Basel III – Risk and Pillar III disclosures
30 June 2020

Executive summary

This document comprises of the Group's capital and risk management disclosures as at 30 June 2020.

The disclosures in this document are in addition to the disclosures set out in the interim condensed consolidated financial statements presented in accordance with Interim Financial Reporting (IAS 34) as modified by the CBB. Refer note 2 in the interim condensed consolidated financial statements for more details.

The principal purpose of these disclosures is to meet the disclosure requirements required by the Central Bank of Bahrain (CBB) directives on public disclosures under the Basel III framework. This document describes the Group's risk management and capital adequacy policies and practices – including detailed information on the capital adequacy process and incorporates all the elements of the disclosures required under Pillar III. It is organised 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 (RWAs) 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 risk. Also covered are the related monitoring processes and credit mitigation initiatives.

- Other disclosures required under the Public Disclosure Module of the CBB Rulebook Volume 1.

The CBB supervises the Bank on a consolidated basis. Individual banking subsidiaries are supervised by the respective local regulator. The Group's regulatory capital disclosures have been prepared based on the Basel III framework and Capital Adequacy Module of the CBB Rulebook Volume 1.

For regulatory reporting purposes under Pillar I, the Group has adopted the standardised approach for credit risk, market risk and operational risk.

The Group's total risk-weighted assets as at 30 June 2020 amounted to US$ 24,355 million (2019: US$ 25,741 million), comprising 87% (2019: 87%) credit risk, 7% (2019: 7%) market risk and 6% (2019: 6%) operational risk. The total capital adequacy ratio was 17.3% (2019: 17.9%), compared to the minimum regulatory requirement of 12.5%.

1. The Basel III framework

The CBB implemented the Basel III framework from 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 must be covered by a bank's eligible capital funds.

1. The Basel III framework (continued)

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

- **Pillar III** complements Pillar I and Pillar II by focusing on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy.

a. Pillar I

Banks incorporated in the Kingdom of Bahrain are required to maintain a minimum capital adequacy ratio (CAR) of 12.5% and a Tier 1 ratio of 10.5%. Tier 1 capital comprises of share capital, treasury shares, reserves, retained earnings, AT 1 instrument, non-controlling interests, profit for the period and cumulative changes in fair value.

In case the CAR of the Group falls below 12.5%, additional prudential reporting requirements apply and a formal action plan setting out the measures to be taken to restore the ratio above the target should be submitted to the CBB**.** The Group has defined its risk capacity above the CBB thresholds. The Group will recourse to its recovery planning measures prior to the breach of its Board approved risk capacity.

The CBB allows the following approaches to calculate the RWAs (and hence the CAR).

Credit risk	Standardised approach.
Market risk	Standardised, Internal models approach.
Operational risk	Standardised, Basic indicator approach.

The Group applies the following approaches to calculate its RWAs:

- **Credit risk – Standardised approach:** the RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

- **Market risk – Standardised approach.**

- **Operational risk – Standardised approach:** regulatory capital is calculated by applying a range of beta coefficients from 12% - 18% on the average gross income for the preceding three years – applied on the relevant eight Basel defined business lines.

b. Pillar II

Pillar II comprises of two processes, namely:

- an Internal Capital Adequacy Assessment Process (ICAAP); and
- a Supervisory Review and Evaluation Process (SREP).

The ICAAP incorporates a review and evaluation of all material risks to which the Bank is exposed to and an assessment of capital required relative to those risks. The ICAAP compares this against available capital resources to assess adequacy of capital to support the business plan and withstand extreme but plausible stress events. The ICAAP and the internal processes that support it should be proportionate to the nature, scale and complexity of the activities of a bank.

1. The Basel III framework (continued)

b. Pillar II (continued)

The CBB's Pillar II guidelines require each bank to be individually assessed by the CBB in order to determine an individual minimum capital adequacy ratio. Pending finalisation of the assessment process, all the banks incorporated in the Kingdom of Bahrain are required to maintain a 12.5% minimum capital adequacy ratio and a Tier 1 ratio of 10.5% for the consolidated group. This already includes a 2.5% of capital conservation buffer as part of Pillar I capital requirements.

The SREP is designed to review the arrangements, strategies, processes and mechanisms implemented by a bank to comply with the requirements laid down by the CBB, and evaluates the risks to which the bank is/could be exposed. It also assesses risks that the bank poses to the financial system.

The SREP also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks, in addition to the credit, market and operational risks addressed in the core Pillar I framework. Other risk types, which are not covered by the minimum capital requirements in Pillar I, include concentration risk, liquidity risk, interest rate risk in the banking book, climate change risk, pension obligation risk, strategic risk and reputational risk. These are covered either by capital, or risk mitigation processes under Pillar II.

The Group's ICAAP has been benchmarked to international practice, and adapted as appropriate, relevant and proportionate to Bank ABC's business model. The Pillar II Capital assessment is based on Group Capital Management Framework (GCMF) which aligns with the CBB's ICAAP and IST (Integrated Stress Testing) module requirements.

c. Pillar III

Prescribes how, when and at what level information should be disclosed about an institution's risk management and capital adequacy assessment practices.

Pillar III complements the minimum risk based capital requirements and other quantitative requirements (Pillar I) and the supervisory review process (Pillar II), and aims to promote market discipline by providing meaningful regulatory information to investors and other interested parties on a consistent basis. The disclosures comprise detailed qualitative and quantitative information.

The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures, and to encourage all banks, via market pressures, to move towards more advanced forms of risk management.

The Group's disclosures meet the minimum regulatory requirements and provide disclosure of the risks to which it is exposed, both on and off-balance sheet.

2. Impact of COVID 19

The unprecedented challenges posed by the COVID 19 pandemic to the global economy has prompted various Governments, Central Banks and other regulatory authorities to roll out a number of regulatory measures to contain the impact of the pandemic on economies. The nature and extent of these regulations vary between each jurisdiction, but these generally include regulations aimed at customer support, enabling financial and operational capacity resilience, and temporary amendments to capital and liquidity frameworks.

2. Impact of Covid (continued)

The Bank has enhanced its approach and oversight of key risk management frameworks in the rapidly evolving environment. This includes heightened review of key matrices, early warning indicators and initiation of relevant mitigating actions to ensure that the Bank's matrices are within the risk appetite. The impact of COVID 19 is also disclosed in the interim condensed financial statements and where relevant, in the subsequent sections of this document.

3. Group structure and overall risk

a. Group structure

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

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

The principal subsidiaries as at 30 June 2020, 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	61.3
Arab Banking Corporation – Algeria	Algeria	87.7
Arab Banking Corporation - Egypt [S.A.E.]	Egypt	99.8
Arab Banking Corporation – Tunisie	Tunisia	100.0
Arab Financial Services Company B.S.C. (c)	Bahrain	60.3

3. Group structure and overall risk (continued)

b. Risk in Pillar I

Pillar I addresses three specific types of risks, namely credit, market and operational risk. Pillar I forms the basis for calculation of regulatory capital.

CREDIT RISK

Credit risk is the risk that a customer or counterparty to a financial asset, fails to meet its contractual obligations, and causes the Bank to incur a financial loss. It also includes the risk of decline in the credit standing of the borrower, as reflected by the credit ratings. While such decline may not imply default, it increases the probability of the default of the customer and hence attracts higher capital. The goal of credit risk management is to manage the credit risk portfolio in line with the approved Group Risk Appetite Standards.

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 policies and standards aligned with the Group Credit Policy and its associated standards, but may be adapted to suit local regulatory requirements as well as individual units' product and sectoral needs. These policies and standards are subject to timely review to ensure they remain aligned to the Banks risk appetite and strategy.

