Basel III –Pillar III disclosures
30 June 2021

Executive summary

This document comprises of the Group's (as defined below) capital and risk management disclosures as at 30 June 2021.

The disclosures in this section are in addition to the disclosures set out in the interim condensed consolidated financial statements presented in accordance with International Financial Reporting Standards (IFRS) as modified by the Central Bank of Bahrain (CBB) framework.

The principal purpose of these disclosures is to meet the disclosure requirements of the CBB through their directives on public disclosures under the Basel III framework. This document describes the Group's risk management and capital adequacy policies and practices – including detailed information on the capital adequacy process and incorporates all the elements of the disclosures required under Pillar III. It is organised as follows:

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

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

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

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

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

The Group's total risk-weighted assets as at 30 June 2021 amounted to US$ 25,505 million (2020: US$ 24,483 million), comprising 87% (2020: 87%) credit risk, 6% (2020: 6%) market risk and 7% (2020: 7%) operational risk. The total capital adequacy ratio was 17.3% (2020: 17.5%), compared to the minimum regulatory requirement of 12.5%.

1. The Basel III framework

The CBB implemented the Basel III framework from 1 January 2015.

The Basel Accord is built on three pillars:

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

1. The Basel III framework (continued)

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

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

a. Pillar I

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

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

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

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

The Group applies the following approaches to calculate its RWAs:

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

- **Market risk – Standardised approach.**

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

b. Pillar II

Pillar II comprises of two processes, namely:

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

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

1. The Basel III framework (continued)

b Pillar II (continued)

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

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

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

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

c. Pillar III

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

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

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

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

d. Impact of COVID 19

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

1. The Basel III framework (continued)

d. Impact of COVID 19 (continued)

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

2. Group structure and overall risk

a. Group structure

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

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

The principal subsidiaries as at 30 June 2021, 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 SA	France	100.0
Banco ABC Brasil S.A.	Brazil	61.8
ABC Islamic Bank (E.C.)	Bahrain	100.0
Arab Financial Services Company B.S.C. (c)	Bahrain	60.3
Arab Banking Corporation (ABC) — Jordan	Jordan	87.0
Arab Banking Corporation – Algeria	Algeria	88.9
Arab Banking Corporation - Egypt [S.A.E.]	Egypt	99.8
Arab Banking Corporation – Tunisie	Tunisia	100.0

b. Risk and capital management

Governance

The Governance framework within the Bank is driven by the Board with clearly defined roles and responsibilities for Board level committees, Management committees and Executive Management within the Bank.

Board Level The Board has five committees, amongst which the Board Risk Committee (BRC) is tasked with oversight of all key risk matters in the Bank. The Board of Directors, under advice from the

2. Group structure and overall risk (continued)

c. Risk and Capital management (continued)

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

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.

Management Committees

The current committee structure provides for the Group Risk Committee (GRC) and Group Asset Liability Committee (GALCO) reporting to the Board Risk Committee and the Group Compliance Oversight Committee (GCOC) to Board Compliance Committee.

The primary objectives of the **GRC** is to define, develop and monitor the Group's overarching risk management framework taking into account the Group's strategy and business plans. The **GALCO** is responsible for defining Asset & Liability management policy, which includes capital, liquidity & funding and market risk in line with the Risk Appetite Framework. The **GCOC** is responsible for strengthening the focus on compliance within the Group's risk management framework.

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

Three lines model

The Bank employs the three lines model to protect value of the Group. Some of the key responsibilities split by each line are presented below:

1st Line: (Ownership & Management)

- Day to day management and control of relevant risk related to their area of responsibility;
- Designing and implementing controls to respond to any changes in the risk profile;
- Identification, evaluation and reporting their key risk exposure;
- Root cause analysis of risk events and action planning to prevent recurrence;
- Tracking of action plans and performance assurance/testing to ensure that completed actions are proved effective;
- Maintaining appropriate and adequate documentation to evidence compliance with their risk accountabilities and responsibilities.

2nd Line: (Assisting with Managing Risks)

- Development and maintenance of the Risk Policy and Framework;
- Review and challenge of actions being undertaken by the 1st Line in respect of relevant risks;
- Reporting to relevant committees on significant risks and control weaknesses and progress undertaken by the 1st Line in mitigating risks outside of the risk appetite.

2. Group structure and overall risk (continued)

c. Risk and Capital management (continued)

Three lines model (continued)

3rd Line: (Assurance)

- Independent assurance of the effectiveness of Controls;
- Risk based programme of audit activity; and
- Reporting to the Audit Committee.

The **Credit & Risk Group (CRG)** is the second line risk function responsible for assisting, identifying and managing credit, market and operational risks arising from the Group's activities, and makes recommendations to the relevant central committees about appropriate policies and procedures for managing these risks. All areas of risk are overseen by the Group Chief Credit & Risk Officer, who reports into the Group CEO and the Chair of the BRC.

The **Group Finance** function is responsible for capital planning and management, coordinating Internal Capital Adequacy and Assessment Process (ICAAP), efficient capital allocation through administering risk adjusted return on capital (RAROC), liquidity planning and analysis, structural funding assessment, developing Internal Liquidity Adequacy Assessment Process (ILAAP), dynamic Balance Sheet modeling to assess potential emerging impact on capital and liquidity metrics and facilitating Balance Sheet optimisation.

Group Audit functions as a third line of defense and has a reporting line, independent of management, directly to the Board Audit Committee. The primary objective of Group Audit is to provide an independent opinion and risk based review on the design and operating effectiveness of the control environment across the group on all aspects of risk management, including Bank's policies and procedures.

c. Risk in Pillar I

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

CREDIT RISK

Credit risk is the risk that a customer or counterparty to a financial asset, fails to meet its contractual obligations, and causes the Bank to incur a financial loss. It also includes the risk of decline in the credit standing of the borrower, as reflected by the credit ratings. The goal of credit risk management is to manage the credit risk portfolio in line with the approved Group Risk Appetite Standards.

