



PILLAR 3 Disclosures

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Table of contents

1. OVERVIEW

- 1.a. Background
- 1.b. Basis and Frequency of Disclosures
- 1.c. Scope
- 1.d. Location and Verification

2. RISK MANAGEMENT OBJECTIVES AND POLICIES

- 2.a. Risk Management and Governance

3. CAPITAL RESOURCES

- 3.a. Total available capital
- 3.b. Tier 1 Capital
- 3.c. Tier 2 Capital

4. CAPITAL ADEQUACY

- 4.a. Capital management
- 4.b. Internal Capital Adequacy Assessment Process
- 4.c. Minimum capital requirement: Pillar 1
- 4.d. Credit risk component
- 4.e. Capital Requirement: Pillar 2

5. SOURCES OF RISK

- 5.a. Credit Risk
- 5.b. Market risk
- 5.c. Other risks

6. EQUITY INVESTMENTS

7. IMPAIRMENT PROVISIONS

8. ASSET ENCUMBRANCE

9. LEVERAGE

10. REMUNERATION POLICY

Appendices

Appendix I: Reconciliation between audited financial statements and regulatory own funds as at 31st December 2016

Appendix II: Own Funds disclosure

1. OVERVIEW

1.a. 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 aims 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 Pillars 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.b. 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 2016, our financial year-end. This disclosure is for the period from 1st January 2016 to 31st December 2016

1.c. 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 has a small number of subsidiary companies (together referred to as "the Group").

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.d. 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 Group'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.

Within the framework detailed the Board of ABCIB has assessed the adequacy of the risk management arrangements of the Company. Based on this assessment, management considers 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.

2. RISK MANAGEMENT & GOVERNANCE

2.a. Introduction

Board Level

The Board has five committees, amongst which the Board Risk Committee (BRC) is tasked with oversight on issues related to risk management. The other committees are the Audit Committee, the Remuneration & Nomination Committee, the Corporate Governance Committee and the Charitable Appeals Committee. The structure of the committees are presented below:



The Board is responsible for overall risk appetite and portfolio limits 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 Board Risk Committee (BRC) is chaired by Dr Yousef Al Awadi (Independent Non-Executive Director) and is comprised of three independent and one non-independent (Group CEO) directors.

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In addition to the BRC the Audit Committee (AC) oversee 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 comprised of four independent and one non-independent (Group CEO) 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. Details of all committees are as below.



The Management Committee (ManCom) implements the risk framework, controls the Bank's risk profile and approves key risk policies.

The Risk Management Committee (RMC) reviews and monitors all the Bank's risks, whilst also reviewing and recommending the Risk Appetite. In addition it reviews the risk management framework, risk register and has oversight of the controls. Reporting to RMC are the Credit Committee (IBCC) and the Operational Risk Committee (ORCO).

Three lines

The Bank employs the three lines of defence model:

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	1 st Line of Defence	2 nd Line of Defence	3 rd Line of Defence
Role	Control	Oversight & Challenge	Assurance
Areas	(Examples of Business Lines and Support Functions are) Commercial Banking Islamic Financial Services Operations Finance Human Resources Information Technology Information Security	Risk Management Department Compliance	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
- 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
- Reporting to relevant committees on significant risks and control weaknesses and progress undertaken by the 1st Line in mitigating exposure outside of risk appetite

3rd Line of Defence

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

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

Enterprise Risk Management (ERM) was put in place in June 2016. The primary function of ERM is to facilitate management review & oversight over all key Risks within ABCIB through the Risk Management Committee (RMC) and other review & escalation processes. The unit also provides appropriate support to CRO for effective Risk

