Basel III– Risk and Pillar III disclosures

30 June 2015

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1. Introduction

The Central Bank of Bahrain [the CBB] requirements, which act as a common framework for the implementation of the Basel Accord in the Kingdom of Bahrain, has implemented the Basel III effective 1 January 2015.

The Basel Accord is built on three pillars:

- **Pillar I** defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by the bank's own regulatory funds.

- **Pillar II** addresses a bank's internal processes for assessing overall capital adequacy in relation to risks (ICAAP). Pillar II also introduces the Supervisory Review and Evaluation Process (SREP), which assesses the internal capital adequacy.

- **Pillar III** complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy.

The CBB has issued directives on public disclosures under Basel III framework including the recent amendment in May 2015 with respect to composition of the capital. This document gathers together all the elements of the disclosures required under Pillar III and is organized as follows:

- an overview of the approach taken by Bank ABC (Arab Banking Corporation (B.S.C.)) ["the Bank"] and its subsidiaries [together "the Group"] to Pillar I including the profile of the risk weighted assets according to the "standard portfolio" as defined by the CBB.

- an overview of risk management practices and framework at the Bank with specific emphasis on credit, market and operational risks. Also covered are the related monitoring processes and credit mitigation initiatives.

- all other disclosures required under the Public Disclosure Module of the CBB.

The disclosures in this report are in addition to the interim condensed consolidated financial statements (financial statements) for the period ended 30 June 2015 prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'. The principle differences between the two reports are as follows:

- The financial statements report the nominal values of credit-related contingent items as off-statement of financial position. This document reports credit exposures, which is computed by application of a credit conversion factor [CCF] to the nominal value of the credit-related contingent items. The CCF is at 20%, 50% or 100%, depending on the product, as per the Basel III framework.

1. Introduction (continued)

- The financial statements categorises financial assets based on asset class (i.e. securities, loans and advances, etc.). This document categorises financial assets into credit exposures as per the 'Standard Portfolio' approach set out in the CBB's Basel III capital adequacy framework. In the case of exposures with eligible guarantees, it is reported based on the category of guarantor.

- Eligible collateral is taken into consideration in arriving at the net exposure under the Basel III framework in this report. There is no netting of collaterals in the financial statements.

- Under the Basel III framework, certain items are considered as a part of the regulatory capital base. These items are netted off against assets in the financial statements.

2. Group structure

The parent bank, Arab Banking Corporation (B.S.C.), was incorporated in 1980 in the Kingdom of Bahrain by an Amiri decree and operates under a conventional wholesale banking license issued by the CBB.

The financial statements and capital adequacy regulatory reports of the Bank and its subsidiaries have been prepared and consolidated on a consistent basis.

The principal subsidiaries as at 30 June 2015, all of which have 31 December as their year-end, are as follows:

	Country of incorporation	**Shareholding % of Arab Banking Corporation (B.S.C.)**
ABC International Bank plc	United Kingdom	100.0
ABC Islamic Bank (E.C.)	Bahrain	100.0
Arab Banking Corporation (ABC) – Jordan	Jordan	87.0
Banco ABC Brasil S.A.	Brazil	60.1
ABC Algeria	Algeria	87.7
Arab Banking Corporation - Egypt [S.A.E.]	Egypt	99.6
ABC Tunisie	Tunisia	100.0
Arab Financial Services Company B.S.C. (c)	Bahrain	54.6

3. Capital structure

The Group's capital base primarily comprises:

(a) **Tier 1 capital**: share capital, reserves, retained earnings, profit for the period and equity revaluation reserves

(b) **Tier 2 capital**: eligible subordinated term debt and collective impairment provisions.

The portion of tier 1 and tier 2 instruments attributable to non-controlling interests are added to the respective capital tiers in accordance with the regulatory definitions.

The issued and paid-up share capital of the Bank is US$ 3,110 million at 30 June 2015, comprising 3,110 million shares of US$ 1 each.

The Tier 2 capital includes subordinated term debt of US$ 366 million (eligible portion) at 30 June 2015. These have been raised at the parent and a subsidiary of the bank. The details of these issues are described in appendix PD 3 of this document.

The Group's capital base and risk weighted assets is summarized below:

Capital base and Risk weighted assets (RWA)	***US$ million***
Capital base	
CET 1	**4,136**
AT 1	**52**
Total Tier 1 capital	**4,188**
Tier 2	**548**
Total capital base	**4,736**
Risk weighted assets	
Credit risk	**20,120**
Market risk	**1,691**
Operational risk	**1,642**
Total Risk weighted assets	**23,453**
CET 1 ratio	**17.6%**
Tier 1 ratio	**17.9%**
Capital adequacy ratio	**20.2%**

The details about the composition of capital are provided in appendices PD 2 and 4.

4. Capital adequacy ratios (CAR)

The objective of capital management at the Group is to ensure the efficient use of capital taking into consideration the business growth requirements , risk profile, and shareholders' returns expectations.

The Group manages its capital structure in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may issue ordinary share capital, AT 1 or Tier 2 securities or adjust the amount of dividend payments to shareholders. The determination to pay dividends and the amount thereof will depend upon, among other things, the Group's earnings, the requirement to set aside minimum statutory reserves, capital requirements to support the growth (organic and inorganic), approval from the CBB and applicable requirements under Bahrain Commercial Companies Law, as well as other factors that the Board of Directors and the shareholders may deem relevant.

No changes have been made in the objectives, policies and processes from the previous year.

The Group's total capital adequacy ratio as at 30 June 2015 was 20.2% compared with the minimum regulatory requirement of 12.5%. The Tier 1 ratio was 17.9% for the Group. The Group ensures adherence to the CBB's requirements by monitoring its capital adequacy against higher internal limits.

Each banking subsidiary in the Group is directly regulated by its local banking supervisor, which sets and monitors local capital adequacy requirements. The Group ensures that each subsidiary maintains sufficient capital levels for legal and regulatory compliance purposes. There have been no instances of deficiencies in the banking subsidiaries' local capital adequacy requirements.

The Tier 1 and total capital adequacy ratio of the significant banking subsidiaries (those whose regulatory capital amounts to over 5% of the Group's consolidated regulatory capital) under the local regulations were as follows:

Subsidiaries (over 5% of Group regulatory capital)	**Tier 1 ratio**	**CAR (total)**
ABC Islamic Bank (E.C.)	***21.7%***	***21.7%***
ABC International Bank Plc*	***20.9%***	***21.0%***
Banco ABC Brasil S.A.*	***11.4%***	***14.8%***

* CAR has been computed after mandatory deductions from the total of Tier 1 and Tier 2 capital.

The management believes that there are no impediments on the transfer of funds or reallocation of regulatory capital within the Group, subject to restrictions to ensure minimum regulatory capital requirements at the local level.

5. Profile of risk-weighted assets and capital charge

The Group has adopted the standardised approach for credit risk, market risk and operational risk for regulatory reporting purposes. The Group's risk-weighted capital requirements for credit, market and operational risks are given below:

5.1 Credit risk

a) Definition of exposure classes per Standard Portfolio

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the CBB's Basel III Capital Adequacy Framework, covering the Standardised Approach for credit risk.

The principal descriptions of the counterparty classes, along with the risk weights to be used to derive the risk-weighted assets, are as follows:

i. Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on Bahrain and other GCC sovereigns are risk-weighted at 0%. Claims on all other sovereigns are given a risk weighting of 0% where such claims are denominated and funded in the relevant domestic currency of that sovereign. Claims on sovereigns, other than those mentioned above, are risk-weighted based on their credit ratings.

ii. Claims on public sector entities (PSEs)

Bahrain PSEs, as defined by CBB rules, are assigned a 0% risk weighting. Other sovereign PSEs, where claims are denominated in the relevant domestic currency and for which the local regulator has assigned a risk weighting of 0%, are assigned a 0% risk weighting by the CBB. PSEs other than those mentioned above are risk-weighted based on their credit ratings.

iii. Claims on multilateral development banks (MDBs)

All MDBs are risk-weighted in accordance with the banks' credit ratings, except for those members listed in the World Bank Group, which are risk-weighted at 0%.

iv. Claims on banks

Claims on banks are risk-weighted based on the ratings assigned to them by external rating agencies. However, short-term claims on locally-incorporated banks are assigned a risk weighting of 20% where such claims on the banks are of original maturities of three months or less, and are denominated and funded in either Bahraini Dinars or US Dollars.

