Arab Banking Corporation (B.S.C.)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB BANKING CORPORATION (B.S.C.)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Arab Banking Corporation (B.S.C.) ['the Bank'] and its subsidiaries [together 'the Group'] which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB BANKING CORPORATION (B.S.C.) (continued)

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2015, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements
As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2015 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst & Young

Partner's registration no: 117
14 February 2016
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

All figures in US$ Million

	Note	***2015***	*2014*
ASSETS			
Liquid funds	6	**1,002**	909
Trading securities		**534**	539
Placements with banks and other financial institutions		**4,313**	5,870
Securities bought under repurchase agreements	26	**1,447**	987
Non-trading securities	7	**5,535**	4,627
Loans and advances	9	**13,958**	14,819
Interest receivable		**355**	387
Other assets	11	**929**	1,090
Premises and equipment		**122**	128
TOTAL ASSETS		**28,195**	29,356
LIABILITIES			
Deposits from customers		**13,384**	13,945
Deposits from banks and other financial institutions		**5,029**	5,668
Certificates of deposit		**41**	47
Securities sold under repurchase agreements	26	**579**	87
Interest payable		**260**	319
Taxation	12	**70**	51
Other liabilities	13	**781**	922
TERM NOTES, BONDS AND OTHER TERM FINANCING	14	**3,943**	3,891
Total liabilities		**24,087**	24,930
EQUITY	15		
Share capital		**3,110**	3,110
Reserves		**663**	896
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**3,773**	4,006
Non-controlling interests		**335**	420
Total equity		**4,108**	4,426
TOTAL LIABILITIES AND EQUITY		**28,195**	29,356

The consolidated financial statements were authorised for issue by the Board of Directors on 14 February 2016 and signed on their behalf by the Chairman, Deputy Chairman and the Group Chief Executive Officer.

Saddek El Kaber Chairman	Hilal Mishari Al Mutairi Deputy Chairman	Khaled Kawan Group Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

All figures in US$ Million

	Note	2015	2014
OPERATING INCOME			
Interest and similar income	16	**1,398**	1,147
Interest and similar expense	17	**(896)**	(606)
Net interest income		**502**	541
Other operating income	18	**227**	347
Total operating income		**729**	888
Impairment provisions - net	10	**(70)**	(64)
NET OPERATING INCOME AFTER PROVISIONS		**659**	824
OPERATING EXPENSES			
Staff		**277**	304
Premises and equipment		**33**	35
Other		**111**	100
Total operating expenses		**421**	439
PROFIT BEFORE TAXATION		**238**	385
Taxation on foreign operations	12	**(1)**	(67)
PROFIT FOR THE YEAR		**237**	318
Income attributable to non-controlling interests		**(57)**	(62)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**180**	256
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US$)	31	**0.06**	0.08

Saddek El Kaber Chairman	Hilal Mishari Al Mutairi Deputy Chairman	Khaled Kawan Group Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

All figures in US$ Million

	Note	***2015***	*2014*
PROFIT FOR THE YEAR		**237**	318
Other comprehensive income:			
Other comprehensive income that could be reclassified (or recycled) to profit or loss in subsequent periods:			
Net fair value movements during the year after impairment effect	15	**(41)**	18
Amortisation of fair value shortfall on reclassified securities	15	**4**	7
Unrealised loss on exchange translation in foreign subsidiaries		**(343)**	(110)
		(380)	(85)
Other comprehensive income that cannot be reclassified (or recycled) to profit or loss in subsequent periods:			
Net change in pension fund reserve		**-**	(4)
		-	(4)
Total other comprehensive loss for the year		**(380)**	(89)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(143)**	229
Total comprehensive loss (income) attributable to non-controlling interests		**63**	(12)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**(80)**	217

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

All figures in US$ Million

	Note	***2015***	*2014*
OPERATING ACTIVITIES			
Profit for the year		**237**	318
Adjustments for:			
Impairment provisions - net	10	**70**	64
Depreciation and amortisation		**12**	12
Amortisation of fair value shortfall on reclassified securities	15	**4**	7
Gain on disposal of non-trading securities - net	18	**(11)**	(35)
Changes in operating assets and liabilities:			
Treasury bills and other eligible bills		**(61)**	39
Trading securities		**(151)**	(404)
Placements with banks and other financial institutions		**1,315**	(982)
Securities bought under repurchase agreements		**(833)**	(752)
Loans and advances		**(892)**	(2,053)
Interest receivable and other assets		**(49)**	(532)
Deposits from customers		**365**	1,385
Deposits from banks and other financial institutions		**570**	941
Securities sold under repurchase agreements		**497**	(87)
Interest payable and other liabilities		**20**	425
Other non-cash movements		**54**	219
Net cash from (used in) operating activities		**1,147**	(1,435)
INVESTING ACTIVITIES			
Purchase of non-trading securities		**(3,069)**	(2,858)
Sale and redemption of non-trading securities		**2,139**	3,264
Purchase of premises and equipment		**(10)**	(15)
Sale of premises and equipment		**2**	6
Additional investment in a subsidiary		**(13)**	(7)
Net cash (used in) from investing activities		**(951)**	390
FINANCING ACTIVITIES			
Issue of certificates of deposit - net		**1**	21
Issue of term notes, bonds and other term financing		**104**	1,126
Repurchase of term notes, bonds and other term financing	14	**(49)**	-
Dividend paid to the Group shareholders		**(156)**	(156)
Dividend paid to non-controlling interests		**(19)**	(17)
Net cash (used in) from financing activities		**(119)**	974
Net change in cash and cash equivalents		**77**	(71)
Effect of exchange rate changes on cash and cash equivalents		**(45)**	(36)
Cash and cash equivalents at beginning of the year		**759**	866
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	**791**	759

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

All figures in US$ Million

	Equity attributable to the shareholders of the parent								*Non-controlling interests*	*Total equity*
	Share capital	*Statutory reserve*	*General reserve*	*Retained earnings**	*Foreign exchange translation adjustments*	*Cumulative changes in fair value*	*Pension fund reserve*	*Total*		
At 31 December 2013	3,110	400	150	555	(224)	(32)	(19)	3,940	419	4,359
Profit for the year	-	-	-	256	-	-	-	256	62	318
Other comprehensive (loss) income for the year	-	-	-	-	(60)	25	(4)	(39)	(50)	(89)
Total comprehensive income (loss) for the year	-	-	-	256	(60)	25	(4)	217	12	229
Dividend paid	-	-	-	(156)	-	-	-	(156)	-	(156)
Transfers during the year	-	26	(50)	24	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	-	5	-	-	-	5	(11)	(6)
At 31 December 2014	3,110	426	100	684	(284)	(7)	(23)	4,006	420	4,426
Profit for the year	-	-	-	180	-	-	-	180	57	237
Other comprehensive loss for the year	-	-	-	-	(223)	(37)	-	(260)	(120)	(380)
Total comprehensive income (loss) for the year	-	-	-	180	(223)	(37)	-	(80)	(63)	(143)
Dividend paid	-	-	-	(156)	-	-	-	(156)	-	(156)
Transfers during the year	-	18	-	(18)	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	-	3	-	-	-	3	(22)	(19)
At 31 December 2015	**3,110**	**444**	**100**	**693**	**(507)**	**(44)**	**(23)**	**3,773**	**335**	**4,108**

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US$ 414 million (2014: US$ 406 million).

The attached notes 1 to 32 form part of these consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Arab Banking Corporation (B.S.C.) ['the Bank'] is incorporated in the Kingdom of Bahrain by an Amiri decree and operates under a wholesale banking licence issued by the Central Bank of Bahrain [CBB]. The Bank is a Bahraini Shareholding Company with limited liability and is listed on the Bahrain Bourse. The Central Bank of Libya is the ultimate parent of the Bank and its subsidiaries (together 'the Group').

The Bank's registered office is at ABC Tower, Diplomatic Area, P.O. Box 5698, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 10299 issued by the Ministry of Industry and Commerce, Kingdom of Bahrain.

The Group offers a range of international wholesale banking services including Corporate Banking & Financial Institutions, Project & Structured Finance, Syndications, Treasury, Trade Finance services and Islamic Banking. Retail banking services are only provided in the MENA region.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements of the Bank and its subsidiaries [together 'the Group'] have been prepared in accordance with International Financial Reporting Standards [IFRS] issued by the International Accounting Standards Board [IASB] and the relevant provisions of the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law and the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives.

2.2 Accounting convention

The consolidated financial statements are prepared under the historical cost convention, as modified by the measurement at fair value of derivatives, trading and available-for-sale financial assets. In addition, as more fully discussed below, assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to the risk being hedged.

The Group's consolidated financial statements are presented in United States Dollars, which is also the parent's functional currency. All values are rounded to the nearest million (US$ million), except when otherwise indicated.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

3.1 Standards effective for the year

The accounting policies used in the preparation of these financial statements are consistent with those used in previous year, except for the adoption of the following amendments to IFRS, applicable to the Group, and which are effective from 1 January 2015:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment would not have any material impact on the Group, since none of the entities within the Group has currently any defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The Group does not have any share-based payment programs, accordingly, these amendments did not impact the Group's consolidated financial statements or accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

3.1 Standards effective for the year (continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group's total assets and segment assets are equal, hence, the reconciliation of segment assets to total assets is not required. Hence, this amendment will not have any effect on the Group's consolidated financial statements.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact on the Group as it does not revalue premises and equipment.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Bank is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Group.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

3.2 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. Management is considering the implications of this standard and its impact on the Group's financial position and results.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group plans to adopt the new standard on the required effective date, however, this standard is not expected to have any significant impact on the Group's consolidated financial statements.

