

We have audited the accompanying consolidated balance sheet of Ahli United Bank B.S.C. (the Bank) and its subsidiaries (the Group) as of 31 December 2000, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Bank's Board of Directors. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2000 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

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 Bahrain Monetary Agency Law, nor of the memorandum and articles of association of the Bank have occurred during the year ended 31 December 2000 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking licence. We obtained all the information and explanations which we required for the purpose of our audit.

Ernst & Young
17 March 2001
Manama, State of Bahrain.

Financial Statements 2000

	Notes	2000 US\$ '000	1999 US\$ '000
Assets			
Cash and balances with central banks		37,558	49,508
Treasury bills	4	129,085	97,350
Trading securities		616	22,640
Deposits with banks and other financial institutions		1,039,666	955,825
Loans and advances	6	1,766,304	1,751,405
Securitized loans	7	50,237	127,037
Less: Securities issued		(50,237)	(127,037)
Investment securities	8	429,645	233,074
Investment in associates		6,071	57,903
Premises and equipment		43,895	46,578
Other assets	9	59,508	72,397
		3,512,348	3,286,680
Liabilities, Subordinated Liabilities and Equity			
Liabilities			
Due to banks and other financial institutions		809,338	640,150
Customers' deposits	10	1,772,066	1,933,682
Certificate of deposits		158,803	33,068
Floating rate notes		200,161	99,510
Other liabilities	11	83,153	82,618
		3,023,521	2,789,028
Subordinated Liabilities			
	12	89,090	118,034
Equity			
Share capital	13	323,500	323,500
Reserves	14	76,237	56,118
		399,737	379,618
		3,512,348	3,286,680

Mohammed Yousuf Jalal
Chairman
Board of Directors

Fahad Al-Rajaan
Deputy Chairman
Board of Directors

Adel A. El-Labban
Group Chief Executive Officer
& Managing Director

	Notes	2000 US\$ '000	1999 US\$ '000
Operating Income			
Interest income		272,152	273,059
Interest expense		196,288	198,282
Net interest income		75,864	74,777
Fees and commission		34,829	41,794
Gain on sale of investment securities		15,418	5,973
Trading income		4,502	7,985
Gain on sale of loans and advances		-	709
Share of profit in associates		1,108	1,040
Other operating income		5,059	9,110
		60,916	66,611
Net Interest And Other Income			
Provision for losses on loans and advances – net	6	11,905	40,753
Provision for decline in value of investment securities, other assets and contingencies		6,045	(16,837)
		17,950	23,916
		118,830	117,472
Operating Income After Provisions			
Operating Expenses			
Staff expenses		35,062	41,685
Depreciation		5,486	5,054
Other operating expenses		28,134	30,811
		68,682	77,550
Profit Before Taxation			
Income tax expense	15	(10,022)	(5,865)
		40,126	34,057
Net Profit For The Year			
Basic earnings per share (US cents)	27	3.1	2.6

	2000 US\$ '000	1999 US\$ '000
Operating Activities		
Profit before taxation	50,148	39,922
Adjustments for:		
Depreciation	5,486	5,054
(Gain) on sale of investment securities	(15,418)	(5,973)
(Gain) on sale of loans and advances	-	(709)
Provision for losses on loans and advances – net	11,905	40,753
Provision for decline in value of investment securities, other assets and contingencies	6,045	(16,837)
Share of profits in associates	(1,108)	(1,040)
Operating profit before working capital changes	57,058	61,170
Changes in:		
Deposits with banks and other financial institutions	119,554	138,245
Trading securities	22,024	(2,830)
Loans and advances	(26,804)	(257,664)
Other assets	12,889	106,407
Certificate of deposits-issued	125,735	(93,811)
Due to banks and other financial institutions	169,188	(117,298)
Customers' deposits	(161,616)	93,703
Other liabilities	535	15,640
Cash from operations	318,563	(56,438)
Tax paid	(10,022)	(5,865)
Net cash from (used in) operating activities	308,541	(62,303)

	2000 US\$ '000	1999 US\$ '000
Investing Activities		
Purchase of investment securities	(412,239)	(87,197)
Proceeds from sale of investment securities	225,041	165,059
Purchase of associates	-	(52,993)
Proceeds from sale of associates	52,940	-
Purchase of treasury bills over three months	(10,330)	(2,576)
Purchase of premises and equipment	(5,890)	(7,151)
Proceeds from sale of premises and equipment	3,087	-
Sale of treasury stock	307	-
Net cash (used in) from investing activities	(147,084)	15,142
Financing Activities		
Subordinated liabilities	(28,944)	(1,277)
Proceeds from issue of floating rate notes	100,651	99,510
Merger expenses	(2,529)	-
Dividends paid	-	(10,485)
Net cash from financing activities	69,178	87,748
Foreign exchange translation adjustment	(17,785)	(6,934)
Increase in cash and cash equivalents	212,850	33,653
Cash and cash equivalents at 1 January	777,139	743,486
Cash and cash equivalents at 31 December (Note 26)	989,989	777,139

