Basel III– Risk and Pillar III disclosures
30 June 2018

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Executive summary

This document comprises of the Group's capital and risk management disclosures as of 30 June 2018.

The disclosures in this document are in addition to the disclosures set out in the interim condensed consolidated financial statements presented in accordance with International Financial Reporting Standards (IFRS).

Its principal purpose is to meet the disclosure requirements required by the Central Bank of Bahrain (CBB) directives on public disclosures under the Basel III framework. This section 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 and 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 risks. 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 capital has been prepared based on the Basel III framework and Capital Adequacy Module of the CBB Rulebook Volume 1.

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

The Group's total risk-weighted assets as of 30 June 2018 amounted to US$ 24,063 million (2017: US$ 24,045 million), comprising 87% credit risk, 6% market risk and 7% operational risk. The total capital adequacy ratio was 18.1% (2017: 18.7%), compared to the minimum regulatory requirement of 12.5% (2017:12.5%).

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 has to be covered by the bank's eligible capital funds.

- **Pillar II** addresses a bank's internal processes for assessing overall capital adequacy in relation to 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.

1. The Basel III framework (continued)

- **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, reserves, retained earnings, non-controlling interests, profit for the year 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 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 risk management and capital relative to the risks to which the bank is exposed. The ICAAP allows the bank to assess the level of capital that adequately supports all relevant current and future risks in the business. The ICAAP and the internal processes that support it should be proportionate to the nature, scale and complexity of the activities of the bank.

The Group's ICAAP is designed to ensure that it has sufficient capital resources available to meet regulatory and internal capital requirements, even during periods of economic or financial stress. The ICAAP addresses all components of the Group's risk management, from the daily management of material risks to the strategic capital management of the Group.

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 banks incorporated in Kingdom of Bahrain are required to maintain a 12.5% minimum capital adequacy ratio and a Tier 1 ratio of 10.5%.

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 liquidity risk, interest rate risk in the banking book and concentration risk. These are covered either by capital, or risk management and mitigation processes under Pillar II.

c. Pillar III

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

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 by an Amiri decree 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.

2. Group structure and overall risk and capital management (continued)
a. Group structurel (continued)

The principal subsidiaries as of 30 June 2018, all of which have 31 December as their year-end, are as follows:

	Country of incorporation	**Shareholding % of Arab Banking Corporation (B.S.C.)**
ABC International Bank plc	United Kingdom	100.0
ABC Islamic Bank (E.C.)	Bahrain	100.0
Arab Banking Corporation (ABC) — Jordan	Jordan	87.0
Banco ABC Brasil S.A.	Brazil	60.9
ABC Algeria	Algeria	87.7
Arab Banking Corporation - Egypt [S.A.E.]	Egypt	99.8
ABC Tunisie	Tunisia	100.0
Arab Financial Services Company B.S.C. (c)	Bahrain	56.6

b. Risk and capital management

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, IT and strategic risks, as well as other forms of risk inherent in its financial operations.

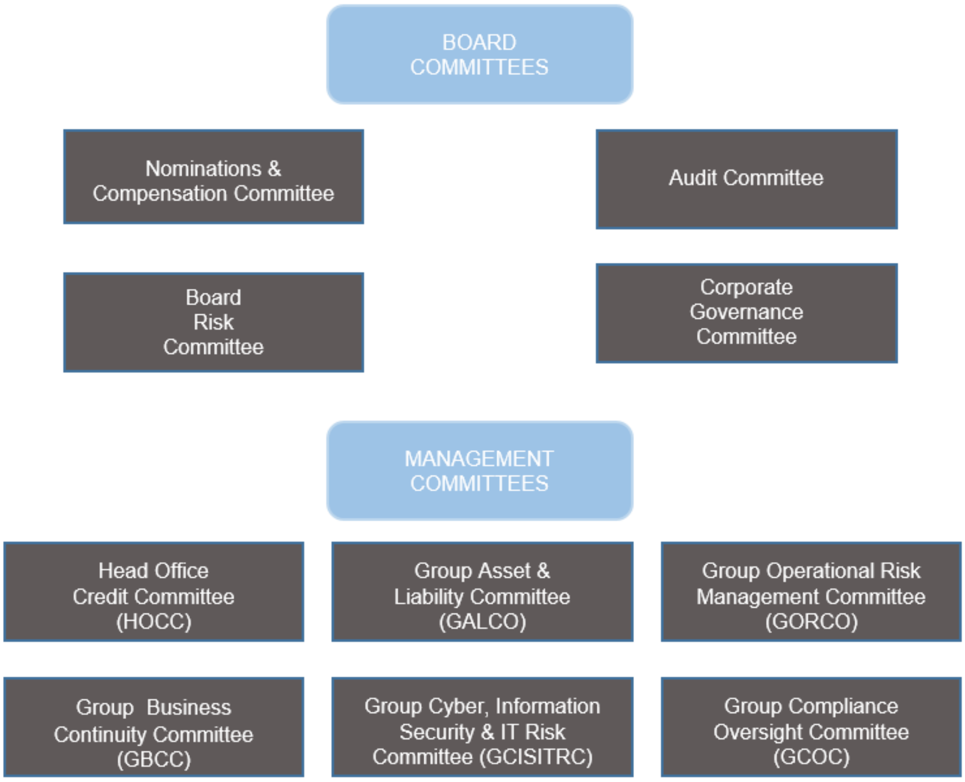
Over the last few years, the Group has invested heavily in developing a comprehensive and robust risk management infrastructure. This includes credit, market and operational risk identification processes; risk measurement models and rating systems; and a strong business process to monitor and control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

Figure 1: Risk process cycle

The Board of Directors, under advice from the Board Risk Committee (BRC), sets the Group's Risk Strategy/Appetite and Policy Guidelines. Executive management is responsible for their implementation.

2. Group structure and overall risk and capital management (continued)
b. Risk and capital management (continued)

Figure 2: Risk management governance structure



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 policies and standards. The BRC is also responsible for coordinating with other Board Committees in monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Group operates.

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

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

2. Group structure and overall risk and capital management (continued)
b. Risk and capital management (continued)

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

The **Group Compliance Oversight Committee (GCOC)** is responsible for strengthening the focus on compliance within the Group's risk management framework. GCOC is the senior oversight committee Group-wide for compliance risks and policies, and reports to the Group Audit Committee.

The **Group Cyber, Information Security and IT Risk Committee (GCISITRC)** is responsible for the development, approval and periodic review of the frameworks for the management of Cyber & IT risk and information security in the Group.

