

Ahli United Bank B.S.C.
Pillar III Disclosures - Basel II
30 June 2012

Ahli United Bank B.S.C.

Pillar III Disclosures - Basel II

Six month period ended 30 June 2012 (Unaudited)

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1. CAPITAL STRUCTURE

TABLE - 1

| A. NET AVAILABLE CAPITAL | US\$ '000 | |
|--------------------------------------------------------------------|------------------|------------------|
| | Tier 1 | Tier 2 |
| Paid-up share capital | 1,429,209 | |
| Less: Loans against Employee Stock Purchase Plan | (32,664) | |
| Reserves: | | |
| Share premium | 540,729 | |
| Capital reserve | 425 | |
| Statutory reserve | 204,307 | |
| Others | (19,904) | |
| Retained earnings | 436,818 | |
| Minority interest in the equity of subsidiaries | 370,181 | |
| Less: Goodwill | (497,223) | |
| Less: Unrealized gross losses arising from fair valuing equities | (1,267) | |
| Current year profit | | 169,932 |
| Asset revaluation reserve-property, plant and equipment (45% only) | | 21,451 |
| Unrealized gains arising from fair valuing equities (45% only) | | 6,572 |
| Collective impairment provisions | | 243,985 |
| Eligible subordinated term debt | | 551,941 |
| TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS | 2,430,611 | 993,881 |
| Less: Regulatory deductions: | | |
| Material holdings of equities | 276,783 | 276,783 |
| | 2,153,828 | 717,098 |
| Add: Proportionate aggregation | 347,254 | 70,839 |
| NET AVAILABLE CAPITAL | 2,501,082 | 787,937 |
| TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2) | | 3,289,019 |

B. CAPITAL ADEQUACY RATIO

As at 30 June 2012, the capital adequacy ratio of the Group and significant subsidiaries were:

| | <i>Subsidiaries</i> | | | |
|---------------------------------|---------------------|---------------------------------------|------------------------------------------------|-----------------------------------------------|
| | <i>Consolidated</i> | <i>Ahli United Bank K.S.C. (AUBK)</i> | <i>Ahli United Bank (U.K.) P.L.C. (AUB UK)</i> | <i>Ahli United Bank (Egypt) S.A.E. (AUBE)</i> |
| Tier 1 - Capital Adequacy Ratio | 11.6% | 16.2% | 14.8% | 14.3% |
| Total - Capital Adequacy Ratio | 15.3% | 18.1% | 16.7% | 15.5% |

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TABLE - 2 GROSS CREDIT RISK EXPOSURES

| | <i>US\$ '000</i> | |
|------------------------------------------------------|-----------------------------------|----------------------------------------|
| | <i>As at 30 June 2012</i> | <i>Average monthly balance</i> |
| Balances with central banks | 1,126,467 | 760,618 |
| Treasury bills and deposits with central banks | 2,544,689 | 2,194,364 |
| Deposits with banks and other financial institutions | 2,396,759 | 3,320,873 |
| Loans and advances | 16,182,289 | 15,823,874 |
| Non-trading investments | 4,647,382 | 4,347,612 |
| Interest receivable and other assets | 445,687 | 431,125 |
| TOTAL FUNDED EXPOSURES | 27,343,273 | 26,878,466 |
| Contingent liabilities | 2,184,444 | 2,177,356 |
| Undrawn loan commitments | 505,466 | 573,806 |
| TOTAL UNFUNDED EXPOSURES | 2,689,910 | 2,751,162 |
| TOTAL CREDIT RISK EXPOSURE | 30,033,183 | 29,629,628 |

TABLE - 3 EXPOSURES SECURED BY ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

| | <i>US\$ '000</i> | |
|---------------------------------------|---------------------------|----------------------------------------|
| | <i>Gross exposure</i> | <i>Secured by eligible CRM</i> |
| Claims on sovereigns | 5,201,373 | - |
| Claims on public sector entities | 1,083,747 | 147,178 |
| Claims on banks | 5,432,996 | 158,753 |
| Claims on corporates | 13,584,181 | 1,929,628 |
| Regulatory retail exposures | 1,724,780 | 23,509 |
| Retail residential mortgage exposures | 1,255,614 | - |
| Equity | 125,182 | - |
| Investments in funds | 180,907 | - |
| Other exposures | 1,390,036 | 23,121 |
| TOTAL | 29,978,816 | 2,282,189 |

