Basel III - Risk and Pillar III

disclosures 30 June 2017

Table of contents

EXECUTIVE SUMMARY	**3**
1. The Basel III framework	**3 - 5**
a. Pillar I	**4**
b. Pillar II	**4**
c. Pillar III	**5**
2. Group structure and overall risk and capital management	**5 - 15**
a. Group structure	**5**
b. Risk and capital management	**6**
c. Risk types	**7**
RISK IN PILLAR I	
CREDIT RISK	**8**
MARKET RISK	**9**
OPERATIONAL RISK	**10**
RISK IN PILLAR II	
LIQUIDITY RISK	**12**
INTEREST RATE RISK IN BANKING BOOK	**12**
CONCENTRATION RISK	**14**
d. Monitoring and reporting	**15**
3. Regulatory capital requirements and the capital base	**15 - 18**
a. Capital requirement for credit risk	**16**
b. Capital requirement for market risk	**17**
c. Capital requirement for operational risk	**17**
d. Capital base	**18**
4. Credit Risk - Pillar III disclosures	**19 - 29**
a. Definition of exposure classes	**19**
b. External credit rating agencies	**20**
c. Credit risk presentation under Basel III	**21**
d. Credit exposures	**22**
e. Impaired assets and provisions for impairment	**27**
5. Off balance sheet exposure and securitisations	**29 - 30**
a. Credit related contingent items	**29**
b. Derivatives	**29**
c. Counterparty credit risk	**30**
6. Internal Capital Adequacy Assessment Process (ICAAP)	**31**
7. Related party transactions	**32**
a. Exposures to related parties	**32**
b. Liabilities to related parties	**32**
8. Repurchase and resale agreements	**32**
9. Material transactions	**32**
Appendix I - Regulatory capital disclosures	**33 - 41**
PD 2 : Reconciliation of regulatory capital	**33**
PD 3 : Main features of regulatory capital instruments	**36**
PD 4 : Capital composition disclosure template	**38**

EXECUTIVE SUMMARY

This document comprises of the Group's capital and risk management disclosures for the period ended 30 June 2017. The disclosures in this document are in addition to the interim condensed consolidated financial statements (consolidated financial statements) for the period ended 30 June 2017 prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

Its principal purpose is to meet the disclosure requirements required by the Central Bank of Bahrain (CBB) directives on public disclosures under the Basel III framework. This 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 and is organised as follows:

- An overview of the approach taken by Bank ABC (Arab Banking Corporation (B.S.C.) ["the Bank"] and its subsidiaries [together "the Group"] to Pillar I, including the profile of the risk-weighted assets (RWAs) according to the standard portfolio, as defined by the CBB.
- An overview of risk management practices and framework at the Bank with specific emphasis on credit, market and operational risks. Also covered are the related monitoring processes and credit mitigation initiatives.
- Other disclosures required under the Public Disclosure Module of the CBB.

The CBB supervises the Bank on a consolidated basis. Individual banking subsidiaries are supervised by the respective local regulator. The Group's capital has been prepared based on the Basel III framework.

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

The Group's total risk-weighted assets as of 30 June 2017 amounted to US$ 23,125 million (31 December 2016: US$ 23,737 million), comprising 87% credit risk, 6% market risk and 7% operational risk. The total capital adequacy ratio was 19.2% (31 December 2016: 19.1%), compared to the minimum regulatory requirement of 12.5% (31 December 2016:12.5%).

1. The Basel III framework

The CBB implemented the Basel III framework in the Kingdom of Bahrain, from 1 January 2015.

The Basel Accord is built on three pillars:

- **Pillar I** defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by the bank's eligible capital funds.
- **Pillar II** addresses a bank's internal processes for assessing overall capital adequacy in relation to risks, namely the Internal Capital Adequacy Assessment (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.

1. The Basel III framework (continued)

a. Pillar I

Banks incorporated in the Kingdom of Bahrain are required to maintain a minimum capital adequacy ratio (CAR) of 12.5% and a Tier 1 ratio of 10.5%. Tier 1 capital comprises of share capital, reserves, retained earnings, non-controlling interests, profit for the 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 CBB allows the following approaches to calculate the RWAs (and hence the CAR).

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

The Group applies the following approaches to calculate its RWAs:

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

- **Market risk - Standardised approach.**

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

b. Pillar II

Pillar II comprises of two processes, namely:
- an Internal Capital Adequacy Assessment Process (ICAAP); and
- a Supervisory Review and Evaluation Process (SREP).

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. The ICAAP allows the bank to assess the level of capital that adequately supports all relevant current and future risks in the business. The ICAAP and the internal processes that support it should be proportionate to the nature, scale and complexity of the activities of the bank.

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

The CBB's Pillar II guidelines require each bank to be individually assessed by the CBB in order to determine an individual minimum capital adequacy ratio. Pending finalisation of the assessment process, all banks incorporated in Kingdom of Bahrain are required to maintain a 12.5% minimum CAR and a Tier 1 ratio of 10.5%.

1. The Basel III framework (continued)
b. Pillar II (continued)

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

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

c. Pillar III

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

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

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

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

2. Group structure and overall risk and capital management

a. Group structure

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

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

The principal subsidiaries as at 30 June 2017, 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 Algeria	Algeria	87.7
ABC Islamic Bank (E.C.)	Bahrain	100.0
Arab Financial Services Company B.S.C. (c)	Bahrain	54.7
Banco ABC Brasil S.A.	Brazil	60.8
Arab Banking Corporation - Egypt [S.A.E.]	Egypt	99.8
Arab Banking Corporation (ABC) — Jordan	Jordan	87.0
ABC Tunisie	Tunisia	100.0
ABC International Bank plc	United Kingdom	100.0

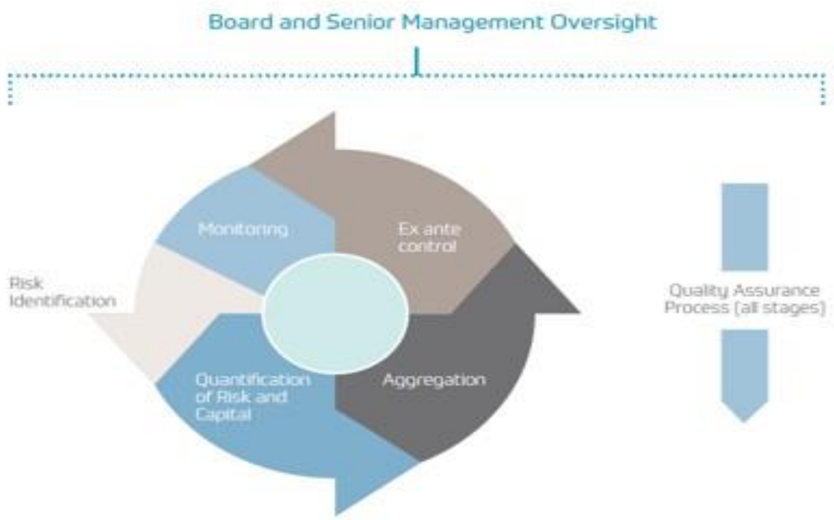
2. Group structure and overall risk and capital management (continued)

b. Risk and capital management

Risk is inherent in the Group's activities and is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. The Group is exposed to credit, market, liquidity, interest rate, operational, legal and strategic risks, as well as other forms of risk inherent in its financial operations.