The **Group Business Continuity Committee (GBCC)** is responsible for proposing, approving and monitoring the implementation of Group-wide policies and procedures for disaster recovery and business continuity management.

The Group's subsidiaries are responsible for managing their own risks through local equivalents of the head office committees described above.

The **Credit & Risk Group (CRG)** is the second line function 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, and makes recommendations to the relevant central committees appropriate policies and procedures for managing exposure.

c. Risk types

The major risks arising out of the Group's business activities are; credit risk, market risk, operational risk and liquidity risk. The following sections illustrate how these risks are managed and controlled.

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 defined as the risk of default on a debt that may arise from a borrower or counterparty failing to fulfill payment obligations in accordance with agreed terms. The goal of credit risk management is to maximise a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

2. Group structure and overall risk and capital management (continued)
c. Risk types (continued)

RISK IN PILLAR I - CREDIT RISK (continued)
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.

In addition to the customer and customer group credit limits, the first level of protection against undue credit risk is provided by the Group's portfolio risk appetite for counterparty, country and industry concentration. The BRC and the HOCC set these limits and allocate 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 techniques.

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.

These measures, collectively, constitute the three lines of defence against undue risk for the Group

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. The Group Assets Quality Review team conducts an independent second line review of the risk assets of the Bank.

Group Audit, as a third line of defence, conducts credit risk audits for business units to provide an independent opinion on the design and operating effectiveness of the control framework for credit risk management, including adherence to credit policies and procedures. These measures, collectively, constitute the three 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 and is offered under product programs, which are approved through a robust product approval process and governed by specific risk policies. The framework is in line with industry best practice and meets regulatory requirements. 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.

On 1 January 2018, the Group has adopted International Financial Reporting Standard 9 Financial Instruments (IFRS 9). IFRS 9 fundamentally changes the loan loss impairment methodology. The standard incorporates a forward-looking expected credit loss (ECL) approach. The Group is required to record an allowance for expected losses for all loans and other debt type financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

2. Group structure and overall risk and capital management (continued)
c. Risk types (continued)

RISK IN PILLAR I - CREDIT RISK (continued)
The Bank groups its financial assets into Stage 1, Stage 2 and Stage 3, based on the IFRS 9 methodology, as described below:

- **Stage 1 – (12 months ECL):** For exposures where there has not been a significant increase in credit risk (SICR) since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
- **Stage 2 – (Lifetime ECL - not credit impaired):** For exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised.
- **Stage 3 – (Lifetime ECL - credit impaired):** Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised.

Financial asset is classified as impaired (Stage 3) when there is objective evidence that the loan is impaired/defaulted.

Credit exposures that have impaired/defaulted (Stage 3 assets) 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.

As part of enhancing its robust risk management infrastructure, the Bank has rolled out a new credit management system which will vastly enhance the credit workflow and the Bank's reporting capabilities.

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, middle office and liquidity risk.

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.

2. Group structure and overall risk and capital management (continued)
c. Risk types (continued)

RISK IN PILLAR I - MARKET RISK (continued)
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).
- Forward-looking analysis of distress using credit default swap prices, equity prices and implied volatilities.

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 MR reports on them daily. The MR reports risk positions against these limits, and any breaches, to the senior management and the GALCO.

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

The Group trading, investment and banking activities expose it to interest rate risk. Interest rate risk is the risk that an investment's value will be affected by changes in the level, slope, and curvature of the yield curves, the volatilities of interest rates, and potential disruptions to interest rate equilibrium.

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 gain at 30 June 2018	2

2. Group structure and overall risk and capital management (continued)
c. Risk types (continued)

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 Bank ABC includes legal risk and information technology (IT) risk. In addition to the financial Impact, reputational impact, regulatory impact and impact on clients and operations are also taken into consideration when assessing the impact of actual and potential operational risk events.

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

The various components are approved by the GORCO and then the framework is cascaded across the Group entities.

The implementation of the framework is governed by the Group Operational Risk Management Committee's rolling two-year 'master plan'. Local Operational Risk Committees implement corresponding plans at the subsidiary levels.

The Group has implemented the following tools for the management of operational risks:

- Internal loss data and incidents, near miss events.
- Risk & Control Self-Assessments (bottom-up and top-down).
- Group-wide control standards.
- Key Risk and Performance Indicators.
- New product approval process.

All loss events and relevant incidents are captured in a group-wide incident database. The threshold for reporting loss events is US$ 50 gross.

The Group has defined a number of group-wide key risk indicators covering all the key business and supporting processes.

Incidents and performance vis- a- vis key risk indicators, results of Risk & Control Self-Assessments and implementation of group-wide control standards are reported to the Group and unit level Operational Risk Committees.

The Group had implemented a Governance, Risk and Compliance solution in 2017. This group-wide solution is being used by Audit, Risk and Compliance.

Operational risk tolerance

The Group has expressed operational risk tolerance in the Board approved Group Risk Appetite Statement in terms of gross loss amounts caused by operational risk events.

In addition, the Group uses a quantitative and qualitative risk rating scale to classify actual and potential non-financial risks as 'critical', 'significant', 'moderate' or 'minor'. Timeframes have been defined within which action plans must be prepared for the treatment of control weaknesses, rated 'critical', 'significant' or 'moderate'.

2. Group structure and overall risk and capital management (continued)
c. Risk types (continued)

RISK IN PILLAR I - OPERATIONAL RISK (continued)

Operational risk tolerance (continued)
In line with the Board-led Group risk appetite statement, operational risk tolerance is set and monitored by the Board.

Information Technology Risk

Given the importance of Information Technology (IT) within the Group and the increasing risk of Cyber risk, an IT Risk Management function is in place under Risk Management. The role of IT Risk Management is to identify risks within Information Technology and Information Security, and to ensure adequate controls are in place to mitigate these risks. The Group has adopted CoBIT 5 as a reference control framework for IT, and ISO 27k series, NIST and SanS for Information Security.

Business Continuity Management

The Group has robust business continuity plans in place –to meet local and international regulatory obligations, and to protect the Group's business functions, assets and employees. The business continuity plans cover various local and regional risk scenarios, (including Cyber risk scenarios). The business continuity plans are kept up to date in order to deal with changes in the internal and external environment at both a Group and unit level. Furthermore, all relevant stakeholders receive appropriate training to ensure that they understand their roles and responsibilities when business continuity plans are activated.