	Share capital US\$ '000	Share premium US\$ '000	Capital reserve US\$ '000	Statutory reserve US\$ '000	Foreign exchange translation adjustment US\$ '000	Retained earnings US\$ '000	Proposed appropriations US\$ '000	Total US\$ '000
Issued during the year 2000	323,500	56,118	-	-	-	-	-	379,618
Net merger expenses	-	(2,529)	-	-	-	-	-	(2,529)
Movement in treasury stock in a subsidiary	-	-	307	-	-	-	-	307
Net profit for the year 2000	-	-	-	-	-	40,126	-	40,126
Foreign exchange translation adjustment	-	-	-	-	(17,785)	-	-	(17,785)
Transfer to statutory reserve	-	-	-	4,013	-	(4,013)	-	-
Proposed dividend	-	-	-	-	-	(32,350)	32,350	-
Proposed directors' remuneration	-	-	-	-	-	(33)	33	-
Balance at 31 December 2000	323,500	53,589	307	4,013	(17,785)	3,730	32,383	399,737

The movements in foreign exchange translation adjustment represents the net foreign exchange translation loss arising from translating the net operating assets of the Bank's foreign subsidiary into US dollars.

1 Activities

The consolidated financial statements of Ahli United Bank B.S.C. for the year ended 31 December 2000 were authorised for issue in accordance with a resolution of the Board of Directors on 17 March 2001.

The parent company, Ahli United Bank B.S.C. (the Bank) was incorporated in the State of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree no. 16/2000, and carries out commercial and investment banking business, global fund management and private banking services through its subsidiaries. The Bank operates under an offshore banking unit licence issued by the Bahrain Monetary Agency. The registered office of Ahli United Bank B.S.C. is located at 120 Government Avenue, PO Box 2424, Manama, Bahrain.

The Bank, effective 1 January 2000, combined the businesses of Al-Ahli Commercial Bank B.S.C. (c), a public shareholding company incorporated in the State of Bahrain and The United Bank of Kuwait PLC, a Bank incorporated in the United Kingdom. The combination was formally completed on 30 July 2000 when shares in Ahli United Bank B.S.C. were distributed to the shareholders of the combining banks.

Al-Ahli Commercial Bank B.S.C. (c) was incorporated in the State of Bahrain in 1977 as a public shareholding company and on 2 August 2000 changed its legal status to a closed shareholding company and operates under a commercial banking licence issued by the Bahrain Monetary Agency.

The United Bank of Kuwait PLC was incorporated in the United Kingdom in 1966 and is an authorised institution under the Banking Act 1987 and undertakes international commercial and investment banking business.

The number of staff employed by the Group as of 31 December 2000 was 478 (31 December 1999: 511).

2 Basis of consolidation

The consolidated financial statements comprise the accounts of Ahli United Bank B.S.C. and its controlled subsidiaries. All material inter-group balances and transactions, including material unrealised gains and losses on transactions, between Group companies have been eliminated on consolidation. The comparative figures have been prepared on a hypothetical as if basis on the assumption that the consolidation had been effected earlier.

3 Significant accounting policies

Basis of preparation

The consolidated financial statements of Ahli United Bank B.S.C. are prepared in conformity with the Bahrain Commercial Companies Law and the Bahrain Monetary Agency Law and in accordance with International Accounting Standards issued by the International Accounting Standards Committee (IASC), and interpretations issued by the Standing Interpretations Committee of the IASC.

The significant accounting policies adopted are as follows:

Accounting convention

The consolidated financial statements are prepared under the historical cost convention as modified for the revaluation of trading securities and investments in associates.

Securities

Trading securities are stated at market value. Realised and unrealised profits and losses on market value adjustments are taken to the statement of income.

Investment securities and treasury bills are stated at cost, adjusted for the amortisation of premiums or discounts, less provisions for credit losses, if any. Premiums and discounts on dated securities are amortised on a systematic basis to maturity and taken to interest income.

Investment in associates

Associated companies are companies in which the Bank has a long term investment of between 20% and 50% in the voting capital or over which it exerts significant influence. Investments in associated companies are accounted for using the equity method. Goodwill arising on acquisition is amortised on a straight line basis over its useful economic life.

Loans and advances

Loans and advances are stated at cost less any amounts written off, specific or general provisions, and interest in suspense.

Provisions for credit losses comprise both specific and general provisions. Specific provisions are created to reduce all impaired loans and advances to their expected realisable value. Potential losses not specifically identified, but which experience indicates are present in the portfolio of loans and advances, are recognised as an expense and are deducted from the total carrying amount of loans and advances as a general provision for losses on loans and advances.

3 Significant accounting policies (continued)**Premises and equipment**

Premises and equipment is initially recorded at cost. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount and where carrying values exceed this recoverable amount, assets are written down.

