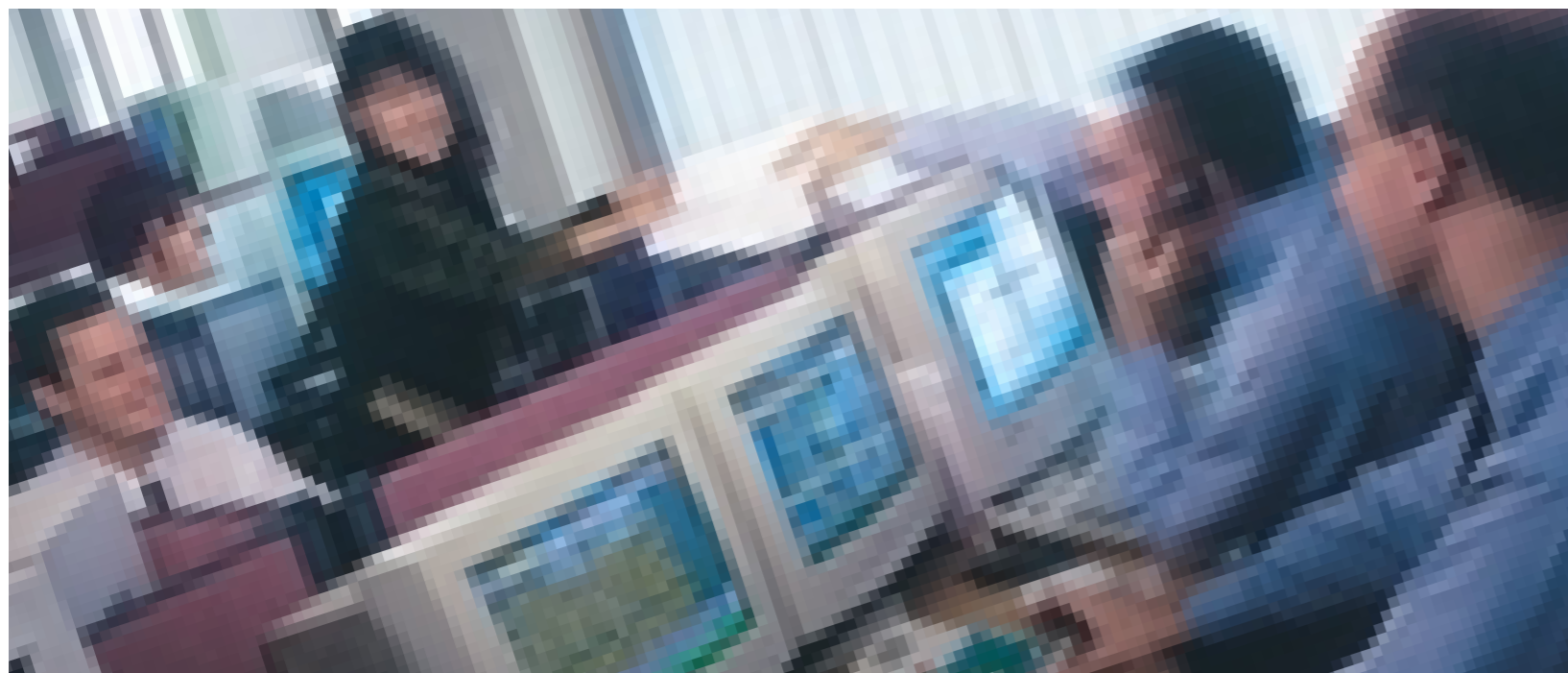
As a larger and more diverse organisation, new career paths have emerged for staff. Management fully realise that the Bank's future is only as clear as the vision and expertise of its people. Its commitment to education and training is exemplified by the highly respected group training function.

The Bank values enthusiastic and energetic staff who bring imagination, commitment and drive. In turn we offer an environment that enhances skills, encourages teamwork and welcomes creativity.



The Bank's future is only as clear as the vision and expertise of its people

The Bank values enthusiastic and energetic staff who bring imagination, commitment and drive. In turn we offer an environment that enhances skills, encourages teamwork and welcomes creativity.