The Group also has a Crisis Management framework in place that ensures information is communicated efficiently and effectively to all stakeholder in case of a severe incident.

Legal risk

Examples of legal risk include inadequate documentation, legal and regulatory incapacity, insufficient authority of a counterparty and contract invalidity/unenforceability. Group Legal Counsel bears 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 Group Legal Counsel, which aims to facilitate the business of the Group, by providing proactive, business-oriented and creative advice.

The Group is currently engaged in various legal and/or regulatory matters which arise in the ordinary course of business. Bank ABC does not currently expect to incur any liability with respect to any actual or pending legal and/or regulatory matter which would be material to the financial condition or operations of the Group.

2. Group structure and overall risk and capital management (continued)
c. Risk types (continued)

Risk in Pillar II

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

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

INTEREST RATE RISK IN BANKING BOOK

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 predominantly 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.

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 capital planning process. In addition, the GALCO regularly reviews the current and expected future profitability of the Bank's traditional banking activities and has embarked on a number of initiatives to reduce sensitivity of the banking book to interest rate fluctuations.

Quantitative measures employed include limits, interest rate sensitivity gap analysis, duration analysis, and stress testing 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. Duration analysis measures the sensitivity of the banking book to a 1 basis point change in interest rates. 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 of 30 June 2018, a 200 basis points (2%) parallel shift in interest rates would potentially impact the Group's economic value by US$ 20 million.

2. Group structure and overall risk and capital management (continued)
c. Risk types (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	823	126	39	-	-	-	988
Trading securities	580	55	373	155	44	17	1,224
Placements with banks and other financial institutions	1,708	431	85	38	-	-	2,262
Securities bought under repurchase agreements	930	-	-	233	-	-	1,163
Non-trading investments	302	126	291	681	3,874	18	5,292
Loans and advances	6,770	4,440	1,913	764	1,092	74	15,053
Other assets	-	-	-	-	-	1,900	1,900
TOTAL ASSETS	**11,113**	**5,178**	**2,701**	**1,871**	**5,010**	**2,009**	**27,882**
LIABILITIES & EQUITY							
Deposits from customers	9,600	2,189	1,644	749	1,659	340	16,181
Deposits from banks	1,722	645	166	383	13	16	2,945
Certificates of deposit	5	1	2	10	19	-	37
Securities sold under repurchase agreements	839	-	107	80	80	-	1,106
Other liabilities	-	-	-	-	-	1,279	1,279
Term notes, bonds & other term financing	654	1,159	101	-	196	-	2,110
Total equity	-	-	-	-	-	4,224	4,224
TOTAL LIABILITIES & EQUITY	**12,820**	**3,994**	**2,020**	**1,222**	**1,967**	**5,859**	**27,882**
OFF B/S ITEMS							
Foreign exchange contracts	-	-	-	-	-	-	-
Interest rate contracts	417	770	(86)	(106)	(995)	-	-
TOTAL OFF B/S ITEMS	**417**	**770**	**(86)**	**(106)**	**(995)**	**-**	**-**
Interest rate sensitivity gap	**(1,290)**	**1,954**	**595**	**543**	**2,048**	**(3,850)**	**-**
Cumulative interest rate sensitivity gap	**(1,290)**	**664**	**1,259**	**1,802**	**3,850**	**-**	**-**

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.

CONCENTRATION RISK

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. Concentrations could also arise as a result of large exposure to a single / group of related counterparties.

Country risk or Cross-border risk arises from the uncertainty relating to a counterparty, not being able to fulfil its obligations to the Bank, due to political/ geo-political or economic reasons.

2. Group structure and overall risk and capital management (continued)
c. Risk types (continued)

RISK IN PILLAR II – CONCENTRATION RISK (continued)

Industry risk is the risk of adverse developments in the operating environment for a specific industry segment leading to deterioration in the financial profile of counterparties operating in that segment and resulting in increased credit risk across this portfolio of counterparties.

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

As of 30 June 2018, 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	1,527	-	1,527

d. Monitoring and reporting

The monitoring and reporting of risk is conducted on a daily basis for market and liquidity risk, and on a monthly or quarterly basis for credit and operational risk. Risk reporting is regularly made to senior management, the Board and the BRC. The BRC receives internal risk reports covering market, credit, operational and liquidity risk.

As part of the capital management framework, capital adequacy ratios for the Group and its subsidiaries are reported to GALCO, the Board and the BRC on a regular basis.

3. Regulatory capital requirements and the capital base

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 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. The determination to pay dividends on an on-going basis and the amount thereof 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.

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

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

The Group's total capital adequacy ratio as of 30 June 2018 was 18.1% compared with the minimum regulatory requirement of 12.5%. The Tier 1 ratio was 16.8% for the Group. The composition of the total regulatory capital requirement was as follows:

Risk-weighted assets (RWA)	
Credit risk	**20,936**
Market risk	**1,549**
Operational risk	**1,578**
Total	**24,063**
Tier 1 ratio	**16.8%**
Capital adequacy ratio	**18.1%**

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 capital.

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.)	**29.4%**	**30.5%**
ABC International Bank Plc*	**17.9%**	**19.8%**
Banco ABC Brasil S.A.*	**13.3%**	**15.6%**

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

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

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.

3. 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 4.

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	34	34	-	-	-	2	-
Claims on sovereigns	5,159	5,061	98	35	263	521	65
Claims on public sector entities	2,134	1,851	283	46	1	1,402	175
Claims on multilateral development banks	618	618	-	-	-	-	-
Claims on banks	7,871	6,626	1,245	1,417	364	3,851	481
Claims on corporate portfolio	13,998	11,349	2,649	236	184	13,328	1,667
Regulatory retail exposures	853	710	143	-	-	640	80
Past due loans	210	210	-	1	-	216	27
Residential retail portfolio	3	3	-	3	-	1	-
Commercial mortgage	9	9	-	-	-	9	1
Equity portfolios	27	27	-	-	-	56	7
Other exposures	686	570	116	-	-	910	114
	31,602	**27,068**	**4,534**	**1,738**	**812**	**20,936**	**2,617**

Monthly average gross exposures and the risk-weighted assets for 30 June 2018 were US$ 33,179 million and US$ 20,760 million respectively.