Depreciation

The cost of freehold land is not depreciated. The cost of leasehold improvements is depreciated by equal annual instalments over the period of the lease. Depreciation on other premises and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Freehold buildings	15 to 20 years
Other premises and equipment	2 to 6 years

Revenue recognition

Interest receivable is recognised on a time proportion basis, taking account of the principal outstanding and the rate applicable. Loan interest that is 90 days or more overdue is excluded from income until it is received in cash. Fees and commission receivable are accounted for as and when earned.

Employee pension schemes

The Group operates defined benefits scheme in Bahrain and UK and makes payments to defined contribution schemes in UK for new employees. In the case of the defined benefits scheme, pension costs are recognised on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as possible, to the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension scheme is allocated over the average remaining service lives of current employees. In the case of the defined contribution schemes, the costs are recognised in the period of which they relate.

Provisions

Provisions are recognised when the Group has a present obligation arising from a past event, and costs to settle the obligation are both probable and able to be reliably estimated.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the value dates of transactions. Monetary assets and liabilities in foreign currencies are translated into US dollars at the rates of exchange prevailing at the balance sheet date. Any gains and losses are taken to the statement of income.

Assets and liabilities of foreign subsidiaries are translated into US dollars using year-end spot rates of exchange. Revenues and expenses are translated at average exchange rates. Any exchange difference arising from the translation of financial statements of foreign subsidiaries are included in shareholders' equity.

Taxation

There is no tax on corporate income in the State of Bahrain. Taxation on income of foreign entities is provided at the rates applicable in each location.

Deferred taxation is provided using the liability method for all timing differences calculated at the rate at which it is estimated that tax will be payable. Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is probable.

Off balance sheet derivative instruments

Off balance sheet derivative instruments include forwards, futures, forward rate agreements, swaps and options in the foreign exchange and capital markets. Derivatives used in trading activities are marked to market and the resultant gains and losses are taken to the statement of income. The gains and losses generated from transactions used for hedging purposes are deferred and amortised over the lives of the hedged assets and liabilities.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with Central Banks and deposits with banks and other financial institutions and treasury bills maturing within three months from the balance sheet date.

4 Treasury bills

These are short term treasury bills issued by the Governments of the State of Bahrain, Kuwait and USA.

5 Investment in subsidiaries and associates

Name	Country of incorporation	Percentage holding
a) Principal subsidiaries		
Held directly by Ahli United Bank B.S.C.		
Al-Ahli Commercial Bank B.S.C. (c)	State of Bahrain	100%
The United Bank of Kuwait PLC	Great Britain	100%
Ziren Investments Limited	Gibraltar	100%
Held directly by The United Bank of Kuwait PLC		
UBK Asset Management PLC	Great Britain	100%
UBK Investment Holdings	Great Britain	100%
Bankuwait Nominees Limited	Great Britain	100%
UBK Secretaries Limited	Great Britain	100%
UBK Finance BV	The Netherlands	100%
UBK Holdings SA	Luxembourg	100%
UBK Trustees (Guernsey) Limited	Guernsey	100%
UBK Property LP Limited	Great Britain	100%
UBK Property GP (No. 1) Limited	Great Britain	100%
The European Property Company Limited	Guernsey	100%
Al Manzil Islamic Financial Services Limited	Great Britain	100%
Byzantium Investments Limited	Gibraltar	100%
Cantrip Investments Limited	Ireland	100%
Deluge Investments Limited	Gibraltar	100%
UBK Opportunity Limited	The British Virgin Islands	100%
Portman Asset Management Limited	Gibraltar	100%
Held indirectly by The United Bank of Kuwait PLC		
UBK Customer Services Limited	Great Britain	100%
UBK Asset Management (Guernsey) Limited	Guernsey	100%
UBK Trade & Export Finance Limited	Great Britain	100%
Sailco Limited	Grand Cayman	100%
UBK Property Investment Limited	Great Britain	100%
UBK Property Investment Number 1 Limited	Great Britain	100%
UBK Property Investment Number 2 Limited	Great Britain	100%
UBK Property Nominee (No. 1) Limited	Great Britain	100%
Baker Street Investments Limited	Guernsey	100%
UBK Buyout Investments (Guernsey) Limited	Guernsey	100%
AMIFS Unit Trust Managers Limited	Great Britain	100%
Megson Properties Limited	Great Britain	100%
b) Principal associates		
Held directly by Al-Ahli Commercial Bank B.S.C. (c)		
Man-Ahli Investment Bank E.C.	State of Bahrain	50%

6 Loans and advances

The composition of the loans and advances portfolio, net of provisions and interest in suspense, is as follows:

	2000 US\$ '000	1999 US\$ '000
Industry sector		
Trading and manufacturing	278,294	352,838
Construction and real estate	610,043	567,078
Government/public sector	8,048	7,920
Banks and other financial institutions	108,414	78,391
Others	852,412	836,070
	1,857,211	1,842,297
Less: Provisions	73,737	76,442
Interest in suspense	17,170	14,450
	1,766,304	1,751,405
Geographic region		
Middle East	630,750	596,973
United States of America	197,498	165,509
United Kingdom	527,654	628,120
South America	17,225	35,507
Europe	226,863	182,992
Asia	90,189	29,728
Others	167,032	203,468
	1,857,211	1,842,297
Less: Provisions	73,737	76,442
Interest in suspense	17,170	14,450
	1,766,304	1,751,405

