Ahli United Bank B.S.C.

Pillar III Disclosures - Basel III

31 December 2018

INTRODUCTION TO THE CENTRAL BANK OF BAHRAIN'S BASEL III GUIDELINES

The Central Bank of Bahrain (CBB) Basel III Guidelines, based upon the Bank of International Settlements (BIS) Revised Framework – 'International Convergence of Capital Measurement and Capital Standards', are applicable from 1 January 2015. Basel III is structured around three 'Pillars': Pillar I - Minimum Capital Requirements; Pillar II – the Supervisory Review and Evaluation Process and the Internal Capital Adequacy Assessment Process (ICAAP); and Pillar III - Market Discipline.

Group Structure

The public disclosures under this section have been prepared in accordance with the CBB Rules concerning Public Disclosure Module ("PD"), section PD-1: Annual Disclosure Requirements. The disclosures under this section are applicable to Ahli United Bank B.S.C. (the "Bank"), which is the parent bank incorporated in Bahrain. The Bank operates under a retail banking license issued by the CBB. The Bank and its subsidiaries (as detailed under note 2 to the audited consolidated financial statements) are collectively known as the "Group".

Pillar I – Minimum Capital Requirements

Pillar I deals with the basis for the computation of the regulatory capital adequacy ratio. It defines the calculation of Risk Weighted Assets (RWAs) for credit risk, market risk and operational risk, as well as the derivation of the regulatory capital base. The capital adequacy ratio is then calculated as the ratio of the Bank's regulatory capital to its total RWAs. All Bahrain incorporated banks are currently required to maintain a minimum capital adequacy ratio of 12.5%. This includes, mandatory Capital Conservation Buffer (CCB) of 2.5%.

The Group ensures that each subsidiary maintains sufficient capital levels for their respective legal and compliance purposes.

Credit risk

Basel III provides two approaches (Standardised approach and Internal Rating Based approach) to the calculation of credit risk regulatory capital. The Standardised approach which the Bank has adopted, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to these categories.

Market risk

The Bank has adopted the Standardised approach for determining the market risk capital requirement.

Operational risk

Under the Basic Indicator approach (BIA), which the Bank has adopted for operational risk, the regulatory capital requirement for operational risk is calculated by applying a co-efficient of 15 per cent to the average gross income for the preceding three financial years.

Pillar II – The Supervisory Review and Evaluation Process

Pillar II involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy.

Accordingly, this involves both the Bank and its regulators taking a view on whether additional capital should be held against risks not covered in Pillar I. Part of the Pillar II process is the Internal Capital Adequacy Assessment Process (ICAAP) which is the Bank's self assessment of risks not captured by Pillar I and based on CBB guidelines & ICAAP module under CBB rulebook.

As part of the CBB's Pillar II guidelines, each bank is required to be individually reviewed and assessed by the CBB with the intention of setting individual minimum capital adequacy ratios. The Bank is currently required to maintain a 12.5 per cent minimum capital adequacy ratio at the Group level.

Pillar III – Market Discipline

The third pillar is related to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process. The disclosures in this report are in addition to the disclosures set out in the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PILLAR III QUANTITATIVE AND QUALITATIVE DISCLOSURES

For the purpose of computing regulatory minimum capital requirements, the Group follows the rules as laid out under the CBB Rulebook module Capital Adequacy (CA) Module. Accordingly;

a) All subsidiaries as per note 2 to the audited consolidated financial statements are consolidated on a line by line basis in accordance with International Financial Reporting Standards (IFRS). Non-controlling interest arising on consolidation is incorporated under respective tiers of capital as per CBB rules (Subject to Basel III transitional rules);

b) Investments in associates as reported under note 10 to the audited consolidated financial statements are treated as "Significant Investment in financial entities". They are risk weighted/deducted from Capital as per CBB Basel III guidelines (subject to CBB and Basel III transitional rules);

c) Goodwill and Intangibles (subject to transitional rules) are deducted from Tier 1 capital;

d) Subordinated term debt, as reported under liabilities in the consolidated balance sheet, are reported as part of Tier 2 capital, subject to maximum thresholds and adjusted for remaining life;

e) Expected credit losses (Stages 1 and 2) (subject to transitional rules) to the extent of maximum threshold of 1.25% of Credit Risk Weighted Assets are included under Tier 2 capital.

f) In accordance with Basel committee guidelines, CBB approved the phasing of impact of adoption of IFRS9 on 1 January 2018 over a period of 2 years equally. Accordingly, US$ 124.8 million (50% of the ECL charge of US$249.5 million), has been added back to the CET1 tier of the regulatory capital for the computation of capital ratios. Impact of this relief on AUB’s group capital adequacy ratio is circa +0.40%.

1. CAPITAL STRUCTURE

TABLE - 1

			US$ '000
A. NET AVAILABLE CAPITAL	***CET 1***	***AT 1***	***Tier 2***
NET AVAILABLE CAPITAL	**3,825,932**	**560,131**	**498,434**
TOTAL ELIGIBLE CAPITAL BASE (CET 1 + AT 1 + Tier 2)			**4,884,497**
RISK WEIGHTED EXPOSURES			
Credit Risk Weighted Exposures			26,438,085
Market Risk Weighted Exposures			450,677
Operational Risk Weighted Exposures			1,944,316
TOTAL RISK WEIGHTED EXPOSURES			**28,833,078**
CET 1 & Capital Conservation Buffer (CCB)			13.3%
Tier 1 - Capital Adequacy Ratio (CET 1, AT 1 & CCB)			15.2%
Total - Capital Adequacy Ratio			**16.9%**

B. CAPITAL ADEQUACY RATIO

As at 31 December 2018, the capital adequacy ratio of banking subsidiaries under Basel III unless mandated otherwise were:

	Subsidiaries			
	Ahli United Bank K.S.C.P. (AUBK)	***Ahli United Bank (U.K.) PLC (AUBUK)***	***Ahli United Bank (Egypt) S.A.E. (AUBE)****	***Commercial Bank of Iraq P.S.C. (CBIQ)****
Tier 1 - Capital Adequacy Ratio	15.3%	23.3%	16.9%	615.2%
Total - Capital Adequacy Ratio	16.5%	23.6%	17.9%	657.6%

