ABC International Bank Plc
Pillar 3 Report 2019

Contents

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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 2019, the Bank's financial year-end. This disclosure is for the period from 1st January 2019 to 31st December 2019.

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). The Bank has branches in Germany, France and Italy and is a wholly owned subsidiary of the Arab Banking Corporation B.S.C (Bahrain).

ABCIB calculates and maintains regulatory capital ratios based on its own balance sheet. Capital held in the Bank's subsidiary companies is not material.

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

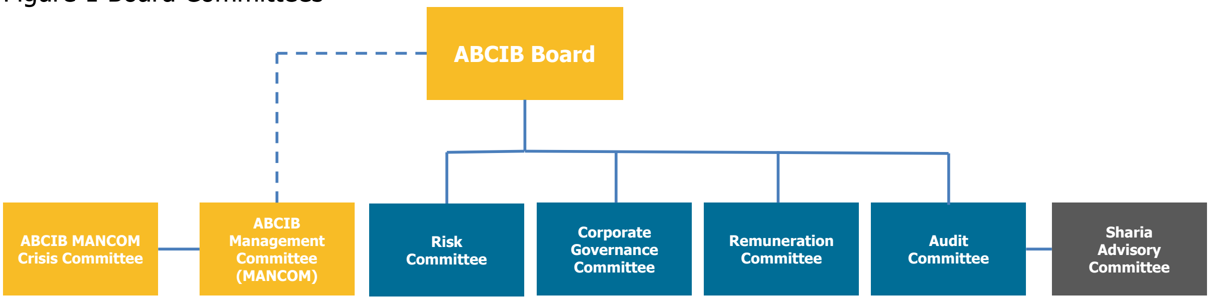
2.1 Governance

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 include review, recommendation and oversight of ABCIB's Risk Appetite Statement & Framework, oversight of Risk Controls in ABCIB, review and monitoring of Enterprise Risk Register, review of Stress Tests and key external risk factors, etc. The BRC meets at least four times per year.

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 3 INEDs (Independent non-executive directors) and 2 Non-independent directors.

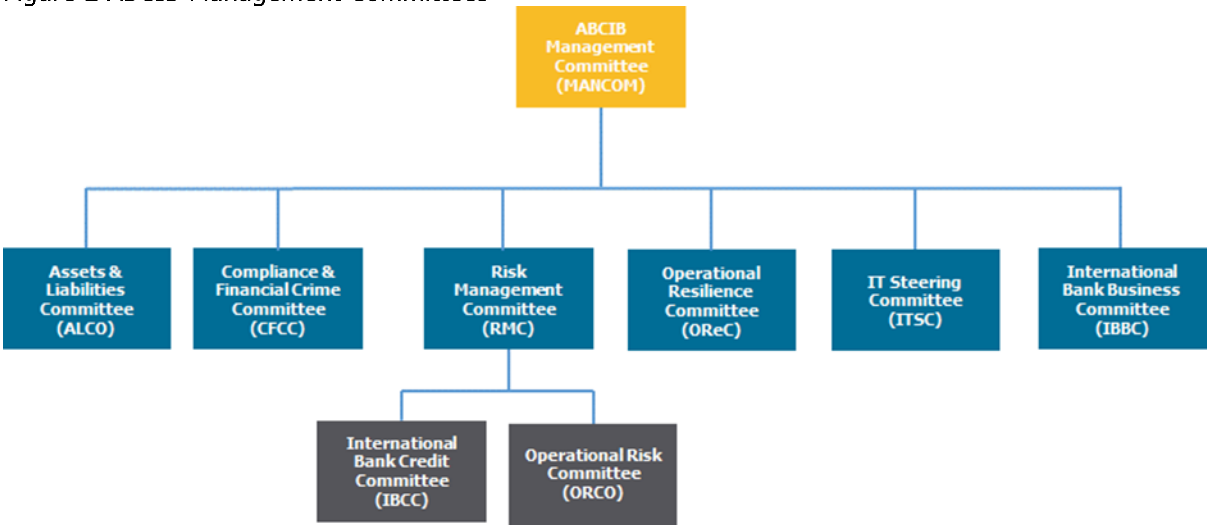
In addition to the BRC, the Audit Committee (AC) oversees the performance of the Internal Audit and Compliance function. A risk based audit approach is adopted which ensures that key risk areas are reviewed and assessed regularly. The AC is chaired by Andrew Neden (Independent Non-Executive Director) and is comprised of 3 INEDS (Independent non-executive directors and 2 Non-independent directors.

