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

Basel III, Pillar 3

Risk Management and Capital Adequacy Disclosures

30th June 2015

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EXECUTIVE SUMMARY

As a bank incorporated in the Kingdom of Bahrain, United Gulf Bank B.S.C. ("UGB" or "the Bank") has complied with the Basel III Capital Adequacy Framework effective 1 January 2015. This is in accordance with the Central Bank of Bahrain's ("the CBB") Basel III guidelines.

The Risk Management and Capital Adequacy Disclosures fulfill the Pillar 3 requirements of the Basel III 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'.

The disclosures have been provided in accordance with the Public Disclosures ("PD") module of the CBB's Rulebook volume I. They meet the requirements of Basel III (Pillar 3) and International Financial Reporting Standard ("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 2008 and updated in 2011.

The CET 1, Tier 1 and Total consolidated capital adequacy ratios of UGB as at 30th June 2015 were over the CBB's thresholds of 9.0%, 10.5% and 12.5% (including Capital Conservation Buffer "CCB" of 2.5%) respectively. UGB's consolidated CET 1 ratio was 12.17%, Tier 1 ratio was 12.41% and Total Capital ratio was 14.41% for the period ended June 30, 2015, with total risk weighted assets being US$ 2,812 million. This comprises 92% for credit risk 6% for market risk and 2% for operational risk.

All figures in this report are as at 30th June 2015 (unless otherwise stated), and have been reported using IFRS, that are applicable at the consolidated level of UGB and its subsidiaries. Agreed upon procedures have been performed on the Public Disclosures by Ernst & Young (UGB's external auditors) in accordance with PD module issued by the CBB.

Figures contained in these disclosures 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 document may not conform exactly to the total figure given for that column/row or cross referred with numbers in financial statements or annual report.

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. 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 and commercial banking. Investment banking include asset portfolio management, corporate finance, advisory, investment in quoted and private equity funds, real estate, capital markets, international banking and treasury functions. Commercial banking includes extending loans and other credit facilities, accepting deposits and current accounts from corporate and institutional customers.

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 around US$ 31.6 billion. The Group has substantial ownership interests in a portfolio of over 60 companies operating across 24 countries. KIPCO's main sector focus is financial services, media, real estate and manufacturing. Through its core companies, subsidiaries and affiliates, KIPCO also has interests in education and medical sectors.

The ownership of the Bank as at 30th June 2015 can be summarized as follows:

	No. of shares	Percentage
Kuwait Projects (Holding) KSC	793,294,459	95.1%
Directors	762,700	0.1%
Management	-	0.0%
Public Shareholders	21,091,001	2.5%
Treasury shares	19,454,135	2.3%
Total	**834,602,295**	**100%**

1. INTRODUCTION TO THE BASEL III FRAMEWORK

The new capital adequacy module of the Central Bank of Bahrain (CBB) rulebook volume 1 was introduced with effect from 1 January, 2015. The transitional arrangements (which ends on 31st December 2018) for implementing the new standards help to ensure that the banking sector can meet the higher capital standards through reasonable earnings retention and capital raising, while still supporting lending to the economy.

The CBB's Basel III Framework can be summarized as follows:

Pillar 1	Minimum capital requirements for credit, market and operational risks , defining eligible capital instruments and prescribing rules for calculating RWA.
Pillar 2	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 and risk management. It allows market participants to assess the risk and capital profiles of banks.

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

1.1 Pillar 1 – Minimum Capital Requirements

Pillar 1 of the Basel III 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 risks 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.

The following table summarizes the approaches available for calculating risk weighted assets for each risk type, in accordance with the CBB's Basel III capital adequacy framework.

1 INTRODUCTION TO THE BASEL III FRAMEWORK (continued)

Methodologies available for determining regulatory capital requirements

Credit Risk	Market Risk	Operational Risk
Standardized approach	Standardized Approach	Basic Indicator Approach
Foundation Internal Ratings Based Approach (FIRB)	Internal Models Approach	Standardized Approach / Alternative Standardized Approach
Advanced Internal Ratings Based Approach (AIRB)		Advanced Measurement Approach

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. Basel III transitional capital requirements became effective on January 01st, 2015 with a transition period of up to 2018 for full implementation. There are three categories of risk-based capital under Basel III transitional arrangements: Core Equity Tier 1 Capital (CET 1), Tier 1 Capital and Total Capital. Banks incorporated in Bahrain are required to maintain regulatory minimum ratios of 6.5% CET 1, 8.0% Tier 1, and 10.0% Total Capital. There is also a requirement for banks to maintain a Capital Conservation Buffer (CCB) of 2.5%. So, the required CARs including CCB for CET 1, Tier 1 and Total Capital are 9.0%, 10.5% and 12.5% respectively.

UGB assesses its capital adequacy relative to the risks underlying its business activities and takes proactive measures to ensure that it operates above these. The approach adopted by the Bank for each type of risk is as follows:

i) **Credit Risk** – UGB uses the standardized approach for determining the charge for credit risk. The standardized approach incorporates the use of external ratings to determine risk factors. Financial collaterals are used wherever applicable in order to mitigate the underlying risk. The risk weighted assets are determined by multiplying the credit exposure (less specific provisions) by a risk weight factor (determined in accordance with CBB regulations), that is a function of the type of counterparty, and the counterparty's external rating. A risk weight factor of 100% is used for all unrated exposures.

ii) **Market Risk** – For regulatory reporting purposes, UGB uses the standardized approach. This incorporates a charge for general risk and specific risk on its equities, funds, and foreign exchange exposures.

iii) **Operational Risk** – Under the CBB's Basel III framework, it is mandated that all banks incorporated in Bahrain, use the basic indicator approach for operational risk. The only exception is when specific approval is granted by the CBB to use the standardized or alternative standardized approach. UGB determines its capital charge for operational risk, by applying an alpha coefficient of 15% to the average gross income for the preceding three financial years. Figures for any year in which annual gross income is negative or zero is excluded from both the numerator and denominator when calculating the average.

1 INTRODUCTION TO THE BASEL III FRAMEWORK (continued)

1.2 Pillar 2 – Supervisory Review Process ("SRP")

The second pillar of Basel III 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.

Pillar 2 encompasses two processes – namely, the ICAAP and a Supervisory Review and Evaluation Process. 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.

1.3 Pillar 3 – Market Discipline

Pillar 3 of the Basel III Accord, imposes certain disclosure requirements with an objective to ensure that there is greater transparency on the transactions and the risk strategy of a bank. 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. Under the current regulations, qualitative and quantitative analysis, need to be presented to comply with the prudential disclosure guidelines.

2 GROUP STRUCTURE AND OVERALL RISK MANAGEMENT PROCESSES

The objective of this section is to set out the consolidation principles and the capital base of UGB 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.

2.1 Group Structure

The full legal name of the top corporate entity to which the disclosure requirements apply is United Gulf Bank B.S.C. The Group produces consolidated financial statements. These are prepared and published on a full consolidation basis, with all principal 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 material subsidiaries are included within the Group structure.

The principal subsidiaries for capital adequacy purposes are as follows:

Name of the subsidiary	*Country of incorporation*	*Effective ownership* **30 June 2015**	*Effective ownership* *31 December 2014*	*Year of incorporation*
Held directly				
United Gulf Realty International Limited	British Virgin Islands	**100%**	-	2012
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	**86%**	86%	1998
FIMBank Group [FIMBank]	Malta	**61%**	61%	1994
Takaud Saving & Pensions Company	Bahrain	**50%**	50%	2011
Held through KAMCO				
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	**100%**	100%	2007
Al Raya Real Estate Projects Company W.L.L.	Kuwait	**100%**	100%	2007
Al Zad Real Estate W.L.L.	Kuwait	**100%**	100%	2007
Kamco GCC Opportunistic Fund	Kuwait	**100%**	100%	2013
North Africa Real Estate Co.	Kuwait	**100%**	100%	2014
Orange Real Estate Co. W.L.L.	Kuwait	**100%**	1.00	2005
Al Janah Holding Company K.S.C. (Closed)	Kuwait	**0%**	99%	2005
Al Rawabi International Real Estate Co. W.L.L.	Kuwait	**96%**	96%	2009
Kuwait Private Equity Opportunity Fund	Kuwait	**71%**	0.71	2004
Held through FIMBank				
FIM Holdings (Chile) S.p.a.	Chile	**100%**	100%	2014
London Forfaiting Company Limited	United Kingdom	**100%**	100%	2009
London Forfaiting International Limited	United Kingdom	**100%**	100%	2009
London Forfaiting Americas Inc.	United States of America	**100%**	100%	2009
London Forfaiting do Brasil Ltd.	Brazil	**100%**	100%	2009
FIM Factors B.V.	Netherlands	**100%**	100%	2009
Menafactors Limited	United Arab Emirates	**100%**	100%	2009
FIM Business Solutions Limited	Malta	**100%**	100%	2009
FIM Property Investment Limited	Malta	**100%**	100%	2010
CIS Factors Holdings B.V.	Russia	**80%**	80%	2009
India Factoring and Finance Solutions Private Limited	India	**79%**	79%	2010
First Factors S.A.	Chile	**51%**	51%	2014

2 GROUP STRUCTURE AND OVERALL RISK MANAGEMENT PROCESSES (continued)

2.1 Group Structure (continued)

Significant minority investments in banking, securities and other financial entities that form part of the regulatory adjustments are as follows:

- Manafae Investment Company – Kuwait;
- Royal Capital PJSC – U.A.E;
- Syria Gulf Bank – Syria;
- The Egyptian Company for Factoring S.A.E.;
- Al Sharq Financial Brokerage Co.;
- KAMCO Real Estate Yield Fund;
- Savanah SPV;
- Brasilfactors;
- Global Banking Corp.; and
- Burgan Bank

The total amount of deductions resulting from the above was US$ 112.7 million.

