A team committed to your success

Bank ABC Group Annual Report 2015

Contents

Strategic Intent

To be MENA's leading international bank.

Our Objectives

- To create a high performing client-centric bank.
- To continue to grow our primary banking franchises in MENA & Brazil.
- To seek inorganic opportunities that will complement our primary markets, international network and capabilities.
- To enhance the Group's operating model, whilst preserving our organisational health.

Our Promise

A team committed to your success.

Core Values

Client Centric

We are committed to knowing our customers and developing long-term relationships.

Collaborative

We work together as one team across our international network, providing a superior client experience.

Consistent

We are trusted to deliver every time in the right way, demonstrating integrity to all our stakeholders.

Directors' Report

Mr. Saddek Omar El Kaber

"Across the Group's geographies, 2015 was a year when we enhanced the risk management framework, focusing especially on upgrading our compliance and operational capabilities."

On behalf of the Board of Directors of Bank ABC, I am pleased to report that the Group's performance was resilient considering the marked deterioration in the business environment during 2015. Due to currency depreciations against the US dollar in key markets where we operate, combined mainly with adverse market volatility, our net profit and total operating income declined to US$180 million (US$256 million in 2014) and US$729 million (US$888 million in 2014) respectively.

Our large business in Brazil maintained its profit growth in spite of the country's economic recession. However, the Brazilian real's 30% depreciation against the US dollar led to a significant decline in its contribution to the Bank ABC Group. Volatility in financial markets, along with a decline in non-recurrent customer flows, led to a drop in Treasury income.

On the other hand, Wholesale Banking's profits proved resilient and continued growth. Similarly, the MENA banks grew their profits, mitigating a 20% fall in the Algerian dinar, 8% fall in the Egyptian Pound and 13% fall in the Tunisian Dinar.

The ratio of non-performing loans to gross loans, although slightly higher over last year, remained at 3.4% (2.4% at the end of 2014). Considering the challenging conditions in many of our markets, this testifies to the quality of ABC's portfolio and demonstrates the strength of our credit risk management frameworks and policies.

On the Bank ABC Group balance-sheet side, our financial health remains robust. Capital adequacy is comfortably higher than minimum levels, after absorbing the impact of the new Basel III capital requirements introduced by Central Bank of Bahrain during 2015. The Group's Basel III total capital adequacy ratio at the end of the year was 19.4% and Tier 1 ratio was 17.3%. Deposits declined, largely due to currency translation effects, to US$18.5 billion at the end of 2015 (US$19.7 billion at 2014 year-end), but liquidity remained strong. At the end of the year, ABC had a liquid assets-to-deposits ratio of 66% (65% at 2014 year-end).

Coinciding with ABC's 35th anniversary in 2015, we announced a new brand for the ABC Group and a refined strategy for transforming the Group. Reflecting changes in our markets and clients, the Bank was rebranded as Bank ABC across all our markets and a new brand positioning strategy was adopted, along with a refined strategy for transforming the Group. The ambition is to make Bank ABC MENA's leading international bank. Through expanding our international footprint into Asia, significantly strengthening our sales focus in Europe, introducing added-value products and increasing internal collaboration and synergies, we plan to take advantage of trends in global trade flows and the retrenchment of global banks. Prestigious mandates for bond issues and syndicated loans have been early signs of our success, signalling the opportunity to improve returns on capital in the future.

Importantly, we continued to adapt ABC's platform. Across the Group's geographies, 2015 was a year when we enhanced the risk management framework, focusing especially on upgrading our compliance and operational capabilities. We invested in experienced new people, systems, and our processes to improve efficiency and give us greater control. Critical enablers such as MIS and performance management systems were developed to accelerate our change agenda.

Turning to Board matters, I would like to thank Dr. Khaled Kagigi who resigned during 2015 for his valuable support over the past few years. Equally, I welcome our new Board member Dr. Tarik Yousef and look forward to his contribution as we execute ABC's strategy in the years ahead.

I also would like to thank our employees for their hard work, loyalty and commitment to the Bank; to achieve major steps in 2015 notwithstanding the difficult operating environment. Similarly, I would like to acknowledge the support and guidance of the regulatory authorities in our countries of operation, not least the Central Bank of Bahrain.

My fellow Directors and I are also grateful for the support and contributions of our two major shareholders – the Central Bank of Libya and Kuwait Investment Authority. Bank ABC is privileged to have shareholders that are so committed to supporting its business, transformation strategy and objectives.