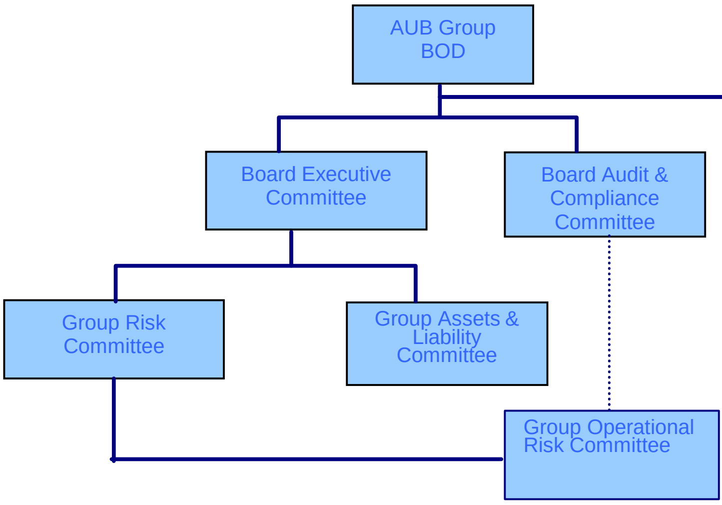
** under Basel II*

2. GROUP RISK GOVERNANCE STRUCTURE

Risk Governance

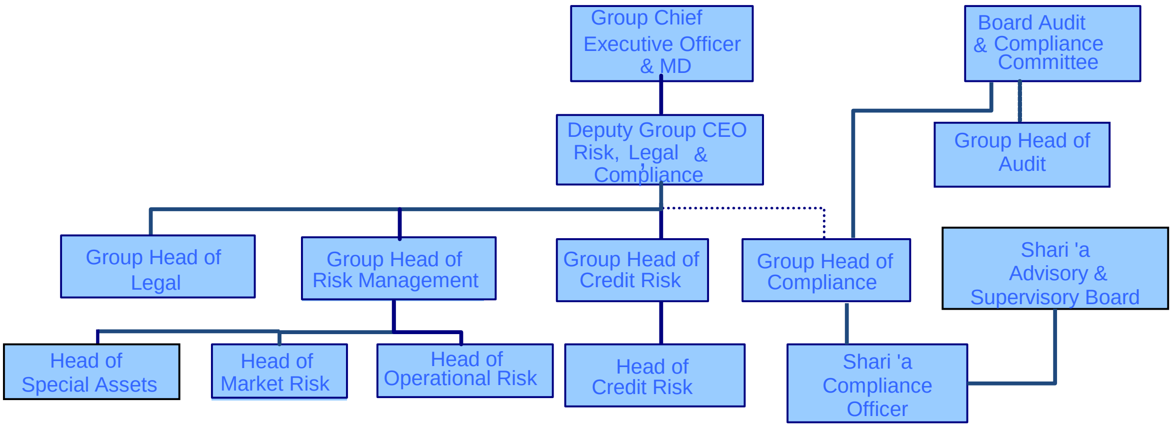
The AUB Group Board of Directors (BOD) seeks to optimise the Group's performance by enabling the various Group business units to realize the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and Group risk policy framework.

AUB Group Risk Governance Structure



The above Group committees are set up as part of the Group risk governance structure. The terms of reference for these committees are approved by the BOD. Group Audit & Compliance Committee (incorporating the Corporate Governance committee) has oversight over Group's Audit, Compliance and Operational Risk.

AUB Group Management Risk Governance Structure



The BOD approves the risk parameters, policies and Group Risk Framework on annual basis. The Group Risk Committee monitors the Group's risk profile against these parameters. The BOD and its Executive Committee receive quarterly risk updates including detailed risk exposures analysis reports.

The Deputy Group CEO – Risk, Legal and Compliance, under the delegated authority of the Group CEO & MD, supported by the Group Head of Risk Management and the Group Head of Credit Risk has the responsibility for ensuring effective risk management and control. Within Group Risk Management, specialist risk-type heads and their teams are responsible for risk oversight and establishing appropriate risk control frameworks. Systems and procedures are in place to identify, control and report on all major risks.

Internal Audit is responsible for the independent review of risk management and the Group's risk control environment. The Group Audit & Compliance Committee considers the adequacy and effectiveness of the Group risk control framework and receives quarterly updates on any control issues, regulatory and compliance related issues.

3. CREDIT RISK MANAGEMENT

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a financial obligation under a contract. It arises principally from lending, trade finance and treasury activities. Credit risk also arises where assets are held in the form of debt securities, the value of which may fall.

The Group has policies and procedures in place to monitor and manage these risks and the Group Risk Management function provides high-level centralized oversight and management of credit risk. The specific responsibilities of Group Risk Management are to:

- Set credit policy and risk appetite for credit risk exposure to specific market sectors;

- Control exposures to sovereign entities, banks and other financial institutions and set risk ratings for individual exposures. Credit and settlement risk limits to counterparties in these sectors are approved and managed by Group Risk Management, to optimize the use of credit availability and avoid risk concentration;

- Control cross-border exposures, through the centralized setting of country limits with sub-limits by maturity and type of business;

- Manage large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography remain within internal and regulatory limits in relation to the Group's capital base;

- Maintain the Group's Internal Risk Rating framework;

- Manage watchlisted and criticised asset portfolios and recommend appropriate level of provisioning and write-offs;

- Maintain the Expected Credit Loss impairment models across the Group entities;

- Recommend Expected Credit loss provisions to the Group IFRS 9 working committee;

- Report to the Group Risk Committee, Board Audit & Compliance Committee and the BOD on all relevant aspects of

    - risk concentrations
    - corporate and retail portfolio performance
    - specific higher-risk portfolio segments, e.g. real estate
    - individual large impaired accounts, and details of impairment charges
    - country limits, cross-border exposures.

- Specialised management and control of all non-performing assets;

- Manage and direct credit risk management systems initiatives; and

- Interface, for credit-related issues, with external parties including the CBB, rating agencies, investment analysts, etc.

All credit proposals are subjected to a thorough comprehensive risk assessment which examines the customer's financial condition and trading performance, nature of the business, quality of management and market position. In addition, AUB's internal risk rating model scores these quantitative and qualitative factors. The credit approval decision is then made and terms and conditions set. Exposure limits are based on the aggregate exposure to the counterparty and any connected entities across the AUB Group. All credit exposures are reviewed at least annually.

3. CREDIT RISK MANAGEMENT (continued)

Counterparty Exposure Classes

The CBB's capital adequacy framework for the standardised approach to credit risk sets the following counterparty exposure classes and the risk weightings to be applied to determine the risk weighted assets:

Exposure Class	Risk Weighting Criteria
Sovereign Portfolio	Exposures to governments of GCC (refer table 4 for definition of GCC) member states and their central banks {including International organization and Multilateral Development Banks (MDBs)} are zero % risk weighted. Other sovereign exposures denominated in the relevant domestic currency are also zero % risk weighted. All other sovereign exposures are risk weighted based on their external credit ratings.
Public Sector Entity [PSE] Portfolio	Bahrain PSEs and domestic currency claims on other sovereign PSEs [which are assigned a zero % risk weighting by their own national regulator] are assigned a zero % risk weighting. All other PSEs are risk weighted based on their external credit ratings.
Banks Portfolio	Exposures to banks are risk weighted based on their external credit ratings, with a preferential weighting given to short term exposures (i.e. with an original tenor of 3 months or less).
Investment company Portfolio	Exposures to investment companies which are supervised by the CBB are treated in the same way as exposures to banks but without the preferential short term exposure weighting.
Corporate Portfolio	Exposures to corporates are risk weighted based on their external credit rating. Unrated corporates are 100% risk weighted. A number of corporates owned by the Kingdom of Bahrain have been assigned a preferential zero % risk weighting.
Regulatory Retail Portfolio	Eligible regulatory retail exposures are risk weighted at 75%.
Residential Property Portfolio	Exposures fully secured by first mortgages on owner occupied residential property are risk weighted between 35%-75% based on applicable regulatory guidance.
Commercial Property Portfolio	Exposures secured by mortgages on commercial real estate are subject to a minimum 100% risk weighting, except where the borrower has an external rating below BB- in which case the rating risk weighting applies.
Equities and Funds Investment Portfolio	Investments in listed equities carry a 100%-250% risk weighting. Unlisted equities are 150%-250% risk weighted. Investments in funds are risk weighted according to the type of underlying assets.
Impaired Exposures	The unsecured portion of any exposure [other than a residential mortgage loan] that is past due for 90 days or more: 150% risk weighted when specific provisions are less than 20% of the outstanding amount; and 100% risk weighted when specific provisions are greater than 20%.
Holdings of Real Estate	All holdings (directly or indirectly) of real estate in the form of real estate companies, subsidiaries or associate companies or other arrangements such as trusts, funds or Real Estate Investment Trusts (REITs) are risk-weighted at 200%. Premises occupied by the bank are weighted at 100%.
Other Assets	All other assets not classified above are risk weighted at 100%

3. CREDIT RISK MANAGEMENT (continued)

External Rating Agencies

The Group uses the following external credit assessment institutions (ECAI's): Moody's, Standard & Poors and Fitch. The external rating of each ECAI is mapped to the prescribed internal risk rating that in turn produces standard risk weightings.

