ABC International Bank Plc
Pillar 3 Report 2017

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Contacts

Rajeev Adrian
Chief Financial Officer
rajeev.adrian@bank-abc.com

Sedjwick Joseph
Chief Risk Officer
sedjwick.joseph@bank-abc.com

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 2017, Bank's financial year-end. This disclosure is for the period from 1st January 2017 to 31st December 2017.

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

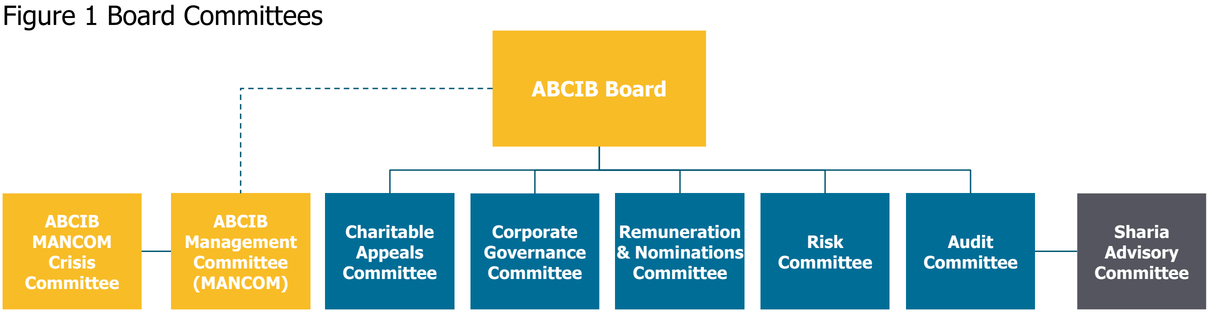
2.1 Governance

The Governance framework within the Bank is driven by the Board with clearly defined roles and responsibilities for Board level committees, Executive 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 on issues related to Enterprise Wide Risk Management. The BRC meets at least four times per year and has overall responsibility for risk oversight. Its responsibilities include setting and reviewing all risk policies and reviewing ABCIB's risk strategy and risk appetite, return expectations and asset allocation limits, principally in terms of country, industry and ratings. The BRC oversees all classes of risk.

Figure 1 Board Committees



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

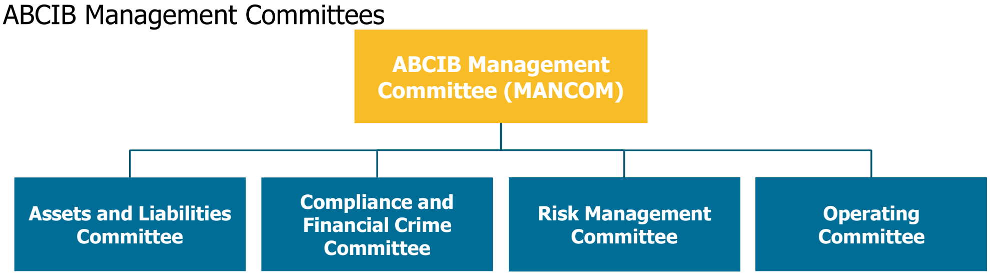
In addition to the BRC, the Audit Committee (AC) oversees the performance of the Internal Audit and Compliance function. A risk based audit approach is adopted which ensures that key risk areas are reviewed and assessed regularly. The AC is chaired by Andrew Neden (Independent Non-Executive Director)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

Figure 2 ABCIB Management Committees



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 and stress testing framework, risk register and has oversight of the controls. Reporting to RMC are the 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 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; 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 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.