The movements in provisions and interest in suspense during the year were as follows:

	2000				1999			
	Specific US\$ '000	General US\$ '000	Total US\$ '000	Interest insuspense US\$ '000	Specific US\$ '000	General US\$ '000	Total US\$ '000	Interest in suspense US\$ '000
At 1 January	65,419	11,023	76,442	14,450	57,668	12,739	70,407	10,545
Charge for the year	17,224	379	17,603	-	44,231	836	45,067	-
Amounts written off during the year	(12,291)	(77)	(12,368)	(2,646)	(7,783)	(8)	(7,791)	(1,266)
Recoveries	(5,698)	-	(5,698)	(1,742)	(1,859)	(2,455)	(4,314)	(2,321)
Interest suspended during the year	-	-	-	7,415	-	-	-	7,676
Transfers	7,379	(7,148)	231	199	(26,126)	-	(26,126)	(50)
Exchange rate adjustments	(2,222)	(251)	(2,473)	(506)	(712)	(89)	(801)	(134)
At 31 December	69,811	3,926	73,737	17,170	65,419	11,023	76,442	14,450

An analysis of the non-performing loans and advances on which interest is not being accrued, or where interest is suspended, is as follows:

	2000 US\$ '000	1999 US\$ '000
Overdue for a period:		
Over 3 months up to 1 year	24,832	14,841
Over 1 year up to 3 years	17,254	59,275
Over 3 years	83,676	70,160
	125,762	144,276
Add: Interest accrued/due on loans	14,114	10,808
	139,876	155,084
Less: Provisions relating to non-performing loans and advances	69,811	65,063
Interest in suspense	17,170	14,450
	52,895	75,571

7 Securitised loans

During 1997, The United Bank of Kuwait PLC (UBK), a subsidiary, sold GBP 118 million of commercial loans secured on UK investment properties, to a special purpose securitisation vehicle, ACRES (No. 3) PLC.

The special purpose securitisation vehicle is a wholly owned subsidiary of ACRES Holdings Limited whose shares are held by Bankers Trust Limited on a discretionary trust for a charitable institution.

The special purpose securitisation vehicle paid for the loans through the issue of floating rate notes (the notes). The notes are solely the obligation of the securitisation vehicle. The noteholders and UBK have agreed that the notes will be repaid only out of the proceeds of the loan portfolio, with no recourse to UBK in the event of any non-payment of principal or interest or other losses that may arise.

However, UBK did advance a subordinated loan of GBP 6 million to ACRES (No. 3) PLC for start up expenses and to establish a first loss fund. During 1997, UBK sold this subordinated loan to HECTARES (No. 1) LIMITED, another special purpose vehicle wholly owned by ACRES Holdings Limited. HECTARES (No. 1) LIMITED paid for the subordinated loan through the issue of transferable loan certificates. UBK purchased GBP 4,014,000 of these transferable loan certificates and these have been included in the consolidated balance sheet.

All capital repayments on the loans are used to make capital repayments on the notes or transferable loan certificates, as appropriate. UBK has entered into interest rate swap agreements in connection with the securitisation, on arm's length market related terms, to restore its interest hedge position in the light of the inclusion of certain fixed rate loans in the loan sales.

The loans purchased by ACRES (No. 3) PLC and HECTARES (No. 1) LIMITED are held on trust for the companies by individual receivable trusts. Under the terms of the trusts, UBK is entitled to benefit from the excess of interest received on the loans over and above the amount required by the companies to satisfy their obligations to pay interest on the notes and other costs.

8 Investment securities

	2000 US\$ '000	1999 US\$ '000
Quoted investments		
Government bonds and debt securities	40,597	52,332
Floating rate notes and certificate of deposits:		
Issued by banks and other financial institutions	183,130	38,117
Issued by corporates	29,456	77,643
Equity shares	9,929	9,929
	263,112	178,021
Unquoted investments		
Government bonds and debt securities	48,797	16,493
Floating rate notes and certificate of deposits:		
Issued by banks and other financial institutions	74,200	12,631
Issued by quasi government institutions	3,501	8,647
Issued by corporates	6,417	6,774
Equity shares	3,236	7,427
Other investments	38,709	13,715
	174,860	65,687
	437,972	243,708
Less: Provisions for decline in value other than temporary	(8,327)	(10,634)
	429,645	233,074
Market value of quoted investment securities	260,967	175,369

9 Other assets

	2000 US\$ '000	1999 US\$ '000
Interest receivable	23,718	14,653
Others	35,790	57,744
	<u>59,508</u>	<u>72,397</u>

10 Customers' deposits

Customers' deposits represent non-negotiable time and demand deposits accepted from customers.