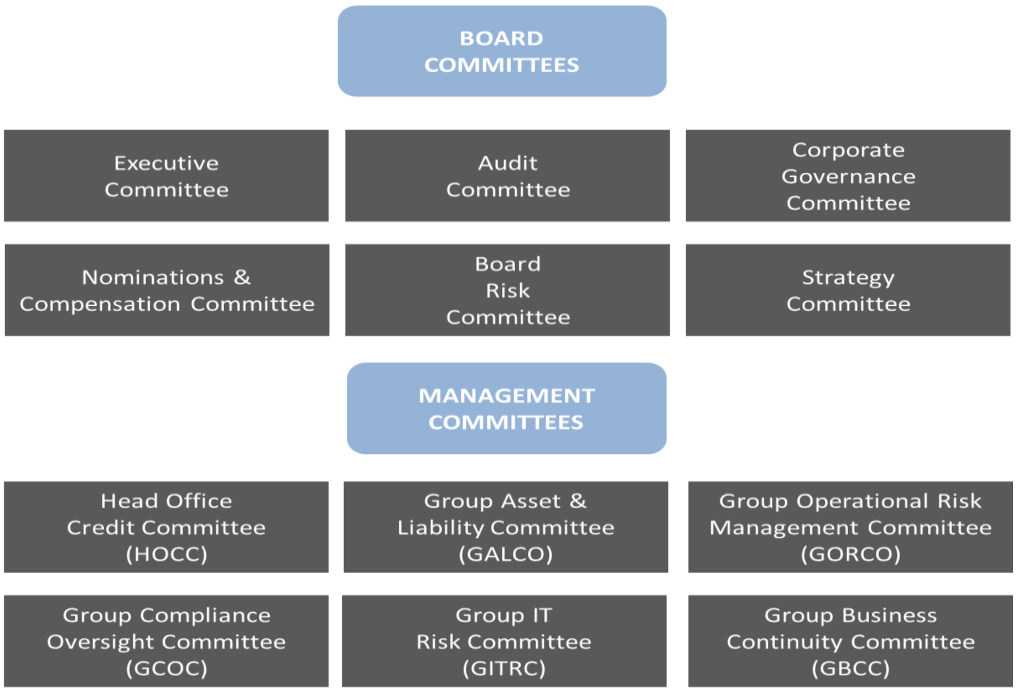
Over the last few years, the Group has invested heavily in developing a comprehensive and robust risk management infrastructure. This includes credit, market and operational risk identification processes; risk measurement models and rating systems; and a strong business process to monitor and control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

Figure 1: Risk process cycle



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

Figure 2: Risk management governance structure



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

b. Risk and capital management (continued)

Within the broader governance infrastructure, the Board Committees carry the main responsibility for best practice management and risk oversight. At this level, the BRC oversees the definition of risk/reward guidelines, risk appetite, risk tolerance standards, and risk policies and standards. The BRC is also responsible for coordinating with other Board Committees in monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Group operates.

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

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

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

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

The **Group IT Risk Committee (GITRC) i**s responsible for the development, approval and periodic review of the frameworks for the management of IT risk and information security in the Group.

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

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

The **Credit & Risk Group (CRG)** is the second line function responsible for centralised credit policy and procedure formulation, country risk and counterparty analysis, approval/review and exposure reporting, control and risk-related regulatory compliance, remedial loans management and the provision of analytical resources to senior management. Additionally, it identifies market and operational risks arising from the Group's activities, and makes recommendations to the relevant central committees appropriate policies and procedures for managing exposure.

c. Risk types

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

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

c. Risk types (continued)

RISK IN PILLAR I

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

CREDIT RISK

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

The Group’s portfolio and credit exposures are managed in accordance with the Group Credit Policy, which applies group-wide qualitative and quantitative guidelines, with particular emphasis on avoiding undue concentrations or aggregations of risk. The Group’s banking subsidiaries are governed by specific credit policies that are aligned with the Group Credit Policy, but may be adapted to suit local regulatory requirements as well as individual units' product and sectoral needs.

In addition to the customer and customer group credit limits, the first level of protection against undue credit risk is provided by the Group’s portfolio risk appetite for counterparty, country and industry concentration. The BRC and the HOCC set these limits and allocate them between the Group and its banking subsidiaries. A tiered hierarchy of delegated approval authorities, based on the risk rating of the customer under the Group’s internal credit rating system, controls credit exposure to individual customers or customer groups.

Credit limits are prudent, and the Group uses standard mitigation and credit control techniques.

The Group employs a Risk-Adjusted Return on Capital (RAROC) measure to evaluate risk/reward at the transaction approval stage. This is aggregated for each business segment and business unit, and for the Group as a whole. It is upgraded when appropriate.

Business unit account officers are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and associated risks, within the framework developed and maintained by the CRG. Meanwhile, Group Audit carries out separate risk asset reviews of business units to provide an independent opinion on the quality of their credit exposures, and adherence to credit policies and procedures. These measures, collectively, constitute the three lines of defence against undue risk for the Group.

The Group’s retail lending is managed under a framework that carefully considers the whole credit cycle and is offered under product programs, which are approved through a robust product approval process and governed by specific risk policies. The framework is in line with industry best practice and meets regulatory requirements. One of the framework’s key objectives is to safeguard the overall integrity of the portfolios and to ensure that there is a balance between risk and reward, while facilitating high-quality business growth and encouraging innovation.

Obligor exposures that have significantly deteriorated in terms of credit quality are identified through the credit risk governance process and subjected to intensive management attention by the Bank’s Remedial Loans Unit (RLU) and senior management.

Specific provisions are raised against facilities that are considered to be at risk of loss as a result of the obligor’s inability to meet its contractual obligations. The amount of provision raised is subject to; regulatory requirements, the policies and control standards of the Bank and the judgment of the Bank’s senior management. The adequacy of the provisions is challenged at a quarterly senior management committee. In addition to specific provisions the Bank maintains a collective impairment provision to cover as yet unidentified potential future losses.

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

RISK IN PILLAR I - CREDIT RISK (continued)

Effective 1 January 2018, the provisioning methodology outlined by International Financial Reporting Standard 9 "Financial Instruments" (IFRS 9) shall apply. The Group has taken the appropriate preparatory steps to ensure full compliance by then.

Bank ABC is committed to developing the credit skills of all staff involved in the credit process. To this end, a training initiative entitled “Credit Culture Transformation” or “CCT@ABC”, has been established supported by Moody’s Analytics and other specialist vendors, to deliver a bespoke training program. The program delivers credit analysis tools covering both corporate and bank analysis techniques and facility structuring. The training program is subject to formal review to ensure it remains relevant and meets all current regulatory, policy and control standard requirements as set out by senior management.

MARKET RISK

Market risk is the risk that the Group’s earnings or capital, or its ability to support its business strategy, will be impacted by changes in interest rates, equity prices, credit spreads, foreign exchange rates and commodity prices.

The Group has established risk management policies and limits within which exposure to market risk is measured, monitored and controlled by the CRG, with strategic oversight exercised by GALCO. The CRG’s Treasury and Financial Market Risk (T&FMR) unit is responsible for the development and implementation of market risk policy, the risk measurement and monitoring framework, and the review of all trading and investment products / limits before submission to GALCO. The T&FMR includes market risk, middle office, liquidity risk and product control. This function also has an additional reporting line to the Group CFO.

The Group classifies market risk as follows:

- **Trading market risk** arises from movements in market risk factors that affect short-term trading.
- **Non-trading market risk in securities** arises from market factors affecting securities held for long-term investment.
- **Non-trading asset and liability risk** exposures arise where the re-pricing characteristics of the Group’s assets do not match those of its liabilities.