The Group's portfolio and credit exposures are managed in accordance with the Group Credit Policy, which applies Group-wide qualitative and quantitative guidelines, with particular emphasis on avoiding undue concentrations or aggregations of risk. The Group's banking subsidiaries are governed by policies and standards aligned with the Group Credit Policy and its associated standards, but may be adapted to suit local regulatory requirements as well as individual units' product and sectoral needs.The Group's retail lending is managed under a framework that considers the entire credit cycle. Retail obligor facilities are offered under product programs. The product programs are governed by a set of policies and standards describing the product program approval, monitoring, reporting and recovery processes.

2. Group structure and overall risk (continued)

c. Risk in Pillar I (continued)

Credit Risk (continued)

Refer note 24.4 to the 31 December 2020 audited consolidated financial statement for definition and policies for management of credit risk.

MARKET RISK

Refer notes 24.6 to the 31 December 2020 audited consolidated financial statement for definition and policies for management of Market risk.

Currency rate risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The most prominent market risk factor for the Group is interest rates. This risk is minimised as the Group's rate sensitive assets and liabilities are mostly floating rate, where the duration risk is lower. The Group has set risk limits for both earnings at risk (EAR) and economic value of equity (EVE) for interest rate risk in the banking book (IRRBB). In general, the Group uses matched currency funding and translates fixed rate instruments to floating rate to better manage the duration in the asset book.

Equity price risk

Equity position risk arises from the possibility that changes in the prices of equities, or equity indices, will affect the future profitability, or the fair value 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 (loss) at 30 June 2021	-

There were no sales with respect to equity positions in the banking book for the six-month period ended 30 June 2021.

2. Group structure and overall risk (continued)

c. Risk in Pillar I (continued)

OPERATIONAL RISK

Refer note 24.10 to the 31 December 2020 audited consolidated financial statement for definition and policies for management of Operational Risk

Legal risk

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

d. Risk in Pillar II

LIQUIDITY RISK

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

The Group maintains high quality liquid assets (**HQLA**) at prudent levels to ensure that cash can quickly be made available to honour all its obligations, even under adverse conditions. The Group is generally in a position of surplus liquidity, its principal sources of liquidity being its high quality liquid assets and marketable securities.

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

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

The GLMF ensures that the key risk indicators are monitored proactively, including daily monitoring of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), and these are regularly reported to the senior management. The Bank regularly conducts liquidity stress

testing that ensures **Liquidity Survival Horizon (LSH)** is always maintained above the agreed threshold.

2. Group structure and overall risk (continued)

d. Risk in Pillar II (continued)

RISK IN PILLAR II - LIQUIDITY RISK (continued)

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

INTEREST RATE RISK IN BANKING BOOK (IRRBB)

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. As at 30 June 2021, the negative earnings and economic value of equity impact for a 200 basis points (2%) parallel shift in interest rates (floored to zero% for down scenario) is provided below. In summary, the negative impact on Group's earnings is estimated at US$ 6.7 million (representing <3% of Net Interest Income) and negative impact on economic value of equity is estimated at US$ 130.8 million (< 5% of Tier 1 capital). The impact on both metrics were well below the Group's risk appetite thresholds for IRRBB.

Currency-wise details of the impact from a parallel shift of 200bps are as follows:

All amounts in US$ million

Currency	Impact on Group's Earnings	Economic Value Equity Impact
United States Dollar (USD)	(0.2)	(53.1)
Pound Sterling (GBP)	(0.4)	(0.9)
Euro (EUR)	n/a	(7.5)
Brazilian Real (BRL)	(5.4)	(22.9)
Algerian Dinar (DZD)	(0.7)	(6.1)
Egyptian Pound (EGP)	1.2	(6.1)
Jordanian Dinar (JOD)	(1.1)	(13.8)
Tunisian Dinar (TND)	0.1	(12.7)
Other	(0.3)	(7.5)
Total	**(6.7)**	**(130.8)**

2. Group structure and overall risk (continued)

d. Risk in Pillar II (continued)

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

US$ million	Less than 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Non interest bearing	TOTAL
ASSETS							
Liquid funds	1,995	-	-	-	-	-	1,995
Trading securities	150	8	108	19	22	145	452
Placements with banks and other financial institutions	1,893	40	57	5	4	-	1,999
Securities bought under repurchase agreements	169	273	40	217	-	-	699
Non-trading investments	846	842	393	902	4,265	35	7,283
Loans and advances	7,742	4,092	1,610	950	1,536	-	15,930
Other assets	-	-	-	-	-	2,581	2,581
TOTAL ASSETS	**12,795**	**5,255**	**2,208**	**2,093**	**5,827**	**2,761**	**30,939**
LIABILITIES & EQUITY							
Deposits from customers	9,627	4,438	975	1,790	627	310	17,767
Deposits from banks	1,970	846	378	575	76	7	3,852
Certificates of deposit	52	113	227	149	5	-	546
Securities sold under repurchase agreements	245	104	-	-	492	-	841
Taxation & other liabilities	-	-	-	-	-	2,430	2,430
Borrowings	667	840	1	-	10	95	1,613
Total equity	-	-	-	-	-	3,890	3,890
TOTAL LIABILITIES & EQUITY	**12,561**	**6,341**	**1,581**	**2,514**	**1,210**	**6,732**	**30,939**
OFF B/S ITEMS							
Interest rate contracts	(61)	1,823	(13)	891	(2,640)	-	-
TOTAL OFF B/S ITEMS	**(61)**	**1,823**	**(13)**	**891**	**(2,640)**	**-**	**-**
Interest rate sensitivity gap	**173**	**737**	**614**	**470**	**1,977**	**(3,971)**	**-**
Cumulative interest rate sensitivity gap	**173**	**910**	**1,524**	**1,994**	**3,971**	**-**	**-**

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

Refer note 24.3.2 to the 31 December 2020 audited consolidated financial statement for the definition and policies for management of concentration risk.