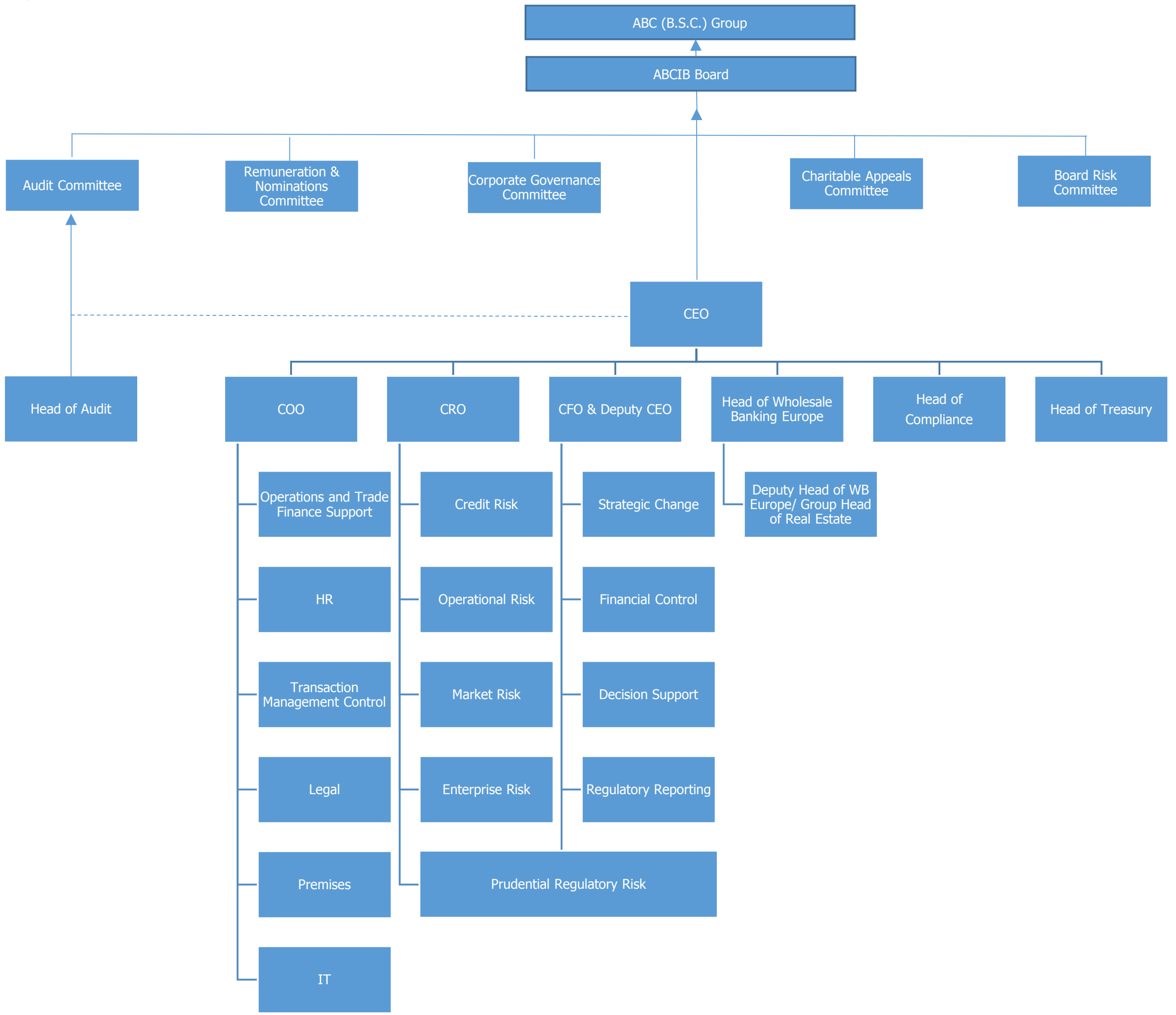
ABCIB has an Enterprise Risk Management (ERM) function in place, which primary function is to facilitate management review and oversight over all key risks within ABCIB through the Risk Management Committee (RMC) and other review and escalation processes. The unit also provides appropriate support to CRO for effective Risk oversight and management. The ERM unit maintains an oversight over Risk Appetite compliance, and facilitates review and 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.

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 2017 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 2017 was as follows:

Table 2 Regulatory Capital

	£000
Tier 1 Capital	469,029
Tier 2 Capital	55,700
Total regulatory capital	**524,729**

3.2 Tier 1 Capital

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

3.3 Tier 2 Capital

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

4 CAPITAL ADEQUACY

4.1 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 2017.

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 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 also 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.

4.2 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.

4.3 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.