3. 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	478	60	55	89
- Specific interest rate risk	132	17	12	35
- General interest rate risk	346	43	43	54
Equity position risk	33	4	-	5
Foreign exchange risk	1,038	130	126	145
Options risk	-	-	-	-
Total	**1,549**	**194**	**181**	**239**

* 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 2018.

c. Capital requirement for operational risk

The Group applies the “Standardised Approach” for calculating its Pillar I operational risk capital. As of 30 June 2018, the total capital charge in respect of operational risk was US$ 197 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	12	18 %	3	27
Trading and sales	208	18 %	58	467
Payment and settlement	30	18 %	9	68
Commercial banking	488	15 %	114	915
Agency services	-	15 %	-	-
Retail banking	51	12 %	10	77
Asset management	11	12 %	2	17
Retail brokerage	5	12 %	1	7
Total	**805**		**197**	**1,578**

3. 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 stock, reserves, retained earnings, 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 2018, comprising 3,110 million shares of US$ 1 each.

The Tier 2 capital includes subordinated term debt of US$ 54 million (eligible portion) at 30 June 2018. This has been raised at a subsidiary of the bank. The details of these issues are described in appendix PD 3.

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	**4,003**
AT 1	**47**
Total Tier 1 capital	**4,050**
Tier 2	**303**
Total capital base	**4,353**
Risk weighted assets	
Credit risk	**20,936**
Market risk	**1,549**
Operational risk	**1,578**
Total Risk weighted assets	**24,063**
CET 1 ratio	**16.6%**
Tier 1 ratio	**16.8%**
Capital adequacy ratio	**18.1%**

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

4. 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.

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

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

II. Claims on public sector entities (PSEs)
Bahrain PSEs, as defined by the CBB rulebook, 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 external credit ratings.

III. Claims on multilateral development banks (MDBs)
All MDBs are risk-weighted in accordance with the banks' external 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 external credit 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.

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

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

V. Claims on the corporate portfolio
Claims on the corporate portfolio are risk-weighted based on external 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 Rulebook.

4. Credit risk – Pillar III disclosures (continued)
a. Definition of exposure classes (continued)

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%.

IX. Commercial mortgage
Claims secured by mortgage on commercial real estate are subject to a minimum of 100% risk weight. If the borrower is rated below BB-, the risk-weight corresponding to the rating of the borrower must be applied.

X. Equity portfolios
Investments in listed equities are risk weighted at 100% while those in unlisted equities are risk weighted at 150%. Significant Investment in the common shares of unconsolidated financial institutions are risk weighted at 250% if lesser than the threshold as required by the CBB's Basel III Capital Adequacy Framework.

XI. Other exposures
These are risk weighted at 100%. Deferred tax assets arising from temporary differences are risk weighted at 250%.

4. Credit risk – Pillar III disclosures (continued)

b. External credit rating agencies

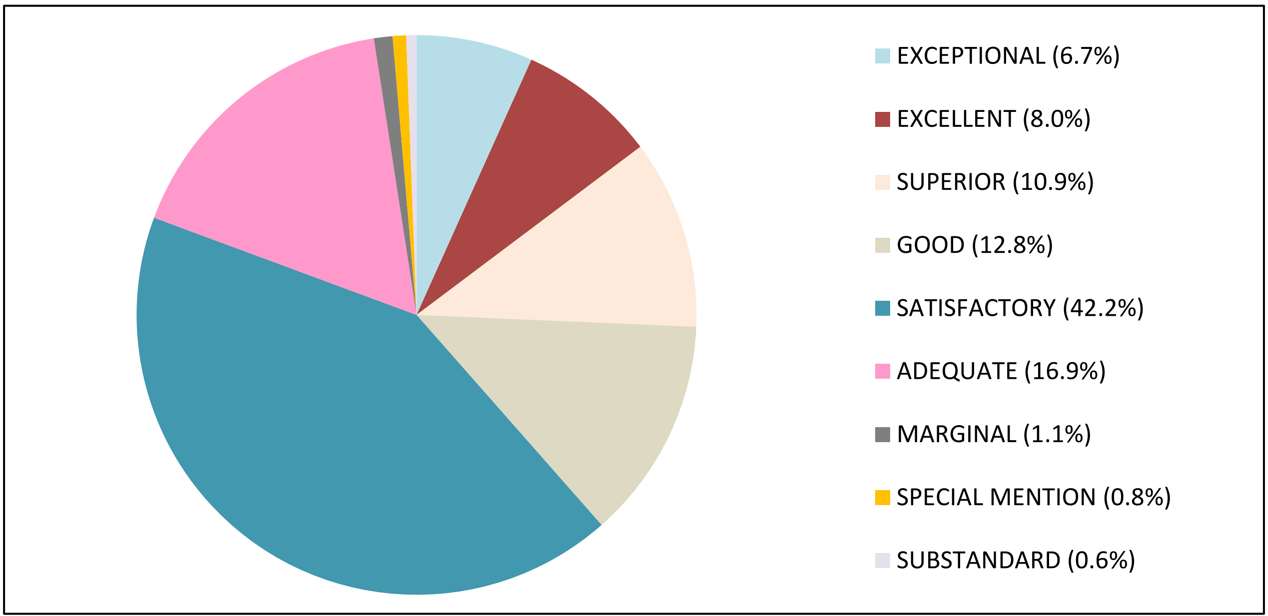
The Group uses external credit ratings from Standard & Poor's, Moody's, Fitch Ratings and Capital Intelligence (accredited external credit assessment institutions). The breakdown of the Group's exposure into rated and unrated categories is as follows:

US$ million	Net credit exposure (after credit risk mitigation)	Rated exposure	Unrated exposure
Cash	34	-	34
Claims on sovereigns	5,124	4,944	180
Claims on public sector entities	2,088	828	1,260
Claims on multilateral development banks	618	618	-
Claims on banks	6,454	5,444	1,010
Claims on corporate portfolio	13,762	1,796	11,966
Regulatory retail exposure	853	-	853
Past due loans	209	-	209
Residential retail portfolio	-	-	-
Commercial mortgage	9	-	9
Equity portfolios	27	-	27
Other exposures	686	-	686
	29,864	**13,630**	**16,234**

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.

4. 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 2018 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 International Financial Reporting Standards. 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 section 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.

4. Credit risk – Pillar III disclosures (continued)

d. Credit exposure

Geographical distribution of exposures

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

US$ million	Gross credit exposure	Impaired loans	Specific provision impaired loans	Impaired securities	Specific provision impaired securities
North America	2,948	37	11	91	91
Western Europe	3,941	70	42	-	-
Other Europe	1,286	25	7	-	-
Arab World	13,960	312	255	11	11
Other Africa	88	-	-	-	-
Asia	1,399	-	-	-	-
Australia/New Zealand	45	-	-	-	-
Latin America	7,935	161	80	-	-
	31,602	**605**	**395**	**102**	**102**

In addition to the above specific provisions the Group has expected credit losses (Stages 1 & 2) amounting to US$ 249 million.

