ABC International Bank Plc
Pillar 3 Report 2021

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1 OVERVIEW

1.1 Background

The European Union Capital Requirements Directive ("the Directive") came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules agreed by the G-10.

Implementation of the Directive in the UK was by way of rules introduced by the then Financial Services Authority ("the FSA"). The Basel II Framework is structured around three pillars: Pillar 1 (minimum capital requirements), Pillar 2 (supervisory review) and Pillar 3 (market discipline). The disclosure requirements of Pillar 3 are designed to promote market discipline by providing market participants with key information on a Firm's risk exposures and risk management processes. Pillar 3 disclosures aim to complement the minimum capital requirements described under Pillar 1 and the supervisory review process of Pillar 2.

ABC International Bank plc ("ABCIB" or "the Bank") adopted the Standardised Approach to credit risk from 1 January 2008. ABCIB also became subject to Pillar 2 and 3 from that date.

The EU's Capital Requirements Regulation ("CRR") introduced further enhancements for the Pillar 3 disclosures from 2015, these have now been included where appropriate.

1.2 Basis and Frequency of Disclosures

This disclosure document has been prepared by ABCIB in accordance with the requirements of Pillar 3.

Unless otherwise stated, all figures are as at 31 December 2021, the Bank's financial year-end. This disclosure is for the period from 1st January 2021 to 31st December 2021.

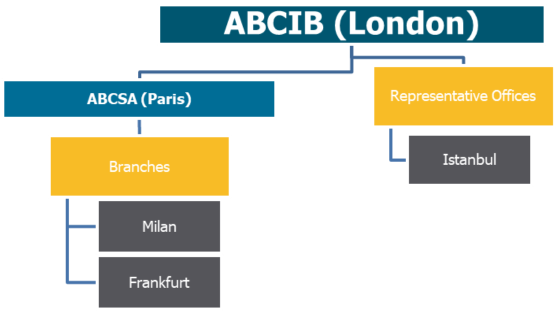
1.3 Scope

ABCIB whose registered office is 1-5 Moorgate, London, EC2R 6AB is authorised by the Prudential Regulation Authority (PRA) and regulated by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

During 2021, ABCIB continued to embed the new Paris based subsidiary, Arab Banking Corporation S.A (ABSA) in to the European operating structure to continue servicing European clients.

ABCIB calculates and maintains regulatory capital ratios based on an individual (solo) basis that aligns to the legal status in the UK and on a consolidated basis including the European subsidiary ABSA.

The audited financial statements of ABCIB are produced on a solo basis therefore any numbers that are disclosed on this basis within this document are on a solo basis.



1.4 Location and Verification

These disclosures have been reviewed by the Bank's Board Risk Committee and the Board and are published on the Group's corporate website (www.bank-ABC.com). The disclosures have not been subjected to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the ABCIB's Annual Report and Accounts. In line with CRR, the disclosures within this document fulfil the quantitative and qualitative requirements and should be reviewed with ABCIB's most recent annual report.

2 RISK MANAGEMENT & GOVERNANCE

2.1 Governance

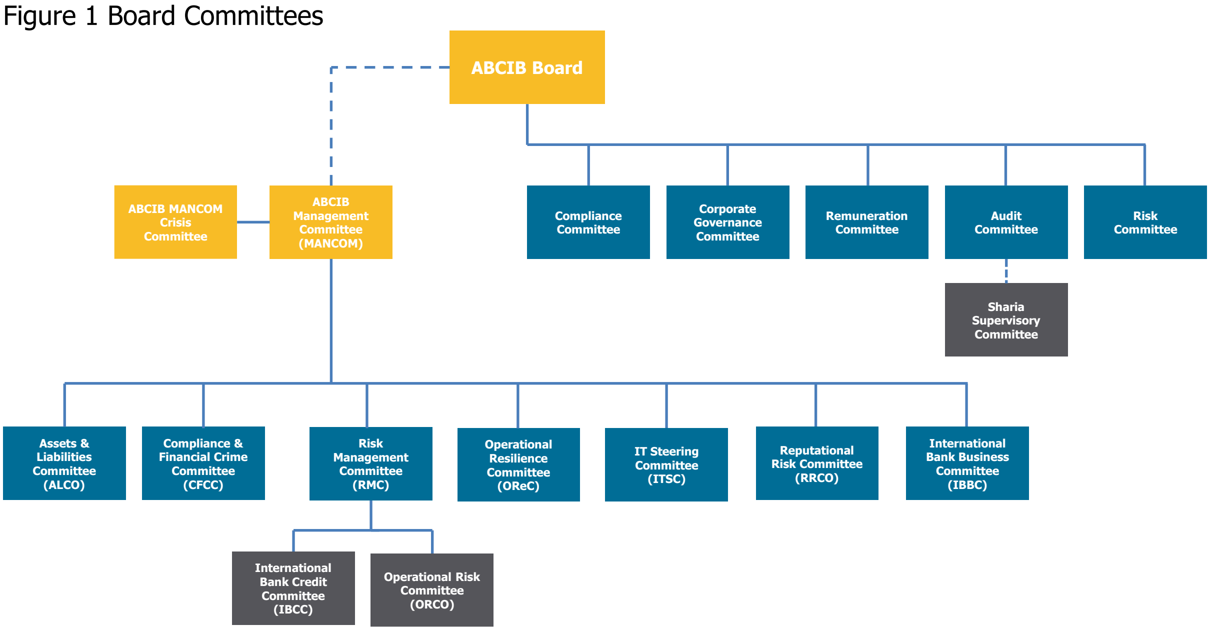
The Governance framework within the Bank is driven by the Board with clearly defined roles and responsibilities for Board level committees, Management committees and Executive Management within the Bank.

Board Level

The Board has five committees, amongst which the Board Risk Committee (BRC) is tasked with oversight of all key risk matters in ABCIB. The BRC sets the tone for the risk culture within ABCIB. It is responsible for review, challenge and recommendation to the Board for approval of the overall risk management, risk strategy, key regulatory documents and key risk policies. The BRC's responsibilities also include review, recommendation and monitoring of ABCIB's Risk Appetite Statement, oversight of Risk and Controls in ABCIB, review and monitoring of Enterprise Risk Register, review, recommendation and monitoring of Stress Testing framework and maintain oversight on current or emerging risks.

The Risk Appetite where relevant has been set on a consolidated and solo level demonstrating that the Bank is managing risks on these separate levels where appropriate .

Figure 1 Board Committees



The Board is responsible for overall risk appetite for the Bank. The risk assessment and management oversight performed by the Board considers evolving best practices and is intended to conform to statutory requirements. The Board is supported by the Board Risk Committee, which monitors and oversees the risks of the Bank.

The BRC is chaired by Dr Yousef Al Awadi (Independent Non-Executive Director) and is comprised of three independent directors and one non-independent (Group CEO) director.

