Consolidated Balance Sheet

31 December 2001

	Note	2001 US$ '000	2000 US$ '000
ASSETS			
Cash and balances with central banks	4	**45,294**	37,558
Treasury bills	5	**34,531**	129,085
Trading securities		**355**	616
Deposits with banks and other financial institutions		**925,613**	1,039,666
Loans and advances	6	**1,882,699**	1,766,304
Securitised loans	7	**38,136**	50,237
Less: Securities issued		**(38,136)**	(50,237)
Non-trading investments	8	**932,549**	429,645
Investment in associates	9	**167,664**	6,071
Premises and equipment		**43,755**	43,895
Other assets and intangibles	11	**70,259**	59,508
		4,102,719	3,512,348
LIABILITIES, SUBORDINATED LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		**738,900**	809,338
Customers' deposits		**2,366,086**	1,772,066
Certificate of deposits	12	**40,205**	158,803
Floating rate notes and other long term debt	12	**219,718**	200,161
Other liabilities	13	**85,273**	83,153
		3,450,182	3,023,521
SUBORDINATED LIABILITIES	14	**88,235**	89,090
EQUITY			
Share capital	15	**450,000**	323,500
Reserves	16	**114,302**	76,237
		564,302	399,737
		4,102,719	3,512,348

Mohammed Yousuf Jalal
Chairman

Fahad Al-Rajaan
Deputy Chairman

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

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Income

Year ended 31 December 2001

	Note	2001 US$ '000	2000 US$ '000
OPERATING INCOME			
Interest income		**247,035**	272,152
Interest expense		**160,865**	196,288
Net interest income		**86,170**	75,864
Fees and commission - net	17	**30,792**	34,829
Trading income	18	**5,790**	4,502
Gain on sale of non-trading investments		**14,223**	15,418
Share of profit from associates		**6,671**	1,108
Other operating income		**11,241**	5,059
		68,717	60,916
NET INTEREST AND OTHER INCOME		**154,887**	136,780
Provision for losses on loans and advances - net	6	**17,735**	11,905
Provision for impairment of non-trading investments, other assets and contingencies	19	**6,920**	6,045
		24,655	17,950
OPERATING INCOME AFTER PROVISIONS		**130,232**	118,830
OPERATING EXPENSES			
Staff expenses		**38,695**	35,062
Depreciation and amortisation		**6,635**	5,486
Other operating expenses		**30,116**	28,134
		75,446	68,682
PROFIT BEFORE TAXATION		**54,786**	50,148
Taxation	20	**6,426**	10,022
NET PROFIT FOR THE YEAR		**48,360**	40,126
Basic earnings per share (cents)	21	**3.15**	3.10
Weighted average number of shares outstanding (in millions)		**1,537**	1,294

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2001

	2001 US$ '000	2000 US$ '000
OPERATING ACTIVITIES		
Profit before taxation	**54,786**	50,148
Adjustments for:		
Depreciation and amortisation	**6,635**	5,486
Gain on sale of non-trading investments	**(14,223)**	(15,418)
Provision for losses on loans and advances - net	**17,735**	11,905
Provision for impairment of non-trading investments, other assets and contingencies	**6,920**	6,045
Share of profit from associates	**(6,671)**	(1,108)
Operating profit before changes in operating assets and liabilities	**65,182**	57,058
Changes in:		
Mandatory reserve deposits with central banks	**12,761**	-
Trading securities	**261**	22,024
Deposits with banks and other financial institutions	**108,102**	172,867
Loans and advances	**67,556**	(26,804)
Other assets	**9,840**	12,889
Due to banks and other financial institutions	**(88,294)**	169,188
Customers' deposits	**349,734**	(161,616)
Certificate of deposits	**(118,598)**	125,735
Other liabilities	**3,834**	(9,199)
Cash from operations	**410,378**	362,142
Tax paid	**(13,936)**	(288)
Net cash from operating activities	**396,442**	361,854

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2001

	2001 US$ '000	2000 US$ '000
INVESTING ACTIVITIES		
Acquisition of a subsidiary (Note 10)	(41,980)	-
Purchase of non-trading investments	(704,102)	(412,239)
Proceeds from sale of non-trading investments	237,211	225,041
Acquisition of an associate	(154,922)	-
Proceeds from sale of associate	-	52,940
Redemption (purchase) of treasury bills over three months	19,401	(10,330)
Purchase of premises and equipment	(4,677)	(5,890)
Proceeds from sale of premises and equipment	-	3,087
Sale of treasury stock	-	307
Net cash (used in) investing activities	(649,069)	(147,084)
FINANCING ACTIVITIES		
Proceeds from issue of share capital	153,816	-
Reduction of subordinated liabilities	(855)	(28,944)
Floating rate notes and other long term debt	19,557	100,651
Merger expenses	(124)	(2,529)
Dividends	(32,350)	-
Net cash from financing activities	140,044	69,178
Foreign exchange translation adjustments	(7,599)	(17,785)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(120,182)	266,163
Cash and cash equivalents at 1 January	1,043,302	777,139
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Note 22)	923,120	1,043,302