4. 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	-	-	-	34	-	-	-	-	**34**
Claims on sovereigns	1,265	417	84	2,235	-	146	-	1,012	**5,159**
Claims on public sector entities	38	80	-	1,595	-	221	-	200	**2,134**
Claims on multilateral development banks	216	153	-	192	-	57	-	-	**618**
Claims on banks	314	1,460	838	3,390	66	695	1	1,107	**7,871**
Claims on corporate portfolio	1,031	1,704	346	5,148	22	279	44	5,424	**13,998**
Regulatory retail exposures	-	-	-	802	-	-	-	51	**853**
Past due loans	26	28	18	57	-	-	-	81	**210**
Residential retail portfolio	-	3	-	-	-	-	-	-	**3**
Commercial mortgage	-	9	-	-	-	-	-	-	**9**
Equity portfolios	-	2	-	24	-	1	-	-	**27**
Other exposures	58	85	-	483	-	-	-	60	**686**
	2,948	**3,941**	**1,286**	**13,960**	**88**	**1,399**	**45**	**7,935**	**31,602**

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
North America	-	10	16	-	26
Western Europe	-	-	28	-	28
Other Europe	-	-	18	-	18
Arab World	8	20	25	4	57
Latin America	58	8	15	-	81
	66	**38**	**102**	**4**	**210**

4. 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 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	3,033	2,412	621	94	37	-	-
Mining and quarrying	129	107	22	-	-	-	-
Agriculture, fishing and forestry	1,277	1,173	104	19	11	-	-
Construction	1,426	1,173	253	109	67	-	-
Financial	11,603	10,023	1,580	7	7	102	102
Trade	588	522	66	205	173	-	-
Personal / Consumer finance	917	767	150	25	23	-	-
Commercial real estate financing	541	426	115	-	-	-	-
Government	4,397	4,266	131	2	2	-	-
Technology, media & telecommunications	539	350	189	40	22	-	-
Transport	1,174	1,023	151	18	8	-	-
Other sectors	5,978	4,826	1,152	86	45	-	-
	31,602	**27,068**	**4,534**	**605**	**395**	**102**	**102**

4. 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	Manufa-cturing	Mining and quarrying	Agriculture, fishing and forestry	Constr-uction	Financial	Trade	Personal / Consumer finance	Commercial real estate financing	Gover-nment	Technology, media & telcommun-ications	Transport	Other sectors	Total
Cash	-	-	-	-	-	-	-	-	-	-	-	34	**34**
Claims on sovereigns	-	-	-	-	1,123	-	-	-	4,036	-	-	-	**5,159**
Claims on public sector entities	289	7	-	2	499	-	-	-	361	72	72	832	**2,134**
Claims on multilateral development banks	-	-	-	-	618	-	-	-	-	-	-	-	**618**
Claims on banks	-	-	-	-	7,871	-	-	-	-	-	-	-	**7,871**
Claims on corporate portfolio	2,686	122	1,269	1,388	1,467	556	51	532	-	449	1,092	4,386	**13,998**
Regulatory retail exposures	-	-	-	-	-	-	853	-	-	-	-	-	**853**
Past due loans	57	-	8	36	-	32	2	-	-	18	10	47	**210**
Residential retail portfolio	-	-	-	-	-	-	-	-	-	-	-	3	**3**
Commercial mortgage	-	-	-	-	-	-	-	9	-	-	-	-	**9**
Equity portfolios	1	-	-	-	25	-	-	-	-	-	-	1	**27**
Other exposures	-	-	-	-	-	-	11	-	-	-	-	675	**686**
	3,033	**129**	**1,277**	**1,426**	**11,603**	**588**	**917**	**541**	**4,397**	**539**	**1,174**	**5,978**	**31,602**

4. 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	37	1	17	2	**57**
Agriculture, fishing and forestry	1	-	7	-	**8**
Construction	7	19	10	-	**36**
Trade	2	-	30	-	**32**
Personal / Consumer finance	1	1	-	-	**2**
Technology, media & telecommunications	-	-	18	-	**18**
Transport	-	10	-	-	**10**
Other sectors	18	7	20	2	**47**
	66	**38**	**102**	**4**	**210**

4. 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, except for CMOs and Small Business Administration pools amounting to US$209 million which are based on expected realisation 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	34	-	-	-	34	-	-	-	-	-	-	34
Claims on sovereigns*	1,756	195	301	391	2,643	1,326	947	131	-	14	2,418	5,061
Claims on public sector entities**	65	390	89	161	705	953	192	-	-	1	1,146	1,851
Claims on multilateral development banks	-	192	30	76	298	320	-	-	-	-	320	618
Claims on banks	2,530	910	908	1,047	5,395	1,230	-	-	-	1	1,231	6,626
Claims on corporate portfolio	2,002	1,945	1,109	1,010	6,066	4,181	892	201	3	6	5,283	11,349
Regulatory retail exposures	42	64	22	17	145	181	303	56	22	3	565	710
Past due loans	8	69	-	38	115	91	-	-	4	-	95	210
Residential retail portfolio	-	-	-	-	-	-	1	2	-	-	3	3
Commercial mortgage	-	-	9	-	9	-	-	-	-	-	-	9
Equity portfolios	-	-	-	-	-	-	-	-	-	27	27	27
Other exposures	-	-	-	-	-	-	-	-	-	570	570	570
	6,437	**3,765**	**2,468**	**2,740**	**15,410**	**8,282**	**2,335**	**390**	**29**	**622**	**11,658**	**27,068**

* 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 GSE's

4. 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	13	21	3	38	75	23	-	-	-	-	23	98
Claims on public sector entities	104	5	32	56	197	84	2	-	-	-	86	283
Claims on banks	222	229	169	227	847	354	30	14	-	-	398	1,245
Claims on corporate portfolio	188	254	377	556	1,375	1,203	39	32	-	-	1,274	2,649
Regulatory retail exposures	4	107	13	5	129	14	-	-	-	-	14	143
Other exposures	-	1	-	-	1	1	1	-	-	113	115	116
	531	**617**	**594**	**882**	**2,624**	**1,679**	**72**	**46**	**-**	**113**	**1,910**	**4,534**

4. 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	4	3
Mining and quarrying	1	-
Agriculture, fishing and forestry	6	-
Construction	15	16
Financial	-	15
Trade	1	-
Transport	5	-
Personal / Consumer finance	2	1
Other sectors	(4)	7
	30	**42**

Restructured facilities

The carrying amount of restructured facilities amounted to US$ 292 million as of 30 June 2018. The impact of restructured credit facilities on provisions and present and future earnings is insignificant.

