المؤسسة العربية المصرفية (ش.م.ب)
ARAB BANKING CORPORATION (B.S.C.)

BASEL II – RISK & PILLAR III DISCLOSURES

30 June 2013

Table of contents

1. Introduction

The Central Bank of Bahrain [the CBB] requirements, which act as a common framework for the implementation of the Basel II Accord in the Kingdom of Bahrain, came into effect on 1 January 2008.

The Basel II 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.

In November 2007, the CBB issued directives on the Pillar III disclosures under the Basel II framework applicable to licensed banks in the Kingdom of Bahrain. These directives set out the enhanced disclosure requirements under Basel II framework. This document gathers together all the elements of the disclosure required under Pillar III and is organized as follows:

- Firstly, it gives an overview of the approach taken by Arab Banking Corporation (B.S.C.) [the Bank] and its subsidiaries [together "the Group"] to Pillar I and provides the profile of the risk weighted assets according to the "standard portfolio" as defined by the CBB.
- Secondly, an overview of risk management practices and framework at the Bank is presented with specific emphasis on credit, market and operational risks and sets out the related monitoring processes and credit mitigation initiatives.
- Finally, this document provides 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 for the period ended 30 June 2013 prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

However, the credit risk exposures considered in this document differ from the credit risk exposures reported in the interim condensed consolidated financial statements due to the application of different methodologies under Basel II and International Financial Reporting Standards as follows:

- Under the Basel II framework, 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 balance sheet notional amounts into an equivalent statement of financial position exposure. In the interim condensed consolidated financial statements, the nominal values of credit-related contingent items are considered off-statement of financial position.

1. Introduction (continued)

- Under this section, the credit exposures are classified as per the Standard Portfolio approach set out in the CBB's Basel II capital adequacy framework covering the Standardised Approach for credit risk. In the case of guaranteed exposures, the exposures would normally be reported based on the guarantor. However, in the interim condensed consolidated financial statements the assets are presented based on asset class (i.e. securities, loans and advances, etc.).

- Eligible collateral is taken into consideration in arriving at the net exposure under the Basel II framework, whereas collateral is not netted in the interim condensed consolidated financial statements.

- Securities in the non-trading securities portfolio are considered at cost under the Basel II framework, whereas they are considered at fair value in the interim condensed consolidated financial statements.

- Under the Basel II framework, certain items are considered as a part of the regulatory capital base, whereas these items are netted off against assets in the interim condensed consolidated 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 2013, 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
ABC Islamic Bank (E.C.)	Bahrain	100
Arab Banking Corporation (ABC) – Jordan	Jordan	87
Banco ABC Brasil S.A.	Brazil	58
ABC Algeria	Algeria	88
Arab Banking Corporation - Egypt [S.A.E.]	Egypt	99.6
ABC Tunisie	Tunisia	100
Arab Financial Services Company B.S.C. (c)	Bahrain	55

3. Capital structure

The Group's capital base comprises (a) Tier 1 capital which includes share capital, reserves, retained earnings and non-controlling interests, and (b) Tier 2 capital which consists of the subordinated term debt, collective impairment provisions, profit for the period and equity revaluation reserves.

The issued and paid-up share capital of the Bank is $3,110 million at 30th June 2013, comprising 3,110 million shares of $1 each.

During the year ended 31 December 2007, the subordinated term debt, amounting to $500 million, was raised under its $2,500 million Euro Medium Term Deposit Note Programme, and represents unsecured obligations of the Group, and is subordinated in the right of payment to the claims of all depositors and creditors of the Group. These are issued for 10 years with a call option which can only be exercised after five years. The bank had repurchased a portion of the debt in the previous years. The inclusion of the subordinated term debt in the Tier 2 capital base, and the subsequent repurchases, has been approved by the CBB.

During the year ended 31 December 2012, a subsidiary of the Bank raised subordinated debt of a nominal amount of US$ 100 million adding to the already existing subordinated debt borrowed in 2010 amounting to US$ 300 million. These are issued for ten years without an investor put option.