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2001

	Share capital US$ '000	Share premium US$ '000	Capital reserve US$ '000	Statutory reserve US$ '000	Foreign exchange translation adjustments US$ '000	Retained earnings US$ '000	Proposed appropriations US$ '000	Cumulative changes in fair values US$ '000	Total US$ '000
Issued during the year - 2000	323,500	56,118	-	-	-	-	-	-	379,618
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 adjustments	-	-	-	-	(17,785)	-	-	-	(17,785)
Transfer to statutory reserve	-	-	-	4,013	-	(4,013)	-	-	-
Proposed dividends	-	-	-	-	-	(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
Transition adjustment on adoption of IAS 39	-	-	-	-	-	4,482	-	-	4,482
Dividends and other appropriations paid	-	-	-	-	-	-	(32,383)	-	(32,383)
Merger expenses	-	(124)	-	-	-	-	-	-	(124)
Issue of share capital (Note 15)	126,500	27,316	-	-	-	-	-	-	153,816
Net profit for the year - 2001	-	-	-	-	-	48,360	-	-	48,360
Net gain on sale of available-for-sale investments (previously included in retained earnings on adoption of IAS 39)	-	-	-	-	-	(7,340)	-	-	(7,340)
Foreign exchange translation adjustments	-	-	-	-	(7,599)	-	-	-	(7,599)
Net fair value movements during the year	-	-	-	-	-	-	-	5,353	5,353
Transfer to statutory reserve	-	-	-	4,836	-	(4,836)	-	-	-
Proposed dividends	-	-	-	-	-	(41,400)	41,400	-	-
Proposed directors' remuneration	-	-	-	-	-	(210)	210	-	-
Balance at 31 December 2001	**450,000**	**80,781**	**307**	**8,849**	**(25,384)**	**2,786**	**41,610**	**5,353**	**564,302**

The movements in foreign exchange translation adjustments represent losses arising from translating the net investment in a subsidiary into US dollars.

The attached notes 1 to 35 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2001

1 ACTIVITIES

The consolidated financial statements of Ahli United Bank B.S.C. for the year ended 31 December 2001 were authorised for issue in accordance with a resolution of the Board of Directors on 12 February 2002.

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, P.O. Box 2424, Manama, Bahrain.

The Bank, effective 1 January 2000, combined the businesses of Ahli United Bank (Bahrain) B.S.C. (c) [formerly known as Al-Ahli Commercial Bank B.S.C. (c)], a bank 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.

Ahli United Bank Bahrain B.S.C. (c) [formerly known as 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. The bank 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 as a public shareholding company and is an authorised institution under the U.K. Banking Act 1987. The Bank undertakes international commercial and investment banking business.

The number of staff employed by the Group as of 31 December 2001 was 503 (31 December 2000: 478).

2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Ahli United Bank B.S.C. and its subsidiaries (the 'Group'). All material inter-group balances and transactions, including material unrealised gains and losses on transactions, between Group companies have been eliminated on consolidation.

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 measurement at fair value of derivatives, trading securities and investments 'available-for-sale'. In addition, as more fully discussed below, assets and liabilities that are hedged are adjusted to the extent of the fair value of the risk being hedged.

The financial statements are presented in US dollars being the currency in which the share capital of the Bank is denominated.

Change in accounting policies
The Group has adopted International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2001. This has resulted in significant changes in the accounting policies of the Group with respect to recognition and measurement of financial instruments. In accordance with the transitional provisions of this Standard, the Group has accounted for the changes in policies with effect from 1 January 2001 and has not restated comparatives. The major changes are as follows:

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Change in accounting policies (continued)

Investments
Previously, the Group carried all non-trading investments at amortised cost, less provision for impairment. The Group has reclassified such investments as either "available-for-sale" or "originated by the Group". Those classified as available-for-sale have been remeasured at fair value with the resultant gain or loss taken to retained earnings on 1 January 2001. Subsequent unrealised gains and losses are reported as a separate component of equity. On sale the cumulative gains or losses are recycled through the consolidated statement of income.

Derivatives
As at the beginning of the financial year, the Group has recognised for the first time the fair value of all derivatives in its consolidated balance sheet as either assets or liabilities at their fair values. Any gains or losses (net of adjustments to related assets or liabilities) on fair value hedges at 31 December 2000, as well as those that did not meet the criteria for hedge accounting were adjusted against the balance of retained earnings at 1 January 2001.

Provision for impairment of financial assets
The calculation of impairment provisions for loans and advances and other financial assets is now based on the net present value of anticipated future cash flows discounted at original interest rates. Previously future recoveries were not discounted. The difference arising from recalculating impairment based on the net present value of future cash flows has been taken to retained earnings at 1 January 2001. On impaired loans, interest income is now recognised based on the rate of interest which was used to discount the future cash flows for the purpose of measuring impairment.

Effect of the changes in accounting policies
The adoption of the Standard has resulted in a credit adjustment to retained earnings at 1 January 2001 of US$ 4,482 thousand.

Trading securities
Trading securities are carried at fair value with any gains or losses arising from a change in fair value being included in the consolidated statement of income in the period in which it arises.

Deposits with banks and other financial institutions
Deposits with banks and other financial institutions are stated net of amounts written off and provision for impairment.

Loans and advances
Loans and advances are stated at cost less any amounts written off and provision for impairment. The carrying values of loans that are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged. Resultant gains or losses are recognised in the consolidated statement of income.