Due to current Covid-19 pandemic, the Group's customers have also been impacted. Regulators and governments of different jurisdictions, where the Group operates have provided relief in different forms. The Group has followed guidance from relevant regulators/authorities in the way in which it has approached the provision of forbearance to obligors.. Some forbearance requests are eligible for ECL relief under CBB Guidance .

The Group's retail lending is managed under a framework that considers the entire credit cycle. Retail obligor facilities are offered under product programs.. The product programs are governed by a set of policies and standards describing the product program approval , monitoring, reporting and recovery processes.

3. Group structure and overall risk (continued)

b. Risk in Pillar I (continued)

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 Market Risk (MR) unit 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 MR includes market risk and middle office.

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, also defined as interest rate risk in the Banking Book (IRRBB), 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. profit or loss, and concentration risk).

As a reflection of the Group's risk appetite and the Market risk management framework, limits are established against the aforementioned market risk measures. The MR reports risk positions against these limits, and any breaches, to the senior management, the GALCO and the BRC as required.

During the COVID-19 crisis, bespoke market risk analyses have been developed and the market risk system has been upgraded to enhance the existing suite of tools used by the Bank for market risk management.

In view of the planned discontinuation of LIBOR commencing 31 December 2021, the Bank is on target to transitioning away from LIBOR prior to the due date.

3. Group structure and overall risk and capital management (continued)

b. Risk in Pillar I (continued)

RISK IN PILLAR I - 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 foreign exchange risk is established by the GALCO. Group Treasury is responsible for executing the agreed strategy.

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. The Group 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 the Group is interest rates. This risk is minimised as the Group's rate sensitive assets and liabilities are mostly floating rate, where the duration risk is lower. The Group has set risk limits for both earnings at risk (EAR) and economic value of equity (EVE) for interest rate risk in the banking book (IRRBB). In general, the Group uses matched currency funding and translates fixed rate instruments to floating rate to better manage the duration in the asset book.

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.

Equity positions in the banking book

Quoted Equities	5
Unquoted Equities	4
	9
Unrealised loss at 30 June 2020	-

OPERATIONAL RISK

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people & systems or from external events, including fraud. This definition includes legal risk and information technology (IT) & cyber risk but excludes strategic risk.

Bank ABC's operational risk is measured and managed in accordance with its operational risk policies, standards and processes. The assessment of operational risk includes consideration of regulatory impact, reputational impact, and impact on clients, staff and operations, in addition to financial impact.

Proven methodologies and current practices are employed for the management of operational and other related risks adapted to the Group's size, nature, complexity and risk profile.

Bank ABC's Operational Risk Management Framework outlines our approach to the;

- Measurement and management of operational risk appetite and capital.

3. Group structure and overall risk and capital management (continued)

b. Risk in Pillar I (continued)

RISK IN PILLAR I - OPERATIONAL RISK (continued)

- Identification, measurement and management of operational risks that may impede the Group's ability to achieve its strategic objectives and vision.
- Identification and escalation of operational risk incidents in order to mitigate potential financial loss, regulatory impacts and reputational damage.

The key components of Bank ABC's operational risk management framework are listed below:

- Governance Risk & Control Self-Assessments(RCSA), Issue & Action Plan management, Key Risk & Performance Indicators (KIs) and Incident Management Reporting

In addition to the above, there are group-wide standards which provide clarity and guidance on specific aspects.

During the year, Bank ABC has been accepted as a member of ORX (Operational Riskdata eXchange) Association, the largest operational risk association in the financial services sector. This will significantly help improve our Operational Risk framework as per best practices.

c. Risk in Pillar II

LIQUIDITY RISK

Liquidity risk is the risk that maturing and encashable assets may not cover cash flow obligations (liabilities) as they fall due, without incurring unacceptable costs or losses. The Group's Liquidity Management Framework (**GLMF**) ensures that the Group proactively manages liquidity and structural funding risks that fosters stable balance sheet to support prudent business growth while having the ability to withstand a range of liquidity stress events. The Group has carried out a detailed assessment to identify all material sources of liquidity and funding risks and have assessed appropriate levels of required Liquid Asset Buffers. The Group's liquidity risk appetite sets appropriate liquidity metrics to monitor all sources of material liquidity risks. The Group's liquidity risk appetite framework extends to all entities within the Group.

All subsidiaries of the Group manage principally on a self-funded basis to meet their liquidity and funding requirements.

The GLMF ensures that the key risk indicators are monitored proactively, including daily monitoring of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), and these are regularly reported to the senior management. The Bank regularly conducts liquidity stress testing that ensures **Liquidity Survival Horizon (LSH)** is always maintained above the risk appetite threshold.

The Group also carries out a comprehensive Internal Liquidity Adequacy Assessment Process (ILAAP) exercise that includes, amongst other things, scenario-based stress tests to evaluate the robustness of the liquidity management framework and the effectiveness of the contingency funding plan. The Group's Liquid Assets Buffer (**LAB**) and the Group's Contingency Funding Plan (**GCFP**) ensure that the Group can withstand potential liquidity shocks and market disruptions.

3. Group structure and overall risk and capital management (continued)

c. Risk in Pillar II (continued)

RISK IN PILLAR II - LIQUIDITY RISK (continued)

The Group maintains high quality liquid assets (**HQLA**) 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 surplus liquidity, its principal sources of liquidity being its high quality liquid assets and marketable securities.

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

INTEREST RATE RISK IN BANKING BOOK (IRRBB)

The Group measures and controls IRRBB using a number of qualitative and quantitative measures. Qualitative measures include a thorough assessment of the impact of changes in interest rates on the Bank's banking instruments during the annual budget and capital planning process. Current and expected future interest rates are integral components driving the annual business planning process.

Quantitative measures employed include limits, interest rate sensitivity gap analysis, and stress testing using the six shocks as per the Basel standards to measure and control the impact of interest rate volatility on the Bank's earnings and economic value of equity. These measures are applied separately for each currency and consolidated at the Group's level. The gap analysis measures the interest rate exposure arising from differences in the timing and/or amounts of loans and deposits in pre-specified time bands. Stress tests include the impact of parallel and non-parallel shifts in interest rates on banking activities. All these measures are reported to the GALCO on a regular basis. As at 30 June 2020, a 200 basis points (2%) parallel shift in interest rates (floored to zero% for down scenario) would potentially impact the Group's earnings by US$ 14.2 million (representing <5% of Net Interest Income) and economic value equity impact of US$ 125.9 million (< 3% of Tier 1 capital) were well below the risk appetite thresholds for IRRBB. Currency wise details are as follows:

All amounts in US$ million

Currency	Impact on Group's Earnings	Economic Value Equity Impact
United States Dollar (USD)	(1.3)	(58.6)
Pound Sterling (GBP)	(0.4)	n/a
Euro (EUR)	n/a	(11.6)
Brazilian Real (BRL)	(11.7)	(16.9)
Algerian Dinar (DZD)	(1.3)	(3.9)
Egyptian Pound (EGP)	n/a	(3.6)
Jordanian Dinar (JOD)	0.0	(20.0)
Tunisian Dinar (TND)	0.3	(7.3)
Other	0.2	(4.0)
Total	**(14.2)**	**(125.9)**

3. Group structure and overall risk and capital management (continued)

c. Risk in Pillar II (continued)

RISK IN PILLAR II - INTEREST RATE RISK IN BANKING BOOK (continued)