In addition to above following investments in commercial entities attract risk weights of 800%:

- North Africa Holding company;
- United Real Estate Company;
- Arab Leadership Academy;
- Assoufid B.V.;
- Kuwait Education Fund;
- Meena Homes Real Estate Co.;
- United Capital Transport Co.;
- UREC – Syria;
- International Innovative Technologies

The total amount being risk weighted at 800% resulting from the above was US$ 92.8 million.

2.2 Risk Management Structure and Processes

UGB's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks inherent in the Bank's business activities. Its philosophy is based on the principles that reiterate:

- A sound knowledge base, experience and judgment of Senior Management and Risk Management staff, are the cornerstone of a successful risk mitigation program;
- Vigilance, discipline and attention to detail are mandatory; and
- Policies and procedures must be clear, well communicated, understood and implemented in letter and spirit.

The Board of Directors (Board) of UGB is the ultimate authority for setting overall strategy, risk parameters, limits, capital adequacy ratios and tolerances, within which the Bank operates. The Board reviews the Bank's overall risk profile, significant risk exposures as well as the policies, procedures and controls that have been incorporated in accordance with the regulations. The Board has delegated day to day decision making to the Executive Committee (EC) that comprises four directors. The EC meets in between Board meetings to approve all proposals that exceed the threshold of the Investment Committee. The Board Audit Committee assists the Board in carrying out its responsibilities regarding internal controls, internal and external audit, compliance with laws, financial reporting practices, accounting policies, corporate governance and the review of UGB's strategy and business plans.

The Investment Committee comprising the Chief Executive Officer and the Chief Financial Officer, is responsible for approving or recommending approval to the EC, limits for individual exposures, investments and concentrations towards banks, countries, industries, risk rating classes or other special risk asset categories. The Head of Credit and Risk Management is the Secretary of this Committee and participates in meetings as a non-voting member.

Apart from the above, the Bank has a Risk and Compliance Committee that is responsible for the monitoring and assessment of risks facing the Bank, the review of compliance with internal and external guidelines, the review of risk frameworks and methodologies, and the assessment of the impact on the Bank from new regulatory requirements.

The Nominating & Remuneration Committee (NRC), comprising of 3 board members, assists the Board in assessing the skill sets of Board members and ensures that there is an appropriate mix of eminent persons having an independent standing in their respective field/profession and who can effectively contribute to UGB's business and policy decisions. The NRC also recommends / reviews the remuneration policies for the Board Directors and senior management.

The IT Steering Committee, headed by the Chief Executive Officer and members include the Chief Financial Officer and other senior management team members, is responsible for assisting the Board in the supervision of IT related activities. It ensures that it minimizes the risks associated with UGB's investment in information technology and that it contributes to the attainment of technology related corporate objectives.

2 GROUP STRUCTURE AND OVERALL RISK MANAGEMENT PROCESSES (continued)

2.2 Risk Management Structure and Processes (continued)

The Assets and Liabilities Committee (ALCO) provides a forum for the review of assets and liabilities on UGB's statement of financial position. It monitors the tenor and cost / yield profiles of the various components, and evaluates the Bank's statement of financial position both from interest rate sensitivity and liquidity points of view. Corrective adjustments based on perceived trends and market conditions, liquidity and foreign exchange exposures and positions are recommended.

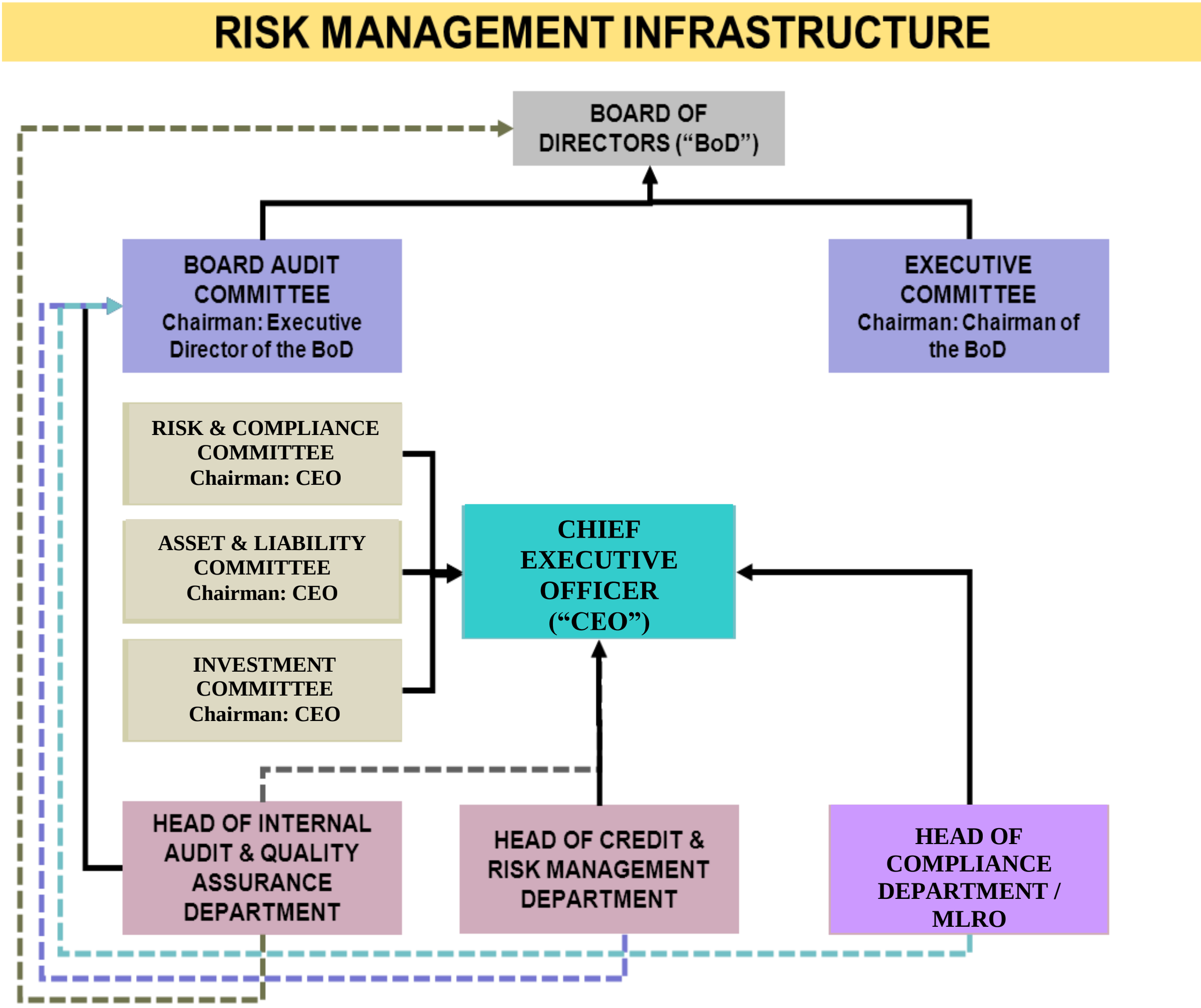
The Internal Audit and Quality Assurance Department provides the Board Audit Committee and Senior Management with an ongoing process of independent and objective assessment and assurance on effectiveness and quality of controls.

With the introduction of the Key Persons Policy by the Bahrain Bourse, the Insider Trading Committee of the Board of Directors was disbanded effective October 2010.

On 15 March 2010, the Ministry of Commerce and Industry of the Kingdom of Bahrain introduced a Corporate Governance Code (the Code) applicable to the Group. The Code is based upon nine core Principles of Corporate Governance that adhere to international best practices. The Code includes recommendations to apply the Principles, as well as recommendations which support the implementation of good corporate governance. The Code is issued in a "comply or explain" framework, which means companies should comply with the recommendations, or give an explanation in the case of non-compliance. A detailed Corporate Governance report for the year ended 31 December 2014 has been prepared by the Bank and is available on the Bank's website www.ugbbah.com.

2 GROUP STRUCTURE AND OVERALL RISK MANAGEMENT PROCESSES (continued)

The governance structure for risk management can be depicted as follows:



2.3 Types of Risk

The major types of risk that UGB is primarily exposed to include credit, market, operational, liquidity, funding and interest rate risks, concentration and legal/reputational risks. The first three comprise part of the Pillar 1 assessment, while the latter four are considered under Pillar 2.