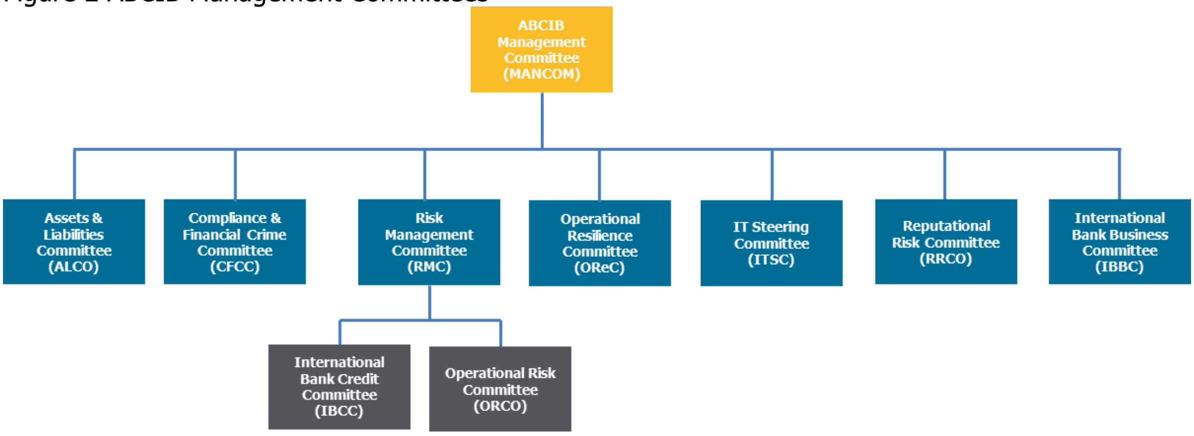
In addition to the BRC, the Audit/Compliance Committee (AC) oversees the performance of the Internal Audit and Compliance function. A risk based audit approach is adopted which ensures that key risk areas are reviewed and assessed regularly. The AC is chaired by Andrew Neden (Independent Non-Executive Director) and is comprised of four independent directors and one non-independent (Group CEO) director.

The Corporate Governance Committee supports the Board in fulfilling its duty to safeguard and advance the Bank's reputation for responsible corporate conduct. It reviews and assesses stakeholders concerns and expectations for responsible corporate conduct and their possible consequences for ABCIB, and recommends appropriate actions to the Board.

Management Committees

The highest level committee of ABCIB is the Management Committee (ManCom), reporting through the Chief Executive Officer to the Board of Directors. Overview of all management committees are as below.

Figure 2 ABCIB Management Committees



The Management Committee (ManCom) implements the risk framework, controls the Bank's risk profile and approves key policies in ABCIB. The Risk Management Committee (RMC) is responsible for oversight of all Risk categories in ABCIB. The RMC is also responsible for review, recommendation and oversight of ABCIB risk appetite statement & framework, review and monitoring of enterprise risk register, maintaining oversight of risk controls in ABCIB and review of stress tests and key external factors, etc. The RMC also reviews audit findings and maintains oversight on the status of audit issues. Reporting to RMC are the International Bank Credit Committee (IBCC) and the Operational Risk Committee (ORCO).

2.2 Three lines of defence

The Bank employs the three lines of defence model:

Table 1 Three lines of defence

	1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Role	**Ownership & Management**	**Oversight & Challenge**	**Assurance**
Areas	**Business Lines and Support Functions:** Wholesale Banking Operations Human Resources Information Technology Information Security	Risk Management Department Compliance Financial Crime Finance	Internal Audit

Some of the key responsibilities split by each line of defence are presented below:

1st Line of Defence

- Day to day management and control of relevant risk related to their area of responsibility;
- Designing and implementing controls to respond to any changes in the risk profile;
- Identification, evaluation and reporting their key risk exposure;
- Root cause analysis of risk events and action planning to prevent recurrence;

- Tracking of action plans and performance assurance/testing to ensure that completed actions are proved effective; and
- Maintaining appropriate and adequate documentation to evidence compliance with their risk accountabilities and responsibilities.
-

2nd Line of Defence

- Development and maintenance of the Risk Policy and Framework;
- Review and challenge of actions being undertaken by the 1st Line in respect of relevant risks; and
- Reporting to relevant committees on significant risks and control weaknesses and progress undertaken by the 1st Line in mitigating risks outside of the risk appetite.

3rd Line of Defence

- Independent assurance of the effectiveness of Controls;
- Risk based programme of audit activity; and
- Reporting to the Audit Committee.

All areas of risk are overseen by the ABCIB Chief Risk Officer ("CRO"), who reports into the CEO and also has a reporting line into The Chair of the Board Risk Committee. There is a functional reporting line to the Bank ABC Group Chief Credit and Risk Officer.

ABCIB has a dedicated Enterprise Risk Management (ERM) unit in place. The primary focus of ERM is to enhance and integrate the Enterprise Risk Management Framework for the Bank. ERM facilitates management and Board review and oversight over all key Risks within ABCIB through the Risk Management Committee (RMC) and Board Risk Committee (BRC) respectively, where ERM is responsible for the agenda items and packs for both the committees.

