Basel III – Pillar III disclosures
30 June 2022

Executive summary

This document comprises of the Group's (as defined below) capital and risk management disclosures as at 30 June 2022.

The disclosures in this section are in addition to the disclosures set out in the interim condensed consolidated financial statements presented in accordance with IAS 34 Interim Financial Reporting (IAS 34).

The principal purpose of these disclosures is to meet the disclosure requirements of the Central Bank of Bahrain (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 2022 amounted to US$ 25,961 million (2021: US$ 25,595 million), comprising 90% (2021: 90%) credit risk, 3% (2021: 4%) market risk and 7% (2021: 7%) operational risk. The total capital adequacy ratio was 17.7% (2021: 16.9%), compared to the minimum regulatory requirement of 12.5%.

1. The Basel III framework

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

The Basel Accord is built on three pillars:

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

1. The Basel III framework (continued)

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

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

a. Pillar I

Banks incorporated in the Kingdom of Bahrain are required to maintain a minimum capital adequacy ratio (CAR) of 12.5% and a Tier 1 ratio of 10.5%. Tier 1 capital comprises of share capital, treasury shares, reserves, retained earnings, 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 meets the CBB's ICAAP regulatory requirements and has also 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) and the CBB's ICAAP and IST (Integrated Stress Testing) regulatory 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 regulatory measures rolled out by various Governments, Central Banks and other regulatory authorities to contain the impact of Covid 19 on economies are gradually being normalised as the economic impact of the pandemic is being managed. The measures varied between each jurisdiction where the Group operates, but these generally included 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 Group continues to closely monitor the global economic situation to ensure operational resilience and continuity of its operations. The impact of COVID 19, where relevant, is disclosed 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.

On 15 January 2021, the Bank entered into a sale and purchase agreement with BLOM Bank SAL, Lebanon, to acquire its 99.5% (including stake bought through mandatory tender offer) stake of BLOM Bank Egypt [S.A.E] (Blom Bank Egypt). All the regulatory approvals and relevant completion conditions for the acquisition were fulfilled and the Group completed the acquisition transaction during 2021.

Refer note 34 to the annual consolidated financial statements for the year 2021 and note 14 to the 30June 2022 interim condensed consolidated financial statements for further details on the acquisition.

The principal subsidiaries as at 30 June 2022, 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	63.8
ABC Islamic Bank (E.C.)	Bahrain	100.0
Arab Financial Services Company B.S.C. (c)	Bahrain	87.2
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
Blom Bank - Egypt [S.A.E]	Egypt	99.5

2. Group structure and overall risk (continued)

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 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 the Board Compliance Committee.

The primary objective 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 overseeing the implementation of the Group's Asset / Liability Management Framework 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 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.

2. Group structure and overall risk (continued)

c. Risk and Capital management (continued)

Three lines model (continued)

2nd Line: (Assisting with Managing Risks)

- Development and maintenance of the Risk Policy and Framework;
- Oversight of 1st line's compliance with the Risk Policy & 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.

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. It makes recommendations to the relevant central committees about the appropriateness of the 1st line's compliance with 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 Balance Sheet Management (GBSM)** function is a second line function 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. The Pillar I process describes the basis for the 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.

Credit Risk Management ensures that the 1st line complies with the Bank's policies, standards and procedures designed to manage risk.

2. Group structure and overall risk (continued)

c. Risk in Pillar I (continued)

Credit Risk (continued)
In particular it ensures that the obligor risk rating is accurate and reviewed on a timely basis.

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 and legal 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.

Additionally, Credit Risk ensures that where obligors default, losses are kept to a minimum through timely remedial actions.

Refer note 24.4 to the 31 December 2021 audited consolidated financial statement for definition and policies for management of credit risk.

MARKET RISK

Refer notes 24.6 to the 31 December 2021 audited consolidated financial statement for definition and policies for management of Market risk.

The Group is exposed to the following types 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 because of client trades & positional trading strategies which is managed by setting appropriate market risk limits. Interest rate risk also includes Interest rate risk in the banking book (IRRBB) which refers to current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions.

2. Group structure and overall risk (continued)

c. Risk in Pillar I (continued)

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	6
Unquoted Equities	9
	15
Realised gain during the period	-
Unrealised gain (loss) at 30 June 2022	(1)

There were no sales with respect to equity positions in the banking book for the period ended 30 June 2022.

OPERATIONAL RISK

Refer note 24.10 to the 31 December 2021 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 cashable 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 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.

2. Group structure and overall risk (continued)

d. Risk in Pillar II (continued)

RISK IN PILLAR II - LIQUIDITY RISK (continued)

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

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

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 conducts daily liquidity stress testing to ensure that the **Liquidity Survival Horizon (LSH)** is always maintained above the established risk appetite.