2 GROUP STRUCTURE AND OVERALL RISK MANAGEMENT PROCESSES (continued)

2.4 Risks under Pillar 1

i) Credit Risk is defined as the risk that UGB's clients or counterparties will be unable or unwilling to pay interest, repay the principal or other dues to fulfill their contractual obligations under loan agreements or other credit facilities. UGB adopts the standardized approach for calculating credit risk weighted assets. These are determined by multiplying the exposure by a risk weight factor that is a function of the counterparty's external rating issued by accredited external credit rating agencies approved by the CBB. The overall credit exposures as at 30th June 2015 can be summarized as follows:

	Gross *Exposures* *US$ 000*
Funded	
Demand and call deposits with banks	248,907
Placements with banks	125,833
Loans and receivables	920,462
Other assets	111,335
	1,406,537
Unfunded	
Letters of credit	41,639
Letters of guarantee	20,546
	62,185
	1,468,722

The period-end position of the gross credit exposure is the representative of the Groups risk position during the period and accordingly the average gross credit exposure of the Group for the period ended 30 June 2015 is not disclosed.

Assigning risk ratings to an individual risk exposure is a subjective process. The factors that are considered while determining the rating are:

- Risk category / Issuer rating
- Investment size (per name or risk category)
- Industry sector
- Asset class (liquid-illiquid)
- Country / region
- Maturity / expected maturity
- Yield / Interest rate (fixed / floating, coupon / non-coupon bearing)

Although some of these criteria are more important than others, each is an integral part of the decision-making process for asset allocation.

A brief analysis of each category relative to UGB's Risk Asset Portfolio is as follows:

2 GROUP STRUCTURE AND OVERALL RISK MANAGEMENT PROCESSES (continued)

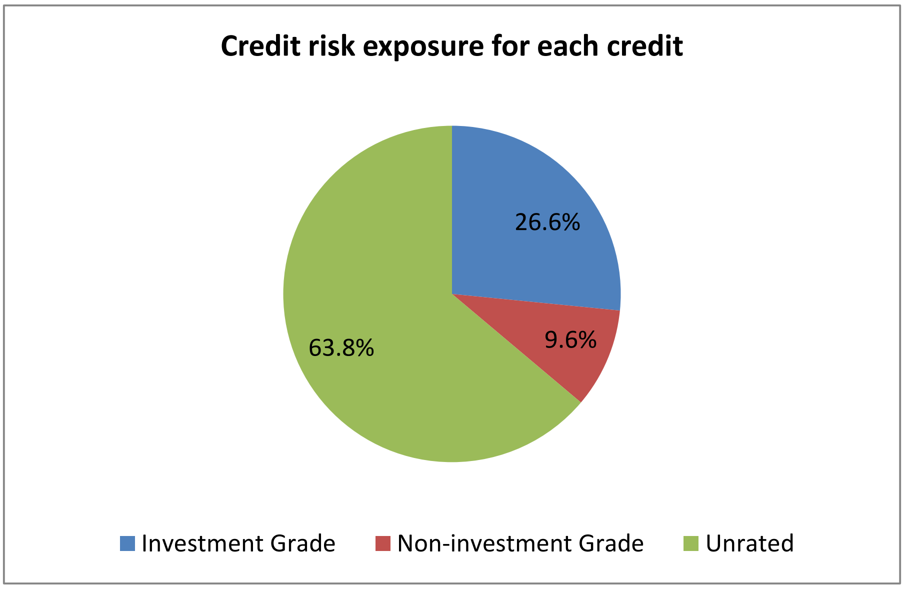
2.4 Risks under Pillar 1 (continued)

Risk Category/Issuer Rating

Whenever available, UGB uses ratings assigned by the CBB accredited rating which mainly include Moody's, Standard and Poor's and Fitch. For unrated exposures, an internal rating is assigned based on subjective evaluation by the originating department, in consultation with Credit and Risk Management. However, internally assigned ratings are indicative and are not considered for capital adequacy purposes.

The rating system classifies ratings BBB- or greater as "Investment Grade", i.e. higher quality credits with AAA being of undoubted credit worthiness. Ratings ranging from BB+ to B / CCC/ D are designated as "Non-Investment Grade", with D representing a default investment. The individual rating influences the approval matrix, portfolio mix and diversification, the capital allocation to the business groups (ensuring the proper risk-return balance) and the investment review cycle.

Breakdown of the Risk Asset Portfolio by rating as at 30th June 2015 is presented below:



2 GROUP STRUCTURE AND OVERALL RISK MANAGEMENT PROCESSES (continued)

2.4 Risks under Pillar 1 (continued)

Investment Size

The absolute exposure per issuer is determined by the CBB's guidelines on maximum exposure limits that stipulate that aggregate outstanding to an individual counterparty or a group of closely related counterparties, should not exceed 15% of the bank's consolidated capital base. In accordance with the CBB rules, the Bank has a Large Exposure policy (approved by the Board), which stipulates guidelines for monitoring all existing large exposures. Further details on large exposures are disclosed in Section 8.3.

Industry Sector

UGB's risk policies and procedures define twelve industry groups that have been established for classifying its portfolio. These twelve categories represent a distillation of the Moody's standard industry classification guide. The emphasis on industry diversification is to ensure that UGB avoids undue concentration in any one or more industry groups that could be vulnerable to an economic downturn or a structural shift – "cyclical" industry sectors. The Bank's strategy also aims at achieving a wide balance across the industry category spectrum, based on the premise that more industries are better than a few. The Bank also avoids certain sectors that are historically known for a greater extent of volatility (e.g. airlines, shipbuilding, early stage high technology and venture capital—unless on a diversified fund basis). This is primarily because these industries are exposed to structural difficulties, an absence of industry comparisons, or cannot be adequately analyzed in terms of resident analytical expertise. Investments in sensitive industries like gambling and armaments are not permissible under the Bank's risk policy.

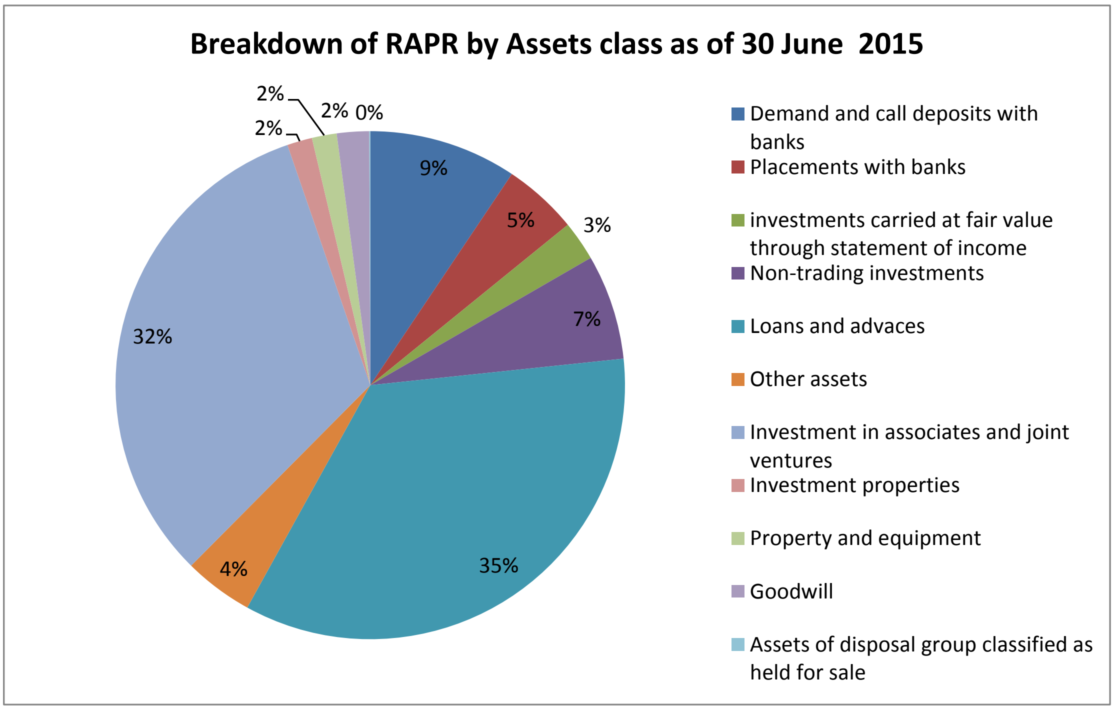
Asset Class

The asset class of the investment is usually determined by its ability to be sold or traded i.e. the extent of liquidity. If pricing is identical for the same risk but offered in a variety of asset classes, UGB's risk policy recommends its investment in a tradable security as opposed to a loan, for which an imperfect secondary market usually exists. In further defining this criterion, risk assets are categorized in terms of "liquid / marketable" and "illiquid". Liquid / marketable assets normally comprise publicly quoted debt securities and quoted equities that have the ability to be sold promptly at minimal or no price discount within 48 hours. A further sub-category of liquid / marketable is defined as "highly liquid". These assets comprise US Treasury bills and certain AAA Corporate bonds that can be sold "on the wire" i.e. instantly with little / no price discount risk. All other risk assets such as commercial customer loans, private subordinated debt, unquoted equities, private equity funds & direct investments and real estate are defined as illiquid. These assets are not readily traded or marketable other than over a long period of time and at a potential discount.

2 GROUP STRUCTURE AND OVERALL RISK MANAGEMENT PROCESSES (continued)

2.4 Risks under Pillar 1 (continued)

The following graph illustrates the breakdown of the Risk Asset Portfolio Report (RAPR) by assets as at 30th June 2015.



Where appropriate, UGB seeks to minimize its credit risk using a variety of techniques including, but not limited to:

- Operating under a sound credit and investment approval process;
- Maintaining appropriate credit administration, measurement and monitoring;
- Ensuring adequate controls over the credit risk process;
- Seeking third party guarantees of the counterparty's obligations;
- Procuring collateral against the investment or facility; and
- Entering into netting agreements.