Non-trading investments
These are classified as either available-for-sale or originated by the Group. All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. Premiums and discounts are amortised on a systematic basis to maturity using the effective interest method and taken to interest income.

Available-for-sale
After initial recognition, available-for-sale investments are remeasured at fair value. Unless unrealised gains and losses on remeasurement to fair value are part of an effective hedging relationship, they are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the period.

Any gain or loss arising from a change in fair value of available-for-sale investments, which are part of an effective hedging relationship, is recognised directly in the consolidated statement of income to the extent of the changes in fair value being hedged.

Originated by the Group
Investments in debt securities which are funded directly to the issuer are stated at cost less provision for impairment. An adjustment is made to such investments where effective fair value hedges have been made to adjust the value of the investment for the fair value being hedged with the resultant gains or losses being recognised in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment in associates

Associated companies are companies in which the Group has a long-term interest 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.

Fair values

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

The fair value of interest-bearing financial assets and liabilities is estimated based on discounted cash flows using current market rates for financial instruments with similar terms and risk characteristics.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the net present value of future cash flows.

The fair value of over-the-counter option is determined by option pricing models.

Goodwill

Goodwill, representing the excess of the cost of an acquisition over the fair value of the Group's share of identifiable net assets of a subsidiary or an associate at the date of acquisition, is amortised using the straight-line method over its estimated useful life. At each balance sheet date, goodwill is reviewed for impairment.

Premises and equipment

Premises and equipment is stated at cost, less accumulated depreciation.

The cost of freehold land is not depreciated. 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
Leasehold buildings	Over the period of lease
Other premises and equipment	2 to 6 years

Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the consolidated statement of income.

Deposits

All money market and customer deposits are carried at amortised cost, less amounts repaid.

Liabilities

Liabilities that are held for trading are subsequently remeasured at fair value and any gain or loss arising from a change in fair value is included in the consolidated statement of income in the period in which it arises.

Taxation

There is no tax on corporate income in the State of Bahrain. Taxation on income from foreign entities is provided in accordance with the fiscal regulations of the countries in which the respective Group entities operate.

Deferred taxation is provided using the liability method on all temporary differences calculated at the rate at which it is expected to be payable. Deferred tax assets are only recognised if recovery is probable.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee Benefits

Pension scheme
The United Bank of Kuwait PLC operates a defined benefits scheme for employees who joined prior to 1 March 2001. The pension costs for the scheme 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 deficency 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 the scheme members.

Defined contribution plans
The Bahraini employees of the parent and its subsidiary Ahli United Bank (Bahrain) B.S.C. (c) are covered under the General Organisation of Social Insurance Scheme (GOSI) and the Group's obligations are limited to the amounts contributed to the Scheme.

The United Bank of Kuwait PLC employees who joined after 28 February 2001 are not covered by the earlier pension scheme but are subject to a defined contribution scheme, the costs of which are recognised in the period to which they relate.

Other defined benefit plan
In accordance with the Bahrain Labour law the parent and its subsidiary Ahli United Bank (Bahrain) B.S.C. (c) provide for end of service benefits for its non-Bahraini employees. The provision is based on accumulated periods of service and estimated salary at the time of leaving. Although the expected costs of these benefits are accrued over the period of employment they are only paid to employees on completion of their term of employment. Gains and losses arising on actuarial computation of the end of service benefits are recognised and where material, are amortised over the expected average employment periods of the employees concerned.

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.

Derivatives
The Group enters into derivative instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative at prevailing market rates. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated balance sheet.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated statement of income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated statement of income.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss in the hedging instrument which is determined to be an effective hedge is recognised initially in equity. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the consolidated statement of income in the period in which the hedged transaction impacts the consolidated statement of income or included in the initial measurement of the related asset or liability.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivatives (continued)

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of income for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. In the case of fair value hedges of interest-bearing financial instruments any adjustment relating to the hedged item is amortised over the remaining term to maturity. In the case of cash flow hedges, the cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs, unless the hedged transaction is no longer expected to occur, in which case the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income for the period.

Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not incorporated in the consolidated balance sheet.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

Revenue recognition
Interest income 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. Notional interest is recognised on impaired loans and advances and other financial assets based on the rate used to discount future cash flows to their net present values.

Fees and commission income are recognised when earned. Dividend income is recognised when the right to receive payment is established.

Foreign currencies
Monetary assets and liabilities in foreign currencies are re-translated into US dollars at the rates of exchange prevailing at the balance sheet date. Any gains or losses are taken to the consolidated statement of income.

The assets and liabilities of foreign entities are translated into US dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items are translated at average exchange rates prevailing for the period. Any exchange differences (including those which hedge such investments) are taken directly to a 'foreign exchange translation adjustments' which forms part of equity.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserves, plus those deposits with banks and other financial institutions and treasury bills which mature within three months from the balance sheet date.

Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the consolidated statement of income.

The provision for impairment of loans and advances also covers losses where there is objective evidence that losses may be present in components of the loans and advances portfolio at the balance sheet date. These have been estimated based on historical patterns of losses in each component, the credit ratings allotted to the borrowers and reflecting the current economic climate in which the borrowers operate.

Settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

4 CASH AND BALANCES WITH CENTRAL BANKS

	2001 **US$ '000**	2000 US$ '000
Cash and balances with central banks, excluding mandatory reserve deposits	**16,686**	16,566
Mandatory reserve deposits with central banks	**28,608**	20,992
	45,294	37,558

Mandatory reserve deposits are not available for use in the day-to-day operations.

5 TREASURY BILLS

These are short-term treasury bills issued by the Government of the State of Bahrain, Kuwait and USA, and are carried at amortised cost.

6 LOANS AND ADVANCES

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

Industry sector	2001 US$ '000	2000 US$ '000
Trading and manufacturing	**399,247**	278,294
Construction and real estate	**615,140**	610,043
Government/public sector	**4,647**	8,048
Banks and other financial institutions	**160,684**	108,414
Others	**817,928**	852,412
	1,997,646	1,857,211
Less: Provisions	**(114,947)**	(90,907)
	1,882,699	1,766,304
Geographic region		
Middle East	**772,912**	630,750
United States of America	**98,408**	197,498
United Kingdom	**731,309**	527,654
South America	**-**	17,225
Europe	**166,145**	226,863
Asia	**64,881**	90,189
Others	**163,991**	167,032
	1,997,646	1,857,211
Less: Provisions	**(114,947)**	(90,907)
	1,882,699	1,766,304

The movements in provisions during the year were as follows:

	2001 US$ '000	2000 US$ '000
At 1 January	**90,907**	90,892
Adjustment arising from the application of IAS 39	**2,897**	-
Arising from acquisition of a subsidiary	**13,549**	-
Amounts written off during the year	**(17,690)**	(15,014)
Charge for the year	**21,072**	17,603
Recoveries	**(3,337)**	(5,698)
Interest suspended during the year	**7,935**	5,673
Exchange rate adjustments/ other	**(386)**	(2,549)
At 31 December	**114,947**	90,907

At 31 December 2001 loans and advances on which interest is not being accrued, amounted to US$ 153,698 thousand (2000: US$ 125,762 thousand).

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.

UBK advanced 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 arms 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 NON-TRADING INVESTMENTS

	2001			
	Available-for-sale US$ '000	Originated by the Group US$ '000	Total US$ '000	Total 2000 US$ '000
Quoted investments				
Government bonds and debt securities	64,607	1,746	66,353	40,597
Floating rate notes and certificate of deposits:				
- issued by banks and other financial institutions	-	272,215	272,215	183,130
- issued by corporate bodies	327,753	17,451	345,204	29,456
Equity shares	33,514	-	33,514	9,929
	425,874	291,412	717,286	263,112
Unquoted investments				
Government bonds and debt securities	65,898	-	65,898	48,797
Floating rate notes and certificate of deposits:				
- issued by banks and other financial institutions	-	59,476	59,476	74,200
- issued by quasi government institutions	-	-	-	3,501
- issued by corporate bodies	45,090	10,743	55,833	6,417
Equity shares	3,156	-	3,156	3,236
Other investments	36,671	-	36,671	38,709
	150,815	70,219	221,034	174,860
Total	576,689	361,631	938,320	437,972
Less: Provisions for impairment	-	(5,771)	(5,771)	(8,327)
	576,689	355,860	932,549	429,645

Included under available-for-sale investments are unquoted equity investments carried at a cost of US$ 3,342 thousand due to the unpredictability of future cash flows and lack of suitable other methods for arriving at a reliable fair value.

9 INVESTMENT IN SUBSIDIARIES AND ASSOCIATES

Name	Country of incorporation	Percentage holding
a) Principal subsidiaries		
Ahli United Bank (Bahrain) B.S.C. (c) [Formerly known as Al-Ahli Commercial Bank B.S.C. (c)]	State of Bahrain	100%
The United Bank of Kuwait PLC	United Kingdom	100%
b) Principal associates		
Bank of Kuwait and Middle East K.S.C.	State of Kuwait	18%
Man-Ahli Investment Bank E.C.	State of Bahrain	50%

During the year the Bank acquired a 18% interest in Bank of Kuwait and Middle East K.S.C. (BKME), a Kuwait based commercial bank.

10 ACQUISITION OF A SUBSIDIARY

The Group acquired 100% of the share capital of Commercial Bank of Bahrain B.S.C. (c) [CBB], a Bahrain based commercial bank, with effect from 1 January 2001. The acquisition resulted in an additional net profit of US$ 2,586 thousand to the Group for the period 1 January 2001 to 30 September 2001. On 1 October 2001 the operations were combined with those of Ahli United Bank (Bahrain) B.S.C. (c) and CBB became dormant.

The details of assets and liabilities acquired and goodwill arising are as follows:

	US$ '000
Cash and balances with the Central Bank	20,377
Treasury bills	6,498
Deposits with banks and other financial institutions	32,700
Loans and advances	203,803
Non-trading investments	23,098
Premises and equipment	1,347
Other assets	2,206
Due to banks and other financial institutions	(17,856)
Customers' deposits	(244,286)
Other liabilities	(4,763)
Goodwill	18,856
Total acquisition costs	41,980
Represented by:	
Purchase consideration	37,941
Acquisition expenses	4,039
	41,980

The purchase consideration was satisfied by payment of cash.