Earnings Per Share U.S. Cents



The Group will realise significant operating efficiencies by leveraging technology platforms

These platforms will make it possible to expand sales of our products and enter new markets at a lower cost. At all times, we will remain customer focused and, looking forward, we will provide clients with an even greater range of solutions, becoming a more strategic part of their lives and decision making process.

Early 2001 Developments

In the first half of 2001, AUB announced two acquisitions which were powerful expressions of the Bank's strategy and significantly advance its regional aspirations.

In March, the Bank acquired a 15 per cent holding in Bank of Kuwait & the Middle East (BKME). BKME is the oldest bank in Kuwait, with a network of 15 local branches and a solid client base. The Kuwait Investment Authority owns 58 per cent of BKME and had earlier announced its intention to privatise the Bank, which is well capitalised and has an investment grade Baa1 medium term rating from Moody's. BKME reported a net profit of US\$46.4 million in 2000, against US\$39.6 million in 1999.

In early June, AUB also reached agreement with the Board of Directors of Commercial Bank of Bahrain (CBB) to merge with Al-Ahli Commercial Bank, subject to regulatory approval. The merger will build on the existing strengths of both Bahraini banks, which have a combined market share of around 21 per cent. Considerable synergies are envisaged from combining operations, especially on the revenue development front.

CBB (previously Grindlays Bank Bahrain) was incorporated in 1983 and its businesses focus on retail and commercial banking. The Bank had total assets of US\$301 million on 31st December 2000, with year 2000 net profit of US\$4.0 million representing a 12.1 per cent return on equity.

Two further developments in June will greatly enhance AUB's wealth management product portfolio. The first was the establishment of a joint venture with Mellon Global Investments, a major provider of mutual funds, with US\$520 billion in assets under management. Under the agreement, the new entity, Mellon Ahli Asset Management Ltd, will manage the existing UBK Asset Management Plc funds. In addition it will have full access to the wider selection of funds provided by the Mellon Group, and develop new investment products suited to AUB's regional client base.

An equally important initiative was the establishment of a joint venture with Henderson Global Investors, a specialist in international real estate fund management with over US\$16 billion in global property funds.

Henderson will assume the management of AUB's existing range of real estate funds as well as launching new tailor made funds through the AUB network.

Management anticipates that both these strategic alliances will result in a higher level of product quality, supported by the global resources of the respective partners, the finest technical expertise and the most innovative investment services.

Outlook for the Future

As a new bank in the Arab world with established roots, AUB is defining a fresh identity in the marketplace, creating organic growth and using mergers and acquisitions to bring consolidation to an oversaturated financial services sector. A key component in fulfilling this strategy is the quality of our management team and the discipline with which we run our business. Our strengths are vision, focus and commitment.

The Group will realise significant operating efficiencies by leveraging technology platforms as we grow both domestically and internationally. These platforms will make it possible to expand sales of our products and enter new markets at a lower cost. At all times, we will remain customer focused and, looking forward, we will provide clients with an even greater range of solutions, becoming a more strategic part of their lives and decision making process.

Given Ahli United Bank's strengths – principally its human, technical and financial resources, its international perspective and its product diversity – our objective in the years ahead will be to create an unrivalled ability to meet customer needs, provide fulfilment and development for our staff and deliver outstanding shareholder value.

Adel A. El-Labban

Group Chief Executive Officer and Managing Director

Ahli United Bank (AUB)'s Risk Management Group has the overall centralised responsibility for quantifying and managing the risks associated with the various business activities undertaken by the Group.

This involves the identification, assessment and ongoing control of any material risk that could have a potential negative impact on the Group's performance. The function, therefore, does not fully eliminate those risks which are embedded in any banking business, but aims at consciously managing them with the objective of earning competitive returns sufficient to compensate the degree of assumed risk. Risk is evaluated in terms of potential impact on income and asset values, taking into consideration the changes in political, economic and market conditions, and the creditworthiness of the Bank's clients. In doing so, the Group relies on the competency, experience and dedication of its professional staff, sound analytical skills and techniques and ongoing investment in technology. The Bank also supports and places considerable emphasis on the risk management recommendations of the Basel Committee on Banking Supervision and the initiatives undertaken by the Bahrain Monetary Agency (BMA) as well as the Financial Services Authority (FSA).