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.

4. 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	118	52	66
3 months to 1 year	94	56	38
1 to 3 years	181	79	102
Over 3 years	212	208	4
	605	**395**	**210**

Securities

US$ million	Principal	Provisions	Net book value
Less than 3 months	-	-	-
3 months to 1 year	-	-	-
1 to 3 years	-	-	-
Over 3 years	102	102	-
	102	**102**	**-**

4. 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	42	172	376
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	5	(5)	-
Transfer to stage 2	(1)	1	-
Transfer to stage 3	-	(30)	30
Net remeasurement of loss allowance	6	(12)	43
Write-backs / recoveries			(4)
Amounts written-off			(27)
Exchange adjustments and other movements	(3)	(3)	(23)
Balance at reporting date	**49**	**123**	**395**

	Expected Credit Losses		
	Stage 1	**Stage 2**	**Stage 3**
Investments			
At beginning of the year	14	4	103
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	1	(1)	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Net remeasurement of loss allowance	(1)	(2)	-
Write-backs / recoveries			-
Amounts written-off			-
Exchange adjustments and other movements	-	5	(1)
Balance at reporting date	**14**	**6**	**102**

	Expected Credit Losses		
	Stage 1	**Stage 2**	**Stage 3**
Other financial assets and off-balance sheet items			
At beginning of the year	18	38	4
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	3	(3)	-
Transfer to stage 2	(1)	1	-
Transfer to stage 3	-	-	-
Net remeasurement of loss allowance	(5)	6	-
Write-backs / recoveries			(2)
Amounts written-off			(1)
Exchange adjustments and other movements	-	-	3
Balance at reporting date	**15**	**42**	**4**

5. 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 and the relative exposure before the application of credit risk mitigation:

US$ million	Notional Principal	Credit exposure*
Short-term self-liquidating trade and transaction-related contingent items	3,121	986
Direct credit substitutes, guarantees and acceptances	3,720	1,955
Undrawn loans and other commitments	2,526	1,058
	9,367	**3,999**
RWA		**3,342**

* Credit exposure is after applying CCF.

At 30 June 2018, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$ 232 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. Appropriate limits are approved by the Board, and monitored and reported along with the Group Risk Appetite Statement.

5. 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 of 30 June 2018. The aggregate notional amounts for interest rate and foreign exchange contracts as of 30 June 2018 were as follows:

	Derivatives		
US$ million	**Interest rate contracts**	**Foreign exchange contracts**	**Total**
Notional – Trading book	11,554	7,960	19,514
Notional – Banking book	2,127	491	2,618
	13,681	**8,451**	**22,132**
Credit RWA (replacement cost plus potential future exposure)	253	217	470
Market RWA	346	1,038	1,384

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 of 30 June 2018 the CVA capital charge for the portfolio was US$ 164 million.

6. 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 shareholder's returns while operating within the Group's risk appetite limits and comply with regulatory requirements at all times.

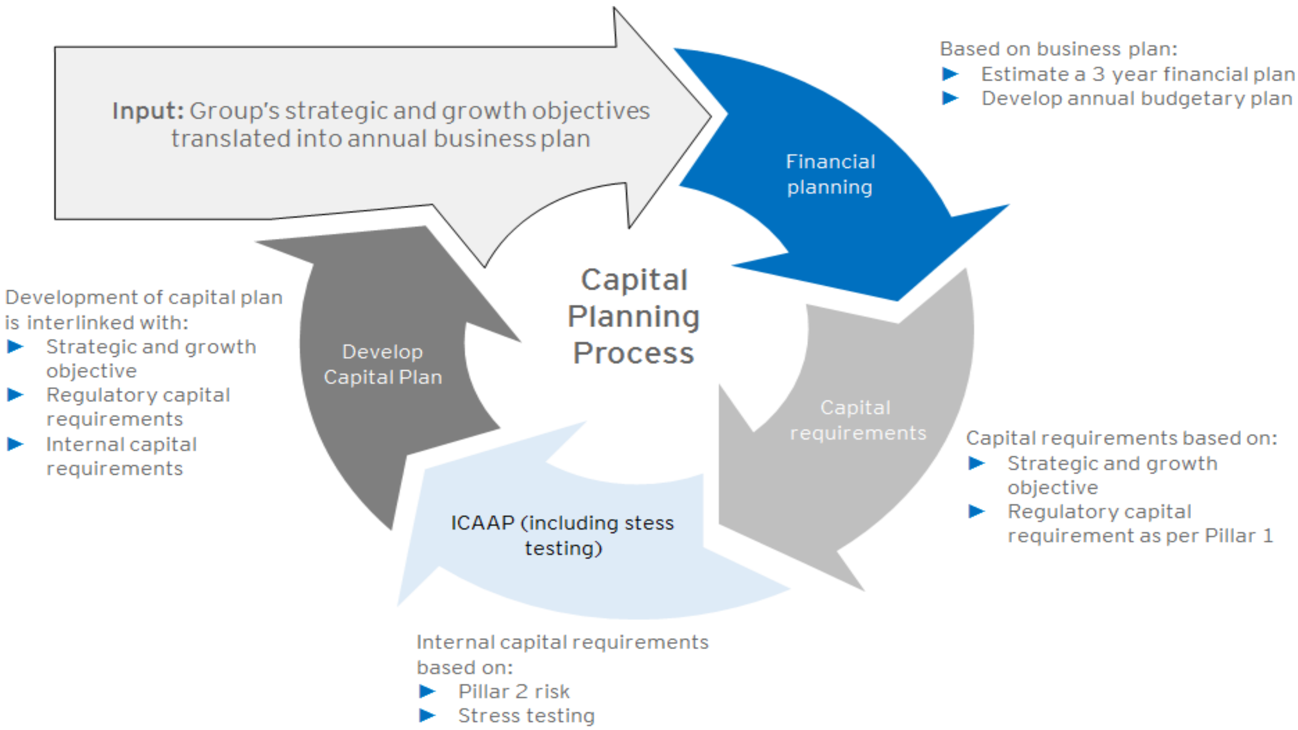
Our approach to capital management is driven by our strategic objectives, considering the regulatory, economic and business environment in our major markets. It is our objective to maintain a strong capital base to support the risks inherent in our businesses and markets, meeting both local and consolidated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

Internal Capital Adequacy Assessment Process (ICAAP)

Our policy on capital management 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 kinds of risks and is evaluated on an economic and regulatory capital basis. The Group's ICAAP is designed to:

- Identify and measure all material risks to which the Bank is exposed to or which may impede the Bank in pursuit of its objectives and how the Bank intends to mitigate those risks and inform the Board of such an assessment.
- evaluate the current and future capital required having considered other mitigating factors and compares this against available capital;
- ensure that the Bank's capital position remains adequate in the event of an extreme but plausible global and regional economic stress conditions;
- demonstrate the Group's 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 in order to ensure that it is in line with the Board's expectations and within the Group's Risk appetite.