TABLE - 4 CREDIT RISK EXPOSURE POST CRM AND CREDIT CONVERSION

The following table details group credit exposures after applying risk mitigation.

| | <i>US\$ '000</i> |
|--------------------------------------------------|-----------------------------|
| Claims on sovereigns | 123,729 |
| Claims on public sector entities | 710,823 |
| Claims on banks | 2,103,607 |
| Claims on corporates | 11,178,055 |
| Regulatory retail exposures | 1,275,953 |
| Retail residential mortgage exposures | 439,465 |
| Equity | 166,985 |
| Investments in funds | 271,360 |
| Other exposures | 1,368,732 |
| | <u>17,638,709</u> |
| Add : Proportionate aggregation | 1,977,021 |
| TOTAL | <u>19,615,730</u> |
| TOTAL CREDIT RISK CAPITAL REQUIREMENT | <u>2,353,888</u> |

TABLE 5 - CAPITAL REQUIREMENTS FOR CREDIT, MARKET AND OPERATIONAL RISKS

| | <i>US\$ '000</i> |
|----------------------------------------------------------------------------------|----------------------------|
| | <i>Capital requirement</i> |
| Claims on sovereigns | 14,848 |
| Claims on public sector entities | 85,299 |
| Claims on banks | 252,433 |
| Claims on corporates | 1,341,367 |
| Regulatory retail exposures | 153,114 |
| Retail residential mortgage exposures | 52,736 |
| Equity | 20,038 |
| Investments in funds | 32,563 |
| Other exposures | 164,248 |
| | <u>2,116,646</u> |
| Add : Proportionate aggregation | 237,242 |
| TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH) | <u>2,353,888</u> |
| TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH) | 65,656 |
| TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH) | 168,394 |
| TOTAL | <u>2,587,938</u> |

TABLE - 6 GEOGRAPHIC DISTRIBUTION OF GROSS CREDIT EXPOSURES

| | US\$ '000 | | | | | | | | Total |
|------------------------------------------------------|--------------------|-------------------|-----------------------|------------------|-----------------------------------|------------------------|--------------------------------|-------------------|-------------------|
| | Kingdom of Bahrain | State of Kuwait | Other GCC countries * | United Kingdom | Europe (excluding United Kingdom) | Arab Republic of Egypt | Asia (excluding GCC countries) | Rest of the World | |
| Balances with central banks | 127,098 | 793,766 | - | 1,104 | - | 162,207 | 42,292 | - | 1,126,467 |
| Treasury bills and deposits with central banks | 237,474 | 2,110,249 | - | - | - | 89,406 | 107,560 | - | 2,544,689 |
| Deposits with banks and other financial institutions | 400,065 | 250,810 | 377,371 | 410,468 | 729,497 | 43,921 | 2,224 | 182,403 | 2,396,759 |
| Loans and advances | 3,094,902 | 6,812,545 | 2,310,501 | 1,734,870 | 314,534 | 1,607,358 | 230,132 | 77,447 | 16,182,289 |
| Non-trading investments | 466,632 | - | 1,771,489 | 567,334 | 365,385 | 427,999 | 362,538 | 686,005 | 4,647,382 |
| Interest receivable and other assets | 236,807 | 54,389 | 29,204 | 55,498 | 4,956 | 53,600 | 5,168 | 6,065 | 445,687 |
| Total funded exposures | 4,562,978 | 10,021,759 | 4,488,565 | 2,769,274 | 1,414,372 | 2,384,491 | 749,914 | 951,920 | 27,343,273 |
| Contingent liabilities: | | | | | | | | | |
| Undrawn loan commitments | 602,186 | 826,980 | 294,275 | 13,450 | 40,665 | 300,070 | 63,953 | 42,865 | 2,184,444 |
| | 17,698 | 43,509 | 98,448 | 98,084 | 27,260 | 198,875 | 13,720 | 7,872 | 505,466 |
| Total unfunded exposures | 619,884 | 870,489 | 392,723 | 111,534 | 67,925 | 498,945 | 77,673 | 50,737 | 2,689,910 |
| TOTAL | 5,182,862 | 10,892,248 | 4,881,288 | 2,880,808 | 1,482,297 | 2,883,436 | 827,587 | 1,002,657 | 30,033,183 |
| | 17.3% | 36.3% | 16.2% | 9.6% | 4.9% | 9.6% | 2.8% | 3.3% | 100.0% |