Basel III Reporting of Credit Risk Exposures

As a result of the methodologies applied in credit risk exposures presented under Basel III reporting differs in many ways from the exposures reported in the consolidated financial statements.

1. As per the CBB Basel III framework, off balance sheet exposures are converted, by applying a credit conversion factor (CCF), into direct credit exposure equivalents.

2. Under the Basel III capital adequacy framework eligible collateral is applied after applying prescribed haircut, to reduce exposure.

Credit Risk Mitigation

The Group's first priority when making loans is to establish the borrower's capacity to repay and not rely principally on security / collateral. Where the customer's financial standing is strong, facilities may be granted on an unsecured basis, but when necessary collateral is an essential credit risk mitigation.

Acceptable forms of collateral are defined within the Group risk framework and conservative valuation parameters are also pre-set and regularly reviewed to reflect any changes in market conditions. Security structures and legal covenants are also subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with the CBB's prescribed minimum requirements set out in their capital adequacy regulations.

The principal collateral types are as follows:

- in the personal sector – cash, mortgages over residential properties and assignments over salary income;
- in the commercial sector – cash, charges over business assets such as premises, inventories, receivables, debt securities and bank guarantees;
- in the commercial real estate sector – charges over the properties being financed; and
- in the financial sector – charges over financial instruments, such as debt securities and equities.

Valuation of Collateral

The type and amount of collateral taken is based upon the credit risk assessment of the borrower. The market or fair value of collateral held is closely monitored and when necessary, top-up requests are made or liquidation is initiated as per the terms of the underlying credit agreements.

Gross Credit Risk Exposures subject to Credit Risk Mitigations (CRM)

The following table details the Group's gross credit risk exposures before the application of eligible Basel III CRM techniques. The CBB's Basel III guidelines detail which types of collateral and which issuers of guarantees are eligible for preferential risk weighting. The guidelines also specify the minimum collateral management processes and collateral documentation requirements necessary to achieve eligibility.

TABLE - 2 GROSS CREDIT RISK EXPOSURES

	US$ '000 As at 31 December 2018	*US$ '000* Average monthly balance
Balances with central banks	1,264,079	927,713
Treasury bills and deposits with central banks	1,918,727	2,536,534
Deposits with banks	3,061,818	2,315,737
Loans and advances	19,503,961	19,600,451
Non-trading investments	7,290,134	6,371,487
Interest receivable and other assets	416,716	353,663
TOTAL FUNDED EXPOSURES	**33,455,435**	**32,105,585**
Contingent liabilities	3,303,417	3,358,842
Undrawn loan commitments	661,599	895,211
TOTAL UNFUNDED EXPOSURES	**3,965,016**	**4,254,053**
TOTAL GROSS CREDIT RISK EXPOSURE	**37,420,451**	**36,359,638**

The gross credit exposures reported above are as per the consolidated balance sheet as reduced by exposures which do not carry credit risk.

TABLE - 3 RISK WEIGHTED EXPOSURES

	US$ '000			
	Gross exposure	*Secured by eligible CRM*	*Risk weighted exposures after CRM*	*Capital requirement*
Claims on sovereigns	6,295,626	-	273,601	34,200
Claims on public sector entities	1,075,198	-	679,119	84,890
Claims on banks	5,408,025	174,000	2,358,799	294,850
Claims on corporates	19,405,428	839,356	17,783,501	2,222,938
Regulatory retail exposures	1,999,776	23,322	1,482,341	185,293
Residential mortgage exposures	1,506,761	-	623,439	77,930
Equity	570,607	-	1,077,331	134,666
Other exposures	1,681,934	-	2,159,954	269,994
TOTAL	**37,943,355**	**1,036,678**	**26,438,085**	**3,304,761**
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			**26,438,085**	**3,304,761**
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			**450,677**	**56,335**
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)*			**1,944,316**	**243,040**
TOTAL			**28,833,078**	**3,604,136**

*Indicator for operational risk exposure is gross income, adjusted for exceptional items, as per BIA. This approach uses average of adjusted gross income for previous three financial years (USD 1,036,968 thousands) for operational risk computation.

The gross exposure in the above table represents the on and off balance sheet credit exposures before credit risk mitigations (CRM), determined in accordance with the CBB Pillar III guidelines. The off-balance sheet exposures are computed using the relevant conversion factors.

Under the CBB Basel III Guidelines, banks may choose between two options when calculating credit risk mitigation capital relief. The simple approach which substitutes the risk weighting of the collateral for the risk weighting of the counterparty or the comprehensive approach whereby the exposure amount is adjusted by the actual value ascribed to the collateral. The Group has selected to use the comprehensive method where collateral is in the form of cash or bonds or equities. The Group uses a range of risk mitigation tools including collateral, guarantees, credit derivatives, netting agreements and financial covenants to reduce credit risk. The Group has an equity investment in insurance subsidiary, Al Hilal Life B.S.C.(c), which is consolidated at the Group level and its assets are risk weighted as per CBB rules.

TABLE - 3 RISK WEIGHTED EXPOSURES (continued)

Concentration Risk

Refer note 31(a) to the audited consolidated financial statements for definition and policies for management of concentration risk.

As per the CBB's large exposure regulations, banks incorporated in the Kingdom of Bahrain are required to obtain the CBB's prior approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15 per cent of the regulatory capital base. As at 31 December 2018, the Group had no qualifying single obligor exposures in accordance with Central Bank of Bahrain guidelines which exceed 15 percent of the Group's regulatory capital base.

Geographic Distribution of Gross Credit Exposures

The geographic distribution of credit exposures is monitored on an ongoing basis by Group Risk Management and reported to the BOD on a quarterly basis.

The following table details the Group's geographic distribution of gross credit exposures as at 31 December 2018.

TABLE - 4 GEOGRAPHIC DISTRIBUTION OF GROSS CREDIT EXPOSURES

	US$ '000								
	Kingdom of Bahrain	*State of Kuwait*	*Other GCC countries **	*United Kingdom*	*Europe (excluding United Kingdom)*	*Arab Republic of Egypt*	*Asia (excluding GCC countries)*	*Rest of the World*	*Total*
Balances with central banks	137,942	152,363	-	558,986	-	340,344	74,444	-	**1,264,079**
Treasury bills and deposits with central banks	352,859	1,140,183	-	-	-	294,932	130,753	-	**1,918,727**
Deposits with banks	249,750	731,613	197,155	201,152	375,446	83,193	54,422	1,169,087	**3,061,818**
Loans and advances	3,441,170	9,514,406	2,803,190	1,726,761	170,591	1,616,548	83,133	148,162	**19,503,961**
Non-trading investments	731,109	137,192	2,542,395	163,158	965,647	454,406	1,121,844	1,174,383	**7,290,134**
Interest receivable and other assets	132,417	44,421	51,260	97,079	20,471	30,307	17,163	23,598	**416,716**
Total funded exposures	**5,045,247**	**11,720,178**	**5,594,000**	**2,747,136**	**1,532,155**	**2,819,730**	**1,481,759**	**2,515,230**	**33,455,435**
Contingent liabilities	980,490	1,405,590	253,013	23,148	169,715	288,294	77,826	105,341	**3,303,417**
Undrawn loan commitments	141,310	10,023	224,118	196,679	22,227	66,351	-	891	**661,599**
Total unfunded exposures	**1,121,800**	**1,415,613**	**477,131**	**219,827**	**191,942**	**354,645**	**77,826**	**106,232**	**3,965,016**
TOTAL	**6,167,047**	**13,135,791**	**6,071,131**	**2,966,963**	**1,724,097**	**3,174,375**	**1,559,585**	**2,621,462**	**37,420,451**
	16.5%	**35.1%**	**16.2%**	**7.9%**	**4.6%**	**8.5%**	**4.2%**	**7.0%**	**100.0%**

* Other GCC countries are countries which are part of the Gulf Co-operation Council comprising the Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates apart from Kingdom of Bahrain and State of Kuwait which are disclosed separately.