5. Profile of risk-weighted assets and capital charge (continued)

5.1 Credit risk (continued)

iv. Claims on banks (continued)

Preferential risk weights that are one category more favorable than the standard risk weighting are assigned to claims on foreign banks licensed in Bahrain, with original maturities of three months or less and denominated and funded in the relevant domestic currency. Such preferential risk weights for short-term claims on banks licensed in other jurisdictions are allowed only if the relevant supervisor also allows such preferential risk weighting to short-term claims on its banks.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

v. Claims on the corporate portfolio

Claims on the corporate portfolio are risk-weighted based on credit ratings. Risk weightings for unrated corporate claims are assigned at 100%.

vi. Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), provided they meet the criteria stipulated in the CBB's Rule Book.

vii. Past due loans

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk-weighted as follows:

- 150% risk weighting when specific provisions are less than 20% of the outstanding amount of the loan; and
- 100% risk weighting when specific provisions are greater than 20% of the outstanding amount of the loan.

viii. Residential retail portfolio

Lending fully secured by first mortgages on residential property that is or will be occupied by the borrower, or that is leased, is risk-weighted at 75%. However, where foreclosure or repossession with respect of a claim can be justified, the risk weighting is 35%.

5. Profile of risk-weighted assets and capital charge (continued)

5.1 Credit risk (continued)

ix. Equity portfolios

Investments in listed equities are risk weighted at 100% while those in unlisted equities are risk weighted at 150%.

x. Other exposures

These are risk weighted at 100%.

b) Credit exposure and risk weighted assets

US$ million	Gross credit exposure	Funded exposure	Unfunded exposure	Cash collateral	Eligible guarantees	Risk-weighted assets	Capital charge
Cash	84	84	-	-	-	11	1
Claims on sovereigns*	4,925	4,738	187	72	66	416	52
Claims on public sector entities **	2,129	2,006	123	62	3	1,711	214
Claims on multilateral development banks	212	211	1	-	-	14	2
Claims on banks	9,770	8,507	1,263	475	263	4,564	571
Claims on corporate portfolio	12,767	10,506	2,261	176	1	11,953	1,494
Regulatory retail exposures	687	644	43	-	-	515	64
Past due loans	61	61	-	1	-	61	8
Residential retail portfolio	7	7	-	5	-	3	-
Equity portfolios	182	182	-	-	-	291	36
Other exposures	498	462	36	-	-	581	73
	31,322	**27,408**	**3,914**	**791**	**333**	**20,120**	**2,515**

* Includes Ginnie Mae & Small Business Administration Pools
** Includes exposures to Collateralized Mortgage Obligations (CMOs) of Freddie Mac and Fannie Mae, both of which are deemed to be Government Sponsored Enterprises (GSE).

Monthly average gross exposures and the risk-weighted assets for six-month period in 2015 were US$ 31,966 million and US$ 20,027 million respectively.

5. Profile of risk-weighted assets and capital charge (continued)

5.2 Market risk

In line with the 'Standardised Approach' to calculating market risk, the capital charge for market risk is as follows:

US$ million	RWA	Period end Capital Charge	Capital charge – Minimum*	Capital charge – Maximum*
Interest rate risk	553	69	58	93
- Specific interest rate risk	260	32	26	35
- General interest rate risk	293	37	32	58
Equity position risk	2	-	-	1
Foreign exchange risk	1,136	142	133	153
Options risk	-	-	-	-
Total market risk	**1,691**	**211**	**191**	**247**

* The information in these columns shows the minimum and maximum capital charge of each of the market risk categories during the period ended 30 June 2015.

5.3 Operational risk

In accordance with the Standardised Approach, as at 30 June 2015, the total capital charge in respect of operational risk was US$ 205 million, equivalent to risk weighted assets of US$ 1,642 million. This capital charge was computed by splitting the Group's activities into eight business lines (as defined by the Basel framework) and multiplying each business line's three-year average gross income by a pre-defined beta factor.

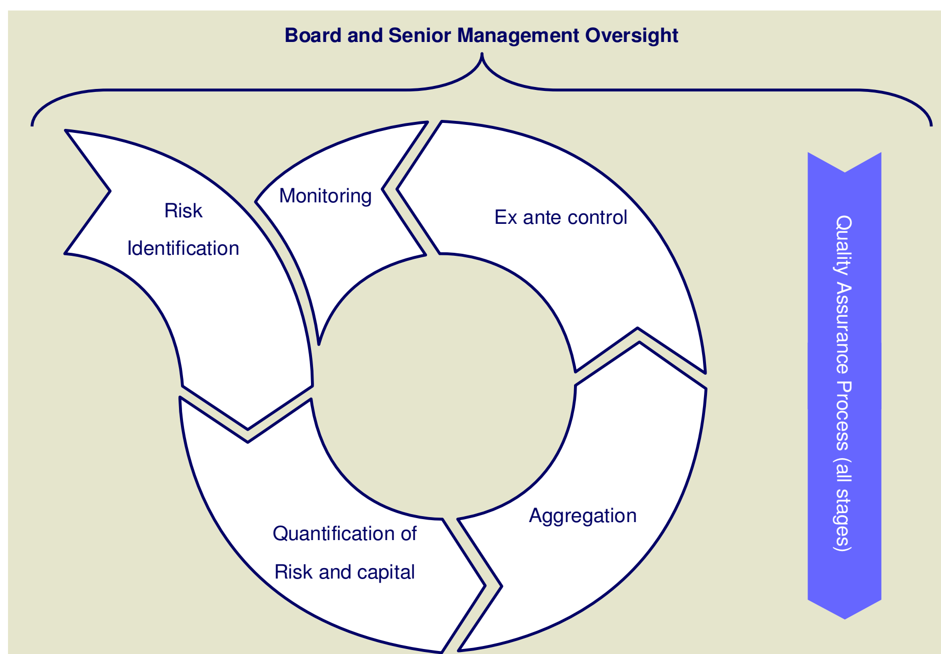
6. Risk management

6.1 Introduction

Risk is inherent in the Group's activities and is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. The Group is exposed to credit, market, liquidity, interest rate, operational, legal and strategic risks, as well as other forms of risk inherent in its financial operations.

Over the last few years, the Group has invested heavily in developing a comprehensive and robust risk management infrastructure. This includes credit, market and operational risk identification processes; risk measurement models and rating systems; and a strong business process to monitor and control these risks. Figure 1 outlines the various congruous stages of the risk process.

Figure 1:



The Board Risk Committee (BRC) sets the Group's Risk Strategy/Appetite and Policy Guidelines. Senior management is responsible for their implementation.

6. Risk management (continued)

6.2 Risk management structure

Figure 2:

Within the broader governance infrastructure, the Board Committees carry the main responsibility for best practice management and risk oversight. At this level, the BRC oversees the definition of risk/reward guidelines, risk appetite, risk tolerance standards and risk process standards. The BRC also takes responsibility for coordinating with other Board Committees in monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Group operates.

The **Head Office Credit Committee (HOCC)** is responsible for credit decisions at the higher levels of the Group's wholesale and retail lending portfolios, setting country and other high-level Group limits, dealing with impaired assets, provisioning and general credit policy matters.