In addition, a Risk Management culture is actively and consistently promoted relying on the appropriate processes that effectively identify, measure, monitor and control risk exposures that are also presented to the Senior Management and Board of Directors to ensure the necessary oversight that relies on the 'four-eyes' concept. These processes get subjected to additional scrutiny by the regular review of internal and external auditors and regulators which help the Group to further strengthen its risk management practices on an on-going basis.

The risk management control process is based on detailed credit policies and procedures that emanate from: (a) business accountability for risks taken where each business centre becomes responsible for developing its plan that includes risk/return as well as risk acceptance criteria and relevant policies appropriate for this particular activity; (b) global credit function that understands, monitors and independently controls each credit relationship ensuring that the approval authorities are obtained and a uniform risk management standard including risk ratings have been correctly assigned to each and every credit relationship; (c) all approved policies for a product or business are clearly understood, monitored and are in agreement with the overall credit policy and the ongoing assessment of portfolio credit risk and approval of new products and new risks that then get reported to Senior Management by credit officers; and (d) an integrated limit structure as an essential component that permits management to control exposures and to monitor the assumption of risk against predetermined approved tolerances with global limits established for each major type of risk that gets sub-allocated to individual business units.

The major risks associated with AUB's business are: credit, market, liquidity and operational risks. These are detailed in the following sections:

Credit Risk

Credit risk is the risk for potential financial loss that may arise from a counterparty failing to perform according to agreed terms. It arises from traditional lending activity, from settling payments between financial institutions, from products that create replacement risk (when counterparty commitments to the Bank are determined by reference to the changing values of contractual commitments, for example: foreign exchange forward contracts), derivatives and securities transactions, contingent obligations, and all other lending activities undertaken by the Bank. The credit process is consistent for all forms of credit risk for a single obligor. The overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, risk grade are regularly reviewed to avoid excessive exposures and improve diversification.

Credit risk within the Group is actively managed by a rigorous process from initiation, to approval to disbursement and day-to-day management in accordance with well-defined Credit Policies and Procedures (CP&P) that details all requirements, and is also designed to identify, at an early stage, exposures which require more detailed review and closer monitoring. If an asset is considered uncollectable, a mandatory write-off takes place.

The CP&P include a robust risk rating system that stratifies the credit portfolio by level of risk to monitor the credit quality and to be able to assess the pricing and aid in the prompt identification of problem exposures. Management of material problem exposures is vested with Specialist Groups in Bahrain and U.K. and all problem exposures are subject to quarterly and in certain cases monthly reviews.

In addition to the pivotal role of the Risk Management Group, the credit risk is managed within the Group by the Group Credit Committee (GCC) which is vested with the overall day-to-day responsibility for all matters relating to Group Credit Risk including credit policy interpretation and application, portfolio exposure monitoring and country limits. Specifically it undertakes the following:

- ~ Act as a credit approval body approving credits within its own delegated authority.
- ~ Recommend to Executive Committee all policy issue changes related to credit risk as well as credits falling outside its discretion.
- ~ Determine appropriate pricing or security guidelines for all products.
- ~ Monitor the ongoing risk profile of the Group as a whole and by individual business sectors and countries, concentrating on ensuring that the appropriate risk rating is correctly identified, to ensure the adequacy of general and specific provisions.

Market Risk

Market risk is the risk of a potential financial loss that may arise from adverse changes in the value of a financial instrument or a portfolio of financial instruments including interest, foreign exchange rates, equity and commodity prices and derivatives. This risk arises from timing differences in the maturity of assets and liabilities, changes that occur in the yield curve and changes in volatilities/implied volatilities in the market value of derivatives.