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

As at 30 June 2021, 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	988	0-	988
Counterparty B	713	0	713
Counterparty C	699	0	699
Counterparty D	0	681	681

2. Group structure and overall risk (continued)

d. Risk in Pillar II (continued)

COMPLIANCE RISK

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with the statutory, regulatory and supervisory requirements including industry laws with which the Bank must by law comply with, or which it voluntarily adheres to.

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

REPUTATIONAL RISK

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

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

Furthermore, the management believes that reputation risk requires active administration and involvement of senior members of the Bank in contrast to setting aside capital for its management. The Group Reputational Risk Committee, reporting to the GCOC, oversees the reputational risk framework.

CLIMATE CHANGE RISK

Climate change risk is the financial risk that arises from the impact of adverse changes in climate and specifically global warming. The risks are of two types, (i) the speed and cost of the required transition of the global economy to a low-carbon economy (ii) the impact of global warming on countries' economies, infrastructure and security.

Climate change presents significant risks to the Banking Sector. In relation to climate change, Bank ABC assessed the potential impact arising from climate change transitory risk scenarios in its capital calculations for ICAAP 2021 and this was nominal for the current plan period. The BRC will oversee Bank ABC's plans on climate change to ensure an appropriate strategic response to this risk. The Bank is committed to enhancing its approach to climate change in line with regulatory guidance and industry best practices and will have appropriate parameters in place to monitor this risk.

3. Regulatory capital requirements and the capital base

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

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

The determination of dividend payout will depend upon, amongst other things, the Group's earnings, its dividend policy, the requirement to set aside minimum statutory reserves, capital requirements to support growth (organic and inorganic), regulatory capital requirements, approval from the CBB and applicable requirements under Bahrain Commercial Companies Law, as well as other factors that the Board of Directors and the shareholders may deem relevant.

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

The Group's total capital adequacy ratio as at 30 June 2021 was 17.3% compared with the minimum regulatory requirement of 12.5%. The Tier 1 ratio was 16.4% for the Group. The composition of the total regulatory capital requirement was as follows:

Risk-weighted assets (RWA)

Credit risk	**22,324**
Market risk	**1,720**
Operational risk	**1,461**
Total	**25,505**
Tier 1 ratio	**16.4%**
Capital adequacy ratio	**17.3%**

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

Each banking subsidiary in the Group is directly regulated by its local banking supervisor, which sets and monitors local capital adequacy requirements. The Group ensures that each subsidiary maintains sufficient levels of capital.

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.)	**35.2%**	**36.2%**
ABC International Bank Plc*	**18.2%**	**20.0%**
Banco ABC Brasil S.A.*	**14.3%**	**16.2%**

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

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

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

a. Capital requirement for credit risk

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

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

Credit exposure and risk-weighted assets

US$ million	Gross credit exposure	Funded exposure	Unfunded exposure	Cash collateral	Eligible guarantees	Risk-weighted assets	Capital charge
Cash	32	32	-	-	-	2	-
Claims on sovereigns	66,145	5,994	151	93	74	518	65
Claims on public sector entities	1,840	1,662	178	48	3	1,211	151
Claims on multilateral development banks	471	471	-	-	-	37	5
Claims on banks	7,324	6,368	956	1,013	299	3,905	488
Claims on corporate portfolio	15,887	12,988	2,899	757	82	14,090	1,761
Regulatory retail exposures	987	829	158	-	-	740	93
Past due loans	158	158	-	1	-	157	20
Residential retail portfolio	2	2	-	2	-	1	-
Commercial mortgage	144	144	-	-	-	144	18
Equity portfolios	37	37	-	-	-	79	10
Other exposures	1,088	876	212	-	-	1,440	180
	34,115	**29,561**	**4,554**	**1,914**	**458**	**22,324**	**2,971**

Monthly average gross credit exposures and the risk-weighted assets for six-month ended 30 June 2021 were US$ 34,420 million and US$ 21,341 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	Year-end Capital Charge	Capital charge - Minimum*	Capital charge - Maximum*
Interest rate risk	640	80	59	83
- Specific interest rate risk	28	3	2	6
- General interest rate risk	612	77	57	77
Equity position risk	33	4	4	4
Foreign exchange risk	1,047	131	116	131
Options risk	-	-	-	-
Total	**1,720**	**215**	**179**	**218**

* The information in these columns shows the minimum and maximum capital charge for each of the market risk categories during the period ended 30 June 2021.

c. Capital requirement for operational risk

The Group applies the “Standardised Approach” for calculating its Pillar I operational risk capital. As at 30 June 2021, the total capital charge in respect of operational risk was US$ 183 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	36	18 %	10	81
Trading and sales	116	18 %	33	261
Payment and settlement	22	18 %	6	50
Commercial banking	510	15 %	120	963
Agency services	-	15 %	-	-
Retail banking	54	12 %	10	81
Asset management	11	12 %	2	17
Retail brokerage	5	12 %	1	8
Total	**754**		**182**	**1,461**

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

d. Capital base

The Group's capital base primarily comprises of:

- **i) Tier 1 capital:** Share capital, treasury shares, reserves, retained earnings, , non-controlling interests, profit for the year and cumulative changes in fair value;
- **ii) Additional Tier 1 capital**: Eligible portion of a perpetual financial instrument issued by a subsidiary of the Bank;
- **iii) 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 2021, comprising 3,110 million shares of US$ 1 each.