The **Group Asset and Liability Committee (GALCO)** is responsible for defining long-term strategic plans and policy, as well as short-term tactical initiatives for prudently directing asset and liability allocation. GALCO monitors the Group's liquidity and market risks, and the Group's risk profile, in the context of economic developments and market fluctuations. GALCO is assisted by tactical sub-committees for Capital & Liquidity Management; Investments; Structural FX.

The **Group Operational Risk Management Committee (GORCO)** is responsible for defining long-term strategic plans and short-term tactical initiatives for the identification, prudent management, control and measurement of the Group's exposure to operational and other non-financial risks. GORCO frames policy and oversees the operational risk function. Specialist risk committees, such as the Group Compliance Oversight Committee, the Group Business Continuity Committee and the Group IT Risk Committee are responsible for the proper management of certain categories of non-financial risk.

6. Risk management (continued)

6.2 Risk management structure (continued)

The **Credit & Risk Group (CRG)** is responsible for centralised credit policy and procedure formulation, country risk and counterparty analysis, approval/review and exposure reporting, control and risk-related regulatory compliance, remedial loans management and the provision of analytical resources to senior management. Additionally, it identifies market and operational risks arising from the Group's activities, recommending to the relevant central committees appropriate policies and procedures for managing exposure.

The Group’s subsidiaries are responsible for managing their own risks, which they do through local equivalents of the head office committees described above.

Under the single obligor regulations of the CBB and other host regulators, the CRG and its local equivalents have to obtain approval for any planned exposures above specific thresholds to single counterparties, or groups of connected counterparties.

Credit Risk
The Group’s portfolio and credit exposures are managed in accordance with the Group Credit Policy, which applies Group-wide qualitative and quantitative guidelines, with particular emphasis on avoiding undue concentrations or aggregations of risk. The Group’s banking subsidiaries are governed by specific credit policies that are aligned with the Group Credit Policy, but may be adapted to suit local regulatory requirements as well as individual units' product and sectoral needs.

The first level of protection against undue credit risk is through the Group’s counterparty, country, industry and other risk threshold limits, together with customer and customer group credit limits. The BRC and the HOCC sets these limits and allocates them between the Group and its banking subsidiaries. A tiered hierarchy of delegated approval authorities, based on the risk rating of the customer under the Group’s internal credit rating system, controls credit exposure to individual customers or customer groups.

Credit limits are prudent, and the Group uses standard mitigation and credit control technologies.

The Group employs a Risk-Adjusted Return on Capital (RAROC) measure to evaluate risk/reward at the transaction approval stage. This is aggregated for each business segment and business unit, and for the Group as a whole. It is upgraded when appropriate.

Business unit account officers are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and associated risks, within the framework developed and maintained by the CRG. Group Audit, meanwhile, carries out separate risk asset reviews of business units, to provide an independent opinion on the quality of their credit exposures, and adherence to credit policies and procedures. These measures, collectively, constitute the main lines of defence against undue risk for the Group.

6. Risk management (continued)

6.2 Risk management structure (continued)

Credit Risk (continued)

The Group’s retail lending is managed under a framework that carefully considers the whole credit cycle. The framework is in line with the industry best practice, meets regulatory requirements and documents all transactions. One of the framework’s key objectives is to safeguard the overall integrity of the portfolios and to ensure that there is a balance between risk and reward, while facilitating high-quality business growth and encouraging innovation. Retail lending is offered under product programs which are approved through a robust product approval process and governed by specific risk policies.

Credit exposures that have significantly deteriorated are segregated and supervised more actively by the CRG’s Remedial Loans Unit (RLU). Subject to minimum loan loss provision levels mandated under the Group Credit Policy, specific provisions in respect of impaired assets are based on estimated potential losses, through a quarterly portfolio review and adequacy of provisioning exercise, which complies with IAS 39. A collective impairment provision is also maintained to cover unidentified possible future losses.

As at 30 June 2015, the Group did not have any exposures in excess of 15%.

6. Risk management (continued)

6.2 Risk management structure (continued)

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, Group policies and procedures include specific guidelines to focus on country and counterparty limits and the importance of maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Risk mitigation, collateral and other credit enhancements

The amount and type of collateral depends on the counterparty credit risk assessment. The types of collateral mainly include cash and guarantees from banks and other eligible counterparties widespread across various regions.

Management monitors the market value of collateral and where required, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained on an ongoing basis. The Group also makes use of master netting agreements with counterparties.

As part of its overall risk management, the Group also uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorized by the appropriate level of seniority within the Group. The effectiveness of hedges is monitored monthly by the Group.

6. Risk management (continued)

6.3 Geographical distribution of exposures

a) The geographical distribution of exposures, impaired assets and the related impairment provisions can be analysed as follows:

US$ million	Gross credit exposure	Impaired loans	Specific provision impaired loans	Impaired securities	Specific provision impaired securities
North America	2,781	-	-	110	105
Western Europe	3,890	28	27	-	-
Other Europe	1,611	-	-	-	-
Arab World	13,477	284	264	17	15
Other Africa	39	-	-	-	-
Asia	1,795	3	1	12	-
Australia/New Zealand	17	-	-	-	-
Latin America	7,712	89	51	-	-
	31,322	**404**	**343**	**139**	**120**

In addition to the above specific provisions the Group has collective impairment provision amounting to US$ 182 million.

6. Risk management (continued)

6.3 Geographical distribution of exposures (continued)

b) The geographical distribution of gross credit exposures by major type of credit exposures can be analysed as follows:

US$ million	North America	Western Europe	Other Europe	Arab World	Other Africa	Asia	Australia/New Zealand	Latin America	Total
Cash	-	-	-	84	-	-	-	-	**84**
Claims on sovereigns*	411	392	67	2,133	-	118	-	1,804	**4,925**
Claims on public sector entities **	73	225	-	1,708	-	47	-	76	**2,129**
Claims on multilateral development banks	72	48	-	77	-	15	-	-	**212**
Claims on banks	799	1,720	1,403	3,595	9	1,436	2	806	**9,770**
Claims on corporate portfolio	1,269	1,416	141	4,822	30	173	15	4,901	**12,767**
Regulatory retail exposures	-	-	-	639	-	-	-	48	**687**
Past due loans	-	1	-	20	-	2	-	38	**61**
Residential retail portfolio	-	6	-	1	-	-	-	-	**7**
Equity portfolios	115	-	-	38	-	4	-	25	**182**
Other exposures	42	82	-	360	-	-	-	14	**498**
	2,781	**3,890**	**1,611**	**13,477**	**39**	**1,795**	**17**	**7,712**	**31,322**

* Includes Ginnie Mae & and Small Business Administration pools.
** Includes exposures to CMOs of Freddie Mac and Fannie Mae, both of which are deemed to be GSEs.