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 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.

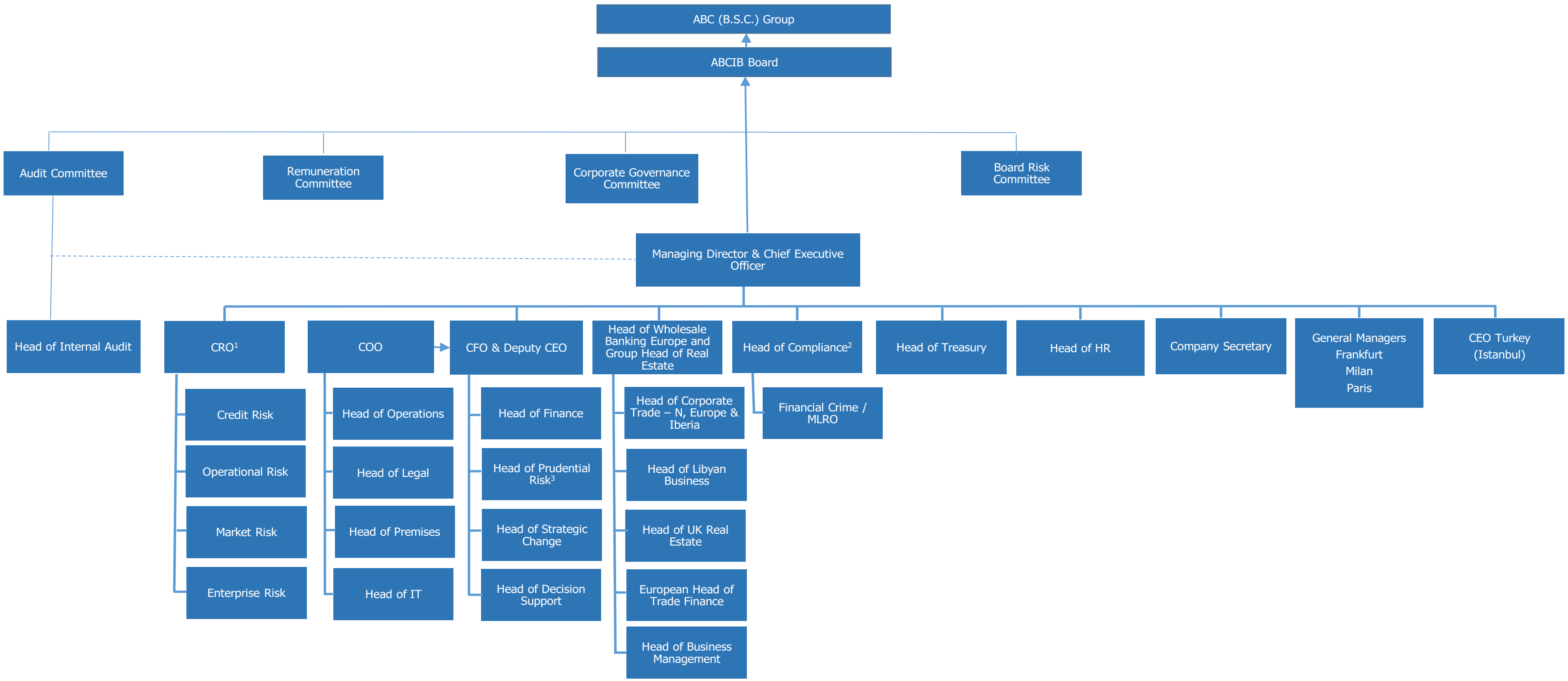
ABCIB has a dedicated Enterprise Risk Management (ERM) unit in place. The primary focus of ERM is to enhance and integrate the Enterprise Risk Management Framework for the Bank. ERM facilitates management review and oversight over all key Risks within ABCIB through the Risk Management Committee (RMC) and other engagements & activities through committee MI packs, KRIs, etc. The unit also provides appropriate support to CRO for effective Risk oversight and management. The ERM unit maintains oversight over Risk Appetite compliance, and facilitates review & recommendation of the Risk Appetite in line with the Bank's business plan, strategic intent and regulatory thresholds. 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.