11 Other liabilities

	2000 US\$ '000	1999 US\$ '000
Interest payable	27,061	20,983
Others	56,092	61,635
	<u>83,153</u>	<u>82,618</u>

12 Subordinated liabilities

These borrowings are subordinated to the claims of all other creditors of the subsidiary, The United Bank of Kuwait PLC.

	2000 US\$ '000	1999 US\$ '000
(a) The United Bank of Kuwait PLC		
Kuwaiti Dinars – free of interest, repayable 2005	10,056	10,092
US Dollars – subordinated FRN repayable 2007 carrying interest at three months LIBOR plus 3/4%	32,802	32,774
Kuwaiti Dinars – subordinated FRN repayable 2000 carrying interest at three months Kuwait Treasury bill rate plus 3/4%	–	16,432
US Dollars – subordinated FRN repayable 2000 carrying interest at six months LIBOR plus 1/4%	–	7,751
(b) UBK Finance BV		
Great Britain Pounds – loan stock carrying interest at six months LIBOR plus 3/4%, repayable 2005	22,276	24,075
US Dollars – loan stock carrying interest at three months LIBOR plus 3/4% (The loan stock is redeemable by holders giving notice of 5 years and one day. None of the holders have exercised their rights)	21,068	21,052
Kuwaiti Dinars – loan stock carrying interest at six months KIBID, repayable 2005 (The funds provided by these subordinated loans raised by UBK Finance BV have all been lent to UBK on similar terms but with interest payable at 1/8% over the rates shown)	2,888	2,895
Great Britain Pounds – loan stock carrying interest at six months yield on UK Treasury bills plus 3/8%, repayable 2000	–	2,963
Total	<u>89,090</u>	<u>118,034</u>

13 Share capital

	2000 US\$ '000	1999 US\$ '000
Authorised: 4,000 million shares of US\$ 0.25 each	1,000,000	1,000,000
Issued and fully paid: 1,294 million shares of US\$ 0.25 each	<u>323,500</u>	<u>323,500</u>

On 31 May 2000 Ahli United Bank B.S.C. was incorporated with an initial capital of Bahraini Dinars 7.56 million (equivalent to US\$ 20 million). On 30 July 2000 the initial capital in Bahraini Dinars was converted into 80 million ordinary shares of US\$ 0.25 each, and a further 1,214 million shares of US\$ 0.25 each was issued to the shareholders of the subsidiary banks.

14 Reserves and proposed dividend**a) Share premium**

The acquisition of Al-Ahli Commercial Bank B.S.C. (c) and The United Bank of Kuwait PLC was satisfied by the issue of 1,214 million ordinary shares of US\$ 0.25 each. The excess of the value of the combined net assets over the nominal amount of shares issued has been recorded as share premium. Merger expenses of US\$ 2,529 thousand have been charged against the share premium.

b) Capital reserve

As required by the Bahrain Commercial Companies Law, any profit on sale of premises and equipment or on sale of treasury stock is transferred to capital reserve.

c) Statutory reserve

As required by the Bahrain Commercial Companies Law and the Banks' articles of association, 10% of the consolidated net profit for the year has been transferred to a statutory reserve. The Bank may resolve to discontinue such transfers when the reserve totals 25% of the paid up capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Bahrain Monetary Agency.

d) Proposed dividend

The directors have proposed a cash dividend of US\$ 32,350 thousand being US 2.5 cents per share.

15 Deferred taxation liability/(asset)

	2000 US\$ '000	1999 US\$ '000
Balance sheet:		
Current liability	16,172	4,469
Deferred asset	(2,472)	(503)
	<u>13,700</u>	<u>3,966</u>
Income statement:		
Tax on foreign operations	12,028	4,469
Deferred tax on foreign operations	(2,006)	1,396
	<u>10,022</u>	<u>5,865</u>

As of 31 December 2000, only The United Bank of Kuwait PLC, a subsidiary in the UK, is subject to taxation. The parent company and the other subsidiary in Bahrain are not subject to taxation.

16 Commitments and contingent liabilities**Credit-related financial instruments**

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

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.

Standby letters of credit, guarantees and acceptances (standbys) commit the Bank to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Standbys would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

16 Commitments and contingent liabilities (continued)

The Group has the following credit related commitments:

	2000 US\$ '000	1999 US\$ '000
Commitments on behalf of customers:		
Guarantees	222,731	225,186
Acceptances	9,543	13,027
Letters of credit	176,250	152,610
	408,524	390,823
Irrevocable commitments:		
Undrawn irrevocable loan commitments	341,210	412,118
Operating lease commitments	4,250	3,323
Others	141	271
	345,601	415,712

Other off balance sheet financial instruments

In the ordinary course of business the Group enters into various types of derivative financial instruments. Derivative financial instruments are financial contracts, the value of which is derived from the underlying assets or interest or exchange rates. The Group enters into such contracts for risk management purposes. The notional amounts indicate the volume of these transactions outstanding at year end and is neither indicative of the market risk nor credit risk. Derivative financial instruments include forwards and interest rate swaps transactions.