3. Capital structure (continued)

The Group's capital base of $5,067 million comprises Tier 1 capital of $4,164 million and Tier 2 capital of $903 million as detailed below:

Breakdown of Capital Base

US$ million	Tier 1	Tier 2	Total
Share capital	3,110	-	3,110
Statutory reserve	376	-	376
General reserve	150	-	150
Retained earnings brought forward	322	-	322
Profit for the period	-	112	112
Minority interest in consolidated subsidiaries	416	-	416
Foreign currency translation adjustment	(196)	-	(196)
Unrealized losses from fair value of equity securities	-	-	-
Unrealized gains from fair value of equity securities	-	3	3
Collective impairment provisions	-	182	182
Subordinated term debt	-	620	620
Tier 1 and Tier 2 capital before deductions	**4,178**	**917**	**5,095**
Significant minority investments in banking, securities and other financial entities	(11)	(11)	(22)
Other deductions – Unamortized IT costs	(3)	(3)	(6)
Tier 1 and Tier 2 capital base	**4,164**	**903**	**5,067**

Risk weighted assets (RWA)	
Credit risk	**19,448**
Market risk	**1,344**
Operational risk	**1,536**
Total Risk Weighted assets	**22,328**
Tier 1 ratio	**18.6%**
Capital adequacy ratio	**22.7%**

4. Capital adequacy ratios (CAR)

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

The Group manages its capital structure, and makes adjustments to it, 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 capital/Tier 2 securities or adjust the amount of dividend payments to shareholders. No changes have been made in the objectives, policies and processes from the previous year.

Management expects the change to capital structure implemented in 2010 to have a positive impact on the earnings of the Group. The determination to pay dividends on an on-going basis and the amount thereof will depend upon, among other things, the Group's earnings, its dividend policy, the requirement to set aside minimum statutory reserves, capital requirements to support the 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.

The Group's total capital adequacy ratio as at 30th June 2013 was 22.7% compared with the minimum regulatory requirement of 12%. The Tier 1 ratio was 18.6% 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. ABC 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.)	***25.6%***	***26.3%***
ABC International Bank Plc*	***15.9%***	***17.0%***
Banco ABC Brasil S.A.*	***10.9%***	***16.3%***

* CAR has been computed after mandatory deductions from the total of Tier 1 and Tier 2 capital. Other than restrictions over transfers to ensure minimum regulatory capital requirements at the local level, management believes that there are no impediments on the transfer of funds or reallocation of regulatory capital within the Group.

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 Standard Portfolio approach under the CBB's Basel II Capital Adequacy Framework, covering the Standardised Approach for credit risk.

The 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)

Listed Bahrain PSEs 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 this 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.

Investments in the subordinated debt of banking, securities and financial entities are risk-weighted at a minimum risk weight of 100% for listed entities or 150% for unlisted entities, unless such investments exceed 20% of the eligible capital of the investee entity, in which case they are deducted from the Group's capital.

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	32	32	-	-	-	-	-
Claims on sovereigns*	3,835	3,465	370	-	14	496	60
Claims on public sector entities **	1,970	1,857	113	53	105	1,532	184
Claims on multilateral development banks	44	43	1	-	-	-	-
Claims on banks	11,067	9,208	1,859	654	424	5,293	635
Claims on corporate portfolio	11,936	9,664	2,272	334	55	11,369	1,364
Regulatory retail portfolio	115	111	4	-	-	86	10
Past due loans	78	78	-	2	-	89	11
Residential retail portfolio	124	124	-	8	-	120	14
Equity portfolios	50	50	-	-	-	68	8
Other exposures	395	384	11	-	-	395	47
	29,646	**25,016**	**4,630**	**1,051**	**598**	**19,448**	**2,333**

* 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 2013 were US$ 29,167 million and US$ 19,160 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	388	46	45	57
- Specific interest rate risk	12	1	1	10
- General interest rate risk	376	45	44	47
Equity position risk	6	1	1	1
Foreign exchange risk	950	114	114	132
Options risk	-	-	-	-
Total market risk	**1,344**	**161**	**160**	**190**

* 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 2013.