UGB actively manages and monitors credit risk in accordance with well-defined policies and procedures that have been approved by the Board. Limits are set on the amount of risk that the Bank is willing to accept against individual counterparties, related parties and geographical and industry concentrations.

2 GROUP STRUCTURE AND OVERALL RISK MANAGEMENT PROCESSES (continued)

2.4 Risks under Pillar 1 (continued)

Continuous monitoring of the Bank's assets through various reports and reviews is key to timely and accurate identification of any impairment. A monthly risk asset review report is produced by the Credit and Risk Management Department in which all assets are assessed based on rating, industry, and geographic exposure in addition to a number of other parameters. The purpose of this report is also to ensure compliance with both external regulatory requirements and internal risk policy guidelines. Additionally, a semiannual review of all assets is prepared detailing performance and outlining recent developments and future outlook.

Detailed information on the Bank's credit risk exposures including geographical distribution, industry/sector allocation, details of collateral and other credit enhancements and bifurcation based on internal ratings has been provided in Note 4 of this Disclosure.

ii) Market Risk

Market risk is defined as the loss of the value of a financial instrument or a portfolio of financial instruments due to an adverse change in market prices or rates. Market Risk within UGB arises from the trading of equities and investment activities.

The categories of market risk to which UGB is exposed to are as follows:

- Equity risk that arises from exposures to changes in the price and volatility of individual equities or funds. UGB's equity risk principally arises from its trading activities which are largely focused on the Kuwait and the U.S. equity markets.

- Foreign exchange risks those results from exposure to change in the price and volatility of currency spot and forward rates.

UGB's policy guidelines for market risk have been vetted by the Board in compliance with the rules and guidelines provided by the CBB. The Bank seeks to manage the market risks it faces, through diversification of exposures across dissimilar markets, industries and products. In order to effectively manage market risk exposures in addition to the exercise of business judgment and management experience, the Bank utilizes limit structures including those relating to asset classes, capital markets and industry sectors.

iii) Operational Risk

Operational Risk is defined as the risk of loss arising from inadequate or failed internal processes, people, systems or external events. It is an inherent risk faced by all banks and covers various incidents including business interruption and systems failures, internal and external fraud, transaction execution and process management, employment practices and workplace safety, customer and business practices and damage to physical assets.

2 GROUP STRUCTURE AND OVERALL RISK MANAGEMENT PROCESSES (continued)

2.4 Risks under Pillar 1 (continued)

In a bid to mitigate operational risk, UGB has introduced internal controls and processes based on the principle of checks and balances and segregation of duties. The intention is to minimize the risk by ensuring that there is a culture of strong control throughout the organization. The management of operational risk in the Bank is the responsibility of every employee.

2.5 Risks under Pillar 2

In accordance with the ICAAP process, UGB assesses risks that are not part of the calculation of the regulatory capital adequacy ratio. Chief among these are:

i) Liquidity Risk

Liquidity risk stems from the inability to procure sufficient cash flow to meet UGB's financial obligations as and when they fall due. The risk arises due to the timing differences between the maturity profile of the Bank's assets and liabilities. In the wake of the global crises, liquidity risk has been of concern to regulators and financial institutions. This is evident when entities are forced to sell assets much below their intrinsic value/market price, their inability to raise deposits and their requirement to borrow funds at excessively high rates.

In order to ensure that the Bank can meet its financial obligations as they fall due, there is a close monitoring of UGB's assets and liabilities position. Besides other functions, an ALCO evaluates the statement of financial position from a structural, liquidity and sensitivity point of view. The whole process is aimed at ensuring availability of sufficient liquidity to fund the Bank's ongoing business activities, effectively managing maturity mismatches between assets and liabilities, managing market sensitivities, and ensuring that the Bank has the capacity to fund its obligations as they fall due. Daily, weekly and monthly reports are generated to monitor key liquidity ratios and to ensure the maintenance of a diversified funding base in terms of individual loans, and maturities.

UGB has established a funding strategy that provides effective diversification in the sources and the tenor of funding. It maintains an ongoing presence in its chosen funding markets. Strong relationships are also maintained with funds providers to promote the effective diversification of funding resources. As at 30th June 2015, the liquidity ratio of the Bank was 47.56 percent. This is strictly monitored to ensure that it remains above the regulatory level of 25 percent at all times.

2 GROUP STRUCTURE AND OVERALL RISK MANAGEMENT PROCESSES (continued)

2.5 Risks under Pillar 2 (continued)

ii) Interest Rate Risk in the Banking Book

Interest rate risk on the banking book arises as a result of mismatches in the re-pricing or maturity of interest rate sensitive financial assets and liabilities. This is also known as re-pricing risk. Additionally, UGB is exposed to basis value risk which results from a change in the relationship between the yields/yield curves of long and short positions with the same maturity in different financial instruments. This in effect means that the long and short positions no longer fully hedge each other.

UGB identifies the sources of interest rate risk and the interest rate risk sensitive products and activities. It proactively measures and monitors the interest rate risk in the banking book. The Bank also periodically carries out stress testing to assess the effect of extreme movements in interest rates that could expose the Bank to high risks. A conscious effort is also made to match the amount of floating rate assets with floating rate liabilities in the banking book. UGB also enters into certain transactions in order to hedge exposures arising from day-to-day banking and investment activities. These hedge transactions may be instruments such as interest rate swaps (IRS) and floating rate notes (FRN), to convert a floating rate asset/liability into a fixed rate one or vice-versa. The Bank continuously monitors the effectiveness of the hedges.

iii) Concentration Risk

Concentration of exposures in credit portfolios is an important aspect of credit risk that is monitored separately by UGB. This risk can be considered from either a micro (idiosyncratic) perspective or a macro (systemic) perspective. The first type - name concentration, relates to imperfect diversification of risk in the portfolio either because of its small size or because of large exposures to specific individual obligors. The second type - sector concentration, relates to imperfect diversification across systemic components of risk, namely industry sectorial factors.

Concentration risk is captured in UGB’s framework through the use of internal and external regulations that cap the maximum exposure to any single obligor. There are established limits in place that set thresholds for aggregate industry, asset classes and geography. The actual levels of exposure are monitored against approved limits and regularly reviewed by Senior Management and the Board.

2 GROUP STRUCTURE AND OVERALL RISK MANAGEMENT PROCESSES (continued)

2.5 Risks under Pillar 2 (continued)

iv) Legal Risk

Legal risk is defined as the loss that may arise as a result of the inability to enforce contracts and agreements that the Bank has entered into with its counterparties. In order to mitigate this risk, UGB uses industry standard master agreements whenever available. Expert legal advice is sought on legal structures and arrangements to which the Bank is a party. Proper execution and completion of all legal contracts is ensured prior to committing funds to the transactions. All legal documents are reviewed on a periodic basis to ensure their ongoing enforceability. These are also maintained under dual custody.

2.6 Monitoring and Reporting

The monitoring and reporting of risk is conducted on a timely basis. The regular forums, in which risk related issues are highlighted and discussed, are the weekly Management meetings, the quarterly Risk and Compliance Committee Meetings and the semi-annual investment reviews.

3. 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 Bank's (and its main subsidiaries) overall minimum capital requirement and capital adequacy position under Pillar 1 as of 30th June 2015.

Total Minimum Capital Requirement

	Consolidated US$ 000	KAMCO US$ 000	FIMBank US$ 000
Credit Risk (Standarized)	324,132	47,058	101,784
Operational Risk (Basic Indicator)	7,284	4,750	9,583
Market Risk (Standarized)	20,041	9	44,549
Total required Capital	351,456	51,818	155,916
Total Available Capital	**405,170**	**115,407**	**161,354**
Excess Capital Over Minimum Capital Requirement	**53,714**	**63,589**	**5,438**

3. CAPITAL ADEQUACY (continued)

3.1 Capital Structure and capital adequacy

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 Bank may adjust the amount of dividend payment to shareholders, or issue capital securities.