Goodwill:	
Arising on acquisition of a subsidiary	18,856
Amortisation charge for the year	(471)
	18,385

Given that there is barrier to entry to commercial banking in Bahrain and the fact that Commercial Bank of Bahrain B.S.C. (c) was a strategic acquisition, goodwill is being amortised over a period of 40 years.

11 OTHER ASSETS AND INTANGIBLES

	2001 US$ '000	2000 US$ '000
Interest receivable	**25,734**	23,718
Goodwill	**18,385**	-
Positive fair value of derivatives (Note 26)	**2,861**	680
Others	**23,279**	35,110
	70,259	59,508

12 CERTIFICATE OF DEPOSITS, FLOATING RATE NOTES AND OTHER LONG TERM DEBT

	Maturity	2001 US$ '000	2000 US$ '000
Certificate of Deposits	2002	40,205	158,803
Floating rate notes	2002 - 2004	199,718	200,161
Other long term debt			
Term finance	2002	20,000	-
		219,718	200,161

Floating rate notes are unsecured with interest payable semi-annually.

13 OTHER LIABILITIES

	2001 US$ '000	2000 US$ '000
Interest payable	25,641	27,061
Negative fair value of derivatives (Note 26)	6,443	2,256
Others	53,189	53,836
	85,273	83,153

14 SUBORDINATED LIABILITIES

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

	2001 US$ '000	2000 US$ '000
(a) The United Bank of Kuwait PLC		
Kuwaiti Dinars - interest at six months effective KIBID, repayable 2005	9,982	10,056
US Dollars - interest at three months LIBOR plus 3/4%, repayable 2007	32,729	32,802
(b) UBK Finance BV		
Great Britain Pounds - interest at six months LIBOR plus 3/4%, repayable 2006	10,213	-
US Dollars - interest at three months LIBOR plus 3/4%, repayable 2006	9,923	-
Great Britain Pounds - interest at six months LIBOR plus 3/4%, repayable 2005 (The loan stock is redeemable by holders giving notice of 5 years and one day. None of the holders have exercised their rights)	11,420	22,276
US Dollars - 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)	11,099	21,068
Kuwaiti Dinars - interest at six months KIBID, repayable 2005	2,869	2,888
TOTAL	88,235	89,090

15 SHARE CAPITAL

	2001 US$ '000	2000 US$ '000
Authorised:		
4,000 million shares of US$ 0.25 each	**1,000,000**	1,000,000
Issued and fully paid:		
1,800 million shares (31 December 2000 : 1,294 million shares) of US$ 0.25 each	**450,000**	323,500

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.

Pursuant to a resolution adopted by the shareholders, the Bank issued 506 million equity shares of US$ 0.25 each at a premium on 10 July 2001.

16 RESERVES

a) Share premium
During the year the Bank increased its issued share capital at a premium of US$ 27,427 thousand, net of retrocession. Additional merger expenses of US$ 124 thousand and share issue expenses of US$ 111 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 Bank's 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$ 41,400 thousand being US 2.3 cents per share, which will be submitted for formal approval at the Annual General Meeting.

17 FEES AND COMMISSION - NET

	2001 US$ '000	2000 US$ '000
Fee and commission income	**31,894**	34,829
Fee and commission expense	**(1,102)**	-
	30,792	34,829

18 TRADING INCOME

	2001 US$ '000	2000 US$ '000
Foreign exchange	**4,813**	4,502
Trading in securities	**3**	-
Others	**974**	-
	5,790	4,502

19 PROVISION FOR IMPAIRMENT OF NON-TRADING INVESTMENTS, OTHER ASSETS AND CONTINGENCIES

	2001 US$ '000	2000 US$ '000
Provision for non-trading investments and other assets	**5,647**	5,833
Provision for contingencies	**1,273**	212
	6,920	6,045

20 TAXATION

	2001 US$'000	2000 US$'000
Balance sheet:		
Current liability	**8,420**	16,172
Deferred asset	**(2,230)**	(2,472)
	6,190	13,700
Income statement:		
Current tax on foreign operations	**6,426**	12,028
Deferred tax on foreign operations	**-**	(2,006)
	6,426	10,022

There is no tax on corporate income in the State of Bahrain. As of 31 December 2001, only The United Bank of Kuwait PLC, a 100% subsidiary in the UK, is subject to taxation.

The effective tax rate for The United Bank of Kuwait PLC for the year ended 31 December 2001 was 30.51% (2000: 29.17%). Since there is no income tax in the State of Bahrain, reconciliation between the accounting profit and the taxable profit has not been presented.

21 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:

	2001	2000
Net profit for the year (US$ '000)	**48,360**	40,126
Weighted average number of shares outstanding during the year (000's) *	**1,537,000**	1,294,000
Basic earnings per share (US cents)	**3.15**	3.10

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

22 CASH AND CASH EQUIVALENTS

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

	2001 US$ '000	2000 US$ '000
Cash and balances with central banks (Note 4)	**16,686**	16,566
Deposits with banks and other financial institutions		
- maturing within three months	**871,903**	910,554
Treasury bills maturing within three months	**34,531**	116,182
	923,120	1,043,302

23 RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, directors, senior management and companies of which they are principal owners in the ordinary course of business at arms length. All the loans and advances to related parties are performing and are free of any provision for possible loan losses. The Group has sufficient unutilised lines of credit as a back up for related party deposits.