In addition to the above, the IASB issued the following new standards and amendments which are not expected to have a material impact on the Group:

- Annual improvements 2012-2014 Cycle
- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*
- Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 27: *Equity Method in Separate Financial Statements*

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Liquid funds

Liquid funds comprise of cash, nostro balances, balances with central banks and treasury bills and other eligible bills. Liquid funds are initially measured at their fair value and subsequently remeasured at amortised cost.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents referred to in the consolidated statement of cash flows comprise of cash and non-restricted balances with central banks, deposits with banks and financial institutions and treasury bills with original maturities of three months or less.

Trading securities

Trading securities are initially recorded at fair value. Subsequent to initial measurement, gains and losses arising from changes in fair values are included in the consolidated statement of profit or loss in the period in which they arise. Interest earned and dividends received are included in 'interest and similar income' and 'other operating income' respectively, in the consolidated statement of profit or loss.

Placements with banks and other financial institutions

Placements with banks and other financial institutions are initially measured at fair value and subsequently remeasured at amortised cost, net of any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged, with the resultant changes being recognised in the consolidated statement of profit or loss.

Non-trading securities

These are classified as follows:

- Held to maturity;
- Available-for-sale; and
- Other non-trading securities.

All non-trading securities are initially recognised at cost, being the fair value of the consideration given including incremental acquisition charges associated with the security.

Held to maturity

Securities which have fixed or determinable payments, fixed maturities and are intended to be held to maturity. After initial measurement, these are remeasured at amortised cost, less provision for impairment in value.

Available-for-sale

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, these are remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. That portion of any fair value changes relating to an effective hedging relationship is recognised directly in the consolidated statement of profit or loss. Fair value changes which are not part of an effective hedging relationship, are reported under fair value movements during the year in the consolidated statement of comprehensive income until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair values" within equity, is included in consolidated statement of profit or loss for the year.

Other non-trading securities

Other non-trading securities are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These instruments are not being held with the intent of sale in the near term. These investments are valued at fair value as at 1 July 2008, in accordance with the amendments to IAS 39 'Reclassification of Financial Assets'. Through the effective interest method, the new cost is amortised to the security's expected recoverable amount over the expected remaining life.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and advances

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. After initial measurement, loans and advances are subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges less any amounts written off and provision for impairment. The losses arising from impairment of such loans and advances are recognised in the consolidated statement of profit or loss in 'impairment provisions - net' and in an impairment allowance account in the consolidated statement of financial position. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is recognised as 'interest and similar income' in the consolidated statement of profit or loss.

In relation to loans and advances which are part of an effective hedging relationship, any gain or loss arising from a change in fair value is recognised directly in the consolidated statement of profit or loss. The carrying values of loans and advances which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. Investments in associates are accounted for under the equity method.

Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation and provision for impairment in value, if any.

Freehold land is not depreciated. Depreciation on other premises and equipment is provided on a straight-line basis over their estimated useful lives.

Impairment and uncollectability of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of profit or loss.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectability of financial assets (continued)
Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost and loans and receivables
For financial assets carried at amortised cost (such as amounts due from banks, loans and advances and held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of ‘interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a written-off financial asset is later recovered, the recovery is credited to 'other operating income'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Group has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectability of financial assets (continued)

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the consolidated statement of profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss is removed from equity and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss. Increases in the fair value after impairment are recognised directly in equity.

Deposits

All money market and customer deposits are initially measured at fair value and subsequently remeasured at amortised cost. An adjustment is made to these, if part of an effective fair value hedging strategy, to adjust the value of the deposit for the fair value being hedged with the resultant changes being recognised in the consolidated statement of profit or loss.

Repurchase and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecognised. The counterparty liability for amounts received under these agreements are shown as sale of securities under repurchase agreement in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest expense using the effective yield method. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. The difference between purchase and resale price is treated as interest income using the effective yield method.

Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of profit or loss net of any reimbursement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in ‘other liabilities’, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantees (continued)
Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss in 'impairment provisions - net'. The premium received is recognised in the consolidated statement of profit or loss in 'other income' on a straight line basis over the life of the guarantee.

Employee pension and other end of service benefits
Costs relating to employee pension and other end of service benefits are generally accrued in accordance with actuarial valuations based on prevailing regulations applicable in each location.

Recognition of income and expenses
For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Other fee income and expense are recognised when earned or incurred.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

Fair value measurement
The Group measures financial instruments at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 valuation: Directly observable quotes for the same instrument (market prices).
- Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date (mark-to-model with market data).
- Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed (mark-to-model with deduced proxies).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Taxation on foreign operations
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided for in accordance with the fiscal regulations applicable in each location. No provision is made for any liability that may arise in the event of distribution of the reserves of subsidiaries. A substantial portion of such reserves is required to be retained to meet local regulatory requirements.

Foreign currencies

Transactions and balances
Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated into the Group's functional currency at the rates of exchange ruling at the date of the statement of financial position. Any gains or losses are taken to the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Group companies
As at the reporting date, the assets and liabilities of foreign operations are translated into the Bank's functional currency at rates of exchange ruling at the date of the statement of financial position. Income and expense items are translated at average exchange rates for the year. Exchange differences arising on translation are recorded in the consolidated statement of comprehensive income under unrealised gain (loss) on exchange translation in foreign subsidiaries. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and settlement date accounting
All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Derivatives and hedge accounting
The Group enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in the foreign exchange, interest rate and capital markets. These are stated at fair value. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

Changes in the fair values of derivatives held for trading activities or to offset other trading positions or which do not qualify for hedge accounting are included in other operating income in the consolidated statement of profit or loss.

For the purposes of hedge accounting, hedges are classified into three categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction; and (c) net investment hedges which hedge the exposure to a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objectives and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument’s fair value in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Changes in the fair value of derivatives that are designated, and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in other operating income along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Changes in the fair value of derivatives that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in the statement of comprehensive income and the ineffective portion recognised in the consolidated statement of profit or loss. The gains or losses on cash flow hedges recognised initially in equity are transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the income. Where the hedged transaction results in the recognition of an asset or a liability the associated gain or loss that had been initially recognised in equity is included in the initial measurement of the cost of the related asset or liability.

Changes in fair value of derivatives or non-derivatives that are designated and qualify as net investment hedges and that prove to be highly effective in relation to the hedged risk are accounted for in a way similar to cash flow hedges.

Hedge accounting is discontinued when the derivative hedging instrument either expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is revoked. Upon such discontinuance:

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedge accounting (cotinued)

- in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the consolidated statement of profit or loss over the remaining term to maturity.
- in the case of cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. When such transaction occurs the gain or loss retained in equity is recognised in the consolidated statement of profit or loss or included in the initial measurement of the cost of the related asset or liability, as appropriate. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of profit or loss.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the consolidated statement of financial position.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Term notes, bonds and other term financing
Issued financial instruments (or their components) are classified as liabilities under 'Term notes, bonds and other term financing', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

Term notes, bonds and other term financing are initially measured at fair value plus transaction costs. After initial measurement, the term notes, bonds and other term financing are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Significant accounting judgments, estimates and assumptions
In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

Going concern
The Bank's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

All figures in US$ Million

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. Refer to note 23 for further disclosures.

Impairment losses on loans and advances
The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The Group's internal grading process takes into consideration factors such as collateral held, deterioration in country risk, industry, technological obsolescence as well as identified structural weakness or deterioration in cash flows.

The impairment loss on loans and advances is disclosed in more detail in note 9.