The Group also carries out a comprehensive Integrated Stress Testing and ILAAP (Internal Liquidity Adequacy Assessment Process) process that includes, amongst other things, scenario-based liquidity 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)

Interest rate risk in the banking book refers to current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. This risk is minimized 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.

Quantitative measures employed include limits, interest rate sensitive gap 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.

As at 30 June 2022, the impact on earnings over 12 months and on economic value of equity 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$ 29.6 million (representing ~4% of Net Interest Income) and negative impact on economic value of equity is estimated at US$ 74 million (< 5% of Tier 1 capital). The impact on both metrics were well below the Group's risk appetite thresholds for IRRBB.

2. Group structure and overall risk (continued)

d. Risk in Pillar II (continued)

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

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 of Equity Impact**	
	Parallel Up	Parallel Down	Parallel Up	Parallel Down
United States Dollar (USD)	14.1	(14.9)	4.9	(9.8)
Pound Sterling (GBP)	5.9	(3.8)	0.5	(0.8)
Euro (EUR)	(2.2)	(0.2)	(1.8)	(0.5)
Brazilian Real (BRL)	7.0	(7.0)	(29.9)	33.2
Algerian Dinar (DZD)	(0.2)	0.2	(6.7)	7.5
Egyptian Pound (EGP)	0.8	(0.8)	(8.2)	9.1
Jordanian Dinar (JOD)	1.3	(1.3)	(13.1)	13.8
Tunisian Dinar (TND)	(0.8)	0.8	(5.7)	6.5
Other	3.2	(2.6)	(8.3)	8.7
Total	**29.0**	**(29.6)**	**(73.8)***	**(11.2)***

* For aggregation of EVE across currencies only negative values are considered as per Basel

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	2,043	-	-	-	-	-	2,043
Trading securities	210	299	380	-	16	82	987
Placements with banks and other financial institutions	2,159	157	20	6	2	166	2,510
Securities bought under repurchase agreements	259	56	105	295	314	-	1,029
Non-trading investments	820	474	479	1,079	4,491	35	7,378
Loans and advances	7,706	4,555	2,086	1,233	1,442	-	17,022
Other assets	-	-	-	-	-	3,317	3,317
TOTAL ASSETS	13,197	5,541	3,070	2,613	6,265	3,600	34,286
LIABILITIES & EQUITY							
Deposits from customers	9,582	5,403	1,493	2,580	965	489	20,512
Deposits from banks	1,738	685	296	833	152	8	3,712
Certificates of deposit	71	80	42	53	235	-	481
Securities sold under repurchase agreements	757	215	5	243	410	-	1,630
Taxation, other liabilities & non-controlling interest	-	-	-	-	-	2,602	2,602
Borrowings	941	175	-	2	36	90	1,244
Equity (Parent)	-	-	-	-	390	3,715	4,105
TOTAL LIABILITIES & EQUITY	13,089	6,558	1,836	3,711	2,188	6,904	34,286
OFF B/S ITEMS							
Foreign Exchange Contracts	-	-	-	-	-	-	-
Interest rate contracts	739	1,384	83	(81)	(2,125)	-	-
TOTAL OFF B/S ITEMS	739	1,384	83	(81)	(2,125)	-	-
Interest rate sensitivity gap	847	367	1,317	(1,179)	1,952	(3,304)	-
Cumulative interest rate sensitivity gap	847	1,214	2,531	1,352	3,304	-	-

2. Group structure and overall risk (continued)

d. Risk in Pillar II (continued)

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

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 2021 audited consolidated financial statements 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 2022 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	1,807	-	1,807
Counterparty B	1,072	-	1,072
Counterparty C	911	-	911
Counterparty D	734	-	734

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.

2. Group structure and overall risk (continued)

d. Risk in Pillar II (continued)

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

REPUTATIONAL RISK (continued)

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 has in alignment with best practice, established a 4-pillars approach in its identification, assessment and management of climate change risk. These four pillars are strategy, risk management (including stress testing), governance and disclosures. Strategically, the Bank as part of its Risk Appetite, is targeting net zero on emissions from own operations by 2030 and has completed a heat map classifying its exposures arising from financing activities. Bank ABC codified all its counterparties to reflect their climate change risk profile using an external methodology. In addition, the Bank has initiated idiosyncratic climate change risk assessments to overlay and arrive at the final classification for its exposures. The Bank has also undertaken stress testing to assess the impact of climate change scenarios on its capital, earnings and asset quality. The Bank has established a climate change standard to define roles and responsibilities in terms of the 3 lines of defence and approaches for different types of risks. Finally, the Bank has established a senior management working group to drive its Environment Social and Governance (ESG) activities including climate change risk and will also include climate change disclosures in its annual report.

