Ahli United Bank B.S.C.

Pillar III Disclosures - Basel III

31 December 2017

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 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 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.

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 2017.

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 and 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) Collective impairment provisions to the extent of maximum threshold of 1.25% of Credit Risk Weighted Assets are included under Tier 2 capital.

1. CAPITAL STRUCTURE

TABLE - 1

		US$ '000	
A. NET AVAILABLE CAPITAL	***CET 1***	***AT 1***	***Tier 2***
NET AVAILABLE CAPITAL	**3,651,587**	**563,813**	**514,001**
TOTAL ELIGIBLE CAPITAL BASE (CET 1 + AT 1 + Tier 2)			**4,729,401**
RISK WEIGHTED EXPOSURES			
Credit Risk Weighted Exposures			25,495,693
Market Risk Weighted Exposures			366,938
Operational Risk Weighted Exposures			1,880,925
TOTAL RISK WEIGHTED EXPOSURES			**27,743,556**
CET 1 & Capital Conservation Buffer (CCB)			13.2%
Tier 1 - Capital Adequacy Ratio (CET 1, AT 1 & CCB)			15.2%
Total - Capital Adequacy Ratio			**17.0%**

As part of the Basel III implementation, Central Bank of Bahrain (CBB) has revised the public disclosure requirements module [PD Module - Chapter PD-3.1.5A: Quarterly Disclosure Requirements] and incorporated additional disclosure requirements related to regulatory capital.

In line with above requirements, the Group has disclosed the regulatory capital reconciliation and other related disclosures in Appendix I which forms part of Pillar III disclosures for the year ended 31 December 2017.

B. CAPITAL ADEQUACY RATIO

As at 31 December 2017, 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	16.8%	23.0%	16.9%	555.9%
Total - Capital Adequacy Ratio	18.0%	24.0%	18.1%	594.1%

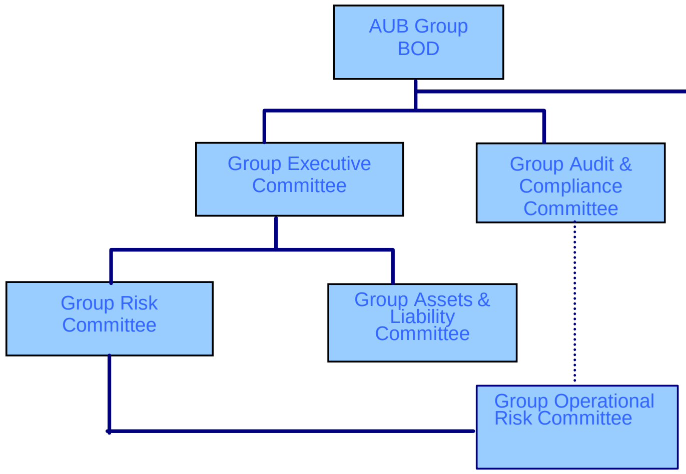
** under Basel II*

2. GROUP RISK GOVERNANCE STRUCTURE

Risk Governance

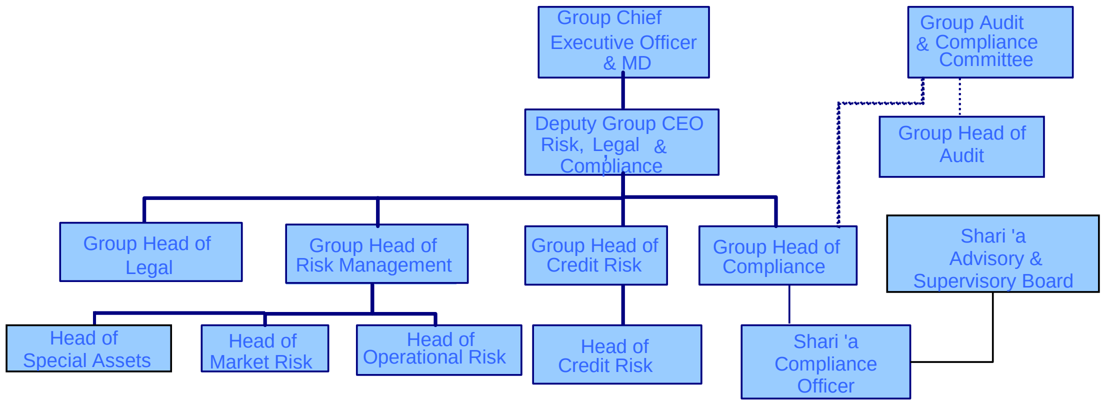
The Group Board of Directors (BOD) seeks to optimise the Group's performance by enabling the various Group business units to realize the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and Group risk policy framework.