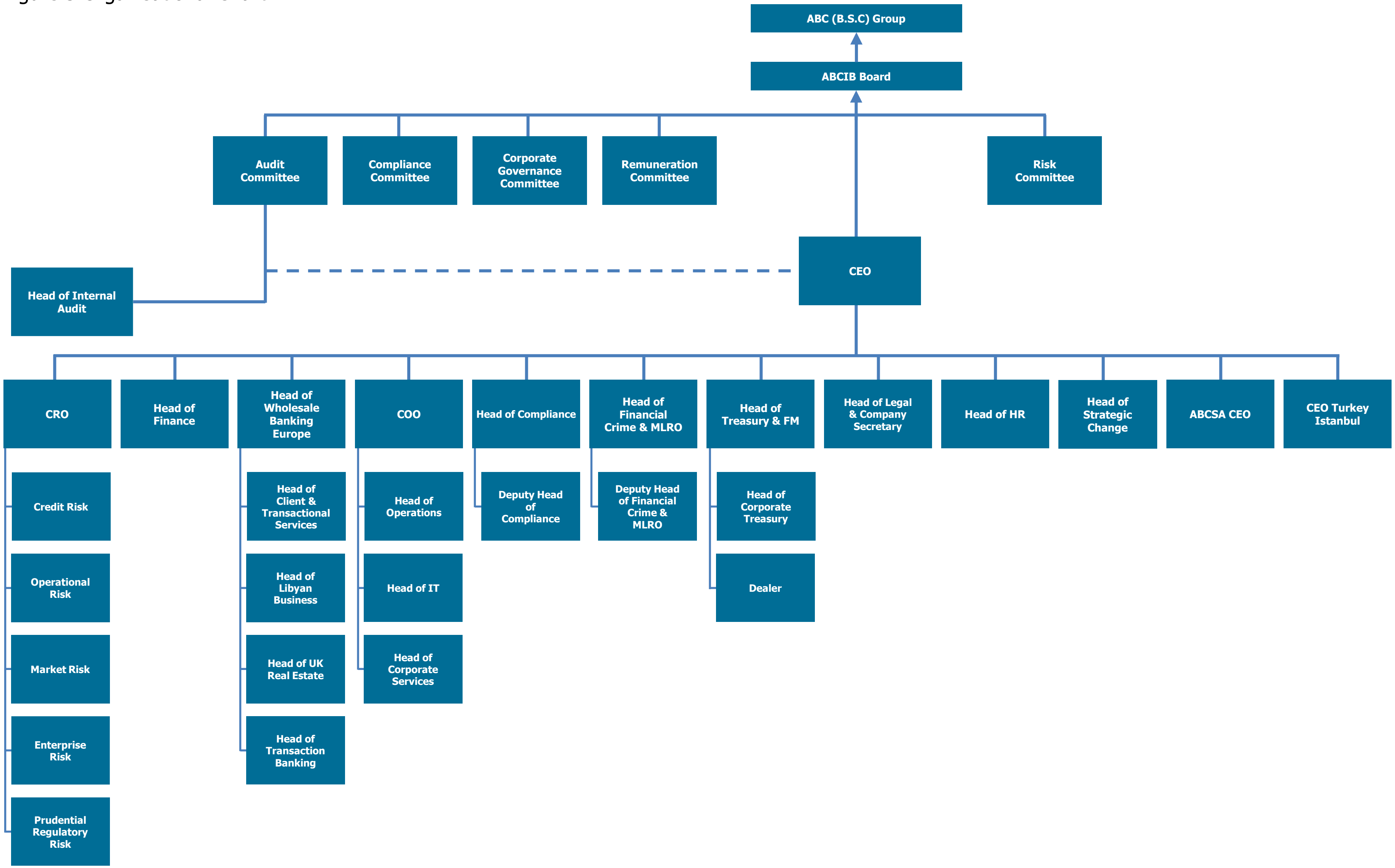
ERM maintains overall responsibility of committee Management Information (MI) and Key Risk Indicators (KRIs) reporting, which are reported to relevant Risk committees. The unit also provides appropriate support to the CRO for effective Risk oversight and management including oversight on risk culture and governance via reporting of Audit, Risk and Compliance (ARC) objectives and oversight on current or emerging risks.

The ERM unit facilitates review and recommendation of the Risk Appetite in line with the Bank's business plan, strategic intent and regulatory thresholds and maintains oversight over Risk Appetite compliance. ERM also maintains and updates the Enterprise Risk Register to capture all key Risks applicable to ABCIB to allow management to prioritise and mitigate Risks as appropriate.

Internal Audit also plays a significant role in the Bank's risk management process by providing independent and objective assurance on the adequacy and effectiveness of the Bank's risk management, control and governance processes. It carries out an annual risk-based programme of work, which has been approved by the Bank's Audit Committee, designed to evaluate the Bank's risk management and control environment. The result of Internal Audit's work, including management's progress in addressing identified issues, is reported to the Audit Committee on a quarterly basis.

Within the framework detailed the Board of ABCIB has assessed the adequacy of the risk management arrangements of the Bank and concluded that the risk management system put in place is adequate with regard to the profile and strategy of ABCIB. This statement is given and should be interpreted in accordance with the provisions of Article 435(1e) of Regulation (EU) No. 575/2013.

Figure 3 Organisational Chart



3 CAPITAL RESOURCES

3.1 Total available capital

At 31st December 2021 and throughout the year ABCIB complied with the capital requirements that were in force as set out by the PRA.

ABCIB's regulatory capital base at 31st December 2021 was as follows:

Table 2 Regulatory Capital

	Solo	Consolidated
	£000	£000
Tier 1 Capital	419,517	521,193
Tier 2 Capital	40,027	40,027
Total regulatory capital	**459,544**	**561,220**

The solo capital base reflect the new investment in ABSA.

Appendix 1 provides more detail on the reconciliation between the audited financial statements and regulatory own funds.

3.2 Common Equity Tier 1 Capital

ABCIB has no Additional Tier 1 Capital 'AT1' so all Tier 1 capital is Common Equity Tier.

3.3 Tier 1 Capital

Tier 1 capital comprises total equity less the prudential valuation adjustment.

3.4 Tier 2 Capital

Tier 2 capital comprises an allowance for subordinated debt.

Appendix 2 provides details of the ABCIB own funds disclosure.

4 KEY METRICS & IFRS9

4.1 Key Metrics

The table below shows the key regulatory metrics as at the 31st December 2021. These metrics have also been calculated as solo and consolidated basis.

Table 3 Key Regulatory Metrics

Description	Dec-21	
Available Capital (£ 000)	**Solo**	**Consolidated**
Common Equity Tier 1 (CET1)	419,517	521,193
Tier 1 capital	419,517	521,193
Total Tier 1 capital	**419,517**	**521,193**
Tier 2 Capital	40,027	40,027
Total regulatory capital	**459,544**	**561,220**
Risk-Weighted Assets ('RWAS') (£000)	**2,507,675**	**2,963,276**
Capital Ratios (%)		
Tier 1	16.7%	17.6%
Total Capital	18.3%	18.9%
Leverage Ratio		
Total Leverage ratio exposure measure (£000)	3,047,344	3,843,784
Leverage Ratio (%)	13.77%	13.56%

4.2 IFRS 9

IFRS9 was implemented in January 2018 and ABCIB is adhering to this and factoring in the impact of IFRS 9 into the calculations. ABCIB have applied IFRS9 transitional arrangements, as permitted by EU Regulation (2017/2395), add back percentage for year ending 31st Dec 2021 is 50%. The Bank had also applied CRR Quick Fix introduced in June 2020 in response to Covid-19 pandemic, for relevant provisions raised from 01 Jan 2020, add back percentage in this regard for year ending 31st December 2021 is 100%.

5 CAPITAL ADEQUACY

5.1 Capital management

ABCIB has adopted the Standardised approach to credit risk, market risk and operational risk in order to calculate the Basel II Pillar 1 minimum capital requirement.

The adequacy of ABCIB's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and implemented by CRR and adopted by the PRA in supervising banks.

ABCIB's policy is to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The principal forms of capital are called up share capital, retained earnings and subordinated debt.

The PRA is the lead regulator for ABCIB and receives information on the capital adequacy. The PRA requires each bank to maintain an individually prescribed ratio of total capital to risk-weighted assets taking into account both balance sheet assets and off-balance sheet transactions. ABCIB complied in full with the PRA's minimum capital adequacy requirements during 2021.

Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined accordingly. Banking book risk-weighted assets are measured as per the regulation by means of a hierarchy of risk weightings classified according to the nature of each asset and counterparty taking into account any eligible credit mitigation.

Banking book off-balance sheet items giving rise to credit, foreign exchange or interest rate risk are assigned weights appropriate to the category of the counterparty, taking into account any eligible credit risk mitigation. Credit conversation factors (CCF) are applied to off-balance sheet items as prescribed in CRR.

Trading book risk-weighted assets are determined by taking into account market related risks such as foreign exchange, interest rate position risks, and counterparty risk.

During 2022, ABCIB will incorporate the relevant changes required from the updated Capital Requirements Regulation (CRR2).

5.2 Internal Capital Adequacy assessment Process (ICAAP)

ABCIB capital management aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum regulatory ratio requirements.

5.3 Minimum capital requirements:

The purpose of capital adequacy regime is to bring safety and soundness in financial system. This is achieved through three pillars, Pillar 1 requires minimal capital requirement, Pillar 2 based on supervisory review process and Pillar 3 is on market discipline and transparency.

The following table 4 shows ABCIB's minimum capital requirement under Pillar 1. For Pillar 2 the PRA reviews the self-assessment of risks commonly referred as the Internal Capital Adequacy Assessment (ICAAP). After supervisory review the PRA sets a Total Capital Requirement (TCR) which an institution need to hold at all times. For ABCIB the composition of TCR as 31st December 2021 is shown in below table 4.

Table 4 TCR composition

	Solo	Consolidated
Pillar1*	8.00%	8.00%
Pillar 2A	3.04%	3.01%
Total Capital Requirement (TCR)	**11.04%**	**11.01%**

* of which 56.25% need to be met with coomon equity tier 1 (CET1) capital.

Table 5 Pillar 1 Capital Requirements

£000	Solo	Consolidated
Credit Risk	188,939	224,797
Market Risk	90	254
Credit Valuation Adjustment	48	48
Operational Risk	11,537	11,963
Total Pillar I capital requirement	**200,614**	**237,062**
Capital in place	**459,544**	**561,220**
Excess of capital for Pillar 1 requirements	**258,930**	**324,158**

The following table shows both the ABCIB's Risk-weighted assets and Risk Ratio under Pillar 1 at 31st December 2021:

Table 6 RWAs and Capital ratio

£000	Solo	Consolidated
Risk Weighted Assets	2,507,675	2,963,276
Risk Asset Ratio	18.3%	18.9%
Tier 1 Capital Ratio	16.7%	17.6%

5.4 Credit risk component

The following table shows ABCIB's minimum capital requirement for credit risk under the standardised approach as at 31 December 2021:

Table 7 Credit Risk capital requirement

Exposure Types (Solo)	Capital Requirement (£000)	Exposure Value (£000)
Central governments or central banks	772	251,183
Regional governments or local authorities	-	-
Multilateral Development Banks	-	216,813
Institutions	35,987	667,035
Corporates	82,236	1,337,016
Public sector entities	-	-
Retail	13	212
Other exposures	4,307	52,533
Secured by mortgages on immovable property	8,037	102,114
Items associated with particular high risk	57,587	479,893
Exposures in default	0	0
Total	**188,939**	**3,106,798**

Exposure Types (Consolidated)	Capital Requirement (£000)	Exposure Value (£000)
Central governments or central banks	1,582	446,393
Regional governments or local authorities	-	-
Multilateral Development Banks	-	216,813
Institutions	28,270	624,894
Corporates	124,159	1,910,213
Public sector entities	294	17,434
Retail	13	212
Other exposures	4,832	59,099
Secured by mortgages on immovable property	8,037	102,114
Items associated with particular high risk	57,587	479,893
Exposures in default	23	284
Total	**224,797**	**3,857,349**

Under the Standardised approach, ABCIB uses S&P, Moody's, Fitch and Capital Intelligence ratings across its portfolios. Credit ratings are mapped to credit quality steps using the standard tables below:

Table 8 Exposure breakdown

Exposure Class (Solo)	CQS	Exposure Value (£000)	Exposure Value after eligible CRM (£000)
Central Governments and Central Banks	1	162,211	162,211
	5	0	0
	7	88,972	280
		251,183	**162,491**
Regional governments or local authorities	-	**-**	**-**
Multilateral Development Banks	1	**216,813**	**216,813**
Institutions (as defined by the capital requirement regulation (CRR)	1	97,696	97,696
	2	184,884	172,458
	3	81,908	47,734
	4	47,496	47,496
	5	254,494	238,158
	7	557	557
		667,035	**604,099**
Corporates	1	88,528	28,947
	2	231,667	115,799
	3	146,830	146,830
	4	7,982	7,982
	5	46,304	46,304
	6	343	343
	7	815,361	634,853
		1,337,016	**981,058**
Public sector entities	-	**-**	**-**
Retail	7	**212**	**212**
Other items	7	**52,533**	**52,533**
Secured by mortgages on immovable property	7	**102,114**	**99,579**
High Risk (per Article 128 CRR)	7	**479,893**	**479,893**
Exposures in default		**0**	**0**
Total		**3,106,798**	**2,596,678**

Exposure Class (Consolidated)	CQS	Exposure Value (£000)	Exposure Value after eligible CRM (£000)
Central Governments and Central Banks	1	305,446	305,446
	3	481	0
	5	89	89
	7	140,377	280
		446,393	**305,815**
Regional governments or local authorities	-	**-**	**-**
Multilateral Development Banks	1	**216,813**	**216,813**
Institutions (as defined by the capital requirement regulation (CRR)	1	15,408	15,408
	2	185,977	173,552
	3	84,315	50,141
	4	48,306	48,239
	5	288,487	272,151
	7	2,400	557
		624,894	**560,049**
Corporates	1	98,245	29,190
	2	265,733	116,477
	3	165,375	165,375
	4	21,138	21,138
	5	69,192	69,192
	6	531	531
	7	1,290,000	1,064,043
		1,910,213	**1,465,946**
Public sector entities	2	17,195	17,195
	7	239	239
		17,434	**17,434**
Retail	7	**212**	**212**
Other items	7	**59,099**	**59,099**
Secured by mortgages on immovable property	7	**102,114**	**99,579**
High Risk (per Article 128 CRR)	7	**479,893**	**479,893**
Exposures in default		**284**	**284**
Total		**3,857,349**	**3,205,124**

Table 9 CQS mapping

CQS	Standard & Poors	Moody's	Fitch	Capital Intelligence
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below	C and below
7	Unrated	Unrated	Unrated	Unrated

5.5 Pillar 2

ABCIB also allocates additional capital under Pillar 2 for those risks not covered by Pillar 1, these include:

Interest Rate Risk: This represents the estimation by the Bank of the potential loss incurred due to a change in interest rates.