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

Table 3 Pillar 1 Capital Requirements

	£000
Credit Risk	195,212
Market Risk	594
Credit Valuation Adjustment	42
Operational Risk	10,074
Total Pillar I capital requirement	**205,922**
Capital in place	**524,729**
Excess of capital for Pillar 1 requirements	**318,807**

The following table shows both the ABCIB's Risk-weighted assets and Risk Ratio under Pillar 1 at 31st December 2017:

Table 4 RWAs and Capital ratio

	£000
Risk Weighted Assets	2,574,027
Risk Asset Ratio	20.4%
Tier 1 Capital Ratio	18.2%

4.4 Credit risk component

The following table shows ABCIB's minimum capital requirement for credit risk under the standardised approach as at 31 December 2017:

Table 5 Credit Risk capital requirement

Exposure Types	Capital Requirement (£000)	Exposure Value (£000)
Central governments or Central banks	2,149	591,687
Regional governments or local authorities	-	-
Multilateral Development Banks	-	177,186
Institutions	34,239	645,480
Corporates	111,007	1,838,483
Public sector entities	2,962	37,028
Retail	77	1,287
Other exposures	6,161	72,635
Secured by mortgages on immovable property	9,191	118,015
Items associated with particular high risk	29,399	244,989
Exposures in default	28	347
Total	**195,212**	**3,727,137**

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

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 6 Exposure breakdown

Exposure Class	CQS	Exposure Value (£000)	Exposure Value after eligible CRM (£000)
Central Governments and Central Banks	1	465,689	465,689
	3	1,052	3
	5	27	0
	7	124,919	14,696
		591,687	**480,388**
Regional governments or local authorities	5	**0**	**0**
Multilateral development banks	1	**177,186**	**167,727**
Institutions (as defined by the capital requirement regulation (CRR)	1	39,318	37,761
	2	56,972	15,567
	3	219,991	187,905
	4	314,655	277,746
	5	13,153	13,153
	6	1,391	1,391
		645,480	**533,524**
Corporates	1	163,806	12,903
	2	302,995	257,584
	3	96,808	81,839
	4	98,596	77,184
	5	67,894	67,894
	6	16,976	16,976
	7	1,091,409	865,742
		1,838,483	**1,380,124**
Public sector entities	1	**37,028**	**37,028**
Retail	7	**1,287**	**1,287**
Other items	7	**72,635**	**72,635**
Secured by mortgages on immovable property	7	**118,015**	**113,196**
High Risk (per Article 128 CRR)	7	**244,989**	**244,989**
Exposures in default	7	**347**	**347**
Total		**3,727,137**	**3,031,245**

Table 7 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

4.5 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.

4.6 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 2017, the buffer is 1.25% of risk weighted assets.

The current flight path for CCB is to reach 2.5% from 1st January 2019.

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 2017, Bank had immaterial exposure in countries (Table 8) where the CCyB requirement has been put in place.

Table 8 CCyB rates

Country	Current CCyB rate	Implementation date	Pending CCyB rate	Implementation date
Hong Kong	1.25%	01 January 2017	1.875%	01 January 2018
Sweden	2.00%	19 March 2017		
Czech Republic	0.50%	01 January 2017	1.000%	01 July 2018

5 SOURCES OF RISK

5.1 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 Credit Impairment Provisions - both Specific and Collective.
- Provide portfolio oversight via KRI & MI tracking
- Review and recommend ABCIB Credit Policy.
- Review and approve ABCIB Credit Procedures.
- Conduct 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, based on 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 provides independent and regular credit review of the clients, provides portfolio MI and KRI tracking data, maintains and recommends changes to the credit policy and procedures, conducts credit portfolio reviews and conducts review of the non-performing book and provisions.

The quality of the credit portfolio is good with the non-performing book constituting 0.52% of the total exposure. The specific provisions against the non-performing exposure is in excess of 95% representing good coverage.

In addition (and prior to implementation of IFRS9), ABCIB maintains a collective impairment provision, this is a general portfolio provision 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.

During 2017, ABCIB implemented a project (led by Bank ABC Group) to ensure readiness for IFRS9 compliance in 2018.

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.

Table 9 Credit risk exposures

	2017 (£000)	2016 (£000)
Financial	1,454,589	1,527,457
Central Banks & Governments	465,395	1,169,260
Commodity Related	82,330	225,970
Motor Vehicle Related	236,434	177,806
Property Related	296,877	123,708
Other	305,060	356,662
TOTAL	**2,840,685**	**3,580,863**

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.

