ABC International Bank Plc
Pillar 3 Report 2018

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 2018, Bank's financial year-end. This disclosure is for the period from 1st January 2018 to 31st December 2018.

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

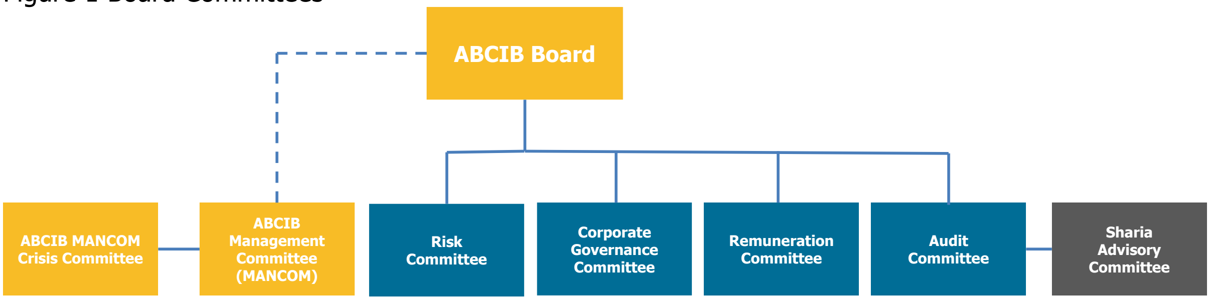
2.1 Governance

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 of all key risk matters in ABCIB. The BRC sets the tone for the risk culture within ABCIB. It is responsible for review, challenge and recommendation to the Board for approval of the overall risk management, risk strategy, key regulatory documents and key risk policies. The BRC's responsibilities also include review and recommendation of ABCIB's Risk Appetite Statement, 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 four independent and one non-independent (Group CEO) directors.

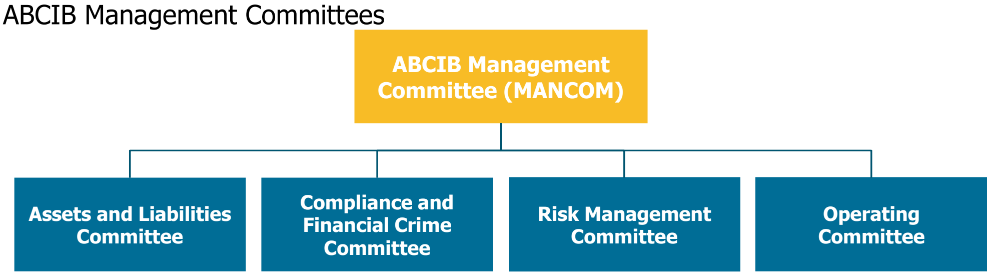
In addition to the BRC, the Audit Committee (AC) oversees the performance of the Internal Audit and Compliance function. A risk based audit approach is adopted which ensures that key risk areas are reviewed and assessed regularly. The AC is chaired by Andrew Neden (Independent Non-Executive Director) 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 in ABCIB. The Risk Management Committee (RMC) is responsible for oversight of all Risk categories in ABCIB. The RMC is also responsible to review and recommend ABCIB risk appetite statement, review and monitor enterprise risk register, maintain oversight of risk controls in ABCIB and review of stress tests and key external factors. The RMC also reviews audit findings and maintains oversight on status of audit issues. 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 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 in to the CEO and also has a reporting line in to The Chair of the Board Risk Committee. There is a functional reporting line to the Bank ABC Group Chief Credit and Risk Officer.