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 Group BOD. Group Audit & Compliance Committee has oversight over Group's Audit,Compliance and Operational Risk.

AUB Group Management Risk Governance Structure



The Group 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 Board 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;

- Report to the Group Risk Committee, Audit Committee and the Board of Directors on all relevant aspects of the Group's credit risk portfolio. Regular reports include detailed analysis 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.
Past Due Portfolio	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 2017	*Average monthly balance*
Balances with central banks	677,594	756,726
Treasury bills and deposits with central banks	2,576,352	2,623,889
Deposits with banks	2,469,751	2,207,588
Loans and advances	19,498,702	19,657,412
Non-trading investments	5,876,616	5,495,759
Interest receivable and other assets	308,942	339,232
TOTAL FUNDED EXPOSURES	**31,407,957**	**31,080,606**
Contingent liabilities	3,384,214	3,371,871
Undrawn loan commitments	1,077,266	1,045,526
TOTAL UNFUNDED EXPOSURES	**4,461,480**	**4,417,397**
TOTAL GROSS CREDIT RISK EXPOSURE	**35,869,437**	**35,498,003**

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	5,553,979	-	303,151	37,894
Claims on public sector entities	1,228,596	-	842,490	105,311
Claims on banks	5,042,285	116,985	2,276,992	284,624
Claims on corporates	18,860,898	1,007,255	17,386,894	2,173,362
Regulatory retail exposures	1,982,139	9,199	1,479,705	184,963
Residential mortgage exposures	1,537,630	-	653,631	81,704
Equity	361,067	-	879,737	109,967
Investments in funds	39,816	-	58,860	7,358
Other exposures	1,190,807	-	1,614,233	201,779
TOTAL	**35,797,217**	**1,133,439**	**25,495,693**	**3,186,962**
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			**25,495,693**	**3,186,962**
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			**366,938**	**45,867**
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)*			**1,880,925**	**235,116**
TOTAL			**27,743,556**	**3,467,945**

*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 1,003,159 thousands) for operational risk computation.

The gross exposure in the above table represents the on and off balance sheet credit exposures before credit risks mitigations (CRM), determined in accordance with the CBB issued 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 single obligor regulations, banks incorporated in the Kingdom of Bahrain are required to obtain the CBB's 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 2017, 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 Board on a quarterly basis.

The following table details the Group's geographic distribution of gross credit exposures as at 31 December 2017.

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	142,221	39,077	-	273,491	-	173,928	48,877	-	**677,594**
Treasury bills and deposits with central banks	610,952	1,376,244	-	40,503	-	407,909	140,744	-	**2,576,352**
Deposits with banks	166,843	431,267	150,882	276,602	345,780	51,382	392,673	654,322	**2,469,751**
Loans and advances	3,496,074	9,369,028	3,069,995	1,554,007	202,425	1,525,058	183,183	98,932	**19,498,702**
Non-trading investments	855,344	128,739	1,366,852	123,468	950,982	424,335	944,405	1,082,491	**5,876,616**
Interest receivable and other assets	60,798	64,846	25,073	84,768	14,501	32,199	11,395	15,362	**308,942**
Total funded exposures	**5,332,232**	**11,409,201**	**4,612,802**	**2,352,839**	**1,513,688**	**2,614,811**	**1,721,277**	**1,851,107**	**31,407,957**
Contingent liabilities	956,123	1,428,029	310,399	37,976	181,467	386,634	35,727	47,859	**3,384,214**
Undrawn loan commitments	369,780	33,138	509,300	117,018	2,020	43,967	851	1,192	**1,077,266**
Total unfunded exposures	**1,325,903**	**1,461,167**	**819,699**	**154,994**	**183,487**	**430,601**	**36,578**	**49,051**	**4,461,480**
TOTAL	**6,658,135**	**12,870,368**	**5,432,501**	**2,507,833**	**1,697,175**	**3,045,412**	**1,757,855**	**1,900,158**	**35,869,437**
	18.6%	**35.9%**	**15.1%**	**7.0%**	**4.7%**	**8.5%**	**4.9%**	**5.3%**	**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