US$ million	Less than 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Non interest bearing	TOTAL
ASSETS							
Liquid funds	1,814	115	31	-	-	-	1,960
Trading securities	155	9	139	9	7	263	582
Placements with banks and other financial institutions	1,947	212	84	16	-	-	2,259
Securities bought under repurchase agreements	578	550	92	247	-	-	1,467
Non-trading investments	644	567	207	768	3,663	24	5,873
Loans and advances	6,396	4,129	1,996	730	1,332	-	14,583
Other assets	-	-	-	-	-	2,899	2,899
TOTAL ASSETS	**11,534**	**5,582**	**2,549**	**1,770**	**5,002**	**3,186**	**29,623**
LIABILITIES & EQUITY							
Deposits from customers	9,057	3,809	870	1,614	307	332	15,989
Deposits from banks	1,819	1,045	387	557	51	17	3,876
Certificates of deposit	24	130	78	7	44	-	283
Securities sold under repurchase agreements	1,016	16	19	158	67	-	1,276
Taxation & other liabilities	-	-	-	-	-	2,322	2,322
Borrowings	690	1,035	84	-	76	-	1,885
Total equity	-	-	-	-	-	3,992	3,992
TOTAL LIABILITIES & EQUITY	**12,606**	**6,035**	**1,438**	**2,336**	**545**	**6,663**	**29,623**
OFF B/S ITEMS							
Interest rate contracts	(273)	1,997	-	1,105	(2,829)	-	-
TOTAL OFF B/S ITEMS	**(273)**	**1,997**	**-**	**1,105**	**(2,829)**	**-**	**-**
Interest rate sensitivity gap	**(1,345)**	**1,544**	**1,111**	**539**	**1,628**	**(3,477)**	**-**
Cumulative interest rate sensitivity gap	**(1,345)**	**199**	**1,310**	**1,849**	**3,477**	**-**	**-**

The interest rate gap analysis set out in the table above assumes that all positions run to maturity, i.e., no assumptions on loan prepayments. Deposits without a fixed maturity have been considered in the 'less than one month' bucket. Further, majority of the interest bearing assets are on floating rate basis.

CONCENTRATION RISK

Credit concentration risk occurs when a single event impacts many obligors at the same time. These events could occur at a country, sector, obligor group or product level. The Bank seeks to mitigate these concentrations through using limit structures to reduce the amount of capital that can be allocated to these clusters.The Group assesses the concentration risk under its ICAAP and makes an appropriate capital assessment for this risk.

3. Group structure and overall risk and capital management (continued)

c. Risk in Pillar II (continued)

RISK IN PILLAR II – CONCENTRATION RISK (continued)

Under the single obligor regulations of the CBB and other host regulators, the the Bank has to obtain approval for any planned exposures above specific thresholds to single counterparties, or groups of connected counterparties.

As at 30 June 2020, the Group's exposures in excess of the 15% obligor limit to individual counterparties were as shown below:

US$ million	On balance sheet exposure	Off balance sheet exposure	Total exposure
Counterparty A	959	-	959

COMPLIANCE RISK

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, standards and codes of conduct applicable to the Bank's activities.

Front-line functions within the units are responsible for the management of their specific compliance risks and control environment. The compliance function is responsible for assuring, on an ongoing basis, that key compliance related control processes within the first line of defense are in place and operating effectively.

REPUTATIONAL RISK

Reputational risk is multidimensional and reflects the perception of market participants. It exists throughout the organisation and exposure to reputational risk is essentially a function of the adequacy of the entity's internal risk management processes, as well as the manner and efficiency with which management responds to external influences.

The Bank implements a robust governance and management framework, which has a significant involvement of senior management to proactively address any risk(s) to the Bank's reputation.

Furthermore, the management believes that reputation risk requires active administration and involvement of senior members of the Bank as against setting aside capital for its management.

4. Regulatory capital requirements and the capital base

The Group manages its capital structure and maintains capital based on its strategic business plans taking into account anticipated economic conditions and the risk characteristics of its activities. The objective is to maintain a strong capital base to support the risks inherent in the Group's businesses and markets, meeting both local and consolidated regulatory capital requirements at all times.

The Group manages the capital position through various measures that include administering a dividend policy that balances financial stability and growth objectives with shareholders returns; raising capital via equity, AT1 and subordinated debt instruments. based on a set of defined capital triggers; risk distribution or risk participation to reduce capital demand; and deleveraging to create capital capacity.

The determination of dividend payout will depend upon, amongst other things, the Group's earnings, its dividend policy, the requirement to set aside minimum statutory reserves, capital requirements to support growth (organic and inorganic), regulatory capital requirements, 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 2020 was 17.3% compared with the minimum regulatory requirement of 12.5%. The Tier 1 ratio was 16.3% for the Group. The composition of the total regulatory capital requirement was as follows:

Risk-weighted assets (RWA)

Credit risk	**21,075**
Market risk	**1,647**
Operational risk	**1,633**
Total	**24,355**
Tier 1 ratio	**16.3%**
Capital adequacy ratio	**17.3%**

The Group ensures adherence to the CBB's requirements by monitoring its capital adequacy against higher internal limits detailed in the Bank's Board-approved risk appetite statement under the strategic risk objective "Solvency".

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 levels of capital.

4. Regulatory capital requirements and the capital base (continued)

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's regulatory capital)	Tier 1 ratio	CAR (total)
ABC Islamic Bank (E.C.)	**31.3%**	**32.3%**
ABC International Bank Plc*	**17.6%**	**19.4%**
Banco ABC Brasil S.A.*	**13.3%**	**15.7%**

** 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 for the above referred units, subject to restrictions to ensure minimum regulatory capital requirements at the local level.

a. Capital requirement for credit risk

For regulatory reporting purposes, the Group calculates the capital requirements for credit risk based on the standardised approach. Under the standardised approach, on- and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. The exposure categories are referred to in the CBB's Basel III capital adequacy framework as standard portfolios. The primary standard portfolios are claims on sovereigns, claims on banks and claims on corporates. Following the assignment of exposures to the relevant standard portfolios, the RWAs are derived based on prescribed risk weightings. Under the standardised approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external credit rating agencies approved by the CBB. The Group uses ratings assigned by Standard & Poor's, Moody's, Fitch Ratings and Capital Intelligence.

4. Regulatory capital requirements and the capital base (continued)

a. Capital requirement for credit risk (continued)

Provided below is a counterparty asset class-wise breakdown of the Credit RWA and associated capital charge. The definition of these asset classes (as per the standard portfolio approach under the CBB's Basel III Capital Adequacy Framework) is set out in section 5.

Credit exposure and risk-weighted assets

US$ million	Gross credit exposure	Funded exposure	Unfunded exposure	Eligible collateral	Eligible guarantees	Risk-weighted assets	Capital charge
Cash	33	33	-	-	-	2	-
Claims on sovereigns	5,219	5,167	52	39	167	425	53
Claims on public sector entities	2,175	2,001	174	174	7	1,324	166
Claims on multilateral development banks	313	313	-	-	-	11	1
Claims on banks	7,682	6,646	1,036	1,379	499	3,834	479
Claims on corporate portfolio	14,046	11,884	2,162	681	129	13,073	1,634
Regulatory retail exposures	716	666	50	-	-	537	67
Past due loans	169	169	-	8	-	167	21
Residential retail portfolio	2	2	-	2	-	1	-
Commercial mortgage	182	182	-	-	-	182	23
Equity portfolios	29	29	-	-	-	62	8
Other exposures	972	706	266	-	-	1,457	182
	31,538	**27,798**	**3,740**	**2,283**	**802**	**21,075**	**2,634**

Monthly average gross exposures and the risk-weighted assets for the period ended 30 June 2020 were US$ 33,639 million and US$ 21,647 million respectively.

