



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

Basel II, Pillar 3
Risk Management and Capital Adequacy Disclosures
30 June 2010



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1 Executive Summary

As a bank incorporated in the Kingdom of Bahrain, United Gulf Bank B.S.C. (“UGB” or “the Bank”) is mandated to comply with the Basel II Capital Adequacy Framework in accordance with the Central Bank of Bahrain (CBB) Basel II guidelines. The implementation of the three pillars of Basel II - namely Minimum Capital Requirements, Supervisory Review Process and Market Discipline, facilitate sound risk management processes and improved corporate governance.

These Risk Management and Capital Adequacy disclosures fulfill the Pillar 3 requirements of the Basel II Accord. The objective of implementing Pillar 3 is to improve market discipline through effective public disclosure and to complement the reporting templates under Pillar 1 and Pillar 2. The spirit of market discipline can be summed up in the phrase ‘accountability through transparency’. Accountability is based on the premise that the Bank’s management acts in the best interests of its external stakeholders – mainly the current and prospective holders of its equity and debt. Transparency is evident when a bank discloses sufficient information so as to allow the stakeholders to make informed judgments as to whether the Bank is acting in their best interests.

The disclosures have been provided in accordance with the Public Disclosures (“PD”) section of the CBB’s Rulebook. They meet the requirements of Basel II (Pillar 3) and International Financial Reporting Standards (IFRS) 7. The PD module sets out required disclosures to allow market participants to assess key pieces of information on the scope of application, capital structure, risk exposures, risk assessment processes, and the capital adequacy of the financial institution. The information provided in this document, is also in line with UGB’s Disclosure Policy that was approved by the Board of Directors in early 2008.

The total capital adequacy ratios of UGB as at 30 June 2010 are well above the CBB’s threshold of 12% with an additional 0.5% as a prudent measure. At 30 June 2010, UGB’s capital adequacy ratio was 17.85 %, total risk weighted assets were USD 2,704 million: comprising 84% for credit risk, 6% for market risk and 10% for operational risk.

All figures in this report are as at 30 June 2010 (unless otherwise stated), and have been reported using International Financial Reporting Standards, that are applicable at the consolidated level of UGB and its subsidiaries. Figures contained in this report are subject to rounding adjustments and in certain instances, the sum of the numbers in a column or a row in tables contained in this report may not conform exactly to the total figure given for that column or row. As required by the CBB, the external auditors of UGB – Ernst & Young has issued an agreed upon procedures report on the disclosures made in this report.

2 Background

United Gulf Bank B.S.C. is a joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration (CR) number 10550. It is listed on the Bahrain and Kuwait Stock Exchanges. The address of the Bank’s registered office is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

The Bank operates in Bahrain under a Wholesale Banking License issued by the CBB.

The principal activities of the Bank and its subsidiaries (the Group) comprise of investment banking. Investment banking includes asset management and the full range of corporate finance advisory services, investment in quoted and private equity / funds, real estate, capital markets, international banking and treasury functions.

2 Background (continued)

The Bank's parent and ultimate holding company is Kuwait Projects Company (Holding) K.S.C. ("KIPCO"), a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. The KIPCO Group is one of the biggest diversified holding companies in the Middle East and North Africa, with assets worth more than US\$ 18.6 billion under management or control. The KIPCO Group has substantial ownership interests in a portfolio of over 50 companies operating across 21 countries. KIPCO's main business sectors are financial services and media. Through the subsidiaries and affiliates of its core companies, KIPCO also has interests in Real Estate, Commercial Industry, Healthcare and the Management & Advisory sector.