6. Capital management (continued)



The ICAAP allocates internal capital for each of these material sources of risks and assesses the overall capital requirements for Pillar 1 and Pillar 2 Risks. Our assessment of capital adequacy is aligned to our assessment of risks. These include credit, market, operational, pensions, structural foreign exchange risk, residual risks and interest rate risk in the banking book.

In addition to the assessment of capital requirements for Credit, Market and Operational Risks under Pillar 1 of the regulatory capital framework, the Group assesses capital requirements for risks not covered in Pillar 1 under Pillar 2A and for stress events under Pillar 2B.

6. Capital management (continued)

Pillar 2A Risks

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

Material Sources of Risk (Pillar 2A)	Methodology
Credit Risk	Capital requirements assessed for credit risk under both the Standardised and FIRB 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	Pillar 1 assessment deemed 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-day VaR • 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*	Based on peak historical losses over a five year period.
Liquidity and Funding Risk	Liquidity as 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 Basel IRRBB 2016 guidelines (BCBS 368)
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

6. Capital management (continued)

Pillar 2B - Stress Testing

The ICAAP considers Systemic and Idiosyncratic stress scenarios which are described through a series of events and these are translated into equivalent macro-economic variables under Baseline (BAU) and Stressed economic conditions over a four-year horizon.

The Baseline and Stress scenarios are based on the narrative as explained above and draws upon both the PRA CES scenarios and Moody's predefined scenarios (Data buffet).

Expected Loss (for Defaulted and non-defaulted assets) are computed under these stressed scenarios and are compared with the accounting provisions in the baseline projections to determine impact on profits. RWAs under stress are estimated using rating migration.

In addition to this, judgmental overlays for single name defaults are applied for idiosyncratic stress events. P&L is also stressed for earnings decline due to margin compression while impact on Other Comprehensive Income was stressed based on credit spread widening (2011 scenario) and Structural FX impacts, as described under the scenarios.

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

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

Annual Planning Cycle

Our annual budget results in a RWA requirements to support the growth plans and assesses the availability of Capital and this is 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 directions 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 business returns with a Risk Adjusted Return on Capital (RAROC) measure. In late 2017, we recalibrated the RAROC measure with the introduction of several changes to the risk parameters and allocated capital to better reflect the metrics on the consumption of, and returns on, capital by business to support management's assessment of business performance and the allocation of capital resources. We plan to further embed this in 2018.

7. 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

Claims on shareholders *	68
Claims on directors & senior management	3
Claims on staff	26

** Unfunded exposures after applying CCF.*

b. Liabilities to related parties

Connected deposits	5,407

The interest expense in respect of connected deposits is US$ 55 million.

8. Repurchase and resale agreements

Proceeds from assets sold under repurchase agreements as at 30 June 2018 amounted to US$ 1,106 million. The carrying value of securities sold under repurchase agreements at the period end amounted to US$ 1,113 million.

Amounts paid for assets purchased under resale agreements at the period end amounted to US$ 1,163 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$ 1,166 million.

9. 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 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	988	-
Cash and balances at central banks	-	969
Placements with banks and similar financial institutions	2,262	3,447
Reverse repurchase agreements and other similar secured lending	1,163	-
Financial assets at fair value through P&L	1,224	1,224
Non-trading securities	5,292	-
Investment at Amortized Cost		1,191
Investments at FVOCI		4,121
Loans and advances	15,053	15,224
Investment properties	-	-
Interest receivable	499	499
Other assets	1,280	1,249
Investments in associates and joint ventures	-	18
Goodwill and intangible assets	-	13
Property, plant and equipment	121	121
TOTAL ASSETS	**27,882**	**28,076**
Deposits from banks	2,945	6,878
Deposits from customers	16,181	12,248
Certificate of deposits issued	37	37
Repurchase agreements and other similar secured borrowing	1,106	1,106
Interest payable	375	375
Taxation	62	-
Other liabilities	842	849
Term notes, bonds and other term financing	2,110	1,975
Subordinated liabilities	-	135
TOTAL LIABILITIES	**23,658**	**23,603**
Paid-in share capital	3,110	3,110
Treasury stock	(1)	(1)
Reserves	683	683
Non - controlling interest	432	432
Expected credit losses	-	249
TOTAL SHAREHOLDERS' EQUITY	**4,224**	**4,473**

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	988	-	
Cash and balances at central banks	-	969	
Placements with banks and similar financial institutions	2,262	3,447	
Reverse repurchase agreements and other similar secured lending	1,163	-	
Financial assets at fair value through P&L	1,224	1,224	
Loans and advances	15,053	15,224	
Non-trading securities	5,292	5,312	
Of which investment NOT exceeding regulatory threshold	-	*5,312*	
Interest receivable	499	499	
Other assets	1,280	1,249	
Of which deferred tax assets arising from carryforwards of unused tax losses, unused tax credits and all other	-	*4*	*f*
Of which deferred tax assets arising from temporary differences	-	*150*	
Investments in associates and joint ventures	-	18	
Of which Significant investment exceeding regulatory threshold	-	-	
Of which Significant investment NOT exceeding regulatory threshold	-	*18*	
Goodwill and intangible assets	-	13	
Of which goodwill	-	-	
Of which other intangibles (excluding MSRs) phased in at 80%	-	*10*	*e*
Of which MSRs	-	-	
Property, plant and equipment	121	121	
TOTAL ASSETS	**27,882**	**28,076**	