Credit Concentration Risk: This represents the capital that the Bank holds against potential losses for any single or group of exposures representing a concentration.

Pension Risk: This represents the capital the Bank holds to reflect the risk of adequately funding the pension fund for the Bank.

Operational Risk: This risk the additional risk not covered by Pillar 1 that arises from inadequate or failed processes, people and systems. Market Risk: The risk of loss resulting from adverse changes in the value of positions.

Other Risks: These others risks such as Conduct and legal risk have been considered and where relevant are included for Pillar 2 in the Operational Risk model undertaken by the Bank.

The assessment of these risks are captured in the Internal Capital Adequacy Assessment (ICAAP) as described in the minimum capital requirement section, resulting in a Total Capital Requirements (TCR) being set.

5.6 Regulatory capital buffers

Capital conservation buffer ("CCB")

The CCB has been created to allow banks to build up buffers outside periods of stress. These can be used to absorb losses while avoiding breaching minimum capital requirements.

The buffer is at 2.5% of risk weighted assets.

Countercyclical capital buffer ("CCyB)

Capital buffer financial institutions are required to hold in addition to other minimum capital requirements. This aims to achieve the broader macro prudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build up of system-wide risk. For the period ending 31st December 2021, the Bank had minimal capital requirement due to the exposures being limited in the countries where the CCyB requirement has been put in place as per Table 10.

Table 10 Countercyclical buffer rates

Country	Current CCyB rate
United Kingdom	0.00%
Belgium	0.00%
Bulgaria	0.50%
Czech Republic	0.50%
Denmark	0.00%
France	0.00%
Germany	0.00%
Hong Kong	1.00%
Iceland	0.00%
Ireland	0.00%
Lithuania	0.00%
Luxembourg	0.50%
Norway	1.00%
Slovakia	1.00%
Sweden	0.00%

6 SOURCES OF RISK

6.1 Credit Risk

Credit risk is managed by the ABCIB Credit Committee ("IBCC"), which has the following roles and responsibilities:

- Decline or approve credit proposals, or recommend them for approval at a Group level, in line with its delegated authorities.
- Review and challenge Internal Risk Ratings (IRR) and any overrides as applicable.
- Review and recommend for approval all credit policies and risk acceptance criteria
- Review and approve the design and use of credit models, including IFRS9 models.
- Monitor risk metrics relating to the overall credit portfolio, and recommend action where required
- Review and approve credit impairment provisions, both individually and at a portfolio level
- Delegate its authorities to a sub-committee.

Credit risk is managed through risk assessment of counterparty, country, industry and other relevant risks. Credit limits are set in line with the aforementioned risk assessment and also considers standard mitigation and credit control practices.

- Relationship managers in the first line of defence are responsible for day-to-day management of credit exposures, and for periodic review of the client and associated risks.
- The credit risk team in the second line of defence is responsible for:
  - Independent credit review of all clients.
  - Monitoring and maintaining oversight of the credit portfolio through client reviews, portfolio MI and KRIs.

Industry exposure

The table below analyses the industrial spread of due from banks, loans and advances to customers, financial investments – available-for-sale and financial investments– held to maturity.

Table 11 Credit risk exposures (On & Off Balance Sheet)

On Balance Sheet (Solo)	2021 (£000)				2020 (£000)
	Stage 1	Stage 2	Stage 3	Total	
Financial	1,352,604	1	-	1,352,605	1,387,880
Central Banks and Governments	162,183	-	-	162,183	44,948
Other	363,293	1,661	-	364,954	227,977
Property Related	416,002	143,075	-	559,077	556,102
Motor Vehicle Related	88,787	-	-	88,787	112,310
Commodity Related	29,713	5,691	-	35,404	85,132
TOTAL	**2,412,582**	**150,428**	**-**	**2,563,010**	**2,414,349**

Off Balance Sheet (Solo)	2021 (£000)				2020 (£000)
	Stage 1	Stage 2	Stage 3	Total	
Financial	436,886	2,062	-	438,948	273,980
Central Banks and Governments	85,266	-	-	85,266	63,098
Other	46,096	843	-	46,939	97,940
Property Related	102,479	1,881	-	104,360	78,293
Motor Vehicle Related	73,762	59,058	-	132,820	144,071
Commodity Related	18,504	-	-	18,504	66,001
TOTAL	**762,993**	**63,844**	**-**	**826,837**	**723,383**

The values in above table 11 are On and Off Balance sheet exposures net of provisions. Moreover the values are shown before the impact of credit risk mitigation.

Geographic Region exposure

Table 12 Exposure Breakdown by Geographic Region (On and Off Balance Sheet)

On Balance Sheet (Solo)	2021 (£000)				2020 (£000)
	Stage 1	Stage 2	Stage 3	Total	
Europe	1,011,221	143,076	-	1,154,297	1,066,849
MENAT	829,884	7,352	-	837,236	899,494
Asia	65,195	-	-	65,195	29,207
North America	358,019	-	-	358,019	95,979
South America	87,347	-	-	87,347	57,388
Other	60,916	-	-	60,916	265,432
TOTAL	**2,412,582**	**150,428**	**-**	**2,563,010**	**2,414,349**

Off Balance Sheet (Solo)	2021 (£000)				2020 (£000)
	Stage 1	Stage 2	Stage 3	Total	
Europe	230,618	60,939	-	291,557	353,317
MENAT	522,904	2,905	-	525,809	359,022
Asia	2,308	-	-	2,308	1,968
North America	-	-	-	-	-
South America	4,890	-	-	4,890	1,247
Other	2,273	-	-	2,273	7,829
TOTAL	**762,993**	**63,844**	**-**	**826,837**	**723,383**

The values in the above table 12 are On Balance sheet exposures net of provisions. Moreover the values are shown before the impact of credit risk mitigation.

Credit risk mitigation

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly include cash, guarantees and CRR compliant credit insurance, as well as mortgages over property. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Also, ABCIB uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and credit risks.