4. Regulatory capital requirements and the capital base (continued)

b. Capital requirement for 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	703	88	71	93
- Specific interest rate risk	42	5	5	10
- General interest rate risk	661	83	66	83
Equity position risk	34	4	4	4
Foreign exchange risk	910	114	113	123
Options risk	-	-	-	-
Total	**1,647**	**206**	**188**	**220**

* 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 2020.

c. Capital requirement for operational risk

The Group applies the "Standardised Approach" for calculating its Pillar I operational risk capital. As at 30 June 2020, the total capital charge in respect of operational risk was US$ 205 million. A breakdown of the operational risk capital charge is provided below:

US$ million Basel Business Line	Average 3 years gross income	Beta factors	Capital charge	RWA
Corporate finance	34	18 %	10	77
Trading and sales	185	18 %	52	416
Payment and settlement	24	18 %	7	55
Commercial banking	523	15 %	123	981
Agency services	-	15 %	-	-
Retail banking	53	12 %	10	79
Asset management	11	12 %	2	17
Retail brokerage	6	12 %	1	8
Total	**836**		**205**	**1,633**

4. Regulatory capital requirements and the capital base (continued)

d. Capital base

The Group's capital base primarily comprises:

- **i) Tier 1 capital:** share capital, treasury shares, reserves, retained earnings, additional Tier 1 capital, non-controlling interests, profit for the period and cumulative changes in fair value; and
- **ii) Tier 2 capital:** eligible subordinated term debt and expected credit losses.

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 2020, comprising 3,110 million shares of US$ 1 each.

The Additional Tier 1 (AT1) capital includes the eligible portion of a perpetual financial instrument issued by a subsidiary of the bank. The total issue amounted US$ 87 million at 30 June 2020. This instrument meets all the threshold conditions for inclusion in AT1 as per CBB requirements, except for the trigger for write-down under certain circumstances.

Against the CBB's requirement of 7% CET 1 ratio as the trigger for write-down / conversion into equity this instrument has a trigger of 5.125% of CET 1 ratio for permanent extinction in compliance with the local regulations and requirements. However, the instrument has features that enable coupon suspension (without cumulating) upon insufficiency of profits.

This has been approved by its local regulator for inclusion in AT1 capital of the Group. The impact on the Group's capital is immaterial.

The detail of this issue is described in appendix PD 3.

Tier 2 capital represent the surplus over the regulatory minimum capital stipulated by the CBB.

4. Regulatory capital requirements and the capital base (continued)

d. Capital base (continued)

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

Capital base and Risk weighted assets (RWA)	US$ million
Capital base	
CET 1	**3,890**
AT 1	**83**
Total Tier 1 capital	**3,973**
Tier 2	**234**
Total capital base	**4,207**
Risk weighted assets	
Credit risk	**21,075**
Market risk	**1,647**
Operational risk	**1,633**
Total Risk weighted assets	**24,355**
CET 1 ratio	**16.0%**
Tier 1 ratio	**16.3%**
Capital adequacy ratio	**17.3%**

The details about the composition of capital are provided in appendices PD 1 and PD 2.

5. Credit risk - Pillar III disclosures

a. Definition of exposure classes

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

b. External credit rating agencies

The Group uses external credit 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:

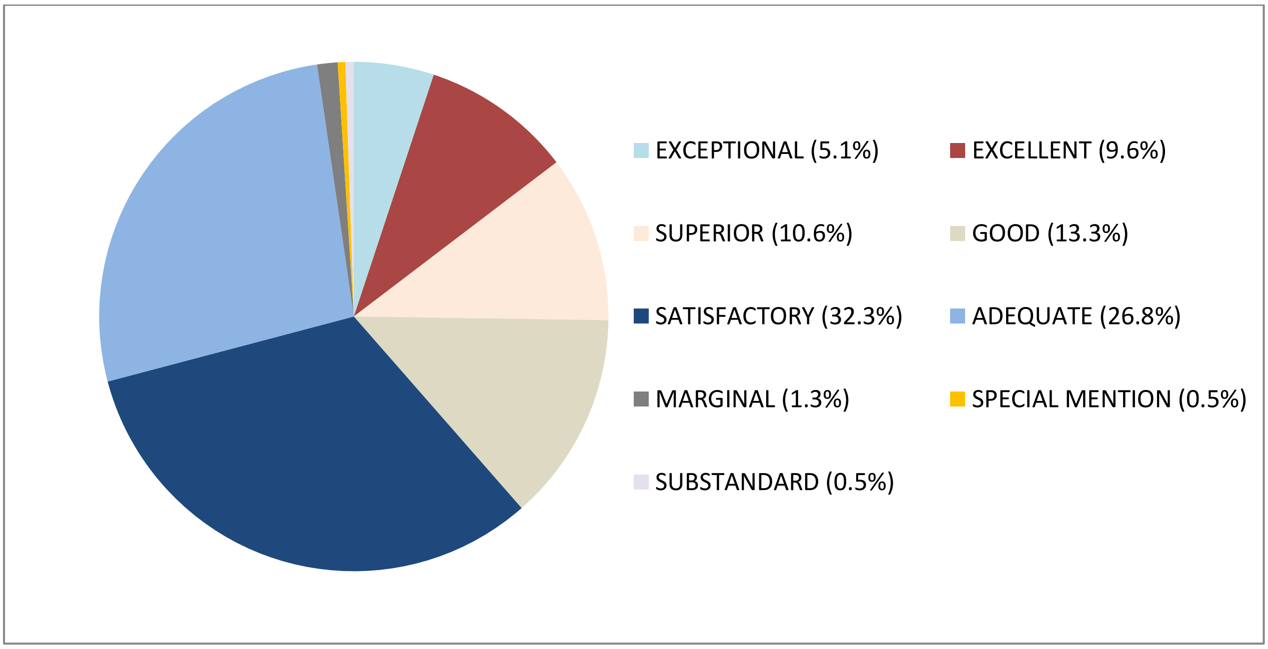
US$ million	Net credit exposure (after credit risk mitigation)	Rated exposure	Unrated exposure
Cash	33	-	33
Claims on sovereigns	5,180	5,078	102
Claims on public sector entities	2,001	848	1,153
Claims on multilateral development banks	313	313	-
Claims on banks	6,303	5,266	1,037
Claims on corporate portfolio	13,365	1,923	11,442
Regulatory retail exposure	716	-	716
Past due loans	161	-	161
Residential retail portfolio	-	-	-
Commercial mortgage	182	-	182
Equity portfolios	29	-	29
Other exposures	972	-	972
	29,255	**13,428**	**15,827**

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, Fitch, and Capital Intelligence rating agencies.

5. Credit risk – Pillar III disclosures (continued)

b. External credit rating agencies (continued)

The Group's credit risk distribution (based on internal risk ratings) at 30 June 2020 is shown below:



Other grades (Doubtful and Loss) are insignificant.

c. Credit risk presentation under Basel III

The credit risk exposures detailed here differ from the credit risk exposures reported in the consolidated financial statements, due to different methodologies applied respectively under Basel III and IFRS. These differences are as follows:

- As per the CBB Basel III framework, off balance sheet exposures are converted into on balance sheet equivalents by applying a credit conversion factor (CCF). The CCF varies between 20%, 50% or 100% depending on the type of contingent item.

- The consolidated financial statements categorise 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, whereas collateral is not netted in the consolidated financial statements.

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

5. Credit risk – Pillar III disclosures (continued)

d. Credit exposure

Geographical distribution of exposures

The geographical distribution of exposures, impaired assets and the related specific provisions (Stage 3) can be analysed as follows:

US$ million	Gross credit exposure	Eligible collateral	Impaired loans	Specific/ Stage 3 ECL impaired loans	Impaired debt securities	Specific/ Stage 3 ECL impaired debt securities
North America	3,084	239	-	-	63	63
Western Europe	3,443	19	55	54	-	-
Other Europe	1,240	12	16	8	-	-
Arab World	14,916	1,135	523	400	26	17
Other Africa	45	-	-	-	-	-
Asia	1,268	93	30	30	-	-
Australia/New Zealand	79	-	-	-	-	-
Latin America	7,463	785	101	64	-	-
	31,538	**2,283**	**725**	**556**	**89**	**80**

In addition to the above specific ECL the Group has ECL (Stages 1 & 2) amounting to US$ 223 million.