The Group adopts a number of methods to monitor and manage market risks across its trading and non-trading portfolios. These include:

- Value-at-Risk (VaR) (i.e. 1-day 99th percentile VaR using the "historical simulation" methodology).
- Sensitivity analysis(i.e. basis-point value (BPV) for interest rates and ‘Greeks’ for options).
- Stress testing / scenario analysis.
- Non-technical risk measures (e.g. nominal position values, stop loss vs. profit or loss, and concentration risk).
- Forward-looking analysis of distress using credit default swap prices, equity prices and implied volatilities.
- A price-discovery and liquidity assessment process to assess liquidity risk of the available-for-sale portfolio.

As a reflection of the Group’s risk appetite, limits are established against the aforementioned market risk measures. The BRC approves these limits annually and the T&FMR reports on them daily. The T&FMR reports risk positions against these limits, and any breaches, to the senior management and the GALCO.

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

RISK IN PILLAR I - MARKET RISK (continued)

Currency rate risk

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

Interest rate risk

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

Equity price risk

Equity position risk arises from the possibility that changes in the prices of equities, or equity indices, will affect the future profitability, or the fair values, of financial instruments. The Group is exposed to equity risk in its trading position and investment portfolio, primarily in its core international and GCC markets.

Equity positions in the banking book	
Quoted equities	10
Unquoted equities	15
	25
Realised gain during the period	-
Unrealised gain as at 30 June 2017	2

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems — or from external events. Operational risk in Bank ABC includes legal risk and information technology (IT) risk. Reputational impact, regulatory impact and impact on clients and operations are taken into consideration when assessing the impact of actual and potential operational risk events.

The Group applies modern, proven methodologies for the qualitative management of its operational and other non-financial risks after adapting them to the Group's size, nature, complexity and risk profile. This framework is cascaded and implemented across all entities that Bank ABC controls directly or indirectly.

Implementation of the framework is governed by the Group Operational Risk Committee's 'master plan'. Local operational risk committees implement corresponding plans at the subsidiary levels.

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

RISK IN PILLAR I - OPERATIONAL RISK (continued)

The Group currently employs the following tools for the management of operational risks:

- Internal loss data and incidents, near miss events.
- Risk and control self-assessments (bottom-up and top-down).
- Group-wide control standards.
- Risk scenarios.
- Key risk and performance indicators.
- New product approval process.

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

The Group has defined a number of group-wide key risk indicators covering all the key business and supporting processes. Incidents and performance vis- a- vis key risk indicators are reported to the Group and unit level Operational Risk Committees. Where appropriate, action plans are defined to prevent the re-occurrence of similar events or to prevent identified risks from materialising.

During 2017, the Group commenced a new group-wide Governance, Risk and Compliance tool. This global tool will facilitate a single view of all existing and emerging material risks by type, classification and likelihood of occurrence, and the status of action plans for the mitigation of these risks.

Operational risk tolerance

The Group has expressed operational risk tolerance in the Board approved Group Risk Appetite Statement in terms of gross loss amounts caused by operational risk events. In addition, the Group uses quantitative and qualitative elements to classify actual and potential non-financial risks as 'very high', 'high', 'medium' and 'low' , and prescribes maximum time periods within which risks must be either mitigated or accepted by the appropriate decision making authority.

A separate escalation procedure requires, amongst other things, that the senior management of the Group be immediately informed of all 'very high' or 'high' classified risk events that have taken place or are likely to occur. The authority for accepting 'very high' and 'high' risks lies solely at the Group level.

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

Information technology risk

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

Business continuity management

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

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

RISK IN PILLAR I - OPERATIONAL RISK (continued)

Business continuity management (continued)

These plans provide each ABC subsidiary with the necessary guidelines and procedures in case of an emergency.

Legal risk

Examples of legal risk include inadequate documentation, legal and regulatory incapacity, insufficient authority of a counterparty and contract invalidity/unenforceability. Group Legal Counsel bears responsibility for identification and management of this risk. They consult with internal and external legal counsels. All major Group subsidiaries have their own in-house legal departments, acting under the guidance of the Group Legal Counsel, which aims to facilitate the business of the Group, by providing proactive, business-oriented and creative advice.

The Group is currently engaged in various legal and/or regulatory matters which arise in the ordinary course of business. The outcome of legal and/or regulatory matters to which the Group is currently exposed, and others which may arise in the future, is difficult to predict and, consequently, there can be no assurance that the outcome of a particular matter or matters will not be material to the financial condition of the Group. 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.

RISK IN PILLAR II

LIQUIDITY RISK

Liquidity risk is the risk that maturing and encashable assets may not cover cash flow obligations (liabilities). The Group maintains liquid assets at prudent levels to ensure that cash can quickly be made available to honour all its obligations, even under adverse conditions. The Group is generally in a position of excess liquidity, its principal sources of liquidity being its deposit base and inter-bank borrowings.

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

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

INTEREST RATE RISK IN BANKING BOOK

The exposure to interest rate risk in the banking book (IRRBB) arises due to mismatches in the re-setting of interest rates of assets and liabilities. The fact that the Group's rate-sensitive assets and liabilities are predominantly floating rate helps to mitigate this risk. In order to manage the overall interest rate risk, the Group generally uses matched currency funding and translates fixed-rate instruments to floating rate.

The Group measures and controls IRRBB using a number of qualitative and quantitative measures. Qualitative measures include a thorough assessment of the impact of changes in interest rates on the Bank's banking instruments during the annual budget and capital planning process. Current and expected future interest rates are integral components driving the annual capital planning process. In addition, the GALCO regularly reviews the current and expected future profitability of the Bank's traditional banking activities and has embarked on a number of initiatives to reduce sensitivity of the banking book to interest rate fluctuations.

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

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

Quantitative measures employed include limits, interest rate sensitivity gap analysis, duration analysis, and stress testing to measure and control the impact of interest rate volatility on the Bank's earnings and economic value of equity. These measures are applied separately for each currency and consolidated at the Group's level. The gap analysis measures the interest rate exposure arising from differences in the timing and/or amounts of loans and deposits in pre-specified time bands. Duration analysis measures the sensitivity of the banking book to a 1 basis point change in interest rates. Stress tests include the impact of parallel and non-parallel shifts in interest rates on banking activities. All these measures are reported to the GALCO on a regular basis. As at 30 June 2017, a 200 basis points (2%) parallel shift in interest rates would potentially impact the Group's economic value by US$ 44 million.

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	674	191	-	-	-	350	1,215
Trading securities	347	26	6	-	499	-	878
Placements with banks & other financial institutions	3,421	347	75	119	-	42	4,004
Securities bought under repurchase agreements	1,262	327	99	36	5	-	1,729
Non-trading securities	294	236	607	408	4,163	51	5,759
Loans and advances	6,504	4,504	1,555	595	777	26	13,961
Other assets	-	10	-	-	-	1,667	1,677
TOTAL ASSETS	**12,502**	**5,641**	**2,342**	**1,158**	**5,444**	**2,136**	**29,223**
LIABILITIES & EQUITY							
Deposits from customers	9,364	2,019	1,312	1,876	1,351	655	16,577
Deposits from banks	2,542	1,282	260	421	136	7	4,648
Certificates of deposit	-	-	-	38	-	-	38
Securities sold under repurchase agreements	146	-	-	1	2	-	149
Other liabilities	-	-	-	-	-	1,327	1,327
Term notes, bonds & other term financing	663	1,216	-	-	300	-	2,179
Total equity	-	-	-	-	-	4,305	4,305
TOTAL LIABILITIES & EQUITY	**12,715**	**4,517**	**1,572**	**2,336**	**1,789**	**6,294**	**29,223**
OFF B/S ITEMS							
Foreign Exchange Contracts	(2)	2	-	-	-	-	-
Interest Rate Contracts	576	809	(48)	(23)	(1,314)	-	-
TOTAL OFF B/S ITEMS	**574**	**811**	**(48)**	**(23)**	**(1,314)**	**-**	**-**
Interest rate sensitivity gap	**361**	**1,935**	**722**	**(1,201)**	**2,341**	**(4,158)**	**-**
Cumulative interest rate sensitivity gap	**361**	**2,296**	**3,018**	**1,817**	**4,158**	**-**	**-**

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.