Basel II frame work

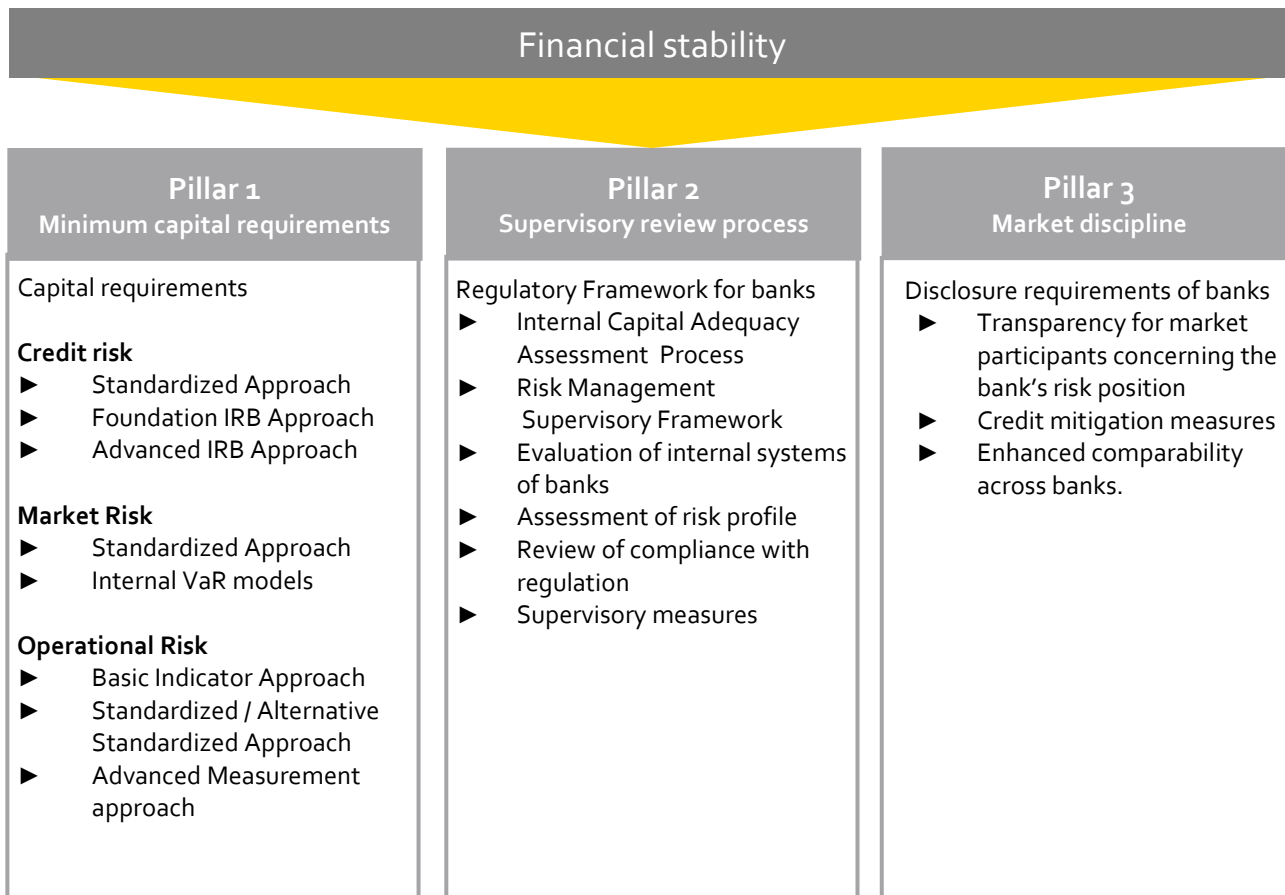
The new capital adequacy module of the CBB rulebook was introduced with effect from 1 January, 2008. Its objectives are to strengthen capital levels across banks, provide a more risk sensitive approach to the assessment of risk and the calculation of regulatory capital, and strengthen risk management practices and processes within the financial industry.

The CBB's Basel II Framework encompasses three complementary pillars – namely:

Pillar 1	Calculation of the capital adequacy ratio based on the charges for credit, market and operational risk stemming from its operations.
Pillar 2	The supervisory review process including the Internal Capital Adequacy Assessment Process ("ICAAP") to assess risks not covered under Pillar 1, identify capital relating to these risks and ensuring that the bank has sufficient capital (generated from internal / external resources), to cover the relevant risks.
Pillar 3	Market discipline through public disclosures that are designed to provide transparent information on capital structures, risk exposures, risk mitigation and the risk assessment process.