5. Credit risk – Pillar III disclosures (continued)

d. Credit exposure (continued)

Geographical distribution of exposures (continued)

The geographical distribution of gross credit exposures, by major type of credit exposure, 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	-	-	-	33	-	-	-	-	**33**
Claims on sovereigns	1,350	303	19	2,518	-	482	-	547	**5,219**
Claims on public sector entities	26	127	-	1,640	-	158	1	223	**2,175**
Claims on multilateral development banks	151	120	-	-	-	42	-	-	**313**
Claims on banks	372	1,299	1,058	3,723	37	336	7	850	**7,682**
Claims on corporate portfolio	1,120	1,345	155	5,455	8	248	71	5,644	**14,046**
Regulatory retail exposures	-	-	-	630	-	-	-	86	**716**
Past due loans	-	1	8	123	-	-	-	37	**169**
Residential retail portfolio	-	2	-	-	-	-	-	-	**2**
Commercial mortgage	-	182	-	-	-	-	-	-	**182**
Equity portfolios	-	1	-	28	-	-	-	-	**29**
Other exposures	65	63	-	766	-	2	-	76	**972**
Gross credit exposure	**3,084**	**3,443**	**1,240**	**14,916**	**45**	**1,268**	**79**	**7,463**	**31,538**
Eligible collateral	239	19	12	1,135	-	93	-	785	2,283

The ageing analysis of past due loans by geographical distribution can be analysed as follows:

US$ million	Less than 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Western Europe	-	-	-	1	1
Other Europe	-	-	8	-	8
Arab World	87	11	15	10	123
Latin America	-	-	37	-	37
	87	**11**	**60**	**11**	**169**

5. Credit risk – Pillar III disclosures (continued)

d. Credit exposure (continued)

Industrial sector analysis of exposures

The industrial sector analysis of exposures, impaired assets and the related specific provisions (Stage 3) can be analysed as follows:

US$ million	Gross exposure	Funded exposure	Unfunded exposure	Eligible collateral	Impaired loans	Specific/ Stage 3 ECL impaired loans	Impaired debt securities	Specific/ Stage 3 ECL impaired debt securities
Manufacturing	2,840	2,295	545	59	73	46	-	-
Mining and quarrying	86	77	9	-	16	7	-	-
Agriculture, fishing and forestry	1,239	1,124	115	-	25	17	-	-
Construction	1,479	1,245	234	89	148	136	-	-
Financial services	12,259	11,019	1,240	2,082	9	7	74	74
Trade	454	417	37	12	154	153	-	-
Personal / Consumer finance	795	734	61	-	26	25	-	-
Commercial real estate financing	586	519	67	-	16	8	-	-
Government	3,884	3,843	41	8	2	2	-	-
Technology, media and telecommunications	792	700	92	-	29	29	-	-
Transport	1,061	912	149	-	7	7	-	-
Energy	1,205	1,070	135	11	-	-	-	-
Utilities	1,382	1,005	377	8	-	-	-	-
Distribution	753	685	68	-	-	-	-	-
Retailers	369	246	123	-	-	-	-	-
Other services	2,354	1,907	447	14	220	119	15	6
	31,538	**27,798**	**3,740**	**2,283**	**725**	**556**	**89**	**80**

5. Credit risk – Pillar III disclosures (continued)

d. Credit exposure (continued)

Industrial sector analysis of exposures (continued)

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

US$ million	**Manufacturing**	**Mining and quarrying**	**Agriculture, fishing and forestry**	**Construction**	**Financial services**	**Trade**	**Personal / Consumer finance**	**Commercial real estate financing**	**Government**	**Technology, media and telecommunications**	**Transport**	**Energy**	**Utilities**	**Distribution**	**Retailers**	**Other services**	**Total**
Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33	**33**
Claims on sovereigns	-	-	-	-	1,658	-	-	-	3,561	-	-	-	-	-	-	-	**5,219**
Claims on public sector entities	236	4	-	5	606	-	-	-	314	45	220	540	191	-	-	14	**2,175**
Claims on multilateral development banks	-	-	-	-	313	-	-	-	-	-	-	-	-	-	-	-	**313**
Claims on banks	-	-	-	-	7,682	-	-	-	-	-	-	-	-	-	-	-	**7,682**
Claims on corporate portfolio	2,576	73	1,231	1,374	1,975	453	42	484	9	747	841	665	1,191	753	369	1,263	**14,046**
Regulatory retail exposures	-	-	-	-	-	-	716	-	-	-	-	-	-	-	-	-	**716**
Past due loans	27	9	8	12	2	1	1	8	-	-	-	-	-	-	-	101	**169**
Residential retail portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	**2**
Commercial Mortgage	-	-	-	88	-	-	-	94	-	-	-	-	-	-	-	-	**182**
Equity portfolios	1	-	-	-	23	-	-	-	-	-	-	-	-	-	-	5	**29**
Other exposures	-	-	-	-	-	-	36	-	-	-	-	-	-	-	-	936	**972**
	2,840	**86**	**1,239**	**1,479**	**12,259**	**454**	**795**	**586**	**3,884**	**792**	**1,061**	**1,205**	**1,382**	**753**	**369**	**2,354**	**31,538**

5. Credit risk – Pillar III disclosures (continued)

d. Credit exposure (continued)

Industrial sector analysis of exposures (continued)

The ageing analysis of past due loans, by industrial sector can be analysed as follows:

US$ million	Less than 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Manufacturing	-	8	14	5	**27**
Mining and quarrying	-	-	7	2	**9**
Agriculture, fishing and forestry	-	-	6	2	**8**
Construction	-	-	12	-	**12**
Financial services	-	1	1	-	**2**
Trade	-	1	-	-	**1**
Personal / Consumer finance	-	1	-	-	**1**
Commercial real estate financing	-	-	8	-	**8**
Other services	87	-	12	2	**101**
	87	**11**	**60**	**11**	**169**

5. Credit risk – Pillar III disclosures (continued)

d. Credit exposure (continued)

Maturity analysis of funded exposures

Residual contractual maturity of the Group's major types of funded credit 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
Cash	33	-	-	-	33	-	-	-	-	-	-	33
Claims on sovereigns	1,660	373	309	555	2,897	1,177	1,004	80	-	9	2,270	5,167
Claims on public sector entities	474	70	296	264	1,104	586	301	7	-	3	897	2,001
Claims on multilateral development banks	6	14	96	42	158	155	-	-	-	-	155	313
Claims on banks	2,008	722	838	1,705	5,273	1,321	51	-	-	1	1,373	6,646
Claims on corporate portfolio	1,152	1,968	1,005	1,406	5,531	4,706	1,103	17	-	527	6,353	11,884
Regulatory retail exposures	2	17	15	19	53	169	283	127	16	18	613	666
Past due loans	78	9	-	1	88	70	11	-	-	-	81	169
Residential retail portfolio	-	-	-	-	-	-	1	1	-	-	2	2
Commercial mortgage	38	10	-	19	67	115	-	-	-	-	115	182
Equity portfolios	-	-	-	-	-	-	-	-	-	29	29	29
Other exposures	-	1	4	4	9	13	-	-	-	684	697	706
	5,451	**3,184**	**2,563**	**4,015**	**15,213**	**8,312**	**2,754**	**232**	**16**	**1,271**	**12,585**	**27,798**

5. Credit risk – Pillar III disclosures (continued)

d. Credit exposure (continued)

Maturity analysis of unfunded exposures

In accordance with the calculation of credit risk-weighted assets in the CBB's Basel III Capital Adequacy Framework, unfunded exposures are divided into the following exposure types:

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

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

In addition to counterparty credit risk, derivatives are also exposed to market risk, which requires a separate capital charge as prescribed under the Basel III guidelines.