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

RISK IN PILLAR II (continued)

CONCENTRATION RISK

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Concentrations could also arise as a result of large exposure to a single / group of related counterparties.

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

Under the single obligor regulations of the CBB and other host regulators, the CRG and its local equivalents have to obtain approval for any planned exposures above specific thresholds to single counterparties, or groups of connected counterparties.

As at 30 June 2017, 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	1,174	-	1,174
Counterparty B	965	-	965
Counterparty C	932	-	932

The exposures have the approval of the CBB or are exempt under the large exposure policy of the CBB.

Risk mitigation, collateral and other credit enhancements
The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly include cash and guarantees from banks.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained on an ongoing basis. The Group also makes use of master netting agreements with counterparties.

As part of its overall risk management, the Group also uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. The effectiveness of hedges is monitored monthly by the Group. In situations of ineffectiveness, the Group will enter into a new hedge relationship to mitigate risk on a continuous basis.

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

d. Monitoring and reporting

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

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

3. Regulatory capital requirements and the capital base

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

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may issue capital/Tier 2 securities or adjust the amount of dividend payments to shareholders. The determination to pay dividends on an on-going basis and the amount thereof will depend upon, amongst other things, the Group's earnings, its dividend policy, the requirement to set aside minimum statutory reserves, capital requirements to support the growth (organic and inorganic), regulatory capital requirements, approval from the CBB and applicable requirements under Bahrain Commercial Companies Law, as well as other factors that the Board of Directors and the shareholders may deem relevant.

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 2017 was 19.2% compared with the minimum regulatory requirement of 12.5%. The Tier 1 ratio was 17.9% for the Group. The composition of the total regulatory capital requirement was as follows:

Risk-weighted assets (RWA)	
Credit risk	20,102
Market risk	1,451
Operational risk	1,572
Total	**23,125**
Tier 1 ratio	17.9%
Capital adequacy ratio	19.2%

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

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

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

The Tier 1 and total capital adequacy ratio of the significant banking subsidiaries (those whose regulatory capital amounts to over 5% of the Group's consolidated regulatory capital) under the local regulations were as follows:

Subsidiaries (over 5% of the Group's regulatory capital)	Tier 1 ratio	CAR (total)
ABC Islamic Bank (E.C.)	32.7%	32.7%
ABC International Bank plc*	18.8%	21.1%
Banco ABC Brasil S.A.*	14.4%	16.1%

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

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

a. Capital requirement for credit risk

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

Provided below is a counterparty asset class-wise breakdown of the Credit RWA and associated capital charge. The definition of these asset classes (as per the standard portfolio approach under the CBB's Basel III Capital Adequacy Framework) is set out in section 4 of this document.

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	36	36	-	-	-	2	-
Claims on sovereigns	5,835	5,592	243	94	231	513	64
Claims on public sector entities	2,315	2,081	234	45	50	1,512	189
Claims on multilateral development banks	474	474	-	-	-	-	-
Claims on banks	9,464	7,952	1,512	1,429	469	4,339	542
Claims on corporate portfolio	12,770	10,354	2,416	196	209	12,063	1,508
Regulatory retail exposures	886	793	93	-	-	664	83
Past due loans	203	203	-	1	-	224	28
Residential retail portfolio	3	3	-	3	-	1	-
Commercial mortgage	21	21	-	-	-	21	3
Equity portfolios	44	44	-	-	-	82	10
Other exposures	514	480	34	-	-	681	85
	32,565	**28,033**	**4,532**	**1,768**	**959**	**20,102**	**2,512**

Monthly average gross credit exposures and the risk-weighted assets for six-month ended 30 June 2017 were US$ 33,343 million and US$ 19,922 million respectively.

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

b. Capital requirement for market risk

In line with the 'standardised approach' to calculating market risk, the capital charge for market risk is as follows:

US$ million	RWA	Period end Capital Charge	Capital charge – Minimum*	Capital charge – Maximum*
Interest rate risk	396	50	38	67
Specific interest rate risk	87	11	9	27
General interest rate risk	309	39	29	40
Equity position risk	1	-	-	-
Foreign exchange risk	1,054	132	129	136
Options risk	-	-	-	-
Total	**1,451**	**182**	**167**	**203**

* 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 2017.

c. Capital requirement for operational risk

The Group applies the "Standardised Approach" for calculating its Pillar I operational risk capital. As at 30 June 2017, the total capital charge in respect of operational risk was US$ 197 million. A breakdown of the operational risk capital charge is provided below:

US$ million Basel Business Line	Average 3 years gross income	Beta factors	Capital charge	RWA
Corporate finance	8	18%	2	17
Trading and sales	201	18%	57	452
Payment and settlement	29	18%	8	66
Commercial banking	499	15%	117	935
Agency services	-	15%	-	-
Retail banking	51	12%	10	77
Asset management	12	12%	2	18
Retail brokerage	5	12%	1	7
Total	**805**		**197**	**1,572**

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

d. Capital base

The Group's capital base primarily comprises:

(i) **Tier 1 capital:** share capital, reserves, retained earnings, non-controlling interests, profit for the period and cumulative changes in fair value; and

(ii) **Tier 2 capital:** eligible subordinated term debt and collective impairment provisions.

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 2017, comprising 3,110 million shares of US$ 1 each.

The Tier 2 capital includes subordinated term debt of US$ 89 million (eligible portion) at 30 June 2017. This has been raised at a subsidiary of the bank. The details of these issues are described in appendix PD 3 of this document.

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	4,098
AT 1	51
Total Tier 1 capital	4,149
Tier 2	290
Total capital base	**4,439**
Risk weighted assets	
Credit risk	20,102
Market risk	1,451
Operational risk	1,572
Total Risk weighted assets	**23,125**
CET 1 ratio	17.7%
Tier 1 ratio	17.9%
Capital adequacy ratio	**19.2%**

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

4. Credit Risk - Pillar III disclosures

a. Definition of exposure classes

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

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

i. Claims on sovereigns

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

ii. Claims on public sector entities (PSEs)

Bahrain PSEs, as defined by the CBB Rulebook, are assigned a 0% risk weighting. Other sovereign PSEs, where claims are denominated in the relevant domestic currency and for which the local regulator has assigned a risk weighting of 0%, are assigned a 0% risk weighting by the CBB. PSEs other than those mentioned above are risk-weighted based on their external credit ratings.

iii. Claims on multilateral development banks (MDBs)

All MDBs are risk-weighted in accordance with the banks' external credit ratings, except for those members listed in the World Bank Group, which are risk-weighted at 0%.

iv. Claims on banks

Claims on banks are risk-weighted based on the external credit ratings assigned to them by external rating agencies. However, short-term claims on locally-incorporated banks are assigned a risk weighting of 20% where such claims on the banks are of original maturities of three months or less, and are denominated and funded in either Bahraini Dinars or US Dollars.

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

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

v. Claims on the corporate portfolio

Claims on the corporate portfolio are risk-weighted based on external credit ratings. Risk weightings for unrated corporate claims are assigned at 100%.

vi. Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), provided they meet the criteria stipulated in the CBB's Rulebook.