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

	2001 US$ '000	2000 US$ '000
Deposits with banks and other financial institutions	**5,076**	38,798
Loans and advances	**20,175**	61,752
Non-trading investments	**13,454**	5,729
Due to banks and other financial institutions	**6,124**	26,630
Customers' deposits	**574,294**	351,274
Subordinated liabilities	**30,459**	36,660
Commitments and contingent liabilities	**95,156**	136,961

23 RELATED PARTY TRANSACTIONS *(continued)*

Included in commitments and contingent liabilities are guarantees amounting to US$ 93 million (2000: US$ 130 million) in favour of the unit-holders of capital guaranteed funds launched by a subsidiary and an associate. As of 31 December 2001 and 2000, the Group had a charge on the underlying US Treasury strips which on maturity would yield the amount guaranteed by the Group.

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

	2001 US$ '000	2000 US$ '000
Interest income	2,329	9,623
Interest expense	20,845	26,776
Gain on sale of non-trading investments	-	5,106
Fees and commission	1,493	1,314

24 EMPLOYEE BENEFITS

Pension scheme
The total pension costs of the Group relating to The United Bank of Kuwait PLC pension plan were US$ 1,627 thousand (2000: US$ 1,750 thousand).

The most recent actuarial valuation as at 30 June 2000 reflected an actuarial surplus of assets US$ 4,684 thousand. The main assumptions used in the valuation were a future rate of investment return of 8% per annum, a future rate of salary progression of 6% per annum and a current contribution rate by the employer of 14.2% of the pensionable earnings.

Defined contribution plans
The contribution during the year for Bahraini employees on this account amounted to US$ 908 thousand (2000: US$ 600 thousand).

Other defined benefit plans
The charge to the consolidated statement of income on account of end of service benefits to non-Bahraini employees of the parent and its subsidiary Ahli United Bank (Bahrain) B.S.C. (c) for the year amounted to US$ 257 thousand (2000: US$ 119 thousand). There are no material differences between the carrying amount of the provision for end of service benefits and the amount arising from an actuarial computation thereof.

25 MANAGED FUNDS

Funds administrated 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 2001 was US$ 1,606 million (2000 : US$ 1,785 million).

26 DERIVATIVES

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

31 December 2001:				Notional amounts by term to maturity			
	Positive fair value US$ '000	Negative fair value US$ '000	Notional amount Total US$ '000	Within 3 months US$ '000	3 - 12 months US$ '000	1 - 5 years US$ '000	Over 5 years US$ '000
Derivatives held for trading:							
Interest rate swaps	100	143	497,256	63,433	209,703	107,347	116,773
Forward foreign exchange contracts	188	1,497	848,834	795,880	52,954	-	-
Options	212	483	567,883	553,087	4,589	10,207	-
Interest rate futures	302	568	1,191,587	663,490	250,168	277,929	-
Derivatives held as fair value hedges:							
Interest rate swaps	870	2,398	929,904	214,092	113,572	304,901	297,339
Currency swaps	1,189	-	9,986	-	-	9,986	-
Derivatives held as cash flow hedges:							
Interest rate swaps	-	1,354	74,158	14,158	60,000	-	-
	2,861	6,443	4,119,608	2,304,140	690,986	710,370	414,112
31 December 2000:							
Derivatives held for trading:							
Interest rate swaps	105	918	632,032	6,005	608,495	-	17,532
Options	402	1,292	4,854,367	-	4,854,367	-	-
Interest rate futures	118	11	1,319,117	-	1,319,117	-	-
Forward foreign exchange contracts	55	35	92,090	92,090	-	-	-
*Derivatives held for hedging *:*							
Interest rate swaps	-	-	708,383	112,102	264,904	173,868	157,509
Forward foreign exchange contracts	-	-	861,815	800,573	49,451	11,791	-
	680	2,256	8,467,804	1,010,770	7,096,334	185,659	175,041

* Fair values for derivatives held for hedging purposes at 31 December 2000 have not been given as they and the related financial asset or liability were not fair value accounted.

26 DERIVATIVES *(continued)*

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed and floating interest payments as well as notional amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group does not engage in the writing of options.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group.

Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. The Board has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Assets and liabilities interest rate gaps are reviewed on a weekly basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Board.

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall balance sheet exposures.

The Group uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified fixed interest rate investments. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate deposits. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

For strategic interest rate risk, hedging is carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps and futures to hedge a proportion of the interest rate exposure. Since strategic hedging does not qualify for special hedge accounting, related derivatives are accounted for as trading instruments.

27 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

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

Commitments to extend credit represents contractual commitments to make loans and revolving credits and 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 Group 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.

The Group has the following credit related commitments:

	2001 US$ '000	2000 US$ '000
Commitments on behalf of customers:		
Guarantees	250,461	222,731
Acceptances	14,041	9,543
Letters of credit	71,122	176,250
	335,624	408,524
Irrevocable commitments:		
Undrawn irrevocable loan commitments	442,742	341,210
Others	80	141
	442,822	341,351

Operating lease commitments

At 31 December 2001 the Group had commitments under non-cancellable operating leases amounting to US$ 3,439 thousand (2000: US$ 4,250 thousand).