* Other GCC countries are countries which are part of the Gulf Co-operation Council comprising Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates apart from Kingdom of Bahrain and State of Kuwait which are disclosed separately.

TABLE - 7 SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

| | US\$ '000 | | | |
|----------------------------------------|-------------------|------------------|-------------------|--------------|
| | Funded | Unfunded | Total | % |
| Central banks | 3,218,194 | - | 3,218,194 | 10.7 |
| Banks and other financial institutions | 6,146,038 | 621,346 | 6,767,384 | 22.5 |
| Consumer/personal | 3,483,290 | 20,215 | 3,503,505 | 11.7 |
| Residential mortgage | 1,369,024 | 31,648 | 1,400,672 | 4.7 |
| Trading and manufacturing | 3,748,241 | 776,297 | 4,524,538 | 15.1 |
| Real estate | 3,215,927 | 127,978 | 3,343,905 | 11.1 |
| Services | 3,284,848 | 1,024,201 | 4,309,049 | 14.4 |
| Government/public sector | 2,387,717 | 52,510 | 2,440,227 | 8.1 |
| Others | 489,994 | 35,715 | 525,709 | 1.7 |
| TOTAL | 27,343,273 | 2,689,910 | 30,033,183 | 100.0 |
| | 91.0% | 9.0% | 100.0% | |

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TABLE - 8 RESIDUAL CONTRACTUAL MATURITY OF GROSS CREDIT EXPOSURES

| | US\$ '000 | | | | | | | |
|------------------------------------------------------|----------------------------|------------------------------------------|----------------------------------------------|--------------------------------------------|---------------------------------------|-----------------------------------------|----------------------------------|-------------------|
| | <i>Up to one month</i> | <i>One month to three months</i> | <i>Over three months to one year</i> | <i>Over one year to five years</i> | <i>Over five to ten years</i> | <i>Over ten to twenty years</i> | <i>Over twenty years</i> | <i>Total</i> |
| Balances with central banks | 1,056,408 | 70,059 | - | - | - | - | - | 1,126,467 |
| Treasury bills and deposits with central banks | 1,196,396 | 632,191 | 716,102 | - | - | - | - | 2,544,689 |
| Deposits with banks and other financial institutions | 1,748,833 | 416,656 | 231,270 | - | - | - | - | 2,396,759 |
| Loans and advances | 2,277,464 | 1,509,999 | 2,595,544 | 4,906,157 | 3,747,967 | 1,047,967 | 97,191 | 16,182,289 |
| Non-trading investments | 171,624 | 50,063 | 232,165 | 2,935,417 | 823,307 | 175,351 | 259,455 | 4,647,382 |
| Interest receivable and other assets | 58,269 | 166,542 | 49,381 | 45,593 | 125,902 | - | - | 445,687 |
| Total funded exposures | 6,508,994 | 2,845,510 | 3,824,462 | 7,887,167 | 4,697,176 | 1,223,318 | 356,646 | 27,343,273 |
| Contingent liabilities | 550,115 | 328,098 | 648,162 | 626,166 | 28,393 | 3,060 | 450 | 2,184,444 |
| Undrawn loan commitments | 32,969 | 60,185 | 174,505 | 217,718 | 1,204 | 18,885 | - | 505,466 |
| Total unfunded exposures | 583,084 | 388,283 | 822,667 | 843,884 | 29,597 | 21,945 | 450 | 2,689,910 |
| TOTAL | 7,092,078 | 3,233,793 | 4,647,129 | 8,731,051 | 4,726,773 | 1,245,263 | 357,096 | 30,033,183 |