Maximum exposure to credit risk without taking into account collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum is shown gross, before the effect of mitigation through the use of master netting and collateral agreements:

Table 13 Maximum Exposure to Credit Risk

Exposure Class (Solo)	2021 (£000)	2020 (£000)
Cash and cash equivalents	8,395	47,646
Loans and advances to banks	1,002,776	975,054
Loans and advances to customers	1,094,131	1,105,423
Debt investments - FVOCI	466,103	333,872
Derivative financial assets	3,606	490
	2,575,011	**2,462,485**
Contingent liabilities	562,835	460,963
Commitments	266,823	264,681
	829,658	**725,644**

Breakdown of Credit Risk Mitigation

Table 14 Credit Risk Mitigation

Solo	2021 (£000)	2020 (£000)
Cash collateralised		
Loans and advances to customers and banks	93,961	271,905
Contingent liabilities	258,007	187,307
Guaranteed by Banks and Credit Agencies		
Loans and advances to customers and banks	268,306	180,192
Contingent liabilities	10,244	7,127
Commitments	17,189	14,341
Risk concentration against individual counterparties		
Largest customer exposure before collateral	85,037	83,038
Largest customer exposure after collateral	85,037	83,038
Largest central bank exposure before collateral	85,284	63,107
Largest central bank exposure after collateral	-	-

Credit quality per class of financial assets

Table 15 2021/2020 Loans, Receivables and AFS breakdown

Solo	Amortised cost 2021 (£000)	FVTPL 2021 (£000)	FVOCI 2021 (£000)	Total 2021 (£000)
Due from banks				
Investment grade	378,006	65,006	28,367	471,379
Sub investment grade	458,102	45,615	27,680	531,397
Total	**836,108**	**110,621**	**56,047**	**1,002,776**
Loans and advances to customers				
Investment grade	322,175	-	**-**	**322,175**
Sub investment grade	771,956	-	**-**	**771,956**
Total	**1,094,131**	**-**	**-**	**1,094,131**
Financial investments - available-for-sale				
Investment grade		**-**	466,103	466,103
Total	**-**	**-**	**466,103**	**466,103**

Solo	Amortised cost 2020 (£000)	FVTPL 2020 (£000)	FVOCI 2020 (£000)	Total 2020 (£000)
Due from banks				
Investment grade	287,630	17,372	115,428	**420,430**
Sub investment grade	513,057	25,042	16,525	**554,624**
Total	**800,687**	**42,414**	**131,953**	**975,054**
Loans and advances to customers				
Investment grade	276,700	-	-	**276,700**
Sub investment grade	828,723	-	-	**828,723**
Total	**1,105,423**	**-**	**-**	**1,105,423**
Debt investments - FVOCI				
Investment grade	**-**	**-**	**333,872**	333,872
Total	**-**	**-**	**333,872**	**333,872**

6.2 Market and Liquidity risk

Market risk and liquidity risk are defined as follows:

Market risk refers to the risk to the Bank resulting from movements in market prices, in particular, changes in interest rates, foreign exchange rates, and equity and commodity price.

Liquidity risk is the risk to the Bank's earnings, capital and solvency, arising from inability to meet contractual payment and other financial obligations on their due date, or inability to fund (at a reasonable cost) the asset book and business needs of the Bank (and, by extension, the needs of its customers).

Market Risk

The Bank uses various market risk techniques and measurements to manage its investment and trading book by setting limits that are monitored on a daily basis by the Head of Market Risk & Head of Treasury. The Bank uses the Historical Value at Risk "VaR" as one of the measurements with 99% confidence level and one day holding period where positions are re-valued on a daily basis using historical market data. The Bank uses the Basis Point Value "BPV" technique to measure and monitor both the AFS and HQLA bond portfolio sensitivities to interest rates.

The Bank has a small Trading book for spot and forward foreign exchange instruments, the trading for which is within a modest VaR limit and other market risk parameters. Any open positions are relatively small and are re-valued on a daily basis.

The Bank uses derivatives in order to reduce its exposure to market risks as part of its asset and liability management. This is achieved by entering into derivatives that hedge against the risk of treasury losses from mismatches in maturities, interest rates and currencies in relation to the asset and liability base. Interest rate and currency swap agreements are most commonly used to this effect.

Market Risk and other risks are reviewed in the ALCO.

Table 16 VaR exposures and BPV sensitivity

ABCIB's VaR exposures: (Solo)	Average	Average
Solo	2021 (£000)	2020 (£000)
Trading	5	6

ABCIB's BPV Senstivity of 1bps movement: (Solo)	Average	Average
Solo	2021 (£000)	2020 (£000)
Trading	17	10

Liquidity risk

Liquidity risks are reviewed and monitored in the Assets and Liabilities Committee (ALCO). The Bank has robust strategies, policies, processes and systems that are comprehensive and proportionate to the nature, scale and complexity of the Bank's activities and enable the Bank to identify, measure, manage and monitor liquidity risk ensuring continuous liquidity. The Bank also assesses, monitors and maintains on a daily basis the amounts, types and distribution of liquidity resources that it considers adequate to cover:

- The nature and level of the liquidity risk to which it is or might be exposed;
- The risk that the Bank cannot meet its liabilities as they fall due;
- The risk that its liquidity resources might in the future fall below the level, or differ from the quality and funding profile, of those resources considered appropriate and agreed with the Prudential Regulation Authority (PRA) and covered by Internal Liquidity Adequacy Assessment Process (ILAAP)); and
- The risk that the Bank's liquidity resources fall below the level detailed in the Capital Requirements Regulation (CRR) requirements for the Liquidity Cover Ratio.

The Bank has set risk appetite levels for Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Bank also manages liquidity risk through various Early Warning Indicators (EWIs).

The Liquidity Coverage Ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) or Liquidity buffer that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

Based on the EBA guidelines published in EBA/GL/2016/11 under part Eight of the CRR, the table below shows LCR components based on the average of the twelve monthly reported data items.

Table 17 LCR components (Average)

LCR components - £000	Solo	Consolidated
Liquidity Buffer	362,210	501,428
Total Net cash outflows	133,186	155,181
Liquidity Coverage Ratio (Avg)	**%**	**%**
Liquidity Coverage Ratio	276%	327%

Analysis of financial assets by remaining maturities

Table 18 Loans and advances split by maturity shown at a Solo level per the financial statements.

2021 (£000)						
	Not more than 3 months	**More than 3 months but not more than 1 year**	**More than 1 year but not more than 5 years**	**More than 5 years**	**ECL allowance (IFRS 9)**	**Total**
Loans and advances to banks	405,328	372,140	229,033	-	(3,725)	1,002,776
Loans and advances to customers	777,246	176,261	149,568	2,968	(11,912)	1,094,131
Debt investments - FVOCI	28,310	233,302	127,340	77,151	-	466,103
	1,210,884	**781,703**	**505,941**	**80,119**	**(15,637)**	**2,563,010**
2020 (£000)						
	Not more than 3 months	**More than 3 months but not more than 1 year**	**More than 1 year but not more than 5 years**	**More than 5 years**	**IAS 39 impairment losses**	**Total**
Loans and advances to banks	503,127	402,514	74,210	-	(4,797)	975,054
Loans and advances to customers	481,600	381,127	251,906	3,383	(12,593)	1,105,423
Debt investments - FVOCI	-	176,899	156,973	-		333,872
	984,727	**960,540**	**483,089**	**3,383**	**(17,390)**	**2,414,349**

The table below summarises the maturity of ABCIB's financial liabilities at 31st December 2021 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, ABCIB expects that many customers will not request repayment on the earliest date ABCIB could be required to pay and the table does not reflect the expected cash flows indicated by ABCIB's deposit retention history.