	US$ '000			
	Funded	***Unfunded***	***Total***	***%***
Balances with central banks	3,253,946	-	**3,253,946**	**9.1**
Banks and other financial institutions	5,228,771	946,744	**6,175,515**	**17.2**
Consumer/personal	2,843,340	21,939	**2,865,279**	**8.0**
Residential mortgage	1,540,526	84,115	**1,624,641**	**4.5**
Trading and manufacturing	5,771,772	1,545,584	**7,317,356**	**20.4**
Real estate	5,061,662	168,556	**5,230,218**	**14.6**
Services	4,111,584	1,321,303	**5,432,887**	**15.1**
Government/public sector	3,234,447	174,212	**3,408,659**	**9.5**
Others	361,909	199,027	**560,936**	**1.6**
TOTAL	**31,407,957**	**4,461,480**	**35,869,437**	**100.0**
	87.6%	**12.4%**	**100.0%**	

TABLE - 6 RESIDUAL CONTRACTUAL MATURITY OF GROSS CREDIT EXPOSURES

	US$ '000							
	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*
Balances with central banks	503,710	173,884	-	-	-	-	-	**677,594**
Treasury bills and deposits with central banks	532,536	475,100	1,568,716	-	-	-	-	**2,576,352**
Deposits with banks	1,978,267	379,232	12,252	100,000	-	-	-	**2,469,751**
Loans and advances	3,533,301	4,269,331	1,940,791	5,327,616	3,312,813	1,045,153	69,697	**19,498,702**
Non-trading investments	69,925	468,523	575,149	3,281,109	1,312,628	146,610	22,672	**5,876,616**
Interest receivable and other assets	65,068	45,533	54,861	93,957	46,555	2,968	-	**308,942**
Total funded exposures	**6,682,807**	**5,811,603**	**4,151,769**	**8,802,682**	**4,671,996**	**1,194,731**	**92,369**	**31,407,957**
Contingent liabilities	393,219	700,709	1,408,674	764,042	117,570	-	-	**3,384,214**
Undrawn loan commitments	22,877	75,139	330,793	597,290	51,167	-	-	**1,077,266**
Total unfunded exposures	**416,096**	**775,848**	**1,739,467**	**1,361,332**	**168,737**	**-**	**-**	**4,461,480**
TOTAL	**7,098,903**	**6,587,451**	**5,891,236**	**10,164,014**	**4,840,733**	**1,194,731**	**92,369**	**35,869,437**

Impairment Provisions

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

Two types of impairment allowance are in place:

Individually assessed impairment provisions

These are determined by evaluating the exposure to loss, case by case, on all individually significant accounts based upon the following factors:

- aggregate exposure to the customer;
- the viability of the customer's business model and its capacity to trade successfully out of financial difficulties, generating sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the extent of other creditors' commitments ranking ahead of, or pari passu with the Bank, and the likelihood of other creditors continuing to support the company;
- the realisable value of security (or other credit mitigations) and likelihood of successful repossession;
- the likely dividend available on liquidation or bankruptcy;
- the likely costs involved in recovering amounts outstanding, and
- when available, the secondary market price of the debt.

Collectively assessed impairment provisions

Impairment is assessed on a collective basis as follows:

Incurred but not yet identified impairment:

Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics. A collective loan loss allowance is calculated to reflect potential impairment losses estimated at the balance sheet date which may be individually identified in the future.