ERM also facilitates the risk oversight requirements of the Risk Management Committee (RMC) and the Board Risk Committee (BRC).

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



[1] The CRO also has a reporting line into The Chair of the Board Risk Committee.
[2] The Head of Compliance also has a reporting line into the Chair of the Audit Committee.
[3] The head of Prudential Risk also has a dual reporting line to the CRO

3 CAPITAL RESOURCES

3.1 Total available capital

At 31st December 2019 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 2019 was as follows:

Table 2 Regulatory Capital

	£000
Tier 1 Capital	495,422
Tier 2 Capital	50,000
Total regulatory capital	**545,422**

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 & IFRS 9

4.1 Key Metrics

The table below shows the key regulatory metrics as at the 31st December 2019. The metrics have also been calculated as if IFRS 9 transitional arrangements had not applied and illustrated below.

Table 3 Key Metrics

Description	Dec-19	
Available Capital (£ 000)	**IFRS9 Full impact**	**IFRS9 Transitional arrangements applied**
Common Equity Tier 1 (CET1)	488,026	495,422
Tier 1 capital	488,026	495,422
Total Teir 1 capital	**488,026**	**495,422**
Tier 2 Capital	50,000	50,000
Total regulatory capital	**538,026**	**545,422**
Risk-Weighted Assets ('RWAS') (£000)	**2,824,811**	***2,824,811**
Capital Ratios (%)		
Tier 1	17.3%	17.5%
Total Capital	19.0%	19.3%
Leverage Ratio		
Total Leverage ratio exposure measure (£000)	3,683,204	3,683,204
Leverage Ratio (%)	13.25%	13.45%

*Impact on RWA's due to transitional arrangements is minimal, hence original RWA's have been used for both calculations.

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 taken the benefit of IFRS9 transitional arrangements, as permitted by EU Regulation (2017/2395), which allows capital relief .These transitional arrangements are on reducing basis over 5 years. The add back percentage for year ending 31st December 2019 is 85%. The impact of IFRS 9 on the key regulatory metrics has been demonstrated above in Table 3.

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 2019.

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.

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 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 TCR as 31st December 2019 is 12.02% including the pillar 1 requirement of 8%, of which 56% need to be met with common equity tier 1 (CET1) capital.

Table 4 Pillar 1 Capital Requirements

	£000
Credit Risk	213,131
Market Risk	719
Credit Valuation Adjustment	38
Operational Risk	12,097
Total Pillar I capital requirement	**225,985**
Capital in place	**545,422**
Excess of capital for Pillar 1 requirements	**319,438**

The following table shows both the ABCIB's Risk-weighted assets and Risk Ratio under Pillar 1 at 31st December 2019:

Table 5 RWAs and Capital ratio

	£000
Risk Weighted Assets	2,824,811
Risk Asset Ratio	19.3%
Tier 1 Capital Ratio	17.5%

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 2019:

Table 6 Credit Risk capital requirement

Exposure Types	Capital Requirement (£000)	Exposure Value (£000)
Central governments or central banks	1,084	378,362
Regional governments or local authorities	301	7,523
Multilateral Development Banks	-	195,649
Institutions	35,618	748,623
Corporates	113,652	1,758,222
Public sector entities	1,254	15,670
Retail	18	293
Other exposures	6,440	77,432
Secured by mortgages on immovable property	11,927	151,466
Items associated with particular high risk	42,815	356,795
Exposures in default	23	288
Total	**213,131**	**3,690,323**