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	2,945	6,878	
Deposits from customers	16,181	12,248	
Certificate of deposits issued	37	37	
Repurchase agreements and other similar secured borrowing	1,106	1,106	
Interest payable	375	375	
Taxation	62	-	
Other liabilities	842	849	
Term notes, bonds and other term financing	2,110	1,975	
Subordinated liabilities	-	135	
Of which amount eligible for TII	*-*	*54*	*h*
Of which amount Ineligible	*-*	*81*	
TOTAL LIABILITIES	**23,658**	**23,603**	
Paid-in share capital	3,110	3,110	
Treasury stock	(1)	(1)	
Of which form part of CET1			
Ordinary Share Capital	3,110	3,110	a
Treasury stock	(1)	(1)	a
Reserves	683	683	
Of which form part of CET1			
Retained earnings/(losses) brought forward	*782*	*782*	*b*
Net profit for the current period	*113*	*113*	*c1*
Legal reserve	*481*	*481*	*c2*
General (disclosed) reserves	*100*	*100*	*c3*
Fx translation adjustment	*(735)*	*(735)*	*c4*
Cumulative changes in fair value	*(25)*	*(25)*	*c5*
Pension fund reserve	*(33)*	*(33)*	*c6*
Non - controlling interest	432	432	
Of which amount eligible for CETI	*-*	*226*	*d*
Of which amount eligible for ATI	*-*	*47*	*g*
Of which amount eligible for TII	*-*	*-*	
Of which amount ineligible	*-*	*159*	
Expected credit losses	-	249	
Of which amount eligible for TII (Maximum 1.25% of RWA)	*-*	*249*	*i*
Of which amount Ineligible	*-*	*-*	
TOTAL SHAREHOLDERS' EQUITY	**4,224**	**4,473**	

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	EI2084396 - USP0763MBW03; Brazilian Central Bank CMN Resolution 3444
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	Tier 2
6	Eligible at solo/group/group & solo	Group & Solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common equity shares	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	US$ 3,110	US$ 54
9	Par value of instrument	1	1000
10	Accounting classification	Shareholders' equity	Liability- Amortised cost
11	Original date of issuance	Various	4-Aug-10
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	4-Aug-20
14	Issuer call subject to prior supervisory approval	Yes	No
15	Optional call date, contingent call dates and redemption amount	N/A	No
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)	Fixed
18	Coupon rate and any related index	N/A	7.875
19	Existence of a dividend stopper	N/A	No

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

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

Disclosure template for main features of regulatory capital instruments			
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory
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
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	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
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	Subordinated to all depositors and creditors of the bank
36	Non-compliant transitioned features	No	Yes
37	If yes, specify non-compliant features	N/A	Non Viability Loss Absorption

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 4: Capital composition disclosure template

US$ million

	Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018)	PIR as on 30 June 2018	Amounts Subject To Pre-2015 Treatment	Reference
Common Equity Tier 1 capital: instruments and reserves				
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus net of treasury stock	3,109	-	a
2	Retained earnings	782	-	b
3	Reserves	(67)	-	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)	226	36	d
6	Common Equity Tier 1 capital before regulatory adjustments	**4,050**		
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)	10	3	e
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	4	-	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	33	-	c6
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-	
17	Reciprocal cross-holdings in common equity	-	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-	
22	Amount exceeding the 15% threshold	-	-	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 4: Capital composition disclosure template (continued)

US$ million

	Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018)	PIR as on 30 June 2018	Amounts Subject To Pre-2015 Treatment	Reference
23	of which: significant investments in the common stock of financials	-	-	
	Common Equity Tier 1 capital: regulatory adjustments (continued)			
24	of which: mortgage servicing rights	-	-	
25	of which: deferred tax assets arising from temporary differences	-	-	
26	National specific regulatory adjustments	-	-	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	-	
	OF WHICH:	-	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-	
28	**Total regulatory adjustments to Common equity Tier 1**	**47**		
29	**Common Equity Tier 1 capital (CET1)**	**4,003**		
	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)	47	4	g
35	*of which: instruments issued by subsidiaries subject to phase out*	4	4	
36	**Additional Tier 1 capital before regulatory adjustments**	**47**		
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 4: Capital composition disclosure template (continued)

US$ million

	Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018)	**PIR as on 30 June 2018**	**Amounts Subject To Pre-2015 Treatment**	**Reference**
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-	
41	National specific regulatory adjustments	-	-	
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	-	
Additional Tier 1 capital: regulatory adjustments (continued)				
	Of Which:	-	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**	**-**	
44	**Additional Tier 1 capital (AT1)**	**47**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,050**		
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)	54	-	h
49	of which: instruments issued by subsidiaries subject to phase out	-	-	
50	Provisions & Reserves	249	-	i
51	**Tier 2 capital before regulatory adjustments**	**303**		
Tier 2 capital: regulatory adjustments				
52	Investments in own Tier 2 instruments	-	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-	
56	National specific regulatory adjustments	-	-	
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	-	
	Of which	-	-	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 4: Capital composition disclosure template (continued)

US$ million

	Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018)	PIR as on 30 June 2018	Amounts Subject To Pre-2015 Treatment	Reference
57	**Total regulatory adjustments to Tier 2 capital**	**-**	-	
58	**Tier 2 capital (T2)**	**303**		
59	**Total capital (TC = T1 + T2)**	**4,353**		
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	Of Which: Intangible assets (RW @ 100%)	3		e
	Of Which: Non Significant Investments (RW @ 100%)	-		
	Of Which: Non Significant Investments (RW @ 150%)	-		
	Of Which: Significant Investments (RW @ 250%)	-		
60	**Total risk weighted assets**	**24,063**		

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 4: Capital composition disclosure template (continued)

US$ million

	Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018)	**PIR as on 30 June 2018**
Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	16.6%
62	Tier 1 (as a percentage of risk weighted assets)	16.8%
63	Total capital (as a percentage of risk weighted assets)	**18.1%**
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)*	N/A
67	*Of Which: G-SIB buffer requirement (N/A)*	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	7.6%
National minima (if different from Basel 3)		
69	CBB Common Equity Tier 1 minimum ratio (including buffers)	9%
70	CBB Tier 1 minimum ratio (including buffers)	10.5%
71	CBB total capital minimum ratio (including buffers)	12.5%
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	4
73	Significant investments in the common stock of financials	18
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	150
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)	249
77	Cap on inclusion of provisions in Tier 2 under standardised approach	262
78	N/A	
79	N/A	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)		
80	Current cap on CET1 instruments subject to phase out arrangements	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A
84	Current cap on T2 instruments subject to phase out arrangements	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A