6. Risk management (continued)

6.4 Industrial sector analysis of exposures

a) The industrial sector analysis of exposures, impaired assets and the related impairment provisions can be analysed as follows:

US$ million	Gross exposure	Funded exposure	Unfunded exposure	Impaired loans	Specific provision impaired loans	Impaired securities	Specific provision impaired securities
Manufacturing	4,698	3,870	828	64	51	-	-
Mining and quarrying	149	125	24	2	-	-	-
Agriculture, fishing and forestry	21	21	-	2	2	-	-
Construction	1,350	1,078	272	50	27	-	-
Financial	11,849	10,337	1,512	95	94	121	118
Trade	848	760	88	74	71	-	-
Personal / Consumer finance	814	763	51	26	21	-	-
Commercial real estate financing	483	454	29	-	-	-	-
Government	5,102	4,938	164	22	22	-	-
Technology, media & telecommunications	471	355	116	22	22	-	-
Transport	993	889	104	15	8	-	-
Other sectors	4,544	3,818	726	32	25	18	2
	31,322	**27,408**	**3,914**	**404**	**343**	**139**	**120**

6. Risk management (continued)

6.4 Industrial sector analysis of exposures (continued)

b) The industrial sector analysis of gross credit exposures by major types of credit exposures can be analysed as follows:

US$ million	Manufactu-ring	Mining and quarrying	Agriculture, fishing and forestry	Construc-tion	Financial	Trade	Personal / consumer finance	Commercial real estate financing	Residential mortgage	Govern-ment	Technology, media & telecommunic-ations	Transport	Other sectors	Total
Cash	-	-	-	-	-	-	41	-	-	-	-	-	43	**84**
Claims on sovereigns*	-	-	-	-	147	-	-	-	-	4,778	-	-	-	**4,925**
Claims on public sector entities **	906	-	-	21	483	-	-	-	-	324	76	19	300	**2,129**
Claims on multilateral development banks	-	-	-	-	212	-	-	-	-	-	-	-	-	**212**
Claims on banks	-	-	-	-	9,770	-	-	-	-	-	-	-	-	**9,770**
Claims on corporate portfolio	3,779	147	21	1,306	1,046	845	69	483	-	-	395	967	3,709	**12,767**
Regulatory retail exposures	-	-	-	-	-	-	682	-	-	-	-	-	5	**687**
Past due loans	13	2	-	23	1	3	5	-	-	-	-	7	7	**61**
Residential retail portfolio	-	-	-	-	-	-	-	-	-	-	-	-	7	**7**
Equity portfolios	-	-	-	-	163	-	17	-	-	-	-	-	2	**182**
Other exposures	-	-	-	-	27	-	-	-	-	-	-	-	471	**498**
	4,698	**149**	**21**	**1,350**	**11,849**	**848**	**814**	**483**	**-**	**5,102**	**471**	**993**	**4,544**	**31,322**

* Includes Ginnie Mae & and Small Business Administration pools.

** Includes exposures to CMOs of Freddie Mac and Fannie Mae, both of which are deemed to be GSEs.

6. Risk management (continued)

6.5 Exposure by external credit rating

The Group uses external ratings from Standard & Poor's, Moody's, Fitch Ratings and Capital Intelligence (accredited External Credit Assessment Institutions). The breakdown of the Group's exposure into rated and unrated categories is as follows:

US$ million	**Net credit exposure (after credit risk mitigation)**	**Rated exposure**	**Unrated exposure**
Cash	84	-	84
Claims on sovereigns*	4,853	4,570	283
Claims on public sector entities**	2,067	512	1,555
Claims on multilateral development banks	212	212	-
Claims on banks	9,295	7,903	1,392
Claims on corporate portfolio	12,591	1,755	10,836
Regulatory retail exposure	687	-	687
Past due loans	60	-	60
Residential retail portfolio	2	-	2
Equity portfolios	182	-	182
Other exposures	498	-	498
	30,531	14,952	15,579

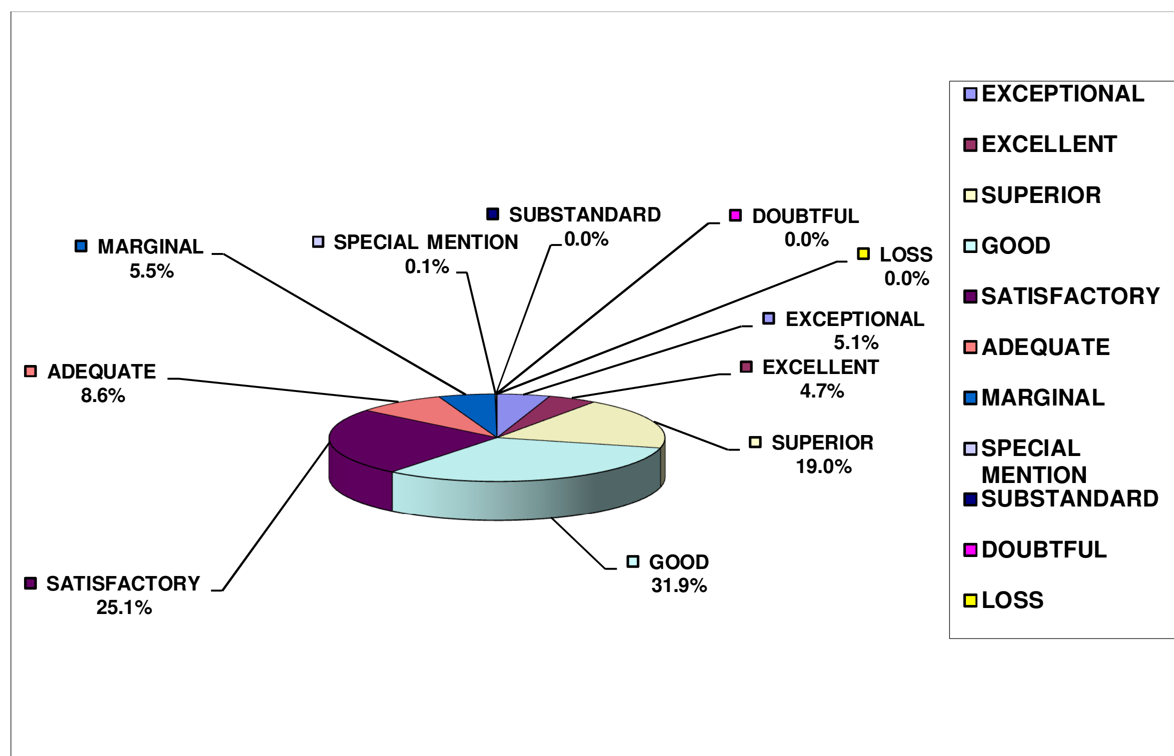
* Includes Ginnie Mae & and Small Business Administration pools.
**Includes exposures to CMOs of Freddie Mac and Fannie Mae, both of which are deemed to be GSEs.

6. Risk management (continued)

6.5 Exposure by external credit rating (continued)

The Group has a policy of maintaining accurate and consistent risk methodologies. It uses a variety of financial analytics, combined with market information, to support risk ratings that form the main inputs for the measurement of counterparty credit risk. All internal ratings are tailored to the various categories, and are derived in accordance with the Group's credit policy. They are assessed and updated regularly. Each risk rating class is mapped to grades equivalent to Standard & Poor's, Moody's and Fitch rating agencies.

The Group's credit risk distribution at 30 June 2015 is shown below.



6. Risk management (continued)

6.6 Maturity analysis of funded exposures

Residual contractual maturity of the Group's major types of funded credit exposures, except for CMOs, Small Business Administration pools amounting to US$ 394 million which are based on expected realization or settlement, is as follows:

US$ million	within 1 month	1-3 months	3-6 months	6-12 months	Total within 12 months	1 – 5 years	5-10 years	10-20 years	Over 20 years	Undated	Total over 12 months	Total
Cash	84	-	-	-	**84**	-	-	-	-	-	**-**	**84**
Claims on sovereigns*	889	775	378	554	**2,596**	1,224	432	25	452	9	**2,142**	**4,738**
Claims on public sector entities**	76	419	248	21	**764**	427	760	54	-	1	**1,242**	**2,006**
Claims on multilateral development banks	-	143	21	22	**186**	25	-	-	-	-	**25**	**211**
Claims on banks	2,831	638	836	1,880	**6,185**	2,287	34	-	-	1	**2,322**	**8,507**
Claims on corporate portfolio	997	1,691	1,310	926	**4,924**	3,816	1,335	184	-	247	**5,582**	**10,506**
Regulatory retail exposures	2	143	18	9	**172**	120	277	56	15	4	**472**	**644**
Past due loans	8	27	11	2	**48**	11	-	-	2	-	**13**	**61**
Residential retail portfolio	-	-	-	-	**-**	1	1	5	-	-	**7**	**7**
Equity portfolios	-	-	-	-	**-**	-	-	-	-	182	**182**	**182**
Other exposures	-	-	-	-	-	-	-	-	-	462	**462**	**462**
	4,887	**3,836**	**2,822**	**3,414**	**14,959**	**7,911**	**2,839**	**324**	**469**	**906**	**12,449**	**27,408**

* Includes exposures to Ginnie Mae & and Small Business Administration pools.
** Includes exposures to CMOs of Freddie Mac and Fannie Mae, both of which are deemed to be GSEs.