Table 4 Liabilities split by maturity shown at a Solo level per the financial statements.

2021 (£000)					
	Not more than 3 months	**More than 3 months but not more than 1 year**	**More than 1 year but not more than 5 years**	**More than 5 year**	**Total**
Financial Liabilities					
Deposits from Banks, Customers, Term borrowing and Subordinated Liabilities	920,364	641,488	603,658	-	2,165,510
Derivative financial liabillities	226	41	368	-	635
Commitments	9,044	40,655	217,124	-	266,823
Financial guarantees	31,830	77,750	-	-	109,580
Cash collateral on securities lent and repo arrangements	77,117	-	-	-	77,117
Other	7,408	-	-	-	7,408
2020 (£000)					
	Not more than 3 months	**More than 3 months but not more than 1 year**	**More than 1 year but not more than 5 years**	**More than 5 year**	**Total**
Financial Liabilities					
Deposits from Banks, Customers, Term borrowing and Subordinated Liabilities	990,455	688,795	476,166	-	2,155,416
Derivative financial liabillities	4,718	38	745	-	5,501
Commitments	58,321	66,759	139,601	-	264,681
Financial guarantees	70,564	97,493	8,456	-	176,513
Cash collateral on securities lent and repo arrangements					
Other	41,939	-	-	-	41,939

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. ABCIB is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The most prominent market risk factor for ABCIB is interest rates. Although this risk is minimized as ABCIB’s rate sensitive assets and liabilities are largely matched. Any residual interest rate risk is managed within approved limits.

Currency risk

Derivative instruments are used by ABCIB to hedge the risk of treasury losses arising out of mismatches in currencies of its asset and liability base. Any open positions are relatively small and are re-valued on a regular basis. Trading on the spot and forward foreign exchange markets is primarily client driven.

6.3 Other risks

Operational risk

Operational risks are owned and managed by the first line of defence. Second line support and challenge is provided by the Risk Function, notable Operational Risk, headed by the CRO. The primary Committee for the oversight of Operational Risk is the Operational Risk Committee (ORCO) which, in turn, feeds into the Bank's Risk Management Committee (RMC) and Management Committee (ManCom).

There are a number of tools which support the Operational Risk policy and framework, and these are used to identify, quantify, manage and monitor key risks. These tools are:

- Operational Risk Incidents/ Events (OREs)
- Key Risk Indicators (KRI's)
- Risk Control Self-Assessments (RCSA's)
- Group-wide control standards ("GWCS")
- Issues and Action plans
- Application to support the management of operational risk (GRC Tool)
- Scenario Analysis and Stress Testing
- Management Information and Reporting
- Training

All of these tools/processes undergo a rigorous review and challenge process led by the Operational Risk team and are used to assist in managing both conduct and non-conduct risks.

As stated, governance is achieved via a formal committee structure with the ABCIB Operational Risk Committee (ORCO) attended by the senior managers of each core business and support functions.

Financial Risks from Climate Change

Banks sit at the heart of the global economy allocating capital and risk. Climate change presents financial risks to the banking sector.

ABCIB has continued to review and implement further monitoring on the financial risks from climate change to the Bank, this has included client climate classification and continued inclusion of climate change scenarios in its capital calculations for the ICAAP.

The Board Risk Committee oversees ABCIB's plan on climate change to ensure an appropriate strategic response to this initiative.

The Bank will be further enhancing its approach to climate change in line with regulatory guidance and industry best practice in 2022.

The Bank has also published their Streamlined Energy and Carbon Reporting (SECR) in the financial statements on page 10-11 showing a reduction in net emissions overall from 2020.

Other Risks such as conduct, legal, fraud, Technology, Information Security (including Cyber), etc. are considered within the Bank's Risk Appetite Statement and risk register and are also captured within the Pillar 2a operational loss calculation.

7 EQUITY INVESTMENTS

7.1 Investments in subsidiaries and associated companies

ABCIB owns the following investments in subsidiaries and associated companies:

Table 5 Subsidiaries and Investments Structure

	Business	Ownership (%)
Alphabet Nominees Limited	Nominee company	100%
Abcint Nominees Limited	Nominee company	100%
ABCIB Islamic Asset Management Limited	Advisory services	100%
ABCIB Leasing Limited	Asset trading company	100%
ABC Investment Holdings Limited	Property holding company	100%
Arab Banking Corporation SA	Financial services	99.9%

Part of the investments above form part of effective fair value hedging relationship in relation to foreign currency risk, with certain foreign currency denominated borrowings.

Equity investments are stated in the financial statements of ABCIB at cost less impairment losses. Reversal of impairment losses are recognised in the profit and loss account if there has been a change in the estimates used to determine the recoverable amount of the investment.

8 IMPAIRMENT PROVISIONS

8.1 Impairment losses of financial assets.

The Bank assesses on a forward-looking basis, the ECL associated with its debt instruments assets carried at amortised cost and FVOCI and against the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises an ECL for such losses on origination and reassess the expected losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

To calculate ECL, the Bank estimates the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Bank under the contract, and the cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

Movements in allowance for impairment losses

Table 21 Provisions (ECL Allowance)

Solo	ECL under IFRS 9 at 31 December 2020	2021			ECL under IFRS 9 at 31 December 2021
		Stage 1	Stage 2	Stage 3	
	£000	£000	£000	£000	£000
Cash and cash equivalents	-	-	-	-	-
Loans and advances to banks	4,797	3,460	-	265	3,725
Loans and advances to customers	12,593	464	10,137	1,311	11,912
Collectively assessed Customers	-	-	-	-	-
debt financial assets at FVOCI under IFRS 9	-	-	-	-	-
Credit commitments and contingencies	2,261	1,256	995	570	2,821
	19,651	**5,180**	**11,132**	**2,146**	**18,458**

Table 22 Provisions (ECL allowance)

Solo	2021			
	£000	£000	£000	£000
ECL allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 01 January 2021	4,329	10,485	4,837	19,651
New assets originated / purchased	3,371	-	-	3,371
Assets fully repaid or derecognised (excluding write-offs)	(2,503)	(99)	(1,836)	(4,438)
Transfers to stage 1	87	(87)	-	-
Transfers to stage 2	(49)	49	-	-
Transfers to stage 3	-	-	-	-
Partial redemptions and other drawdowns	250	657	-	907
Changes to models and inputs used for ECL calculations	850	-	-	850
Recoveries	-	-	(92)	(92)
Amounts written-off	-	-	(757)	(757)
Foreign exchange & other adjustments	(1,155)	127	(6)	(1,034)
As at 31 December 2021	**5,180**	**11,132**	**2,146**	**18,458**

9 ASSET ENCUMBRANCE

As at 31st December 2021, ABCIB did not undertake any activities that resulted in any assets being encumbered. ABCIB's balance sheet stood at £3,232m and £2,806m on consolidated and solo basis respectively, of which £3,155m and £2,729m were unencumbered assets.