Table 10 Exposure Breakdown by Country

	2017 (£000)	2016 (£000)
United Kingdom	515,178	368,319
Germany	499,635	1,216,822
Turkey	292,951	309,992
Qatar	148,485	220,583
UAE	127,360	180,578
USA	113,728	160,955
Switzerland	111,915	140,671
Libya	106,224	146,070
Saudi Arabia	97,952	57,408
Others	95,044	65,043
Republic of Korea	82,874	16,263
Kuwait	81,700	105,093
Netherlands	61,492	29,291
Egypt	58,216	77,407
Brazil	49,566	36,200
India	42,628	20,329
Philippines	42,169	48,788
Italy	38,356	21,834
Jordan	36,021	33,524
Morocco	35,304	20,054
Australia	33,611	32,409
France	28,842	74,417
Oman	28,674	35,872
South Africa	27,154	16,774
Bahrain	23,012	6,327
Lebanon	17,560	1,912
Russia	12,666	10,978
Ireland	11,315	5,118
Luxembourg	8,066	11,116
Austria	7,001	45,694
Japan	4,450	59,156
Spain	1,533	5,866
TOTAL	**2,840,685**	**3,580,863**

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:

Table 11 Maximum Exposure to Credit Risk

Exposure Class	2017 (£000)	2016 (£000)
Cash and cash equivalents	21,379	26,269
Loans and advances to banks	1,441,263	2,350,215
Loans and advances to customers	1,121,735	909,592
Financial investments – available-for-sale	277,687	321,055
Others	874	16,438
	2,862,938	**3,623,569**
Contingent liabilities	1,269,850	1,172,905
Commitments	323,994	338,917
	1,593,844	**1,511,822**

Breakdown of Credit Risk Mitigation

Table 12 Credit Risk Mitigation

	2017 (£000)	2016 (£000)
Cash collateralised		
Loans and advances to customers and banks	129,997	176,633
Contingent liabilities	376,146	380,875
Guaranteed by Banks and Credit Agencies		
Loans and advances to customers and banks	327,336	288,728
Contingent liabilities	53,255	175,990
Commitments	37,258	29,111
Risk concentration against individual counterparties		
Largest exposure to individual Bank before collateral	182,626	300,895
Largest exposure to individual customer before collateral	110,096	94,788
Largest exposure to individual customer after collateral	110,096	94,788
Central Bank liquidity Buffer before collateral *	393,494	1,047,995
Central Bank liquidity Buffer after collateral	393,494	1,047,995

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

Credit quality per class of financial assets

Table 13 2017/2016 Loans, Receivables and AFS breakdown

	Loans & Receivables 2017 (£000)	Financial Investments AFS 2017 (£000)
Due from banks		
Investment grade	868,553	
Sub investment grade	572,710	
Total	**1,441,263**	**-**
Loans and advances to customers		
Investment grade	55,554	
Sub investment grade	1,066,181	
Total	**1,121,735**	**-**
Financial investments - available-for-sale		
Investment grade		277,687
Total	**-**	**277,687**

	Loans & Receivables 2016 (£000)	Financial Investments AFS 2016 (£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**

5.2 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 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. All open positions are relatively small and are re-valued on a regular basis.

Market Risk and other risks are reviewed in the ALCO.

Table 14 VaR exposures

ABCIB's VaR exposures:	Maximum 2017 (£000)	Minimum 2017 (£000)	Maximum 2016 (£000)	Minimum 2016 (£000)
Trading	3	0	17	2
Banking	11,039	324	20,934	74

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 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 cashflow obligations, ABCIB uses a funding gap management process, maintains a buffer of high quality liquid assets and operates a liquidity contingency 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.

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 guidlines 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 15 LCR components

LCR components	£000
Liquidity Buffer	1,002,101
Total Net cash outflows	405,144
Liquidity Coverage Ratio	**%**
Liquidity Coverage Ratio	281%

Analysis of financial assets by remaining maturities

Table 16 Loans and advances split by maturity

2017 (£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	Total
Loans and advances to banks	613,098	808,326	36,624	182	1,458,230
Loans and advances to customers	627,891	202,608	315,711	8,283	1,154,494
Financial investments - available-for-sale	100,428	81,530	98,956	-	280,914
	1,341,418	**1,092,464**	**451,290**	**8,465**	**2,893,637**
2016 (£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**	**Total**
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**

The table below summarises the maturity of ABCIB's financial liabilities at 31st December 2017 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 17 Liabilities split by maturity

2017 (£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	944,229	883,191	569,570	64,354	2,461,343
Derivative financial liabillities	1,601	679	-	-	2,280
Financial guarantees	214,608	109,032	100,841	15,557	440,038
2016 (£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	1,823,129	910,203	432,994	57,363	3,223,689
Derivative financial liabillities	1,001	432	287	-	1,720
Financial guarantees	196,842	119,774	72,313	18,454	407,383

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.