TABLE - 9 SECTORAL BREAKDOWN OF IMPAIRED LOANS AND IMPAIRMENT PROVISIONS

| | US\$ '000 | | | | |
|----------------------------------------|--------------------------------------------|----------------------------------------------|--------------------------------------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------------|
| | <i>Impaired and past due loans</i> | <i>Specific impairment provision</i> | <i>Net specific charge for the period ended 30 June 2012</i> | <i>Write off during the period ended 30 June 2012</i> | <i>Collective impairment provision</i> |
| Consumer/personal | 94,626 | 80,432 | 19,197 | 21,564 | 48,091 |
| Trading and manufacturing | 55,484 | 49,252 | 7,309 | 6,054 | 45,986 |
| Real estate | 54,015 | 48,490 | 5,612 | - | 44,400 |
| Residential mortgage | 6,731 | 5,642 | (292) | 3,006 | 18,901 |
| Banks and other financial institutions | 31,013 | 29,066 | (100) | - | 16,732 |
| Services | 94,285 | 83,474 | 47 | 7,866 | 40,729 |
| Government/public sector | - | - | - | - | 5,938 |
| Others | 42,774 | 39,759 | 1,299 | 6,071 | 2,641 |
| TOTAL | 378,928 | 336,115 | 33,072 | 44,561 | 223,418 |

TABLE - 10 GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS FOR LOANS AND ADVANCES

| | <i>US\$ '000</i> | | | | | | | | <i>Total</i> |
|---------------------------------|---------------------------|------------------------|----------------------------|-----------------------|------------------------------------------|-------------------------------|---------------------------------------|--------------------------|----------------|
| | <i>Kingdom of Bahrain</i> | <i>State of Kuwait</i> | <i>Other GCC countries</i> | <i>United Kingdom</i> | <i>Europe (excluding United Kingdom)</i> | <i>Arab Republic of Egypt</i> | <i>Asia (excluding GCC countries)</i> | <i>Rest of the world</i> | |
| Specific impairment provision | 49,436 | 136,208 | 67,755 | 39,918 | - | 29,048 | 13,750 | - | 336,115 |
| Collective impairment provision | 33,297 | 116,719 | 24,284 | 22,249 | 3,583 | 20,026 | 2,438 | 822 | 223,418 |
| TOTAL | 82,733 | 252,927 | 92,039 | 62,167 | 3,583 | 49,074 | 16,188 | 822 | 559,533 |

TABLE - 11 MOVEMENT IN IMPAIRMENT PROVISION FOR LOANS AND ADVANCES

| | <i>US\$ '000</i> | | | | | | | |
|---------------------------------------------|------------------|-------------------|-----------------|------------------|-------------------|-----------------|-----------------|-------------------|
| | RETAIL | | | CORPORATE | | | TOTAL | |
| | <i>Specific</i> | <i>Collective</i> | <i>Total</i> | <i>Specific</i> | <i>Collective</i> | <i>Total</i> | <i>Specific</i> | <i>Collective</i> |
| Balance at 1 January 2012 | 74,290 | 30,040 | 104,330 | 275,496 | 170,589 | 446,085 | 349,786 | 200,629 |
| Amounts written off during the period | (12,640) | - | (12,640) | (31,921) | - | (31,921) | (44,561) | - |
| Net charge for the year | 12,216 | 47 | 12,263 | 20,856 | 23,865 | 44,721 | 33,072 | 23,912 |
| Interest suspended during the year (net) | (379) | - | (379) | 1,841 | - | 1,841 | 1,462 | - |
| Exchange rate adjustments / other movements | (448) | (180) | (628) | (3,196) | (943) | (4,139) | (3,644) | (1,123) |
| Balance at 30 June 2012 | 73,039 | 29,907 | 102,946 | 263,076 | 193,511 | 456,587 | 336,115 | 223,418 |