6. Risk management (continued)

6.7 Maturity analysis of unfunded exposures

The residual contractual maturity analysis of unfunded exposures is as follows:

US$ million	within 1 month	1-3 months	3-6 months	6 – 12 months	Total within 12 months	1 – 5 years	5-10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months	Total
Claims on sovereigns	25	70	10	58	**163**	6	-	-	18	-	**24**	**187**
Claims on public sector entities	28	3	3	61	**95**	15	13	-	-	-	**28**	**123**
Claims on MDB	-	-	-	-	**-**	1	-	-	-	-	**1**	**1**
Claims on banks	240	331	179	339	**1,089**	142	20	-	12	-	**174**	**1,263**
Claims on corporate portfolio	164	350	333	638	**1,485**	731	32	-	13	-	**776**	**2,261**
Regulatory retail exposures	-	30	4	4	**38**	5	-	-	-	-	**5**	**43**
Other Exposure	-	-	-	-	**-**	-	-	-	-	36	**36**	**36**
	457	**784**	**529**	**1,100**	**2,870**	**900**	**65**	**-**	**43**	**36**	**1,044**	**3,914**

Unfunded exposures are divided into the following exposure types, in accordance with the calculation of credit risk-weighted assets in the CBB's Basel III capital adequacy framework:

(a) **Credit-related contingent items** comprising letters of credit, acceptances, guarantees and commitments.

(b) **Derivatives** including futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

In addition to counterparty credit risk, in accordance with the Basel III Accord, derivatives are also exposed to market risk, which requires a separate capital charge. Also there is a capital charge for Credit valuation of derivatives.

6. Risk management (continued)

6.7 Maturity analysis of unfunded exposures (continued)

a. Credit-related contingent items

As mentioned above, for credit-related contingent items the nominal value is converted to an exposure through the application of a credit conversion factor (CCF). The CCF is at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off-statement of financial position notional amounts into an equivalent on-statement of financial position exposure.

Undrawn loans and other commitments represent commitments that have not been drawn down or utilised at the reporting date. The nominal amount is the base upon which a CCF is applied for calculating the exposure. The CCF ranges between 20% and 50% for commitments with original maturities of up to one year and over one year respectively. The CCF is 0% for commitments that can be unconditionally cancelled at any time.

The table below summarises the notional principal amounts and the relative exposure before the application of credit risk mitigation:

US$ million	**Notional Principal**	**Credit exposure***
Short-term self-liquidating trade and transaction-related contingent items	3,078	1,353
Direct credit substitutes, guarantees and acceptances	3,152	1,459
Undrawn loans and other commitments	1,822	851
	8,052	**3,663**
RWA		**2,755**

* Credit exposure is after applying CCF.

At 30 June 2015, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$ 317 million.

b. Derivatives

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Also included under this heading are those derivatives which do not meet IAS 39 hedging requirements.

6. Risk management (continued)

6.7 Maturity analysis of unfunded exposures (continued)

The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. Additionally, the Group uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified loans and securities bearing fixed interest rates. The Group participates in both exchange-traded and over-the-counter derivative markets.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations, and is limited to the positive fair value of instruments that are favourable to the Group. The majority of the Group's derivative contracts are entered into with other financial institutions, and there was no significant concentration of credit risk in respect of contracts with positive fair value with any individual counterparty as at 30 June 2015.

The counterparty credit risk for derivative and foreign exchange instruments is subject to credit limits on the same basis as other credit exposures. Counterparty credit risk arises in both the trading book and the banking book.

For regulatory capital adequacy purposes, the Group uses the current exposure method to calculate the counterparty credit risk of derivative and foreign exchange instruments, in accordance with the credit risk framework in the CBB's Basel III capital adequacy framework. Counterparty credit exposure comprises the sum of replacement cost and potential future exposure. The potential future exposure is an estimate that reflects possible changes in the market value of the individual contract and is measured as the notional principal amount multiplied by an add-on factor.

The aggregate notional amounts for interest rate and foreign exchange contracts as at 30 June 2015 were as follows:

	Derivatives		
US$ million	**Interest rate contracts**	**Foreign exchange contracts**	**Total**
Notional – Trading book	4,877	7,838	12,715
Notional – Banking book	1,745	744	2,489
	6,622	**8,582**	**15,204**
Credit RWA (replacement cost plus potential future exposure)	153	67	220
Market RWA	293	1,136	1,429

6. Risk management (continued)

6.8 Impairment of assets

An assessment is made at each balance sheet date to determine whether a specific financial asset, or group of financial assets, may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Evidence of impairment may include:

- Significant financial difficulty, default or delinquency in interest or principal payments
- The probability that it will enter bankruptcy or other financial reorganisation
- A measurable decrease in estimated future cash flows, such as changes in arrears or economic conditions, which correlate with defaults.

Impairment is determined as follows:

(a) For assets carried at amortised cost, impairment is based on the present value of estimated future cash flows, discounted at the original effective interest rate

(b) For assets carried at fair value, impairment is the difference between cost and fair value

(c) For assets carried at cost, impairment is based on the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

The Group uses the provision account to record impairments, except for equity and similar investments. These are written down, with future increases in their fair value being recognised directly in equity.

Impairment losses on financial assets

On a quarterly basis, the Group assesses whether any provision for impairment should be recorded in the consolidated statement of income. In particular, management exercises considerable judgment when estimating the amount and timing of future cash flows in order to determine the level of provision required. Such estimates are necessarily based on assumptions about several factors, involving varying degrees of judgment and uncertainty. Actual results may differ, resulting in future changes in such provisions.

Impairment against specific groups of financial assets

In addition to specific provisions against individually significant loans and advances and securities, the Group makes collective provisions to cover impairment against specific groups of financial assets, based on the expected loss (EL) methodology also taking into account the credit grading and the related historic loss pattern within each grading, adjusted to reflect current economic environment.

6. Risk management (continued)

6.8 Impairment of assets (continued)

Industry sector analysis of the specific and collective impairment provisions charges and write-offs

US$ million	**Provision (recovery)**	**Write-offs**
Manufacturing	6	4
Transportation	1	-
Personal / Consumer finance	2	-
Construction	14	-
Other Services	4	3
Mining & quarrying	1	1
Government	(6)	-
	22	**8**

6. Risk management (continued)

6.9 Market risk

Market risk is the risk that the Group's earnings or capital, or its ability to support its business strategy, will be impacted by changes in interest rates, equity prices, credit spreads, foreign exchange rates and commodity prices.

The Group has established risk management policies and limits within which exposure to market risk is measured, monitored and controlled by the CRG, with strategic oversight exercised by GALCO. The CRG's Treasury and Financial Market Risk unit (T&FMR) is responsible for the development and implementation of market risk policy, the risk measurement and monitoring framework, and the review of all trading and investment products / limits before submission to GALCO. The T&FMR includes Market Risk, Middle Office, Liquidity Risk and Product Control. This function also has an additional reporting line to GCFO.

The Group classifies market risk as follows:

Trading market risk arises from movements in market risk factors that affect short-term trading

Non-trading market risk in securities arises from market factors affecting securities held for long-term investment

Non-trading asset and liability risk exposures arise where the re-pricing characteristics of the Group's assets do not match those of its liabilities.