Impairment losses on available-for-sale investments
The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

All figures in US$ Million

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS

As at 31 December, financial instruments have been classified for the purpose of measurement under IAS 39 *Financial Instruments: Recognition and Measurement* as follows:

At 31 December 2015	***Held for trading***	***Available-for-sale***	***Amortised cost/ Loans and receivables***	***Total***
ASSETS				
Liquid funds	**-**	**-**	**1,002**	**1,002**
Trading securities	**534**	**-**	**-**	**534**
Placements with banks and other financial institutions	**-**	**-**	**4,313**	**4,313**
Securities bought under repurchase agreements	**-**	**-**	**1,447**	**1,447**
Non-trading securities *	**-**	**3,774**	**1,761**	**5,535**
Loans and advances	**-**	**-**	**13,958**	**13,958**
Interest receivable and other assets	**337**	**-**	**929**	**1,266**
	871	**3,774**	**23,410**	**28,055**

	Held for trading	***Available-for-sale***	***Amortised cost***	***Total***
LIABILITIES				
Deposits from customers	**-**	**-**	**13,384**	**13,384**
Deposits from banks and other financial institutions	**-**	**-**	**5,029**	**5,029**
Certificates of deposit	**-**	**-**	**41**	**41**
Securities sold under repurchase agreements	**-**	**-**	**579**	**579**
Interest payable, taxation and other liabilities	**330**	**-**	**781**	**1,111**
Term notes, Bonds and other term financing	**-**	**-**	**3,943**	**3,943**
	330	**-**	**23,757**	**24,087**

All figures in US$ Million

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2014	*Held for trading*	*Available-for-sale*	*Amortised cost/ Loans and receivables*	*Total*
ASSETS				
Liquid funds	-	-	909	909
Trading securities	539	-	-	539
Placements with banks and other financial institutions	-	-	5,870	5,870
Securities bought under repurchase agreements	-	-	987	987
Non-trading securities *	-	3,796	831	4,627
Loans and advances	-	-	14,819	14,819
Interest receivable and other assets	481	-	974	1,455
	1,020	3,796	24,390	29,206

	Held for trading	*Available-for-sale*	*Amortised cost*	*Total*
LIABILITIES				
Deposits from customers	-	-	13,945	13,945
Deposits from banks and other financial institutions	-	-	5,668	5,668
Certificates of deposit	-	-	47	47
Securities sold under repurchase agreements	-	-	87	87
Interest payable, taxation and other liabilities	480	-	812	1,292
Term notes, Bonds and other term financing	-	-	3,891	3,891
	480	-	24,450	24,930

* Included in the above are other non-trading securities amounting to US$ 374 million (2014: US$ 613 million) which were reclassified effective 1 July 2008. Refer note 8 for details.

All figures in US$ Million

6 LIQUID FUNDS

	2015	*2014*
Cash on hand	**37**	54
Balances due from banks	**387**	281
Deposits with central banks	**326**	249
Treasury bills and other eligible bills with original maturities of three months or less	**41**	175
Cash and cash equivalents	**791**	759
Treasury bills and other eligible bills with original maturities of more than three months	**211**	150
	1,002	909

7 NON-TRADING SECURITIES

	2015			*2014*		
	Quoted	***Unquoted****	***Total***	*Quoted*	*Unquoted**	*Total*
Available-for-sale						
Debt securities	**3,160**	**738**	**3,898**	3,023	871	3,894
Equity securities	**8**	**39**	**47**	9	41	50
Held to maturity						
Debt securities	**1,336**	**-**	**1,336**	186	-	186
Other non-trading securities carried at amortised cost **	**374**	**-**	**374**	623	-	623
	4,878	**777**	**5,655**	3,841	912	4,753
Provisions against non-trading securities	**(15)**	**(105)**	**(120)**	(21)	(105)	(126)
	4,863	**672**	**5,535**	3,820	807	4,627

* Includes unquoted equity securities carried at cost amounting to US$ 26 million (2014: US$ 28 million) net of impairment provisions. This is due to the unpredictable nature of future cash flows and the lack of suitable alternative methods to arrive at a reliable fair value. There is no market for these investments and the Group intends to hold them for the long term.

All other available-for-sale securities and other non-trading securities have been valued using observable market inputs.

** As explained in note 8, the Group has identified assets, eligible under the 2008 amendment to IAS 39, for which it has a clear intent to hold for the foreseeable future. The assets were reclassified with retrospective effect as on 1 July 2008 in accordance with the amendment to IAS 39 and are reflected as other non-trading securities carried at amortised cost.

All figures in US$ Million

7 NON-TRADING SECURITIES (continued)

Provisions against non-trading securities are primarily due to the impact on collateralized debt obligations (mainly in North America and Europe) which were fully provided for in 2008.

The external ratings distribution of non-trading securities is given below:

	2015	*2014*
AAA rated debt securities	**458**	694
AA to A rated debt securities	**1,414**	850
Other investment grade debt securities	**2,237**	1,315
Other non-investment grade debt securities	**1,324**	1,390
Unrated debt securities	**175**	454
Equity securities	**47**	50
	5,655	4,753
Provisions against non-trading securities	**(120)**	(126)
	5,535	4,627

The movement in impairment provisions against non-trading securities during the year is as follows:

	2015	*2014*
At 1 January	**126**	299
Charge for the year	**-**	2
Write backs / recoveries	**(6)**	(1)
Write-offs	**-**	(174)
At 31 December	**120**	126

The gross amount of non-trading securities individually determined to be impaired, before deducting any individually assessed impairment losses, amounts to US$ 127 million (2014: US$ 163 million). No Interest income was received during the year on impaired securities (2014: US$ 1 million).

8 RECLASSIFICATION OF FINANCIAL ASSETS

In October 2008, the IASB issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" titled "Reclassification of Financial Assets". The amendments to IAS 39 permitted reclassification of financial assets from the available-for-sale category to the other non-trading securities category in certain circumstances.

The amendments to IFRS 7 introduced additional disclosure requirements if an entity had reclassified financial assets in accordance with the IAS 39 amendments. The amendments were effective retrospectively to 1 July 2008.

Per the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified certain available-for-sale securities to other non-trading securities carried at amortised cost. The Group identified assets, eligible under the amendments, for which it had a clear intent to hold for the foreseeable future. The assets were reclassified with retrospective effect as on 1 July 2008. The significant market dislocations witnessed in the financial sector in 2008 is considered as a rare event.

All figures in US$ Million

8 RECLASSIFICATION OF FINANCIAL ASSETS (continued)

The carrying values and fair values of the assets reclassified are as follows:

	2015	*2014*
Carrying value	**374**	613
Fair value	**377**	625

Fair value losses that would have been recognised in other comprehensive income for the year ended 31 December 2015 had the other non-trading securities not been reclassified amounts to US$ 9 million (2014: fair value losses of US$ 19 million).

The Group earns an effective interest rate of 1% to 8% (2014: 1% to 9%) on these investments and the carrying values reflect the cash flows expected to be recovered as of year-end. Reclassified available-for-sale financial assets at cost include US$ 54 million (2014: US$ 98 million) which have been hedged for changes in fair value, on account of changes in interest rates.

9 LOANS AND ADVANCES

	2015	*2014*
i) By industrial sector		
Financial services	**3,826**	3,776
Other services	**2,657**	2,497
Manufacturing	**3,314**	3,875
Construction	**1,003**	1,479
Mining and quarrying	**665**	859
Transport	**795**	796
Personal/Consumer finance	**744**	742
Trade	**707**	610
Agriculture, fishing and forestry	**344**	435
Technology, media and telecommunications	**185**	175
Government	**309**	167
	14,549	15,411
Loan loss provisions	**(591)**	(592)
	13,958	14,819

	2015	*2014*
ii) Loan loss provisions by industrial sector		
Financial services	**124**	124
Other services	**25**	26
Manufacturing	**45**	56
Construction	**22**	19
Mining and quarrying	**10**	4
Transport	**-**	7
Personal/Consumer finance	**22**	19
Trade	**75**	71
Agriculture, fishing and forestry	**3**	3
Technology, media and telecommunications	**22**	22
Government	**60**	60
Collective impairment	**183**	181
	591	592

All figures in US$ Million

9 LOANS AND ADVANCES (continued)

The movement in loan loss provisions during the year is as follows:

	Specific impairment		***Collective impairment***	
	2015	*2014*	***2015***	*2014*
At 1 January	**411**	402	**181**	182
Charge for the year	**77**	84	**4**	-
Write backs / recoveries	**(5)**	(20)	**-**	(1)
Write-offs	**(53)**	(46)	**-**	-
Foreign exchange translation and other adjustments	**(22)**	(9)	**(2)**	-
At 31 December	**408**	411	**183**	181

The gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance amounts to US$ 489 million (2014: US$ 369 million).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2015 amounts to US$ 245 million (2014: US$ 122 million).

At 31 December 2015, interest in suspense on past due loans amounts to US$ 257 million (2014: US$ 246 million).

10 IMPAIRMENT PROVISIONS - NET

During the year the Group has made the following provisions for impairment - net:

	2015	*2014*
Non-trading securities (note 7)	**6**	(1)
Loans and advances (note 9)	**(76)**	(63)
	(70)	(64)

11 OTHER ASSETS

	2015	*2014*
Positive fair value of derivatives (note 20)	**382**	620
Trade receivables	**161**	169
Advances and prepayments	**113**	31
Bank owned life insurance	**36**	35
Staff loans	**26**	26
Investments in associates	**18**	22
Assets acquired on debt settlement	**19**	15
Margin dealing accounts	**1**	12
Others	**173**	160
	929	1,090

The negative fair value of derivatives amounting to US$ 337 million (2014: US$ 480 million) is included in other liabilities (note 13). Details of derivatives are given in note 20.

All figures in US$ Million

12 TAXATION ON FOREIGN OPERATIONS

Determining the Group's taxation charge for the year involves a degree of estimation and judgment.