5.3 Operational risk

In accordance with the Standardised Approach, as at 30 June 2013, the total capital charge in respect of operational risk was US$ 184 million. This capital charge was computed by splitting the Group's activities into eight business lines (as defined by the Basel II framework) and multiplying each business line's three-year average gross income by a pre-defined beta factor.

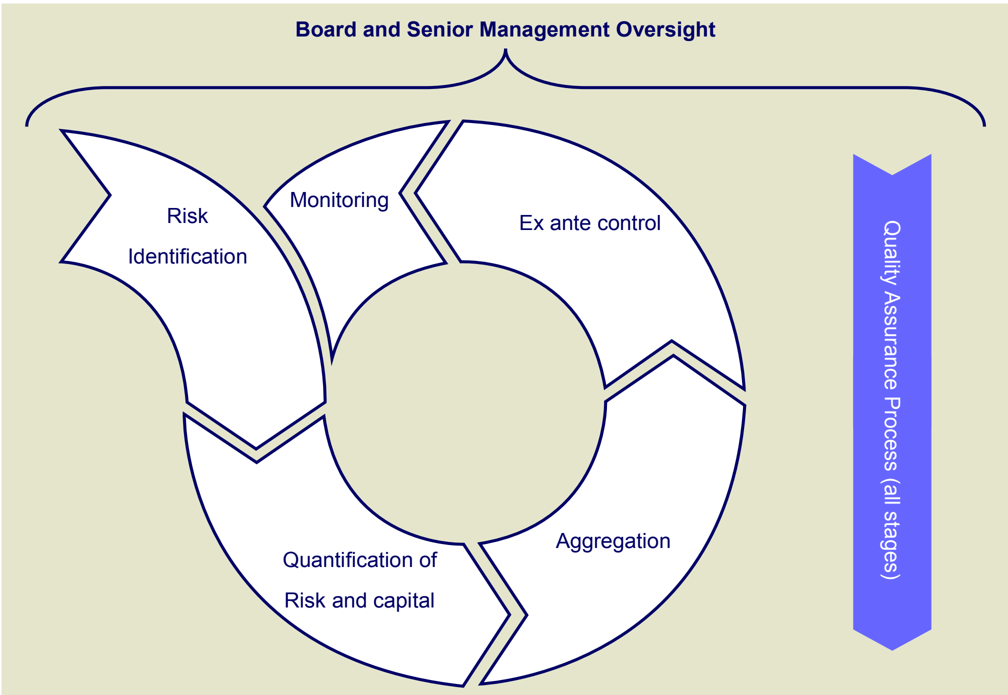
6. Risk management

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. Executive 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 (ALCO)** is responsible for defining long-term strategic plans and policy, as well as short-term tactical initiatives for prudently directing asset and liability allocation. ALCO monitors the Group's liquidity and market risks, and the Group's risk profile, in the context of economic developments and market fluctuations.

The Group **Operational Risk Management Committee (ORCO)** is responsible for defining long-term strategic plans and short-term tactical initiatives for the identification, prudent management,

6. Risk management (continued)

6.2 Risk management structure (continued)

control and measurement of the Group's exposure to operational and other non-financial risks. ORCO frames policy and oversees the operational risk function.

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)

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.

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 reporting. A collective impairment provision is also maintained to cover unidentified possible future losses.

As at 30 June 2013, the Group's exposures in excess of 15% obligor limits to individual counterparties were as shown below:

US$ million	**On balance sheet exposure**	**Off balance sheet exposure**	**Total exposure**
Counterparty A		834	834

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.