The collective impairment provision is determined based upon:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, risk rating or product segment); and
- judgment as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The Group will adopt 'IFRS 9- Financial Instruments - Impairment of financial assets and hedge accounting' issued by the International Accounting Standards Board (IASB) on 1 January 2018.

TABLE - 7 SECTORAL BREAKDOWN OF IMPAIRED LOANS AND IMPAIRMENT PROVISIONS

			US$ '000		
	Impaired and past due loans	*Specific impairment provision*	**Net specific charge for the year ended 31 December 2017*	*Write off during the year ended 31 December 2017*	*Collective impairment provision*
Consumer/personal	69,934	57,674	18,083	20,467	38,334
Trading and manufacturing	19,318	18,445	348	97,762	66,376
Real estate	116,246	91,286	7,836	-	68,240
Residential mortgage	16,636	14,189	-	-	20,769
Banks and other financial institutions	4,114	3,426	-	-	10,733
Services	146,185	130,614	44,727	91,216	53,514
Government/public sector	-	-	-	-	1,544
Others	9,220	9,045	-	-	4,879
TOTAL	**381,653**	**324,679**	**70,994**	**209,445**	**264,389**

*Net specific charge 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***
Specific impairment provision	108,376	194,008	-	-	-	6,394	15,901	-	**324,679**
Collective impairment provision	36,429	120,940	26,734	4,321	3,423	69,674	1,893	975	**264,389**
TOTAL	**144,805**	**314,948**	**26,734**	**4,321**	**3,423**	**76,068**	**17,794**	**975**	**589,068**

TABLE - 9 MOVEMENTS IN IMPAIRMENT PROVISION FOR LOANS AND ADVANCES

	US$ '000	
	Specific	***Collective***
Balance at 1 January 2017	**380,239**	**316,932**
Amounts written off during the year	**(209,445)**	**-**
Net charge for the year*	**70,994**	**16,128**
Transfers	**76,485**	**(76,485)**
Exchange rate adjustments / other movements	**6,406**	**7,814**
Balance at 31 December 2017	**324,679**	**264,389**

*Net specific charge for the year excludes recoveries from fully provided loans written off in prior years.

Past Due and 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 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 guidelines. A specific provision is established where there is objective evidence that a credit facility is impaired.

Impaired credit facilities comprise those facilities where there is objective evidence that the Bank will not collect all amounts due, including both principal and interest. Objective evidence would include:

- a breach of contract, such as default or delinquency in interest or principal payments,
- the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered,
- indications that it is probable that the borrower will enter bankruptcy or other financial reorganisation,

Refer to notes 8(a) to 8(d) and note 31(c) to the audited consolidated financial statements for the year ended 31 December 2017 for the distribution of the loans and advances portfolio by quality.

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 PAST DUE AND 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	73,369	34,792	5,425	**113,586**
State of Kuwait	72,225	143,928	21,620	**237,773**
Other GCC Countries	-	-	-	**-**
United Kingdom	-	-	-	**-**
Europe (excluding United Kingdom)	-	-	-	**-**
Arab Republic of Egypt	4,496	569	1,670	**6,735**
Asia (excluding GCC countries)	15,000	-	8,559	**23,559**
TOTAL	**165,090**	**179,289**	**37,274**	**381,653**
	43.2%	**47.0%**	**9.8%**	**100.0%**

TABLE - 10 PAST DUE AND 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	29,700	34,451	5,783	**69,934**
Trading and manufacturing	13,483	5,198	637	**19,318**
Real estate	87,938	28,308	-	**116,246**
Residential mortgage	14,558	2,078	-	**16,636**
Banks and other financial institutions	-	-	4,114	**4,114**
Services	18,806	109,199	18,180	**146,185**
Others	605	55	8,560	**9,220**
TOTAL	**165,090**	**179,289**	**37,274**	**381,653**
	43.2%	**47.0%**	**9.8%**	**100.0%**

TABLE - 11 RESTRUCTURED CREDIT FACILITIES

	US$ '000
Balance of any restructured credit facilities as at year end	238,882
Loans restructured during the year	215,534

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	***Gross positive fair value***	***Credit conversion factor***
Foreign exchange related	11,002,456	37,070	212,999
Interest rate related	10,181,587	54,121	112,621
	21,184,043	**91,191**	**325,620**

Gross positive fair value represents the replacement cost of the derivatives.