Forwards are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Interest rate swaps are contractual agreements between two parties to exchange interest payments based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value.

The Group has the following commitments and contingent liabilities:

	2000 US\$ '000	1999 US\$ '000
Derivatives (trading):		
Forward foreign exchange contracts	37,457	24,105
Interest rate swaps	6,799,928	355,985
	6,837,385	380,090
Derivatives (hedging):		
Forward foreign exchange contracts	922,036	880,815
Interest rate swaps	672,194	658,241
	1,594,230	1,539,056
	8,431,615	1,919,146
Fair value of derivatives	23,589	15,003

17 Related party transactions

The Group enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

The year end balances in respect of related parties included in the consolidated balance sheet are as follows:

	2000 US\$ '000	1999 US\$ '000
Investment securities	5,729	4,883
Loans and advances	61,752	47,596
Due from banks and other financial institutions	38,798	41,859
Customers' deposits	39,453	43,203
Due to banks and other financial institutions	26,630	24,722
Subordinated liabilities	-	10,092
Commitments and contingent liabilities	136,961	157,085

Included in commitments and contingent liabilities are guarantees amounting to US\$ 130 million (1999: US\$ 135 million) in favour of the unitholders of various funds launched by one subsidiary, Al-Ahli Commercial Bank B.S.C. (c) and its associate Man-Ahli Investment Bank E.C. As of 31 December 2000 and 1999, the net assets of the funds were adequate to meet their obligations to unitholders.

The income and expenses in respect of related parties included in the consolidated statement of income are as follows:

	2000 US\$ '000	1999 US\$ '000
Interest income	9,623	8,388
Interest expense	10,788	9,283
Gain on sale of investment securities	5,106	2,536
Fees and commission	1,314	2,058

18 Managed funds

Funds administered on behalf of customers to which the Group does not have legal title are not included in the consolidated balance sheet. The total market value of all such funds at 31 December 2000 was US\$ 1,785 million (1999: US\$ 2,218 million).

19 Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

The maturity profile of the assets and liabilities at 31 December 2000 is as follows:

	US\$ '000			
	Less than one month	One month to one year	Over one year	Total
Assets				
Cash and balances with central banks	27,526	10,032	–	37,558
Treasury bills	38,293	90,792	–	129,085
Trading securities	616	–	–	616
Deposits with banks and other financial institutions	801,025	228,586	10,055	1,039,666
Loans and advances	284,307	419,023	1,062,974	1,766,304
Investment securities	9,020	26,808	393,817	429,645
Investment in associates	–	–	6,071	6,071
Premises and equipment	–	–	43,895	43,895
Other assets	15,693	17,319	26,496	59,508
Total	1,176,480	792,560	1,543,308	3,512,348
Liabilities and equity				
Due to banks and other financial institutions	394,112	415,226	–	809,338
Customers' deposits	1,049,931	706,647	15,488	1,772,066
Certificate of deposits	59,047	99,756	–	158,803
Floating rate notes	–	–	200,161	200,161
Other liabilities	14,635	16,200	52,318	83,153
Subordinated liabilities	–	–	89,090	89,090
Equity	–	32,350	367,387	399,737
Total	1,517,725	1,270,179	724,444	3,512,348

19 Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 1999 was as follows:

	US\$ '000			
	Less than one month	One month to one year	Over one year	Total
Assets				
Cash and balances with central banks	42,609	6,899	–	49,508
Treasury bills	9,265	88,085	–	97,350
Trading securities	22,640	–	–	22,640
Deposits with banks and other financial institutions	617,692	335,106	3,027	955,825
Loans and advances	297,079	292,967	1,161,359	1,751,405
Investment securities	–	51,156	181,918	233,074
Investment in associates	–	–	57,903	57,903
Premises and equipment	–	–	46,578	46,578
Other assets	7,653	15,439	49,305	72,397
Total	996,938	789,652	1,500,090	3,286,680
Liabilities and equity				
Due to banks and other financial institutions	118,373	502,798	18,979	640,150
Customers' deposits	1,082,797	830,209	20,676	1,933,682
Certificate of deposits	–	33,068	–	33,068
Floating rate notes	–	–	99,510	99,510
Other liabilities	6,237	19,953	56,428	82,618
Subordinated liabilities	2,963	24,183	90,888	118,034
Equity	–	–	379,618	379,618
Total	1,210,370	1,410,211	666,099	3,286,680

The above reflects the contractual maturities of assets and liabilities that have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and does not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

The maturity profile is monitored by the Group Asset and Liability Committee (GALCO) on an overall basis with ongoing liquidity monitoring by Group treasury.