TABLE - 5 SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	Funded	*Unfunded*	*Total*	*%*
	US$ '000			
Central banks	3,182,806	-	**3,182,806**	**8.5**
Banks and other financial institutions	6,079,699	762,920	**6,842,619**	**18.3**
Consumer/personal	2,598,253	25,783	**2,624,036**	**7.0**
Residential mortgage	1,512,113	57,516	**1,569,629**	**4.2**
Trading and manufacturing	6,306,265	1,249,134	**7,555,399**	**20.2**
Real estate	4,995,302	98,137	**5,093,439**	**13.6**
Services	3,819,591	1,438,782	**5,258,373**	**14.1**
Government/public sector	4,476,784	120,534	**4,597,318**	**12.3**
Others	484,622	212,210	**696,832**	**1.8**
TOTAL	**33,455,435**	**3,965,016**	**37,420,451**	**100.0**
	89.4%	**10.6%**	**100.0%**	

TABLE - 6 RESIDUAL CONTRACTUAL MATURITY OF GROSS CREDIT EXPOSURES

	Up to one month	*One month to three months*	*Over three months to one year*	*Over one year to five years*	*Over five to ten years*	*Over ten to twenty years*	*Over twenty years*	*Total*
	US$ '000							
Balances with central banks	1,215,579	48,500	-	-	-	-	-	**1,264,079**
Treasury bills and deposits with central banks	556,126	323,421	1,039,180	-	-	-	-	**1,918,727**
Deposits with banks	2,206,714	785,934	61,009	8,161	-	-	-	**3,061,818**
Loans and advances	3,574,472	4,122,686	2,300,333	5,417,682	3,208,593	776,148	104,047	**19,503,961**
Non-trading investments	19,968	305,125	1,405,251	2,089,966	2,382,247	1,087,577	-	**7,290,134**
Interest receivable and other assets	62,760	64,164	75,075	113,695	93,923	7,099	-	**416,716**
Total funded exposures	**7,635,619**	**5,649,830**	**4,880,848**	**7,629,504**	**5,684,763**	**1,870,824**	**104,047**	**33,455,435**
Contingent liabilities	556,337	669,015	1,189,473	820,955	67,637	-	-	**3,303,417**
Undrawn loan commitments	11,932	40,114	75,844	459,660	74,049	-	-	**661,599**
Total unfunded exposures	**568,269**	**709,129**	**1,265,317**	**1,280,615**	**141,686**	**-**	**-**	**3,965,016**
TOTAL	**8,203,888**	**6,358,959**	**6,146,165**	**8,910,119**	**5,826,449**	**1,870,824**	**104,047**	**37,420,451**

Expected credit loss impairment

The Group has adopted 'IFRS 9- Financial Instruments - Impairment of financial assets and hedge accounting' issued by the International Accounting Standards Board (IASB) on 1 January 2018. IFRS 9 (2014) replaces the incurred loss model in IAS 39 Financial Instruments: Recognition and Measurement with an expected credit loss model.

The Group Risk Committee regularly evaluates the adequacy of the established allowances for impaired loans.

Refer note 3.4 of the consolidated financial statements of the Group for the year ended 31 December 2018 for further details on expected credit loss impairment model.

TABLE - 7 SECTORAL BREAKDOWN OF IMPAIRED LOANS AND IMPAIRMENT PROVISIONS

	US$ '000				
	Impaired loans	*ECL allowances (Stage 3)*	**Net specific charge for the year ended 31 December 2018*	*Write-off during the year ended 31 December 2018*	*ECL allowances (Stage 1 & Stage 2)*
Consumer/personal	91,426	79,122	10,895	2,824	75,567
Trading and manufacturing	130,842	103,349	40,182	8,639	159,101
Real estate	101,882	91,645	32,904	21,298	96,383
Residential mortgage	18,363	17,688	-	-	2,185
Banks and other financial institutions	3,638	3,076	-	-	11,044
Services	24,785	21,168	3,610	10,817	140,932
Government/public sector	-	-	-	-	3
Others	8,843	8,800	34,300	123,150	5,183
TOTAL	**379,779**	**324,848**	**121,891**	**166,728**	**490,398**

*Net specific charge (ECL allowance : Stage 3) for the year excludes recoveries from fully provided loans written off in prior years.

TABLE - 8 GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS FOR LOANS AND ADVANCES

	US$ '000								
	Kingdom of Bahrain	*State of Kuwait*	*Other GCC countries*	*United Kingdom*	*Europe (excluding) United Kingdom)*	*Arab Republic of Egypt*	*Asia (excluding GCC countries)*	*Rest of the world*	*Total*
ECL allowances (Stage 1 & 2)	83,024	242,560	32,397	215	2,131	124,113	3,968	1,990	**490,398**
ECL allowances (Stage 3)	144,443	106,346	-	-	-	66,362	7,697	-	**324,848**
TOTAL	**227,467**	**348,906**	**32,397**	**215**	**2,131**	**190,475**	**11,665**	**1,990**	**815,246**

TABLE - 9 MOVEMENTS IN IMPAIRMENT PROVISION FOR LOANS AND ADVANCES

Refer note 8(f) of the consolidated financial statements of the Group for the year ended 31 December 2018 for ECL allowance movements.

Impaired Credit Facilities

As per CBB guidelines, credit facilities are placed on non-accrual status and interest income suspended when either principal or interest is overdue by 90 days or more whereupon unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities classified as past due are assessed for impairment in accordance with IFRS 9 guidelines. Financial instruments where there is objective evidence of impairment are considered to be credit impaired and the allowance for credit losses captures the life time expected credit losses.

For definition of default please refer to note 3.4 to the audited consolidated financial statements.

Refer to notes 8(a) to 8(e) and note 31(c) to the audited consolidated financial statements for the year ended 31 December 2018 for the distribution of the loans and advances portfolio.

Ratings 1 - 4 comprise of corporate facilities demonstrating financial condition, risk factors and capacity to repay that are excellent to good and retail borrowers where cash collateral [or equivalent such as pledged investment funds] has been provided.

Ratings 5 - 7 represents satisfactory risk and includes corporate facilities that require closer monitoring, and retail accounts which are maintained within generally applicable product parameters.