10 LEVERAGE

Under CRD IV, firms are required to calculate a leverage ratio, which is not risk sensitive, to complement risk-based capital requirements. The leverage ratio measures the relationship between a firm's Tier 1 capital resources and its leverage exposure (total assets, plus certain off balance sheet exposures). Monitoring and requiring firms to manage this metric allows regulators to limit the accumulation of excessive leverage, which is widely considered to have precipitated the banking crisis.

Table 23 Leverage ratio

Summary of reconciliation of accounting assets and Leverage Ratio exposures (£000)	Solo	Consolidated
Total assets as per Financial Statements	**2,805,879**	**3,232,134**
Adjustments for off balance sheet items	405,026	609,437
Adjustments for derivative financial instruments	3,006	2,976
Investment in subsidiary	(165,804)	-
Other adjustments (e.g. deductions from Tier 1)	(763)	(763)
Total Leverage Ratio exposures: total exposure method	**3,047,344**	**3,843,784**
Note: amounts after adjustments applied to nominal value for conversion factors		
Off-balance sheet items with a 20% CCF in accordance with Article 429 (10) of the CRR	19,522	44,649
Off-balance sheet items with a 50% CCF in accordance with Article 429 (10) of the CRR	345,975	502,703
Off-balance sheet items with a 100% CCF in accordance with Article 429 (10) of the CRR	39,530	62,086
Total Off Balance shet exposures for Leverage Ratio	**405,026**	**609,437**
Derivative exposures		
Replacement cost asscociated with derivative transactions	139	139
Add-on amounts under the mark-to-market method	2,868	2,837
Total Derivative exposures for Leverage Ratio	**3,006**	**2,976**
Tier 1 capital and final Leverage Ratio		
Tier 1 capital	419,517	521,193
Total Leverage Ratio exposures: total exposure method	3,047,344	3,843,784
Leverage ratio	**13.77%**	**13.56%**

11 REMUNERATION POLICY

11.1 Fixed Remuneration

An annual review of remuneration for all ABCIB employees is carried out, benchmarking all positions against market data for peer roles in peer group organisations, considering employment market conditions, demand for skills etc.

Individual remuneration is reviewed against an employee's job description and grade, any significant change within their responsibilities, material move in the market value of a role, their value to the organisation and in line with the Bank's budget for remuneration.

11.2 Variable remuneration

All incentive awards arrangements within Bank ABC are completely discretionary.

Individual objectives (both financial and non-financial) are set for all employees, including Code Staff, and will be relevant to their particular role, also being designed to encourage appropriate behaviours and adherence to the Bank's Risk Management and Compliance policies and procedures. Reviews of performance are carried out semi-annually for all employees. Performance measures change each year to reflect the business strategy, group, unit, team and individual objectives. The Chief Executive Officer, in conjunction with the Head of Human Resources, carry out a calibration exercise to ensure that performance ratings for all staff have been applied fairly and consistently by managers.

Awards will be determined based upon individual performance and contribution, considering "what" a person achieves and "how" they achieve it as well as department performance and overall ABCIB performance (Control functions excluded).

11.3 Code Staff

In line with the PRA Remuneration Code, ABCIB designates a number of its employees as Code Staff, including directors, senior management, significant risk takers, staff engaged in significant control functions and other employees receiving total remuneration that takes them into the same remuneration bracket as senior management.

Code Staff (in line with the PRA Remuneration Code) are identified by the Chief Executive Officer and the Head of Human Resources, and approved by the Remuneration Committee in line with the Bank's Remuneration Policy. This process takes into consideration those employees with significant influence over the conduct of the Bank's business, or a significant function in the generation of risk assets or control over risk assets. Designation of Code Staff (and potential addition of new Code Staff) will be reviewed annually, in conjunction with the Chief Risk Officer and the Head of Compliance.

11.4 Deferral of bonuses

As ABCIB is classified as a Proportionality Level 3 firm under the terms of the PRA Remuneration Code, the Bank is not required to apply the rules on deferral of bonuses. This approach has been approved by Remuneration Committee.

11.5 Code staff Remuneration

As of 31st December 2021 Bank ABC IB had 26 code staff, excluding the Chairman, Deputy Chairman and the non-executive directors, whose professional activities had a material impact on the firm's risk profile.

The figures below provide analysis of both the fixed and variable remuneration of code staff.

Table 24 Remuneration summary

Consolidated	Fixed Remuneration (inc fixed benefits)	Variable Remuneration
Strategic Business Units	£2,006,488	£236,540
Support, Risk & Control Functions	£3,973,043	£201,209

Solo	Fixed Remuneration (inc fixed benefits)	Variable Remuneration
Strategic Business Units	£2,006,488	£236,540
Support, Risk & Control Functions	£2,634,973	£137,932

Appendix 1 Reconciliation between audited financial statements and regulatory own funds as at 31st December 2021 (balance sheet is produced only on solo basis per published accounts):

Solo	Amount as at 31st Dec 2021 (£000)
Called up share capital	212,296
Retained Earnings	321,493
Available for sale reserve	342
Audited Financial Statements	**534,131**
Regulatory Adjustments	
IFRS9 transitional arrangements	5,886
Foreseeable Dividend	(7,270)
Investment in subsisiary- capital deduction*	(112,467)
Other regulatory adjustments	(763)
Tier 1 Capital	**419,517**
Subordinated Debt - Issued 12/2016	40,027
Tier 2 Capital	**40,027**
Total Capital Resources	**459,544**

*post application of CRR article 48(a) add back.

Appendix 2 Own Funds disclosure:

Solo	Amount as at 31st Dec 2021 (£000)
Common Equity Tier 1 (CET1) capital: Instruments and reserves	
Capital Instruments	212,296
Retained Earnings	321,493
Available for sale reserve	342
Common Equity Tier 1 (CET1) capital: Before regulatory adjustments	**534,131**
Regulatory Adjustments:	
IFRS9 transitional arrangements	5,886
Foreseeable Dividend	(7,270)
Investment in subsisiary- capital deduction*	(112,467)
Other regulatory adjutments	(763)
Common Equity Tier 1 (CET1) capital: After regulatory adjustments	**419,517**
Additional Tier 1 Capital (AT1)	-
Tier 1 capital (CET1 + AT1)	**419,517**
Tier 2 capital	**40,027**
Total capital	**459,544**
Risk Weighted Assets	**2,507,675**
CET1 Ratio	**16.7%**
Tier 1 Ratio	**16.7%**
Total Capital Ratio	**18.3%**

*post application of CRR article 48(a) add back.