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 7 Exposure breakdown

Exposure Class	CQS	Exposure Value (£000)	Exposure Value after eligible CRM (£000)
Central Governments and Central Banks	1	222,336	222,336
	3	519	1
	5	86	86
	7	155,421	782
		378,362	**223,205**
Regional governments or local authorities	3	**7,523**	**7,523**
Multilateral Development Banks	1	**195,649**	**195,649**
Institutions (as defined by the capital requirement regulation (CRR)	1	50,338	50,160
	2	128,266	122,378
	3	183,130	131,843
	4	61,677	61,142
	5	325,212	308,629
	7	0	0
		748,623	**674,152**
Corporates	1	135,814	22,942
	2	299,489	215,897
	3	61,134	29,524
	4	47,099	43,433
	5	73,776	73,776
	6	889	889
	7	1,140,020	1,013,481
		1,758,222	**1,399,942**
Public sector entities	7	**15,670**	**15,670**
Retail	7	**293**	**293**
Other items	7	**77,432**	**77,432**
Secured by mortgages on immovable property	7	**151,466**	**147,812**
High Risk (per Article 128 CRR)	7	**356,795**	**356,795**
Exposures in default		**288**	**288**
Total		**3,690,323**	**3,098,762**

Table 8 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 Individual 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.

As of 31st December 2019, the buffer is fully phased in 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 2019, 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 9.

Table 9 CCyB rates

Country	Current CCyB rate	Implementation date	Pending CCyB rate	Implementation date
United Kingdom	1.00%	28 November 2018	2.00%	16 December 2020
Belgium	0.00%	01 January 2016	0.50%	01 July 2020
Bulgaria	0.50%	01 October 2019	1.00%	01 April 2020
Czech Republic	1.50%	01 July 2019	1.75%	01 January 2020
			2.00%	01 July 2020
Denmark	1.00%	30 September 2019	1.50%	30 June 2020
			2.00%	30 December 2020
France	0.25%	01 July 2019	0.50%	02 April 2020
Germany	0.00%	01 January 2016	0.25%	01 July 2020
Hong Kong	2.50%	01 January 2019		
Iceland	1.75%	15 May 2019	2.00%	01 February 2020
Ireland	1.00%	05 July 2019		
Lithuania	1.00%	30 June 2019		
Luxembourg	0.00%	01 January 2016	0.25%	01 January 2020
Norway	2.50%	31 December 2019		
Slovakia	1.50%	01 August 2019	2.00%	01 August 2020
Sweden	2.50%	19 September 2019		

6 SOURCES OF RISK

6.1 Credit Risk

Credit risk is managed by the ABCIB Credit Committee ("IBCC"), which is the main credit risk decision-making forum of ABCIB. IBCC has the following roles and responsibilities:

Review and decision Credit Proposals in line with its delegated authorities.

Review and approve Internal Risk ratings (IRR) and any overrides as applicable.

Review and recommend ABCIB Credit Policy.

Review and approve Country Risk Policy, Credit Risk Mitigation Policy, Large Exposure Policy & Provisions Policy.

Review and approve other policies, Risk Acceptance Criteria & Guidance notes.

Review and approve relevant Credit Models & IFRS9 models.

Review and approve Credit Impairment Provisions.

Conduct credit Portfolio Reviews.

Review of Credit Resources and Infrastructure.

Delegate its authorities to a sub-committee.

Review its Terms of reference annually.

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 existing credit exposures, and for periodic review of the client and associated risks.

The centralised credit unit in the second line of defence is responsible for:

- Independent credit review of the clients.
- Monitoring and maintaining oversight of the credit portfolio through client reviews, portfolio Management Information (MI) and Key Risk Indicators (KRIs).
- Supporting the IBCC with reference to its roles and responsibilities.

The quality of the credit portfolio is good with the non-performing book (Stage 3) constituting 0.31% of the total exposure. The specific provisions against the Exposure at Default (EAD) for Stage 3 is 124%.

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 10 Credit risk exposures (On & Off Balance Sheet) – Amended Stage 3 classifications

On Balance Sheet	2019 (£000)				2018 (£000)
	Stage 1	Stage 2	Stage 3	Total	
Financial	1,500,574	9,252	81	1,509,908	1,691,768
Central Banks and Governments	225,459	0	85	225,544	839,421
Other	348,666	2,155	444	351,257	383,270
Property Related	352,892	106,817	-	459,716	299,704
Motor Vehicle Related	215,873	-	-	215,873	204,495
Commodity Related	128,304	8,574	-	136,878	116,336
TOTAL	**2,771,769**	**126,798**	**610**	**2,899,177**	**3,534,994**