The Group adopts a number of methods to monitor and manage market risks across its trading and non-trading portfolios. These include:

- Value-at-Risk (VaR) (i.e. 1-day 99th percentile VaR using the 'historical simulation' methodology)
- Sensitivity analysis(i.e. basis-point value (BPV) for interest rates and 'Greeks' for options)
- Stress testing / scenario analysis
- Non-technical risk measures (e.g. nominal position values,stop loss vs. P&L, & concentration risk)
- Forward-looking analysis of distress using CDS prices, equity prices and implied volatilities
- A price-discovery and liquidity assessment process to assess liquidity risk of the AFS portfolio
- Hedge funds analytics, including mapping risk factors of hedge fund managers to market risk drivers.

As a reflection of the Group's risk appetite, limits are established against the aforementioned market risk measures. The BRC approves these limits annually and the T&FMR reports on them daily. The T&FMR reports risk positions against these limits, and any breaches, to the Senior Management and GALCO.

6. Risk management (continued)

6.9 Market risk (continued)

Currency rate risk

The Group's trading book has exposures to foreign exchange risk arising from cash and derivatives trading. Additionally, structural balance sheet positions relating to net investment in foreign subsidiaries expose the Group to foreign exchange risk. These positions are reviewed regularly and an appropriate strategy for managing structural FX risk is established by the GALCO. Group Treasury is responsible for executing the agreed strategy.

Interest rate risk

The Group trading, investment and banking activities expose it to interest rate risk. The exposure to interest rate risk in the banking book (IRRBB) arises due to mismatches in the re-setting of interest rates of assets and liabilities. The fact that the Group's rate-sensitive assets and liabilities are mostly floating rate helps to mitigate this risk. In order to manage the overall interest rate risk, the Group generally uses matched currency funding and translates fixed-rate instruments to floating rate.

As at 30 June 2015, a 200 basis points parallel shift in interest rates would potentially impact the Group's economic value by US$ 33 million.

6.10 Business risk

Business risk represents the earnings volatility inherent in all business activities due to the uncertainty of revenues and costs associated with changes in the economic and competitive environment. Business risk is evaluated through a Business and Strategy Development process. A Risk Budget is developed for each year along with a Business Plan by each unit. Subsequently, the actual quarterly performance is compared with the detailed financial budget, including the historical volatility in earnings, which supports both the decision making and the planning process.

6.11 Equity price risk

Equity position risk arises from the possibility that changes in the prices of equities or equity indices will affect the future profitability or the fair values of financial instruments. The Group is exposed to equity risk in its trading position and investment portfolio, primarily in its core international and GCC markets.

6. Risk management (continued)

6.11 Equity position risk (continued)

Equity positions in the banking book

Quoted equities	4
Unquoted equities	34
	38

Realised gain during the period	-
Unrealised gain as at 30 June 2015	1

6.12 Liquidity risk

Liquidity risk is the risk that maturing and encashable assets may not cover cash flow obligations (liabilities). The Group maintains liquid assets at prudent levels to ensure that cash can quickly be made available to honour all its obligations, even under adverse conditions. The Group is generally in a position of excess liquidity, its principal sources of liquidity being its deposit base and inter-bank borrowings.

The Minimum Liquidity Guideline (MLG) is used to manage and monitor liquidity on a daily basis. The MLG represents the minimum number of days the Group can survive the combined outflow of all deposits and contractual draw downs, under normal market conditions.

A maturity gap report, which reviews mismatches, is used to monitor medium and long-term liquidity.

6. Risk management (continued)

6.13 Operational risk

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems — or from external events. Operational risk in ABC Group includes legal risk.

Reputational impact, regulatory impact and impact on clients and operations are taken into consideration when assessing the impact of actual, and potential, operational risk events.

The Group applies the ‘Standardised Approach’ for calculating its Pillar 1 operational risk capital. As at 30 June 2015, the total capital charge in respect of operational risk was US$ 205 million.

The Group applies modern, proven methodologies for the qualitative management of its operational and other non-financial risks, adapting them to the Group’s size, nature, complexity and risk profile.

The Group-wide framework has to be implemented by all entities that Arab Banking Corporation (B.S.C.) controls directly or indirectly.

The operational risk management framework is being introduced across the Group, following the Operational Risk Committee’s rolling two-year ‘master plan’. Local operational risk committees implement corresponding plans at the subsidiary levels.

The Group currently employs the following tools for the management of operational risks:

- Internal loss data and incidents, near miss events
- Risk and control self-assessments (bottom-up and top-down)
- Group-wide control standards
- Risk scenarios
- Key risk and performance indicators
- New product approval process.

6. Risk management (continued)

6.13 Operational risk (continued)

Operational risk tolerance

The Group uses quantitative and qualitative elements to classify actual and potential operational risks as ‘very high’, ‘high’, ‘medium’, ‘low’ or ‘very low’. ‘Very high’ and ‘high’ risks must be mitigated. They can only be accepted at the Group level.

A separate escalation procedure requires, among other things, that the Senior Management of the Group be immediately informed of all risk events classified ‘very high’ or ‘high’ that have either happened or are likely to happen.

Business Continuity

The Group has robust business continuity plans – both in order to meet local and international regulatory obligations, and in order to protect the Group’s business functions, assets and employees. These plans provide each ABC subsidiary with the necessary guidelines and procedures in case of an emergency. The business continuity plans cover local and regional risk scenarios. Continuous updates of these plans are performed regularly, to ensure that they are kept up to date with changes in each ABC unit.

6.14 Legal risk

Examples of legal risk include inadequate documentation, legal and regulatory incapacity, insufficient authority of a counterparty and contract invalidity/unenforceability. Legal Counsel and the Corporate Secretary bear responsibility for identification and management of this risk. They consult with internal and external legal counsels. All major Group subsidiaries have their own in-house legal departments, acting under the guidance of the Legal Counsel, which aims to facilitate the business of the Group by providing proactive, business-oriented and creative advice.

6. Risk management (continued)

6.15 Capital management

Internal Capital Adequacy Assessment Process (ICAAP)

The Group aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, while always meeting minimum regulatory ratio requirements. The diagram below illustrates this concept:

Among the key principles driving capital management at the Group are:

- Adequate capital is maintained as a buffer for unexpected losses to protect stakeholders, i.e. shareholders and depositors.
- Return on capital is maximised to generate a sustainable return above the cost of capital.

The methodologies for internally estimating capital for the Group's key risks are as follows:

a. **Credit risk:** Assessed on the basis of Foundation IRB Risk Weights (FIRB). This supports the internal estimation of economic capital per business segment, business unit and aggregated at the Group level. The Group uses stress-testing to review its risk exposure against budgeted levels.

6. Risk management (continued)

6.15 Capital management (continued)

b. **Market risk:** Assessed using the Value at Risk (VaR) metric.

VaR measures the worst expected loss over a given timeframe, under normal market conditions and at a given confidence interval. It provides an aggregate view of the portfolio's risk that accounts for leverage, correlations and current positions. The Group uses the Historical Simulation Approach to measure VaR. The key model assumptions for the trading portfolio are:

- 2-year historical simulation
- 1-day VaR
- 99% (one tail) confidence interval

The historical simulation method provides a full valuation going back in time, such as over the last 500 days, by applying current weights to a time series of historical returns.
The Group uses the stress-testing methodology to review its exposures against historical and Group-specific extreme scenarios.

c. **Operational risk:** Applied on the Standardised Approach basis.

d. Other risks such as liquidity, strategic and reputational risks are currently captured providing a capital buffer.

7. Other disclosures

7.1 Related party transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's senior management, and are based on arm’s length rationale.

a. Exposures to related parties

US$ million	
Claims on shareholders *	145
Claims on directors & senior management	3
Claims on staff	25

* Unfunded exposures after applying ccf.

b. Liabilities to related parties

US$ million	
Connected deposits	5,073

The interest expense in respect of connected deposits is US$ 31 million.