	2015	*2014*
Consolidated statement of financial position		
Current tax liability	**28**	29
Deferred tax liability	**42**	22
	70	51
Consolidated statement of profit or loss		
Current tax on foreign operations	**40**	61
Deferred tax on foreign operations	**(39)**	6
	1	67
Analysis of tax charge		
At Bahrain (income tax rate of nil)	**-**	-
On profits of subsidiaries operating in other jurisdictions	**1**	67
Income tax expense reported in the consolidated statement of profit or loss	**1**	67

The effective tax rates on the profit of subsidiaries in MENA and United Kingdom were 31% (2014: 29%) and 21% (2014: 19%) as against the actual tax rates of 23% to 35% (2014: 25% to 35%) and 20% (2014: 21.5%) respectively. In the bank's Brazilian subsidiary, the effective tax rate was 0% (2014: 20%) as against the actual tax rate of 45% (2014: 40%). The tax charge from operations was offset by a tax credit arising due to the tax treatment of currency movements on certain transaction. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. After giving effect to these adjustments at the group level, the average effective tax rate is 0.4% (2014: 17%).

In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits.

13 OTHER LIABILITIES

	2015	*2014*
Negative fair value of derivatives (note 20)	**337**	480
Employee related payables	**90**	99
Margin deposits including cash collateral	**45**	60
Cheques for collection	**30**	51
Deferred income	**19**	24
Securities purchased awaiting value	**20**	-
Non-corporate tax payable	**15**	13
Accrued charges and other payables	**225**	195
	781	922

The positive fair value of derivatives amounting to US$ 382 million (2014: US$ 620 million) is included in other assets (note 11). Details of derivatives are given in note 20.

All figures in US$ Million

14 TERM NOTES, BONDS AND OTHER TERM FINANCING

In the ordinary course of business, the Bank and certain subsidiaries raise term financing through various capital markets at commercial rates.

Total obligations outstanding at 31 December 2015

Aggregate maturities	Currency	Rate of Interest	*Parent bank*	*Subsidiaries*	*Total*
2016	US$	*Libor + 0.50%*	**-**	**50**	**50**
2017	US$	*Libor + 2.25%*	**2,000**	**-**	**2,000**
2017*	US$	*Libor + 1.35%*	**372**	**-**	**372**
2017	US$	*Libor + 1.20%*	**750**	**-**	**750**
2017	US$	*Libor + 1.20%*	**100**	**-**	**100**
2017	EUR	*Euribor + 1.10%*	**-**	**55**	**55**
2017	US$	*Libor + 1.20%*	**-**	**175**	**175**
2018	US$	*Libor + 1.25%*	**50**	**-**	**50**
2018	US$	*Libor + 1.25%*	**50**	**-**	**50**
2020*	BRL	*7.875*	**-**	**341**	**341**
			3,322	**621**	**3,943**
Total obligations outstanding at 31 December 2014			3,322	569	3,891

* Subordinated

During the year ended 31 December 2015, the Bank repurchased a portion of its term loan borrowings with a nominal value of US$ 49 million (2014: US$ nil). The resultant net gain on the repurchase amounting to US$ 6 million (2014 : US$ nil) is included in "Other operating income".

The Group has not had any defaults of principal, interest or other breaches with regard to any of its liabilities during the years ended 31 December 2015 and 2014.

15 EQUITY

a) Share capital

	2015	*2014*
Authorised – 3,500 million shares of US$ 1 each (2014: 3,500 million shares of US$ 1 each)	**3,500**	3,500
Issued, subscribed and fully paid – 3,110 million shares of US$ 1 each (2014: 3,110 million shares of US$ 1 each)	**3,110**	3,110

b) Statutory reserve

As required by the Articles of Association of the Bank and the Bahrain Commercial Companies Law, 10% of the profit for the year is transferred to the statutory reserve. Such annual transfers will cease when the reserve totals 50% of the paid up share capital. The reserve is not available except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

c) General reserve

The general reserve underlines the shareholders' commitment to enhance the strong equity base of the Bank. There are no restrictions on the distribution of this reserve after obtaining approval of the Central Bank of Bahrain.

All figures in US$ Million

15 EQUITY (continued)

d) Cumulative changes in fair value

	2015	*2014*
At 1 January	**(7)**	(32)
Transferred to consolidated statement of comprehensive income on disposal	**(11)**	(35)
Net movement in fair value during the year	**(30)**	53
Amortisation of fair value shortfall on reclassified securities	**4**	7
At 31 December	**(44)**	(7)

16 INTEREST AND SIMILAR INCOME

	2015	*2014*
Loans and advances	**846**	671
Securities	**338**	308
Placements with banks and other financial institutions	**213**	150
Others	**1**	18
	1,398	1,147

17 INTEREST AND SIMILAR EXPENSE

	2015	*2014*
Deposits from banks and other financial institutions	**593**	289
Deposits from customers	**174**	194
Term notes, bonds and other term financing	**126**	121
Certificates of deposit and others	**3**	2
	896	606

18 OTHER OPERATING INCOME

	2015	*2014*
Fee and commission income - net	**181**	212
Bureau processing income	**37**	38
(Loss) gain on dealing in derivatives - net	**(20)**	31
Gain (loss) on dealing in foreign currencies - net	**1**	(1)
Gain on disposal of non-trading securities - net	**11**	35
Loss on trading securities - net	**(17)**	(1)
Gain on repurchase of subordinated debt (note 14)	**6**	-
Other - net	**28**	33
	227	347

Included in the fee and commission income is US$ 13 million (2014: US$ 16 million) of fee income relating to trust and other fiduciary activities.

All figures in US$ Million

19 GROUP INFORMATION

19.1 Information about subsidiaries

The principal subsidiaries, all of which have 31 December as their year-end, are as follows:

	Principal activities	*Country of incorporation*	*Interest of Arab Banking Corporation (B.S.C.)*	
			2015	*2014*
			%	%
ABC International Bank Plc	*Banking*	*United Kingdom*	**100.0**	100.0
ABC Islamic Bank (E.C.)	*Banking*	*Bahrain*	**100.0**	100.0
Arab Banking Corporation (ABC) - Jordan	*Banking*	*Jordan*	**87.0**	87.0
Banco ABC Brasil S.A.	*Banking*	*Brazil*	**61.2**	59.7
ABC Algeria	*Banking*	*Algeria*	**87.7**	87.7
Arab Banking Corporation - Egypt [S.A.E.]	*Banking*	*Egypt*	**99.6**	99.6
ABC Tunisie	*Banking*	*Tunisia*	**100.0**	100.0
Arab Financial Services Company B.S.C. (c)	*Credit card services*	*Bahrain*	**54.6**	54.6

19.2 Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. In certain jurisdictions, distribution of reserves is subject to prior supervisory approval.

19.3 Material partly-owned subsidiaries

Financial information of a subsidiary that has material non-controlling interests is provided below:

Banco ABC Brasil S.A.

	2015	*2014*
Proportion of equity interest held by non-controlling interests (%)	**38.8**	40.3
Dividends paid to non-controlling interests	**14**	15

The summarised financial information of this subsidiary is provided below. This information is based on amounts before inter-company eliminations.

	2015	*2014*
Summarised statement of profit or loss:		
Interest and similar income	**850**	619
Interest and similar expense	**(644)**	(367)
Other operating income	**49**	95
Impairment provisions - net	**(60)**	(44)
Operating expenses	**(107)**	(136)
Profit before tax	**88**	167
Income tax	**37**	(31)
Profit for the year	**125**	136
Profit attributable to non-controlling interests	**49**	55
Total comprehensive (loss) income	**(164)**	61
Total comprehensive (loss) income attributable to non-controlling interests	**(64)**	25

All figures in US$ Million

19 GROUP INFORMATION (continued)

19.3 Material partly-owned subsidiaries (continued)

Banco ABC Brasil S.A. (continued)

	2015	*2014*
Summarised statement of financial position:		
Total assets	**6,025**	7,337
Total liabilities	**5,350**	6,482
Total equity	**675**	855
Equity attributable to non-controlling interests	**262**	345
Summarised cash flow information for the year ended:		
Operating activities	**(61)**	(122)
Investing activities	**67**	72
Financing activities	**(7)**	(2)
Net decrease in cash and cash equivalents	**(1)**	(52)

20 DERIVATIVES AND HEDGING

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

The table below shows the positive and negative fair values of derivative financial instruments. The notional amount is that of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of either market or credit risk.

	2015			*2014*		
	Positive fair value	***Negative fair value***	***Notional amount***	*Positive fair value*	*Negative fair value*	*Notional amount*
Derivatives held for trading						
Interest rate swaps	**29**	**26**	**2,626**	27	23	1,337
Currency swaps	**67**	**31**	**676**	9	25	368
Forward foreign exchange contracts	**63**	**136**	**5,821**	131	104	7,450
Options	**123**	**100**	**3,225**	297	299	1,211
Futures	**55**	**37**	**2,769**	17	29	3,364
	337	**330**	**15,117**	481	480	13,730
Derivatives held as hedges						
Interest rate swaps	**2**	**1**	**2,152**	3	-	1,529
Forward foreign exchange contracts	**35**	-	**775**	136	-	598
Options	**8**	6	**799**	-	-	-
	45	**7**	**3,726**	139	-	2,127
	382	**337**	**18,843**	620	480	15,857
Risk weighted equivalents (credit and market risk)			**1,703**			2,135

Derivatives are carried at fair value using valuation techniques based on observable market inputs.