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, additional tier 1 capital (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 2022 was 17.7% compared with the minimum regulatory requirement of 12.5%. The Tier 1 ratio was 16.6% for the Group. The composition of the total regulatory capital requirement was as follows:

Risk-weighted assets (RWA)

Credit risk	**23,403**
Market risk	**882**
Operational risk	**1,677**
Total	**25.962**
CET 1 ratio	**14.7%**
Tier 1 ratio	**16.6%**
Capital adequacy ratio	**17.7%**

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.)	**35.5%**	**36.2%**
ABC International Bank Plc*	**15.8%**	**16.8%**
Banco ABC Brasil S.A.*	**13.1%**	**14.9%**
Blom Bank Egypt (S.A.E)	**22.5%**	**23.2%**

** 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 [1+2]	Funded exposure [1]	Unfunded exposure [2]	Cash collateral	Eligible guarantees	Risk-weighted assets	Capital charge
Cash	48	48	-	-	-	2	-
Claims on sovereigns	7,919	7,799	120	57	87	646	81
Claims on public sector entities	1,961	1,711	250	77	11	1,216	152
Claims on multilateral development banks	406	406	-	-	-	45	6
Claims on banks	7,902	6,975	927	2,150	188	3,462	433
Claims on corporate portfolio	16,494	13,666	2,828	586	129	15,052	1,882
Regulatory retail exposures	1,235	1,006	229	10	-	919	115
Past due loans	156	156	-	-	-	156	20
Residential retail portfolio	34	34	-	1	-	17	2
Commercial mortgage	117	117	-	-	-	117	15
Equity portfolios	50	50	-	-	-	105	13
Other exposures	1,333	1,178	155	-	-	1,666	208
	37,655	**33,146**	**4,509**	**2,881**	**415**	**23,403**	**2,927**

Monthly average gross credit exposures and the risk-weighted assets for 6-month ended 30 June 2022 were US$ 38,772 million and US$ 23,776 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	604	75	74	123
- Specific interest rate risk	18	2	1	9
- General interest rate risk	586	73	73	114
Equity position risk	36	5	5	5
Foreign exchange risk	242	30	28	31
Options risk	-	-	-	-
Total	**882**	**110**	**107**	**159**

* 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 2022..

c. Capital requirement for operational risk

The Group applies the “Standardised Approach” for calculating its Pillar I operational risk capital. As at 30 June 2022, the total capital charge in respect of operational risk was US$ 209 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	35	18%	10	79
Trading and sales	157	18%	44	352
Payment and settlement	44	18%	12	98
Commercial banking	543	15%	127	1,019
Agency services	-	15%	-	-
Retail banking	69	12%	13	104
Asset management	11	12%	2	17
Retail brokerage	5	12%	1	8
Total	**864**		**209**	**1,677**

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 the Bank or any 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 2022, 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 the Bank or any subsidiary of the bank. The outstanding of total AT1 issue amounted to US$ 481 million at 30 June 2022. This includes $390 million issued by the Bank and $91 million issued by the Bank's subsidiary in Brazil. These instruments meet all the threshold conditions for inclusion in AT1 as per the CBB requirements. The details of these issues are described in appendix PD 3 of this document.

- The AT1 instrument issued by the Group has a conversion feature into equity with the trigger being a non-viability event as determined by the CBB.

AT 1 instrument issued by the subsidiary has a trigger of 5.125% of CET 1 ratio (of the subsidiary) for permanent extinction in compliance with the local regulations and Basel Standards.

Both instruments have features that enable coupon suspension (without cumulating) upon insufficiency of profits.

AT1 issuance by the subsidiary 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 details of the AT1 issuances are 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	**3,827**
AT 1	**476**
Total Tier 1 capital	**4,303**
Tier 2	**286**
Total capital base	**4,589**
Risk weighted assets	
Credit risk	23,403
Market risk	882
Operational risk	1,677
Total Risk weighted assets	**25,962**
CET 1 ratio	14.7%
Tier 1 ratio	16.6%
Capital adequacy ratio	**17.7%**

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:

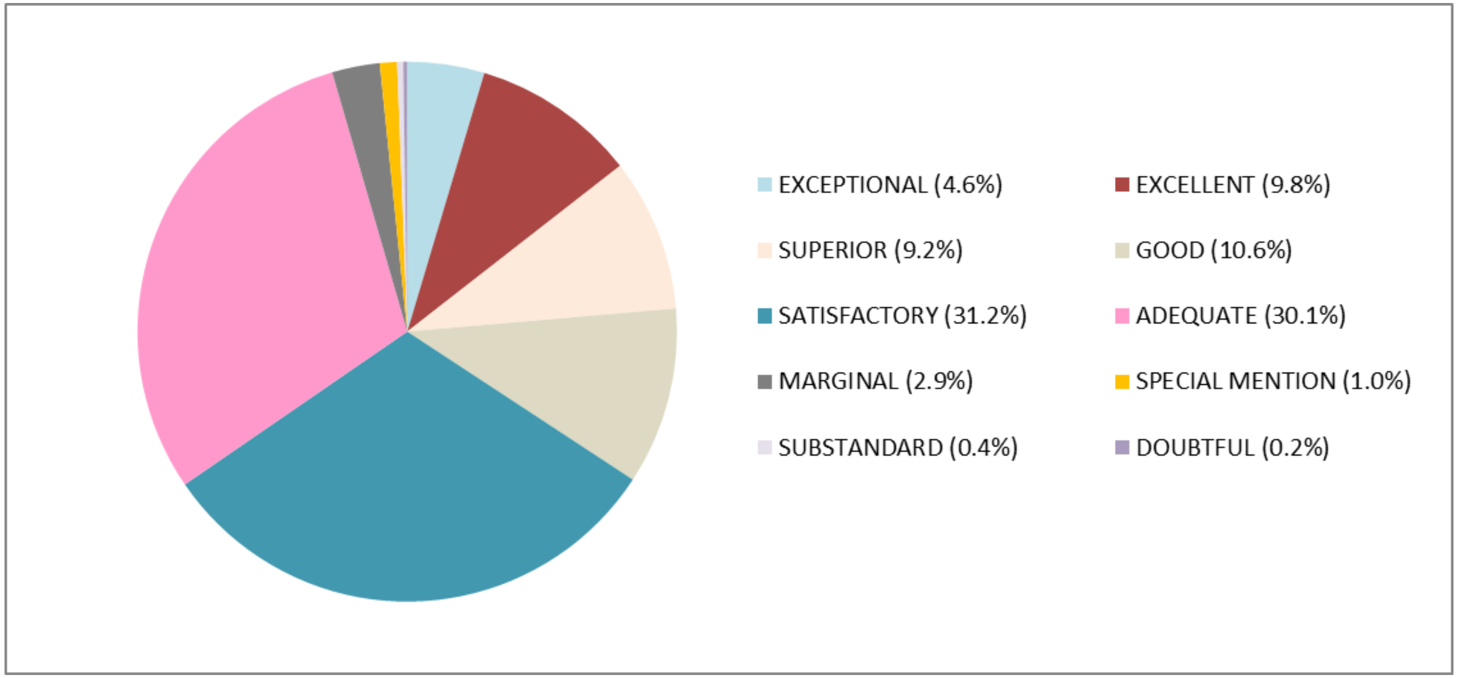
US$ million	Net credit exposure (after credit risk mitigation)	Rated exposure	Unrated exposure
Cash	48	-	48
Claims on sovereigns	7,862	6,194	1,668
Claims on public sector entities	1,884	830	1,054
Claims on multilateral development banks	406	406	-
Claims on banks	5,752	4,888	864
Claims on corporate portfolio	15,908	2,142	13,766
Regulatory retail exposure	1,225	-	1,225
Past due loans	156	-	156
Residential retail portfolio	33	-	33
Commercial mortgage	117	-	117
Equity portfolios	50	-	50
Other exposures	1,333	-	1,333
	34,774	**14,460**	**20,314**

4. Credit risk – Pillar III disclosures (continued)

b. External credit rating agencies (continued)

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

The Group's credit risk distribution (based on internal risk ratings) at 30 June 2022 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 interim condensed 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 interim condensed 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 loans 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	3,784	214	-	-	63	63
Western Europe	4,478	401	4	3	-	-
Other Europe	1,583	835	11	11	-	-
Arab World	16,893	982	534	421	26	23
Other Africa	62	17	-	-	-	-
Asia	1,184	14	-	-	-	-
Australia/New Zealand	113	-	-	-	-	-
Latin America	9,558	418	101	59	-	-
	37,655	**2,881**	**650**	**494**	**89**	**86**

In addition to the above specific provisions the Group has collective impairment provisions (ECL allowances under Stage 1 and 2) amounting to US$ 250 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	-	-	-	48	-	-	-	-	48
Claims on sovereigns	1,719	247	15	4,886	-	171	-	881	7,919
Claims on public sector entities	42	39	109	1,560	-	138	2	71	1,961
Claims on multilateral development banks	206	50	34	25	46	45	-	-	406
Claims on banks	472	1,950	1,249	2,938	1	142	2	1,148	7,902
Claims on corporate portfolio	1,279	2,013	176	5,505	15	687	109	6,710	16,494
Regulatory retail exposures	-	-	-	858	-	-	-	377	1,235
Past due loans	-	1	-	113	-	-	-	42	156
Residential retail portfolio	-	1	-	33	-	-	-	-	34
Commercial mortgage	-	117	-	-	-	-	-	-	117
Equity portfolios	-	1	-	49	-	-	-	-	50
Other exposures	66	59	-	878	-	1	-	329	1,333
Gross credit exposure	**3,784**	**4,478**	**1,583**	**16,893**	**62**	**1,184**	**113**	**9,558**	**37,655**

4. Credit risk – Pillar III disclosures (continued)

d. Credit exposure (continued)

Geographical distribution of exposures (continued)

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.