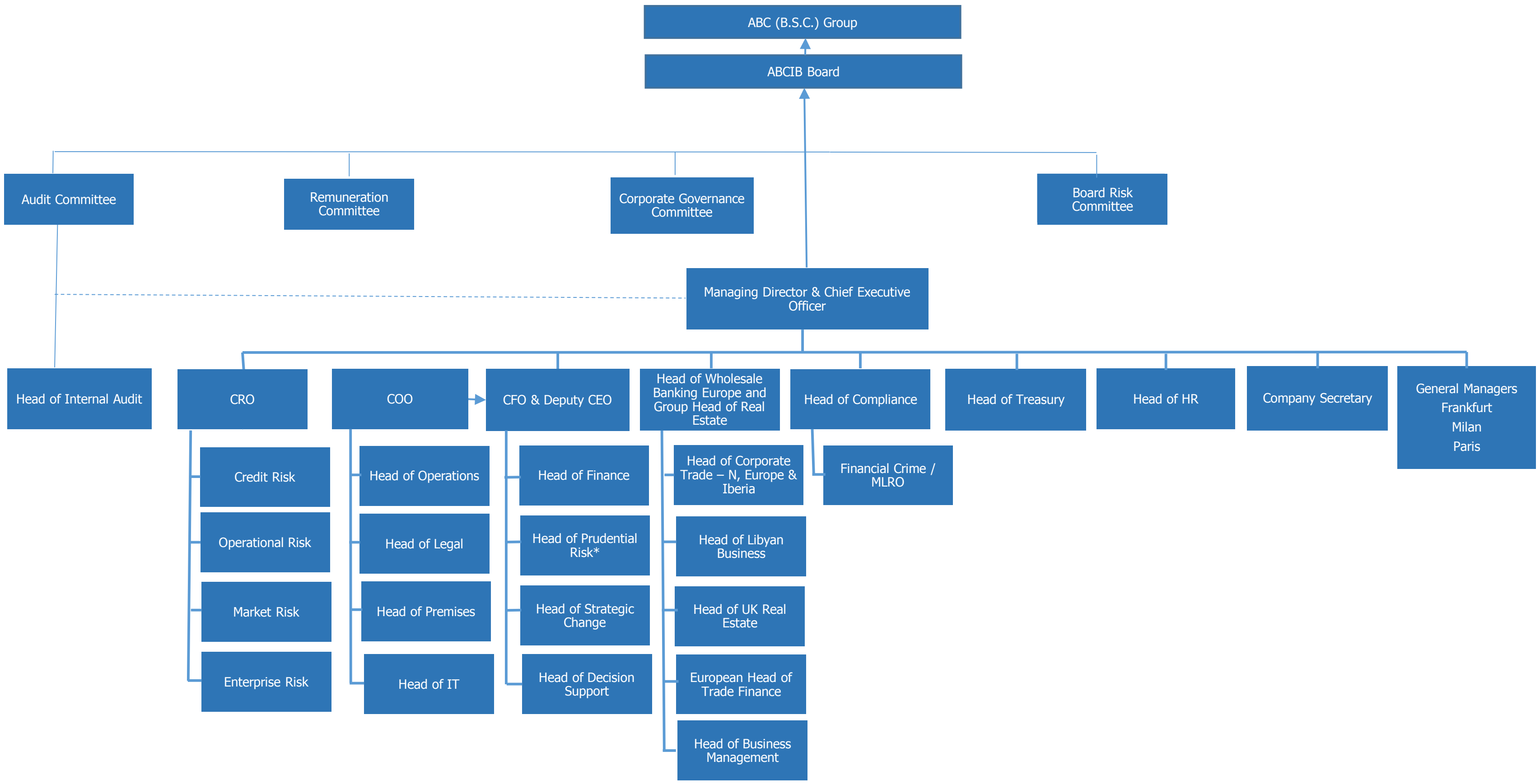
ABCIB has a well-structured Enterprise Risk Management (ERM) unit in place. The primary focus of ERM is to enhance and integrate the Enterprise Risk Management Framework covering all relevant Risks applicable to the Bank. ERM facilitates management review and oversight over all key Risks within ABCIB through the Risk Management Committee (RMC) and other engagements through committee MI packs, KRIs, etc. 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 & 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 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



* Head of Prudential Risk have dual reporting line into the CRO

3 CAPITAL RESOURCES

3.1 Total available capital

At 31st December 2018 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 2018 was as follows:

Table 2 Regulatory Capital

	£000
Tier 1 Capital	487,265
Tier 2 Capital	50,000
Total regulatory capital	**537,265**

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 2018. The metrics have also been calculated as if IFRS 9 transitional arrangements had not applied and illustrated below.

Table 3 Key Metrics

Description	Dec-18	
Available Capital (£ 000)	**IFRS9 Full impact**	**IFRS9 Transitional arrangements applied**
Common Equity Tier 1 (CET1)	481,044	487,265
Tier 1 capital	481,044	487,265
Total Teir 1 capital	**481,044**	**487,265**
Tier 2 Capital	50,000	50,000
Total regulatory capital	**531,044**	**537,265**
Risk-Weighted Assets ('RWAS') (£000)	**2,940,867**	***2,940,867**
Capital Ratios (%)		
Tier 1	16.4%	16.6%
Total Capital	18.1%	18.3%
Leverage Ratio		
Total Leverage ratio exposure measure (£000)	4,738,858	4,738,858
Leverage Ratio (%)	10.15%	10.28%

* 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 2018 is 95%. 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 2018.

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.