6. Risk management (continued)

6.2 Risk management structure (continued)

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 Group's classification of geographical areas is according to the distribution of its portfolios. 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	3,188	20	7	325	321
Western Europe	3,861	27	24	-	-
Other Europe	226	-	-	-	-
Arab World	11,405	328	280	40	35
Other Africa	83	-	-	-	-
Asia	2,836	1	-	36	6
Australia/New Zealand	92	-	-	-	-
Latin America	7,955	54	41	-	-
	29,646	**430**	**352**	**401**	**362**

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	-	-	-	32	-	-	-	-	**32**
Claims on sovereigns*	992	599	-	1,476	-	92	-	676	**3,835**
Claims on public sector entities **	133	136	-	1,447	-	116	-	138	**1,970**
Claims on multilateral development banks	-	30	-	14	-	-	-	-	**44**
Claims on banks	1,190	1,930	222	3,776	50	2,393	92	1,414	**11,067**
Claims on corporate portfolio	804	1,063	4	4,121	33	223	-	5,688	**11,936**
Regulatory retail exposures	-	3	-	102	-	-	-	10	**115**
Past due loans	-	1	-	62	-	-	-	15	**78**
Residential retail portfolio	-	58	-	57	-	-	-	9	**124**
Equity portfolios	18	-	-	20	-	12	-	-	**50**
Other exposures	51	41	-	298	-	-	-	5	**395**
	3,188	**3,861**	**226**	**11,405**	**83**	**2,836**	**92**	**7,955**	**29,646**

* 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	4,626	3,889	737	82	56	1	-
Mining and quarrying	162	148	14	1	-	-	-
Agriculture, fishing and forestry	8	8	-	4	4	-	-
Construction	1,203	872	331	4	3	-	-
Financial	13,041	10,936	2,105	144	131	345	339
Trade	662	579	83	76	75	-	-
Personal / Consumer finance	744	709	35	20	16	-	-
Commercial real estate financing	246	221	25	11	8	-	-
Residential mortgage	-	-	-	-	-	-	-
Government	3,993	3,658	335	26	26	24	6
Technology, media & telecommunications	328	167	161	-	-	-	-
Transport	575	515	60	33	9	-	-
Other sectors	4,058	3,314	744	29	24	31	17
	29,646	**25,016**	**4,630**	**430**	**352**	**401**	**362**

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	-	-	-	-	-	-	-	-	-	-	-	-	32	**32**
Claims on sovereigns*	-	-	-	-	125	-	-	-	-	3,710	-	-	-	**3,835**
Claims on public sector entities **	854	-	-	6	779	-	-	-	-	255	-	7	69	**1,970**
Claims on multilateral development banks	-	-	-	-	44	-	-	-	-	-	-	-	-	**44**
Claims on banks	-	-	-	-	11,066	-	-	-	-	1	-	-	-	**11,067**
Claims on corporate portfolio	3,746	162	8	1,196	961	658	608	242	-	11	327	568	3,449	**11,936**
Regulatory retail exposures	-	-	-	-	1	1	104	-	-	-	-	-	9	**115**
Past due loans	25	-	-	1	18	3	10	4	-	16	-	-	1	**78**
Residential retail portfolio	-	-	-	-	-	-	11	-	-	-	-	-	113	**124**
Equity portfolios	1	-	-	-	47	-	-	-	-	-	1	-	1	**50**
Other exposures	-	-	-	-	-	-	11	-	-	-	-	-	384	**395**
	4,626	**162**	**8**	**1,203**	**13,041**	**662**	**744**	**246**	**-**	**3,993**	**328**	**575**	**4,058**	**29,646**

* 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 and Fitch Ratings. (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	32	-	32
Claims on sovereigns*	3,835	3,260	575
Claims on public sector entities**	1,916	432	1,484
Claims on multilateral development banks	44	44	-
Claims on banks	10,414	8,870	1,544
Claims on corporate portfolio	11,602	1,138	10,464
Regulatory retail exposure	115	2	113
Past due loans	76	-	76
Residential retail portfolio	117	-	117
Equity portfolios	50	-	50
Other exposures	395	-	395
	28,596	13,761	14,835

* Includes Ginnie Mae & and Small Business Administration pools.