2 Background (continued)

The three pillars can be summarized as follows:



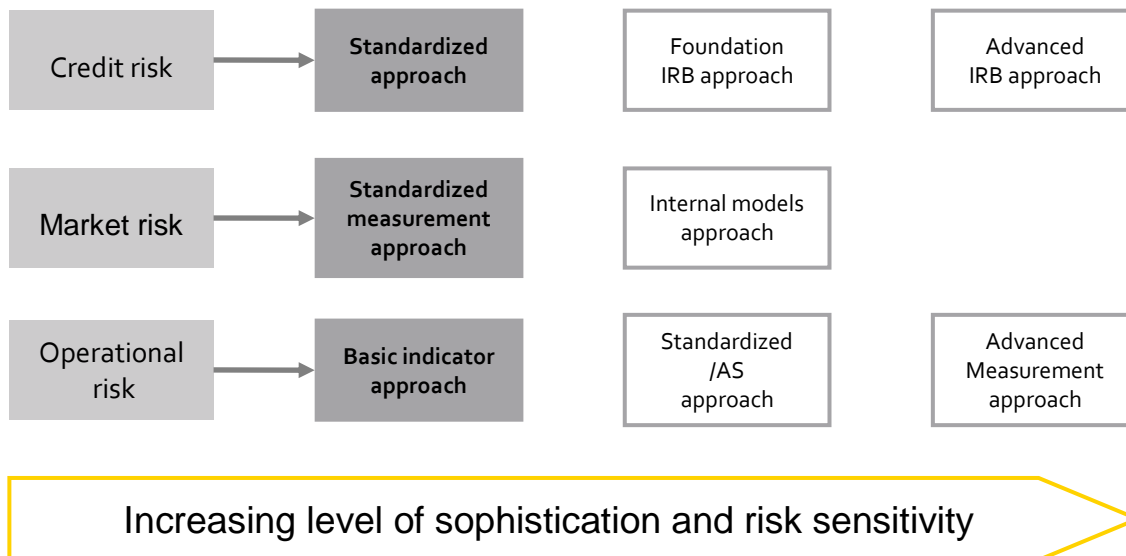
The three pillars are designed to be mutually reinforcing and are meant to ensure a capital base which corresponds to the overall risk profile of the underlying bank.

Pillar 1 – Minimum Capital Requirements

Pillar 1 of the Basel II Accord published by the Bank of International Settlements, covers the minimum regulatory capital requirement that a bank is expected to maintain to cover credit, market and operational risk stemming from its operations. It sets out the basis for the consolidation of entities for capital adequacy reporting requirements, the definition and calculations of risk weighted assets and the various options given to banks to calculate these risk weighted assets.

2 Background (continued)

Pillar 1 – Minimum Capital Requirements (continued)



Note: UGB has adopted the standardized approach for calculating the charges for credit and market risk and the basic indicator approach for determining the charge for operational risk.

On a group-wide basis, UGB's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Bank's business activities and to maintain a "well-capitalized" status under the CBB's regulatory requirements. The minimum capital adequacy ratio ("CAR") for banks incorporated in Bahrain was 12% compared to the Basel Committee's minimum ratio of 8%. There is also a requirement for banks to maintain a buffer of 0.5% above the minimum threshold. UGB assesses its capital adequacy relative to the risks underlying its business activities and takes proactive measures to ensure that it operates above these thresholds in order to meet management's regulatory and debt rating objectives.

In the event that the CAR falls below 12.5%, additional prudential reporting requirements are imposed by the CBB and a formal action plan aimed at restoring the thresholds is to be submitted to the regulator on a weekly basis. With the proposed introduction of Pillar 2, the CBB's intention is to implement a minimum threshold to be determined for each institution individually, based on the Internal Capital Adequacy Assessment Process (ICAAP).

Pillar 2 – Supervisory Review Process (SRP)

The second pillar of Basel II is aimed at encouraging financial institutions to develop self-control processes that enable them to:

- Identify any risks not previously considered in Pillar 1;
- Identify capital relating to these risks; and
- Ensure that the business has sufficient capital (generated from internal / external resources), to cover the relevant risks.