Looking to 2016 and beyond, the Board will continue to direct the implementation and refinement of the Bank's transformation strategy. In doing so, we will aim to enhance the use of capital, improve ABC's position in existing businesses and grow into complementary markets in the coming years.

Saddek Omar El Kaber
Chairman

"Reflecting changes in our markets and clients, the Bank was rebranded as Bank ABC across all our markets and a new brand positioning strategy was adopted, along with a refined strategy for transforming the Group."

Board of Directors

Mr. Saddek Omar El Kaber
Chairman
EC RC SC ‡ >|<

MBA and MS in Public Accounting, University of Hartford, Connecticut, USA.

Governor of the Central Bank of Libya and Chairman of ABC International Bank plc, U.K. Previously, Mr. El Kaber was the Deputy Chief Executive Officer of ABC International Bank plc, U.K., and Chairman and General Manager of UMMA Bank, Libya. Mr. El Kaber has held past key positions in a number of banks and financial institutions including being the Deputy Chairman of the Board of Arab Banking Corporation-Algeria, Country Manager and CEO of Arab Banking Corporation-Tunisia and a Director of Arab Financial Services Company B.S.C.(c). He joined the Board of Arab Banking Corporation (B.S.C.) in December 2011. He has more than 35 years of experience in international finance and banking.

Mr. Hilal Mishari Al Mutairi
Deputy Chairman
EC ‡ >|<

BSc in Economics, Alexandria University, Egypt.

Member of the Board of Directors and Executive Committee of Kuwait Investment Authority. Mr. Al Mutairi is also a Director of ABC International Bank plc, U.K. Past key positions include First Vice Chairman, Kuwait Chamber of Commerce & Industry; Minister of Trade and Industry of Kuwait; General Manager of Kuwait Investment Company and Chairman of Kuwait Clearing Company. He has been a Director of Arab Banking Corporation (B.S.C.) since 2001 and has more than 35 years of commercial and financial industry experience.

Mr. Abdallah Saud Al Humaidhi
Director
EC GC NC ‡ >|<

MS, American University of Beirut.

Vice Chairman and Chief Executive Officer, Commercial Facilities Company, Kuwait; Member of the Board and the Executive Committee of Kuwait Investment Authority and Vice Chairman of the Public Institution For Social Security and Chairman of the Investment Committee; a Director of the Board of First National Bank S.A.L., Lebanon. Mr. Al Humaidhi is also a Member of the Board and honourary Treasurer of the Kuwait Chamber of Commerce & Industry and the Deputy Chairman of ABC International Bank plc, UK, and Director of the Board of Kuwait Petroleum Corporation. He has been a Director of Arab Banking Corporation B.S.C. since 2001 and has more than 30 years of experience in the banking and investment sectors.

Dr. Tarik Yousef
Director
SC ‡ >|<

PhD in Economics, Harvard University, USA.

Member of the Board of Directors of the Central Bank of Libya since 2012 and Senior Fellow at the Brookings Institution since 2006. Former Chief Executive Officer of Silatech between 2011 and 2015 and the Founding Dean of the Dubai School of Government between 2006 and 2010. Dr. Yousef worked at Georgetown University in Washington DC between 1998 and 2006 as Professor of Economics in the Edmund Walsh School of Foreign Service and Sheikh Al-Sabah Chair of Arab Studies at the Centre for Contemporary Arab Studies. His policy experience includes working as Economist in the Middle East and African Departments of the International Monetary Fund, Visiting Senior Economist in the Office of the Chief Economist of the Middle East and North Africa Region of the World Bank between 2002 and 2005 and Senior Advisor for the Millennium Project at the UN between 2004-2005. Dr. Yousef joined the Board of Arab Banking Corporation (B.S.C.) in February 2015. He has 20 years of experience in the finance and business fields.

AC	Member of the Audit Committee
EC	Member of the Executive Committee
GC	Member of the Corporate Governance Committee
NC	Member of the Nominations & Compensation Committee
RC	Member of the Risk Committee
SC	Member of the Board Strategy Committee
‡	Non-Executive
§	Independent
>|<	Non-independent

Dr. Anwar Ali Al-Mudhaf

Director

AC RC GC NC SC ‡ §

Ph.D. in Finance, Peter F. Drucker Graduate School of Management, Claremont Graduate University, California, USA.