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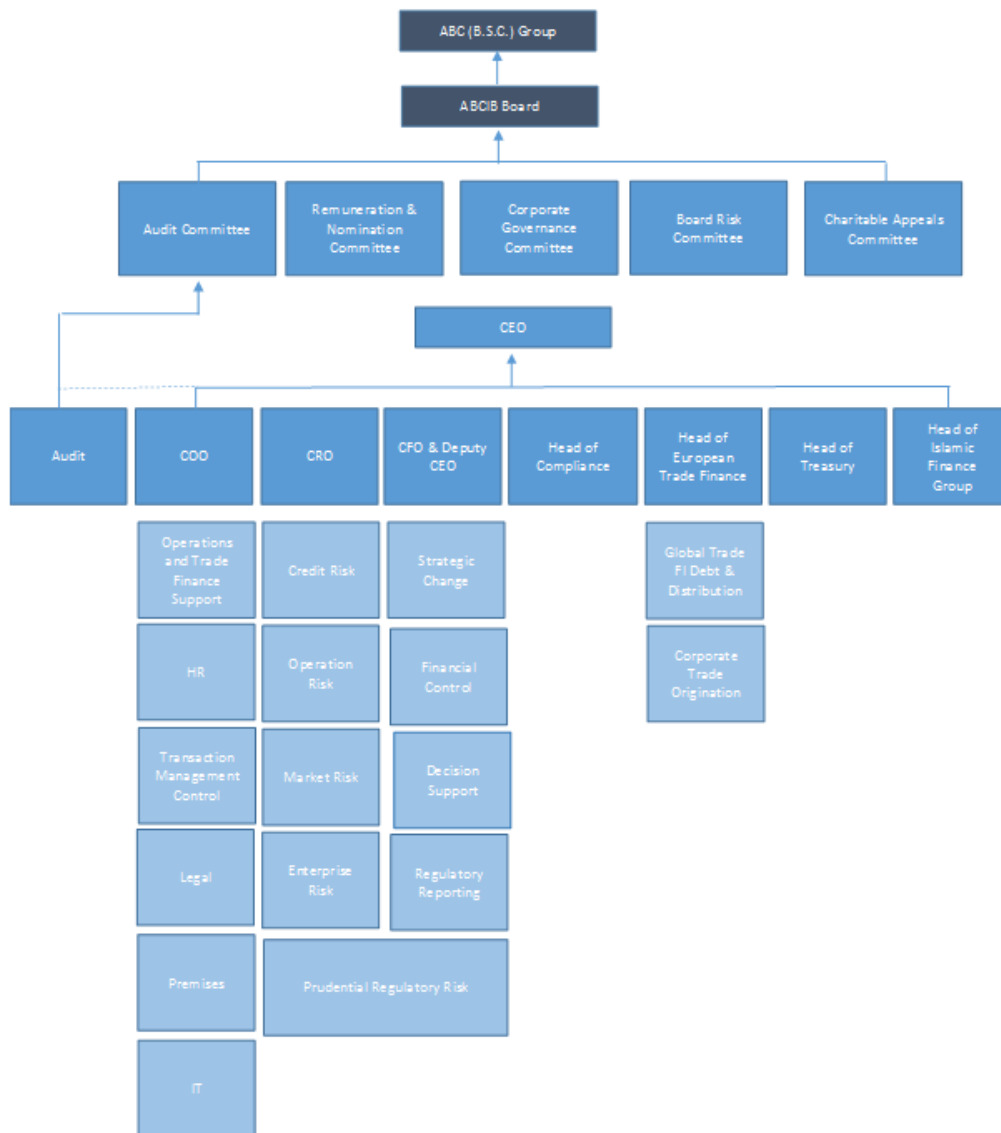
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oversight and management. The ERM unit maintains an oversight over Risk Appetite compliance, and facilitates review & recommendation of the Risk Appetite in line with the risk capacity, business plan, strategic intent and regulatory thresholds. ERM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

ERM also facilitates the requirements of the Risk Management Committee (RMC) and the Board Risk Committee (BRC) meetings, ensuring timely submission of agenda items, tracking of action items, timely presentation of key items for approval / review, collation of the MI Packs.

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, as designed and represented by management. It carries out an annual risk-based programme of work, which has been approved by the bank's Audit Committee, designed to evaluate and improve the bank's risk management and control environment. The result of Internal Audit's work, including management's progress in addressing identified issues, is formally reported to the Audit Committee on a quarterly basis.

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3. CAPITAL RESOURCES

3.a. Total available capital

At 31 December 2016 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 31 December 2016 was as follows:

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	£000
Tier 1 Capital	449,780
Tier 2 Capital	55,900
<i>Total regulatory capital</i>	<i>505,680</i>

3.b. Tier 1 Capital

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

3.c. Tier 2 Capital

Tier 2 capital comprises an allowance for collective impairment losses and subordinated debt.

4. CAPITAL ADEQUACY

4.a. Capital management

ABCIB applies 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 2016.

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

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 collateral or guarantees. 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.

4.b. 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.

4.c. Minimum capital requirement: Pillar 1

ABCIB's minimum capital requirement under Pillar 1 is calculated by adding the credit risk charge to that required for operational risk and market risk.