TABLE - 10 IMPAIRED LOANS - AGE ANALYSIS

i) By Geographical area

	US$ '000			
	Three months to one year	***One to three years***	***Over three years***	***Total***
Kingdom of Bahrain	88,558	47,255	9,193	**145,006**
State of Kuwait	68,594	37,839	20,189	**126,622**
Other GCC Countries	-	-	-	**-**
United Kingdom	-	-	-	**-**
Europe (excluding United Kingdom)	-	-	-	**-**
Arab Republic of Egypt	96,052	3,377	1,025	**100,454**
Asia (excluding GCC countries)	-	-	7,697	**7,697**
TOTAL	**253,204**	**88,471**	**38,104**	**379,779**
	66.7%	**23.3%**	**10.0%**	**100.0%**

TABLE - 10 IMPAIRED LOANS - AGE ANALYSIS (continued)

ii) By Sector

	US$ '000			
	Three months to one year	***One to three years***	***Over three years***	***Total***
Consumer/personal	37,151	44,203	10,072	**91,426**
Trading and manufacturing	122,742	8,100	-	**130,842**
Real estate	71,866	30,016	-	**101,882**
Residential mortgage	15,827	2,536	-	**18,363**
Banks and other financial institutions	-	-	3,638	**3,638**
Services	4,711	3,377	16,697	**24,785**
Others	907	239	7,697	**8,843**
TOTAL	**253,204**	**88,471**	**38,104**	**379,779**
	66.7%	**23.3%**	**10.0%**	**100.0%**

TABLE - 11 RESTRUCTURED CREDIT FACILITIES

	US$ '000
Balance of any restructured credit facilities as at year end	243,132
Loans restructured during the year	108,629

The above restructurings did not have any significant impact on the present or future earnings and were primarily extensions of the loan tenor.

TABLE - 12 COUNTERPARTY CREDIT RISK IN DERIVATIVE TRANSACTIONS

i) Breakdown of the credit exposure

	US$ '000		
	Notional amount	***Replacement Cost***	***Credit Equivalent Exposure***
a) Trading			
Foreign exchange related	7,338,255	31,594	114,704
Interest rate related	12,889,819	28,519	73,897
Others	26,370	1,022	3,132
	20,254,444	**61,135**	**191,733**
b) Hedging			
Foreign exchange related	29,126	1,393	1,676
Interest rate related	8,980,414	55,360	110,083
	9,009,540	**56,753**	**111,759**
	29,263,984	**117,888**	**303,492**

	US$ '000
ii) Amounts of cash collateral held	12,227

TABLE - 13 RELATED PARTY TRANSACTIONS

Refer note 25 to the audited consolidated financial statements of the Group for the year ended 31 December 2018.

4. MARKET RISK

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and equity prices will reduce the Group's income or the value of its portfolios.

Market Risk Management, Measurement and Control Responsibilities

The BOD approves the overall market risk appetite and delegates responsibility for providing oversight on the Bank's market risk exposures and the sub allocation of BOD limits to the Group Asset and Liability Committee (GALCO). Group Risk Management is responsible for the market risk control framework and for monitoring compliance with the GALCO limit framework.

The Group separates market risk exposures into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making, proprietary position-taking and other marked-to-market positions. Non-trading portfolios include positions that arise from the foreign exchange/interest rate management of the Group's retail and commercial banking assets and liabilities, and financial assets designated at amortised cost and fair value through other comprehensive income statement.

Each Group operating entity has an independent market risk function which is responsible for measuring market risk exposures in accordance with the Group Trading Book Policy and the Interest Rate Risk in the Banking Book Policy, and monitoring these exposures against prescribed limits.

Market risk reports covering Trading Book risk exposures and profit and loss are published daily to the Bank's senior management. A risk presentation covering both Trading and Banking Book is also compiled monthly and discussed at the GALCO.

The measurement techniques used to measure and control market risk include:

- Value at Risk (VaR);
- Stress tests; and
- Sensitivities and position size related metrics.

Daily Value at Risk (VaR)

The Group VaR is an estimate of the potential loss which might arise from unfavourable market movements:

VaR Type	Sample Size	Holding Period	Confidence Interval	Frequency of Calculation
"Management" VaR	260 days	1 day	99%	Daily
"Regulatory" VaR	260 days	10 day	99%	Daily

Daily losses exceeding the VaR figure are likely to occur, on average, once in every 100 business days depending on the confidence interval employed in the VaR calculation (per the above). The Group routinely validates the accuracy of its VaR models by backtesting the actual daily profit and loss results. The actual number of excesses over a given period can be used to gauge how well the models are performing.

4. MARKET RISK (continued)

Although a useful guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a confidence level, by definition, does not take into account losses that might occur beyond the applied level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The VaR for the Group was as follows:

	US$ '000		
	Average	***Minimum***	***Maximum***
For the year 2018	441	154	974

TABLE - 14 CAPITAL REQUIREMENTS FOR COMPONENTS OF MARKET RISK

	US$ '000			
	Risk-weighted weighted exposures	***Capital requirement***	***Maximum value***	***Minimum value***
Interest rate risk	214,565	26,821	39,386	26,821
Equity position risk	1,160	145	433	145
Foreign exchange risk	231,384	28,923	30,508	28,923
Options & others	3,568	446	8,042	379
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	**450,677**	**56,335**		

Interest Rate Risk (non-trading)

Interest rate risk is the risk that the earnings or capital of the Group, or its ability to meet business objectives, will be adversely affected by movements in interest rates. Accepting this risk is a normal part of banking practice and can be an important source of profitability and shareholder value. Changes in interest rates can affect a bank's earnings by changing its net interest income and the level of other interest sensitive income and operating expenses. Changes in interest rates also affect the underlying value of the Group's assets, liabilities and off-balance sheet instruments because the present value of future cash flows and / or the cash flows themselves change when interest rates change. The Bank employs a risk management process that maintains interest rate risk within prudent levels.

The BOD recognizes that it has responsibility for understanding the nature and the level of interest rate risk taken by the Bank, and has defined a risk framework pertaining to the management of non trading interest rate risk and has identified lines of authority and responsibility for managing interest rate risk exposures.

The BOD has delegated the responsibility for the management of interest rate risk to Group Assets Liability Committee (GALCO). GALCO is responsible for setting and monitoring the interest rate risk strategy of the Group, for the implementation of the interest rate risk framework and ensuring that the management process is in place to maintain interest rate risk within prudent levels.

GALCO reviews the interest rate risk framework annually and submits recommendations for changes to the Executive Committee and BOD as applicable.

The responsibility for the implementation of the Group’s interest rate risk policies resides with the Group Treasurer. An independent review and measurement of all interest exposure present in the banking book is undertaken by the Group Market Risk team and reported to GALCO on a monthly basis.

Interest rate re-pricing reports are based on each product's contractual re-pricing characteristics overlaid where appropriate by behavioural adjustments. Behavioural adjustments are derived by an analysis of customer behaviour over time augmented by input from the business units.

The behavioural adjustments are applied mainly for those liabilities with no fixed maturity dates such as current and savings accounts. These adjustments are based on empirical experience, and current account balances are spread over a maximum period of 3 years while savings accounts are spread over a maximum period of 7 years.

Reports detailing the interest rate risk exposure of the Group are reviewed by GALCO and the BOD on a regular basis.

The following table summarizes the re-pricing profiles of the Group’s assets and liabilities as at 31 December 2018.