28 SEGMENT INFORMATION

Primary segment information

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

Retail banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards and fund 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 management of the Group's funding.

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.

28 SEGMENT INFORMATION *(continued)*

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 2001** 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	28,017	102,949	17,250	148,216
Segment result	12,993	55,666	4,111	72,770
Profit from operations				72,770
Share of profit from associates				6,671
Profit for the year before provisions				79,441
Provisions				24,655
Net profit for the year before tax				54,786
Taxation				6,426
Net profit for the year				48,360
Other Information				
Segment assets	271,414	3,466,397	38,899	3,776,710
Investment in associates				167,664
Unallocated assets				158,345
Total assets				4,102,719
Segment liabilities	853,378	1,919,024	391,865	3,164,267
Unallocated liabilities				374,150
Total liabilities				3,538,417

28 SEGMENT INFORMATION *(continued)*

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	24,303	92,574	18,795	135,672
Segment result	10,202	52,802	3,839	66,843
Unallocated items				147
Profit from operations				66,990
Share of profit from 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	224,358	3,031,516	92,876	3,348,750
Investment in associates				6,071
Unallocated assets				157,527
Total assets				3,512,348
Segment liabilities	696,149	1,741,604	302,888	2,740,641
Unallocated liabilities				371,970
Total liabilities				3,112,611

28 SEGMENT INFORMATION *(continued)*

Secondary segment information

Although the management of the Group is based primarily on business segments, the Group operates in two geographic markets; Middle East is designated as regional, and the remainder (Europe, the Far East and the USA) is designated as international. The following table shows the distribution of the Group's operating income and total assets by geographical segment:

	Regional		International		Total	
	2001 US$ '000	2000 US$ '000	**2001 US$ '000**	2000 US$ '000	**2001 US$ '000**	2000 US$ '000
Operating income	**83,559**	45,312	**71,328**	91,468	**154,887**	136,780
Total assets	**1,398,222**	1,002,475	**2,704,497**	2,509,873	**4,102,719**	3,512,348

29 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. In case of derivatives this is limited to positive fair values. 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 30.

30 CONCENTRATION OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS

The distribution of assets, liabilities, and off-balance sheet items by geographic region and industry sector was as follows:

	2001			2000		
	Assets US$ '000	Liabilities US$ '000	Off balance sheet items US$ '000	Assets US$ '000	Liabilities US$ '000	Off balance sheet items US$ '000
Geographic region:						
Middle East	1,398,222	2,290,812	879,664	1,002,475	2,068,976	810,335
United States of America	290,677	5,811	643,182	340,377	10,418	261,514
Europe	647,521	273,192	1,570,209	415,538	150,812	94,954
United Kingdom	1,390,642	816,096	1,638,436	1,417,789	733,269	7,877,619
Asia	89,672	3,793	15,304	88,859	4,721	15,082
Rest of the world	285,985	148,713	151,259	247,310	144,415	162,425
	4,102,719	3,538,417	4,898,054	3,512,348	3,112,611	9,221,929
Industry sector:						
Trading and manufacturing	329,395	101,412	334,538	266,478	51,487	73,814
Banks and other financial institutions	2,078,819	1,261,116	4,264,469	1,535,586	1,328,440	8,850,918
Construction and real estate	609,416	125,762	133,728	584,521	94,320	148,208
Government/public sector	110,572	649,286	2,513	259,841	459,945	63,085
Others	974,517	1,400,841	162,806	865,922	1,178,419	85,904
	4,102,719	3,538,417	4,898,054	3,512,348	3,112,611	9,221,929
Month end average	4,299,357	3,529,611	4,695,832	3,470,397	3,091,255	4,412,444

31 INTEREST RATE RISK

The Group's interest sensitivity position based on contractual repricing or maturity arrangements, whichever is earlier, at **31 December 2001** was as follows:

	US$ '000				
	Less than three months	Three months to one year	Over one year	Not exposed to interest rate risk	Total
ASSETS					
Cash and balances with central banks	1,946	-	-	43,348	45,294
Treasury bills	34,531	-	-	-	34,531
Trading securities	-	-	-	355	355
Deposits with banks and other financial institutions	861,561	43,728	9,982	10,342	925,613
Loans and advances	1,203,337	445,235	201,873	32,254	1,882,699
Non-trading investments	433,080	40,797	383,618	75,054	932,549
Investment in associates	-	-	-	167,664	167,664
Premises and equipment	-	-	-	43,755	43,755
Other assets and intangibles	-	-	-	70,259	70,259
Total	2,534,455	529,760	595,473	443,031	4,102,719
LIABILITIES AND EQUITY					
Due to banks and other financial institutions	670,097	67,765	-	1,038	738,900
Customers' deposits	2,029,727	188,575	57,614	90,170	2,366,086
Certificate of deposits	40,205	-	-	-	40,205
Floating rate notes and other long term debt	219,718	-	-	-	219,718
Other liabilities	-	-	-	85,273	85,273
Subordinated liabilities	78,253	-	9,982	-	88,235
Equity	-	-	-	564,302	564,302
Total	3,038,000	256,340	67,596	740,783	4,102,719
On-balance sheet gap	(503,545)	273,420	527,877		
Off-balance sheet gap	197,460	(119,636)	(77,824)		
Total interest rate sensitivity gap	(306,085)	153,784	450,053		
Cumulative interest rate sensitivity gap	(306,085)	(152,301)	297,752		