All figures in US$ Million

20 DERIVATIVES AND HEDGING (continued)

Derivatives held as hedges include:

a) Fair value hedges which are predominantly used to hedge fair value changes arising from interest rate fluctuations in loans and advances, placements, deposits, available-for-sale debt securities and subordinated loan of a subsidiary.

For the year ended 31 December 2015, the Group recognised a net gain of US$ 80 million (2014: loss of US$ 61 million) on hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to US$ 80 million (2014: gain of US$ 61 million).

b) Net investment hedges comprising of currency options of US$ 799 million (2014:US$ nil.)

In addition to the currency options, the Group uses deposits which are accounted for as hedges of net investment in foreign operations. As at 31 December 2015, the Group had deposits amounting to US$ 676 million (2014: US$ 697 million) which were designated as net investment hedges.

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency amounts based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency swaps, notional amounts are exchanged in different currencies. For cross-currency interest rate swaps, notional amounts and fixed and floating interest payments are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The majority of the Group's derivative contracts are entered into with other financial institutions and there is no significant concentration of credit risk in respect of contracts with positive fair value with any individual counterparty at the date of the statement of financial position.

Derivatives held or issued for trading purposes

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

All figures in US$ Million

20 DERIVATIVES AND HEDGING (continued)

Derivatives held or issued for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. The Board has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on an ongoing basis and hedging strategies used to ensure positions are maintained within established limits. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps are reviewed on an ongoing basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Board of Directors.

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against overall statement of financial position exposures. For interest rate risk this is carried out by monitoring the duration of assets and liabilities using simulations to estimate the level of interest rate risk and entering into interest rate swaps and futures to hedge a proportion of the interest rate exposure, where appropriate. Since strategic hedging does not qualify for special hedge accounting related derivatives are accounted for as trading instruments.

The Group uses forward foreign exchange contracts, currency options and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified loans and securities bearing fixed interest rates. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as hedges.

21 CREDIT COMMITMENTS AND CONTINGENT ITEMS

Credit commitments and contingent items include commitments to extend credit, standby letters of credit, acceptances and guarantees, which are structured to meet the various requirements of customers.

At the statement of financial position date, the principal outstanding and the risk weighted equivalents were as follows:

	2015	*2014*
Short-term self-liquidating trade and transaction-related contingent items	**3,347**	3,333
Direct credit substitutes and guarantees	**3,197**	3,603
Undrawn loans and other commitments	**1,735**	2,070
	8,279	9,006
Risk weighted equivalents	**2,699**	2,989

The table below shows the contractual expiry by maturity of the Group's credit commitments and contingent items:

	2015	*2014*
On demand	**1,243**	1,370
1 - 6 months	**2,740**	3,195
6 - 12 months	**1,567**	2,187
1 - 5 years	**2,524**	2,124
Over 5 years	**205**	130
	8,279	9,006

All figures in US$ Million

21 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Group is engaged in litigation in various jurisdictions. The litigation involves claims by and against the Group which have arisen in the ordinary course of business. The Directors of the Bank, after reviewing the claims pending against Group companies and based on the advice of relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the financial position of the Group.

22 SIGNIFICANT NET FOREIGN CURRENCY EXPOSURES

Significant net foreign currency exposures, arising mainly from investments in subsidiaries, are as follows:

	2015		*2014*	
Long (short)	***Currency***	***US$ equivalent***	*Currency*	*US$ equivalent*
Brazilian Real	**1,074**	**271**	1,320	497
Jordanian Dinar	**146**	**206**	140	197
Algerian Dinar	**13,732**	**128**	13,985	159
Egyptian Pound	**1,294**	**165**	1,142	160
Pound Sterling	**(8)**	**(12)**	(2)	(4)
Qatari Riyal	**720**	**198**	724	199
Euro	**-**	**-**	54	66
Swiss Francs	**-**	**-**	(60)	(61)
Bahrain Dinar	**28**	**74**	(1)	(2)
Omani Riyal	**59**	**154**	4	2
UAE Dirham	**(353)**	**(94)**	10	3

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities.

23.1 31 December 2015

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2015:

Financial assets measured at fair value:

	Level 1	***Level 2***	***Total***
Trading securities	**416**	**118**	**534**
Non-trading securities - available-for-sale			
Quoted debt securities	**3,150**	**-**	**3,150**
Unquoted debt securities	**-**	**621**	**621**
Quoted equity shares	**3**	**-**	**3**
Unquoted equity shares	**-**	**-**	**-**
Derivatives held for trading			
Interest rate swaps	**-**	**29**	**29**
Currency swaps	**-**	**67**	**67**
Forward foreign exchange contracts	**-**	**63**	**63**
Options	**110**	**13**	**123**
Futures	**55**	**-**	**55**
Derivatives held as hedges			
Interest rate swaps	**-**	**2**	**2**
Forward foreign exchange contracts	**-**	**35**	**35**
Options	**-**	**8**	**8**

All figures in US$ Million

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

23.1 31 December 2015 (continued)

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2015:

Financial liabilities measured at fair value:

	Level 1	*Level 2*	*Total*
Derivatives held for trading			
Interest rate swaps	**-**	**26**	**26**
Currency swaps	**-**	**31**	**31**
Forward foreign exchange contracts	**-**	**136**	**136**
Options	**100**	**-**	**100**
Futures	**37**	**-**	**37**
Derivatives held as hedges			
Interest rate swaps	**-**	**1**	**1**
Forward foreign exchange contracts	**-**	**-**	**-**
Options	**-**	**6**	**6**

Fair values of financial instruments not carried at fair value

Except for the following, the fair value of financial instruments which are not carried at fair value are not materially different from their carrying value.

	Carrying value	*Level 1*	*Level 2*	*Total*
Financial assets				
Other non-trading securities	**1,735**	**1,712**	**25**	**1,737**
Financial liabilities				
Term notes, bonds and other term financing	**3,943**	**668**	**3,122**	**3,790**

23.2 31 December 2014

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2014:

Financial assets measured at fair value:

	Level 1	*Level 2*	*Total*
Trading securities	466	73	539
Non-trading securities - available-for-sale			
Quoted debt securities	3,013	-	3,013
Unquoted debt securities	-	779	779
Quoted equity shares	4	-	4
Unquoted equity shares	-	-	-
Derivatives held for trading			
Interest rate swaps	-	27	27
Currency swaps	-	9	9
Forward foreign exchange contracts	-	131	131
Options	1	296	297
Futures	17	-	17
Derivatives held as hedges			
Interest rate swaps	-	3	3
Forward foreign exchange contracts	-	136	136

All figures in US$ Million

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

23.2 31 December 2014 (continued)

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2014:

Financial liabilities measured at fair value:

	Level 1	*Level 2*	*Total*
Derivatives held for trading			
Interest rate swaps	-	23	23
Currency swaps	-	25	25
Forward foreign exchange contracts	-	104	104
Options	2	297	299
Futures	29	-	29
Derivatives held as hedges			
Interest rate swaps	-	-	-
Forward foreign exchange contracts	-	-	-

Fair values of financial instruments not carried at fair value

Except for the following, the fair value of financial instruments which are not carried at fair value are not materially different from their carrying value.

	Carrying value	*Level 1*	*Level 2*	*Total*
Financial assets				
Other non-trading securities	803	804	5	809
Financial liabilities				
Term notes, bonds and other term financing	3,891	770	3,120	3,890

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily DAX, FTSE 100 and Dow Jones equity investments classified as trading securities or available for sale.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 during the year ended 31 December 2015 (31 December 2014: none).

All figures in US$ Million

24 RISK MANAGEMENT

Introduction

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

Over the last few years the Group has invested heavily into developing a comprehensive and robust risk management infrastructure. This includes risk identification processes under credit, market and operational risk spectrums, risk measurement models and rating systems as well as a strong business process to monitor and control these risks.

Risk management structure

Executive Management is responsible for implementing the Group's Risk Strategy/Appetite and Policy Guidelines set by the Board Risk Committee (BRC), including the identification and evaluation on a continuous basis of all significant risks to the business and the design and implementation of appropriate internal controls to minimise them. This is done through the following board committees, senior management committees and the Credit & Risk Group in Head Office.

Within the broader governance infrastructure, the board committees carry the main responsibility of best practice management and risk oversight. At this level, the BRC oversees the definition of risk appetite, risk tolerance standards, and risk process standards to be kept in place. The BRC is also responsible to coordinate with other board committees for monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Group operates.

The Group Audit Committee is responsible to the Board for ensuring that the Group maintains an effective system of financial, accounting and risk management controls and for monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Group operates.

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

Each subsidiary is responsible for managing its own risks and has its own Board Risk Committee, Credit Committee and (in the case of major subsidiaries) Asset and Liability Committee (ALCO), or equivalent, with responsibilities generally analogous to the Group committees.

The GALCO is chiefly responsible for defining long-term strategic plans and short-term tactical initiatives for directing asset and liability allocation prudently for the achievement of the Group’s strategic goals. GALCO monitors the Group’s liquidity and market risks and the Group’s risk profile in the context of economic developments and market fluctuations, to ensure that the Group’s ongoing activities are compatible with the risk/reward guidelines approved by the BRC. The above management structure, supported by teams of risk and credit analysts, as well as the IT systems provide a coherent infrastructure to carry credit and risk functions in a seamless manner.