2 Background (continued)

Pillar 2 – Supervisory Review Process (SRP) (continued)

Pillar 2 encompasses two processes – namely, the Internal Capital Adequacy Assessment Process (ICAAP) and a Supervisory Review and Evaluation Process (SRP). The ICAAP involves appropriate identification, assessment and measurement of residual risks, and ensures that the Bank has sufficient capital resources available to meet regulatory and internal capital requirements, even during periods of intensive economic or financial stress. Considerable work has been done by UGB to fulfill the requirements under Pillar 2.

Pillar 3 – Market Discipline

Pillar 3 of the Basel II Accord, imposes certain disclosure requirements which are extended and more precisely defined compared to the current regulations. The objective of these is to ensure that more information on the transactions and risk strategy of a bank is available to stakeholders. It is assumed that the reactions of market participants (shareholders, creditors, counterparties and external rating agencies amongst others) will have a "disciplining" effect in terms of their assessment about the Bank's risk profile and the level of capitalization.

3 Group Structure

The objective of this section is to set out the consolidation principles and the capital base of the UGB Group for the purpose of disclosure with the Pillar 1 guidelines. It also describes the policies and the corporate governance processes that are applicable in the management and control of risk and capital.

The Group's interim condensed consolidated financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. For capital adequacy purposes, all subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

The principal subsidiaries for capital adequacy purposes are as follows:-

<i>Name of the subsidiary</i>	<i>Country of incorporation</i>	<i>Effective ownership as at 30 June 2010</i>	<i>Effective ownership as at 31 December 2009</i>	<i>Year of Incorporation</i>
KIPCO Asset Management Company	Kuwait	86%	86%	1998
Tunis International Bank	Tunisia	-	77%	1982
United Gulf Bank Securities Company	Bahrain	96%	96%	1998
Hatoon Real Estate Company	Kuwait	98%	98%	2008
Syria Gulf Investment Company	Syria	99%	99%	2007
United Gulf Financial Services Company-North Africa	Tunisia	77%	85%	2008
<i>Held through KAMCO</i>				
Al-Nuzoul Holding Company K.S.C. (Closed)	Kuwait	60%	60%	2005
Al-Janah Holding Company K.S.C. (Closed)	Kuwait	60%	60%	2005
KAMCO Real Estate Company S.P.C .	Bahrain	100%	100%	2005
Al Zad Real Estate W.L.L.	Kuwait	100%	100%	2007
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	100%	2007
First North Africa Real Estate Co. W.L.L.	Kuwait	100%	100%	2007
Al Raya Real Estate Projects Company W.L.L.	Kuwait	100%	100%	2007
Orange Real Estate Co. W.L.L.	Kuwait	100%	100%	2005

4 Pillar III Disclosures

The disclosures required under the CBB Rulebook PD 3.1.6 are as follows;

4.1 Capital structure and capital adequacy

UGB's overall capital requirements under Pillar 1 is calculated by aggregating:

- the credit risk charge using the standardized approach;
- the market risk charge using the standardized approach; and
- the operational risk charge using the basic indicator approach.

The following table shows the Group's overall minimum capital requirement and capital adequacy position under Pillar 1 as at 30 June 2010.

Basel II frame work

	US\$ 000
Credit Risk (standarised)	271,964
Operational Risk (basic indicator)	33,237
Market Risk (standarised)	19,265
Total required capital	<u>324,466</u>
Total available capital	<u>482,535</u>
Excess capital over minimum regulatory capital requirements	<u>158,069</u>

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBB.

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements of the CBB and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue Tier 2 debt, if necessary.

4 Pillar III Disclosures (continued)

4.1 Capital structure and capital adequacy (continued)

The total eligible capital (tier 1 and 2) calculated in accordance with CBB guidelines are as follows;