20 Interest rate risk

The Group's interest sensitivity position based on contractual repricing or maturity arrangements, whichever is earlier, at 31 December 2000 was as follows:

	US\$ '000				Total
	Less than three months	Three months to one year	Over one year	Not exposed to interest rate risk	
Assets					
Cash and balances with central banks	3,539	412	–	33,607	37,558
Treasury bills	116,181	12,904	–	–	129,085
Trading securities	–	–	–	616	616
Deposits with banks and other financial institutions	811,315	201,481	25,763	1,107	1,039,666
Loans and advances	814,080	349,542	529,294	73,388	1,766,304
Investment securities	192,452	46,095	141,186	49,912	429,645
Investment in associates	–	–	–	6,071	6,071
Premises and equipment	–	–	–	43,895	43,895
Other assets	12	640	–	58,856	59,508
Total	1,937,579	611,074	696,243	267,452	3,512,348
Liabilities and equity					
Due to banks and other financial institutions	738,923	69,369	–	1,046	809,338
Customers' deposits	1,562,238	130,682	15,488	63,658	1,772,066
Certificate of deposits	158,803	–	–	–	158,803
Floating rate notes	200,161	–	–	–	200,161
Other liabilities	431	–	–	82,722	83,153
Subordinated liabilities	79,034	–	10,056	–	89,090
Equity	–	–	–	399,737	399,737
Total	2,739,590	200,051	25,544	547,163	3,512,348
On-balance sheet gap	(802,011)	411,023	670,699	(279,711)	
Off-balance sheet gap	450,227	(320,596)	(129,631)	–	
Total interest rate sensitivity gap	(351,784)	90,427	541,068	(279,711)	
Cumulative interest rate sensitivity gap	(351,784)	(261,357)	279,711	–	

20 Interest rate risk (continued)

The Group's interest sensitivity position based on contractual repricing or maturity arrangements, whichever is earlier, at 31 December 1999 was as follows:

	US\$ '000				Total
	Less than three months	Three months to one year	Over one year	Not exposed to interest rate risk	
Assets					
Cash and balances with central banks	1,720	–	–	47,788	49,508
Treasury bills	9,265	88,085	–	–	97,350
Trading securities	–	–	–	22,640	22,640
Deposits with banks and other financial institutions	883,449	52,550	–	19,826	955,825
Loans and advances	597,117	695,032	434,201	25,055	1,751,405
Investment securities	14,493	72,427	122,648	23,506	233,074
Investment in associates	–	–	–	57,903	57,903
Premises and equipment	–	–	–	46,578	46,578
Other assets	–	–	–	72,397	72,397
Total	1,506,044	908,094	556,849	315,693	3,286,680
Liabilities and equity					
Due to banks and other financial institutions	429,450	88,290	118,978	3,432	640,150
Customers' deposits	1,508,955	355,252	2,676	66,799	1,933,682
Certificate of deposits	33,068	–	–	–	33,068
Floating rate notes	99,510	–	–	–	99,510
Other liabilities	–	–	–	82,618	82,618
Subordinated liabilities	100,195	17,839	–	–	118,034
Equity	–	–	–	379,618	379,618
Total	2,171,178	461,381	121,654	532,467	3,286,680
On-balance sheet gap	(665,134)	446,713	435,195	(216,774)	
Off-balance sheet gap	25,166	122,415	(147,581)	–	
Total interest rate sensitivity gap	(639,968)	569,128	287,614	(216,774)	
Cumulative interest rate sensitivity gap	(639,968)	(70,840)	216,774	–	

The off-balance sheet gap represents the net notional amounts of off-balance sheet financial instruments, such as interest rate swaps, which are used to manage interest rate risk.

20 Interest rate risk (continued)

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The substantial majority of the Group's assets and liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value. The range of effective interest rates for each of the monetary financial instruments is as follows:

Assets	% Range
Treasury bills	5.90 - 7.71
Deposits with banks and other financial institutions	5.89 - 6.66
Loans and advances (a)	8.53 - 10.15
Investment securities	6.61 - 7.27
Liabilities	
Due to banks and other financial institutions	5.88 - 6.65
Customers' deposits (b)	5.33 - 6.50
Floating rate notes	7.29 - 7.79
Certificate of deposits	6.74 - 7.24
Subordinated liabilities	5.93 - 6.43

(a) The effective interest rate for loans and advances has been computed excluding non-performing loans [note 6].

(b) The effective interest rate for customers' deposits has been computed excluding non-interest bearing accounts.

21 Concentration of assets, liabilities and off balance sheet items

The distribution by geographic region and industry sector was as follows:

	2000		
	Assets US\$ '000	Liabilities US\$ '000	Off balance sheet items US\$ '000
Geographic region:			
Middle East	1,002,475	2,068,956	774,146
United States of America	340,377	10,418	261,514
Europe	415,538	150,812	94,954
United Kingdom	1,417,789	733,269	7,877,619
Asia	88,859	4,741	15,082
Others	247,310	144,415	162,425
	3,512,348	3,112,611	9,185,740
Industry sector:			
Trading and manufacturing	266,478	51,487	73,814
Banks and other financial institutions	1,535,586	1,328,440	8,814,729
Construction and real estate	584,521	94,320	148,208
Government/public sector	259,841	459,945	63,085
Others	865,922	1,178,419	85,904
	3,512,348	3,112,611	9,185,740
Month end average	3,470,397	3,091,255	4,412,444

22 Credit risk and concentrations of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk 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 of credit risk indicate the relative sensitivity of the Group's performance to developments, affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

Details of the composition of the loans and advances are set out in note 6.