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The following table shows ABCIB's minimum capital requirement under Pillar 1:

	Minimum Capital Requirement Under Standardised Approach @8%
	£000
Credit Risk	177,303
Market Risk	415
Counterparty risk capital component	85
Operational Risk	10,007
Total Pillar I capital requirement	187,810
Capital in place	505,680
Excess of capital for Pillar 1 requirements	317,870

The following table shows both the ABCIB's Risk-weighted assets and Risk Ratio under Pillar 1 at 31 December 2016:

	£000
Risk-weighted assets	2,347,616
	%
Risk Asset Ratio	21.5
Tier 1 Capital Ratio	19.2

4.d. Credit risk component

The following table shows ABCIB's minimum capital requirement for credit risk under the standardised approach at 31 December 2016:

	Capital Requirement	Exposure Value
	£000	£000
Central governments or Central banks	2,384	1,206,868
Regional governments or local authorities	0	0
Multilateral development banks	-	165,769
Institutions	14,305	533,303
Corporates	139,618	2,008,150
Retail	86	1,440
Other exposures	6,219	71,565
Secured by mortgages	1,457	16,267
High Risk items	13,207	110,059
Exposures in default	27	335
	177,303	4,113,756

The exposure values above are on and off balance sheet exposures that are net of specific provisions and credit risk mitigation

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

Exposure Class	CQS	S&P Rating	Moody's rating	Exposure Value (£000)	Exposure Value after CRR mitigation (£000)
Central Governments and Central Banks	1	AAA to AA-	Aaa to Aa3	1,176,895	1,176,896
	2	A+ to A-	A1 to A3	1,810	1,810
	4	BB+ to BB-	Ba1 to Ba3	60	60
	7	Unrated	Unrated	113,686	28,102
				1,292,452	1,206,868
Regional governments or local authorities	7	Unrated	Unrated	0	0
Multilateral development banks	1	AAA to AA-	Aaa to Aa3	165,769	165,769
Institutions (as defined by the capital requirement regulation (CRR))	1	AAA to AA-	Aaa to Aa3	71,521	71,521
	2	A+ to A-	A1 to A3	273,724	273,724
	3	BBB+ to BBB-	Baa1 to Baa3	149,327	149,327
	4	BB+ to BB-	Ba1 to Ba3	37,352	37,352
	5	B+ to B-	B1 to B3	159	159
	6	CCC+ and below	Caal and below	1,220	1,220
	7	Unrated	Unrated	667	
			533,971	533,303	
Corporates	1	AAA to AA-	Aaa to Aa3	226,891	226,891
	2	A+ to A-	A1 to A3	347,453	347,452
	3	BBB+ to BBB-	Baa1 to Baa3	202,564	202,564
	4	BB+ to BB-	Ba1 to Ba3	403,978	403,978
	5	B+ to B-	B1 to B3	123,759	123,759
	6	CCC+ and below	Caa and below	405	405
	7	Unrated	Unrated	1,008,049	703,102
			2,313,099	2,008,150	
Retail	7	Unrated	Unrated	1,440	1,440
Other items	7	Unrated	Unrated	71,565	71,565
Secured by mortgages on immovable property	7	Unrated	Unrated	21,817	16,267
High Risk (per Article 128 CRR)	7	Unrated	Unrated	110,059	110,059
Exposures in default	7	Unrated	Unrated	335	335
				4,510,507	4,113,756

*All exposures are internally rated including those 'unrated' by the credit agencies.

4.e. 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.

5. SOURCES OF RISK

5.a. Credit Risk

Credit Risk is defined as risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.

Credit risk is managed by the IB 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 Credit Impairment Provisions - both Specific and Collective.
- Review and recommend ABCIB Credit Policy.
- Review and approve ABCIB Credit Procedures.
- Credit Portfolio Reviews.
- Review of Credit Resources and Infrastructure

The first level of protection against credit risk is through the counterparty, country and industry and other risk threshold limits. Credit limits are prudent, and the Bank uses standard mitigation and credit control practices.

Relationship managers are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and associated risks. The credit unit is responsible for independent review of the all the clients, maintaining and recommending changes to the credit policy and procedures, credit portfolio reviews and review of the non-performing book and provisions.