	Tier 1 Capital US\$ 000	Tier 2 Capital US\$ 000	Total US\$ 000
Issued and fully paid ordinary shares and perpetual non-cumulative preference shares	195,183	-	195,183
Disclosed reserves			
General reserves	91,505	-	91,505
Legal / statutory reserves	71,989	-	71,989
Share premium	10,005	-	10,005
Others	35,782	-	35,782
Retained profit brought forward	119,870	-	119,870
Current interim profits	-	31,788	31,788
Unrealized gains arising from fair valuing equities	-	9,228	9,228
Excess of total eligible provisions over total expected loss	-	5,500	5,500
Subordinated term debt	-	100,000	100,000
Minority interest in consolidated subsidiaries	44,903	-	44,903
Less:			
Goodwill	55,167	-	55,167
Unrealized gross losses arising from fair valuing equity securities	30,209	-	30,209
	483,861	146,516	630,377
Deduction			
Significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	49,434	49,434	98,868
Excess amount over maximum permitted large exposure limit	24,487	24,487	48,974
Net Available Capital	409,940	72,595	482,535

4 Pillar III Disclosures (continued)

4.2 Capital adequacy ratio of consolidated group and significant subsidiaries

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognized as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure by taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout, the issue of new shares, subordinated term finance and innovative tier 1 capital securities.

The capital adequacy ratios of the group and its principal subsidiary were as follows;

	Consolidated	KAMCO
	US\$'000	US\$'000
Total eligible capital base	482,535	299,735
Credit risk weighted exposures	2,266,368	718,711
Market risk weighted exposures	160,538	39,710
Operational risk weighted exposures	276,978	111,107
Total risk weighted exposures	2,703,884	869,528
Total capital adequacy ratio	17.85%	34.47%
Tier 1 ratio	15.16%	33.95%

The Bank aims to maintain a minimum tier 1 ratio of 8 per cent and a total capital adequacy ratio in excess of 12 per cent. The CBB's current minimum consolidated capital adequacy ratio for banks incorporated in Bahrain is set at 12 per cent. The CBB does not prescribe a minimum ratio requirement for tier 1 capital.

4.3 Capital requirements for credit risk

For regulatory reporting purposes, the Bank calculates the capital requirements for credit risk based on the standardised approach. Under the standardised approach on and off statement of financial position credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. The exposure categories are referred to in the CBB's Basel II capital adequacy framework as "standard portfolios". The primary standard portfolios are claims on sovereigns, claims on banks and claims on corporate. Following the assignment of exposures to the relevant standard portfolios, the RWAs are derived based on prescribed risk weightings. Under the standardised approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB. UGB uses ratings assigned by Standard & Poor's, Moody's, Fitch and Capital Intelligence.

4 Pillar III Disclosures (continued)

4.3 Capital requirements for credit risk (continued)

An overview of the exposures, RWAs and capital requirements for credit risk analysed by standard portfolios is presented in the table below:

	Total exposure US\$'000	RWA US\$'000	Capital requirement US\$'000
Total Kingdom of Bahrain & GCC sovereigns & respective central banks	1,315	-	-
Total Claims on Banks	144,240	30,362	3,643
Claims on Corporates including Insurance			
Companies & Category 3 Investment Firms	143,364	143,364	17,204
Past Due Exposure	4,152	4,152	498
Equity Investments			
Listed	279,204	279,204	33,504
Unlisted	772,374	1,158,561	139,027
Holding of Real Estate	324,583	634,460	76,135
Other Assets and Holding of Securitization Tranches	16,265	16,265	1,952
Total	1,685,497	2,266,368	271,963

4.4 Capital requirements for market risk

The Group uses the standardised approach to calculate the regulatory capital requirements relating to general market risk and specific market risk. The resultant measure of market risk is multiplied by 12.5 (the reciprocal of the theoretical 8 per cent minimum capital ratio) to derive market risk-weighted exposures on a basis consistent with credit risk-weighted exposures.

The RWAs and capital requirements for market risk are presented in the table below:

	RWA US\$ 000	Capital requirement US\$ 000
Equity position risk	54,213	6,506
Foreign exchange risk	106,325	12,759
Total	160,538	19,265

4 Pillar III Disclosures (continued)

4.4 Capital requirements for market risk (continued)

The minimum and maximum values of capital requirements for equity position risk and foreign exchange risk over the last six-month period are as follows:

	Equity Position Risk US\$ 000	Foreign Exchange Risk US\$ 000
Minimum values	53,650	106,325
Maximum values	54,213	140,500

4.5 Capital requirements for operational risk

For regulatory reporting purposes, the capital requirement for operational risk is calculated according to the basic indicator approach. Under this approach, the Group's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient. The alpha coefficient has been set at 15 per cent in the CBB's Basel II capital adequacy framework. The capital requirement for operational risk as at 30 June 2010 amounted to US\$ 33.2 million.