Details of the industry sector analysis and the geographical distribution of assets, liabilities and off balance sheet items are set out in note 21.

23 Assets and liabilities in foreign currencies

The Group had the following significant net exposures denominated in foreign currencies as of 31 December 2000:

	2000 US\$ '000 equivalent long (short)
Great Britain Pounds	148,497
Bahraini Dinars	130,397
Kuwaiti Dinars	124,803
Euro	30,355
Others	56,723

24 Fair value of financial instruments

The table below sets out the estimated fair values of on and off balance sheet financial instruments with their respective book values. The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between book values and the fair value estimates.

Underlying definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms.

	2000			1999		
	Book value US\$ '000	Fair value US\$ '000	Fair value over (under) book value US\$ '000	Book value US\$ '000	Fair value US\$ '000	Fair value over (under) book value US\$ '000
Assets						
Treasury bills	129,085	129,098	13	97,350	97,350	-
Loans and advances	1,766,304	1,766,304	-	1,751,405	1,751,405	-
Investment securities	429,645	426,429	(3,216)	233,074	232,631	(443)
Excess (shortfall) of fair value over book value	2,325,034	2,321,831	(3,203)	2,081,829	2,081,386	(443)

Based on the valuation methodology outlined below, the book values of all on-balance sheet financial instruments exceeded their fair values as of 31 December 2000 by US\$ 3,203 thousand. (1999: US\$ 443 thousand)

a) Loans and advances

For performing loans, where no quoted market prices were available, contractual cash flows were discounted at current market rates for loans with similar terms and risk characteristics. For loans with doubt as to collectibility, expected cash flows including anticipated realisation of collateral were discounted using an appropriate rate considering the time of collection and a premium for the uncertainty of the cash flows.

b) Investment securities

The fair value of investment securities was based on quoted market prices, or estimated fair values, using methods such as net present values of future cash flows.

c) Other on balance sheet financial instruments

The fair values of all other on-balance sheet financial instruments approximated their respective book values due to their short-term nature or, in the case of deposits with banks and other financial institutions and due to banks and other financial institutions, are based on floating rates.

d) Off balance sheet financial instruments

No fair value adjustment is considered appropriate for off balance sheet financial instruments with contractual amounts representing credit risk as specific provisions are made in respect of individual transactions where potential loss has been identified.

25 Segment information**Primary segment information**

For management purposes the Group is organised into three major business segments:

- Retail banking – principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities;
- Corporate banking, treasury and investments – principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers and providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking; and
- Private banking and wealth management – principally servicing the high net worth clients through a range of investment products, funds, credit facilities, trusts and alternative investments.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

Segment information for the year ended 31 December 2000 was as follows:

	Retail banking US\$ '000	Corporate banking, treasury and investments US\$ '000	Private banking and wealth management US\$ '000	Total US\$ '000
Operating income before provisions	20,788	92,574	22,310	135,672
Segment result	10,008	52,802	4,033	66,843
Unallocated items				147
Profit from operations				66,990
Share of profit in associates				1,108
Profit for the year before provisions				68,098
Provisions				17,950
Net profit for the year before tax				50,148
Taxation				10,022
Net profit for the year				40,126
Other information				
Segment assets	182,350	3,031,516	134,884	3,348,750
Investment in associates				6,071
Unallocated assets				157,527
Total assets				3,512,348
Segment liabilities	179,772	1,741,604	819,265	2,740,641
Unallocated liabilities				371,970
Total liabilities				3,112,611

26 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows include the following balance sheet amounts:

	2000 US\$ '000	1999 US\$ '000
Cash and balances with central banks	16,566	31,298
Deposits with banks and other financial institutions – demand and call	857,241	651,064
Treasury bills maturing within three months	116,182	94,777
	989,989	777,139

27 Basic earnings per share

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2000	1999
Net profit for the year (US\$ '000)	40,126	34,057
Weighted average number of shares outstanding during the year (000's) *	1,294,000	1,294,000
Basic earnings per share (US cents)	3.1	2.6

* No figure for diluted earnings per share has been presented as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

28 Capital adequacy

The risk asset ratio, calculated in accordance with the capital adequacy guidelines approved by the Bahrain Monetary Agency, for the Group is as follows:

	2000 US\$ '000
Capital base:	
Tier 1 capital – Shareholders' equity	399,737
Tier 2 capital – General provision (limited to 1.25% of total risk weighted assets)	4,059
– Subordinated debts	89,090
	492,886
Less: Investments in/loans to funds and subsidiaries	(26,858)
Total capital base (a)	466,028
Risk weighted assets:	
Credit risk	2,180,581
Market risk	74,576
Total risk weighted assets (b)	2,255,157
Capital adequacy (a/b * 100)	21%
Minimum requirement	12%