Chairman and CEO of Al-Razzi Holding Company; Chairman of Banco ABC Brasil S.A.; Chairman of Ahli United Bank-Kuwait; Chairman of Sama Educational Company; Director of the Board of Governors of the Oxford Institute for Energy Studies; Member of the Board of Directors of the Public Authority for Applied Education. Dr. Al-Mudhaf has formerly served as a Lecturer in Corporate Finance, Investment Management and Financial Institutions at Kuwait University; Chairman of the International Bank of Asia in Hong Kong; Director of the Board of Directors of the Public Institution for Social Security (PIFSS); Advisor to the Finance and Economic Affairs Committee at Kuwait's Parliament; Member of the Economic Task Force dealing with the implications of the 2008 Global Financial Crisis on Kuwait; Vice Chairman in Al Mal Investment Company; and a Director of Al Ahli Bank in Kuwait.
Dr. Al-Mudhaf joined the Board of Arab Banking Corporation B.S.C. in 2000 and has more than 18 years of experience in banking and finance.

Dr. Yousef Abdullah Al Awadi KBE

Director

EC AC RC GC NC SC ‡ §

BA Economics, American University of Beirut, Lebanon; Post Graduate Diploma in Financial Planning, Arab Planning Institute, Kuwait; MA and PhD Economics, University of Colorado, USA.

Chief Executive Officer of YAA Consultancy, Kuwait. Previously he was the Chief Executive Officer of Gulf Bank, Kuwait, and President and CEO of the Kuwait Investment Office, London. Dr. Al Awadi is also a Director of ABC International Bank plc, UK, Deputy Chairman of Arab Banking Corporation Egypt, a Director of Fidelity International Funds and a Director of Kuwait Energy plc, Jersey. Dr. Al Awadi has formerly served as a member of the International Advisory Board of Goldman Sachs and the Higher Planning Council in Kuwait, in addition to board directorships of many public and private sector entities regionally and internationally. In January 2005 Dr. Al Awadi was awarded the Honorary Knight Commander of the Most Excellent Order of the British Empire KBE. He joined the Board of Arab Banking Corporation (B.S.C.) in March 2010 and has more than 38 years of experience in banking, international finance and investment management.

Mr. Isam Ghellai

Director *

AC RC ‡ >|<

BSc in Finance, State University of New York; MSc in International Banking & Financial Services, University of Reading, U.K.

Mr. Ghellai has been employed at the Central Bank of Libya in the Reserves Department, Treasury, since 2007. Later, he was promoted to the position of Deputy Director of the Risk Department for Market & Credit Risk Affairs. He joined the Board of Directors of Arab Banking Corporation (B.S.C.) in March 2013. He has eight years of banking experience.

* Resigned in March 2016

Mr. Bashir Omer

Director

RC ‡ §

BA in Accounting, Benghazi University, Libya, MBA in Financial Management, University of Hull, U.K.

General Manager of the Libyan Long Term Investment Portfolio, Libya. Mr. Omer is also a Deputy Chairman of Arab Banking Corporation Jordan, Board Member of the Libyan Foreign Bank, the Libyan Foreign Investment Co., Pak Libya Holding Co., Iskan Co. for Touristic & Hotel and the Asian Stock Funds. Mr. Omer joined the Board of Arab Banking Corporation (B.S.C.) in March 2014. He has more than 25 years of experience in banking, investment and finance.

Dr. Farouk El Okdah

Director

GC NC ‡ §

PhD in Business and applied Economics, Wharton School, University of Pennsylvania; MBA in Finance, Wharton School, University of Pennsylvania; Master of Accounting with Honors, Cairo University; BA in Accounting, Ain Shams University, Egypt.

Former Governor and Chairman of the Central Bank of Egypt and former Chairman and CEO of the National Bank of Egypt. Dr. El Okdah was also former Vice President of Bank of New York (US). He is the Non-Executive Chairman of the National Bank of Egypt (UK) Limited, Non-Executive Chairman of the Union de Banques Arabe et Francaises (UBAF) and Member of the Board of Directors of Egypt Air, Egypt. Dr. El Okdah joined the Board of Arab Banking Corporation (B.S.C.) in May 2014. He has more than 35 years of experience in banking and finance.

Head Office Management

Dr. Khaled S. Kawan
Group Chief Executive Officer

PhD (Doctorat D'Etat) in Banking Laws, University of Paris (Sorbonne), France.