7.2 Ageing analysis of all impaired loans and securities

In accordance with the guidelines issued by the CBB, credit facilities are placed on non-accrual status and interest suspended when either principal or interest is overdue by 90 days, whereupon interest credited to income is reversed. Following an assessment of impairment, specific provision is established if there is objective evidence that a credit facility is impaired, as detailed in section 6.8.

An ageing analysis of all impaired loans and securities on non-accrual basis, together with their related provisions is as follows:

7. Other disclosures (continued)

7.2 Ageing analysis of all impaired loans and securities (continued)

Loans

US$ million	Principal	Provisions	Net book value
Less than 3 months	52	17	35
3 months to 1 year	53	40	13
1 to 3 years	80	69	11
Over 3 years	219	217	2
	404	**343**	**61**

a. Net Book Value – By Geographical Area

US$ million	Less than 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Western Europe	-	-	-	1	**1**
Arab World	7	3	9	1	**20**
Asia	-	-	2	-	**2**
Latin America	28	10	-	-	**38**
	35	**13**	**11**	**2**	**61**

b. Net Book Value – By Industrial Sector

US$ million	Less than 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Manufacturing	7	4	1	1	**13**
Mining and quarrying	-	-	2	-	**2**
Construction	19	4	-	-	**23**
Financial	-	-	-	1	**1**
Trade	2	1	-	-	**3**
Personal / consumer finance	3	2	-	-	**5**
Transport	-	-	7	-	**7**
Other sectors	4	2	1	-	**7**
	35	**13**	**11**	**2**	**61**

7. Other disclosures (continued)

7.2 Ageing analysis of all impaired loans and securities (continued)

Securities

US$ million	Principal	Provisions	Net book value
Less than 3 months	-	-	-
3 months to 1 year	-	-	-
1 to 3 years	-	-	-
Over 3 years	139	120	19
	139	**120**	**19**

7.3 Restructured facilities

Facilities restructured during the period ended 30 June 2015 amounted to US$ 59 million. The carrying amount of restructured facilities amounted to US$ 231 million as at 30 June 2015. The impact of restructured credit facilities on provisions and present and future earnings is insignificant.

7.4 Assets sold under recourse agreements

Proceeds from assets sold under repurchase agreements for the six month period ended 30 June 2015 amounted to US$ 109 million. The carrying value of securities sold under repurchase agreements at the period end amounted to US$ 124 million.

Amounts paid for assets purchased under resale agreements at the period end amounted to US$ 1,592 million and relate to customer product and treasury activities. The market value of the securities purchased under resale agreements at the period end amounted to US$ 1,614 million.

7. Other disclosures (continued)

7.5 Movement in specific and collective impairment provisions

	Specific Provisions			
US$ million	**Loans***	**Securities**	**Other assets and off balance sheet items**	**Collective Impairment provision**
At beginning of the year	411	126	11	181
Amounts written off	(8)	-	-	-
Write backs / cancellation due to improvement	(1)	(6)	(1)	-
Additional provisions made	28	-	-	2
Exchange adjustment and other movements	(10)	-	-	(1)
Balance at reporting date	**420**	**120**	**10**	**182**

***** Included in the above specific provision on loans is an amount of US$ 69 million towards problem country exposures.

APPENDIX I - REGULATORY CAPITAL DISCLOSURES

PD 2 : Reconciliation Of Regulatory Capital

i) Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

	US$ millions	
	Balance sheet as in published financial statements	***Consolidated PIR data***
Liquid funds	877	
Cash and balances at central banks		563
Placements with banks and similar financial institutions	3,288	5,194
Reverse repurchase agreements and other similar secured lending	1,592	
Financial assets at fair value through P&L	788	788
Non-trading securities	5,907	5,907
Loans and advances	14,343	14,525
Investment properties	-	-
Interest receivable	435	435
Other assets	680	656
Investments in associates and joint ventures		19
Goodwill and intangible assets		5
Property, plant and equipment	127	127
TOTAL ASSETS	**28,037**	**28,219**

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 2 : Reconciliation Of Regulatory Capital (continued)

i) Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation (continued)

	US$ Millions	
	Balance sheet as in published financial statements	***Consolidated PIR data***
Deposits from banks and other financial institutions	5,232	9,449
Deposits from customers	13,460	9,243
Certificate of deposits issued	36	36
Repurchase agreements and other similar secured borrowing	109	109
Interest payable	302	302
Taxation	45	712
Other liabilities	667	
Term notes, bonds and other term financing	3,955	3,181
Subordinated liabilities		774
TOTAL LIABILITIES	**23,806**	**23,806**
Paid-in share capital	3,110	3,110
Reserves	734	734
Non - controlling interest	387	387
Collective impairment provision	-	182
TOTAL SHAREHOLDER'S EQUITY	**4,231**	**4,413**

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 2 : Reconciliation Of Regulatory Capital (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation

Assets	***US$ Millions***		
	Balance sheet as in published financial statements	***Consolidated PIR data***	***Reference***
Liquid funds	877		
Cash and balances at central banks		563	
Placements with banks and similar financial institutions	3,288	5,194	
Reverse repurchase agreements and other similar secured lending	1,592		
Financial assets at fair value through P&L	788	788	
Loans and advances	14,343	14,525	
Non-trading securities	5,907	5,907	
of which investment NOT exceeding regulatory threshold	5,907	5,907	
Interest receivable	435	435	
Other assets	680	656	
of which deferred tax assets arising from carryforwards of unused tax losses, unused tax credits and all other		12	f
of which deferred tax assets arising from temporary differences		55	
Investments in associates and joint ventures		19	
of which Significant investment exceeding regulatory threshold			
of which Significant investment NOT exceeding regulatory threshold		19	
Goodwill and intangible assets		5	
of which goodwill		-	
of which other intangibles (excluding MSRs) phased in at 20%		1	e
of which MSRs			
Property, plant and equipment	127	127	
TOTAL ASSETS	**28,037**	**28,219**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 2 : Reconciliation Of Regulatory Capital (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation (continued)

Liabilities	*US$ Millions*		
	Balance sheet as in published financial statements	***Consolidated PIR data***	***Reference***
Deposits from banks and other financial institutions	5,232	9,449	
Deposits from customers	13,460	9,243	
Certificate of deposits issued	36	36	
Repurchase agreements and other similar secured borrowing	109	109	
Interest payable	302	302	
Taxation	45	712	
Other liabilities	667		
Term notes, bonds and other term financing	3,955	3,181	
Subordinated liabilities		774	
Of which amount eligible for TII		366	h
Of which amount Ineligible		408	
TOTAL LIABILITIES	**23,806**	**23,806**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 2 : Reconciliation Of Regulatory Capital (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation (continued)

	US$ Millions		
Shareholders' Equity	***Balance sheet as in published financial statements***	***Consolidated PIR data***	***Reference***
Paid-in share capital	3,110	3,110	
Of which form part of CET1		3,110	
Ordinary Share Capital		3,110	a
Reserves	734	734	
Of which form part of CET1			
Retained earnings/(losses) brought forward	529	529	b
Net profit for the current period	96	96	c1
Legal reserve	426	426	c2
General (disclosed) reserves	100	100	c3
Fx translation adjustment	(390)	(390)	c4
Cumulative changes in fair value	(3)	(3)	c5
Pension fund reserve	(24)	(24)	c6
Non - controlling interest	387	387	
Of which amount eligible for CETI		305	d
Of which amount eligible for ATI		52	g
Of which amount eligible for TII			
Of which amount ineligible		30	
Collective impairment provision		182	
Of which amount eligible for TII (Maximum 1.25% of RWA)		182	i
Of which amount Ineligible			
TOTAL LIABILITIES	**4,231**	**4,413**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 4 : Capital Composition Disclosure Template

	Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018)	*PIR as on 30 June 2015*	*Amounts Subject To Pre-2015 Treatment*	*Reference*
		US$ Millions		
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	3,110		a
2	Retained earnings	529		b
3	Reserves	230		c1+c2+c3+c4+c5
4	Not applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	305	111	d
6	Common Equity Tier 1 capital before regulatory adjustments	**4,174**		
	Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	-		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	1	4	e
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	12		f
11	Cash-flow hedge reserve	-		
12	Shortfall of provisions to expected losses	-		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Not applicable	-		
15	Defined-benefit pension fund net assets	24		c6

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 4 : Capital Composition Disclosure Template (continued)

	Basel III Common disclosure template ***(For transition period from 1 January 2015 to 31 December 2018) (continued)***	***US$ Millions*** ***PIR as on 30 June 2015***	***Amounts Subject To Pre-2015 Treatment***	***Reference***
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-		
17	Reciprocal cross-holdings in common equity	-		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-		
20	Mortgage servicing rights (amount above 10% threshold)	-		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		
22	Amount exceeding the 15% threshold	-		
23	of which: significant investments in the common stock of financials	-		
24	of which: mortgage servicing rights	-		
25	of which: deferred tax assets arising from temporary differences	-		
26	National specific regulatory adjustments	-		

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 4 : Capital Composition Disclosure Template (continued)

	Basel III Common disclosure template ***(For transition period from 1 January 2015 to 31 December 2018) (continued)***	***US$ Millions*** ***PIR as on 30 June 2015***	***Amounts Subject To Pre-2015 Treatment***	***Reference***
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	OF WHICH:			
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		
28	**Total regulatory adjustments to Common equity Tier 1**	**38**		
29	**Common Equity Tier 1 capital (CET1)**	**4,136**		
	Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-		
31	of which: classified as equity under applicable accounting standards			
32	of which: classified as liabilities under applicable accounting standards			
33	Directly issued capital instruments subject to phase out from Additional Tier 1			
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	52	11	g
35	*of which: instruments issued by subsidiaries subject to phase out*	11	11	
36	**Additional Tier 1 capital before regulatory adjustments**	**52**		

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 4 : Capital Composition Disclosure Template (continued)

	Basel III Common disclosure template ***(For transition period from 1 January 2015 to 31 December 2018) (continued)***	***US$ Millions*** ***PIR as on 30 June 2015***	***Amounts Subject To Pre-2015 Treatment***	***Reference***
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments			
38	Reciprocal cross-holdings in Additional Tier 1 instruments			
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)			
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
41	National specific regulatory adjustments			
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	OF WHICH:			
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions			
43	**Total regulatory adjustments to Additional Tier 1 capital**			
44	**Additional Tier 1 capital (AT1)**	**52**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,188**		

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 4 : Capital Composition Disclosure Template (continued)

	Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018) (continued)	*US$ Millions* PIR as on 30 June 2015	*US$ Millions* Amounts Subject To Pre-2015 Treatment	*Reference*
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	74		h
47	Directly issued capital instruments subject to phase out from Tier 2	-		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in Group Tier 2)	292	121	h
49	of which: instruments issued by subsidiaries subject to phase out	121	121	
50	Provisions & Reserves	182		i
51	**Tier 2 capital before regulatory adjustments**	**548**		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-		
53	Reciprocal cross-holdings in Tier 2 instruments	-		
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-		
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
56	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
	Of which	-		

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 4 : Capital Composition Disclosure Template (continued)

	Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018) (continued)	*US$ Millions* PIR as on 30 June 2015	*Amounts Subject To Pre-2015 Treatment*	*Reference*
57	**Total regulatory adjustments to Tier 2 capital**	**-**		
58	**Tier 2 capital (T2)**	**548**		
59	**Total capital (TC = T1 + T2)**	**4,736**		
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	4		
	Of Which: Intangible assets (RW @ 100%)	4		
	Of Which: Non Significant Investments (RW @ 100%)	-		
	Of Which: Non Significant Investments (RW @ 150%)	-		
	Of Which: Significant Investments (RW @ 250%)	-		
60	**Total risk weighted assets**	**23,453**		

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 4 : Capital Composition Disclosure Template (continued)

	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	17.6%
62	Tier 1 (as a percentage of risk weighted assets)	17.9%
63	Total capital (as a percentage of risk weighted assets)	**20.2%**
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	2.5%
65	*Of Which: capital conservation buffer requirement*	2.5%
66	*Of Which: bank specific countercyclical buffer requirement (N/A)*	NA
67	*Of Which: G-SIB buffer requirement (N/A)*	NA
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	
	National minima (if different from Basel 3)	
69	CBB Common Equity Tier 1 minimum ratio (including buffers)	9.0 %
70	CBB Tier 1 minimum ratio (including buffers)	10.5%
71	CBB total capital minimum ratio (including buffers)	12.5%
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	136
73	Significant investments in the common stock of financials	19
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	55
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	182
77	Cap on inclusion of provisions in Tier 2 under standardised approach	251
78	N/A	
79	N/A	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 4 : Capital Composition Disclosure Template (continued)

	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)	
80	Current cap on CET1 instruments subject to phase out arrangements	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A
84	Current cap on T2 instruments subject to phase out arrangements	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A

Appendix I - Regulatory Capital Disclosures (continued)

PD 3 : Main features of regulatory capital instruments

Disclosure template for main features of regulatory capital instruments				
1	Issuer	Arab Banking Corporation	Arab Banking Corporation	Banco ABC Brasil
2	Unique identifier	ABC	EG2959302 - XS0293688304; CBB FIL 64/2006	EI2084396 - USP0763MBW03; Brazilian Central Bank CMN Resolution 3444
3	Governing law(s) of the instrument	Laws of Bahrain	Laws of Bahrain	Laws of the Federative republic of Brazil
	Regulatory treatment			
4	Transitional CBB rules	Common Equity Tier 1	Not applicable	Not applicable
5	Post-transitional CBB rules	Common Equity Tier 1	Tier 2	Tier 2
6	Eligible at solo/group/group & solo	Group & Solo	Group & Solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common equity shares	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	US$ 3,110	US$ 74	US$ 292
9	Par value of instrument (US$ each)	1	1000	1000
10	Accounting classification	Shareholders equity	Liability- Amortised cost	Liability- Amortised cost
11	Original date of issuance	Various	4-Apr-07	8-Apr-10

Appendix I - Regulatory Capital Disclosures (continued)

PD 3 : Main features of regulatory capital instruments (continued)

Disclosure template for main features of regulatory capital instruments				
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	4-Apr-17	8-Apr-20
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	NA	7 April 15 @ 100	No
16	Subsequent call dates, if applicable	NA	NA	NA
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating (Dividend as decided by the shareholders)	Floating	Fixed
18	Coupon rate and any related index	NA	3M Libor+135bps	7.875
19	Existence of a dividend stopper	NA	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	NA	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	NA	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA

Appendix I - Regulatory Capital Disclosures (continued)

PD 3 : Main features of regulatory capital instruments (continued)

Disclosure template for main features of regulatory capital instruments				
28	If convertible, specify instrument type convertible into	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA
30	Write-down feature	No	No	No
31	If write-down, write-down trigger(s)	NA	NA	NA
32	If write-down, full or partial	NA	NA	NA
33	If write-down, permanent or temporary	NA	NA	NA
34	If temporary write-down, description of write-up mechanism	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all depositors and creditors (including subordinated debt) of the Bank	Subordinated to all depositors and creditors of the Bank	Subordinated to all depositors and creditors of the Bank
36	Non-compliant transitioned features	No	Yes	Yes
37	If yes, specify non-compliant features	NA	Non Viability Loss Absorption	Non Viability Loss Absorption