Industry exposure

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

	2016	2016	2015	2015
	£000	%	£000	%
Financial	1,527,457	42.7%	1,435,669	52.7%
Central Banks & Governments	1,169,260	32.7%	419,278	15.4%
Commodity Related	225,970	6.3%	168,804	6.2%
Motor Vehicle Related	177,806	5.0%	234,932	8.6%
Property Related	123,708	3.5%	194,176	7.1%
Other	356,662	10.0%	269,247	9.9%
	<u>3,580,863</u>	<u>100.0%</u>	<u>2,722,106</u>	<u>100.0%</u>

The values above are shown before the impact of funded credit mitigation and off balance sheet exposures.

Country exposure

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

	2016	2015
	£000	£000
Germany	1,216,822	483,389
United Kingdom	368,319	351,227
Turkey	309,992	443,920
Qatar	220,583	188,359
UAE	180,578	50,419
USA	160,955	118,217
Libya	146,070	201,280
Switzerland	140,671	39,356
Kuwait	105,093	73,192
Others	81,306	79,525
Egypt	77,407	100,626
France	74,417	30,870
Japan	59,156	50,287
Saudi Arabia	57,408	143,485
Philippines	48,788	31,700
Austria	45,694	56,924
Brazil	36,200	28,713
Oman	35,872	37,542
Jordan	33,524	10,305
Australia	32,409	18,521
Netherlands	29,291	10,558
Italy	21,834	57,547
India	20,329	7,092
Morocco	20,054	7,909
South Africa	16,774	17,213
Luxembourg	11,116	13,014
Russia	10,978	5,060
Bahrain	6,327	23,805
Spain	5,866	15,972
Ireland	5,118	3,757
Lebanon	1,912	22,323
TOTAL	3,580,863	2,722,107

The values above are shown before the impact of funded credit mitigation and off balance sheet exposures.

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:

Exposure Class	2016 £000	2015 £000
Cash and cash equivalents	26,269	83,226
Loans and advances to banks	2,350,215	1,519,663
Loans and advances to customers	909,592	983,414
Financial investments – available-for-sale	321,055	219,030
Others	16,438	1,843
	3,623,569	2,807,176
Contingent liabilities	1,172,905	1,018,793
Commitments	338,917	291,200
	1,511,822	1,309,993

Breakdown of Credit Risk Mitigation

	2016	2015
	£000	£000
Cash collateralised		
Loans and advances to customers	176,633	323,274
Contingent liabilities	380,875	403,625
Guaranteed by Banks and Credit Agencies		
Loans and advances to customers	288,728	255,068
Contingent liabilities	175,990	72,990
Commitments	29,111	14,348
Risk concentration against individual counterparties		
Largest exposure to individual Bank before collateral	300,895	388,926
Largest exposure to individual customer before collateral	94,788	80,993
Largest exposure to individual customer after collateral	94,788	80,993
Central Bank liquidity Buffer before collateral *	1,047,995	351,223
Central Bank liquidity Buffer after collateral	1,047,995	351,223

* This is an exposure to an exempt counterparty per CRR article 400.

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Credit quality per class of financial assets

	Loans & Receivables	Financial Investments AFS
	2016	2016
	£000	£000
Due from banks		
Investment grade	1,705,371	-
Sub investment grade	644,844	-
Total	2,350,215	-
Loans and advances to customers		
Investment grade	60,780	-
Sub investment grade	848,812	-
Total	909,592	-
Financial investments - available-for-sale		
Investment grade	-	321,055
Total	-	321,055

	Loans & Receivables	Financial Investments AFS
	2015	2015
	£000	£000
Due from banks		
Investment grade	1,185,420	-
Sub investment grade	334,243	-
Total	1,519,663	-
Loans and advances to customers		
Investment grade	141,407	-
Sub investment grade	842,007	-
Total	983,414	-
Financial investments - available-for-sale		
Investment grade	-	219,030
Total	-	219,030

5.b. 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 the bank's 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.

The bank has a small Trading book for spot and forward foreign exchange markets, the trading for which is within a modest VaR limit and other market risk parameters.

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. Contracts for futures, forward rate agreements, and interest rate and currency swap agreements are most commonly used to this effect. Any open positions are relatively small and are re-valued on a regular basis.

Market Risk and other risks are reviewed in the ALCO.

ABCIB's VaR exposures:				
	Maximum	Minimum	Maximum	Minimum
	2016	2016	2015	2015
	£000	£000	£000	£000
Trading	17	2	19	1
Banking	20,934	74	9,318	140

Liquidity risk

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

Bank ABC Plc

Pillar 3 Disclosures

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).

ABCIB is fully compliant with the current liquidity regulation requirements.