The Additional Tier 1 (AT1) capital includes the eligible portion of a perpetual financial instrument issued by a subsidiary of the bank. The outstanding of total issue amounted US$ 95 million at 30 June 2021. This instrument meets all the threshold conditions for inclusion in AT1 as per the CBB requirements, except for the trigger for write-down under certain circumstances.

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

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

The detail of this issue is described in appendix Public Disclosure (PD) 3.

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

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

d. Capital base (continued)

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

Capital base and Risk weighted assets (RWA)	US$ million
Capital base	
CET 1	**4,104**
AT 1	**87**
Total Tier 1 capital	**4,191**
Tier 2	**229**
Total capital base	**4,420**
Risk weighted assets	
Credit risk	**22,324**
Market risk	**1,720**
Operational risk	**1,461**
Total Risk weighted assets	**25,505**
CET 1 ratio	**16.1%**
Tier 1 ratio	**16.4%**
Capital adequacy ratio	**17.3%**

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.

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:

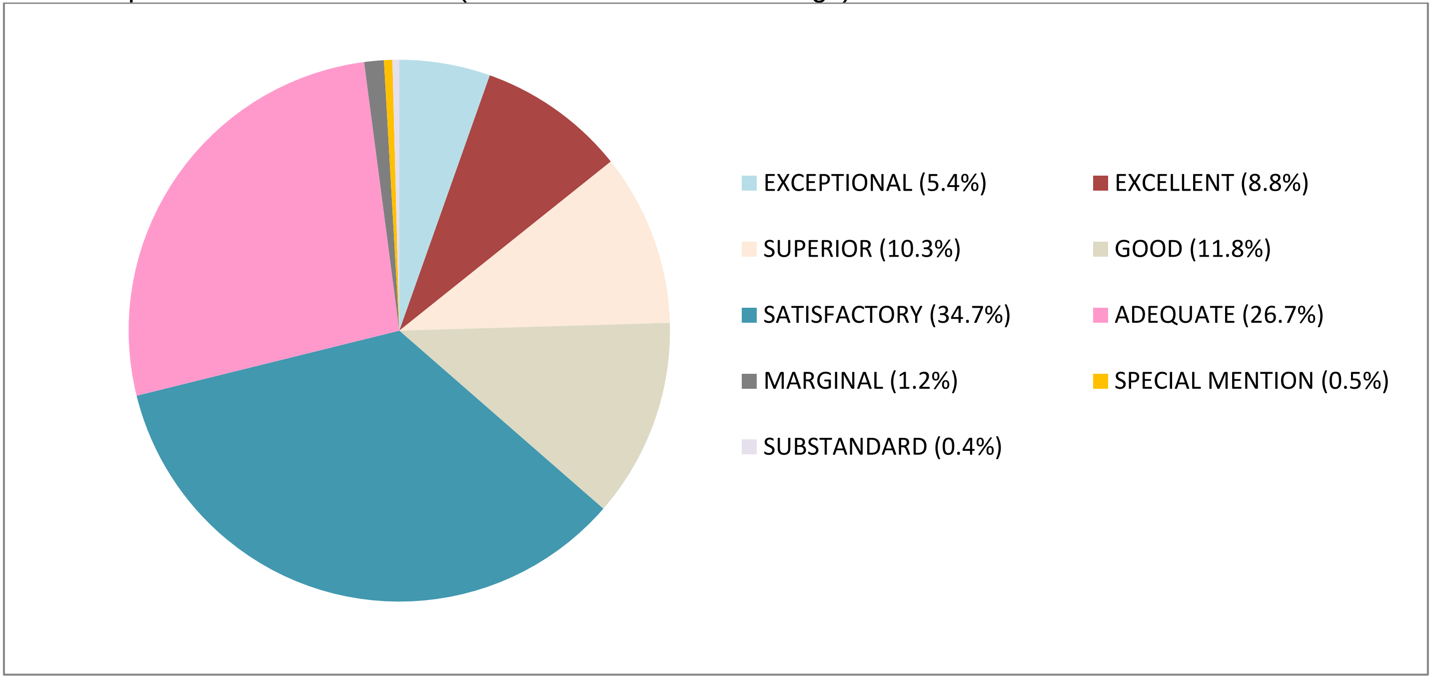
US$ million	Net credit exposure (after credit risk mitigation)	Rated exposure	Unrated exposure
Cash	32	-	32
Claims on sovereigns	6,052	5,881	171
Claims on public sector entities	1,792	705	1,087
Claims on multilateral development banks	471	471	-
Claims on banks	6,311	5,648	663
Claims on corporate portfolio	15,130	2,143	12,987
Regulatory retail exposure	987	-	987
Past due loans	157	-	157
Residential retail portfolio	-	-	-
Commercial mortgage	144	-	144
Equity portfolios	37	-	37
Other exposures	1,088	-	1,088
	32,201	**14,848**	**17,353**

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

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 2021 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 audited consolidated financial statements, due to different methodologies applied respectively under Basel III and IFRS. These differences are as follows:

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

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

  Eligible collateral is taken into consideration in arriving at the net exposure under the Basel III framework, whereas collateral is not netted in the consolidated financial statements.
- Under the Basel III framework, certain items are considered as a part of the regulatory capital base, whereas these items are netted off against assets in the consolidated financial statements.