	US$ '000
ii) Amounts of collateral	200

TABLE - 13 RELATED PARTY TRANSACTIONS

Refer note 25 to the audited consolidated financial statements of the Group for the year ended 31 December 2017.

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 Board approves the overall market risk appetite and delegates responsibility for providing oversight on the Bank's market risk exposures and the sub allocation of Board 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, either once or five times 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 back testing 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 2017	672	315	1,291

TABLE - 14 CAPITAL REQUIREMENTS FOR COMPONENTS OF MARKET RISK

	US$ '000			
	Risk-weighted weighted exposures	***Capital requirement***	***Maximum value***	***Minimum value***
Interest rate risk	197,304	24,663	24,663	18,550
Equity position risk	2,328	291	291	246
Foreign exchange risk	135,554	16,944	16,944	12,003
Options & others	31,752	3,969	5,409	1,474
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	**366,938**	**45,867**		

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 Board 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 Board 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 Board 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 Board on a regular basis.

The following table summarizes the re-pricing profiles of the Group’s assets and liabilities as at 31 December 2017.

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	993,458	1,582,894	-	2,576,352
Deposits with banks	2,459,122	10,629	-	2,469,751
Loans and advances	15,828,295	2,453,561	1,216,846	19,498,702
Non-trading investments	750,946	570,149	4,555,521	5,876,616
	20,031,821	**4,617,233**	**5,772,367**	**30,421,421**
LIABILITIES				
Deposits from banks	3,556,649	386,584	-	3,943,233
Borrowings under repurchase agreements	737,992	534,766	-	1,272,758
Customers' deposits	11,157,783	7,866,006	2,986,068	22,009,857
Subordinated liabilities	17,997	197,207	-	215,204
	15,470,421	**8,984,563**	**2,986,068**	**27,441,052**
On balance sheet gap	4,561,400	(4,367,330)	2,786,299	
Off balance sheet gap	2,150,223	964,762	(3,114,985)	
Total interest sensitivity gap	6,711,623	(3,402,568)	(328,686)	
Cumulative interest sensitivity gap	**6,711,623**	**3,309,055**	**2,980,369**	

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 2017.

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 2017 is as per the following table.

	US$ '000		
	Assets	***Liabilities***	***Equity***
at 200 bps - increase (+)	**(130,926)**	**135,471**	4,545
at 200 bps - decrease (-)	**130,926**	**(135,471)**	(4,545)

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 Board 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

After initial recognition, equity investments are remeasured at fair value. For investments in equity instruments, where a reasonable estimate of the fair value cannot be determined, the investment is carried at cost less impairment provision.

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 3.3(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	(12,981)
Realized (loss) gains recognized in the equity	(3,704)

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 2017.

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 2017.

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 Board 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 Board 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 Board. 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 Board 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 Board supported by Strategic Development Unit and the Group Finance manages strategic risk on an ongoing basis. The Board 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 Board of Directors, 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 2017.

The Board 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 Board 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"), Loans & Advances and Investments have been grossed up with collective impairment provision, as presented below:

	US$ '000
Balance sheet per published financial statements	**33,241,885**
Collective impairment provision	313,009
Balance sheet as in Regulatory Return	**33,554,894**

