بنك الخليج المتحد ش.م.ب.

United Gulf Bank B.S.C.

Basel II, Pillar 3

Risk Management and Capital Adequacy Disclosures

30 June 2011

Asset Management & Investment Banking

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1 Executive Summary

As a locally incorporated bank 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") module 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 initially approved by the Board of Directors in 2008 and subsequently reviewed in April 2011.

The total capital adequacy ratios of UGB as at 30 June 2011 are well above the CBB's threshold of 12% with an additional 0.5% as a prudent measure. At 30 June 2011, UGB's consolidated capital adequacy ratio was 19.33 %, total risk weighted assets were USD 2,401 million: comprising 90% for credit risk, 7% for market risk and 3% for operational risk.

All figures in this report are as at 30 June 2011 (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 Bourse and the 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 asset and fund management, investment banking, private equity and corporate finance. Other activities include brokerage, commercial banking, proprietary investments, brokerage, Treasury and investments in non-financial activities that include investments in real estate, industry, hospitality and the media sectors.

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$ 20 billion under management or control as at 31 December 2010. The KIPCO Group has substantial ownership interests in a portfolio of over 70 companies operating across 26 countries. KIPCO’s main sector focus is financial services, insurance and media.. Through the subsidiaries and affiliates of its core companies, KIPCO also has interests in real estate, industrial, education, and management advisory sectors.

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:

Financial stability

Pillar 1
Minimum capital requirements

Capital requirements

Credit risk
- Standardised Approach
- Foundation IRB Approach
- Advanced IRB Approach

Market Risk
- Standardised Approach
- Internal VaR models

Operational Risk
- Basic Indicator Approach
- Standardised / Alternative Standardized Approach
- Advanced Measurement approach

Pillar 2
Supervisory review process

Regulatory Framework for banks
- Internal Capital Adequacy Assessment Process
- Risk Management Supervisory Framework
- Evaluation of internal systems of banks
- Assessment of risk profile
- Review of compliance with regulation
- Supervisory measures

Pillar 3
Market discipline

Disclosure requirements of banks
- Transparency for market participants concerning the bank's risk position
- Credit mitigation measures
- Enhanced comparability across banks.

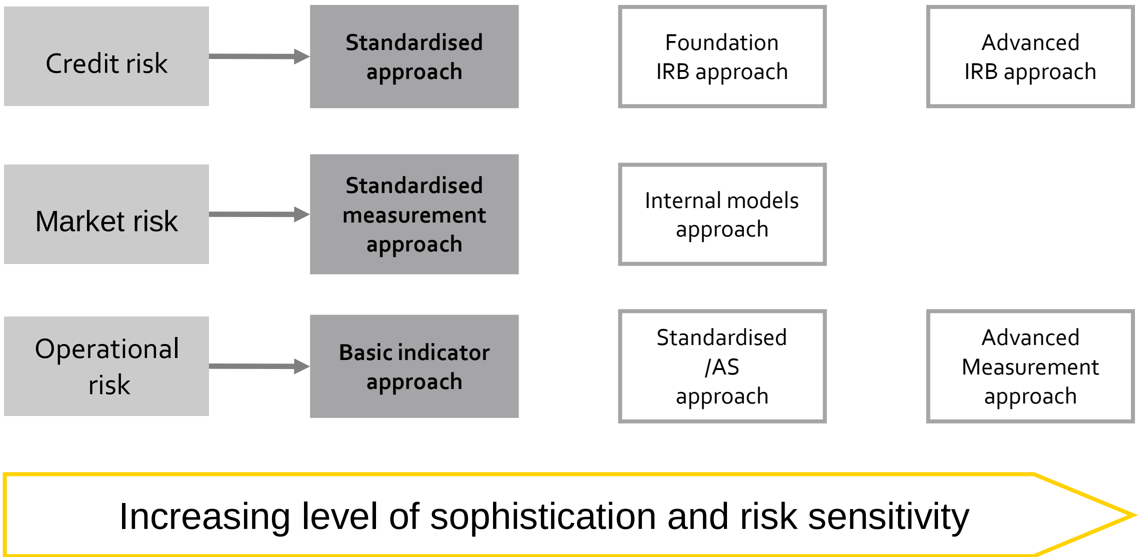
The three pillars are designed to be mutually reinforcing and are meant to ensure a capital base which corresponds to the overall risk profile of the underlying bank.

Pillar 1 – Minimum Capital Requirements

Pillar 1 of the Basel II Accord published by the Basel committee on Banking Supervision, 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 standardised 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 consolidated capital adequacy ratio ("CAR") for locally incorporated banks in Bahrain is 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

2 Background (continued)

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

- Ensure that the business has sufficient capital (generated from internal / external resources), to cover the relevant risks.

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. UGB has a well-established and Board approved ICAAP process in place.