5.3 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".

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:

Table 18 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%

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

7.1 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

Table 19 Collective and Specific Provisions

	Individually assessed - Banks	Individually assessed - Customers	Collectively assessed Customers	Total
	£000	£000	£000	£000
Brought forward 1st January 2017	1,057	20,525	5,900	27,482
Provision for the year	0	101	(200)	(99)
Decrease	(521)	(365)	0	(886)
Transfer from Off-Balance sheet	0	617	0	617
Write-off	(7)	(2,030)	0	(2,037)
Foreign currency translation adjustment	(69)	(1,564)	0	(1,633)
Carried forward 31st December 2017	**460**	**17,284**	**5,700**	**23,444**

8 ASSET ENCUMBRANCE

As at 31st December 2017, ABCIB did not undertake any activities that resulted in any assets being encumbered. ABCIB's balance sheet stood at £2,932m, all of which were unencumbered assets.

9 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 20 Leverage ratio

Summary of reconciliation of accounting assets and Leverage Ratio exposures	£000
Total assets as per Financial Statements	**2,932,134**
Adjustments for off balance sheet items	785,415
Adjustments for derivative financial instruments	3,676
Collective impairment provision	5,700
Other adjustments (e.g. deductions from Tier 1)	(663)
Total Leverage Ratio exposures: total exposure method	**3,726,262**
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	73,096
Off-balance sheet items with a 50% CCF in accordance with Article 429 (10) of the CRR	516,044
Off-balance sheet items with a 100% CCF in accordance with Article 429 (10) of the CRR	196,275
Total Off Balance shet exposures for Leverage Ratio	**785,415**
Derivative exposures	
Replacement cost asscociated with derivative transactions	76
Add-on amounts under the mark-to-market method	3,600
Total Derivative exposures for Leverage Ratio	**3,676**
Tier 1 capital and final Leverage Ratio	
Tier 1 capital	469,029
Total Leverage Ratio exposures: total exposure method	3,726,262
Leverage ratio	**12.59%**

10 REMUNERATION POLICY

10.1 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.

10.2 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).

10.3 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 and the Head of Compliance and approved by the Remuneration Committee in line with the Bank's Remuneration Policy.

10.4 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.

10.5 Code staff Remuneration

As of 31st December 2017 Bank ABC had 59 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.

Table 21 Remuneration summary

	Fixed Remuneration (inc fixed benefits)	Variable Remuneration
Strategic Business Units	£5,156,656	£2,437,675
Support, Risk & Control Functions	£3,139,210	£1,111,500

Appendix 1 Reconciliation between audited financial statements and regulatory own funds as at 31st December 2017

	Amount as at 31st Dec 2017 (£000)
Called up share capital	212,296
Retained Earnings	257,372
Available for sale reserve	24
Audited Financial Statements	**469,692**
Regulatory Adjustments	
Prudential Valuation Adjustment	(663)
Tier 1 Capital	**469,029**
Subordinated Debt - Issued 12/2016	50,000
Collective Impairment Provision	5,700
Tier 2 Capital	**55,700**
Total Capital Resources	**524,729**

Appendix 2 Own Funds disclosure

	Amount as at 31st Dec 2017 (£000)
Common Equity Tier 1 (CET1) capital: Instruments and reserves	
Capital Instruments	212,296
Retained Earnings	257,372
Other reserves	24
Common Equity Tier 1 (CET1) capital: Before regulatory adjustments	**469,692**
Regulatory adjustments relating to Common Equity Tier 1 (CET1)	(663)
Common Equity Tier 1 (CET1) capital: After regulatory adjustments	**469,029**
Additional Tier 1 Capital (AT1)	-
Tier 1 capital (CET1 + AT1)	**469,029**
Tier 2 capital	**55,700**
Total capital	**524,729**
Risk Weighted Assets	**2,574,027**
CET1 Ratio	**18.2%**
Tier 1 Ratio	**18.2%**
Total Capital Ratio	**20.4%**