4. Credit risk – Pillar III disclosures (continued)

d. Credit exposure

Geographical distribution of exposures

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

US$ million	Gross credit exposure	Cash Collateral	Impaired loans	Specific/ Stage 3 ECL impaired loans	Impaired debt securities	Specific/ Stage 3 ECL impaired debt securities
North America	3,423	106	-	-	63	63
Western Europe	4,246	460	58	57	-	-
Other Europe	1,540	-	16	13	-	-
Arab World	14,891	1,110	655	546	26	22
Other Africa	60	-	-	-	-	-
Asia	1,120	-	7	7	-	-
Australia/New Zealand	80	-	-	-	-	-
Latin America	8,755	238	142	97	-	-
	34,115	**1,914**	**878**	**720**	**89**	**86**

In addition to the above specific provisions the Group has collective impairment provisions amounting to US$ 223 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	-	-	-	32	-	-	-	-	32
Claims on sovereigns	1,079	364	16	3,533	-	301	-	852	6,145
Claims on public sector entities	26	26	102	1,467	-	127	1	91	1,840
Claims on multilateral development banks	273	57	3	31	42	65	-	-	471
Claims on banks	617	1,326	1,229	3,108	2	156	-	886	7,324
Claims on corporate portfolio	1,359	2,262	187	5,207	16	470	79	6,307	15,887
Regulatory retail exposures	-	-	-	719	-	-	-	268	987
Past due loans	-	1	3	109	-	-	-	45	158
Residential retail portfolio	-	2	-	-	-	-	-	-	2
Commercial mortgage	-	144	-	-	-	-	-	-	144
Equity portfolios	-	1	-	36	-	-	-	-	37
Other exposures	69	63	-	649	-	1	-	306	1,088
Gross credit exposure	**3,423**	**4,246**	**1,540**	**14,891**	**60**	**1,120**	**80**	**8,755**	**34,115**
Eligible collateral	106	460	-	1,110		-		238	1,914

The Bank uses different credit mitigation techniques such as collaterals, guarantees and netting agreements to reduce credit risk. The recognised credit risk mitigation activities are undertaken with various counterparties to ensure no additional credit or market risk concentrations occur. The Bank holds collateral against its credit facilities in the form of physical assets, cash deposits, securities and guarantees. Only guarantees provided by eligible Corporate and Financial Institutions of acceptable credit quality are accepted by the Bank.

4. Credit risk – Pillar III disclosures (continued)

d. Credit exposure (continued)

Geographical distribution of exposures (continued)

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

US$ million	Less than 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Western Europe	-	-	-	1	1
Other Europe	-	-	3	-	3
Arab World	5	56	43	5	109
Latin America	2	32	11	-	45
	7	**88**	**57**	**6**	**158**

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 specific provisions (Stage 3) can be analysed as follows:

US$ million	Gross exposure	Funded exposure	Unfunded exposure	Eligible collateral	Impaired loans	Specific/ Stage 3 ECL impaired loans	Impaired debt securities	Specific/ Stage 3 ECL impaired debt securities
Manufacturing	3,062	2,553	509	63	162	107	-	-
Mining and quarrying	121	109	12	-	14	11	-	-
Agriculture, fishing and forestry	1,446	1,347	99	-	19	15	-	-
Construction	1,757	1,410	347	26	139	119	-	-
Financial services	12,838	10,888	1,950	1,760	11	9	74	74
Trade	364	331	33	10	174	170	-	-
Personal / Consumer finance	1,137	970	167	-	36	34	-	-
Commercial real estate financing	621	592	29	-	16	13	-	-
Government	5,145	5,099	46	9	2	2	-	-
Technology, media and telecommunications	526	433	93	-	28	28	-	-
Transport	795	652	143	-	32	24	-	-
Energy	1,002	857	145	26	-	-	-	-
Utilities	1,522	1,055	467	-	-	-	-	-
Distribution	986	921	65	1	-	-	-	-
Retailers	280	233	47	1	-	-	-	-
Other services	2,513	2,111	402	18	245	188	15	12
	34,115	**29,561**	**4,554**	**1,914**	**878**	**720**	**89**	**86**

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	Manufacturing	Mining and quarrying	Agriculture, fishing and forestry	Construction	Financial services	Trade	Personal / Consumer finance	Commercial real estate financing	Government	Technology, media and telecommunications	Transport	Energy	Utilities	Distribution	Retailers	Other services	Total
Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32	32
Claims on sovereigns	5	-	-	-	1,362	-	-	-	4,778	-	-	-	-	-	-	-	6,145
Claims on public sector entities	222	8	-	5	540	-	-	-	279	63	92	435	185	-	-	11	1,840
Claims on multilateral development banks	-	-	-	-	471	-	-	-	-	-	-	-	-	-	-	-	471
Claims on banks	-	-	-	-	7,319	-	-	-	-	-	-	-	-	-	-	5	7,324
Claims on corporate portfolio	2,778	110	1,442	1,711	3,138	360	61	495	88	463	695	567	1,337	986	280	1,376	15,887
Regulatory retail exposures	1	-	-	-	-	-	986	-	-	-	-	-	-	-	-	-	987
Past due loans	55	3	4	20	2	4	2	3	-	-	8	-	-	-	-	57	158
Residential retail portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	2
Commercial Mortgage	-	-	-	21	-	-	-	123	-	-	-	-	-	-	-	-	144
Equity portfolios	1	-	-	-	3	-	27	-	-	-	-	-	-	-	-	6	37
Other exposures	-	-	-	-	3	-	61	-	-	-	-	-	-	-	-	1,024	1,088
	3,062	121	1,446	1,757	12,838	364	1,137	621	5,145	526	795	1,002	1,522	986	280	2,513	34,115