TABLE - 15 INTEREST RATE RISK

	US$'000			
ASSETS	***Less than three months***	***Three months to one year***	***Over one year***	***Total***
Treasury bills and deposits with central banks	867,692	1,051,035	-	1,918,727
Deposits with banks	3,039,855	12,829	9,134	3,061,818
Loans and advances	15,447,740	2,546,276	1,509,945	19,503,961
Non-trading investments	450,639	747,407	6,092,088	7,290,134
	19,805,926	**4,357,547**	**7,611,167**	**31,774,640**
LIABILITIES				
Deposits from banks	3,504,405	215,421	32,966	3,752,792
Borrowings under repurchase agreements	462,785	1,369,349	-	1,832,134
Customers' deposits	12,664,922	7,419,810	3,575,303	23,660,035
Subordinated liabilities	17,996	174,701	-	192,697
	16,650,108	**9,179,281**	**3,608,269**	**29,437,658**
On balance sheet gap	3,155,818	(4,821,734)	4,002,898	
Off balance sheet gap	2,542,359	1,919,728	(4,462,087)	
Total interest sensitivity gap	5,698,177	(2,902,006)	(459,189)	
Cumulative interest sensitivity gap	**5,698,177**	**2,796,171**	**2,336,982**	

Interest rate risk sensitivity analysis

The Group’s interest rate risk sensitivity is analyzed in note 33(b) to the consolidated financial statements of the Group for the year ended 31 December 2018.

The impact of a +/- 200bps interest rate shock on assets and liabilities which are carried at fair value and the consequent impact on equity as of 31 December 2018 is as per the following table.

	US$ ’000		
	Assets	***Liabilities***	***Equity***
at 200 bps - increase (+)	**(200,837)**	**206,164**	5,327
at 200 bps - decrease (-)	**200,837**	**(206,164)**	(5,327)

Equity Risk

Equity risk is the risk of changes in the fair value of an equity instrument. The Group is exposed to equity risk on non-trading equity positions that are primarily focused on the GCC stock markets. The BOD has set limits on the amount and type of investments that may be made by the Bank. This is monitored on an ongoing basis by the Group Risk Committee with pre approved loss thresholds. The Bank's equity risk appetite is minimal.

Valuation and accounting policies:

a) Equity investments held for strategic reasons - investments in associates

Associated companies are companies in which the Group exerts significant influence but does not control, normally represented by an interest of between 20% and 50% in the voting capital. Investments in associated companies are accounted for using the equity method.

b) Other equity investments

At initial recognition, the Group can make irrevocable election on an instrument by instrument basis to designate an equity instrument as fair value through other comprehensive income (FVTOCI). If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the consolidated statement of income.

The fair value of equity instruments that are quoted in an active market is determined by reference to market prices at the close of business on the balance sheet date. For equity investments that are not quoted in an active market, a reasonable estimate of the fair value is determined using net present valuation techniques.

For accounting policies on equity instruments please refer to note 3.6(c) (v) of the consolidated financial statements.

TABLE - 16 GAINS ON EQUITY INSTRUMENTS

	US$ ’000
Gains / (loss) recognized in Tier1 Capital (CET1)	
Unrealized (loss) gains recognized in the balance sheet	8,706
Realized (loss) gains recognized in the equity	(7,633)

5. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk and funding management of the Group have been explained in note 35 of audited consolidated financial statements for the year ended 31 December 2018.

Maturity Analysis of Assets and Liabilities

A maturity analysis of cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date is shown in note 35 to the audited consolidated financial statements of the Group for the year ended 31 December 2018.

6. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. This definition includes legal risk, but excludes strategic and reputational risk. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The BOD acknowledges that it has ultimate responsibility for operational risk. Oversight rests with the Group Risk Committee, whilst day to day monitoring is carried out by the Group Operational Risk Committee.

The Operational Risk Management framework has been in place for a number of years and is ingrained in the Group’s culture and processes. The Group has developed a comprehensive 'Operational Risk Self Assessment' (ORSA) process.

The BOD takes lead in promoting and encouraging a culture of risk awareness and prevention across all areas of the Group. The Group follows a Group Operational Risk Policy approved by the BOD. The policy, supported by the Group Operational Risk Framework, aims to ensure that operational risk measures are incorporated into all major aspects of the overall management framework.

The Group Operational Risk Committee is responsible for maintaining an operational risk management framework across the organization. The Committee receives regular reporting on all key operational risk measures. Promptness in resolution of material operational risks identified through Operational Risk Self Assessments and audits are considered as one of the key criteria for performance reviews.

The Group Audit & Compliance Committee assists the BOD in ensuring compliance with all regulatory requirements and consistency with best market practices. The Group Audit & Compliance Committee reviews regular reports on all key operational risk measures.

The Group Operational Risk Policy, supported by the Group Operational Risk Framework requires reporting of all material Operational Risk Incidents / Loss Events within a specified period of the occurrence of the event which is followed by an analysis of the root cause and its remediation.

The Operational Risk Management Policy requires that internal controls are reviewed and enhanced on an ongoing basis in order to mitigate the residual risks identified through the Operational Risk Self Assessments, analysis of operational loss and near miss events and, internal and external audits. In addition, regular reviews of operating procedures also aim to enhance internal controls. The Group’s Human Resources Policy requires that employees are trained regularly so that they are, among others, aware of operational risks and the mitigating controls. The policies require the establishment of appropriate infrastructure and processes for ensuring continuity of business which must be comprehensively and frequently tested for different contingencies.

7. INFORMATION TECHNOLOGY RISK

All computer system developments and operations are centrally controlled and common standard business systems are deployed across the Group wherever possible. Information security is defined through a common 'AUB Group Information Security framework' and is executed through various information security processes and controls that support the framework. The Group follows an enterprise wide approach to business continuity to ensure that all identified critical operations, services and systems are recovered in time in the event of a disruption. The Business Continuity Policy is updated annually and the Disaster Recovery and Business Continuity capabilities are each tested at least once a year and critical systems data are continuously replicated at the disaster recovery site.

8. STRATEGIC RISK

The BOD supported by Strategic Development Unit and the Group Finance manages strategic risk on an ongoing basis. The BOD receives regular performance reports with details of strategic / regulatory issues as they arise.

9. LEGAL, COMPLIANCE, REGULATORY AND REPUTATIONAL RISKS

Protecting the Legal, Compliance, Regulatory and Reputational Risks of the Group is of paramount importance. All management and staff are expected to apply highest standards of business conduct and professional ethics at all times.

The Group has a dedicated Legal Department whose role is to identify, and provide analysis and advice on the legal risks.

The department is governed by the Group Legal Policy approved by the BOD, which facilitates the management and control of operational risks from pending legal actions, by performing the following tasks:

- Ensuring compliance with applicable legislation and regulation;
- Reviewing and / drafting non- standard contracts and related documentation (including amendments to existing contracts) applicable to the Group;
- periodically reviewing the standard contractual documentation of the Bank; and
- advising on matters involving legal risk and drafting formal communication relating to legal claims involving the Group.

There are no material litigations / claims against the Group as at 31 December 2018.

AUB continuously strives to improve the level of compliance in all its activities. The Bank has an independent Compliance function and reports to the Audit and Compliance Committee. The Compliance function acts as a focal point for all regulatory compliance and for adapting any best practice compliance principles. The Compliance Department has the responsibility to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures put in place and the actions taken to address any deficiencies in the Bank's compliance with its obligations; and to advise and assist the relevant persons responsible for carrying out regulated activities to comply with the stated obligations under the regulatory system.

