Ahli United Bank B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2001

AUDITORS' REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C.

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 2001, 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 2001 and 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 2001 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.

12 February 2002
Manama, State of Bahrain

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
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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

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 bank". 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments (continued)

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.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 of 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 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 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives (continued)

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.

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, 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	*2000*
	US$ '000	*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:

	2001	*2000*
Industry sector	***US$ '000***	*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

6 LOANS AND ADVANCES (continued)

	2001	*2000*
	US$ '000	*US$ '000*
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	*2000*
	US$ '000	*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 GBP118 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.

7 SECURITISED LOANS (continued)

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

10 ACQUISITION OF A SUBSIDIARY (continued)

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	*2000*
	US$ '000	*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

		2001	*2000*
	Maturity	***US$ '000***	*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	*2000*
	US$ '000	*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	*2000*
	US$ '000	*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 ¾%, repayable 2007	**32,729**	32,802
(b) ***UBK Finance BV***		
Great Britain Pounds - interest at six months LIBOR plus ¾%, repayable 2006	**10,213**	-
US Dollars – interest at three months LIBOR plus ¾%, repayable 2006	**9,923**	-
Great Britain Pounds - interest at six months LIBOR plus ¾%, 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 ¾% (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	*2000*
	US$ '000	*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 USD 0.25 each at a premium on 10 July 2001.