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	3	37	11	4	**55**
Mining and quarrying	-	-	3	-	**3**
Agriculture, fishing and forestry	-	4	-	-	**4**
Construction	1	19	-	-	**20**
Financial services	1	1	-	-	**2**
Trade	-	2	2	-	**4**
Personal / Consumer finance	1	1	-	-	**2**
Commercial real estate financing	-	-	3	-	**3**
Transport	-	7	1	-	**8**
Other services	1	17	37	2	**57**
	7	**88**	**57**	**6**	**158**

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 is as follows:

US$ million	within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 – 5 years	5-10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months	Total
Cash	32	-	-	-	32	-	-	-	-	-	**-**	**32**
Claims on sovereigns	1,326	593	373	817	3,109	1,954	837	75	9	10	**2,885**	**5,994**
Claims on public sector entities	435	63	82	76	656	688	249	68	-	1	**1,006**	**1,662**
Claims on multilateral development banks	82	6	155	41	284	145	20	22	-	-	**187**	**471**
Claims on banks	1,910	1,462	623	1,346	5,341	1,026	-	-	-	1	**1,027**	**6,368**
Claims on corporate portfolio	1,893	2,021	1,404	1,820	7,138	4,812	678	28	-	332	**5,850**	**12,988**
Regulatory retail exposures	14	31	41	33	119	199	378	110	16	7	**710**	**829**
Past due loans	-	7	48	40	95	57	5	-	1	-	**63**	**158**
Residential retail portfolio	-	-	-	-	-	-	1	1	-	-	**2**	**2**
Commercial mortgage	9	37	9	38	93	51	-	-	-	-	**51**	**144**
Equity portfolios	-	-	-	-	-	-	-	-	-	37	**37**	**37**
Other exposures	6	8	3	11	28	7	-	-	-	841	**848**	**876**
	5,707	**4,228**	**2,738**	**4,222**	**16,895**	**8,939**	**2,168**	**304**	**26**	**1,229**	**12,666**	**29,561**

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	3	4	4	123	134	17	-	-	-	-	17	151
Claims on public sector entities	17	31	41	64	153	12	-	13	-	-	25	178
Claims on banks	207	266	93	228	794	89	63	5	5	-	162	956
Claims on corporate portfolio	285	327	303	548	1,463	1,347	87	1	1	-	1,436	2,899
Regulatory retail exposures	8	18	16	38	80	78	-	-	-	-	78	158
Other exposures	2	2	-	-	4	4	2	-	-	202	208	212
	522	**648**	**457**	**1,001**	**2,628**	**1,547**	**152**	**19**	**6**	**202**	**1,926**	**4,554**

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
Utilities	1	-
Distribution	-	1
Manufacturing	12	3
Construction	22	4
Mining & quarrying	1	-
Personal / consumer finance	3	-
Commercial real estate financing	1	-
Trade	1	-
Agriculture, fishing & forestry	-	2
Other services	10	25
ECL	(2)	-
	49	**35**

Restructured facilities

The carrying amount of restructured facilities amounted to US$ 574 million as at 30 June 2021. Out of the total restructured facilities 49% relate to performing customers (including short term restructuring carried out due to current Covid-19 situation) on which an ECL of US$ 17 million is being held. In line with CBB guidelines loans qualifying for relief from additional ECL charges is included in this amount. These restructuring did not have any impact on carrying values thereby no modification loss was recorded on these. The Group continues to record interest on performing customers as normal and interest on non-performing customers is recorded on receipt basis.

Ageing analysis of impaired loans and securities

In accordance with the guidelines issued by the CBB, credit facilities are placed on non-accrual status and interest suspended when either principal or interest is overdue by 90 days, whereupon interest credited to income is reversed. Following an assessment of significant increase in credit risk, an exposure is moved to Stage 3 and lifetime ECL recognised if there is objective evidence that a credit facility is impaired, as mentioned above.

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

4. Credit risk – Pillar III disclosures (continued)

Loans

US$ million	**Principal**	**Provisions**	**Net book value**
Less than 3 months	12	5	7
3 months to 1 year	197	109	88
1 to 3 years	371	314	57
Over 3 years	298	292	6
	878	**720**	**158**

Securities

	Principal	**Provisions**	**Net book value**
Less than 3 months	-	-	-
3 months to 1 year	15	12	3
1 to 3 years	-	-	-
Over 3 years	74	74	-
	89	**86**	**3**

4. Credit risk – Pillar III disclosures (continued)

Movement in expected credit losses

	Expected Credit Losses		
	Stage 1	Stage 2	Stage 3
Loans			
At beginning of the year	67	95	708
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	-	(1)	1
Net remeasurement of loss allowance	8	(8)	75
Write-backs / recoveries			(35)
Amounts written-off			(35)
Exchange adjustments and other movements	(1)	-	6
Balance at reporting date	**75**	**85**	**720**

	Expected Credit Losses		
	Stage 1	Stage 2	Stage 3
Investments			
At beginning of the year	15	-	85
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Net remeasurement of loss allowance	(1)	-	1
Write-backs / recoveries			-
Amounts written-off			-
Exchange adjustments and other movements	-	-	-
Balance at reporting date	**14**		**86**

	Expected Credit Losses		
	Stage 1	Stage 2	Stage 3
Other financial assets and off-balance sheet items			
At beginning of the year	14	13	36
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Net remeasurement of loss allowance	-	(1)	10
Write-backs / recoveries			-
Amounts written-off			-
Exchange adjustments and other movements	(1)	-	(1)
Balance at reporting date	**13**	**12**	**45**

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	3,185	939
Direct credit substitutes, guarantees and acceptances	2,849	1,536
Undrawn loans and other commitments	1,923	886
	7,957	**3,360**
RWA		**2,839**

** Credit exposure is after applying CCF.*

At 30 June 2021, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$ 253 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. After approval, these limits are 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 at 30 June 2021.