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TABLE - 12 PAST DUE AND IMPAIRED LOANS - AGE ANALYSIS

| i) By Geographical area | US\$ '000 | | | Total |
|--------------------------------|--------------------------|--------------------|------------------|----------------|
| | Three months to one year | One to three years | Over three years | |
| Kingdom of Bahrain | 21,837 | 27,591 | 4,662 | 54,090 |
| State of Kuwait | 86,591 | 12,530 | 50,330 | 149,451 |
| Other GCC Countries | 3,000 | 52,500 | 12,250 | 67,750 |
| United Kingdom | 36,900 | 12,367 | 9,976 | 59,243 |
| Arab Republic of Egypt | 649 | 32,322 | 1,618 | 34,589 |
| Asia (excluding GCC countries) | - | - | 13,805 | 13,805 |
| TOTAL | 148,977 | 137,310 | 92,641 | 378,928 |
| | 39.3% | 36.2% | 24.5% | 100.0% |

| ii) By Sector | US\$ '000 | | | Total |
|----------------------------------------|--------------------------|--------------------|------------------|----------------|
| | Three months to one year | One to three years | Over three years | |
| Consumer/personal | 62,646 | 6,268 | 25,712 | 94,626 |
| Trading and manufacturing | 12,284 | 30,950 | 12,250 | 55,484 |
| Real estate | 11,557 | 32,482 | 9,976 | 54,015 |
| Residential mortgage | 561 | 6,170 | - | 6,731 |
| Banks and other financial institutions | 26,723 | - | 4,290 | 31,013 |
| Services | 33,433 | 59,235 | 1,618 | 94,286 |
| Others | 1,773 | 2,205 | 38,795 | 42,773 |
| TOTAL | 148,977 | 137,310 | 92,641 | 378,928 |
| | 39.3% | 36.2% | 24.5% | 100.0% |

TABLE - 13 RESTRUCTURED CREDIT FACILITIES

| | US\$ '000 |
|----------------------------------------------------------------|-----------|
| Balance of any restructured credit facilities as at period end | 131,051 |
| Loans restructured during the period | 95,664 |

The above restructurings did not have any significant impact on the present or future earnings and were primarily extensions of the loan tenor.

TABLE - 14 COUNTERPARTY CREDIT RISK IN DERIVATIVE TRANSACTIONS

i) Breakdown of the credit exposure

| | <i>US\$ '000</i> | | |
|------------------------------------|----------------------------|------------------------------------------|-----------------------------------------|
| | <i>Notional amount</i> | <i>Gross positive fair value</i> | <i>Credit conversion factor</i> |
| Foreign exchange related | 6,269,335 | 9,195 | 76,489 |
| Interest rate related | 8,911,633 | 54,489 | 111,913 |
| Options | 90,154 | - | 6,075 |
| Derivatives credit exposure | 15,271,122 | 63,684 | 194,477 |

Gross positive fair value represents the replacement cost of the derivatives

US\$ '000

ii) Amounts of collateral

91,024

iii) Notional value of credit derivative exposures

US\$ '000

Protection sold

5,000

TABLE - 15 RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, associates, directors, senior management and companies which are controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length. All the loans and advances to related parties are performing and are free of any provision for possible loan losses.

The income, expense and the six months period ended 30 June 2012 and the period end balances at 30 June 2012 in respect of related parties were as follows:

| | <i>US\$ '000</i> | | | <i>Total</i> |
|------------------------------------------------------|-------------------------------|-------------------|------------------------------------------------|--------------|
| | <i>Major shareholders</i> | <i>Associates</i> | <i>Directors and senior management</i> | |
| Interest income | - | 100 | 1,570 | 1,670 |
| Interest expense | 43,089 | 99 | 11 | 43,199 |
| Fees and commissions | - | 2,808 | - | 2,808 |
| Deposits with banks and other financial institutions | 25 | 78,849 | - | 78,874 |
| Loans and advances | - | - | 242,622 | 242,622 |
| Deposits from banks and other financial institutions | 2,117 | 8,406 | - | 10,523 |
| Customers' deposits | 5,748,275 | 11,098 | 18,278 | 5,777,651 |
| Subordinated liabilities | 60,768 | - | - | 60,768 |
| Commitments and contingent liabilities (notional) | - | 185,882 | 2,512 | 188,394 |
| Derivatives (notional) | - | 249,373 | - | 249,373 |