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 2018 is 12.01% 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	223,560
Market Risk	420
Credit Valuation Adjustment	41
Operational Risk	11,249
Total Pillar I capital requirement	**235,269**
Capital in place	**537,265**
Excess of capital for Pillar 1 requirements	**301,996**

The following table shows both the ABCIB's Risk-weighted assets and Risk Ratio under Pillar 1 at 31st December 2018:

Table 5 RWAs and Capital ratio

	£000
Risk Weighted Assets	2,940,867
Risk Asset Ratio	18.3%
Tier 1 Capital Ratio	16.6%

5.4 Credit risk component

The following table shows ABCIB's minimum capital requirement for credit risk under the standardised approach as at 31 December 2018:

Table 6 Credit Risk capital requirement

Exposure Types	Capital Requirement (£000)	Exposure Value (£000)
Central governments or central banks	2,908	1,011,704
Regional governments or local authorities	-	-
Multilateral Development Banks	-	205,207
Institutions	32,646	707,081
Corporates	140,432	2,336,073
Public sector entities	3,567	44,587
Retail	23	378
Other exposures	4,085	47,582
Secured by mortgages on immovable property	9,020	115,537
Items associated with particular high risk	30,846	257,051
Exposures in default	32	406
Total	**223,560**	**4,725,605**

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	840,350	840,350
	3	996	3
	5	129	105
	7	170,228	25,051
		1,011,704	**865,509**
Regional governments or local authorities	7	**-**	**0**
Multilateral Development Banks	1	**205,207**	**204,011**
Institutions (as defined by the capital requirement regulation (CRR)	1	86,189	86,001
	2	84,856	83,663
	3	214,967	175,807
	4	171,370	170,826
	5	149,699	106,191
	7	0	0
		707,081	**622,488**
Corporates	1	149,720	2,802
	2	266,376	154,558
	3	145,443	93,028
	4	81,699	71,129
	5	141,781	141,781
	6	952	952
	7	1,550,101	1,113,671
		2,336,073	**1,577,922**
Public sector entities	7	**44,587**	**44,587**
Retail	7	**378**	**378**
Other items	7	**47,582**	**47,582**
Secured by mortgages on immovable property	7	**115,537**	**111,248**
High Risk (per Article 128 CRR)	7	**257,051**	**257,051**
Exposures in default		**406**	**406**
Total		**4,725,605**	**3,731,181**

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 2018, the buffer is 1.875% of risk weighted assets.

From the 1st January 2019 the CCB will be fully phased in at 2.5%.

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 2018, the Bank had immaterial exposure in 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	1.0%	28 November 2018		
France	0.0%	30 December 2015	0.25%	01 July 2019
Denmark	0.0%	01 January 2016	0.50%	31 March 2019
			1.00%	30 September 2019
Ireland	0.0%	01 January 2016	1.00%	05 July 2019
Sweden	2.0%	19 March 2017	2.5%	19 September 2019
Hong Kong	1.875%	01 January 2018	2.5%	01 January 2019
Czech Republic	1.0%	01 July 2018	1.25%	01 January 2019
			1.50%	01 July 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 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.
- Review and recommend ABCIB Credit Policy.
- 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. It maintains oversight through client reviews, portfolio Management Information (MI) and Key Risk Indicators (KRIs). Credit unit maintains and recommends changes to the credit policy and procedures. It also reviews the under performing and non performing book, for the purpose of IFRS 9 and specific provisions, as well as monitoring credit portfolio.

The quality of the credit portfolio is good with the non-performing book (Stage 3) constituting 0.46% of the total exposure. The specific provisions against the gross non-performing exposure (Stage 3) is 71% representing good coverage.

As part of IFRS 9 implementation in 2018, ABCIB has undertaken an extensive exercise to ensure compliance with IFRS 9 standards, which are used to calculate Stage 1 and Stage 2 provisions, while specific provisions are provided for Stage 3.

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 10 Credit risk exposures

	2018 (£000)				2017 (£000)
	Stage 1	Stage 2	Stage 3	Total	
Financial	1,604,995	86,673	100	1,691,768	1,501,423
Central Banks and Governments	839,295	22	105	839,421	467,565
Other	372,328	10,427	515	383,270	268,963
Property Related	228,375	71,329	-	299,704	300,930
Motor Vehicle Related	204,495	-	-	204,495	239,112
Commodity Related	103,026	13,310	-	116,336	62,691
TOTAL	**3,352,513**	**181,761**	**720**	**3,534,994**	**2,840,685**

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

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 11 Exposure Breakdown by Country