The aggregate notional amounts for interest rate and foreign exchange contracts as at 30 June 2021 were as follows:

	Derivatives		
US$ million	**Interest rate contracts**	**Foreign exchange contracts**	**Total**
Notional – Trading book	35,890	15,597	51,487
Notional – Banking book	4,555	565	5,120
	40,445	**16,162**	**56,607**
Credit RWA (replacement cost plus potential future exposure)	353	167	520
Market RWA	612	1,047	1,659

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

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 2021, the CVA portfolio risk weighted assets was US$ 203 million.

6. Capital management

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

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

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

6. Capital management (continued)

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

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

6. Capital management (continued)

Pillar 2A Risks

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

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

Pillar 2B - Stress Testing

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

6. Capital management (continued)

The bank applies an Integrated Stress Testing (IST) to assess the impact of a continuum of stress scenarios including market-wide, idiosyncratic and combined scenarios on its capital, asset quality, earnings and liquidity. IST also enhances the bank's ability to integrate the feedback loop and interplay between different risks when a stress event occurs.

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

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

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

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

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

Annual Planning Cycle

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

Capital Allocation

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

We manage our new business returns with a Risk Adjusted Return on Capital (RAROC) measure to drive higher returns while balancing risks.

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.

Please refer note 12 of the 30 June 2021 interim condensed consolidated financial statements for disclosures on related-party transactions and balances.

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

	US $ Millions
Claims on shareholders*	137
Claims on directors & senior management	3
Claims on staff	29

**Unfunded exposures after applying CCF.*

Liabilities to related parties

Connected deposits	5,441

8. Repurchase and resale agreements

Proceeds from assets sold under repurchase agreements as at 30 June 2021 amounted to US$ 841 million. The carrying value of securities sold under repurchase agreements at the period end amounted to US$ 847 million.

Amounts paid for assets purchased under resale agreements at the period end amounted to US$ 699 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$ 699 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 1: Post 1 January 2019 disclosure template

	Basel III Common Disclosure Template	PIR as at 30 June 2021	Reference
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	3,104	a
2	Retained earnings	1,010	b
3	Accumulated other comprehensive income (and other reserves)	(142)	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)	229	d
6	**Common Equity Tier 1 capital before regulatory adjustments**	**4,201**	
	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)	53	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	40	c6
16	Investments in own shares	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

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

Basel III Common Disclosure Template		PIR as at 30 June 21	Reference
Common Equity Tier 1 capital: regulatory adjustments (continued)			
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	CBB specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	**97**	
29	**Common Equity Tier 1 capital (CET1)**	**4,104**	
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)	87	g
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**87**	
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

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

Basel III Common Disclosure Template		PIR as at 30 June 2021	Reference
Additional Tier 1 capital: regulatory adjustments (continued)			
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	CBB specific regulatory adjustments	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**	
44	**Additional Tier 1 capital (AT1)**	**87**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,191**	
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)	73	i
49	*of which: instruments issued by subsidiaries subject to phase out*	-	
50	Provisions	156	h*
51	**Tier 2 capital before regulatory adjustments**	**229**	
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

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

	Basel III Common Disclosure Template	PIR as at 30 June 2021	Reference
Tier 2 capital: regulatory adjustments (continued)			
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	**229**	
59	**Total capital (TC = T1 + T2)**	**4,420**	
60	**Total risk weighted assets**	**25,505**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	16.1%	
62	Tier 1 (as a percentage of risk weighted assets)	16.4%	
63	Total capital (as a percentage of risk weighted assets)	**17.3%**	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	2.5%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: bank specific countercyclical buffer requirement	N/A	
67	of which: G-SIB buffer requirement	N/A	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	7.1%	
National minima including CBB (where different from Basel III)			
69	CBB Common Equity Tier 1 minimum ratio	9%	
70	CBB Tier 1 minimum ratio	10.5%	
71	CBB total capital minimum ratio	12.5%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	3	
73	Significant investments in the common stock of financials	27	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

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

	Basel III Common Disclosure Template	PIR as at 30 June 2021	Reference
Amounts below the thresholds for deduction (before risk weighting) (continued)			
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	233	
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)	199	h*
77	Cap on inclusion of provisions in Tier 2 under standardised approach	279	
78	N/A		
79	N/A		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)			
80	*Current cap on CET1 instruments subject to phase out arrangements*	N/A	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	N/A	
82	*Current cap on AT1 instruments subject to phase out arrangements*	N/A	
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	N/A	
84	*Current cap on T2 instruments subject to phase out arrangements*	N/A	
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	N/A	

* *As adjusted based on CBB circular "OG/226/2020"*

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 2: Reconciliation of Regulatory Capital