The total regulatory capital (CET 1, Tier 1 and Tier 2) calculated in accordance with the CBB guidelines are as follows:

	Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 30 June 2015 to 31 December 2018)	Component of regulatory capital	Amounts subject to pre-2015 treatment
	Common Equity Tier 1: Instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	201,980	
2	Retained earnings	76,727	
3	Accumulated other comprehensive income and losses (and other reserves)	140,314	
4	*Not applicable*		
5	Common shares issued by subsidiaries and held by third parties (amount allowed in group CET1)	101,215	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**520,236**	**-**
	Common Equity Tier 1 capital :regulatory adjustments		
7	Prudential valuation adjustment		
8	Goodwill (net of related tax liabilities)	54,304	
9	Other intangibles other than mortgage servicing rights (net of related tax liabilities)	282	
10	Deferred tax assets that rely on future profitability excluding those arisng from temporary differences (net of related tax liabilities)	7,685	
11	Cash flow hedge reserve	(131)	
12	Shortfall of provisions to expected losses		
13	Securitization gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Not applicable		
15	Defined benefit pension fund net assets	-	
16	Investments in own shares	-	
17	Reciprocal cross holdings in Common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	112,741	
20	Mortgage servicing rights (amount above 10% ofCET1c)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	90,847	
23	of which: significant investments in the common stock	90,847	
24	of which: mortgage servicing rights		
25	of which: deferred tax assets arising from temporary differences		
26	CBB specific regulatory adjustments	(87,577)	
	Regulatory Adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-2015 treatments		
	of which: Positive or negative adjustments due to aggregation of CET1	(87,577)	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	**178,151**	**-**
29	**Common Equity Tier 1 capital (CET1)**	**342,085**	**-**
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	Directly issued capital instruments subject to phase out from Additional Tier 1		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	6,934	
35	of which: instruments issued by subsidiaries subject to phase out		
36	**Additional Tier 1 capital before regulatory adjustments**	**6,934**	**-**
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments		
38	Reciprocal cross-holdings in Additional Tier 1 instruments		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		
40	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
41	CBB specific regulatory adjustments		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**	**-**
44	**Additional Tier 1 capital (AT1)**	**6,934**	**-**
45	**Tier capital (T1 = CET1 + AT1)**	**349,019**	**0.00**

	Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 30 June 2015 to 31 December 2018)	Component of regulatory capital	Amounts subject to pre-2015 treatment
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	37,308	
47	*Directly issued capital instruments subject to phase out from Tier 2*		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	9,245	
49	*of which: instruments issued by subsidiaries subject to phase out*		
50	Provisions	9,598	
51	**Tier 2 capital before regulatory adjustments**	**56,151**	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments		
53	Reciprocal cross-holdings in Tier 2 instruments		
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
56	National specific regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	-	-
58	**Tier 2 capital (T2)**	**56,151**	**-**
59	**Total capital (TC = T1 + T2)**	**405,170**	**-**
60	**Total risk weighted assets**	**2,811,652**	**-**
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.17%	
62	Tier 1 (as a percentage of risk weighted assets)	12.41%	
63	Total capital (as a percentage of risk weighted assets)	14.41%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	9.00%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical buffer requirement	N/A	
67	of which: G-SIB buffer requirement	N/A	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	12.17%	
	National minima (where different from Basel III)		
69	CBB Common Equity Tier 1 minimum ratio	6.50%	
70	CBB Tier 1 minimum ratio	8.00%	
71	CBB total capital minimum ratio	10.00%	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	9,187	
73	Significant investments in the common stock of financials	609,514	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	26,175	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	9,598	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	32,413	
78	N/A		
79	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
80	Current cap on CET1 instruments subject to phase out arrangements		
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*		
82	Current cap on AT1 instruments subject to phase out arrangements		
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*		
84	Current cap on T2 instruments subject to phase out arrangements		
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*		

In accordance with the CBB's Basel III capital adequacy framework, certain assets are required to be deducted from regulatory capital. As at 30th June 2015, US$ 112 million was deducted from common equity tier 1 capital in relation to significant minority interests in banking, securities and other financial entities.

Composition of Capital – Reconciliation Requirements:

Step 1: Disclose the reported balance sheet under the regulatory scope of consolidation

	Balance sheet as in published financial statements	Consolidated PIR data
	30 June 2015	**30 June 2015**
Assets	***US$ 000***	***US$ 000***
Cash and balances with central banks	248,907	69,395
Due from banks and other financial institutions	125,833	305,346
Investments at fair value through statement of income	66,974	66,974
Loans and advances to customers	920,462	930,061
Non-trading investments	177,487	713,093
Investments in associated companies and joint ventures	857,200	375,898
Interest receivable and other assets	116,652	118,400
Investment properties	42,223	42,222
Property and equipment	41,708	41,708
Goodwill	54,304	-
Assets of disposal group classified as held for sale	1,748	-
Total assets	**2,653,498**	**2,663,097**
Liabilities		
Due to banks and other financial institutions	700,447	700,447
Deposits from Customers	464,358	464,358
Term borrowings	802,442	802,442
Subordinated debt	93,270	-
Interest payable and other liabilities	57,545	57,845
Liabilities of disposal group classified as held for sale	296	-
Total liabilities	**2,118,358**	**2,025,092**
Equity		
Share capital	208,651	208,651
Treasury shares	(18,131)	(18,131)
Share premium	11,459	11,460
Statutory reserve	98,766	98,766
General reserve	79,251	79,251
Treasury shares reserve	14,248	-
Cumulative changes in fair values	(20,649)	(20,653)
Foreign currency translation adjustments	(31,299)	(31,299)
Retained earnings	76,726	90,974
Collective impairment provision	-	9,598
Subordinated debts	-	93,270
Attributable to the owners of the Bank	**419,022**	**521,887**
Non-controlling interests	116,118	116,118
Total equity	**535,140**	**638,005**
Total Liabilities and equities	**2,653,498**	**2,663,097**

Step 2: Expand the lines of the regulatory Balance sheet to display all of the components used in the definition of capital disclosure template

	Balance sheet as in published financial statements	Consolidated PIR data	Reference
	30 June 2015	30 June 2015	
Assets	***US$ 000***	***US$ 000***	
Cash and balances with central banks	**248,907**	**69,395**	
Due from banks and other financial institutions	**125,833**	**305,346**	
Investments at fair value through statement of income	**66,974**	**66,974**	
Loans and advances to customers	**920,462**	**930,061**	
of which specific provisions	(85,705)	(64,323)	
of which loans and advances (gross of provisions)	1,006,167	994,384	
Non-trading investments	**177,487**	**713,093**	
of which related to equity investments in financial entities	9,187	9,187	
of which related to CET1	9,187	9,187	a
of which relater to Tier 1	-	-	
of which relater to Tier 2	-	-	
of which related to other AFS investments	168,300	168,300	
of which equity investments in financial entities	-	535,606	b
Investments in associated companies and joint ventures	**857,200**	**375,898**	
of which equity investments in financial entities	609,514	73,908	c
of which other investments	247,686	247,686	
of which Goodwill	-	54,304	d
Interest receivable and other assets	**116,652**	**118,400**	
of which deferred tax assets due to temporary differences	26,175	26,175	e
of which Interest receivable and other assets	90,477	92,225	
Investment properties	**42,223**	**42,222**	
Property and equipment	**41,708**	**41,708**	
Goodwill	**54,304**	**-**	
Assets of disposal group classified as held for sale	**1,748**	**-**	
Total assets	**2,653,498**	**2,663,097**	
Liabilities			
Due to banks and other financial institutions	**700,447**	**700,447**	
Deposits from Customers	**464,358**	**464,358**	
Term borrowings	**802,442**	**802,442**	
Subordinated debt	**93,270**	**-**	
Interest payable and other liabilities	**57,545**	**57,845**	
Liabilities of disposal group classified as held for sale	**296**	**-**	
Total liabilities	**2,118,358**	**2,025,092**	
Equity			
Share capital (net of Treasury shares)	**190,520**	**190,520**	
of which amount eligible for CET 1	190,520	190,520	f
of which amount eligible for AT 1	-	-	
Share premium	**11,459**	**11,460**	g
Statutory reserve	**98,766**	**98,766**	h
General reserve	**79,251**	**79,251**	i
Treasury shares reserve	**14,248**	**-**	
Cumulative changes in fair values	**(20,649)**	**(20,653)**	
of which unrealized gains and losses on available for sale financial instruments	2,588	2,588	j
of which gains and losses on derivatives held as cash flow hedges	(131)	(131)	k
of which unrealized gains and losses from fair valuing equities	(23,105)	(23,109)	l
Foreign currency translation adjustments	**(31,299)**	**(31,299)**	m
Retained earnings	**76,726**	**90,974**	
of which Treasury shares reserve	-	**14,248**	n
of which Retained earnings	76,726	**76,726**	o
Collective impairment provision	**-**	**9,598**	p
Subordinated debts	**-**	**93,270**	
of which Tier 2 capital instuments	**-**	37,308	q
Attributable to the owners of the Bank	**419,022**	**521,887**	
Non-controlling interests	**116,118**	**116,118**	
Total equity	**535,140**	**638,005**	
Total Liabilities and equities	**2,653,498**	**2,663,097**	

Step 3: Map each of the components that are disclosed in Step 2 to the composition of capital disclosure templates

		Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1: Instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	201,980		f+g
2	Retained earnings	76,727		o
3	Accumulated other comprehensive income and losses (and other reserves)	140,314		h+i+j+k+l+m+n
4	*Not applicable*			
5	Common shares issued by subsidiaries and held by third parties (amount allowed in group CET1)	101,215		
6	**Common Equity Tier 1 capital before regulatory adjustments**	**520,236**	**-**	
	Common Equity Tier 1 capital :regulatory adjustments			
7	Prudential valuation adjustment			
8	Goodwill (net of related tax liabilities)	54,304		d
9	Other intangibles other than mortgage servicing rights (net of related tax liabilities)	282		
10	Deferred tax assets that rely on future profitability excluding those arisng from temporary differences (net of related tax liabilities)	7,685		
11	Cash flow hedge reserve	(131)		k
12	Shortfall of provisions to expected losses			
13	Securitization gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Not applicable			
15	Defined benefit pension fund net assets	-		
16	Investments in own shares	-		
17	Reciprocal cross holdings in Common equity	-		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	112,741		
20	Mortgage servicing rights (amount above 10% ofCET1c)	-		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		
22	Amount exceeding the 15% threshold	90,847		
23	of which: significant investments in the common stock	90,847		
24	of which: mortgage servicing rights			
25	of which: deferred tax assets arising from temporary differences			
26	CBB specific regulatory adjustments	(87,577)		
	Regulatory Adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-2015 treatments			
	of which: Positive or negative adjustments due to aggregation of CET1	(87,577)		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		
28	**Total regulatory adjustments to Common equity Tier 1**	**178,151**	**-**	
29	**Common Equity Tier 1 capital (CET1)**	**342,085**	**-**	
	Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-		
31	of which: classified as equity under applicable accounting standards			
32	of which: classified as liabilities under applicable accounting standards			
33	Directly issued capital instruments subject to phase out from Additional Tier 1			
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	6,934		
35	of which: instruments issued by subsidiaries subject to phase out			
36	**Additional Tier 1 capital before regulatory adjustments**	**6,934**	**-**	
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments			
38	Reciprocal cross-holdings in Additional Tier 1 instruments			
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)			
40	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
41	CBB specific regulatory adjustments			
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions			
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**	**-**	
44	**Additional Tier 1 capital (AT1)**	**6,934**	**-**	
45	**Tier capital (T1 = CET1 + AT1)**	**349,019**	**0.00**	

		Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference letters of the balance sheet under the regulatory scope of consolidation
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	37,308		q
47	*Directly issued capital instruments subject to phase out from Tier 2*			
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	9,245		
49	*of which: instruments issued by subsidiaries subject to phase out*			
50	Provisions	9,598		p
51	**Tier 2 capital before regulatory adjustments**	**56,151**		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments			
53	Reciprocal cross-holdings in Tier 2 instruments			
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-		
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
56	National specific regulatory adjustments			
57	Total regulatory adjustments to Tier 2 capital	-	-	
58	**Tier 2 capital (T2)**	**56,151**	**-**	
59	**Total capital (TC = T1 + T2)**	**405,170**	**-**	
60	**Total risk weighted assets**	**2,811,652**	**-**	
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.17%		
62	Tier 1 (as a percentage of risk weighted assets)	12.41%		
63	Total capital (as a percentage of risk weighted assets)	14.41%		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	9.00%		
65	of which: capital conservation buffer requirement	2.50%		
66	of which: bank specific countercyclical buffer requirement	N/A		
67	of which: G-SIB buffer requirement	N/A		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	12.17%		
	National minima (where different from Basel III)			
69	CBB Common Equity Tier 1 minimum ratio	6.50%		
70	CBB Tier 1 minimum ratio	8.00%		
71	CBB total capital minimum ratio	10.00%		
	Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	9,187		a
73	Significant investments in the common stock of financials	609,514		b+c
74	Mortgage servicing rights (net of related tax liability)	-		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	26,175		e
	Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	9,598		p
77	Cap on inclusion of provisions in Tier 2 under standardised approach	32,413		
78	N/A			
79	N/A			
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)			
80	Current cap on CET1 instruments subject to phase out arrangements			
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*			
82	Current cap on AT1 instruments subject to phase out arrangements			
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*			
84	Current cap on T2 instruments subject to phase out arrangements			
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*			

Disclosure of main features of regulatory capital instruments

A. Common shares:

Disclosure of template for main features of regulatory capital instruments		
1	Issuer	United Gulf Bank
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Share ticker: UGB
3	Governing law(s) of the instrument	Laws and regulations of Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group and solo
7	Instrument type (types to be specified by each jurisdiction)	Common shares
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	US$ 202 million
9	Par value of instrument	US$ 0.25
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating dividends
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Not applicable
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Not applicable
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

B. Subordinated Bond

Disclosure of template for main features of regulatory capital instruments		
1	Issuer	United Gulf Bank
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: XS0270878506
3	Governing law(s) of the instrument	English Laws and Singapore Stock Exchange
	Regulatory treatment	
4	Transitional CBB rules	Tier 2
5	Post-transitional CBB rules	Ineligible
6	Eligible at solo/group/group & solo	Group and solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Bond
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	US$ 37.3 million
9	Par value of instrument	US$ 93.3 million
10	Accounting classification	Borrowing
11	Original date of issuance	13-Oct-2006
12	Perpetual or dated	Dated
13	Original maturity date	13-Oct-2016
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	3 month LIBOR + 2.7%
19	Existence of a dividend stopper	Not applicable
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	None
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

3. CAPITAL ADEQUACY (continued)

3.1 Capital Structure and capital adequacy

There are no impediments on the transfer of funds or regulatory capital between UGB and its subsidiaries, other than restrictions over transfers to ensure minimum regulatory capital requirements that are necessitated for subsidiary companies.

3.2 Capital adequacy ratio of consolidated group

UGB'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 capital structure may be adjusted through the dividend payout, the issue of new equity, subordinated term finance, and Tier 1 capital securities.

The capital adequacy ratios of UGB and its subsidiaries as at 30th June 2015 were as follows:

	Consolidated US$ 000	KAMCO US$ 000	FIMBank US$ 000
Total Eligible Capital Base	**405,170**	**115,407**	**161,354**
Credit Risk Weighted Exposure	2,593,055	376,466	814,270
Operational Risk Weighted Exposure	58,271	38,002	76,665
Market Risk Weighted Exposure	160,325	74	356,392
Total Risk Weighted Exposure	**2,811,652**	**414,542**	**1,247,328**
Core Equity Tier 1 (CET 1) Ratio	**12.17%**	**27.84%**	**12.44%**
Tier 1 Ratio	**12.41%**	**27.84%**	**12.44%**
Total Capital Adequacy Ratio	**14.41%**	**27.84%**	**12.94%**

The CBB's minimum capital adequacy ratios for banks incorporated in Bahrain at a consolidated level are as follows:

	Minimum Ratio Required	Capital Conservation Buffer (CCB)	CARS including CCB
CET 1	6.5%	2.5%	9.0%
Tier 1	8.0%	2.5%	10.5%
Total Capital	10.0%	2.5%	12.5%

3.3 Capital requirements for credit risk

For regulatory reporting purposes, UGB calculates the capital requirements for credit risk based on the standardized approach. Under the standardized 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 Public Sector Entities (PSEs), claims on banks, claims on corporate, investments in securities, holdings of real estate and other assets. Under the standardized 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 various eligible external rating agencies approved by the CBB.

An overview of the exposures, Risk Weighted Assets (RWAs) and capital requirements for credit risk analyzed by the standardized approach is presented in the table below:

	Total exposure US$ 000	Risk Mitigant US$ 000	Exposure after risk mitigant US$ 000	RWA US$ 000	Capital requirement US$ 000
Cash items	5	-	5	-	-
Total Claims on Sovereigns	70,672	-	70,672	1,275	1,275
Total Claims on Banks	152,316	38,306	114,010	70,981	71,268
Total Claims on PSEs	422,575	-	422,575	162,036	151,956
Claims on Corporates including Insurance Companies & Category 3 Investment Firms	726,596	-	726,596	641,557	503,356
Regulatory Retail Portfolios	5,505	-	5,505	4,129	4,129
Past Due Exposure	528	-	528	792	792
Investments in Securities	640,791		640,791	1,973,246	1,968,470
Holding of Real Estate	50,504	-	50,504	50,504	50,504
Underwriting of Non-Trading Book Items	160,689	-	160,689	349,921	160,689
Other Assets and Holding of Securitization Tranches	176,311	-	176,311	209,267	208,753
Total	**2,406,491**	**38,306**	**2,368,185**	**3,463,706**	**3,121,190**

3.4 Capital requirements for market risk

The Bank uses the standardized approach to calculate the regulatory capital requirements relating to general and specific market risk. The resultant measure of market risk is multiplied by 12.5, to determine the market risk-weighted exposure on a basis that is consistent with credit risk-weighted exposure.

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

Capital Requirement for Market Risk

	RWA US$ '000	Capital Requirement US$ '000
Equity Position Risk	110,288	13,786
Foreign Exchange Risk	50,038	6,255
Total	160,325	20,041

3. CAPITAL ADEQUACY (continued)

3.4 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 months are as follows:

	Equity Position Risk US$ '000	Foreign Exchange Risk US$ '000
Minimum Values	13,644	6,255
Maximum Values	13,786	7,828

3.5 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 III capital adequacy framework. The capital requirement for operational risk as at 30th June 2015 amounted to US$ 7.3 million.

4. CREDIT RISK – PILLAR 3 DISCLOSURES

This section provides detailed disclosures on credit risk in accordance with the CBB's Basel III framework in relation to Pillar 3 requirements:

4.1 Categories of exposure classes

UGB's credit exposures are categorized as per the Basel III capital adequacy framework for the standardized approach for credit risk. The appropriate risk weights are used to derive the risk weighted assets.

Total Claims on PSEs

Public Sector Entities are risk weighted subject to ECAI ratings with 100% used for unrated.

Total Claims on Banks

The exposure under claims on banks is risk weighted based on their external credit rating agencies. A preferential risk weight treatment is available for qualifying short-term exposures to claims on foreign banks licensed in Bahrain funded in the relevant domestic currency, i.e. BD or US$.

Total Claims on Corporates

Claims on corporates are risk weighted according to their external credit ratings. A 100% risk weightage is assigned to all exposure pertaining to unrated corporates.

Total Claims on Investment Firms

The exposure under claims on investment firms, are risk weighted based on their external credit ratings.

Past Due Exposures

The Bank defines non-performing facilities as the facilities that are overdue for a period of 90 days or more. These exposures are placed on a non-accrual status with income being recognized to the extent that it is actually received. It is the Bank's policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, not only the overdue installments/payments.