At the current stage of the Group's evolution, the bulk of the market risk is concentrated in United Bank of Kuwait (UBK). Besides the usual techniques of managing the asset and liability mix, either directly or through derivatives that act as hedges, the Group utilises value-at-risk (VaR) to assist in estimating potential losses that may arise from adverse market movements.

The Group calculates VaR on a historical simulation basis using one-day movements in market rates and prices, a three standard deviation confidence level (99.6%) which takes into account the actual correlations observed historically between different markets and rates. The one day movement in market prices is calculated by reference to market data from the last 1,000 trading days. In 2000, improvements to the VaR methodology were made to capture the higher order market risks of derivatives positions. Daily back-testing is done to ensure compliance with Basel Committee requirements and for internal purposes. During 2000, average daily VaR on the Trading Book was US\$987 thousand (£650 thousand) as against US\$724 thousand (£478 thousand) in 1999. Maximum and minimum VaR for 2000 were US\$2,312 thousand (£1,523 thousand) and US\$595 thousand (£394 thousand) respectively as against US\$1,290 thousand (£850 thousand) and US\$534 thousand (£326 thousand) for 1999.

Liquidity Risk

Liquidity risk is the risk of being unable to meet all financial commitments, at all times, without having to raise funds at unreasonable prices or sell assets on a forced basis. It is measured by estimating the Group's potential liquidity and funding requirements under different stress scenarios.

The effective approach to liquidity management would be to make certain that funds are available under all circumstances to meet the funding requirements of the Group not only under adverse conditions, but preferably at sufficient levels to also capitalise on opportunities for business expansion.

A prudent mix of liquidity controls based on expected economic and Group-specific events would go a long way to ensure access to liquidity without the need to increase costs. It also provides for the maintenance of a stock of liquid and marketable assets and also an adequately diversified deposit base in terms of maturity and number of counterparties. Group Treasury continuously monitors liquidity risk and actively manages the balance sheet to control this risk. At the subsidiary level, the respective Treasury function manages this risk under the jurisdiction of its Assets & Liabilities Committee (ALCO).

At the Group level, the liquidity risk is managed by the Group Assets & Liability Committee (GALCO) which is vested with the overall day-to-day responsibility for all matters relating to Group liquidity. Specifically it undertakes the following:

- ~ Managing the Group liquidity at the parent level.
- ~ Delegating limits to subsidiary ALCOs and monitoring compliance to guidelines relating to Liquidity Policy.
- ~ Receiving and following up on the monthly liquidity reports from the subsidiary ALCOs.
- ~ Approving all proposals relating to the Group Liquidity Policy.
- ~ Approving and ratifying corrective actions in the event of liquidity breaches.

Operational Risk

AUB views operational risk as the risk of potential financial loss or damage to its reputation as a result of breakdown in communications, information or legal/compliance issues, internal systems or procedural failure, human error, natural disaster, criminal activity, business interruption, management failure or inadequate staffing.

No material losses occurred in 2000 or in 1999. However, due to the nature of the risk, there can be no assurance that this risk will be completely eliminated. The risk is mitigated, however, by the establishment of effective infrastructure and controls, key elements of which are qualified well-trained personnel whose duties are duly segregated; clear authorisation levels, reliable technology, communication of risk tolerance, financial management and reporting.

Furthermore, the independent audit function regularly tests and evaluates the actual functioning of all these issues and advises Senior Management and the Board of any possible problem. Additionally, the Group maintains adequate insurance coverage and contingency plans for systems failure including back-up systems with off-site data storage.



AUB is defining a fresh identity in the marketplace

creating organic growth and using mergers and acquisitions to bring consolidation to an oversaturated financial services sector. A key component in fulfilling this strategy is the quality of our management team and the discipline with which we run our business. Our strengths are vision, focus and commitment.

Adel A. El-Labban *Group Chief Executive Officer and Managing Director, Member of the Executive Committee*

Director and former Chief Executive Officer, The United Bank of Kuwait PLC; Director, Al-Ahli Commercial Bank; Former Managing Director, Commercial International Bank of Egypt; Chairman, Commercial International Investment Company; Vice President, Corporate Finance, Morgan Stanley; Manager – Loans and Syndications, Arab Banking Corporation; General Manager – Corporate Banking Group, Chase National Bank.