The Group Operational Risk Committee (GORCO) ensures that operational risks across ABC group are managed in accordance with the Board approved Operational Risk Management Policy. This includes overseeing the development and implementation of the group-wide framework for the management of operational risk and monitoring of the respect to the stated tolerance for operational risks.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Risk measurement and reporting system

Risk mitigation

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

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

The Group actively uses collateral to reduce its credit risk (see below for details).

Excessive risk concentration

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

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

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients and counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits.

The first level of protection against undue credit risk is through country, industry and other risk threshold limits, together with customer and customer group credit limits, set by the BRC and the HOCC and allocated between the Bank and its banking subsidiaries. Credit exposure to individual customers or customer groups is then controlled through a tiered hierarchy of delegated approval authorities based on the risk rating of the customer under the Group's internal credit rating system. Where unsecured facilities sought are considered to be beyond prudential limits, Group policies require collateral to mitigate the credit risk in the form of cash, securities, legal charges over the customer's assets or third-party guarantees. The Group also employs Risk Adjusted Return on Capital (RAROC) as a measure to evaluate the risk/reward relationship at the transaction approval stage. RAROC analysis is also conducted on a portfolio basis, aggregated for each business segment, business unit and for the whole Group.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The Group's concentration of risk is managed by geographical region and by industry sector. The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including credit commitments and contingent items. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure	
	2015	*2014*
Liquid funds	**965**	855
Trading debt securities	**416**	538
Placements with banks and other financial institutions	**4,313**	5,870
Securities bought under repurchase agreements	**1,447**	987
Non-trading debt securities	**5,506**	4,595
Loans and advances	**13,958**	14,819
Other credit exposures	**1,266**	1,455
	27,871	29,119
Credit commitments and contingent items (note 21)	**8,279**	9,006
Total	**36,150**	38,125

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references should be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Risk concentration of the maximum exposure to credit risk

The Group's assets (before taking into account any collateral held or other credit enhancements), liabilities and equity and commitments and contingencies can be analysed by the following geographical regions:

	Assets		*Liabilities and equity*		*Credit commitments and contingent items*	
	2015	*2014*	***2015***	*2014*	***2015***	*2014*
Western Europe	**3,743**	3,499	**1,008**	1,136	**1,510**	1,057
Arab World	**12,353**	12,973	**21,403**	22,027	**3,744**	3,493
Asia	**1,547**	1,813	**90**	80	**250**	432
North America	**2,850**	2,470	**1,048**	1,095	**520**	507
Latin America	**5,931**	6,951	**3,965**	4,697	**2,105**	3,095
Other	**1,447**	1,413	**357**	84	**150**	422
Total	**27,871**	29,119	**27,871**	29,119	**8,279**	9,006

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Risk concentration of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets, before and after taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure		*Net maximum exposure*	
	2015	*2014*	***2015***	*2014*
Financial services	**11,809**	10,984	**10,095**	10,552
Other services	**5,558**	5,413	**5,487**	5,303
Manufacturing	**3,645**	4,218	**3,617**	4,162
Construction	**1,068**	1,576	**998**	1,529
Mining and quarrying	**725**	873	**725**	869
Agriculture, fishing and forestry	**357**	446	**357**	446
Trade	**645**	556	**635**	547
Personal /Consumer finance	**698**	716	**697**	672
Government	**3,366**	4,337	**3,318**	4,283
Total	**27,871**	29,119	**25,929**	28,363

An industry sector analysis of the Group's credit commitments and contingent items, before and after taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure		*Net maximum exposure*	
	2015	*2014*	***2015***	*2014*
Financial services	**3,201**	3,521	**2,851**	3,281
Other services	**2,186**	2,062	**2,181**	2,054
Manufacturing	**1,539**	1,640	**1,531**	1,631
Construction	**689**	915	**686**	912
Mining and quarrying	**365**	405	**365**	405
Agriculture, fishing and forestry	**5**	16	**5**	16
Trade	**205**	250	**202**	247
Government	**59**	155	**57**	155
Other	**30**	42	**30**	40
Total	**8,279**	9,006	**7,908**	8,741

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset, based on the Group's credit rating system.

31 December 2015	***Neither past due nor impaired***			***Past due and individually impaired***	
	High grade	***Standard grade***	***Sub-standard grade***		***Total***
Liquid funds	**965**	**-**	**-**	**-**	**965**
Trading debt securities	**413**	**3**	**-**	**-**	**416**
Placements with banks and other financial institutions	**2,486**	**1,827**	**-**	**-**	**4,313**
Securities bought under repurchase agreements	**1,447**	-	**-**	**-**	**1,447**
Non-trading debt securities	**4,366**	**1,133**	**-**	**7**	**5,506**
Loans and advances	**7,505**	**6,292**	**-**	**161**	**13,958**
Other credit exposures	**1,137**	**129**	**-**	**-**	**1,266**
	18,319	**9,384**	**-**	**168**	**27,871**

31 December 2014	*Neither past due nor impaired*			*Past due and individually impaired*	
	High grade	*Standard grade*	*Sub-standard grade*		*Total*
Liquid funds	855	-	-	-	855
Trading debt securities	380	158	-	-	538
Placements with banks and other financial institutions	4,609	1,261	-	-	5,870
Securities bought under repurchase agreements	987	-	-	-	987
Non-trading debt securities	3,186	1,391	-	18	4,595
Loans and advances	7,278	7,504	-	37	14,819
Other credit exposures	1,306	149	-	-	1,455
	18,601	10,463	-	55	29,119

As at 31 December 2015, the total amount of past due but not impaired assets was US$ 58 million (2014: US$ 43 million), all aged under ninety days.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio through a risk rating system. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty credit risk. All internal ratings are tailored to the various categories and are derived in accordance with the Group's credit policy. The attributable risk ratings are assessed and updated regularly. Each risk rating class has grades equivalent to Moody's, S&P and Fitch rating agencies.

Carrying amount per class of financial assets whose terms have been renegotiated as at year-end

	2015	*2014*
Loans and advances	**207**	191

24 RISK MANAGEMENT (continued)

Collateral and other credit enhancements
The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly includes cash and guarantees from banks.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group also makes use of master netting agreements with counterparties.

Settlement risk
Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Group mitigates this risk through a settlement agent to ensure that a trade is settled only when both parties fulfil their settlement obligations. Settlement approvals form a part of credit approval and limit monitoring procedure.

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

The Group has established risk management policies and limits within which exposure to market risk is monitored, measured and controlled by the Risk Management Department (RMD) with strategic oversight exercised by GALCO. The RMD’s Treasury & Financial Market Risk (TFMR) unit is responsible for developing and implementing market risk policy and risk measuring/monitoring methodology and for reviewing all new trading products and product limits prior to GALCO approval. MRM’s core responsibility is to measure and report market risk against limits throughout the Group.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The most prominent market risk factor for the Group is interest rates. This risk is minimized as the Group's rate sensitive assets and liabilities are mostly floating rate, where the duration risk is lower. In general, the Group uses matched currency funding and translates fixed rate instruments to floating rate to better manage the duration in the asset book.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group’s consolidated statement of profit or loss.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on financial assets and financial liabilities held at 31 December, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges and swaps. Substantially all the available-for-sale non-trading securities held by the Group are floating rate assets. Hence, the sensitivity to changes in equity due to interest rate changes is insignificant.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Interest rate risk (continued)

	2015			
	Increase in basis points	***Sensitivity statement of profit or loss***	***Decrease in basis points***	***Sensitivity statement of profit or loss***
US Dollar	25	**5**	25	**(5)**
Euro	25	**1**	25	**(1)**
Pound Sterling	25	**(1)**	25	**1**
Brazilian Real	25	**3**	25	**(3)**
Others	25	**1**	25	**(1)**

	2014			
	Increase in basis points	*Sensitivity statement of profit or loss*	*Decrease in basis points*	*Sensitivity statement of profit or loss*
US Dollar	25	6	25	(6)
Euro	25	-	25	-
Pound Sterling	25	(1)	25	1
Brazilian Real	25	-	25	-
Others	25	1	25	(1)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The table below indicates the currencies to which the Group had significant exposure at 31 December 2015 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US$, with all other variables held constant on the consolidated statement of profit or loss (due to the fair value of currency sensitive trading and non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as fair value hedges) and the effect of the impact of foreign currency movements on the structural positions of the Bank in its subsidiaries. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss or equity, while a positive amount reflects a potential net increase.

	2015			*2014*		
Currency	***Change in currency rate in %***	***Effect on profit before tax***	***Effect on equity***	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on equity*
Brazilian Real	+/- 5%	**+/-11**	**+/-2**	+/- 5%	-	+/-25
Pound Sterling	+/- 5%	**+/-1**	**-**	+/- 5%	-	-
Egyptian Pound	+/- 5%	**-**	**+/-8**	+/- 5%	-	+/-8
Jordanian Dinar	+/- 5%	**+/-1**	**+/-9**	+/- 5%	+/-1	+/-9
Algerian Dinar	+/- 5%	**-**	**+/-6**	+/- 5%	-	+/-8
Qatari Riyal	+/- 5%	**+/-10**	**-**	+/- 5%	+/-10	-
Euro	+/- 5%	**-**	**-**	+/- 5%	+/-3	-
Swiss Francs	+/- 5%	**-**	**-**	+/- 5%	-/+3	-
Omani Riyal	+/- 5%	**+/-8**	**-**	+/- 5%	-	-
Bahrain Dinar	+/- 5%	**+/-4**	**-**	+/- 5%	-	-
UAE Dirham	+/- 5%	**-/+5**	**-**	+/- 5%	+/-1	-

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's securities portfolio.