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	18	12	8	10	48	4	-	-	-	-	4	52
Claims on public sector entities	21	17	37	50	125	45	-	4	-	-	49	174
Claims on banks	120	312	94	302	828	103	73	26	6	-	208	1,036
Claims on corporate portfolio	171	245	297	475	1,188	916	56	1	1	-	974	2,162
Regulatory retail exposures	4	11	15	7	37	12	1	-	-	-	13	50
Other exposures	-	-	-	-	-	1	-	-	-	265	266	266
	334	**597**	**451**	**844**	**2,226**	**1,081**	**130**	**31**	**7**	**265**	**1,514**	**3,740**

5. Credit risk – Pillar III disclosures (continued)

e. Impaired assets and provisions for impairment

The Group has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition of an asset by considering the change in the risk of default occurring over the remaining life of the financial instrument. If such evidence exists, the assets are moved to the respective "Stages" mentioned above and appropriate ECLs recognised.

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

US$ million	Provision (Write-back/recovery)	Write-offs
Manufacturing	17	7
Mining and quarrying	2	-
Agriculture, fishing and forestry	4	4
Construction	8	2
Trade	1	-
Personal / Consumer finance	-	2
Other services	84	2
ECL (Stages 1&2)	58	-
	174	**17**

Restructured facilities

The carrying amount of restructured facilities amounted to US$ 683 million as at 30 June 2020. Out of the total restructured facilities 74% relate to performing customers (including short term restructuring carried out due to current Covid-19 situation) on which an ECL of US$ 23 million is being held. In line with CBB guidelines loans qualifying for relief from additional ECL charges is included in this amount. These restructuring did not have any impact on carrying values thereby no modification loss was recorded on these. The Group continues to record interest on performing customers as normal and interest on non-performing customers is recorded on receipt basis.

Ageing analysis of 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 significant increase in credit risk, an exposure is moved to Stage 3 and lifetime ECL recognised if there is objective evidence that a credit facility is impaired, as mentioned above.

5. Credit risk – Pillar III disclosures (continued)

e. Impaired assets and provisions for impairment (continued)

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

Loans

US$ million	Principal	Provisions	Net book value
Less than 3 months	154	67	87
3 months to 1 year	47	36	11
1 to 3 years	285	225	60
Over 3 years	239	228	11
	725	**556**	**169**

Securities

US$ million	Principal	Provisions	Net book value
Less than 3 months	15	6	9
3 months to 1 year	-	-	-
1 to 3 years	-	-	-
Over 3 years	74	74	-
	89	**80**	**9**

5. Credit risk – Pillar III disclosures (continued)

e. Impaired assets and provisions for impairment (continued)

Movement in expected credit losses

	Expected Credit Losses		
	Stage 1	**Stage 2**	**Stage 3**
Loans			
At beginning of the year	58	67	492
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	1	(1)	-
Transfer to stage 2	(1)	6	(5)
Transfer to stage 3	(1)	-	1
Net remeasurement of loss allowance	23	27	143
Write-backs / recoveries			(41)
Amounts written-off			(17)
Exchange adjustments and other movements	(5)	(4)	(17)
Balance at reporting date	**75**	**95**	**556**

	Expected Credit Losses		
	Stage 1	**Stage 2**	**Stage 3**
Investments			
At beginning of the year	13	4	74
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Net remeasurement of loss allowance	6	-	6
Write-backs / recoveries			-
Amounts written-off			-
Exchange adjustments and other movements	-	-	-
Balance at reporting date	**19**	**4**	**80**

	Expected Credit Losses		
	Stage 1	**Stage 2**	**Stage 3**
Other financial assets and off-balance sheet items			
At beginning of the year	16	13	15
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Net remeasurement of loss allowance	3	(1)	7
Write-backs / recoveries			-
Amounts written-off			-
Exchange adjustments and other movements	(1)	-	(3)
Balance at reporting date	**18**	**12**	**19**

6. Off balance sheet exposure and securitisations

a. Credit related contingent items

As mentioned previously, 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 set at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off-balance sheet notional amounts into an equivalent on-balance sheet 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:

US$ million	Notional Principal
Short-term self-liquidating trade and transaction-related contingent items	2,179
Direct credit substitutes, guarantees and acceptances	2,776
Undrawn loans and other commitments	1,664
	6,619
RWA	**2,540**

At 30 June 2020, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$ 166 million.

Please refer to note 10 of the interim condensed consolidated financial statements for detailed disclosures on credit commitments and contingent items.

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. Appropriate limits are approved by the Board, and monitored and reported along with the Group Risk Appetite Statement.

6. Off balance sheet exposure and securitisations (continued)

b. Derivatives (continued)

The Group uses forward foreign exchange contracts, currency options 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 2020. The aggregate notional amounts for interest rate and foreign exchange contracts as at 30 June2020 were as follows:

	Derivatives		
US$ million	**Interest rate contracts**	**Foreign exchange contracts**	**Total**
Notional – Trading book	16,876	14,369	31,245
Notional – Banking book	4,314	318	4,632
	21,190	**14,687**	**35,877**
Credit RWA (replacement cost plus potential future exposure)	434	173	607
Market RWA	661	911	1,572

c. Counterparty credit risk

Counterparty credit risk (CCR) is the risk that a counterparty to a contract in the interest rate, foreign exchange, equity or credit markets defaults prior to the maturity of the contract.

The counterparty credit risk for derivatives 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 exposures.

In accordance with the credit risk framework in the CBB's Basel III Capital Adequacy Framework, the Group uses the current exposure method to calculate counterparty credit risk exposure of derivatives. Counterparty credit exposure is defined as 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.

In addition to the default risk capital charge for CCR, the Group also holds capital to cover the risk of mark-to-market losses on the expected counterparty risk arising out of over-the-counter derivative transactions, namely a Credit Valuation Adjustment (CVA). The Standardised CVA Risk Capital Charge, as prescribed under CBB's Basel III guidelines, is employed for the purpose. As at 30 June 2020, the CVA capital charge for the portfolio was US$ 273 million.

7. Capital management

Our strategy and objectives underpin our capital management framework which is designed to maintain sufficient levels of capital to support our organic and inorganic business plans, and to withstand extreme but plausible stress conditions. The capital management objective aims to maintain an optimal capital structure to enhance shareholders' returns while operating within the Group's risk appetite limits and comply with regulatory requirements at all times.

Our approach to capital management is driven by our strategic objectives, considering the regulatory, economic and business environment in our major markets. It is our objective to maintain a strong capital base to support the risks inherent in our businesses and markets, meeting both local and consolidated regulatory and internal capital requirements at all times.

Internal Capital Adequacy Assessment Process (ICAAP)

Our capital management approach is supported by a Capital Management Framework and the Internal Capital Adequacy Assessment Process ('ICAAP'), which enables us to manage our capital in a proactive and consistent manner. The framework incorporates a variety of approaches to assess capital requirements for different material sources of risks and is evaluated on an economic and regulatory capital basis. The Group's ICAAP is designed to:

- Inform the Board of the ongoing assessment of the Bank's risks, and how the Bank intends to mitigate those risks. It also evaluates the current and future capital requirements that is necessary having considered other mitigating factors;
- Ensure that the Bank's capital position remains adequate in the event of an extreme but plausible global and regional economic stress conditions;
- Demonstrate that the Bank establishes and applies a strong and encompassing governance framework in addition to a robust risk and capital management, planning and forecasting process; and
- Provide a forward-looking view, in relation to solvency on the Bank's risk profile to ensure that it is in line with the Board's Risk Appetite limits.