4. Credit Risk - Pillar III disclosures (continued)

a. Definition of exposure classes (continued)

vii. Past due loans

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk-weighted as follows:

- 150% risk weighting when specific provisions are less than 20% of the outstanding amount of the loan; and
- 100% risk weighting when specific provisions are greater than 20% of the outstanding amount of the loan.

viii. Residential retail portfolio

Lending fully secured by first mortgages on residential property that is or will be occupied by the borrower, or that is leased, is risk-weighted at 75%. However, where foreclosure or repossession with respect of a claim can be justified, the risk weighting is 35%.

ix. Commercial mortgage

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

x. Equity portfolios

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

xi. Other exposures

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

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:

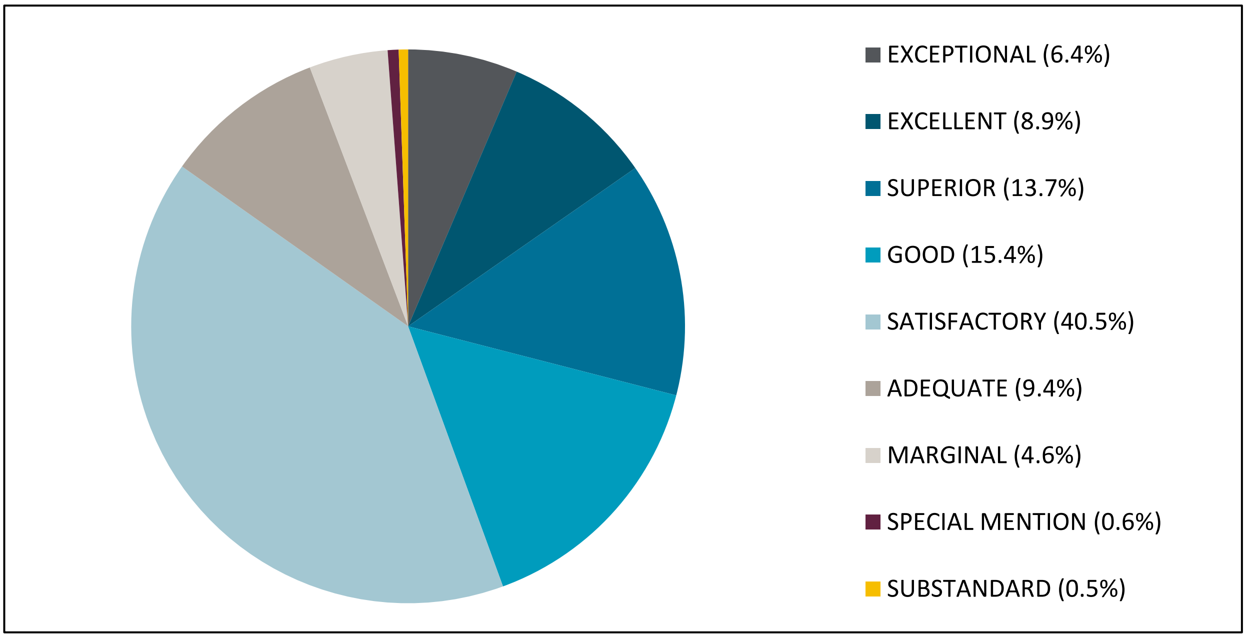
US$ million	Net credit exposure (after credit risk mitigation)	Rated exposure	Unrated exposure
Cash	36	-	36
Claims on sovereigns	5,741	5,338	403
Claims on public sector entities	2,270	861	1,409
Claims on multilateral development banks	474	474	-
Claims on banks	8,035	6,887	1,148
Claims on corporate portfolio	12,574	1,470	11,104
Regulatory retail exposure	886	-	886
Past due loans	202	-	202
Residential retail portfolio	-	-	-
Commercial mortgage	21	-	21
Equity portfolios	44	-	44
Other exposures	514	-	514
	30,797	**15,030**	**15,767**

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 and Fitch rating agencies.

The Group’s credit risk distribution (based on internal risk ratings) at 30 June 2017 is shown below.



Other grades (Doubtful and Loss) are insignificant.

c. Credit risk presentation under Basel III

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

- As per the CBB Basel III framework, off balance sheet exposures are converted into on balance sheet equivalents by applying a credit conversion factor (CCF). The CCF varies between 20%, 50% or 100% depending on the type of contingent item.
- The consolidated financial statements categorise financial assets based on asset class (i.e. securities, loans and advances, etc.). This 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 exposures

Geographical distribution of exposures

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

US$ million	Gross credit exposure	Impaired loans	Specific provision impaired loans	Impaired securities	Specific provision impaired securities
North America	3,076	25	8	103	103
Western Europe	4,544	73	35	-	-
Other Europe	1,303	26	8	-	-
Arab World	13,049	271	227	16	14
Other Africa	56	-	-	-	-
Asia	1,856	-	-	-	-
Australia/New Zealand	31	-	-	-	-
Latin America	8,650	203	117	-	-
	32,565	**598**	**395**	**119**	**117**

In addition to the above specific provisions the Group has collective impairment provisions amounting to US$ 201 million.

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	-	-	-	36	-	-	-	-	36
Claims on sovereigns	1,411	1,218	87	2,203	-	279	-	637	5,835
Claims on public sector entities	47	367	-	1,675	-	19	-	207	2,315
Claims on multilateral development banks	280	104	-	-	-	90	-	-	474
Claims on banks	298	1,158	881	3,924	43	1,197	1	1,962	9,464
Claims on corporate portfolio	975	1,572	317	4,065	13	269	30	5,529	12,770
Regulatory retail exposures	-	1	-	675	-	-	-	210	886
Past due loans	17	38	18	44	-	-	-	86	203
Residential retail portfolio	-	2	-	1	-	-	-	-	3
Commercial mortgage	-	21	-	-	-	-	-	-	21
Equity portfolios	1	2	-	39	-	2	-	-	44
Other exposures	47	61	-	387	-	-	-	19	514
	3,076	**4,544**	**1,303**	**13,049**	**56**	**1,856**	**31**	**8,650**	**32,565**

4. Credit Risk - Pillar III disclosures (continued)
d. Credit 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	-	-	38	-	**38**
Arab World	4	19	18	3	**44**
Other Europe	-	17	-	1	**18**
North America	-	3	14	-	**17**
Latin America	74	12	-	-	**86**
	78	**51**	**70**	**4**	**203**

Industrial sector analysis of exposures
The industrial sector analysis of exposures, impaired assets and the related impairment provisions can be analysed as follows:

US$ million	Gross credit exposure	Funded exposure	Unfunded exposure	Impaired loans	Specific provision impaired loans	Impaired securities	Specific provision impaired securities
Manufacturing	3,048	2,468	580	103	50	-	-
Mining and quarrying	166	107	59	33	22	-	-
Agriculture, fishing and forestry	466	382	84	11	5	-	-
Construction	1,326	1,138	188	99	57	-	-
Financial	14,129	11,984	2,145	15	10	119	117
Trade	801	769	32	205	162	-	-
Personal / Consumer finance	995	886	109	26	22	-	-
Commercial real estate financing	271	206	65	-	-	-	-
Government	4,101	4,004	97	2	2	-	-
Technology, media & telecommunications	471	360	111	43	25	-	-
Transport	1,029	965	64	-	-	-	-
Other sectors	5,762	4,764	998	61	40	-	-
	32,565	**28,033**	**4,532**	**598**	**395**	**119**	**117**