All past due loan exposures are assigned a risk weighting of either 100% or 150%, depending on the level of provisions maintained against them. The weightage is on the outstanding loan amount, net of provisions and interest in suspense.

Equity Investments

In accordance with CBB Basel III guidelines, all equity exposures are categorized into listed and unlisted categories, with corresponding risk weights of 100% or 150% for the purposes of determining the capital charge.

4. CREDIT RISK – PILLAR 3 DISCLOSURES (continued)

4.1 Categories of exposure classes (continued)

Holding of Real Estate

All direct real estate related exposures are risk weighted at 200% for the purposes of calculating the capital charge. These include direct or indirect exposures to real estate/real estate related development and management companies.

Other Assets

Other assets are risk weighted at 100% as per Basel III and the CBB norms.

4.2 Categories of exposure by industry

The breakdown of the overall credit exposure by industry before taking into account collaterals held or other credit enhancements was as follows:

Gross credit exposure by industry

	Trading and Manufacturing US$ 000	*Banks & Other Financial Institutions US$ 000*	*Construction and real estate US$ 000*	*Others US$ 000*	*Total US$ 000*
Demand and call deposits with banks	-	248,907	-	-	**248,907**
Placements with banks	-	125,833	-	-	**125,833**
Loans and receivables	401,130	415,048	52,601	51,683	**920,462**
Other assets	130	40,806	4,622	65,777	**111,335**
Letters of credit	5,017	36,135	-	487	**41,639**
Letters of guarantee	3,578	7,132	8,504	1,332	**20,546**
Total	**409,855**	**873,861**	**65,727**	**119,279**	**1,468,722**

4. CREDIT RISK – PILLAR 3 DISCLOSURES (continued)

4.3 Categories of exposure by geography and region

Given the Bank'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 European Union Countries. The breakdown of the overall credit exposure by geography before taking into account collaterals held or other credit enhancements was as follows:

	Gulf Co-operation Council countries (G.C.C.) US$ 000	Middle East and North Africa (excluding G.C.C.) US$ 000	Europe US$ 000	Americas US$ 000	Asia US$ 000	Others * US$ 000	Total US$ 000
Bank demand and call deposits	10,011	5,566	168,332	33,805	25,184	6,009	248,907
Placements with banks	90,817	3,549	31,467	-	-	-	125,833
Loans and advance	124,485	23,751	321,140	135,041	120,441	195,604	920,462
Other assets	66,065	2,130	18,397	1,892	22,730	121	111,335
Letters of credit	11,610	2,047	11,785	2,007	884	13,305	41,639
Letters of guarantee	556	5,651	8,644	380	-	5,315	20,546
Total	**303,544**	**42,694**	**559,765**	**173,125**	**169,239**	**220,354**	**1,468,722**

* Others mainly comprise of exposures in Africa (excluding North Africa).

4.4 Categories of exposure by maturity

The Bank 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 reinvestment risk (i.e. cash flows being reinvested 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 the price. The Bank also tracks expected maturities vs. actual maturities as part of its normal risk management strategies.

Gross credit exposure by maturity	*Up to 3 months US$ 000*	*3 months to 1 year US$ 000*	*1 to 5 years US$ 000*	*5 to 10 years US$ 000*	*10 to 20 years US$ 000*	*Total US$ 000*
Demand and call deposits with banks	248,589	-	318	-	-	**248,907**
Placements with banks	125,833	-	-	-	-	**125,833**
Loans and receivables	668,360	120,536	131,566	-	-	**920,462**
Other assets	2,352	108,983	-	-	-	**111,335**
Letters of credit	-	41,639	-			**41,639**
Letters of guarantee	-	20,546	-	-	-	**20,546**
Total	**1,045,134**	**291,704**	**131,884**	-	**-**	**1,468,722**

4. CREDIT RISK – PILLAR 3 DISCLOSURES (continued)

4.5 Categories of exposure by related parties

The related party exposures including off statement of financial position items are transacted at commercial terms that are mutually agreed between the counterparties.

Gross credit exposure by related party breakdown

	Parent US$ 000	*Associates and joint ventures US$ 000*	*Other related parties US$ 000*	*Total US$ 000*
Demand and call deposits with banks	-	1,138	548	1,686
Placements with banks	-	30,400	3,549	33,949
Investments, carried at fair value through statement of income	575	1,226	1,496	3,297
Investments, carried at fair value through statement of income, in funds managed by related party	-	-	9,962	9,962
Non-trading investments	-	4,924	24,360	29,284
Loans and receivables	-	56,602	2,202	58,804
Other assets	661	39,944	6,346	46,951

4.6 Specific and collective impairment provisions

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

	Loans US$ 000	*Investments US$ 000*	*Other Assets and off-Balance Sheet US$ 000*	*Collective impairment provision US$ 000*
At beginning of the year	68,918	27,558	111	9,754
Amounts written off	-	-	-	-
Write backs / cancellation due to improvement	14,388	-	-	183
Additional provisions made	11,317	-	-	27
Exchange adjustment and other movements	(1,524)	-	(3)	-
Balance at reporting date	64,323	27,558	108	9,598

4. CREDIT RISK – PILLAR 3 DISCLOSURES (continued)

4.7 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 30th June 2015, were almost USD 32.4 million of restructured loans.

4.8 Past due and impaired loans

The past due and impaired loans, net as of 30th June 2015 amounted to USD 54.9 million (31 December 2014: USD 27.7 million). A collective provision of USD 9.6 million (31 December 2014: USD 9.8 million) remains against the total loan portfolio.

			Past due			
	Past due but not impaired	*Past due and impaired*	*90-365 days*	*1-3 years*	*3 yrs or more*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*
Trading and manufacturing	1,500	45,365	43,734	1,443	188	45,365
Banks and other financial institutions	-	6,021	5,974	-	47	6,021
Construction and real estate	-	1,417	1,417	-	-	1,417
Others	-	576	502	74	-	576
	1,500	**53,379**	**51,627**	**1,517**	**235**	**53,379**

Past due and impaired loans for geographical area

			Past due				
	Past due but not impaired	Past due and impaired	90-365 days	1-3 years	3 years or more	Collective provision	Specific provision
	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000
GCC	-	9,327	9,327	-	-	-	6,892
MENA	-	1,614	1,582	32	-	-	1,315
EU	1,500	328	140	-	188	-	15,476
North America	-	-	-	-	-	-	192
Others	-	42,109	40,578	1,484	47	-	40,449
	1,500	**53,378**	**51,627**	**1,516**	**235**	**9,598**	**64,324**

Others mainly comprises of past due or impaired exposures in India.

4. CREDIT RISK – PILLAR 3 DISCLOSURES (continued)

4.9 Exposure over the individual obligor limits

Under the CBB's rules governing maximum single exposure, 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 exceed 15% of the regulatory capital base.

4.10 Equity position in banking book

UGB's business model is focused on offering investment banking and commercial banking services through a network of financial services entities spread across the Middle East North Africa (MENA) region. These entities are treated as strategic assets of the Bank held with long term perspective, and contribute significantly towards the Bank's bottom line.

These strategic assets if treated as an associate are initially recognized at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the investee, using the equity method. The Group recognizes in the consolidated statement of income, its share of the total recognized profit or loss of the associate from the date that influence or ownership effectively commences, until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in its equity that have not been recognized in the associate's profit or loss. The Group's share of those changes is recognized directly in equity. Unrealized gains on transactions with an associate are eliminated to the extent of the Group's share in the associate.

An assessment of an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognized in prior years no longer exist. Whenever the impairment requirements of IAS 36 indicate that investment in an associate may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value. The recoverable amount of an asset or a cash–generating unit is the higher of its fair value less costs to sell and its value in use. Goodwill is included in the carrying amount of an investment in associate and is therefore not separately tested for impairment.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.
Additionally, the Bank also has a portfolio of opportunistic direct investments held in the banking book. These investments are held for medium to short term and mostly include private equity and fund of hedge funds. For accounting purposes these are classified as investments available for sale and investments held to maturity.

The Group classifies investments as held to maturity if the requirements of IAS 39 are met and in particular the Group has the intention and ability to hold these investments to maturity. After initial recognition, investments held to maturity are carried at amortized cost using the effective interest rate method, less impairment losses, if any.

4. CREDIT RISK – PILLAR 3 DISCLOSURES (continued)

4.10 Equity position in banking book (continued)

Investments available for sale are those non–derivative financial assets that are designated as available for sale or are not classified as investment at fair value through the consolidated 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 recognized as a separate component of equity, until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or losses previously reported in equity is recognized in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

The breakdown of the Bank's equity, mutual funds and debt position in the banking book are as follows:

Equity Position in Banking Book			Capital requirement	
	Trading Book US$ '000	Banking Book US$ '000	Trading Book US$ '000	Banking Book US$ '000
Equity Securities and Mutual Funds	**55,043**	**571,886**	**6,880**	**71,486**
Listed	55,043	550,117	6,880	68,765
Unlisted	-	21,769	-	2,721
Managed Funds	**-**	**109,589**	**-**	**13,699**
Listed	-	9,962	-	1,245
Unlisted	-	99,627	-	12,453
Total Investments in Financial Instruments	**55,043**	**681,475**		
Investment Properties				
Cost		42,222		
Market Value		42,222		
Interest in Consolidated Subsidiaries and Associated Companies		375,898		

	US$ 000
Cumulative realized gains arising from sale or liquidation during the period	19,683
Unrealised gains recognized in the balance sheet but not through profit or loss	2,588
Unrealised losses recognized in the balance sheet but not through profit or loss	(23,109)

All unrealized gains and losses are recognized in Common Equity Tier 1 capital of the Group.