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation ***US$ '000***

Assets	***Balance as per published financial statements***	***Consolidated PIR data***	***Reference***
Cash and balances with central banks	809,986	809,986	
Financial assets at fair value through Profit & Loss		1,165	
Treasury bills and deposits with central banks	2,576,352	2,576,352	
Deposits with banks	2,469,751	2,469,751	
Loans and advances	19,498,702	19,763,092	
of which employee stock incentive program		807	A3
Non-trading investments	6,002,410	6,040,016	
of which significant investment exceeding regulatory threshold		-	H1
of which investment NOT exceeding regulatory threshold		6,040,016	
Investment properties	256,242	256,242	
Interest recievable and other assets	616,920	626,768	
of which deferred tax assets		3,748	G1
of which MSP		2,138	A4
Investments in associates	304,020	304,020	
of which significant investment exceeding regulatory threshold		-	H2
of which significant investment NOT exceeding regulatory threshold		304,020	
Goodwill and intangible assets	480,830	480,830	
of which goodwill		431,297	E
of which other intangibles (excluding MSRs)		49,533	F1
Premises and equipment	226,672	226,672	
of which software		22,851	F2
TOTAL ASSETS	**33,241,885**	**33,554,894**	
Liabilities			
Deposits from banks	3,943,233	3,943,233	
Customers' deposits	22,009,857	22,009,857	
Borrowings under repurchase aggrements	1,272,758	1,272,758	
Interest payable and other liabilities	912,679	912,679	
of which deferred tax liabilities		2,133	G2
Subordinated liabilities	215,204	215,204	
of which amount eligible for Tier 2		113,769	K
of which amount ineligible		101,435	
TOTAL LIABILITIES	**28,353,731**	**28,353,731**	
Equity			
Paid-in share capital	1,877,552	1,877,552	
of which form part of Common Equity Tier 1		1,877,552	
Ordinary Share Capital		1,889,213	A1
Treasury Shares		(11,661)	A2
Perpetual Tier 1 Capital Securities - AUB Bahrain	400,000	400,000	I
Reserves	1,938,070	1,938,070	
of which form part of Common Equity Tier 1			
Retained earnings/(losses) brought forward		585,101	B
Net profit for the current period		618,715	C1
Share premium		754,308	C2
Legal reserve		454,856	C3
General (disclosed) reserves		(46,852)	C4
FX translation adjustment		(423,986)	C5
Unrealized gains and losses from fair valuing equities		(12,981)	C6
Fair value changes of cash flow hedges		(26,659)	C7
of which form part of Tier 2			
Fixed assets revaluation reserves		35,568	M1
Perpetual Tier 1 Capital Securities - AUB Kuwait	200,000	672,532	
Non - controlling interest	472,532		
of which amount eligible for Common Equity Tier 1		324,161	D
of which amount eligible for Additional Tier 1		163,813	J
of which amount eligible for Tier 2		51,655	L
of which amount ineligible		132,903	
Collective impairment provision		313,009	
of which amount eligible for Tier 2 (maximum 1.25% of RWA)		313,009	M2
of which amount ineligible		-	
TOTAL EQUITY	**4,888,154**	**5,201,163**	

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 2017*** (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	1,874,607		A1+A2-A3-A4
Retained earnings	585,101		B
Accumulated other comprehensive income (and other reserves)	1,317,401		C1+C2+C3+C4+ C5 +C6 +C7
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	324,161	79,735	D
Common Equity Tier 1 capital before regulatory adjustments	**4,101,270**		
Common Equity Tier 1 capital: regulatory adjustments			
Goodwill (net of related tax liability)	431,297		E
Other intangibles other than mortgage-servicing rights (net of related tax liability)	43,430	28,954	F1+F2
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,615		G1-G2
Cash-flow hedge reserve	(26,659)		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	**449,683**		
Common Equity Tier 1 capital (CET1)	**3,651,587**		
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)	163,813	24,125	J
Additional Tier 1 capital before regulatory adjustments	**563,813**		
Total regulatory adjustments to Additional Tier 1 capital	-		
Additional Tier 1 capital (AT1)	**563,813**		
Tier 1 capital (T1 = CET1 + AT1)	**4,215,400**		
Tier 2 capital: instruments and provisions			
Directly issued qualifying Tier 2 instruments plus related stock surplus	113,769		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)	51,655	(15,259)	L
Provisions & Reserves	348,577		M1+M2
Tier 2 capital before regulatory adjustments	**514,001**		
Total regulatory adjustments to Tier 2 capital	-		
Tier 2 capital (T2)	**514,001**		
Total capital (TC = T1 + T2)	**4,729,401**		
RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	28,954		
of which: Intangible assets (RW @ 100%)	28,954		
of which: Significant Investments (RW @ 250%)	-		
Total risk weighted assets	**27,743,556**		
Capital ratios			
Common Equity Tier 1 (as a percentage of risk weighted assets)	13.2%		
Tier 1 (as a percentage of risk weighted assets)	15.2%		
Total capital (as a percentage of risk weighted assets)	**17.0%**		
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	40,737		
Significant investments in the common stock of financial entities	338,441		
Applicable caps on the inclusion of provisions in Tier 2			
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	313,009		
Cap on inclusion of provisions in Tier 2 under standardised approach	318,696		