TABLE - 16 CAPITAL REQUIREMENT FOR COMPONENTS OF MARKET RISK

| | <i>US\$ '000</i> | | |
|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------|--------------------------|--------------------------|
| | <i>Capital requirement as at 30 June 2012</i> | <i>Maximum value</i> | <i>Minimum value</i> |
| Interest rate risk | 9,643 | 9,643 | 7,409 |
| Equity position risk | 20 | 20 | 20 |
| Foreign exchange risk | 47,098 | 47,196 | 47,098 |
| Options | 822 | 822 | 472 |
| TOTAL MARKET RISK CAPITAL REQUIREMENT BEFORE PROPORTIONATE AGGREGATION OF ASSOCIATES | 57,583 | | |
| Add : Proportionate aggregation | 8,073 | 8,161 | 7,224 |
| TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH) | 65,656 | | |

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TABLE - 17 INTEREST RATE RISK

| | <i>US\$'000</i> | | | <i>Total</i> |
|------------------------------------------------------|---------------------------------------|-----------------------------------------|--------------------------|-------------------|
| | <i>Less than three months</i> | <i>Three months to one year</i> | <i>Over one year</i> | |
| ASSETS | | | | |
| Treasury bills and deposits with central banks | 1,772,218 | 772,471 | - | 2,544,689 |
| Deposits with banks and other financial institutions | 2,022,938 | 218,213 | - | 2,241,151 |
| Loans and advances | 11,037,439 | 2,228,249 | 2,879,070 | 16,144,758 |
| Non-trading investments | 923,895 | 357,037 | 3,453,407 | 4,734,339 |
| | 15,756,490 | 3,575,970 | 6,332,477 | 25,664,937 |
| LIABILITIES | | | | |
| Deposits from banks and other financial institutions | 3,539,802 | 1,261,803 | - | 4,801,605 |
| Borrowings under repurchase agreements | 1,285,504 | 411,079 | - | 1,696,583 |
| Customers' deposits | 9,800,759 | 5,951,231 | 1,619,055 | 17,371,045 |
| Term debt | 120,000 | - | - | 120,000 |
| Subordinated liabilities | 146,602 | 590,000 | - | 736,602 |
| | 14,892,667 | 8,214,113 | 1,619,055 | 24,725,835 |
| On - balance sheet gap | 863,823 | (4,638,143) | 4,713,422 | |
| Off - balance sheet gap | 3,491,761 | 487,952 | (3,979,713) | |
| Total interest sensitivity gap | 4,355,584 | (4,150,191) | 733,709 | |
| Cumulative interest sensitivity gap | 4,355,584 | 205,393 | 939,102 | |

TABLE - 18 EQUITY POSITION IN BANKING BOOK

| | <i>US\$ '000</i> | | |
|--------------|----------------------------|-----------------------------------------|--------------------------------|
| | <i>Gross exposures</i> | <i>Risk- weighted exposures</i> | <i>Capital requirement</i> |
| Listed | 41,578 | 41,578 | 4,989 |
| Unlisted | 83,604 | 125,406 | 15,049 |
| TOTAL | 125,182 | 166,984 | 20,038 |

TABLE - 19 GAINS ON EQUITY INSTRUMENTS

| | <i>US\$ '000</i> |
|----------------------------------------------------------|------------------|
| Realised gains recognised in the statement of income | (359) |
| Unrealised (loss) gains recognised in the balance sheet: | |
| - Tier one (eligible portion) | (1,267) |
| - Tier two (eligible portion) | 6,572 |

TABLE - 20 SENSITIVITY ANALYSIS - INTEREST RATE RISK

| ANNUALISED | <i>US\$ '000</i> |
|--------------------|------------------|
| | <i>Total</i> |
| at 25 bps increase | 5,637 |
| at 10 bps increase | 2,255 |