4. CREDIT RISK – PILLAR 3 DISCLOSURES (continued)

4.11 Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained comprise of cash margins, charges over real estate properties, inventory, trade receivables, and bank guarantees.

The Group also obtains guarantees from companies for loans to their subsidiaries. The Bank monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement, during its review of the adequacy of the allowance of impairment losses.

The following table summarizes the counterparty credit risk exposure covered by collateral:

`

	30 June 2015	
	Credit Exposure US$ 000	Collateral US$ 000
Cash items	5	-
Claims on sovereigns	70,672	-
Claims on banks	152,316	38,306
Claims on PSEs	422,575	-
Claims on corporates including Category 3 investment firms and insurance companies	726,596	-
Regulatory Retail Portfolios	5,505	-
Past Due Exposure	528	-
Investment in securities	640,791	-
Holding of real estate	50,504	-
Underwriting of Non-Trading Book Items	160,689	-
Other Assets and Holding of Securitization Tranches	176,311	-
	2,406,491	**38,306**

The following exposures were risk weighted at 800% in arriving at credit risk weighted assets:

	US$ 000
Exposure to corporates exceeding 15% of Total Capital	914
Equity investments exceeding 15% of Total Capital	92,800

5. MARKET RISK – PILLAR 3 DISCLOSURES

Market risk is defined as the loss of the value of a financial instrument or a portfolio of financial instruments due to an adverse change in market prices or rates. This has the impact of a potential reduction in net income, or decrease in the value of UGB's financial statement. The Bank's trading activities principally comprise trading equity securities, and foreign exchange. There are limits in place to monitor positions, volumes, concentrations, maturities and allowable losses.

As mentioned in Section 3.4, the Bank uses the standardized approach to determine the charge for market risk.

6. OPERATIONAL RISK – PILLAR 3 DISCLOSURES

UGB's Operational Risk Framework incorporates suitable risk management policies and procedures to enable the Bank to identify, assess, monitor and control/mitigate operational risk. It transcends from best industry practices and Basel II regulatory requirements, and provides a means to develop key risk indicators (KRIs) and includes mapping of processes into lines of business. The Policy also provides procedures and sets responsibilities for day to day tracking and monitoring of operational risks, and outlines minimum reporting and analysis requirements.

UGB has automated its Operational Risk Framework through the implementation of a robust system. This system consists of three key modules – namely the operational loss database, risk and control self-assessments and key risk indicators. The system allows the Bank to monitor, mitigate and report its operational risk exposures on a real time basis.

7. OFF BALANCE SHEET STATEMENT OF FINANCIAL POSITION EXPOSURE

UGB's non-funded exposure for the purposes of determining credit risk weighted assets for the Basle II framework comprises:

- Credit related contingent items: These are mainly guarantees, letters of credit and undrawn commitments to investments. For credit related contingent items, the nominal value is converted into an exposure at default using the appropriate credit conversion factor (CCF). The CCF factors range from 50% to 100% depending on the type of contingent item and its maturity. The objective is to convert off statement financial position notional amounts into an equivalent on statement of financial position exposure, in order to capture risks relating to counterparty credit and/or liquidity.

- Derivative and foreign exchange instruments: These include forward contracts and interest rate swaps which have been used to hedge UGB's underlying positions.

Further information on off statement of financial position items is disclosed in Note 9 of the financial statements.

8. PILLAR 2 RISKS

8.1 Liquidity Risk

Liquidity risk stems from the inability to procure sufficient cash flow to meet UGB's financial obligations as and when they fall due. The risk arises due to the timing differences between the maturity profile of the Bank'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. Further details on the maturity profile of assets are included in section 8.2.

8.2 Interest Rate Risk in the Banking Book

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income based on the consolidated statement of financial position as of 30th June 2015.

Currency	***Increase in basis points June 2015***	***Sensitivity of net interest income June 2015***
		US$ 000
Kuwaiti Dinar	+ 200	(2,598)
United States Dollar	+ 200	(9,009)
Euro	+ 200	51
GBP	+ 200	17
Others	+ 200	(2,517)

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

The sensitivity of the consolidated 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 30th June 2015, including the effect of hedging instruments.

There are no material interest bearing securities in non-trading investments and hence no sensitivity of equity has been disclosed.

8. PILLAR 2 RISKS (continued)

8.2 Disclosure concerning interest rate risk in the banking book

The details of interest rate sensitive assets, liabilities and off balance sheet exposures are 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	248,589	-	318	-	248,907
Placements with banks	125,833	-	-	-	125,833
Securities held for trading	-	-	-	55,141	55,141
Funds held for trading	-	-	-	11,833	11,833
Non-trading investments	-	-	-	177,487	177,487
Investment in associated companies	-	-	-	857,200	857,200
Loans and advance	668,360	120,536	131,566	-	920,462
Investment properties	-	-	-	42,223	42,223
Interest receivable and other assets	-	-	-	116,652	116,652
Properties and equipment	-	-	-	41,708	41,708
Goodwill	-	-	-	54,304	54,304
Assets of disposal group classified as held for sale	-	-	-	1,748	1,748
Total assets	1,042,782	120,536	131,884	1,358,295	2,653,498
Liabilities:					
Due to banks and other financial institutions	607,945	90,777	-	1,725	700,447
Deposits from customers	327,451	85,173	51,735	-	464,358
Current portion of the long-term loans	-	-	-	-	-
Long term loans	146,908	171,485	484,049	-	802,442
Sub Debt	93,270	-	-	-	93,270
Interest payable and other liabilities	-	-	-	57,545	57,545
Liabilities of disposal group classified as held for sale	-	-	-	296	296
Minority Interest	-	-	-	116,118	116,118
Shareholders Equity	-	-	-	419,022	419,022
Total liabilities and shareholders' Equity	1,175,573	347,435	535,784	594,706	2,653,498
On balance sheet gap	(132,791)	(226,899)	(403,900)	763,589	-
Cumulative gap	(132,791)	(359,690)	(763,589)	-	
Off balance sheet items					
Interest rate Swaps	50,000	-	150,000	-	200,000
Forward foreign exchange contracts	1,086,745	-	-	-	1,086,745

8. PILLAR 2 RISKS (continued)

8.3 Concentration Risk

Concentration Risk is captured in UGB's framework through the use of internal and external regulations that cap the maximum exposure to any single obligor. There are established limits in place that set thresholds for aggregate industry, name lending and geography. Under the CBB's rules governing maximum single exposure, 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 exceed 15% of the regulatory capital base. As at 30th June 2015, the exposures that exceeded 15% of the capital base are:

	Current exposure US$ 000	RWA US$ 000	Percentage of regulatory capital
Counterparty A	631,293	606,580	156%
Counterparty B	153,681	307,362	38%
Total	784,974	913,942	

9. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

ICAAP is requirement of Pillar II norms of Basel III, and involves appropriate identification and measurement of risks, and maintaining an appropriate level of internal capital in alignment with the Bank's overall risk profile and business plan. The objective of the Bank's ICAAP is to ensure that adequate capital is retained at all times to support the risks the Bank undertakes in the course of its business.

The Bank recognizes that its earnings are the first line of defense against losses arising from business risks, and that capital is one of the tools to address such risks. Also important, are establishing and implementing documented procedures; defining and monitoring internal limits on the Bank's activities/ exposures; strong risk management, compliance and internal control processes; as well as adequate provisions for credit, market and operational losses. However, since capital is vital to ensure continued solvency, the Bank's objective is to maintain sufficient capital such that a buffer above regulatory capital adequacy requirement is available to meet risks arising from fluctuations in asset values, revenue streams, business cycles, and expansion and future requirements. The Bank's ICAAP identifies risks that are material to the Bank's business and the capital that is required to be set aside for such risks.

9. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (continued)

The Bank seeks to achieve the following goals by implementing an effective capital management framework:

- Meet the regulatory capital adequacy requirement and maintain a prudent buffer;
- Generate sufficient capital to support overall business strategy;
- Integrate capital allocation decisions with the strategic and financial planning process;
- Enhance Board and Senior Management's ability to understand how much capital flexibility exists to support the overall business strategy;
- Enhance the Bank's understanding on capital requirements under different stress scenarios; and
- Build and support the link between risks and capital and tie performance to both of them.

10. PENALTIES

We confirm to the best of our knowledge and belief, that no violation of Bahrain Commercial Companies Law, nor Central Bank of Bahrain and Financial Institutions Law and the Central Bank of Bahrain directives, nor of the Memorandum and Articles of Association of the Bank have occurred during the period ended 30th June 2015. Accordingly, the Bank has complied with all the terms of its banking license and no penalties have been levied by any of regulatory authorities during 2015.

In addition, we also confirm to the best of our knowledge and belief, that there are no material pending legal cases outstanding as at 30th June 2015.

11. 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 and its salient subsidiaries and associates, is available in the Annual Report and the Corporate Governance Report for the year ended 31 December 2014. Both documents are available in the Financial Section of the Bank's website www.ugbbah.com

*** END ***