4.6 Gross Credit Exposures

The table below shows the maximum exposure to credit risk for the components of on and off statement of financial position. The maximum exposure shown is gross before effect of mitigation through the use of master netting and collateral arrangements.

	Gross Exposures US\$ 000	Risk Weighted Exposures US\$ 000
Demand and call deposits with banks	23,846	5,019
Time deposits with banks	127,193	32,142
Non-trading investments	176,528	253,328
Loans and advances	55,519	27,468
Other assets	96,046	96,046
Off balance sheet items	18,598	18,598
	<u>497,730</u>	<u>432,601</u>

The period end position of gross credit exposure is representative of the average gross credit exposure of the Group for the six-month period ended 30 June 2010.

4 Pillar III Disclosures (continued)

4.6 Gross Credit Exposures (continued)

4.6.1 Gross credit exposure by geographical and region

Given the Group's track record, geographical exposures of UGB are limited to a strong focus on assets issued / incorporated in the GCC (in particular Kuwait), Middle East and North Africa and a small exposure to European Union Countries. The 'Others' category is mainly interbank deposits with banks incorporated in North America.

	<i>Gulf Co- operation Council countries (G.C.C.) US\$ 000</i>	<i>Middle East and North Africa (excluding G.C.C.) US\$ 000</i>	<i>European Union countries US\$ 000</i>	<i>Asia US\$ 000</i>	<i>Others US\$ 000</i>	<i>Total US\$ 000</i>
Demand and call deposits with banks	5,895	445	1,034	147	16,325	23,846
Time deposits with banks	50,480	12,681	64,032	-	-	127,193
Non-trading investments	176,528	-	-	-	-	176,528
Loans and advances	30,945	2,618	21,956	-	-	55,519
Other assets	90,134	5,622	225	-	65	96,046
Off balance sheet items	18,598	-	-	-	-	18,598
Total	372,580	21,366	87,247	147	16,390	497,730

4 Pillar III Disclosures (continued)

4.6 Gross Credit Exposures (continued)

4.6.2 Gross credit exposure by industry

An industry sector analysis of the Group's financial assets and off statement of financial position items, before taking into account collateral held or other credit enhancements, is as follows:

	<i>Banks and other financial institutions</i>	<i>Construction and real estate</i>	<i>Individuals</i>	<i>Others</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Demand and call deposits with banks	23,846	-	-	-	23,846
Time deposits with banks	127,193	-	-	-	127,193
Non-trading investments	176,528	-	-	-	176,528
Loans and advances	-	30,670	24,406	443	55,519
Other assets	83,991	48	234	11,773	96,046
Off balance sheet items	3,807	-	-	14,791	18,598
Total	415,365	30,718	24,640	27,007	497,730

4.6.3 Gross credit exposure by maturity

The Group strives to construct a portfolio that is well-balanced in terms of anticipated cash flows originating from redemptions, maturities and exits. A disproportionate number of redemptions in any given fiscal year are discouraged in a view to avoid re-investment risk (i.e. cash flows being re-invested in a different interest rate environment) and price volatility risk. The latter increases with a longer-term portfolio, as the longer the term of a security the more volatile would be the price. The Group also tracks expected maturities vs. actual maturities, as part of its normal risk management strategies.

	<i>Up to 3 months</i>	<i>4 months to 1 year</i>	<i>2 to 5 years</i>	<i>6 to 10 years</i>	<i>11 to 20 years</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Demand and call deposits	23,793	-	-	-	53	23,846
Time deposits with banks	110,003	3,872	13,318	-	-	127,193
Non-trading investments	123,065	-	53,463	-	-	176,528
Loans and advances	608	51,708	3,203	-	-	55,519
Other assets	349	95,697	-	-	-	96,046
Off balance sheet	2,313	16,285	-	-	-	18,598
Total financial assets	260,131	167,562	69,984	-	53	497,730