Implementing appropriate systems, processes and controls to combat Anti-money laundering and terrorist financing activities form an important activity of the AML Unit within the compliance function. AUB has deployed a risk based automated transaction monitoring system and implemented relevant procedures and controls to facilitate appropriate monitoring and detection mechanism. AUB also has appropriate AML and Compliance policies and monitoring programs. These policies and monitoring programs are reviewed and updated annually and approved by the BOD. The Bank's anti-money laundering measures are regularly audited by the internal auditors who report to the Audit & Compliance Committee of the BOD. Additionally, the Bank's anti-money laundering measures are audited by independent external auditors every year and their report is submitted to the CBB. The Central Bank also performs periodic inspections of the Bank's compliance with anti-money laundering regulations.

The BOD approved policies, including AUB Group Reputation Risk policy, Communications Policy, Personal Account Dealing Policy, Key Person Dealing Policy, Compliance Policy, Anti Money Laundering policy, Banking Integrity and Whistle Blowing Policy & Procedures and Code of Business conduct policy and such other policies prescribes the required standards of ethical behaviour and personal conduct for all staff (including the Bank's Directors), and the BOD exercises an oversight of these risks through various management functions, including Legal, Risk Management, Compliance, Human Resources and Internal Audit Department.

10. ENVIRONMENTAL RISK

The Group recognizes the importance of environmental and social issues within its risk framework, and has established a Social and Environmental Management System (SEMS) which details the policy, procedures and workflow that will be followed by the Bank and its subsidiaries / affiliates in respect of environmental risk.

The Group continually endeavours to implement effective social and environmental management practices in all its activities, products and services with a focus on the applicable national laws on environmental, health, safety and social issues.

The Group has adopted the Equator Principles (EP), a globally recognized benchmark for managing social and environmental risks in project finance. EP is an arrangement by financial institutions worldwide to adhere to the environmental, health and safety standards while financing projects.

As such the Group will finance projects only when they are expected to be designed, built, operated and maintained in a manner consistent with the applicable national laws.

APPENDIX I - REGULATORY CAPITAL DISCLOSURES

PD 2 : Reconciliation Of Regulatory Capital

i) Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation
There are no differences between the regulatory and accounting consolidation, with both following the line by line consolidation approach as per the IFRS 10 Consolidated Financial Statements without excluding any entities. As mandated by the Central Bank of Bahrain ("CBB"), financial assets have been grossed up with impairment allowances for expected credit losses (ECL) - Stages 1 and 2, as presented below:

	US$ '000
Balance sheet per published financial statements	**35,507,577**
ECL - Stages 1 and 2	504,818
Balance sheet as in Regulatory Return	**36,012,395**

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

Assets	*Balance as per published financial statements*	*Consolidated PIR data* (US$ '000)	*Reference*
Cash and balances with central banks	1,390,470	1,390,470	
Financial assets at fair value through Profit & Loss		168,744	
Treasury bills and deposits with central banks	1,918,727	1,918,727	
Deposits with banks	3,061,818	3,062,241	
Loans and advances	19,503,961	19,994,359	
of which employee stock incentive program		717	A3
Non-trading investments	7,568,528	7,413,235	
of which significant investment exceeding regulatory threshold		-	H1
of which investment NOT exceeding regulatory threshold		7,413,235	
Investment properties	265,794	265,794	
Interest receivable and other assets	764,094	764,640	
of which deferred tax assets		2,365	G1
of which MSP		2,452	A4
Investments in associates	318,802	318,802	
of which significant investment exceeding regulatory threshold		-	H2
of which significant investment NOT exceeding regulatory threshold		318,802	
Goodwill and intangible assets	478,319	478,319	
of which Goodwill		429,305	E
of which other intangibles (excluding MSRs)		49,014	F1
Premises and equipment	237,064	237,064	
of which software		23,523	F2
TOTAL ASSETS	**35,507,577**	**36,012,395**	
Liabilities			
Deposits from banks	3,752,792	3,752,792	
Customers' deposits	23,660,035	23,660,035	
Borrowings under repurchase agreements	1,832,134	1,832,134	
Interest payable and other liabilities	1,097,911	1,060,637	
of which ECL on off balance sheet exposures and others - Stages 1 and 2	37,274	-	
of which deferred tax liabilities		1,111	G2
Subordinated liabilities	192,697	192,697	
of which amount eligible for Tier 2		66,815	K
of which amount ineligible		125,882	
TOTAL LIABILITIES	**30,535,569**	**30,498,295**	
Equity			
Paid-in share capital	1,979,351	1,979,351	
of which form part of Common Equity Tier 1		1,979,351	
Ordinary Share Capital		1,992,541	A1
Treasury Shares		(13,190)	A2
Perpetual Tier 1 Capital Securities - AUB Bahrain	400,000	400,000	I
Reserves	1,929,350	1,929,350	
of which form part of Common Equity Tier 1			
Retained earnings/(losses) brought forward		406,729	B1
Retained Earnings - grossed up for phasing for transitioning IFRS 9 ECL impact		124,772	B2
Net profit for the current period		697,534	C1
Share premium		763,660	C2
Legal reserve		516,728	C3
Others		(41,774)	C4
FX translation adjustment		(435,370)	C5
Cumulative fair value changes on FVOCI investments		3,639	C6
Fair value changes of cash flow hedges		(17,021)	C7
of which form part of Tier 2			
Fixed assets revaluation reserves		35,225	M1
Perpetual Tier 1 Capital Securities - AUB Kuwait	200,000	663,307	
Non - controlling interest	463,307		
of which amount eligible for Common Equity Tier 1		302,421	D
of which amount eligible for Additional Tier 1		160,131	J
of which amount eligible for Tier 2		65,918	L
of which amount ineligible		134,837	
Impairment Allowance for Expected Credit Losses - Stages 1 and 2		542,092	N
of which amount eligible for Tier 2 (maximum 1.25% of RWA)		330,476	M2
of which amount ineligible		211,616	
TOTAL EQUITY	**4,972,008**	**5,514,100**	