	2018 (£000)				2017 (£000)
	Stage 1	Stage 2	Stage 3	Total	
Europe	1,759,584	81,912	303	1,841,799	1,313,362
MENAT	1,127,698	99,846	212	1,227,756	1,118,446
Asia	183,401	-	205	183,605	187,173
North America	131,976	-	-	131,976	115,896
South America	110,679	-	-	110,679	49,799
Other	39,176	3	-	39,179	56,009
TOTAL	**3,352,513**	**181,761**	**720**	**3,534,994**	**2,840,685**

The values above table 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	2018 (£000)	2017 (£000)
Cash and cash equivalents	70,763	21,379
Loans and advances to banks	1,855,187	1,441,263
Loans and advances to customers	1,414,678	1,121,735
Financial investments - available-for-sale	-	277,687
Debt investments - FVOCI	265,129	-
Derivative financial assets	1,905	874
	3,607,662	**2,862,938**
Contingent liabilities	1,723,031	1,269,850
Commitments	333,655	323,994
	2,056,686	**1,593,844**

Breakdown of Credit Risk Mitigation

Table 13 Credit Risk Mitigation

	2018 (£000)	2017 (£000)
Cash collateralised		
Loans and advances to customers and banks	85,161	129,997
Contingent liabilities	930,059	376,146
Guaranteed by Banks and Credit Agencies		
Loans and advances to customers and banks	398,965	327,336
Contingent liabilities	25,669	53,255
Commitments	15,864	37,258
Risk concentration against individual counterparties		
Largest exposure to individual Bank before collateral (fully collateralised)	440,875	182,626
Largest exposure to individual customer before collateral	87,983	110,096
Largest exposure to individual customer after collateral	87,983	110,096
Central Bank liquidity Buffer before collateral *	790,350	393,494
Central Bank liquidity Buffer after collateral	790,350	393,494

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

Credit quality per class of financial assets

Table 14 2018/2017 Loans, Receivables and AFS breakdown

	Loans & Receivables 2018 (£000)	Financial Investments AFS 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**

	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**

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.

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

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

Market Risk and other risks are reviewed in the ALCO.

Table 15 VaR exposures

ABCIB's VaR exposures:	Maximum 2018 (£000)	Minimum 2018 (£000)	Maximum 2017 (£000)	Minimum 2017 (£000)
Trading	29	0	3	0
Banking	5,916	1,519	11,039	324

Liquidity risk

Liquidity risks are reviewed in 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:

- he 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) in place such as, 30 days cash flow positions, survival days, liquidity mismatch, etc.

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

LCR components	£000
Liquidity Buffer	566,611
Total Net cash outflows	192,084
Liquidity Coverage Ratio	**%**
Liquidity Coverage Ratio	325%

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
2018 (£000)						
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
Financial investments - available-for-sale	38,779	73,494	152,891	-	(36)	265,129
	2,138,132	**1,056,967**	**353,260**	**8,711**	**(22,077)**	**3,534,994**
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**	**IAS 39 impairment losses**	**Total**
Loans and advances to banks	611,927	794,837	34,828	131	(460)	1,441,263
Loans and advances to customers	627,800	200,169	307,580	9,170	(22,984)	1,121,735
Financial investments - available-for-sale	100,394	81,068	96,225	-	-	277,687
	1,340,121	**1,076,075**	**438,632**	**9,301**	**(23,444)**	**2,840,686**

The table below summarises the maturity of ABCIB's financial liabilities at 31st December 2018 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
2018 (£000)					
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
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	2,461,344
Derivative financial liabillities	1,601	679	-	-	2,280
Commitments	10,940	99,162	213,892	-	323,994
Financial guarantees	214,608	109,032	100,841	15,557	440,038
Other	14,564	-	-	-	14,564

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 are owned and managed by the first line, 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 core Operational Risk policy and framework, and these are used to manage and monitor the risks, with the key tools being:

- Operational Risk Incidents
- 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 an ABCIB Operational Risk Committee (ORCO) which is attended by the senior managers of each core business and support functions. The ORCO reports into the ABCIB Risk Management Committee.

Enterprise risk management

ABCIB has a well-structured Enterprise Risk Management (ERM) unit in place. The primary focus of ERM is to enhance and integrate the Enterprise Risk Management Framework covering all relevant Risks applicable to the Bank. ERM facilitates management review and oversight over all key Risks within ABCIB through the Risk Management Committee (RMC) and other engagements through committee MI packs, KRIs, etc. The unit also provides appropriate support to the CRO for effective Risk 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 risk oversight requirements of the Risk Management Committee (RMC) and the Board Risk Committee (BRC).

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.

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. This plan involves effectively upgrading the current Paris branch to subsidiary status. Milan and Frankfurt will become passported branches of this new EU Subsidiary, which will be a subsidiary of ABCIB.

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.