4. Credit Risk - Pillar III disclosures (continued)
d. Credit 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	Trade	Personal / Consumer finance	Commercial real estate financing	Government	Technology, media & telecommunic-ations	Transport	Other sectors	**Total**
Cash	-	-	-	-	-	-	-	-	-	-	-	36	**36**
Claims on sovereigns	-	-	-	-	1,956	-	-	-	3,879	-	-	-	**5,835**
Claims on public sector entities	238	9	-	1	788	-	-	-	222	73	82	902	**2,315**
Claims on multilateral development banks	-	-	-	-	474	-	-	-	-	-	-	-	**474**
Claims on banks	-	-	-	-	9,464	-	-	-	-	-	-	-	**9,464**
Claims on corporate portfolio	2,756	146	460	1,283	1,421	758	86	250	-	380	947	4,283	**12,770**
Regulatory retail exposures	-	-	-	-	-	-	884	-	-	-	-	2	**886**
Past due loans	53	11	6	42	5	43	4	-	-	18	-	21	**203**
Residential retail portfolio	-	-	-	-	-	-	-	-	-	-	-	3	**3**
Commercial mortgage	-	-	-	-	-	-	-	21	-	-	-	-	**21**
Equity portfolios	1	-	-	-	21	-	21	-	-	-	-	1	**44**
Other exposures	-	-	-	-	-	-	-	-	-	-	-	514	**514**
	3,048	**166**	**466**	**1,326**	**14,129**	**801**	**995**	**271**	**4,101**	**471**	**1,029**	**5,762**	**32,565**

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	31	20	2	-	53
Mining and quarrying	10	-	-	1	11
Agriculture, fishing and forestry	6	-	-	-	6
Construction	22	7	13	-	42
Financial	4	-	-	1	5
Trade	-	2	41	-	43
Personal / Consumer finance	1	2	-	1	4
Technology, media & telecommunications	-	18	-	-	18
Other sectors	4	2	14	1	21
	78	**51**	**70**	**4**	**203**

4. Credit Risk - Pillar III disclosures (continued)
d. Credit exposures (continued)

Maturity analysis of funded exposures

Residual contractual maturity of the Group's major types of funded credit exposures, except for CMOs, Small Business Administration pools amounting to US$ 256 million which are based on expected realisation or settlement, is as follows:

US$ million	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 – 5 years	5-10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months	Total
Cash	36	-	-	-	**36**	-	-	-	-	-	**-**	**36**
Claims on sovereigns*	2,154	191	294	257	**2,896**	1,671	949	68	-	8	**2,696**	**5,592**
Claims on public sector entities**	154	420	295	64	**933**	739	408	-	-	1	**1,148**	**2,081**
Claims on multilateral development banks	-	-	153	84	**237**	237	-	-	-	-	**237**	**474**
Claims on banks	3,518	1,233	664	1,209	**6,624**	1,320	6	-	-	2	**1,328**	**7,952**
Claims on corporate portfolio	1,467	1,801	1,055	1,024	**5,347**	3,733	1,036	233	-	5	**5,007**	**10,354**
Regulatory retail exposures	7	216	34	27	**284**	179	256	54	18	2	**509**	**793**
Past due loans	46	33	7	43	**129**	70	-	1	3	-	**74**	**203**
Residential retail portfolio	-	-	-	-	**-**	-	1	2	-	-	**3**	**3**
Commercial mortgage	-	-	-	13	**13**	8	-	-	-	-	**8**	**21**
Equity portfolios	-	-	-	-	**-**	-	-	-	-	44	**44**	**44**
Other exposures	3	-	-	-	**3**	-	-	-	-	477	**477**	**480**
	7,385	**3,894**	**2,502**	**2,721**	**16,502**	**7,957**	**2,656**	**358**	**21**	**539**	**11,531**	**28,033**

** 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 exposures (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 seaparate 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	52	74	15	45	**186**	57	-	-	-	-	**57**	**243**
Claims on public sector entities	32	9	43	35	**119**	97	18	-	-	-	**115**	**234**
Claims on banks	201	341	218	461	**1,221**	265	19	-	7	-	**291**	**1,512**
Claims on corporate portfolio	421	396	360	490	**1,667**	699	22	23	5	-	**749**	**2,416**
Regulatory retail exposures	2	19	2	3	**26**	61	6	-	-	-	**67**	**93**
Other exposures	-	-	-	-	**-**	-	-	-	-	34	**34**	**34**
	708	**839**	**638**	**1,034**	**3,219**	**1,179**	**65**	**23**	**12**	**34**	**1,313**	**4,532**

4. Credit Risk - Pillar III disclosures (continued)

e. Impaired assets and provisions for impairment

Each quarter, an assessment is made to determine whether a specific financial asset, or group of financial assets, may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of profit or loss.

Evidence of impairment may include:

- Significant financial difficulty, default or delinquency in interest or principal payments.
- The probability that it will enter bankruptcy or other financial reorganisation.
- A measurable decrease in estimated future cash flows, such as changes in arrears or economic conditions, which correlate with defaults.

Impairment is determined as follows:

- For assets carried at amortised cost, impairment is based on the present value of estimated future cash flows, discounted at the original effective interest rate.
- For assets carried at fair value, impairment is the difference between cost and fair value.
- For assets carried at cost, impairment is based on the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

Impairment losses on financial assets

On a quarterly basis, the Group assesses whether any provision for impairment should be recorded in the consolidated statement of profit or loss. In particular, management exercises considerable judgment when estimating the amount and timing of future cash flows in order to determine the level of provision required. Such estimates are necessarily based on assumptions about several factors, involving varying degrees of judgment and uncertainty. Actual results may differ, resulting in future changes in such provisions.

Impairment against specific groups of financial assets

In addition to specific provisions against individually significant loans and advances and securities, the Group makes collective provisions to cover impairment against specific groups of financial assets, based on the expected loss (EL) methodology also taking into account the credit grading and the related historic loss pattern within each grading, adjusted to reflect current economic environment.

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

US$ million	Provision (recovery)	Write-offs
Manufacturing	6	7
Transport	3	-
Personal / Consumer finance	1	-
Construction	22	7
Mining and quarrying	7	8
Agriculture, fishing and forestry	1	-
Financial	2	-
Other Sectors	8	1
	50	**23**

4. Credit Risk - Pillar III disclosures (continued)
e. Impaired assets and provisions for impairment (continued)

Restructured facilities

Facilities restructured during the period ended 30 June 2017 amounted to US$ 44 million. The carrying amount of restructured facilities amounted to US$ 319 million as at 30 June 2017. The impact of restructured credit facilities on provisions and present and future earnings is insignificant.

Ageing analysis of impaired loans and securities

In accordance with the guidelines issued by the CBB, credit facilities are placed on non-accrual status and interest suspended when either principal or interest is overdue by 90 days, whereupon interest credited to income is reversed. Following an assessment of impairment, specific provision is established 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:

Loans

US$ million	Principal	Provisions	Net book value
Less than 3 months	173	95	78
3 months to 1 year	92	41	51
1 to 3 years	103	33	70
Over 3 years	230	226	4
	598	**395**	**203**

Securities

US$ million	Principal	Provisions	Net book value
Less than 3 months	-	-	-
3 months to 1 year	-	-	-
1 to 3 years	6	6	-
Over 3 years	113	111	2
	119	**117**	**2**

Movement in specific and collective impairment provisions

	Specific provisions			
US$ million	Loans	Securities	Other assets and off balance sheet items	Collective impairment provision
At beginning of the period	380	116	6	191
Amounts written off	(23)	-	-	-
Write backs / cancellation due to improvement	(24)	-	(2)	-
Additional provisions made	63	1	1	10
Exchange adjustment and other movements	(1)	-	4	-
Balance at reporting date	**395**	**117**	**9**	**201**

5. Off balance sheet exposure and securitisations

a. Credit related contingent items

As mentioned above, for credit-related contingent items the nominal value is converted to an exposure through the application of a credit conversion factor (CCF). The CCF is 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	2,986	1,289
Direct credit substitutes, guarantees and acceptances	3,593	1,799
Undrawn loans and other commitments	1,974	864
	8,553	**3,952**
RWA		**2,967**

** Credit exposure is after applying CCF.*

At 30 June 2017, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$ 346 million.

b. Derivatives

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Also included under this heading are those derivatives which do not meet IAS 39 hedging requirements. Appropriate limits are approved by the Board, and monitored and reported along with the Group Risk Appetite Statement.