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

US$ million

	Balance sheet as in published financial statements	Consolidated PIR data
Liquid funds	1,995	-
Cash and balances at central banks	-	1,103
Placements with banks and similar financial institutions	1,999	3,590
Reverse repurchase agreements and other similar secured lending	699	-
Financial assets at fair value through P&L	452	452
Non-trading investments	7,283	-
Investment at Amortised Cost	-	1,428
Investments at FVOCI	-	5,869
Loans and advances	15,930	16,091
Investment properties	-	-
Interest receivable	-	248
Other assets	2,370	2,043
Investments in associates and joint ventures	-	27
Goodwill and intangible assets	-	53
Property, plant and equipment	211	211
TOTAL ASSETS	**30,939**	**31,115**
Deposits from banks	3,852	7,542
Deposits from customers	17,767	14,078
Certificate of deposits issued	546	546
Repurchase agreements and other similar secured borrowing	841	841
Interest payable	-	222
Taxation	113	-
Other liabilities	1,925	1,793
Borrowings	1,613	1,517
Subordinated liabilities	-	-
Additional Tier 1 Instrument	-	95
TOTAL LIABILITIES	**26,657**	**26,634**
Paid-in share capital	3,110	3,110
Treasury shares	(6)	(6)
Reserves	786	786
Non - controlling interest	392	392
Expected credit losses	-	199
TOTAL SHAREHOLDERS' EQUITY	**4,282**	**4,481**

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 2: Reconciliation of Regulatory Capital (continued)

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

US$ million

ASSETS	Balance sheet as in published financial statements	Consolidated PIR data	Reference
Liquid funds	1,995	-	
Cash and balances at central banks	-	1,103	
Placements with banks and similar financial institutions	1,999	3,590	
Reverse repurchase agreements and other similar secured lending	699	-	
Financial assets at fair value through P&L	452	452	
Loans and advances	15,930	16,091	
Non-trading investments	7,283	7,297	
Of which investment NOT exceeding regulatory threshold	-	7,297	
Interest receivable	-	248	
Other assets	2,370	2,043	
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	-	233	
Investments in associates and joint ventures	-	27	
Of which Significant investment exceeding regulatory threshold	-	-	
Of which Significant investment NOT exceeding regulatory threshold	-	27	
Goodwill and intangible assets	-	53	
Of which goodwill	-	-	
Of which other intangibles (excluding MSRs) phased in at 100%	-	53	*e*
Of which MSRs	-	-	
Property, plant and equipment	211	211	
TOTAL ASSETS	**30,939**	**31,115**	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 2: Reconciliation of Regulatory Capital (continued)

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

US$ million

LIABILITIES & SHAREHOLDERS' EQUITY	Balance sheet as in published financial statements	Consolidated PIR data	Reference
Deposits from banks	3,852	7,542	
Deposits from customers	17,767	14,078	
Certificate of deposits issued	546	546	
Repurchase agreements and other similar secured borrowing	841	841	
Interest payable	-	222	
Taxation	113	-	
Other liabilities	1,925	1,793	
Borrowings	1,613	1,517	
Subordinated liabilities	-	-	
Of which amount eligible for TII	-	-	
Of which amount Ineligible	-	-	
Additional Tier 1 Instrument	-	95	
Of which amount eligible for AT1	-	39	g
Of which amount eligible for TII	-	9	i
Of which amount Ineligible	-	47	
TOTAL LIABILITIES	**26,657**	**26,634**	
Paid-in share capital	3,110	3,110	
Treasury shares	(6)	(6)	
Of which form part of CET1			
Ordinary Share Capital	3,110	3,110	a
Treasury shares	(6)	(6)	a
Reserves	786	786	
Of which form part of CET1			
Retained earnings/(losses) brought forward	967	1,010	*b*
Net profit for the current year	55	55	*c1*
Legal reserve	520	520	*c2*
General (disclosed) reserves	100	100	*c3*
Fx translation adjustment	(878)	(878)	*c4*
Cumulative changes in fair value	62	62	*c5*
Pension fund reserve	(40)	(40)	*c6*
Non - controlling interest	392	392	
Of which amount eligible for CETI	-	229	*d*
Of which amount eligible for ATI	-	48	*g*
Of which amount eligible for TII	-	64	*i*
Of which amount ineligible	-	51	
Expected credit losses	-	199	
Of which amount eligible for TII (Maximum 1.25% of RWA)	-	199	*h*
Of which amount Ineligible	-	-	
TOTAL SHAREHOLDERS' EQUITY	**4,282**	**4,481**	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 3: Main features of regulatory capital instruments

Disclosure template for main features of regulatory capital instruments			
1	Issuer	Arab Banking Corporation	Banco ABC Brasil
2	Unique identifier	ABC	LFSC19000 (series with various suffixes)
3	Governing law(s) of the instrument	Laws of Bahrain	Laws of the Federative Republic of Brazil
Regulatory treatment			
4	Transitional CBB rules	Common Equity Tier 1	N/A
5	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1
6	Eligible at solo/group/group & solo	Group & Solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common equity shares	Perpetual NC 5, Sub-ordinated to all except Shareholders' Equity
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	US$ 3,110	BRL 488 million (of which US$ 39 million equivalent eligible for AT1)
9	Par value of instrument	1	300,000
10	Accounting classification	Shareholders' equity	Liability- Amortised cost
11	Original date of issuance	Various	Various
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

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

Disclosure template for main features of regulatory capital instruments			
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Yes
16	Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating (Dividend as decided by the shareholders)	Floating
18	Coupon rate and any related index	N/A	Average market yield of 9,794%, equivalent to 2,36 times the current Selic Rate [1] of 4,15% p.a.
19	Existence of a dividend stopper	N/A	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Partly discretionary (Insufficiency of profits)
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	N/A	Non-cumulative
23	Convertible or non-convertible	N/A	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

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

Disclosure template for main features of regulatory capital instruments			
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	No	Yes
31	If write-down, write-down trigger(s)	N/A	CET 1 at 5.125% or below
32	If write-down, full or partial	N/A	Fully discretionary
33	If write-down, permanent or temporary	N/A	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all depositors and creditors (including subordinated debt) of the Bank	AT1 capital bills
36	Non-compliant transitioned features	No	N/A
37	If yes, specify non-compliant features	N/A	N/A