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	-	-	-		
Arab World	2	54	53	4	113
Latin America	7	16	19		42
	9	**70**	**72**	**5**	**156**

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 [1+2]	Funded exposure [1]	Unfunded exposure [2]	Cash collateral	Impaired loans	Specific/ Stage 3 ECL impaired loans	Impaired debt securities	Specific/ Stage 3 ECL impaired debt securities
Manufacturing	3,388	2,922	466	21	96	74	-	-
Mining and quarrying	102	88	14	-	13	10	-	-
Agriculture, fishing and forestry	1,585	1,491	94	10	5	3	-	-
Construction	2,051	1,534	517	86	82	67	-	-
Financial services	13,060	11,322	1,738	2,608	6	2	74	74
Trade	381	342	39	20	75	28	-	-
Personal / Consumer finance	1,349	1,117	232	4	48	42	-	-
Commercial real estate financing	373	356	17	-	-	-	-	-
Government	6,430	6,295	135	16	2	2	-	-
Technology, media and telecommunications	646	566	80	7	19	19	-	-
Transport	795	574	221	15	36	24	-	-
Energy	1,311	1,229	82	1	-	-	-	-
Utilities	1,419	1,038	381	5	-	-	-	-
Distribution	978	920	58	4	-	-	-	-
Retailers	310	291	19	-	-	-	-	-
Other services	3,477	3,061	416	84	268	223	15	12
	37,655	**33,146**	**4,509**	**2,881**	**650**	**494**	**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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48	**48**
Claims on sovereigns	32	-	-	-	1,723	-	-	-	6,033	-	-	131	-	-	-	-	**7,919**
Claims on public sector entities	250	5	-	84	678	-	-	-	253	59	95	390	108	-	-	39	**1,961**
Claims on multilateral development banks	-	-	-	-	406	-	-	-	-	-	-	-	-	-	-	-	**406**
Claims on banks	-	-	-	-	7,854	-	-	-	48	-	-	-	-	-	-	-	**7,902**
Claims on corporate portfolio	3,082	94	1,583	1,942	2,386	334	19	266	96	587	688	790	1,311	978	310	2,028	**16,494**
Regulatory retail exposures	1	-	-	-	-	-	1,234	-	-	-	-	-	-	-	-	-	**1,235**
Past due loans	22	3	2	15	4	47	6	-	-	-	12	-	-	-	-	45	**156**
Residential retail portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	34	**34**
Commercial Mortgage	-	-	-	10	-	-	-	107	-	-	-	-	-	-	-	-	**117**
Equity portfolios	1	-	-	-	3	-	34	-	-	-	-	-	-	-	-	12	**50**
Other exposures	-	-	-	-	6	-	56	-	-	-	-	-	-	-	-	1,271	**1,333**
	3,388	**102**	**1,585**	**2,051**	**13,060**	**381**	**1,349**	**373**	**6,430**	**646**	**795**	**1,311**	**1,419**	**978**	**310**	**3,477**	**37,655**

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	2	13	4	3	22
Mining and quarrying	-	-	3	-	3
Agriculture, fishing and forestry	-	-	2	-	2
Construction	1	1	13	-	15
Financial services	-	4	-	-	4
Trade	-	46	-	1	47
Personal / Consumer finance	2	1	1	2	6
Commercial Real Estate Financing					
Technology, media & telecommunications	-	-	-	-	-
Transport	-	3	9	-	12
Other sectors	4	2	40	(1)	45
	9	**70**	**72**	**5**	**156**

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	48	-	-	-	**48**	-	-	-	-	-	**-**	**48**
Claims on sovereigns*	2,400	497	469	818	**4,184**	2,663	878	63	-	11	**3,615**	**7,799**
Claims on public sector entities**	492	142	102	188	**924**	407	304	75	-	1	**787**	**1,711**
Claims on multilateral development banks	50	10	35	201	**296**	64	46	-	-	-	**110**	**406**
Claims on banks	2,196	1,233	690	1,139	**5,258**	1,696	20	-	-	1	**1,717**	**6,975**
Claims on corporate portfolio	2,266	2,751	1,857	1,984	**8,858**	4,152	642	6	-	8	**4,808**	**13,666**
Regulatory retail exposures	8	27	38	100	**173**	269	445	99	14	6	**833**	**1,006**
Past due loans	-	9	15	55	**79**	72	5	-	-	-	**77**	**156**
Residential retail portfolio	-	-	-	-	**-**	-	3	31	-	-	**34**	**34**
Commercial mortgage	7	10	5	49	**71**	46	-	-	-	-	**46**	**117**
Equity portfolios	-	-	-	-	**-**	-	-	-	-	50	**50**	**50**
Other exposures	7	6	7	11	**31**	15	-	-	-	1,132	**1,147**	**1,178**
	7,474	**4,685**	**3,218**	**4,545**	**19,922**	**9,384**	**2,343**	**274**	**14**	**1,209**	**13,224**	**33,146**