Sherif Hassan Abdallah *Deputy Group Chief Executive – Risk, Finance and Strategic Development*

Director and Chairman of the Audit Committee and member of the Executive Committee, Al-Ahli Commercial Bank. Former First Vice President and Group Head of Credit, Arab Banking Corporation; Director and Chairman of the Audit Committee, ABC Islamic Bank; Director, ABC Clearing Company; Director and member of the Audit and Executive Committees of ABC Egypt. Previously Industry Account Officer, Chase National Bank, Egypt; Investment Officer, Misr Iran Development Bank; Economics lecturer at the American University in Cairo. Joined Ahli United Bank in December 2000.

Michael Collis *Deputy Group Chief Executive – Commercial Banking and Treasury*

Director and member of the Executive Committee, United Bank of Kuwait. Former Deputy Chief Executive Officer, United Bank of Kuwait in London. Previously with Lloyds Bank and Bankers Trust Company in London; Head of UK Corporate Finance, Dai-ichi Kangyo; and Executive Director, Head of Corporate Finance, Nikko Bank. Joined United Bank of Kuwait in May 2000 and Ahli United Bank in November 2000.

Bruno Martorano *Deputy Group Chief Executive – Private Banking and Wealth Management*

Director and member of the Audit and Executive Committees, Al-Ahli Commercial Bank. Former Deputy Chief Executive Officer, United Bank of Kuwait in London. Previously Head of Private Banking, Banque Nationale de Paris (Hong Kong); Regional Private Banking Manager, Middle East and Africa, BNP (Paris); Vice President, Securities Desk, BNP (New York); Chemical Bank, Correspondent Banking, Europe. Joined United Bank of Kuwait in 1999 and Ahli United Bank in November 2000.

Graham Dunnachie *Group Head of Audit and Compliance*

Group Corporate Secretary. Former Corporate Secretary and Head of Legal and Compliance at United Bank of Kuwait in London. Previously Head of Compliance for Mellon Bank, Europe; Assistant Director, Investment Management Regulatory Organisation (IMRO); Head of Compliance, Aitken Hume; Senior Manager, Audit and Management Consultancy, Ernst & Young London. Joined United Bank of Kuwait in 1999 and Ahli United Bank in November 2000.

Sanjeev Bajjal *Group Head of Finance and Administration*

Formerly Financial Controller, Al-Ahli Commercial Bank. Began career with Price Waterhouse in India and in 1985 joined Ernst & Young, Bahrain. Member of the American Institute of Certified Public Accountants (AICPA), associate member of the Institute of Chartered Accountants of India (ACA), and graduate member of the Institute of Cost & Works Accountants of India. Joined Al-Ahli Commercial Bank in 1991 and Ahli United Bank in November 2000.

Jim Campbell *Group Head of IT and Operations*

Formerly Head of Operations, Al-Ahli Commercial Bank. Has spent 29 years working with banking systems, the last 18 in senior managerial positions. Since 1981 has worked continuously for Gulf based banks, managing large scale system implementations and conversions. Joined Al-Ahli Commercial Bank in 1998 and Ahli United Bank in November 2000.

Tessa Maude *Group Head of Human Resources*

A range of human resources experience, predominantly in the financial services sector, covering manpower planning, training and development, corporate restructuring, compensation and benefits structuring. Post graduate studies in Personnel Management (1983). Joined Ahli United Bank in December 2000.

John Tuke *Group Treasurer*

Formerly a director responsible for treasury and proprietary trading with Hambros Bank in London, where he spent 25 years. Joined Ahli United Bank in March 2001.

Jai Menon *Acting Group Head of Risk*

Previously with Bank of America for 22 years, with extensive corporate banking and risk management experience in Asia and North America. Post-graduate degrees in Economics and Law. Joined Al-Ahli Commercial Bank in 1997 and Ahli United Bank in November 2000.