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 derivatives market.

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 2017.

5. Off balance sheet exposure and securitisations (continued)
b. Derivatives (continued)

The aggregate notional amounts for interest rate and foreign exchange contracts as at 30 June 2017 were as follows:

	Derivatives		
US$ million	**Interest rate contracts**	**Foreign exchange contracts**	**Total**
Notional – Trading book	8,306	11,262	19,568
Notional – Banking book	2,029	730	2,759
	10,335	**11,992**	**22,327**
Credit RWA (replacement cost plus potential future exposure)	111	377	488
Market RWA	309	1,054	1,363

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.

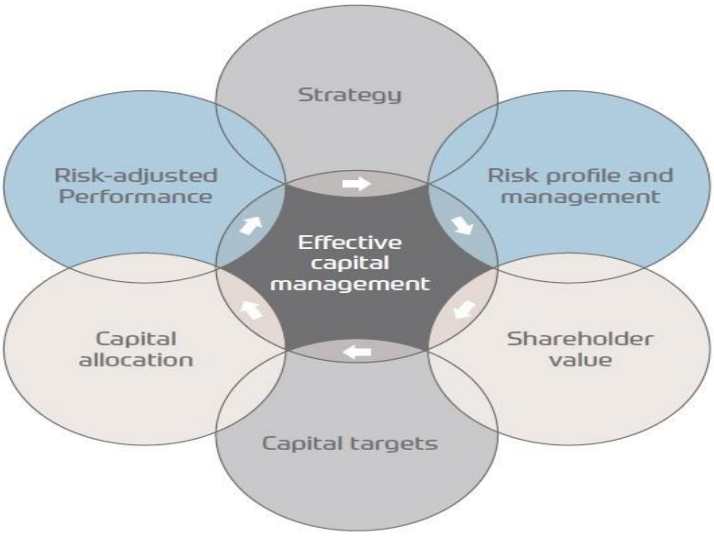
The counterparty credit risk for derivative and foreign exchange instruments is subject to credit limits on the same basis as other credit exposures. Counterparty credit risk arises in both the trading book and the banking book.

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 2017, the CVA capital charge for the portfolio was US$ 34 million.

6. Internal Capital Adequacy Assessment Process (ICAAP)

The Group aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, while always meeting minimum regulatory ratio requirements. The Group's primary driver for capital allocation is the regulatory requirement. A suitably conservative buffer over minimum regulatory requirements is added to this and defined under the solvency "Strategic Risk Objective" in the Group Risk Appetite Statement, which is approved and monitored by the Board. In addition, a separate ICAAP process has been initiated to provide a more informed assessment of the capital buffer requirements. The diagram below illustrates the concept:



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

I. Credit risk: Assessed on the basis of both the Standardised Approach and internal rating distribution. In addition, the Group uses stress-testing to review its risk exposure against budgeted levels.

II. Market risk: Assessed using the Value at Risk (VaR) metric. VaR measures the worst expected loss over a given timeframe, under normal market conditions and at a given confidence interval. It provides an aggregate view of the portfolio's risk that accounts for leverage, correlations and current positions. The Group uses the 'Historical Simulation Approach' to measure VaR. The key model assumptions for the trading portfolio are:

- 2-year historical simulation
- 1-day VaR
- 99% (one tail) confidence interval

The historical simulation method provides a full historical valuation going back in time, such as over the last 500 days, by applying current weights to a time series of historical returns. The Group uses the stress-testing to review its exposures against historical and Group-specific extreme scenarios.

III. Operational risk: Applied on the standardised approach basis.

IV. Other risks such as liquidity, IRRBB, strategic and reputational risks are currently captured through capital/liquidity buffers.

7. Related party transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's senior management, and are based on arm’s length rationale.

a. Exposures to related parties

	US$ million
Claims on shareholders *	142
Claims on directors & senior management	3
Claims on staff	25

** Unfunded exposures after applying ccf.*

b. Liabilities to related parties

	US$ million
Connected deposits	5,341

The interest expense in respect of connected deposits is US$ 37 million.

8. Repurchase and resale agreements

Proceeds from assets sold under repurchase agreements as at 30 June 2017 amounted to US$ 149 million. The carrying value of securities sold under repurchase agreements at the period end amounted to US$ 149 million.

Amounts paid for assets purchased under resale agreements at the period end amounted to US$ 1,729 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$ 1,756 million.

9. Material transactions

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

Appendix I - Regulatory capital disclosures

PD 2 : Reconciliation of regulatory capital

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

US$ million

	Balance sheet as in published financial statements	Consolidated PIR data
Liquid funds	1,215	-
Cash and balances at central banks	-	1,670
Placements with banks and similar financial institutions	4,004	5,278
Reverse repurchase agreements and other similar secured lending	1,729	-
Financial assets at fair value through P&L	878	878
Non-trading securities	5,759	5,759
Loans and advances	13,961	14,162
Investment properties	-	-
Interest receivable	438	438
Other assets	1,124	1,099
Investments in associates and joint ventures	-	21
Goodwill and intangible assets	-	4
Property, plant and equipment	115	115
TOTAL ASSETS	**29,223**	**29,424**
Deposits from banks	4,648	8,843
Deposits from customers	16,577	12,382
Certificate of deposits issued	38	38
Repurchase agreements and other similar secured borrowing	149	149
Interest payable	402	402
Taxation	78	-
Other liabilities	847	925
Term notes, bonds and other term financing	2,179	2,032
Subordinated liabilities	-	147
TOTAL LIABILITIES	**24,918**	**24,918**
Paid-in share capital	3,110	3,110
Reserves	738	738
Non - controlling interest	457	457
Collective impairment provision	-	201
TOTAL SHAREHOLDERS' EQUITY	**4,305**	**4,506**

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	1,215	-	
Cash and balances at central banks	-	1,670	
Placements with banks and similar financial institutions	4,004	5,278	
Reverse repurchase agreements and other similar secured lending	1,729	-	
Financial assets at fair value through P&L	878	878	
Loans and advances	13,961	14,162	
Non-trading securities	5,759	5,759	
Of which investment NOT exceeding regulatory threshold	*5,759*	*5,759*	
Interest receivable	438	438	
Other assets	1,124	1,099	
Of which deferred tax assets arising from carryforwards of unused tax losses, unused tax credits and all other	-	*5*	*f*
Of which deferred tax assets arising from temporary differences	-	*111*	
Investments in associates and joint ventures	-	21	
Of which Significant investment exceeding regulatory threshold	-	-	
Of which Significant investment NOT exceeding regulatory threshold	-	*21*	
Goodwill and intangible assets	-	4	
Of which goodwill	-	-	
Of which other intangibles (excluding MSRs) phased in at 60%	-	*2*	*e*
Of which MSRs	-	-	
Property, plant and equipment	115	115	
TOTAL ASSETS	**29,223**	**29,424**	