7. Capital management (continued)

The ICAAP makes an assessment of capital required for each of the material sources of risks and compares the overall capital requirements for Pillar 1 and Pillar 2 risks against available capital. Our assessment of capital adequacy is aligned to our assessment of risks. These include credit, market, operational, concentration risk (geographic, sectoral and obligor), liquidity risk, pension fund obligation, residual risks, and interest rate risk in the banking book.

In addition to the assessment of capital requirements under Pillar 1 and Pillar 2A of the regulatory capital framework, the Group assesses capital requirements for stress events under Pillar 2B.

7. Capital management (continued)

Pillar 2A Risks

The Pillar 2A measurement framework for the key risk categories is summarised below:

Material Sources of Risk (Pillar 2A)	Methodology
Credit Risk	Additional capital required for credit risk under ICAAP based on the Foundation Internal Ratings based approach
Concentration Risk - *Name Concentration* - *Sector Concentration* - *Geographic Concentration*	Capital requirements assessed for Name, Sector and Geographic concentration risks using the HHI approach
Counterparty Credit Risk	No capital add-on under ICAAP as Pillar 1 is assessed to be sufficient
Market Risk	The Group uses the 'Historical Simulation Approach' to measure VaR. The key model assumptions for the trading portfolio are: • 2-year historical simulation • 1-year Holding Period • 99% (one tail) confidence interval This is further augmented by a stress analysis under Pillar 2B. Pillar 1 capital requirement was deemed sufficient for Market Risk.
Operational Risk - *Conduct Risk* - *Non Conduct Risk*	- For Conduct risk - Based on peak historical losses over a five year period. - For Non Conduct Risk - Based on the PRA method of C1 and C2. The third scenario C3 of the PRA method will be incorporated in the next ICAAP cycle.
Liquidity and Funding Risk	Liquidity and funding risk is covered under ILAAP and sufficient Liquid Asset Buffers (LAB) held to address this risk
Interest Rate Risk in the Banking Book (IRRBB)	Capital requirements assessed based on six stress scenarios in alignment with Basel IRRBB 2016 guidelines (BCBS 368). Capital requirements is assessed against internal threshold for EAR or EVE.
Pension Obligation Risk	Capital requirements assessed based on an actuarial assessment of pension fund obligations by computing the gap between the present value of all defined pension obligations and the value of the pension fund scheme assets which is complemented with a stressed assessment using a set of stress scenarios
Strategic Risk	Regular review of strategy in view of the changing technology, regulatory and business landscape
Reputational Risk	Robust governance and management framework with significant involvement of senior management to proactively address any risk(s) to the Group's reputation

Pillar 2B - Stress Testing

Pillar 2B represents capital requirements to be assessed through Stress Testing and Scenario Analysis. Stress testing alerts the Bank's management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur. A summary of the approach followed for stress testing is as follows:

7. Capital management (continued)

To enhance its stress testing, risk management and planning capabilities and to comply with CBB requirements during the year, the bank has implemented Integrated Stress Testing (IST). IST allows the Bank to assess the impact of a continuum of stress scenarios including market-wide, idiosyncratic and combined scenarios on its capital, asset quality, earnings and liquidity. IST also enhances the bank's ability to integrate the feedback loop and interplay between different risks when a stress event occurs.

The market-wide scenarios generated from Moody's data on macro-economic forecasts allow the bank to assess its vulnerabilities under mild, moderate, severe and reverse scenarios using the same macro-variables. Idiosyncratic scenarios have been identified for its material and emerging risks. Bank can now assess the impact of these scenarios or new events for various risk drivers on a multi-dimensional basis, that is, at an entity, country, sector, business area, product, customer or any other applicable level.

Finally, the bank has leveraged the management actions identified under its ICAAP, ILAAP and RRP processes to complete the impact analysis by assessing the adequacy of these actions to resolve the adverse impact from these scenarios. The results of the IST process will is aligned with the bank's risk appetite setting at an entity and group level. The Bank uses the IST framework to complete its ICAAP.

The ICAAP considers mild, moderate and severe stress scenarios and assesses their impact on its earnings, asset quality, capital and liquidity adequacy. The macroeconomic stress scenarios are sourced from Moody's scenario generator platform.

Impact on capital of the above is assessed and suitable management actions were identified to mitigate the impact of stress while making the overall capital adequacy assessments

Based on the its assessment, the Group maintains adequate levels of capital buffers to meet its business growth over the planning horizon as well as withstand extreme but plausible stress.

Annual Planning Cycle

Our annual budget results in an assessment of RWA and capital requirements to support the Bank's growth plans and compares this with the available Capital. The annual budget, the 3 year forecasts and the ICAAP are approved by the Board. Regular forecasts of RWA and Capital resources are reviewed and the capital ratios are monitored against these forecasts.

Capital Allocation

The responsibility for Group's capital allocation principles rests with the Group's Management Committee. The capital allocation disciplines are enforced through the Group Balance Sheet Management function that operates under the oversight of the Group Chief Financial Officer. Through our internal governance processes, we seek to maintain discipline over our investment and capital allocation decisions, and seek to ensure that returns on capital meet the Group's management objectives. Our strategy is to allocate capital to businesses and entities to support growth objectives where above hurdle returns have been identified based on their regulatory and economic capital needs.

We manage our new business returns with a Risk Adjusted Return on Capital (RAROC) measure to drive higher returns while balancing risks that has been further embedded during the year.

8. 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.

Please refer note 12 of the interim condensed consolidated financial statements for detailed disclosures on related-party transactions.

Exposures to related-parties other than those disclosed in the above mentioned note are as follows:

Claims on shareholders*	43
Claims on directors & senior management	3
Claims on staff	27

**Unfunded exposures after applying CCF.*

9. Repurchase and resale agreements

Proceeds from assets sold under repurchase agreements as at 30 June 2020 amounted to US$ 1,276 million. The carrying value of securities sold under repurchase agreements at the period end amounted to US$ 1,279 million.

Amounts paid for assets purchased under resale agreements at the period end amounted to US$ 1,467 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$ 1,467 million.

10. Material transactions

Transactions requiring approval by the Board include large credit transactions, related party transactions and any other significant strategic, investment or major funding decisions in accordance with Board approved policies and procedures.

APPENDIX I – REGULATORY CAPITAL DISCLOSURES

PD 1: Post 1 January 2019 disclosure template

	Basel III Common Disclosure Template	**PIR as at 30 June 2020**	**Reference**
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	3,104	a
2	Retained earnings	1,053	b
3	Accumulated other comprehensive income (and other reserves)	(430)	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)	215	d
6	**Common Equity Tier 1 capital before regulatory adjustments**	**3,942**	
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)	17	e
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	3	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	32	c6
16	Investments in own shares	-	
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)	-	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 1: Post 1 January 2019 disclosure template (continued)

	Basel III Common Disclosure Template	PIR as at 30 June 2020	Reference
	Common Equity Tier 1 capital: regulatory adjustments (continued)		
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	CBB specific regulatory adjustments	-	
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**	**52**	
29	**Common Equity Tier 1 capital (CET1)**	**3,890**	
	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)	83	g
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**83**	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 1: Post 1 January 2019 disclosure template (continued)

	Basel III Common Disclosure Template	PIR as at 30 June 2020	Reference
	Additional Tier 1 capital: regulatory adjustments (continued)		
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	CBB specific regulatory adjustments	-	
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)**	**83**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**3,973**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
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)	69	i
49	*of which: instruments issued by subsidiaries subject to phase out*	-	
50	Provisions	165	h*
51	**Tier 2 capital before regulatory adjustments**	**234**	
	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)	-	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 1: Post 1 January 2019 disclosure template (continued)