A final decision on the timing of the cutover to the new model will be taken once the UK's exit date from the EU is known and subject to legal and regulatory conditions being met.

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 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 20 Provisions

	Loan loss provision under IAS39 at 31 December 2017	ECL under IFRS 9 at 1 January 2018	2018			Total
			Stage 1	Stage 2	Stage 3	
	£000	£000	£000	£000	£000	£000
Cash and cash equivalents						-
Loans and advances to banks	460	2,489	2,193	340	439	2,972
Loans and advances to customers	16,715	21,739	1,932	3,131	14,006	19,069
Collectively assessed Customers	5,700					-
Available-for-sale debt investment securities per IAS39						-
debt financial assets at FVOCI under IFRS 9		103	36			36
Credit commitments and contingencies	569	6,225	1,698	828	3,931	6,457
	23,444	**30,556**	**5,859**	**4,299**	**18,376**	**28,534**

Table 21 Provisions (ECL allowance)

	2018			
	£000	£000	£000	£000
ECL allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2018	6,557	6,254	17,744	30,556
New assets originated / purchased	7,420	-	-	7,420
Assets fully repaid or derecognised (excluding write-offs)	(3,454)	(4,327)	-	(7,782)
Transfers to stage 1	291	(291)	-	-
Transfers to stage 2	(3,305)	3,305	-	-
Transfers to stage 3	-	(964)	964	-
Partial redemptions and other drawdowns	(2,030)	(42)	-	(2,072)
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	-	-
Amounts written-off	-	-	(3,574)	(3,574)
Impact on year end ECL of exposures transferred between stages	-	-	2,365	2,365
Foreign exchange & other adjustments	379	364	877	1,621
As at 31 December 2018	**5,859**	**4,299**	**18,376**	**28,534**

9 ASSET ENCUMBRANCE

As at 31st December 2018, ABCIB did not undertake any activities that resulted in any assets being encumbered. ABCIB's balance sheet stood at £3,969m, 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	**3,696,138**
Adjustments for off balance sheet items	1,039,463
Adjustments for derivative financial instruments	3,944
Collective impairment provision	-
Other adjustments (e.g. deductions from Tier 1)	(688)
Total Leverage Ratio exposures: total exposure method	**4,738,858**
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	64,650
Off-balance sheet items with a 50% CCF in accordance with Article 429 (10) of the CRR	754,694
Off-balance sheet items with a 100% CCF in accordance with Article 429 (10) of the CRR	220,119
Total Off Balance shet exposures for Leverage Ratio	**1,039,463**
Derivative exposures	
Replacement cost asscociated with derivative transactions	6
Add-on amounts under the mark-to-market method	3,939
Total Derivative exposures for Leverage Ratio	**3,944**
Tier 1 capital and final Leverage Ratio	
Tier 1 capital	487,265
Total Leverage Ratio exposures: total exposure method	4,738,858
Leverage ratio	**10.28%**

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 2018 Bank ABC had 54 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	£4,633,293	£2,417,432
Support, Risk & Control Functions	£3,589,544	£1,211,200

Appendix 1 Reconciliation between audited financial statements and regulatory own funds as at 31st December 2018

	Amount as at 31st Dec 2018 (£000)
Called up share capital	212,296
Retained Earnings	275,816
Available for sale reserve	(576)
Audited Financial Statements	**487,536**
Regulatory Adjustments	
IFRS9 transitional arrangements	6,222
Foreseeable Dividend	(5,771)
Other regulatory adjutments	(721)
Tier 1 Capital	**487,265**
Subordinated Debt - Issued 12/2016	50,000
Tier 2 Capital	**50,000**
Total Capital Resources	**537,265**

Appendix 2 Own Funds disclosure

	Amount as at 31st Dec 2018 (£000)
Common Equity Tier 1 (CET1) capital: Instruments and reserves	
Capital Instruments	212,296
Retained Earnings	275,816
Available for sale reserve	(576)
Common Equity Tier 1 (CET1) capital: Before regulatory adjustments	**487,536**
Regulatory Adjustments:	
IFRS9 transitional arrangements	6,222
Foreseeable Dividend	(5,771)
Other regulatory adjutments	(721)
Common Equity Tier 1 (CET1) capital: After regulatory adjustments	**487,265**
Additional Tier 1 Capital (AT1)	-
Tier 1 capital (CET1 + AT1)	**487,265**
Tier 2 capital	**50,000**
Total capital	**537,265**
Risk Weighted Assets	**2,940,867**
CET1 Ratio	**16.6%**
Tier 1 Ratio	**16.6%**
Total Capital Ratio	**18.3%**