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. The bank maintains an up to date checklist of all applicable IFRS and disclosure requirements. 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:-

		Effective ownership as at		
Name of the subsidiary	***Country of incorporation***	***30 June 2011***	*31 December 2010*	***Year of incorporation***
Held directly				
KIPCO Asset Management Company [KAMCO]	Kuwait	**86%**	86%	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%**	77%	2008
Held through KAMCO				
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
MENA Capital for Transport & Equipments Co. WLL	Kuwait	**100%**	-	2011
Orange Real Estate Co. W.L.L.	Kuwait	**100%**	100%	2005
Al Rawabi International Real Estate Co. W.L.L.	Kuwait	**96%**	99%	2009
First Homes Real Estate Co. W.L.L.	Kuwait	**99%**	99%	2009

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 standardised approach;
- the market risk charge using the standardised measurement 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 2011.

	US$ 000
Credit Risk (standarised)	259,622
Market Risk (standarised)	20,496
Operational Risk (basic indicator)	8,020
Total required capital	288,138
Total available capital	464,080
Excess capital over minimum regulatory capital requirements	175,942

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 share:	195,915	-	195,915
Disclosed reserves			
General reserves	75,855	-	75,855
Legal / statutory reserves	95,370	-	95,370
Share premium	11,459	-	11,459
Others	59,987	-	59,987
Retained profit brought forward	140,860	-	140,860
Current interim profits	-	13,297	13,297
Unrealized gains arising from fair valuing equities	-	9,890	9,890
Subordinated term debt	-	100,000	100,000
Minority interest in consolidated subsidiaries	45,290	-	45,290
Less:			
Goodwill	56,296	-	56,296
Unrealized gross losses arising from fair valuing equity securities	48,791	-	48,791
	519,649	**123,187**	**642,836**
Deduction			
Significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	41,562	41,562	83,124
Excess amount over maximum permitted large exposure limit	47,816	47,816	95,632
Net Available Capital	**430,271**	**33,809**	**464,080**

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 US$'000	***KAMCO US$'000***
Total eligible capital base	464,080	320,655
Credit risk weighted exposures	2,163,514	680,688
Market risk weighted exposures	170,800	64,604
Operational risk weighted exposures	66,834	29,986
Total risk weighted exposures	2,401,148	775,278
Total capital adequacy ratio	19.33%	41.36%
Tier 1 ratio	17.92%	41.15%

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 locally incorporated banks 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 Claims on Sovereigns	629	-	-
Total Claims on Banks	143,922	30,260	3,631
Claims on Corporates including Insurance Companies & Category 3 Investment Firms	94,681	94,681	11,362
Past Due Exposure	3,249	3,249	390
Equity Investments			
Listed	650,370	650,370	78,044
Unlisted	686,245	1,029,368	123,524
Holding of Real Estate	164,259	313,812	37,657
Other Assets and Holding of Securitization Tranches	41,774	41,774	5,013
Total	1,785,129	2,163,514	259,622

4.4 Capital requirements for market risk

The Group uses the standardised measurement 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	64,975	7,797
Foreign exchange risk	105,825	12,699
Total	170,800	20,496

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	63,438	105,825
Maximum values	64,975	232,850

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 2011 amounted to US$ 8 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	16,400	3,280
Time deposits with banks	86,910	17,382
Non-trading investments	13,441	6,721
Loans and advances	26,355	29,136
Other assets	31,416	31,416
Off balance sheet items	50,991	50,991
	225,513	138,926

4 Pillar III Disclosures (continued)

4.6 Gross Credit Exposures (continued)

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 2011.

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.

	Gulf Co-operation Council countries (G.C.C.) US$ 000	*Middle East and North Africa (excluding G.C.C.) US$ 000*	*European Union countries US$ 000*	*Asia US$ 000*	*Others US$ 000*	*Total US$ 000*
Demand and call deposits with banks	11,863	488	641	37	3,371	16,400
Time deposits with banks	56,926	9,984	20,000	-	-	86,910
Non-trading investments	13,441	-	-	-	-	13,441
Loans and advances	5,016	2,781	17,057	-	1,501	26,355
Other assets	27,559	3,811	11	-	35	31,416
Off balance sheet items	50,491	500	-	-	-	50,991
Total	165,296	17,564	37,709	37	4,907	225,513

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:

	Banks and other financial institutions US$ 000	*Construction and real estate US$ 000*	*Individuals US$ 000*	*Others US$ 000*	*Total US$ 000*
Demand and call deposits with banks	16,400	-	-	-	16,400
Time deposits with banks	86,910	-	-	-	86,910
Non-trading investments	13,441	-	-	-	13,441
Loans and advances	500	2,781	19,192	3,882	26,355
Other assets	4,256	-	182	26,978	31,416
Off balance sheet items	864	-	-	50,127	50,991
Total	122,371	2,781	19,374	80,987	225,513

4.6.3 Gross credit exposure by residual 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.

	Up to 3 months US$ 000	*4 months to 1 year US$ 000*	*2 to 5 years US$ 000*	*6 to 10 years US$ 000*	*11 to 20 years US$ 000*	*Total US$ 000*
Demand and call deposits	16,347	-	-	-	53	16,400
Time deposits with banks	86,910	-	-	-	-	86,910
Non-trading investments	-	-	13,441	-	-	13,441
Loans and advances	2,161	19,769	4,425	-	-	26,355
Other assets	4,163	27,250	3	-	-	31,416
Off balance sheet	-	50,991	-	-	-	50,991
Total financial assets	109,581	98,010	17,869	-	53	225,513