The effect on equity (as a result of a change in the fair value of trading equity instruments and equity instruments held as available for sale) due to a reasonably possible change in equity indices or the net asset values, with all other variables held constant, is as follows:

	2015		*2014*	
	% Change in equity price	***Effect on statement of profit or loss/ equity***	*% Change in equity price*	*Effect on statement of profit or loss/ equity*
Trading equities	+/- 5%	+/-6	+/- 5%	-
Available-for-sale equities	+/- 5%	+/-2	+/- 5%	+/-2

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely; however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk. To achieve this goal the Operational Risk Management Unit has developed an operational risk framework, which includes identification, measurement, management, and monitoring and risk control/mitigation elements. A variety of underlying processes are being deployed across the Group including risk and control self-assessments, Key Risk Indicators (KRI), group-wide Control Standards, control environment scans and new product review & approval processes.

The Group intends to make operational risk transparent throughout the enterprise, to which end processes are being developed to provide for regular reporting of relevant operational risk management information to business management, senior management, the GORCO, the BRC and the Board of Directors generally.

Group policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions. Each business line – including Operations, Information Technology, Human Resources, Legal & Compliance and Finance - is further responsible for employing the aforementioned framework processes and control programmes to manage its operational risk within the guidelines established by the Group’s policy and procedures. To ensure that all operational risks to which the Group is exposed are adequately managed, support functions are also involved in the identification, measurement, management, monitoring and control/mitigation of operational risk, as appropriate.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains liquid assets at prudential levels to ensure that cash can quickly be made available to honour all its obligations, even under adverse conditions. The Group is generally in a position of excess liquidity, its principal sources of liquidity being its deposit base, liquidity derived from its operations and inter-bank borrowings. The Minimum Liquidity Guideline (MLG) is used to manage and monitor daily liquidity. The MLG represents the minimum number of days the Group can survive the combined outflow of all deposits and contractual drawdowns, under market value driven encashability scenarios.

In addition, the internal liquidity/maturity profile is generated to summarize the actual liquidity gaps versus the revised gaps based on internal assumptions.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. See the next table for the expected maturities of these liabilities. Repayments which are subjected to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2015	*Within 1 month*	*1 - 3 months*	*3 - 6 months*	*6 - 12 months*	*1 - 5 years*	*5-10 years*	*10- 20 years*	*Total*
Financial liabilities								
Deposits from customers	**7,715**	**2,279**	**1,257**	**1,041**	**1,087**	**170**	**73**	**13,622**
Deposits from banks and other financial institutions	**2,137**	**1,017**	**611**	**777**	**558**	**19**	**-**	**5,119**
Securities sold under repurchase agreements	**298**	**174**	**91**	**-**	**2**	**18**	**-**	**583**
Certificates of deposits	**2**	**1**	**7**	**3**	**31**	**-**	**-**	**44**
Interest payable and other liabilities	**871**	**25**	**30**	**59**	**54**	**2**	**-**	**1,041**
Term notes, bonds and other term financing	**-**	**-**	**-**	**63**	**4,156**	**-**	**-**	**4,219**
Total non-derivative undiscounted financial liabilities on statement of financial position	**11,023**	**3,496**	**1,996**	**1,943**	**5,888**	**209**	**73**	**24,628**
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	**3,927**	**1,639**	**936**	**95**	**756**	**39**	**-**	**7,392**
Guarantees	**2,951**	**-**	**-**	**-**	**-**	**-**	**-**	**2,951**

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

At 31 December 2014	*Within 1 month*	*1 - 3 months*	*3 - 6 months*	*6 - 12 months*	*1 - 5 years*	*5-10 years*	*10- 20 years*	*Total*
Financial liabilities								
Deposits from customers	8,519	1,276	1,136	2,005	1,091	304	16	14,347
Deposits from banks and other financial institutions	1,827	1,205	1,147	927	721	60	1	5,888
Securities sold under repurchase agreements	-	4	74	-	2	11	-	91
Certificates of deposits	10	4	7	5	23	-	-	49
Interest payable and other liabilities	1,050	41	54	48	44	4	-	1,241
Term notes, bonds and other term financing	-	-	-	-	3,775	600	-	4,375
Total non-derivative undiscounted financial liabilities on statement of financial position	11,406	2,530	2,418	2,985	5,656	979	17	25,991
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	5,654	1,183	320	716	299	244	-	8,416
Guarantees	3,348	-	-	-	-	-	-	3,348

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled or when they could be realised.

At 31 December 2015	*Within 1 month*	*1 -3 months*	*3 - 6 months*	*6 - 12 months*	*Total within 12 months*	*1 - 5 years*	*5-10 years*	*10 - 20 years*	*Over 20 years*	*Undated*	*Total over 12 months*	*Total*
ASSETS												
Liquid funds	**771**	**20**	**89**	**25**	**905**	**97**	**-**	**-**	**-**	**-**	**97**	**1,002**
Trading securities	**21**	**-**	**44**	**146**	**211**	**284**	**38**	**1**	**-**	**-**	**323**	**534**
Placements with banks and other financial institutions	**3,950**	**182**	**154**	**27**	**4,313**	**-**	**-**	**-**	**-**	**-**	**-**	**4,313**
Securities bought under repurchase agreements	**1,303**	**25**	**77**	**42**	**1,447**	**-**	**-**	**-**	**-**	**-**	**-**	**1,447**
Non-trading securities	**1,632**	**483**	**1,833**	**675**	**4,623**	**753**	**122**	**6**	**2**	**29**	**912**	**5,535**
Loans and advances	**1,979**	**1,996**	**1,515**	**1,756**	**7,246**	**5,646**	**925**	**120**	**4**	**17**	**6,712**	**13,958**
Others	**40**	**20**	**11**	**28**	**99**	**143**	**18**	**1**	**-**	**1,145**	**1,307**	**1,406**
Total assets	**9,696**	**2,726**	**3,723**	**2,699**	**18,844**	**6,923**	**1,103**	**128**	**6**	**1,191**	**9,351**	**28,195**
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	**3,249**	**1,318**	**1,245**	**1,009**	**6,821**	**6,385**	**144**	**34**	**-**	**-**	**6,563**	**13,384**
Deposits from banks and other financial institutions	**2,145**	**935**	**466**	**752**	**4,298**	**721**	**10**	**-**	**-**	**-**	**731**	**5,029**
Certificates of deposit	**2**	**1**	**7**	**2**	**12**	**29**	**-**	**-**	**-**	**-**	**29**	**41**
Securities sold under repurchase agreements	**298**	**174**	**90**	**-**	**562**	**1**	**16**	**-**	**-**	**-**	**17**	**579**
Term notes, bonds and other term financing	**-**	**-**	**72**	**179**	**251**	**3,692**	**-**	**-**	**-**	**-**	**3,692**	**3,943**
Others	**26**	**24**	**30**	**59**	**139**	**54**	**2**	**-**	**-**	**916**	**972**	**1,111**
Shareholders' equity and non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,108**	**4,108**	**4,108**
Total liabilities, shareholders' equity and non-controlling interests	**5,720**	**2,452**	**1,910**	**2,001**	**12,083**	**10,882**	**172**	**34**	**-**	**5,024**	**16,112**	**28,195**
Net liquidity gap	**3,976**	**274**	**1,813**	**698**	**6,761**	**(3,959)**	**931**	**94**	**6**	**(3,833)**	**(6,761)**	**-**
Cumulative net liquidity gap	**3,976**	**4,250**	**6,063**	**6,761**		**2,802**	**3,733**	**3,827**	**3,833**	**-**		

Within 1 month are primarily liquid securities that can be sold under repurchase agreements. Deposits are continuously replaced with other new deposits or rollover from the same or different counterparties, based on available lines of credit.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