	Basel III Common Disclosure Template	**PIR as at 30 June 2020**	**Reference**
	Tier 2 capital: regulatory adjustments (continued)		
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	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	**234**	
59	**Total capital (TC = T1 + T2)**	**4,207**	
60	**Total risk weighted assets**	**24,355**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	16.0%	
62	Tier 1 (as a percentage of risk weighted assets)	16.3%	
63	Total capital (as a percentage of risk weighted assets)	**17.3%**	
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	
67	of which: G-SIB buffer requirement	N/A	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	7.0%	
	National minima including CBB (where different from Basel III)		
69	CBB Common Equity Tier 1 minimum ratio	9%	
70	CBB Tier 1 minimum ratio	10.5%	
71	CBB total capital minimum ratio	12.5%	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	3	
73	Significant investments in the common stock of financials	21	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 1: Post 1 January 2019 disclosure template (continued)

	Basel III Common Disclosure Template	PIR as at 30 June 2020	Reference
Amounts below the thresholds for deduction (before risk weighting) (continued)			
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	323	
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)	165	h*
77	Cap on inclusion of provisions in Tier 2 under standardised approach	263	
78	N/A		
79	N/A		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)			
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	

* *As adjusted based on CBB circular “OG/226/2020”*

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 2: Reconciliation of Regulatory Capital

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

US$ million

	Balance sheet as in published financial statements	Consolidated PIR data
Liquid funds	1,960	-
Cash and balances at central banks	-	1,538
Placements with banks and similar financial institutions	2,259	4,151
Reverse repurchase agreements and other similar secured lending	1,467	-
Financial assets at fair value through P&L	582	582
Non-trading investments	5,873	-
Investment at Amortised Cost	-	884
Investments at FVOCI	-	5,012
Loans and advances	14,583	14,754
Investment properties	-	-
Interest receivable	-	345
Other assets	2,712	2,329
Investments in associates and joint ventures	-	21
Goodwill and intangible assets	-	17
Property, plant and equipment	187	187
TOTAL ASSETS	**29,623**	**29,820**
Deposits from banks	3,876	7,689
Deposits from customers	15,989	12,176
Certificate of deposits issued	283	283
Repurchase agreements and other similar secured borrowing	1,276	1,276
Interest payable	-	268
Taxation	168	-
Other liabilities	2,154	2,028
Borrowings	1,885	1,798
Subordinated liabilities	-	-
Additional Tier 1 Instrument	-	87
TOTAL LIABILITIES	**25,631**	**25,605**
Paid-in share capital	3,110	3,110
Treasury shares	(6)	(6)
Reserves	533	533
Non - controlling interest	355	355
Expected credit losses	-	223
TOTAL SHAREHOLDERS' EQUITY	**3,992**	**4,215**

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

US$ million

ASSETS	**Balance sheet as in published financial statements**	**Consolidated PIR data**	**Reference**
Liquid funds	1,960	-	
Cash and balances at central banks	-	1,538	
Placements with banks and similar financial institutions	2,259	4,151	
Reverse repurchase agreements and other similar secured lending	1,467	-	
Financial assets at fair value through P&L	582	582	
Loans and advances	14,583	14,754	
Non-trading investments	5,873	5,896	
Of which investment NOT exceeding regulatory threshold	-	*5,896*	
Interest receivable	-	345	
Other assets	2,712	2,329	
Of which deferred tax assets arising from carryforwards of unused tax losses, unused tax credits and all other	-	*3*	*f*
Of which deferred tax assets arising from temporary differences	-	*323*	
Investments in associates and joint ventures	-	21	
Of which Significant investment exceeding regulatory threshold	-	-	
Of which Significant investment NOT exceeding regulatory threshold	-	*21*	
Goodwill and intangible assets	-	17	
Of which goodwill	-	-	
Of which other intangibles (excluding MSRs) phased in at 100%	-	*17*	*e*
Of which MSRs	-	-	
Property, plant and equipment	187	187	
TOTAL ASSETS	**29,623**	**29,820**	

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$ million

LIABILITIES & SHAREHOLDERS' EQUITY	**Balance sheet as in published financial statements**	**Consolidated PIR data**	**Reference**
Deposits from banks	3,876	7,689	
Deposits from customers	15,989	12,176	
Certificate of deposits issued	283	283	
Repurchase agreements and other similar secured borrowing	1,276	1,276	
Interest payable	-	268	
Taxation	168	-	
Other liabilities	2,154	2,028	
Borrowings	1,885	1,798	
Subordinated liabilities	-	-	
Of which amount eligible for TII	-	-	
Of which amount Ineligible	-	-	
Additional Tier 1 Instrument	-	87	
Of which amount eligible for AT1	-	*38*	g
Of which amount eligible for TII	-	*9*	i
Of which amount Ineligible	-	*40*	
TOTAL LIABILITIES	**25,631**	**25,605**	
Paid-in share capital	3,110	3,110	
Treasury shares	(6)	(6)	
Of which form part of CET1			
Ordinary Share Capital	3,110	3,110	a
Treasury shares	(6)	(6)	a
Reserves	533	533	
Of which form part of CET1			
Retained earnings/(losses) brought forward	*1,053*	*1,053*	*b*
Net profit for the current period	*(67)*	*(9)*	*c1*
Legal reserve	*520*	*520*	*c2*
General (disclosed) reserves	*100*	*100*	*c3*
Fx translation adjustment	*(928)*	*(928)*	*c4*
Cumulative changes in fair value	*(113)*	*(113)*	*c5*
Pension fund reserve	*(32)*	*(32)*	*c6*
Non - controlling interest	355	355	
Of which amount eligible for CETI	-	*215*	*d*
Of which amount eligible for ATI	-	*45*	*g*
Of which amount eligible for TII	-	*60*	*i*
Of which amount ineligible	-	*35*	
Expected credit losses	-	223	
Of which amount eligible for TII (Maximum 1.25% of RWA)	-	*223*	*h*
Of which amount Ineligible	-	-	
TOTAL SHAREHOLDERS' EQUITY	**3,992**	**4,215**	

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	Banco ABC Brasil
2	Unique identifier	ABC	LFSC19000 (series with various suffixes)
3	Governing law(s) of the instrument	Laws of Bahrain	Laws of the Federative Republic of Brazil
Regulatory treatment			
4	Transitional CBB rules	Common Equity Tier 1	N/A
5	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1
6	Eligible at solo/group/group & solo	Group & Solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common equity shares	Perpetual NC 5, Sub-ordinated to all except Shareholders' Equity
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	US$ 3,110	BRL 513 (of which US$ 38 equivalent eligible for AT1)
9	Par value of instrument	1	300,000
10	Accounting classification	Shareholders' equity	Liability- Amortised cost
11	Original date of issuance	Various	Various
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

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

Disclosure template for main features of regulatory capital instruments			
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Yes
16	Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating (Dividend as decided by the shareholders)	Floating
18	Coupon rate and any related index	N/A	~3.0735 times the Selic Rate [1], (at current levels: 6,6080%/2,15% p.a.)
19	Existence of a dividend stopper	N/A	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Partly discretionary (Insufficiency of profits)
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	N/A	Non-cumulative
23	Convertible or non-convertible	N/A	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

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

Disclosure template for main features of regulatory capital instruments			
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	No	Yes
31	If write-down, write-down trigger(s)	N/A	CET 1 at 5.125% or below
32	If write-down, full or partial	N/A	Fully discretionary
33	If write-down, permanent or temporary	N/A	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A
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	AT1 capital bills
36	Non-compliant transitioned features	No	N/A
37	If yes, specify non-compliant features	N/A	N/A