** 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	58	3	9	20	**90**	30	-	-	-	-	**30**	**120**
Claims on public sector entities	71	30	31	48	**180**	60	-	10	-	-	**70**	**250**
Claims on multilateral development banks	-	-	-	-	**-**	-	-	-	-	-	**-**	**-**
Claims on banks	187	241	66	258	**752**	132	29	13	1	-	**175**	**927**
Claims on corporate portfolio	322	311	303	534	**1,470**	1,215	135	2	6	-	**1,358**	**2,828**
Regulatory retail exposures	15	101	36	24	**176**	53	-	-	-	-	**53**	**229**
Other exposures	-	-	-	-	**-**	2	-	-	-	153	**155**	**155**
	653	**686**	**445**	**884**	**2,668**	**1,492**	**164**	**25**	**7**	**153**	**1,841**	**4,509**

4. Credit risk – Pillar III disclosures (continued)

e. Impaired assets and provisions for impairment

The Group manages the risk rating of obligors in accordance with the obligor risk rating standard. Changes in risk ratings are used to identify credit migration and significant increase in credit risk since origination of obligor facility to assess the staging of obligors in accordance with the IFRS9 impairment standard of the Group. The amount of ECL charged per obligor facility is subject of calculations executed in line with the IFRS 9 impairment policy.

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

US$ million	**Provision (Write-back/recovery)**	**Write-offs**
Financial services	1.0	-
Utilities	-	-
Distribution	-	-
Manufacturing	4.0	37
Construction	1.0	3
Mining and quarrying	-	-
Personal / consumer finance	2.0	-
Commercial real estate financing	-	-
Trade	6.0	1
Agriculture, fishing & forestry	(1.0)	10
Technology, media and telecommunications	(4.0)	-
Other Services	12.0	1
ECL	30.0	
	51	**52**

Restructured facilities

During the period, the Group has restructured certain facilities. The carrying amount of these facilities amounted to US$ 8 million as at 30 June 2022 – on which an ECL of US$ 1.5 million is being held. . The magnitude of the restructuring activities 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. If there is objective evidence that a credit facility is impaired it is moved to Stage 3 and specific provisions recognised

An ageing analysis of all impaired loans, POCI 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	17	8	9
3 months to 1 year	113	43	70
1 to 3 years	363	291	72
Over 3 years	157	152	5
	650	**494**	**156**

Securities

US$ million	Principal	Provisions	Net book value
Less than 3 months	-	-	-
3 months to 1 year	-	-	-
1 to 3 years	15	12	3
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	109	89	493
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	4	(4)	-
Transfer to stage 2	(1)	1	-
Transfer to stage 3	-	(17)	17
Net remeasurement of loss allowance	29	6	42
Write-backs / recoveries	-	-	(25)
Amounts written-off	-	-	(52)
Exchange adjustments and other movements	(3)	2	19
Balance at reporting date	**138**	**77**	**494**

	Expected Credit Losses		
	Stage 1	Stage 2	Stage 3
Investments			
At beginning of the year	19	-	86
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	(5)	-	-
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	12	9	49
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	-	-	-
Transfer to stage 2	(6)	6	-
Transfer to stage 3	-	(1)	1
Net remeasurement of loss allowance	1	(1)	3
Write-backs / recoveries			-
Amounts written-off			-
Exchange adjustments and other movements	1	(1)-	(12)
Balance at reporting date	**8**	**12**	**41**

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	2,856	875
Direct credit substitutes, guarantees and acceptances	2,884	1,643
Undrawn loans and other commitments	2,453	839
	8,193	**3,357**
RWA		**2,630**

** Credit exposure is after applying CCF.*

At 30 June 2022, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$ 231 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 2022.

The aggregate notional amounts for interest rate and foreign exchange contracts as at 30 June 2022 were as follows:

	Derivatives		
US$ million	**Interest rate contracts**	**Foreign exchange contracts**	**Total**
Notional – Trading book	13,161	19,157	32,318
Notional – Banking book	2,884	384	3,268
	16,045	**19,541**	**35,586**
Credit RWA (replacement cost plus potential future exposure)	253	214	467
Market RWA	585	242	827

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 2022, the CVA Portfolio Risk weighted assets was US$ 169 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 that includes an ICAAP framework, which enables us to manage our capital in a proactive and consistent manner. The framework incorporates a variety of approaches to assess capital requirements for different material sources of risks and is evaluated on an economic and regulatory capital basis. The Group's ICAAP is designed to:

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

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 Herfindahl-Hisrchman Index (HHI) approach
Counterparty Credit Risk	No capital add-on under ICAAP as Pillar 1 is assessed to be sufficient
Market Risk	The Bank uses SMM for market risk capital charge computation as prescribed by the local regulator the CBB. The Bank's own assessment has identified that additional capital charge maybe required for the marginal illiquidity of its market portfolio and movements in market prices. The capital charge for market risk assessed under Pillar 1 is, however, sufficient to cover these risks..
Operational Risk - *Conduct Risk* - *Non-Conduct Risk*	Under ICAAP the Bank re-assess operational risk within two categories of realised risk factors. • Conduct risk • Non-conduct risk Conduct risk losses are defined as losses described in the Basel loss event type of 'Client, Products and Business Practices (CPBP)' and legal losses. The CPBP loss events includes: • Regulatory fines • Sanctions (covering AML/KYC) • Mis-selling and product risk (defects) • Client confidentiality breaches • Non-compliance with disclosures Non-Conduct risk losses are the Basel loss event types other than CPBP and legal losses. This category of loss events includes: • Internal fraud losses • External fraud losses • System break-down losses • Cyber security breach losses • Business disruption losses (BCP) • Execution and transaction delivery loss • Documentation risk related losses

6. Capital management (continued)

Pillar 2A Risks (continued)

Material Sources of Risk (Pillar 2A)	Methodology
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.

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.

6. Capital management (continued)

Pillar 2B - Stress Testing (continued)
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 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.

Exposures to related parties are as follows:

	US $ Millions
Claims on shareholders*	61
Claims on directors & senior management	4
Claims on staff	44

**Unfunded exposures after applying CCF.*

Liabilities to related parties

Connected deposits	4,664

The interest expense in respect of connected deposits is US$ 54 million.

8. Repurchase and resale agreements

Proceeds from assets sold under repurchase agreements as at 30 June 2022 amounted to US$ 1,630 million. The carrying value of securities sold under repurchase agreements at the period end amounted to US$ 1,718 million.

Amounts paid for assets purchased under resale agreements at the period end amounted to US$ 1,029 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$ 1,037 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 2022	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	1,041	B
3	Accumulated other comprehensive income (and other reserves)	(360)	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)	232	D
6	**Common Equity Tier 1 capital before regulatory adjustments**	**4,017**	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	96	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	62	E
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	2	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	30	c6
16	Investments in own shares	-	
17	Reciprocal crossholdings 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 2022**	**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**	**190**	
29	**Common Equity Tier 1 capital (CET1)**	**3,827**	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	385	
31	of which: classified as equity under applicable accounting standards	385	
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)	91	g
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**476**	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal crossholdings 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 2022	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)**	**476**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,303**	
	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)	72	i
49	*of which: instruments issued by subsidiaries subject to phase out*	-	
50	Provisions	214	h*
51	**Tier 2 capital before regulatory adjustments**	**286**	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	
53	Reciprocal crossholdings 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 2022	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)**	**286**	
59	**Total capital (TC = T1 + T2)**	**4,589**	
60	**Total risk weighted assets**	**25,961**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.7%	
62	Tier 1 (as a percentage of risk weighted assets)	16.6%	
63	Total capital (as a percentage of risk weighted assets)	**17.7%**	
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)	5.7%	
	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	8	
73	Significant investments in the common stock of financials	34	

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 2022	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)	222	
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	h*
77	Cap on inclusion of provisions in Tier 2 under standardised approach	293	
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	2,043	-
Cash and balances at central banks	-	1,587
Placements with banks and similar financial institutions	2,510	3,997
Reverse repurchase agreements and other similar secured lending	1,029	-
Financial assets at fair value through P&L	987	987
Non-trading investments	7,378	-
Investment at Amortised Cost	-	1,345
Investments at FVOCI	-	6,047
Loans and advances	17,022	17,237
Investment properties	-	-
Interest receivable	-	384
Other assets	3,037	2,461
Investments in associates and joint ventures	-	34
Goodwill and intangible assets	-	158
Property, plant and equipment	280	280
TOTAL ASSETS	**34,286**	**34,517**
Deposits from banks	3,712	7,248
Deposits from customers	20,512	16,976
Certificate of deposits issued	481	481
Repurchase agreements and other similar secured borrowing	1,630	1,630
Interest payable	-	415
Taxation	87	-
Other liabilities	2,115	1,768
Borrowings	1,244	1,154
Subordinated liabilities	-	-
Additional Tier 1 Instrument	390	481
TOTAL LIABILITIES	**30,171**	**30,153**
Paid-in share capital	3,110	3,110
Treasury shares	(6)	(6)
Reserves	611	611
Non - controlling interest	400	400
Expected credit losses	-	249
TOTAL SHAREHOLDERS' EQUITY	**4,115**	**4,364**