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:

	Major shareholders US$ 000	*Associates US$ 000*	*Other related parties US$ 000*	*Total 2011 US$ 000*
Demand and call deposits with banks	-	9,230	112	9,342
Time deposits with banks	-	11,053	9,805	20,858
Investments carried at fair value				-
through statement of income	-	2,197	2,438	4,635
Investments, carried at fair value				-
through statement of income ,				-
in funds managed by related party	-	-	12,010	12,010
Non-trading investments	-	-	3,461	3,461
Loans and advances	-	2,781	6,005	8,786
Other assets	247	21,240	6,555	28,042
Letters of credit	-	500	18,485	18,985
Guarantees	-	364	31,642	32,006

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:

	Specific			
	Loans US$ 000	***Investments US$ 000***	***Other Assets and Off-Balance Sheet Items US$ 000***	***Collective impairment provision US$ 000***
At beginning of the year	1,697	55,395	8,497	1,010
Amounts written off	-	-	-	-
Write backs / cancellation due to improvement	(88)	-	-	(9)
Additional provisions made	-	4,500	-	-
Exchange adjustment and other movements	127	(2,676)	200	-
Balance at reporting date	1,736	57,219	8,697	1,001

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 2011 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, all locally incorporated banks 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 2011, the exposures that exceeded 15% of the capital base are:

	Current exposure US$ 000	RWA US$ 000	Percentage of regulatory capital
Counterparty A	467,372	457,462	84%
Counterparty B	150,322	300,644	27%
Counterparty C	114,325	114,325	20%
Total	732,019	872,431	

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
Equity securities and mutual funds	**881,907**
Listed	497,449
unlisted	384,458
Managed funds	**74,753**
Total investments	**956,660**
INVESTMENT PROPERTIES	
Cost	25,632
Market Value	21,180
INTEREST IN SUBSIDIARIES AND ASSOCIATED COMPANIES	545,497

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	(11,520)
Exchange adjustment and other movements	1,059
Net unrealized gains / (losses)	(10,461)
Transfer to income statement:	
Impaired	(8,287)
Realized	24,638
Balance at reporting date	(26,812)

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	84
Unrealized gain/(loss) on sale of trading investments	495
	579

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 2011.

Currency	***Increase in basis points 2011***	***Sensitivity of net interest income 2011 US$ 000***
Kuwaiti Dinar	+ 200	(8,179)
United States Dollar	+ 200	(3,753)
Euro	+ 200	(197)
British Pound Sterling	+ 200	9
Others	+ 200	(1,603)

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 2011, 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	16,347	-	53	-	16,400
Time deposits	86,855	55	-	-	86,910
Securities held for trading	-	-	-	32,608	32,608
Funds held for trading	-	-	-	74,753	74,753
Investments available for sale	13,440	-	-	418,080	431,520
Investment in associated companies	-	-	-	995,884	995,884
Loans and advance, net	26,355	-	-	-	26,355
Investment properties	-	-	-	21,178	21,178
Interest receivable and other assets	-	-	-	38,234	38,234
Properties and equipment	-	-	-	1,246	1,246
Goodwill	-	-	-	56,296	56,296
Total assets	142,997	55	53	1,638,279	1,781,384
Liabilities and equity					
Due to banks and other financial institutions	127,316	34,433	-	-	161,749
Deposits from customers	103,001	-	-	-	103,001
Long term loans	-	742,029	-	-	742,029
Subordinated debt	100,000	-	-	-	100,000
Interest payable and other liabilities	-	-	-	70,875	70,875
Minority Interest	-	-	-	45,290	45,290
Shareholders Equity	-	-	-	558,440	558,440
Total liabilities and shareholders' Equity	330,317	776,462	-	674,605	1,781,384
On balance sheet gap	(187,320)	(776,407)	53	963,674	-
Cumulative gap	(187,320)	(963,727)	(963,674)	-	-
Off balance sheet items					
Interest rate Swaps	300,000	-	-	-	300,000
Forward foreign exchange contracts	1,646,453	-	-	-	1,646,453

4 Pillar III Disclosures (continued)

4.6 Gross Credit Exposures (continued)

4.6.12 Discontinued operations

At an EGM of UGBS (96% owned subsidiary) held on 27 October 2010, shareholders of United Gulf Bank Securities (UGBS) had resolved to voluntarily liquidate the Company. M/s Hatim Zu'bi were appointed as the official liquidators of the company. The process of liquidation has been completed in June 2011. The closure of UGBS will have minimum impact on UGB's earnings.

Past due and impaired loans are US$ 3.2 million as at 30 June 2011 and relates to KAMCO.

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 2011. Both documents are available in the Financial Section of the Bank's website www.ugbbah.com