At 31 December 2014	*Within 1 month*	*1 -3 months*	*3 - 6 months*	*6 - 12 months*	*Total within 12 months*	*1 - 5 years*	*5-10 years*	*10 - 20 years*	*Over 20 years*	*Undated*	*Total over 12 months*	*Total*
ASSETS												
Liquid funds	677	83	78	24	862	47	-	-	-	-	47	909
Trading securities	15	38	53	25	131	189	205	14	-	-	408	539
Placements with banks and other financial institutions	5,041	555	274	-	5,870	-	-	-	-	-	-	5,870
Securities bought under repurchase agreements	987	-	-	-	987	-	-	-	-	-	-	987
Non-trading securities	2,033	75	935	600	3,643	855	105	8	2	14	984	4,627
Loans and advances	1,764	2,086	2,084	2,153	8,087	5,426	1,155	119	32	-	6,732	14,819
Others	22	21	22	47	112	121	26	2	-	1,344	1,493	1,605
Total assets	10,539	2,858	3,446	2,849	19,692	6,638	1,491	143	34	1,358	9,664	29,356
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	5,434	988	893	1,350	8,665	5,036	233	11	-	-	5,280	13,945
Deposits from banks and other financial institutions	1,580	1,115	1,137	910	4,742	891	34	1	-	-	926	5,668
Certificates of deposit	11	3	7	4	25	22	-	-	-	-	22	47
Securities sold under repurchase agreements	-	4	74	-	78	1	8	-	-	-	9	87
Term notes, bonds and other term financing	-	-	-	-	-	3,497	394	-	-	-	3,891	3,891
Others	31	41	54	48	174	44	4	-	-	1,070	1,118	1,292
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,426	4,426	4,426
Total liabilities, shareholders' equity and non-controlling interests	7,056	2,151	2,165	2,312	13,684	9,491	673	12	-	5,496	15,672	29,356
Net liquidity gap	3,483	707	1,281	537	6,008	(2,853)	818	131	34	(4,138)	(6,008)	-
Cumulative net liquidity gap	3,483	4,190	5,471	6,008		3,155	3,973	4,104	4,138	-		

All figures in US$ Million

25 OPERATING SEGMENTS

For management purposes, the Group is organised into five operating segments which are based on business units and their activities. The Group has accordingly been structured to place its activities under the distinct divisions which are as follows:

- **MENA subsidiaries** cover retail, corporate and treasury activities of subsidiaries in North Africa and Levant;
- **International wholesale banking** encompasses corporate and structured finance, trade finance, Islamic banking services and syndications;
- **Group treasury** comprises treasury activities of Bahrain Head Office, New York and London;
- **ABC Brasil** primarily reflects the commercial banking and treasury activities of the Brazilian subsidiary Banco ABC Brasil S.A., focusing on the corporate and middle market segments in Brazil; and
- **Other** includes activities of Arab Financial Services B.S.C. (c).

	2015					
	MENA subsidiaries	*International wholesale banking*	*Group treasury*	*ABC Brasil*	*Other*	*Total*
Net interest income	**135**	**113**	**45**	**207**	**2**	**502**
Other operating income	**51**	**91**	**7**	**48**	**30**	**227**
Total operating income	**186**	**204**	**52**	**255**	**32**	**729**
Profit before impairment provisions	**91**	**144**	**32**	**147**	**8**	**422**
Impairment provisions - net	**(7)**	**(9)**	**6**	**(60)**	**-**	**(70)**
Profit before taxation and unallocated operating expenses	**84**	**135**	**38**	**87**	**8**	**352**
Taxation on foreign operations	**(26)**	**(6)**	**(1)**	**32**	**-**	**(1)**
Unallocated operating expenses						**(114)**
Profit for the year						**237**
Operating assets	**3,588**	**9,622**	**8,879**	**6,039**	**67**	**28,195**
Operating liabilities	**3,049**	**-**	**15,864**	**5,169**	**5**	**24,087**

	2014					
	MENA subsidiaries	*International wholesale banking*	*Group treasury*	*ABC Brasil*	*Other*	*Total*
Net interest income	129	108	51	252	1	541
Other operating income	51	102	73	95	26	347
Total operating income	180	210	124	347	27	888
Profit before impairment provisions	86	148	105	213	5	557
Impairment provisions - net	(6)	(15)	1	(44)	-	(64)
Profit before taxation and unallocated operating expenses	80	133	106	169	5	493
Taxation on foreign operations	(23)	(9)	(2)	(33)	-	(67)
Unallocated operating expenses						(108)
Profit for the year						318
Operating assets	3,603	9,091	9,247	7,352	63	29,356
Operating liabilities	2,981	-	15,643	6,296	10	24,930

All figures in US$ Million

25 OPERATING SEGMENTS (continued)

Geographical information

The Group operates in six geographic markets: Middle East and North Africa, Western Europe, Asia, North America, Latin America and others. The following table show the external total operating income of the major units within the Group, based on the country of domicile of the entity for the years ended 31 December 2015 and 2014:

2015	*Bahrain*	*ABCIB*	*Banco ABC Brasil*	*Other*	*Total*
Total operating income	**107**	**95**	**255**	**272**	**729**
2014					
Total operating income	167	117	347	257	888

There were no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenue (2014: same).

Non-current assets consist of premises and equipment and are not material to the Group.

26 REPURCHASE AND RESALE AGREEMENTS

Proceeds from assets sold under repurchase agreements at the year-end amounted to US$ 579 million (2014: US$ 87 million). The carrying value of securities sold under repurchase agreements at the year-end amounted to US$ 619 million (2014: US$ 109 million).

Amounts paid for assets purchased under resale agreements at the year-end amounted to US$ 1,447 million (2014: US$ 987 million) and relate to customer product and treasury activities. The market value of the securities purchased under resale agreements at the year-end amounted to US$ 1,478 million (2014: US$ 1,004 million).

27 TRANSACTIONS WITH RELATED PARTIES

Related parties represent the ultimate parent, major shareholders, associates, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

The year-end balances in respect of related parties included in the consolidated financial statements are as follows:

	Ultimate parent	***Major shareholder***	***Directors***	***2015***	*2014*
Deposits from customers	**3,328**	**30**	**4**	**3,362**	3,178
Term notes, bonds and other term financing	**1,505**	**670**	**-**	**2,175**	2,175
Short-term self-liquidating trade and transaction-related contingent items	**842**	**-**	**-**	**842**	494
Other assets	**-**	**-**	**-**	**-**	295

In 2014, other assets comprise the fair value of derivatives transactions entered into with the parent of US$ 295 million and fully covered by equal and opposite deals with highly rated financial institutions with the Group having no open position. Consequently, the Group does not have any market risk on these transactions. There were no such transactions outstanding at 2015 Year end.

All figures in US$ Million

27 TRANSACTIONS WITH RELATED PARTIES (continued)

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2015	*2014*
Commission income	**6**	11
Interest expense	**66**	57

Compensation of the key management personnel is as follows:

	2015	*2014*
Short term employee benefits	**17**	18
Post employment benefits	**4**	4
	21	22

28 FIDUCIARY ASSETS

Funds under management at the year-end amounted to US$ 14,514 million (2014: US$ 15,147 million). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

29 ISLAMIC DEPOSITS AND ASSETS

Deposits from customers, banks and financial institutions and term notes, bonds and other financing include Islamic deposits of US$ 718 million (2014: US$ 552 million). Loans and advances and non-trading securities include Islamic assets of US$ 1,174 million (2014: US$ 1,559 million) and US$ 365 million (2014: US$ 282 million).

30 ASSETS PLEDGED AS SECURITY

At the statement of financial position date, in addition to the items mentioned in note 26, assets amounting to US$ 213 million (2014: US$ 281 million) have been pledged as security for borrowings and other banking operations.

31 BASIC AND DILUTED EARNINGS PER SHARE AND PROPOSED DIVIDENDS AND TRANSFERS

31.1 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares during the year. No figures for diluted earnings per share have been presented, as the Bank has not issued any capital based instruments which would have any impact on earnings per share, when exercised.

The Group's earnings for the year (before proposed dividends) are as follows:

	2015	*2014*
Profit attributable to the shareholders of the parent	**180**	256
Weighted average number of shares outstanding during the year (millions)	**3,110**	3,110
Basic and diluted earnings per share (US$)	**0.06**	0.08

31.2 Proposed dividends and transfers

	2015	*2014*
Proposed cash dividend (2014: US$ 0.05 per share)	-	156

The Board of Directors have not recommended a dividend relating to the year ended 31 December 2015. (2014: US$ 0.05 per share amounting to US$ 156 million).

All figures in US$ Million

32 CAPITAL ADEQUACY

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The risk asset ratio calculations as at 31 December 2015 are based on standardised measurement methodology and in accordance with the CBB Basel III guidelines. Since, the CBB Basel III guidelines were applicable with effect from 1 January 2015, therefore, the comparatives have been presented under the CBB Basel II guidelines which were effective at that time.

CAPITAL BASE		***2015***	*2014*
Tier 1		**-**	4,165
CET 1		**4,026**	-
AT 1		**45**	-
Total Tier 1 capital		**4,071**	4,165
Tier 2		**502**	967
Total capital base	[a]	**4,573**	5,132

RISK WEIGHTED EXPOSURES		***2015***	*2014*
Credit risk weighted assets and off balance sheet items		**20,451**	21,122
Market risk weighted assets and off balance sheet items		**1,444**	1,637
Operational risk weighted assets		**1,642**	1,620
Total risk weighted assets	[b]	**23,537**	24,379
Risk asset ratio	[a/b*100]	**19.4%**	21.1%
Minimum requirement		**12.5%**	12.0%

The Group's capital base primarily comprises:
(a) Tier 1 capital: share capital, reserves, retained earnings, non controlling interests, profit for the year and cumulative changes in fair value
(b) Tier 2 capital: eligible subordinated term debt and collective impairment provisions.

The Group has complied with all the capital adequacy requirements as set by the Central Bank of Bahrain.