4 Pillar III Disclosures (continued)

4.6 Gross Credit Exposures (continued)

4.6.4 Gross exposure by related party breakdown

The related party exposures including off statement of financial position items are analysed as follows:

	<i>Major shareholders</i>	<i>Associates</i>	<i>Other related parties</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Demand and call deposits with banks	233	-	2,553	2,786
Time deposits with banks	-	-	39,782	39,782
Investments carried at fair value through statement of income	801	-	29,092	29,893
Investments, carried at fair value through statement of income , in funds managed by related party	-	-	13,001	13,001
Non-trading investments	16	-	263,262	263,278
Loans and advances	-	30,670	2,192	32,862
Other assets	78,191	3,225	5,017	86,433
Letters of credit	-	500	17,752	18,252
Guarantees	-	-	343	343

4 Pillar III Disclosures (continued)

4.6 Gross Credit Exposures (continued)

4.6.5 Specific and general provision

The movement in provision for losses of loans, non-trading investments (available for sale investments), and other assets and off statement of financial position items and collective impairment provision is as follows:

	<i>Specific</i>			<i>Collective impairment provision US\$ 000</i>
	<i>Loans US\$ 000</i>	<i>Investments US\$ 000</i>	<i>Other assets and off statement of financial position items US\$ 000</i>	
At beginning of the year	11,588	32,802	8,162	6,939
Write backs / cancellation due to improvement	(176)	-	-	(8)
Exchange adjustment and other movements	(7,433)	-	(59)	(5,759)
Balance at reporting date	3,979	32,802	8,103	1,172

4.6.6 Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The carrying amounts of the loans whose terms have been renegotiated as at 30 June 2010 are not material.

4 Pillar III Disclosures (continued)

4.6 Gross Credit Exposures (continued)

4.6.7 Exposure over the individual obligor limits

Under the CBB's rules governing maximum single exposures, banks incorporated in Bahrain are required to obtain the regulator's approval for any planned exposure to a single counterparty or group of connected counterparties that exceeds 15% of the regulatory capital base. As at 30 June 2010, the exposures that exceeded 15% of the capital base are:

	Current exposure	RWA	Percentage of
	US\$ 000	US\$ 000	regulatory
			capital
			%
Counterparty A	342,191	401,108	54%
Counterparty B	172,380	344,760	27%
Counterparty C	143,504	143,504	23%
Total	<u>658,075</u>	<u>889,372</u>	

4 Pillar III Disclosures (continued)

4.6 Gross Credit Exposures (continued)

4.6.8 Disclosure requirement for equity position in banking book

Investments available-for-sale are those non-derivative financial assets that are designated as either available-for-sale or are not classified as investments at fair value through the statement of income, investments held to maturity or loans and advances. After initial recognition, investments available-for-sale are measured at fair value with gains and losses being recognised in the statement of comprehensive income, until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gains or losses previously reported in statement of comprehensive income are transferred to the statement of income. Investments whose fair value can not be reliably measured are carried at cost less impairment losses, if any.

	Banking US\$ 000
Debt securities	165,064
Listed	-
Unlisted	165,064
Equity securities and mutual funds	447,408
Listed	134,422
unlisted	312,986
Managed funds	109,565
Total investments	722,037
INVESTMENT PROPERTIES	
Cost	25,632
Market Value	21,180
INTEREST IN UNCONSOLIDATED SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE	-
INTEREST IN SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE	686,338

4 Pillar III Disclosures (continued)

4.6 Gross Credit Exposures (continued)

4.6.9 Movement in fair value of non trading investments

The movement in fair value of non trading investments is as follows:

	US\$ 000
At beginning of the year	(18,018)
Exchange adjustment and other movements	7,477
Net unrealized gains / (losses)	(10,541)
Transfer to income statement:	
Realized	(177)
Balance at reporting date	<u>(10,364)</u>

4.6.10 Gain/loss on sale of trading investments

The realized/unrealized gains/losses on trading investments are as follows:

	US\$ 000
Realized gain/(loss) on sale of trading investments	10,419
Unrealized gain/(loss) on sale of trading investments	(11,575)
	<u>(1,156)</u>

4 Pillar III Disclosures (continued)

4.6 Gross Credit Exposures (continued)

4.6.11 Disclosure concerning interest rate risk in the banking book

Liquidity risk stems from the inability to procure sufficient cash flow to meet the Group's financial obligations as and when they fall due. The risk arises due to the timing differences between the maturity profile of the Group's assets and liabilities. Positions are monitored on a daily basis and proactive measures are taken to ensure that there is adequate liquidity at all times. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of income based on the statement of financial position as of 30 June 2010.