Off Balance Sheet	2019 (£000)				2018 (£000)
	Stage 1	Stage 2	Stage 3	Total	
Financial	479,930	25,990		505,920	1,222,822
Central Banks and Governments	224,806			224,806	203,594
Other	126,309	35,900	5,201	167,408	255,750
Property Related	78,006	13,193	-	91,200	153,181
Motor Vehicle Related	52,180	58,045		110,225	70,461
Commodity Related	206,052			206,052	144,422
TOTAL	**1,167,283**	**133,127**	**5,201**	**1,305,611**	**2,050,229**

The values in above table 10 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 11 Exposure Breakdown by Geographic Region (On and Off Balance Sheet)

On Balance Sheet	2019 (£000)				2018 (£000)
	Stage 1	Stage 2	Stage 3	Total	
Europe	1,279,163	108,972	435	1,388,570	1,841,799
MENAT	1,000,523	17,826	8	1,018,357	1,227,756
Asia	88,458	-	167	88,625	183,605
North America	64,304	-	-	64,304	131,976
South America	79,608	-	-	79,608	110,679
Other	259,713	-	-	259,713	39,179
TOTAL	**2,771,769**	**126,798**	**610**	**2,899,177**	**3,534,994**

Off Balance Sheet	2019 (£000)				2018 (£000)
	Stage 1	Stage 2	Stage 3	Total	
Europe	389,002	117,774	5,159	511,935	633,714
MENAT	765,240	12,647	42	777,929	1,375,897
Asia	2,181	-	-	2,181	19,217
North America	-	2,706	-	2,706	15,675
South America	3,298	-	-	3,298	2,330
Other	7,562	-	-	7,562	3,396
TOTAL	**1,167,283**	**133,127**	**5,201**	**1,305,611**	**2,050,229**

The values in the above table 11 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 and guarantees from banks, 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 12 Maximum Exposure to Credit Risk

Exposure Class	2019 (£000)	2018 (£000)
Cash and cash equivalents	32,683	70,763
Loans and advances to banks	1,186,006	1,855,187
Loans and advances to customers	1,435,262	1,414,678
Debt investments - FVOCI	277,909	265,129
Derivative financial assets	336	1,905
	2,932,196	**3,607,662**
Contingent liabilities	960,495	1,723,031
Commitments	352,924	333,655
	1,313,419	**2,056,686**

Breakdown of Credit Risk Mitigation

Table 13 Credit Risk Mitigation

	2019 (£000)	2018 (£000)
Cash collateralised		
Loans and advances to customers and banks	56,740	85,161
Contingent liabilities	434,438	930,059
Guaranteed by Banks and Credit Agencies		
Loans and advances to customers and banks	289,875	398,965
Contingent liabilities	21,950	25,669
Commitments	35,753	15,864
Risk concentration against individual counterparties		
Largest customer exposure before collateral	84,064	87,983
Largest customer exposure after collateral	84,064	87,983
Largest central bank placement before collateral	225,627	790,350
Largest central bank placement after collateral	0	790,350

Credit quality per class of financial assets

Table 14 2019/2018 Loans, Receivables and AFS breakdown

	Amortised cost 2019 (£000)	Debt investments - FVOCI 2019 (£000)
Due from banks		
Investment grade	627,010	
Sub investment grade	558,996	
Total	**1,186,006**	**-**
Loans and advances to customers		
Investment grade	422,598	
Sub investment grade	1,012,664	
Total	**1,435,262**	**-**
Financial investments - available-for-sale		
Investment grade		277,909
Total	**-**	**277,909**

	Amortised cost 2018 (£000)	Debt investments - FVOCI 2018 (£000)
Due from banks		
Investment grade	1,247,374	
Sub investment grade	607,813	
Total	**1,855,187**	**-**
Loans and advances to customers		
Investment grade	297,827	
Sub investment grade	1,116,851	
Total	**1,414,678**	**-**
Financial investments - available-for-sale		
Investment grade		265,129
Total	**-**	**265,129**

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 the banking book sensitivity to interest rates, which are monitored daily at the bank level as well as by currencies against a set of limits.

Table 15 VaR exposures

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.