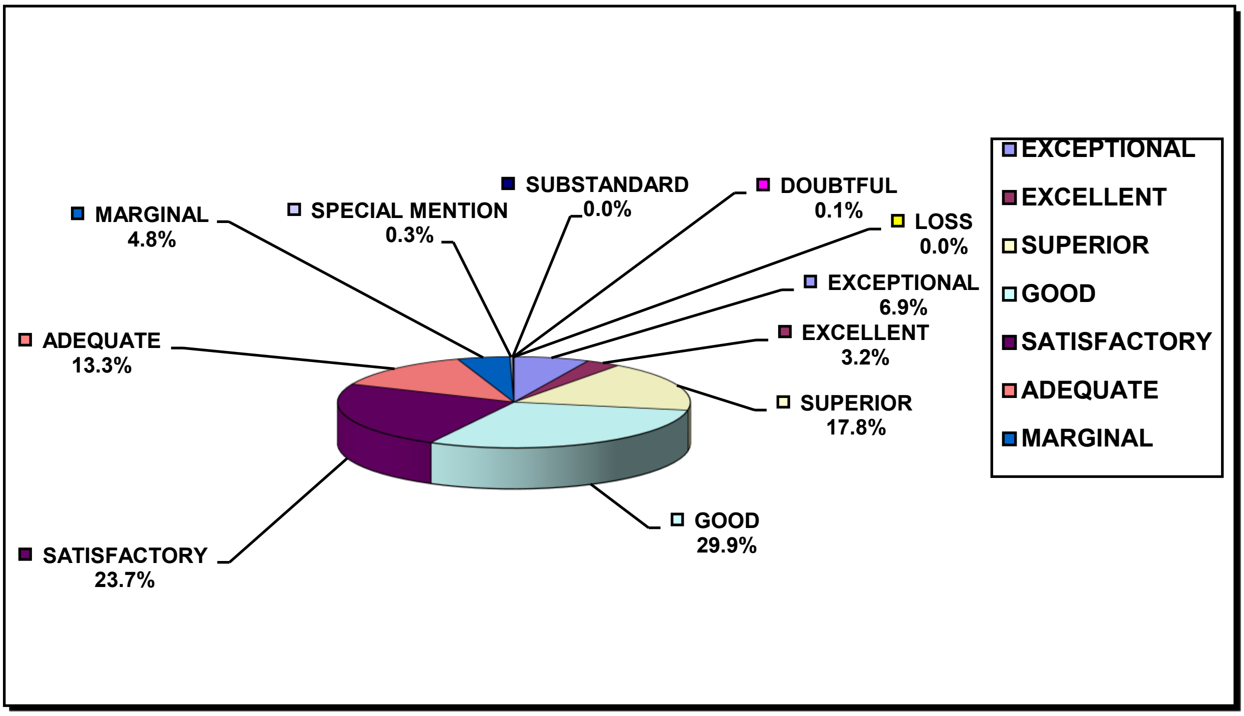
** Includes exposures to CMOs of Freddie Mac and Fannie Mae, both of which are deemed to be GSEs.

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 2013 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 $639 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	32	-	-	-	**32**	-	-	-	-	-	**-**	**32**
Claims on sovereigns*	1,541	573	364	207	**2,685**	643	95	27	10	5	**780**	**3,465**
Claims on public sector entities**	176	486	127	13	**802**	355	561	2	113	24	**1,055**	**1,857**
Claims on multilateral development banks	-	38	5	-	**43**	-	-	-	-	-	**-**	**43**
Claims on banks	3,054	777	781	2,073	**6,685**	2,319	20	55	-	129	**2,523**	**9,208**
Claims on corporate portfolio	694	1,610	882	920	**4,106**	3,661	1,251	181	12	453	**5,558**	**9,664**
Regulatory retail exposures	3	7	2	4	**16**	64	28	3	-	-	**95**	**111**
Past due loans	1	22	11	7	**41**	35	1	-	1	-	**37**	**78**
Residential retail portfolio	-	-	-	-	**-**	-	2	5	-	117	**124**	**124**
Equity portfolios	-	-	-	-	**-**	-	-	-	-	50	**50**	**50**
Other exposures	-	-	-	-	-	-	-	-	-	384	**384**	**384**
	5,501	**3,513**	**2,172**	**3,224**	**14,410**	**7,077**	**1,958**	**273**	**136**	**1,162**	**10,606**	**25,016**