ABCIB manages its liquidity risk actively, in view of the Bank's reliance on funding from connected parties, customers and bank correspondents. These deposits tend to be short-term to match the maturity profile of the bank's assets, but the Bank has lengthened its deposit profile and diversified its funding through its medium-term funding facility from other banks.

Liquidity, or availability of sufficient financial resources, is a core component of ABCIB's management framework. In order to avoid unnecessary exposure to short-term funding as a means to meet its cash flow obligations, ABCIB uses a funding gap management process, maintains a buffer of high quality liquid assets and operates a contingency funding plan. This management is in addition to managing the daily compliance of the liquidity regulation requirements.

Funding projections are made by the Treasurer who has responsibility for day-to-day liquidity management. ABCIB's approach to liquidity monitoring involves a limit structure to control liquidity mismatches in particular time periods from "next day" through to "over 1 year". Liquidity mismatches are calculated on the basis of the aggregate across all ABCIB branches of all assets and all liabilities, together with an allowance for undrawn commitments.

Funding gap control is supplemented by other analyses such as stress tests and asset and liability concentration reports in order to ensure clear and timely communication of the structure and requirements of ABCIB's funding operation. ALCO has primary responsibility for oversight of liquidity risk management.

Analysis of financial assets by remaining maturities

2016					
	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	Total
	£000	£000	£000		£000
Loans and advances to banks	1,654,234	610,682	99,713	160	2,364,789
Loans and advances to customers	496,802	227,701	194,875	11,339	930,717
Financial investments - available-for-sale	55,129	136,103	131,962	-	323,194
	2,206,165	974,486	426,550	11,499	3,618,700
2015					
	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	Total
	£000	£000	£000		£000
Loans and advances to banks	960,466	444,510	126,977	129	1,532,082
Loans and advances to customers	600,759	222,432	167,476	8,250	998,917
Financial investments - available-for-sale	33,279	108,258	78,208	-	219,745
	1,594,504	775,200	372,661	8,379	2,750,744

Analysis of financial liabilities by remaining maturities

The table below summarises the maturity of ABCIB's financial liabilities at 31st December 2016 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.

2016					
	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	Total
	£000	£000	£000	£000	£000
Financial Liabilities					
Deposits from Banks, Customers, Term borrowing and Subordinated Liabilities	1,823,129	910,203	432,994	57,363	3,223,689
Derivative financial liabilities	1,001	432	287	-	1,720
Financial guarantees	196,842	119,774	72,313	18,454	407,383
2015					
	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	Total
	£000	£000	£000	£000	£000
Deposits from Banks, Customers, Term borrowing and Subordinated Liabilities	1,719,153	161,049	442,949	59,611	2,382,762
Derivative financial liabilities	3,345	1,930	329	-	5,604
Financial guarantees	97,295	144,380	70,053	-	311,728

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. This risk is minimized as ABCIB's rate sensitive assets and liabilities are mostly floating rates, where the duration risk is lower.

Currency risk

ABCIB is exposed to foreign exchange rate risk through its trading and structural portfolios. Foreign exchange rate risk is managed by trading limits and stop loss parameters.

5.c. 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".

ABCIB is structured using the three lines of defence model with an Operational Risk Management team in place and Operational Risk Champions embedded within each core business unit and Support function. There are a number of tools which are used to manage and monitor the risks, with the key tools being:

- The recording and reporting of Operational Risk Events (ORE's)
- Key Risk Indicators (KRI's)
- Risk Control Self-Assessments (RCSA's)
- Risk Register
- Scenario Analysis & Stress Testing
- Management information and reporting

All of these tools/processes undergo a detailed review and challenge process led by the Operational Risk team.

Governance is achieved by a formal committee structure with an ABCIB Operational Risk Committee (ORCO) which meets every two months and which is attended by the senior managers of each core business and support function. The ORCO reports into the ABCIB Risk Management Committee.

Other Risks such as conduct, legal, fraud and IT risk are currently considered under the Bank's key risk register and then captured within the Pillar 2a operational loss calculation.

6. Equity Investments

ABCIB owns the following investments in subsidiaries and associated companies:

	Business	Ownership %
ABC Investment Holdings Limited	Property holding	100%
ABCIB Islamic Asset Management Limited	Advisory	100%
ABCIB Leasing Limited	Asset Trade	100%
Alphabet Nominees Limited	Nominee	100%
Abcibt Nominees Limited	Nominee	100%

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. Impairment Provisions

Accounting Policy

Impairment losses on loans and advances

ABCIB reviews its problem loans and advances at reporting date to assess whether a provision for impairment should be recorded in the profit and loss account. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

In addition, ABCIB maintains a collective impairment provision, this is a general provision maintained for the credit portfolio for losses yet to be individually identified. The provision is calculated using an expected loss model for all on balance sheet exposures, it is run each month end with the provision adjusted for any material movement.