ABCIB's VaR exposures:	Maximum 2019 (£000)	Minimum 2019 (£000)	Maximum 2018 (£000)	Minimum 2018 (£000)
Trading	37	0	29	0
Banking	10,871	47	5,916	1,519

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 Individual 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 16 LCR components (Average)

LCR components	£000
Liquidity Buffer	634,602
Total Net cash outflows	168,941
Liquidity Coverage Ratio (Avg)	**%**
Liquidity Coverage Ratio	391%

Analysis of financial assets by remaining maturities

Table 17 Loans and advances split by maturity

	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
2019 (£000)						
Loans and advances to banks	580,367	574,107	35,917		(4,385)	1,186,006
Loans and advances to customers	770,120	409,378	257,147	7,464	(8,847)	1,435,262
Debt investments - FVOCI	58,578	81,698	137,633	-		277,909
	1,409,065	**1,065,183**	**430,697**	**7,464**	**(13,233)**	**2,899,177**
2018 (£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	1,186,709	633,460	37,869	121	(2,972)	1,855,187
Loans and advances to customers	912,644	350,013	162,500	8,590	(19,069)	1,414,678
Debt investments - FVOCI	38,779	73,494	152,891	-	(36)	265,129
	2,138,132	**1,056,967**	**353,260**	**8,711**	**(22,077)**	**3,534,994**

The table below summarises the maturity of ABCIB's financial liabilities at 31st December 2019 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 18 Liabilities split by maturity

	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
2019 (£000)					
Financial Liabilities					
Deposits from Banks, Customers, Term borrowing and Subordinated Liabilities	854,645	1,117,992	434,505	50,077	2,457,218
Derivative financial liabillities	3,975	-	-	-	3,975
Commitments	44,290	113,459	193,362	1,813	352,924
Financial guarantees	160,843	137,448	32,097	4,218	334,606
Other	21,156	-	-	-	21,156
2018 (£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	1,490,245	1,098,241	502,108	50,393	3,140,987
Derivative financial liabillities	2,432	-	-	101	2,533
Commitments	37,336	63,126	233,192	-	333,654
Financial guarantees	205,921	128,797	56,327	11,861	402,906
Other	22,254	-	-	-	22,254

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 Risk is defined as: "The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

Operational risks within ABCIB are owned and managed by the first line of defence, supported by Operational Risk Champions embedded within each core business unit and support function. Operational Risk Management team as part of 2nd line provides support and oversight.

There are a number of tools which support the Operational Risk policy and framework, and these are used to manage and monitor the risks, with the key tools being:

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.

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. The ORCO reports into the ABCIB Risk Management Committee.

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.

In relation to climate change ABCIB has completed its governance requirements and impact arising from climate change scenarios in its capital calculations for ICAAP for 2019.

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

The Bank is committed to further enhancing its approach to climate change in line with regulatory guidance and industry best practice.

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 19 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 Holding 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.

7.2 Brexit

ABCIB operates a network of European branches in Paris, Milan and Frankfurt, under the EU passporting regime, to support our European clients.

To mitigate the loss of these passporting rights as a result of the UK's planned departure from the EU, ABCIB developed a contingency plan to establish a Subsidiary of ABCIB in Paris.

During 2019 the Bank continued to work on the set up of the Paris subsidiary and received the necessary approvals and operating licence from the French regulator. As of December 2019 the initial corporate entity has been established with €5m capital invested by the Bank.

The Bank is currently evaluating the optimal point at which to implement the 'go-live' phase during 2020.

The underlying business model remains unchanged however and the bank will continue to trade in all locations under the Bank ABC brand. The legal entity name of the new EU subsidiary will be Arab Banking Corporation SA.

ABCIB aims to minimise disruption to its current operating model as much as possible as a result of this change.

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 20 Provisions (ECL Allowance)

	ECL under IFRS 9 at 31 December 2018	2019			Total
		Stage 1	Stage 2	Stage 3	
	£000	£000	£000	£000	£000
Cash and cash equivalents	-				-
Loans and advances to banks	2,972	3,999	11	376	4,385
Loans and advances to customers	19,069	1,750	4,897	2,201	8,847
Collectively assessed Customers	-				-
Available-for-sale debt investment securities per IAS39	-				-
debt financial assets at FVOCI under IFRS 9	36				-
Credit commitments and contingencies	6,457	1,182	2,886	3,739	7,807
	28,534	**6,930**	**7,793**	**6,316**	**21,040**

Table 21 Provisions (ECL allowance)