* 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	139	59	69	69	**336**	3	-	-	31	-	**34**	**370**
Claims on public sector entities	39	1	18	26	**84**	14	15	-	-	-	**29**	**113**
Claims on MDB	-	-	-	-	**-**	-	1	-	-	-	**1**	**1**
Claims on banks	174	319	411	444	**1,348**	384	121	-	6	-	**511**	**1,859**
Claims on corporate portfolio	243	367	347	716	**1,673**	555	38	-	6	-	**599**	**2,272**
Regulatory retail exposures	2	2	-	-	**4**	-	-	-	-	-	**-**	**4**
Other Exposure	1	6	-	1	**8**	3	-	-	-	-	**3**	**11**
	598	**754**	**845**	**1,256**	**3,453**	**959**	**175**	**-**	**43**	-	**1,177**	**4,630**

Unfunded exposures are divided into the following exposure types, in accordance with the calculation of credit risk-weighted assets in the CBB's Basel II 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 II Accord, derivatives are also exposed to market risk, which requires a separate capital charge.

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	4,747	1,844
Direct credit substitutes, guarantees and acceptances	3,717	1,713
Undrawn loans and other commitments	1,475	616
	9,939	**4,173**
RWA		**3,207**

* Credit exposure is after applying CCF.

At 30 June 2013, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$ 483 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 2013.

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 II 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 during the remaining life of the 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 2013 were as follows:

	Derivatives		
US$ million	**Interest rate contracts**	**Foreign exchange contracts**	**Total**
Notional – Trading book	3,526	6,280	9,806
Notional – Banking book	1,024	774	1,798
	4,550	**7,054**	**11,604**
Credit RWA (replacement cost plus potential future exposure)	218	87	305
Market RWA	377	950	1,327

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 a provision to cover impairment against specific groups of financial assets where there is a measurable decrease in estimated future cash flows. This provision is based on deterioration of the financial assets, decided by subjecting the portfolio to rigorous credit risk scenario testing and averaging the existing Expected Loss (EL) with a severely stressed scenario EL.

6. Risk management (continued)

6.8 Impairment of assets (continued)

Additionally, the amount of provision is also based on the historical loss pattern for loans within each grading, and is adjusted to reflect current economic changes.

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

US$ million	**Provision (recovery)**	**Write-offs**
Manufacturing	25	8
Financial	(6)	1
Transportation	-	6
Government	1	-
Personal / Consumer finance	2	-
Other Services	16	3
Mining & quarrying	-	2
Construction	-	-
Agriculture, fishing & forestry	-	2
	38	**22**

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 ALCO. The CRG's Market Risk Management (MRM) 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 ALCO.

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, and concentration risk).

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 MRM reports on them daily. The MRM reports risk positions against these limits, and any breaches, to the Senior Management and ALCO.

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 ALCO. Group Treasury is responsible for executing the agreed strategy.

6. Risk management (continued)

6.9 Market risk (continued)

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 2013, a 200 basis points parallel shift in interest rates would potentially impact the Group's economic value by $45 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 at the start of 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 position 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	13
Unquoted equities	37
	50
Realised gain during the period	11
Unrealised gain as at 30 June 2013*	5

*At 30 June 2013, unrealized net gain on equities amounted to US$ 5 million. 45% of the unrealized gross gain or US$ 3 million was included in Tier 2 capital.

6. Risk management (continued)

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.

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 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.
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
- Risk and control self-assessments (bottom-up and top-down)
- Group-wide control standards / control standard self-assessments
- Control environment scans
- Risk scenarios
- Key indicators
- New product approval process.