31 INTEREST RATE RISK *(continued)*

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				
	Less than three months	Three months to one year	Over one year	Not exposed to interest rate risk	Total
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
Non-trading investments	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 and other long term debt	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		
Off-balance sheet gap	450,227	(320,596)	(129,631)		
Total interest rate sensitivity gap	(351,784)	90,427	541,068		
Cumulative interest rate sensitivity gap	(351,784)	(261,357)	279,711		

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.

31 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 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:

	2001 % range	2000 % range
Assets		
Treasury bills	2.26 - 6.34	5.90 - 7.71
Deposits with banks and other financial institutions	1.78 - 6.18	5.89 - 6.66
Loans and advances (a)	4.78 - 9.42	8.53 - 10.15
Non-trading investments	4.80 - 7.82	6.61 - 7.27
Liabilities		
Due to banks and other financial institutions	2.48 - 6.03	5.88 - 6.65
Customers' deposits (b)	2.46 - 5.93	5.33 - 6.50
Floating rate notes and other long term debt	2.47 - 5.00	7.29 - 7.79
Certificate of deposits	2.50 - 6.00	6.74 - 7.24
Subordinated liabilities	3.23 - 6.70	5.93 - 6.43

(a) The effective interest rate for loans and advances for 2001 has been computed including impaired loans [note 6].
(b) The effective interest rate for customers' deposits has been computed excluding non-interest bearing accounts.

32 LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade 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 2001** 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	35,918	9,376	-	45,294
Treasury bills	13,828	20,703	-	34,531
Trading securities	355	-	-	355
Deposits with banks and other financial institutions	819,813	95,818	9,982	925,613
Loans and advances	285,029	594,050	1,003,620	1,882,699
Non-trading investments	71,762	43,208	817,579	932,549
Investment in associates	-	-	167,664	167,664
Premises and equipment	-	-	43,755	43,755
Other assets and intangibles	6,038	38,797	25,424	70,259
Total	1,232,743	801,952	2,068,024	4,102,719

32 LIQUIDITY RISK *(continued)*

	US$ '000			
	Less than one month	One month to one year	Over one year	Total
LIABILITIES AND EQUITY				
Due to banks and other financial institutions	372,736	366,164	-	738,900
Customers' deposits	1,661,956	646,504	57,626	2,366,086
Certificate of deposits	2,996	37,209	-	40,205
Floating rate notes and other long term debt	-	119,860	99,858	219,718
Other liabilities	11,101	30,003	44,169	85,273
Subordinated liabilities	-	-	88,235	88,235
Equity	-	42,878	521,424	564,302
Total	2,048,789	1,242,618	811,312	4,102,719

The maturity profile of the assets and liabilities at 31 December 2000 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	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
Non-trading investments	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 and other long term debt	-	-	200,161	200,161
Other liabilities	14,635	16,200	52,318	83,153
Subordinated liabilities	-	-	89,090	89,090
Equity	-	32,383	367,354	399,737
Total	1,517,725	1,270,212	724,411	3,512,348

32 LIQUIDITY RISK *(continued)*

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 Group'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.

33 CURRENCY RISK

The Group views United States dollars as its measurement currency and had the following significant net exposures denominated in foreign currencies as of 31 December:

	2001 US$ '000 equivalent long (short)	2000 US$ '000 equivalent long (short)
Great Britain Pounds	**169,564**	148,497
Bahraini Dinars	**(31,257)**	130,397
Kuwaiti Dinars	**152,843**	124,803
Euro	**80,841**	30,355
Others	**(8,620)**	56,723

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below sets out the estimated carrying values and fair values of those on and off balance sheet financial instruments, where fair values are materially different from their carrying values in the financial statements.

	2001			2000		
	Carrying value US$ '000	**Fair value US$ '000**	**Difference US$ '000**	Carrying value US$ '000	Fair value US$ '000	Difference US$ '000
Non-trading investments	**932,549**	**928,258**	**(4,291)**	429,645	426,429	(3,216)

As explained in Note 8, included under non-trading investments are unquoted equity investments with a value of US$ 3,342 thousand (2000: US$ 3,342 thousand) for which fair value cannot be reliably determined.

35 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:

	2001 US$ '000	2000 US$ '000
Capital base:		
Tier 1 capital	**542,313**	399,737
Tier 2 capital	**9,803**	4,059
- Eligible subordinated debts	**85,665**	89,090
	637,781	492,886
Less: Investments in/loans to funds and subsidiaries	**(7,600)**	(26,858)
Total capital base (a)	**630,181**	466,028
Risk weighted assets:		
Credit risk	**2,878,716**	2,180,581
Market risk	**133,138**	74,576
Total risk weighted assets (b)	**3,011,854**	2,255,157
Capital adequacy (a/b * 100)	**21%**	21%
Minimum requirement	**12%**	12%