	2019			
	£000	£000	£000	£000
ECL allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 31 December 2018	5,859	4,299	18,376	28,534
New assets originated / purchased	9,050	-	-	9,050
Assets fully repaid or derecognised (excluding write-offs)	(3,643)	(789)	-	(4,432)
Transfers to stage 1	22	(22)	-	-
Transfers to stage 2	(5,422)	5,422	-	-
Transfers to stage 3	-	-	-	-
Partial redemptions and other drawdowns	1,293	(978)	-	315
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	(93)	(93)
Amounts written-off	-	-	(12,227)	(12,227)
Impact on year end ECL of exposures transferred between stages	-	-	-	-
Foreign exchange & other adjustments	(230)	(138)	260	(108)
As at 31 December 2019	**6,930**	**7,793**	**6,316**	**21,040**

9 ASSET ENCUMBRANCE

As at 31st December 2019, ABCIB did not undertake any activities that resulted in any assets being encumbered. ABCIB's balance sheet stood at £3,028m, all of which 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 22 Leverage ratio

Summary of reconciliation of accounting assets and Leverage Ratio exposures	£000
Total assets as per Financial Statements	**3,027,686**
Adjustments for off balance sheet items	652,886
Adjustments for derivative financial instruments	3,206
Collective impairment provision	-
Other adjustments (e.g. deductions from Tier 1)	(575)
Total Leverage Ratio exposures: total exposure method	**3,683,204**
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	51,453
Off-balance sheet items with a 50% CCF in accordance with Article 429 (10) of the CRR	450,983
Off-balance sheet items with a 100% CCF in accordance with Article 429 (10) of the CRR	150,450
Total Off Balance shet exposures for Leverage Ratio	**652,886**
Derivative exposures	
Replacement cost asscociated with derivative transactions	34
Add-on amounts under the mark-to-market method	3,172
Total Derivative exposures for Leverage Ratio	**3,206**
Tier 1 capital and final Leverage Ratio	
Tier 1 capital	495,422
Total Leverage Ratio exposures: total exposure method	3,683,204
Leverage ratio	**13.45%**

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 certain of its employees as Code Staff, selecting them from 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 will be identified by the Chief Executive Officer and the Head of Human Resources, and approved by the Remuneration Committee, having regard for 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.

In line with the PRA Remuneration Code, ABCIB designates certain employees as Code Staff having regard for 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, Head of Compliance and Head of Internal Audit and approved by the Remuneration Committee in line with the Bank's Remuneration Policy.

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 2019 Bank ABC had 63 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 23 Remuneration summary

	Fixed Remuneration (inc fixed benefits)	Variable Remuneration
Strategic Business Units	£5,715,670	£3,091,241
Support, Risk & Control Functions	£3,739,027	£1,445,500

Appendix 1 Reconciliation between audited financial statements and regulatory own funds as at 31st December 2019

	Amount as at 31st Dec 2019 (£000)
Called up share capital	212,296
Retained Earnings	284,231
Available for sale reserve	335
Audited Financial Statements	**496,862**
Regulatory Adjustments	
IFRS9 transitional arrangements	7,396
Foreseeable Dividend	(4,008)
Other regulatory adjutments	(4,828)
Tier 1 Capital	**495,422**
Subordinated Debt - Issued 12/2016	50,000
Tier 2 Capital	**50,000**
Total Capital Resources	**545,422**

Appendix 2 Own Funds disclosure

	Amount as at 31st Dec 2019 (£000)
Common Equity Tier 1 (CET1) capital: Instruments and reserves	
Capital Instruments	212,296
Retained Earnings	284,231
Available for sale reserve	335
Common Equity Tier 1 (CET1) capital: Before regulatory adjustments	**496,862**
Regulatory Adjustments:	
IFRS9 transitional arrangements	7,396
Foreseeable Dividend	(4,008)
Other regulatory adjutments	(4,828)
Common Equity Tier 1 (CET1) capital: After regulatory adjustments	**495,422**
Additional Tier 1 Capital (AT1)	-
Tier 1 capital (CET1 + AT1)	**495,422**
Tier 2 capital	**50,000**
Total capital	**545,422**
Risk Weighted Assets	**2,824,811**
CET1 Ratio	**17.5%**
Tier 1 Ratio	**17.5%**
Total Capital Ratio	**19.3%**