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'. A separate escalation procedure requires, among other things, that the Group Chief Credit & Risk Officer be immediately informed of all risk events classified 'very high' or 'high' that have either happened or are likely to happen.

6. Risk management (continued)

6.13 Operational risk (continued)

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 plans were designed employing best-practice methodology BS25999, as used by most UK and other European financial institutions.

The business continuity plans cover local and regional risk scenarios. To address local disaster events, the Group has established business continuity centres at the geographic location of each business unit. To address a regional disaster scenario affecting Bahrain, the Group has established a licensed branch in the UK, which maintains full operational status and is capable of carrying out the majority of the Group's operational activities. As regards activities relating to marketable securities, brokerage and client-related businesses, the Group has selected its subsidiary in Jordan as a business continuity centre, and obtained the required approval from the Central Bank of Jordan.

The two centres have been stress tested and a minimum of two tests are conducted each year, using live data to ensure that their guidelines and procedures are effective. Continuous updates of these plans are performed annually, 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.

b. **Market risk:** Computed for both the trading and the banking books per the guidelines provided in Basel II.

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

6. Risk management (continued)

6.15 Capital management (continued)

- 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.

Supervisory review and evaluation process (SERP)

The CBB is the lead regulator for the Group, and sets and monitors capital requirements on both a consolidated and an unconsolidated basis. Individual banking subsidiaries are regulated directly by their local banking supervisors, who set and monitor their capital adequacy requirements.

The CBB requires each Bahrain-based bank or banking group to maintain a minimum ratio of total capital to risk-weighted assets of 12%, taking into account both on- and off-balance sheet transactions. However, under the SERP guidelines the CBB would also make an individual risk assessment of all banks and, instead of applying a standard minimum capital adequacy requirement, the supervisor may allow a lower capital adequacy ratio in excess of 8% for a bank with sound risk management capabilities.

The CBB initiated this assessment process in first quarter of 2008. The Group's capital management strategy is currently to maintain a buffer over the 12% minimum regulatory capital requirement to account for liquidity, concentration, reputation, strategic, country and other risks while enhancing its risk management and risk control infrastructure. This would ultimately allow the Group to achieve a successful assessment and pursue possible lower capital requirements from the CBB. At the same time, senior management strongly believes in the economic value of capital, and is committed to maximising intrinsic value for all stakeholders.

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 *	484
Claims on directors & senior management	2
Claims on staff	26

* Unfunded exposures after applying ccf.

b. Liabilities to related parties

US$ million	
Connected deposits	4,119

The Interest expense in respect of connected deposits is US$ 24 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)

Loans

US$ million	Principal	Provisions	Net book value
Less than 3 months	12	7	5
3 months to 1 year	95	50	45
1 to 3 years	29	22	7
Over 3 years	294	273	21
	430	**352**	**78**

Securities

US$ million	Principal	Provisions	Net book value
Less than 3 months	-	-	-
3 months to 1 year	-	-	-
1 to 3 years	-	-	-
Over 3 years	401	362	39
	401	**362**	**39**

7.3 Restructured facilities

Facilities restructured during the period ended 30 June 2013 amounted to US$ 82 million. The carrying amount of restructured facilities amounted to US$ 260 million as at 30 June 2013. 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 period ended amounted to US$ 401 million. The carrying value of securities sold under repurchase agreements at the period end amounted to US$ 415 million.

Amounts paid for assets purchased under resale agreements at the period end amounted to US$ 728 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$ 747 million.

7. Other disclosures (continued)

7.5 Movement in specific and collective impairment provisions

US$ million	Specific Provisions			
	Loans*	**Securities**	**Other assets and off balance sheet items**	**Collective Impairment provision**
At beginning of the year	406	368	8	184
Amounts written off	(21)	(1)	(2)	-
Write backs / cancellation due to improvement	(11)	(5)	(1)	-
Additional provisions made	54	-	1	-
Exchange adjustment and other movements	-	-	7	(2)
Balance at reporting date	**428**	**362**	**13**	**182**

***** In addition to the above, specific provision on loans include US$ 65 million towards country exposures.