<i>Currency</i>	<i>Increase in basis points 2010</i>	<i>Sensitivity of net interest income 2010 US\$ 000</i>
Kuwaiti Dinar	+ 25	(578)
United States Dollar	+ 25	(495)
Euro	+ 25	(10)
Pound Sterling	+ 25	(6)
Others	+ 25	(13)

The decrease in the basis points will have an opposite impact on the net interest income.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 30 June 2010, including the effect of hedging instruments.

In accordance with CBB's requirements, the Bank also submits a five week projections of cash flows, on a weekly basis.

4 Pillar III Disclosures (continued)

4.6 Gross Credit Exposures (continued)

4.6.11 Disclosure concerning interest rate risk in the banking book (continued)

The detail of interest rate sensitive assets, liabilities and off statement of financial position exposures is as follows;

	Upto 3 months US\$ 000	3 months to 1 year US\$ 000	Over 1 year US\$ 000	Non- interest rate sensitive US\$ 000	Total US\$ 000
Assets					
Bank demand and call deposits	23,794	-	53	-	23,847
Time deposits	110,003	3,871	13,319	-	127,193
Securities held for trading	-	-	-	27,111	27,111
Funds held for trading	-	-	-	109,565	109,565
Investments available for sale	166,044	-	-	446,428	612,472
Investment in associates and joint venture	-	-	-	686,337	686,337
Loans and advance, net	608	51,708	3,204	-	55,520
Investment properties	-	-	-	21,178	21,178
Interest receivable and other assets	-	-	-	100,086	100,086
Properties and equipment	-	-	-	927	927
Goodwill	-	-	-	55,168	55,168
Total assets	300,449	55,579	16,576	1,446,800	1,819,404
Liabilities:					
Due to banks and other financial institutions	390,514	11,250	-	95	401,859
Deposits from customers	67,423	-	-	-	67,423
Loans payable	200,000	115,000	166,107	-	481,107
Bonds	-	-	67,753	-	67,753
Subordinated debt	100,000	-	-	-	100,000
Interest payable and other liabilities	-	-	-	123,848	123,848
Minority Interest	-	-	-	44,905	44,905
Shareholders Equity	-	-	-	532,509	532,509
Total liabilities and shareholders' Equity	757,937	126,250	233,860	701,357	1,819,404
On balance sheet gap	(457,488)	(70,671)	(217,284)	745,443	-
Cumulative gap	(457,488)	(528,159)	(745,443)	-	-
Off balance sheet items					
Interest rate swaps	-	-	300,000	-	300,000
Forward foreign exchange contracts	867,602	84,900	-	-	952,502

4 Pillar III Disclosures (continued)

4.6 Gross Credit Exposures (continued)

4.6.12 Discontinued operations

Pursuant to a master transfer agreement [MTA] with Burgan Bank, a related party, the Group had, at 31 December 2008, classified two subsidiaries Gulf Bank Algeria [GBA] and Tunis International Bank [TIB] and an associated company, Bank of Baghdad [BOB] as assets held for sale (disposal group) in accordance with IFRS 5. Subsequently, the transfer of GBA and BOB was completed in March 2009.

In June 2010, the Bank has transferred the ownership of TIB to Burgan Bank for a total consideration of US\$ 120,000 thousand to conclude the transfer of classified subsidiaries and associates to Burgan Bank as per the MTA.

4.6.13 Conclusion

The Risk Management and Capital Adequacy Disclosures focus solely on the Pillar 3 requirements of the Basel II Accord. Further information on the Bank's results and its salient subsidiaries and associates, is available in the interim condensed consolidated financial statements for the six-month period ended 30 June 2010. Both documents are available in the Financial Section of the Bank's website www.ugbbah.com