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	2,043	-	
Cash and balances at central banks	-	1,587	
Placements with banks and similar financial institutions	2,510	3,997	
Reverse repurchase agreements and other similar secured lending	1,029	-	
Financial assets at fair value through P&L	987	987	
Loans and advances	17,022	17,237	
Non-trading investments	7,378	7,392	
Of which investment NOT exceeding regulatory threshold	-	*7,392*	
Interest receivable	-	384	
Other assets	3,037	2,461	
Of which deferred tax assets arising from carryforwards of unused tax losses, unused tax credits and all other	-	*2*	*F*
Of which deferred tax assets arising from temporary differences	-	*222*	
Investments in associates and joint ventures	-	34	
Of which Significant investment exceeding regulatory threshold	-	-	
Of which Significant investment NOT exceeding regulatory threshold	-	*34*	
Goodwill and intangible assets	-	158	
Of which goodwill	-	*96*	
Of which other intangibles (excluding MSRs) phased in at 100%	-	*61*	*E*
Of which MSRs	-	-	
Property, plant and equipment	280	280	
TOTAL ASSETS	**34,286**	**34,517**	

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	3,712	7,248	
Deposits from customers	20,512	16,976	
Certificate of deposits issued	481	481	
Repurchase agreements and other similar secured borrowing	1,630	1,630	
Interest payable	-	415	
Taxation	87	-	
Other liabilities	2,115	1,768	
Borrowings	1,244	1,154	
Subordinated liabilities	-	-	
Of which amount eligible for TII	-	-	
Of which amount Ineligible	-	-	
Additional Tier 1 Instrument	390	481	
Of which amount eligible for AT1	-	43	G
Of which amount eligible for TII	-	10	I
Of which amount Ineligible	-	*428*	
TOTAL LIABILITIES	**30,171**	**30,153**	
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	611	611	
Of which form part of CET1			
Retained earnings/(losses) brought forward	*1,001*	*1,041*	*b*
Net profit for the current year	*70*	*70*	*c1*
Legal reserve	*530*	*530*	*c2*
General (disclosed) reserves	*100*	*100*	*c3*
Fx translation adjustment	*(1,001)*	*(1,001)*	*c4*
Cumulative changes in fair value	*(59)*	*(59)*	*c5*
Pension fund reserve	*(30)*	*(30)*	*c6*
Non - controlling interest	400	400	
Of which amount eligible for CETI	-	*232*	*d*
Of which amount eligible for ATI	-	*48*	*g*
Of which amount eligible for TII	-	*62*	*I*
Of which amount ineligible	-	*58*	
Expected credit losses	-	249	
Of which amount eligible for TII (Maximum 1.25% of RWA)	-	*249*	*h*
Of which amount Ineligible	-	-	
TOTAL SHAREHOLDERS' EQUITY	**4,115**	**4,364**	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 3: Main features of regulatory capital instruments

Disclosure template for main features of regulatory capital instruments				
1	Issuer	Arab Banking Corporation	Arab Banking Corporation	Banco ABC Brasil
2	Unique identifier	ABC	XS2426192261	LFSC19000 (series with various suffixes)
3	Governing law(s) of the instrument	Laws of Bahrain	English and Bahrain Law	Laws of the Federative Republic of Brazil
Regulatory treatment				
4	Transitional CBB rules	Common Equity Tier 1	N/A	N/A
5	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1
6	Eligible at solo/group/group & solo	Group & Solo	Group& Solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common equity shares	Perpetual NC 6 Additional Tier 1 Capital Securities	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	US$ 390	BRL 491 million (of which US$ 36 million equivalent eligible for AT1)
9	Par value of instrument	1	1	300,000
10	Accounting classification	Shareholders' equity	Shareholders equity	Liability- Amortised cost
11	Original date of issuance	Various	28th March 2022	Various
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	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	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	28th March 2028 and every interest payment date thereafter	Yes
16	Subsequent call dates, if applicable	N/A	Every interest payment date after the first call date	N/A
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating (Dividend as decided by the shareholders)	Fixed	Floating
18	Coupon rate and any related index	N/A	N/A	Average market yield of 13,413%, equivalent to 1,47 times the current Selic R
19	Existence of a dividend stopper	N/A	Yes	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Partly discretionary (Insufficiency of profits)	Partly discretionary (Insufficiency of profits)
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	N/A	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	N/A	Convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	Non-Viability Event	N/A
25	If convertible, fully or partially	N/A	Fully	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	Conversion Price as defined	N/A
27	If convertible, mandatory or optional conversion	N/A	Mandatory	N/A
28	If convertible, specify instrument type convertible into	N/A	Ordinary Shares	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	ABC	N/A
30	Write-down feature	No	No	Yes
31	If write-down, write-down trigger(s)	N/A	N/A	CET 1 at 5.125% or below
32	If write-down, full or partial	N/A	N/A	Fully discretionary
33	If write-down, permanent or temporary	N/A	N/A	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	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 senior obligations of the bank and in priority to the Junior obligations (such as equity shares).	AT1 capital bills
36	Non-compliant transitioned features	No	No	N/A
37	If yes, specify non-compliant features	N/A	N/A	N/A