Movements in allowance for impairment losses

	Individually assessed - Banks	Individually assessed - Customers	Collectively assessed Customers	Total
	£000	£000	£000	£000
Brought forward 1/1/16	993	17,165	3,135	21,293
Provision for the year	-	290	2,765	3,055
Decrease	(142)	(298)		(440)
Write-off	-	0		0
Foreign currency adjustment	206	3,368		3,574
Carried forward 31/12/16	1057	20,525	5,900	27,482

8. Asset Encumbrance

As at 31st December 2016, ABCIB did not undertake any activities that resulted in any assets being encumbered. ABCIB's balance sheet stood at £3,690m all of which were unencumbered assets.

9. Leverage

Summary of reconciliation of accounting assets and Leverage Ratio exposures

	£' 000
Total assets as per Financial Statements	3,689,507
Adjustments for off balance sheet items	809,454
Adjustments for derivative financial instruments	6,902
General Provision	5,900
Other adjustments (e.g. deductions from Tier 1)	(2,282)
Leverage Ratio total exposure method	4,509,481

Off Balance sheet exposures

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	50,629
Off-balance sheet items with a 50% CCF in accordance with Article 429 (10) of the CRR	466,850
Off-balance sheet items with a 100% CCF in accordance with Article 429 (10) of the CRR	291,975
Total Off Balance sheet exposures for Leverage Ratio	809,454

Derivative exposures

Replacement cost associated with derivative transactions	148
Add-on amounts under the mark-to-market method	6,754
Total Derivative exposures for Leverage Ratio	6,902

Tier 1 capital and final Leverage Ratio

Tier 1 capital	449,780
Leverage ratio total exposure measure	4,509,481
Leverage ratio	9.97%

10. Remuneration Policy

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 contribution, any significant change within their responsibilities, material move in the market value of a role and their value to the organisation and in line with the bank's budget for remuneration.

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, is required to review the performance scores for all staff to ensure consistency of appraisal and suitability of scores.

Awards will be determined based upon individual performance and contribution, considering "what" a person achieves and "how" they achieve it.

The performance appraisal process contains clearly defined requirements for all employees to be aware of, and adhere to, all relevant policies, procedures and regulations pertaining to their position and to be compliant with them at all times.

Code Staff

In line with the PRA Remuneration Code, ABCIB designates certain of its employees as Code Staff.

Code Staff will be 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.

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.

Code staff Remuneration

As of 31st December 2016 Bank ABC had 37 staff (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.

	Fixed Remuneration (inc fixed benefits)	Variable Remuneration
Strategic Business Units	£4,050,316.81	£1,807,013.85
Support, risk & Control Functions	£2,445,389.79	£800,444.33

Bank ABC Plc
Pillar 3 Disclosures

Appendix I: Reconciliation between audited financial statements and regulatory own funds as at 31st December 2016

	Amount as at 31st Dec 2016 (£'000)
Called up share capital	212,296
Retained Earnings	237,409
Available for sale reserve	22
Audited Financial Statements	449,727
Regulatory Adjustments	
Prudential Valuation Adjustment	(1,025)
AIHO reserves	1,078
Tier 1 Capital	449,780
Subordinated Debt - Issued 12/2016	50,000
Collective Impairment Provision	5,900
Tier 2 Capital	55,900
Total Capital Resources	505,680

Appendix II: Own Funds disclosure

	Amount as at 31st Dec 2016 (£'000)
Common Equity Tier 1 (CET1) capital: Instruments and reserves	
Capital Instruments	212,296
Retained Earnings	237,409
Other reserves	22
Common Equity Tier 1 (CET1) capital: Before regulatory adjustments	449,727
Regulatory adjustments relating to Common Equity Tier 1 (CET1)	53
Common Equity Tier 1 (CET1) capital: After regulatory adjustments	449,780
Additional Tier 1 Capital (AT1)	-
Tier 1 capital (CET1 + AT1)	449,780
Tier 2 capital	55,900
Total capital	505,680
Risk Weighted Assets	2,347,616
CET1 Ratio	19.2%
Tier 1 Ratio	19.2%
Total Capital Ratio	21.5%