PD 4 : Capital Composition Disclosure Template

Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018)	***PIR as on 31 Dec 2018*** (US$ '000)	***Amounts Subject To Pre-2015 Treatment*** (US$ '000)	***Reference***
Common Equity Tier 1 capital: instruments and Reserves			
Directly issued qualifying common share capital plus related stock surplus	1,976,182		A1+A2-A3-A4
Retained earnings	531,501		B1 +B2
Accumulated other comprehensive income (and other reserves)	1,487,396		C1+C2+C3+C4+ C5 +C6 +C7
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	302,421	33,105	D
Common Equity Tier 1 capital before regulatory adjustments	**4,297,500**		
Common Equity Tier 1 capital: regulatory adjustments			
Goodwill (net of related tax liability)	429,305		E
Other intangibles other than mortgage-servicing rights (net of related tax liability)	58,030	14,507	F1+F2
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,254		G1-G2
Cash-flow hedge reserve	(17,021)		C7
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)	-	-	H1 + H2
Total regulatory adjustments to Common equity Tier 1	**471,568**		
Common Equity Tier 1 capital (CET1)	**3,825,932**		
Additional Tier 1 capital: instruments			
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	400,000		I
Additional Tier 1 instruments (and CET1 instruments not included above) issued by subsidiaries and held by third parties (amount allowed in group AT1)	160,131	9,967	J
Additional Tier 1 capital before regulatory adjustments	**560,131**		
Total regulatory adjustments to Additional Tier 1 capital	**-**		
Additional Tier 1 capital (AT1)	**560,131**		
Tier 1 capital (T1 = CET1 + AT1)	**4,386,063**		
Tier 2 capital: instruments and provisions			
Directly issued qualifying Tier 2 instruments plus related stock surplus	66,815		K
Tier 2 instruments (and CET1 and AT1 instruments not included above) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	65,918	(9,363)	L
Expected Credit Losses & Reserves	365,701		M1+M2
Tier 2 capital before regulatory adjustments	**498,434**		
Total regulatory adjustments to Tier 2 capital	**-**		
Tier 2 capital (T2)	**498,434**		
Total capital (TC = T1 + T2)	**4,884,497**		
RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	14,507		
of which: Intangible assets (RW @ 100%)	14,507		
of which: Significant Investments (RW @ 250%)	-		
Total risk weighted assets	**28,833,078**		
Capital ratios			
Common Equity Tier 1 (as a percentage of risk weighted assets)	13.3%		
Tier 1 (as a percentage of risk weighted assets)	15.2%		
Total capital (as a percentage of risk weighted assets)	**16.9%**		
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)	9.0%		
of which: Capital Conservation Buffer requirement	2.5%		
of which: bank specific countercyclical buffer requirement (N/A)	NA		
of which: G-SIB buffer requirement (N/A)	NA		
National minima (if different from Basel 3)			
CBB Common Equity Tier 1 minimum ratio (including buffers)	9.0 %		
CBB Tier 1 minimum ratio (including buffers)	10.5%		
CBB total capital minimum ratio (including buffers)	12.5%		
Amounts below the thresholds for deduction (before risk weighting)			
Non-significant investments in the capital of other financial entities	234,205		
Significant investments in the common stock of financial entities	319,035		
Applicable caps on the inclusion of Expected Credit Losses in Tier 2			
Expected Credit Losses (Stages 1 and 2) eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	417,320		N - B2
Cap on inclusion of Expected Credit Losses in Tier 2 under standardized approach	330,476		M2

PD 3 : Main features of regulatory capital instruments

1	**Issuer**	Ahli United Bank B.S.C.	Ahli United Bank B.S.C.	Ahli United Bank K.S.C.P.	Ahli United Bank B.S.C.	Ahli United Bank B.S.C.	Ahli United Bank (U.K.) PLC	Ahli United Bank (U.K.) PLC
2	**Unique identifier**	AUBB.BH - Bahrain Bourses AUB/818 - Kuwait Stock Exchange	ISIN: XS1133289832 / Perpetual Tier 1 Capital Securities	ISIN: XS1508651665 / Perpetual Tier 1 Capital Securities	Series 2011	ISIN: XS0469091275 2010-1 / Euro Medium Term Note	Private Placement	Private Placement
3	**Governing law(s) of the instrument**	Laws of Bahrain	English Law, except for the provisions of subordination which will be governed by the Laws of Bahrain	English Law, except for the provisions of subordination which will be governed by the Laws of Kuwait	English Law	English Law, except for the provisions of subordination which will be governed by the Laws of Bahrain	English Law	English Law
4	**Transitional CBB rules**	Not applicable	Not applicable	Not applicable	Tier 2	Tier 2	Tier 2	Tier 2
5	**Post-transitional CBB rules**	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	NA	NA	NA	NA
6	**Eligible at solo/group/group & solo**	Solo and Group	Solo and Group	Group	Solo and Group	Solo and Group	Group	Group
7	**Instrument type**	Common Equity Shares	Capital Securities	Capital Securities	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	**Amount recognized in regulatory capital**	$1992.5 mn	$400.0 mn	$133.0 mn	$59.1 mn	$3.8 mn	$1.8 mn	$2.0 mn
9	**Par value of instrument (USD)**	$0.25	$1000 subject to minimum of $200,000	$1000 subject to minimum of $200,000	$165.0 mn	$1.00	$4.6 mn	$5.1 mn
10	**Accounting classification**	Shareholders' equity	Shareholders' equity	Shareholders' equity	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	**Original date of issuance**	31-May-2000	29-Apr-2015	25-Oct-2016	18-Apr-2011	20-Jan-2010	01-Jul-1996	31-Jan-1985, 30-Apr-1985
12	**Perpetual or dated**	Perpetual	Perpetual	Perpetual	Dated	Dated	Perpetual	Perpetual
13	**Original maturity date**	No Maturity	No Maturity	No Maturity	15-Oct-2020	20-Jan-2020	No Maturity	No Maturity
14	**Issuer call subject to prior supervisory approval**	NA	Yes	Yes	Yes	Yes	Yes	Yes
15	**Optional call date, contingent call dates and redemption amount**	NA	Call Option : 29-Apr-2020 at Par/100%; Tax event at Par/100%; Regulatory Capital Event at 101% (Full or partial)	Call Option : 25-Oct-2021 at Par/100%; Tax event at Par/100%; Regulatory Capital Event at 100% (Full or partial)	Various financial & non-financial Covenants	Early redemption in case of Tax event; or various events of default (Full or partial)	NA	NA
16	**Subsequent call dates, if applicable**	NA	Every 5 years after 29 April 2020	Every 5 years after 26 Oct 2021	NA	NA	NA	NA
17	**Fixed or floating dividend/coupon**	NA	Fixed	Fixed	Floating	Floating	Floating	Floating
18	**Coupon rate and any related index**	NA	6.875%	5.500%	6m USD LIBOR + 375 bps	3m USD LIBOR+150 bps	6m USD LIBOR + 75 bps	6m USD LIBOR + 75 bps
19	**Existence of a dividend stopper**	NA	Yes	Yes	No	No	No	No
20	**Fully discretionary, partially discretionary or mandatory**	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory
21	**Existence of step up or other incentive to redeem**	No	No	No	No	No	No	No
22	**Noncumulative or cumulative**	NA	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	**Convertible or non-convertible**	NA	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	**If convertible, conversion trigger (s)**	NA	NA	NA	NA	NA	NA	NA
25	**If convertible, fully or partially**	NA	NA	NA	NA	NA	NA	NA
26	**If convertible, conversion rate**	NA	NA	NA	NA	NA	NA	NA
27	**If convertible, mandatory or optional conversion**	NA	NA	NA	NA	NA	NA	NA
28	**If convertible, specify instrument type convertible into**	NA	NA	NA	NA	NA	NA	NA
29	**If convertible, specify issuer of instrument it converts into**	NA	NA	NA	NA	NA	NA	NA
30	**Write-down feature**	NA	Yes	Yes	No	No	No	No
31	**If write-down, write-down trigger(s)**	NA	Notification by regulator of Non viability without (a) write-down ; or (b) a public sector injection of capital (or equivalent support)	Notification by regulator of Non viability without (a) write-down ; or (b) a public sector injection of capital (or equivalent support)	NA	NA	NA	NA
32	**If write-down, full or partial**	NA	Fully / Partially	Fully / Partially	NA	NA	NA	NA
33	**If write-down, permanent or temporary**	NA	Permanent	Permanent	NA	NA	NA	NA
34	**If temporary write-down, description of write-up mechanism**	NA	NA	NA	NA	NA	NA	NA
35	**Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)**	Additional Tier 1 Capital Bonds	Subordinated Debts	Subordinated Debts	All depositors and creditors	All depositors and creditors	All depositors and creditors	All depositors and creditors
36	**Non-compliant transitioned features**	NA	No	No	Yes	Yes	Yes	Yes
37	**If yes, specify non-compliant features**	NA	NA	NA	Non Viability Loss Absorption	Non Viability Loss Absorption	Non Viability Loss Absorption	Non Viability Loss Absorption