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	4,648	8,843	
Deposits from customers	16,577	12,382	
Certificate of deposits issued	38	38	
Repurchase agreements and other similar secured borrowing	149	149	
Interest payable	402	402	
Taxation	78	-	
Other liabilities	847	925	
Term notes, bonds and other term financing	2,179	2,032	
Subordinated liabilities	-	147	
Of which amount eligible for TII	-	89	h
Of which amount Ineligible	-	58	
TOTAL LIABILITIES	**24,918**	**24,918**	
Paid-in share capital	3,110	3,110	
Of which form part of CET1			
Ordinary Share Capital	3,110	3,110	a
Reserves	738	738	
Of which form part of CET1			
Retained earnings/(losses) brought forward	765	765	b
Net profit for the current period	102	102	c1
Legal reserve	462	462	c2
General (disclosed) reserves	100	100	c3
Fx translation adjustment	(630)	(630)	c4
Cumulative changes in fair value	(25)	(25)	c5
Pension fund reserve	(36)	(36)	c6
Non - controlling interest	457	457	
Of which amount eligible for CETI	-	258	d
Of which amount eligible for ATI	-	51	g
Of which amount eligible for TII	-	-	
Of which amount ineligible	-	148	
Collective impairment provision	-	201	
Of which amount eligible for TII (Maximum 1.25% of RWA)	-	201	i
Of which amount Ineligible	-	-	
TOTAL SHAREHOLDERS' EQUITY	**4,305**	**4,506**	

Appendix I - Regulatory capital disclosures (continued)

PD 3 : Main features of regulatory capital instruments

Disclosure template for main features of regulatory capital instruments			
1	Issuer	Arab Banking Corporation	Banco ABC Brasil
2	Unique identifier	ABC	EI2084396 - USP0763MBW03; Brazilian Central Bank CMN Resolution 3444
3	Governing law(s) of the instrument	Laws of Bahrain	Laws of the Federative republic of Brazil
Regulatory treatment			
4	Transitional CBB rules	Common Equity Tier 1	NA
5	Post-transitional CBB rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/group/group & solo	Group & Solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common equity shares	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	US$ 3,110	US$ 89
9	Par value of instrument	1	1000
10	Accounting classification	Shareholders equity	Liability- Amortised cost
11	Original date of issuance	Various	4-Aug-10
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	4-Aug-20
14	Issuer call subject to prior supervisory approval	Yes	No
15	Optional call date, contingent call dates and redemption amount	NA	No
16	Subsequent call dates, if applicable	NA	NA
Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating (Dividend as decided by the shareholders)	Fixed
18	Coupon rate and any related index	NA	7.875
19	Existence of a dividend stopper	NA	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory

Appendix I - Regulatory capital disclosures (continued)
PD 3 : Main features of regulatory capital instruments (continued)

Disclosure template for main features of regulatory capital instruments			
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	NA	Non-cumulative
23	Convertible or non-convertible	NA	Non-convertible
24	If convertible, conversion trigger (s)	NA	NA
25	If convertible, fully or partially	NA	NA
26	If convertible, conversion rate	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA
28	If convertible, specify instrument type convertible into	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA
30	Write-down feature	No	No
31	If write-down, write-down trigger(s)	NA	NA
32	If write-down, full or partial	NA	NA
33	If write-down, permanent or temporary	NA	NA
34	If temporary write-down, description of write-up mechanism	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all depositors and creditors (including subordinated debt) of the Bank	Subordinated to all depositors and creditors of the bank
36	Non-compliant transitioned features	No	Yes
37	If yes, specify non-compliant features	NA	Non Viability Loss Absorption

Appendix I - Regulatory capital disclosures (continued)

PD 4: Capital composition disclosure template

US$ million

	Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018)	PIR as on 30 June 2017	Amounts Subject To Pre-2015 Treatment	Reference
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	3,110	-	a
2	Retained earnings	765	-	b
3	Reserves	8	-	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)	258	89	d
6	Common Equity Tier 1 capital before regulatory adjustments	**4,141**		
	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)	2	2	e
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	5	-	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	36	-	c6
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-	
17	Reciprocal cross-holdings in common equity	-	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-	
22	Amount exceeding the 15% threshold	-	-	
23	of which: significant investments in the common stock of financials	-	-	

Appendix I - Regulatory capital disclosures (continued)
PD 4: Capital composition disclosure template (continued)

US$ million

	Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018)	PIR as on 30 June 2017	Amounts Subject To Pre-2015 Treatment	Reference
Common Equity Tier 1 capital: regulatory adjustments (continued)				
24	of which: mortgage servicing rights	-	-	
25	of which: deferred tax assets arising from temporary differences	-	-	
26	National specific regulatory adjustments	-	-	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	-	
	OF WHICH:	-	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-	
28	**Total regulatory adjustments to Common equity Tier 1**	**43**		
29	**Common Equity Tier 1 capital (CET1)**	**4,098**		
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)	51	9	g
35	*of which: instruments issued by subsidiaries subject to phase out*	9	9	
36	**Additional Tier 1 capital before regulatory adjustments**	**51**		
Additional Tier 1 capital: regulatory adjustments				
37	Investments in own Additional Tier 1 instruments	-	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-	
41	National specific regulatory adjustments	-	-	
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	-	

Appendix I - Regulatory capital disclosures (continued)
PD 4: Capital composition disclosure template (continued)

US$ million

	Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018)	**PIR as on 30 June 2017**	**Amounts Subject To Pre-2015 Treatment**	**Reference**
	Additional Tier 1 capital: regulatory adjustments (continued)			
	Of Which:	-	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**	**-**	
44	**Additional Tier 1 capital (AT1)**	**51**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,149**		
	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)	89	-	h
49	of which: instruments issued by subsidiaries subject to phase out	-	-	
50	Provisions & Reserves	201	-	i
51	**Tier 2 capital before regulatory adjustments**	**290**		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-	
56	National specific regulatory adjustments	-	-	
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	-	
	Of which	-	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	-	
58	**Tier 2 capital (T2)**	**290**		
59	**Total capital (TC = T1 + T2)**	**4,439**		
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
	Of Which: Intangible assets (RW @ 100%)	2		
	Of Which: Non Significant Investments (RW @ 100%)	-		
	Of Which: Non Significant Investments (RW @ 150%)	-		
	Of Which: Significant Investments (RW @ 250%)	-		
60	**Total risk weighted assets**	**23,125**		

Appendix I - Regulatory capital disclosures (continued)
PD 4: Capital composition disclosure template (continued)

US$ million

	Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018)	**PIR as on 30 June 2017**
Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	17.7%
62	Tier 1 (as a percentage of risk weighted assets)	17.9%
63	Total capital (as a percentage of risk weighted assets)	**19.2%**
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)*	NA
67	*Of Which: G-SIB buffer requirement (N/A)*	NA
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	8.7%
National minima (if different from Basel 3)		
69	CBB Common Equity Tier 1 minimum ratio (including buffers)	9%
70	CBB Tier 1 minimum ratio (including buffers)	10.5%
71	CBB total capital minimum ratio (including buffers)	12.5%
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	11
73	Significant investments in the common stock of financials	21
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	111
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)	201
77	Cap on inclusion of provisions in Tier 2 under standardised approach	251
78	N/A	
79	N/A	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)		
80	Current cap on CET1 instruments subject to phase out arrangements	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A
84	Current cap on T2 instruments subject to phase out arrangements	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A