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 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	Series 2006	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	English Law
4	**Transitional CBB rules**	Not applicable	Not applicable	Not applicable	Tier 2	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	NA
6	**Eligible at solo/group/group & solo**	Solo and Group	Solo and Group	Group	Solo and 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	Subordinated Debt
8	**Amount recognised in regulatory capital**	$1,889.2 mn	$400.0 mn	$146.6 mn	$92.1 mn	$7.4 mn	$4.2 mn	$4.9 mn	$5.1 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	$33.3 mn	$4.9 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	Liability – amortised cost
11	**Original date of issuance**	31-May-2000	29-Apr-2015	25-Oct-2016	18-Apr-2011	20-Jan-2010	13-Dec-2006	01-Jul-1996	31-Jan-1985, 30-Apr-1985
12	**Perpetual or dated**	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated	Perpetual	Perpetual
13	**Original maturity date**	No Maturity	No Maturity	No Maturity	15-Oct-2020	20-Jan-2020	15-Dec-2018	No Maturity	No Maturity
14	**Issuer call subject to prior supervisory approval**	NA	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	**Optional call date, contingent call dates and redemption amount**	NA	Call Option : 29-Apr-2020 ar Par/100%; Tax event at Par/100%; Regulatory Capital Event at 101% (Full or partial)	Call Option : 25-Oct-2021 ar 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)	Various financial & non-financial Covenants	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	NA
17	**Fixed or floating dividend/coupon**	NA	Fixed	Fixed	Floating	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 + 123 bps	6m USD LIBOR + 75 bps	6m USD LIBOR + 75 bps
19	**Existence of a dividend stopper**	NA	Yes	Yes	No	No	No	No	No
20	**Fully discretionary, partially discretionary or mandatory**	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	**Existence of step up or other incentive to redeem**	No	No	No	No	No	No	No	No
22	**Noncumulative or cumulative**	NA	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	**Convertible or non-convertible**	NA	Non-convertible	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	NA
25	**If convertible, fully or partially**	NA	NA	NA	NA	NA	NA	NA	NA
26	**If convertible, conversion rate**	NA	NA	NA	NA	NA	NA	NA	NA
27	**If convertible, mandatory or optional conversion**	NA	NA	NA	NA	NA	NA	NA	NA
28	**If convertible, specify instrument type convertible into**	NA	NA	NA	NA	NA	NA	NA	NA
29	**If convertible, specify issuer of instrument it converts into**	NA	NA	NA	NA	NA	NA	NA	NA
30	**Write-down feature**	NA	Yes	Yes	No	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	NA
32	**If write-down, full or partial**	NA	Fully / Partially	Fully / Partially	NA	NA	NA	NA	NA
33	**If write-down, permanent or temporary**	NA	Permanent	Permanent	NA	NA	NA	NA	NA
34	**If temporary write-down, description of write-up mechanism**	NA	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	All depositors and creditors
36	**Non-compliant transitioned features**	NA	No	No	Yes	Yes	Yes	Yes	Yes
37	**If yes, specify non-compliant features**	NA	NA	NA	Non Viability Loss Absorbtion	Non Viability Loss Absorbtion	Non Viability Loss Absorbtion	Non Viability Loss Absorbtion	Non Viability Loss Absorbtion