Dr. Kawan joined ABC in June 1991. He was Group Legal Counsel until December 2009, when he was appointed Deputy Group Chief Executive. Dr. Kawan was appointed Group Chief Executive Officer of ABC in October 2013. He represents the ABC Group as Chairman of the Boards of ABC Islamic Bank E.C. and Arab Banking Corporation-Egypt S.A.E. He is also a Director of ABC International Bank plc. He has more than 25 years of banking experience.

Mr. Sael Al Waary
Executive Vice President & Group Chief Operating Officer

BSc (Hons) degree in Computer Sciences, University of Reading, United Kingdom.

Mr. Al Waary is currently Executive Vice President and Group Chief Operating Officer of the ABC Group, which he joined in 1981. He brings with him more than 35 years of banking, leadership and management experience garnered from the many senior positions he has held in both London and Bahrain. Mr. Al Waary is also Chairman of Arab Banking Corporation Jordan and Chairman of the Arab Financial Services Company B.S.C.(c). He has previously served on the Boards of Banco ABC Brasil and Arab Banking Corporation Egypt.

Mr. Ray J. Ferguson
Executive Vice President & Group Chief Banking Officer

MBA from Henley Management College, he is an Associate of the Institute of Bankers in Scotland; conferred Distinguished Financial Industry Certified Practitioner by the Institute of Banking and Finance, Singapore, and member of the Singapore Institute of Directors.

Mr. Ferguson, who joined ABC in May 2014, was formerly Chief Executive Officer of Standard Chartered Bank, Singapore from Aug 2009 until March 2014, in addition to his role as Regional CEO Southeast Asia which he held from December 2007 to January 2012. He has more than 25 years of senior leadership experience across four continents. He has served over as Chairman and Director of several Standard Chartered Group subsidiary boards including serving as inaugural Executive Director of Standard Chartered Bank (Spore) Ltd on its formation in 2013, from 2008 to 2012 was Chairman of PT Bank Permata TBK, Indonesia. Other roles with Standard Chartered include CEO, Americas, CEO, UAE, CEO Indonesia. Previously, also, Director of Temasek-linked Clifford Capital Pte Ltd and The Human Capital Leadership Institute Ltd.

Mr. Brendon Hopkins
Group Chief Financial Officer

Chartered Accountant (ICAEW), Chartered Tax Advisor (CIOT), MBA, Henley Management College, BSc (hons) Industrial Mathematics, University of Birmingham.

Mr. Hopkins joined in 2014 as Group CFO for the ABC Group, with responsibility for finance, strategy and taxation. He has more than 25 years of experience in the financial services sector, including periods with Standard Chartered Bank, Deloitte and Guardian Royal Exchange. Mr. Hopkins' previous senior roles at Standard Chartered Bank included Group Head, Strategy, Western Hemisphere, and Chief Executive Officer, Europe.

Mr. John Eldredge
Group Treasurer

CPA (Australia), BA (Accounting) and Fellow of Australian Investment Institute.

Mr. Eldredge, who joined ABC in 2013, has 35 years experience specialising in global markets, treasury management, global funding, investment management, Islamic finance and financial risk management. He has previously held executive management roles with Emirates NBD (Dubai) as GM, Global Markets and Treasury, Arab National Bank (Saudi Arabia) as GM Treasury and Investments, and with Barclays Bank Group / Barclays Capital in London and Sydney in a number of senior treasury roles, including Deputy Group Treasurer for Barclays Bank Plc. He is currently a Senior Representative for the International Capital Markets Association.

Mr. Vijay Srivastava
Group Chief Credit & Risk Officer *

B. Com, Bombay University; Chartered Accountant, Institute of Chartered Accountants of India.

Mr. Srivastava, who joined Arab Banking Corporation in September 2009 as Head of Risk Management and assumed the Group Chief Credit & Risk Officer role in 2010, started his banking career with HSBC, India, in 1984, working in Operations and Corporate Banking. He joined ABN AMRO Bank, Dubai, in 1992, heading up the Corporate Bank for two years, before moving to the Risk Management Division at the Amsterdam headquarters in 1998. In 2004, he helped set up the dedicated risk function for Global Transaction Services (GTS), and developed award winning risk technology for the Cash and Trade businesses, assuming the role of Chief Risk Officer for GTS in 2007. He has also taught at the ABN AMRO Academy in Amsterdam. He has more than 25 years of experience in the credit and risk fields.

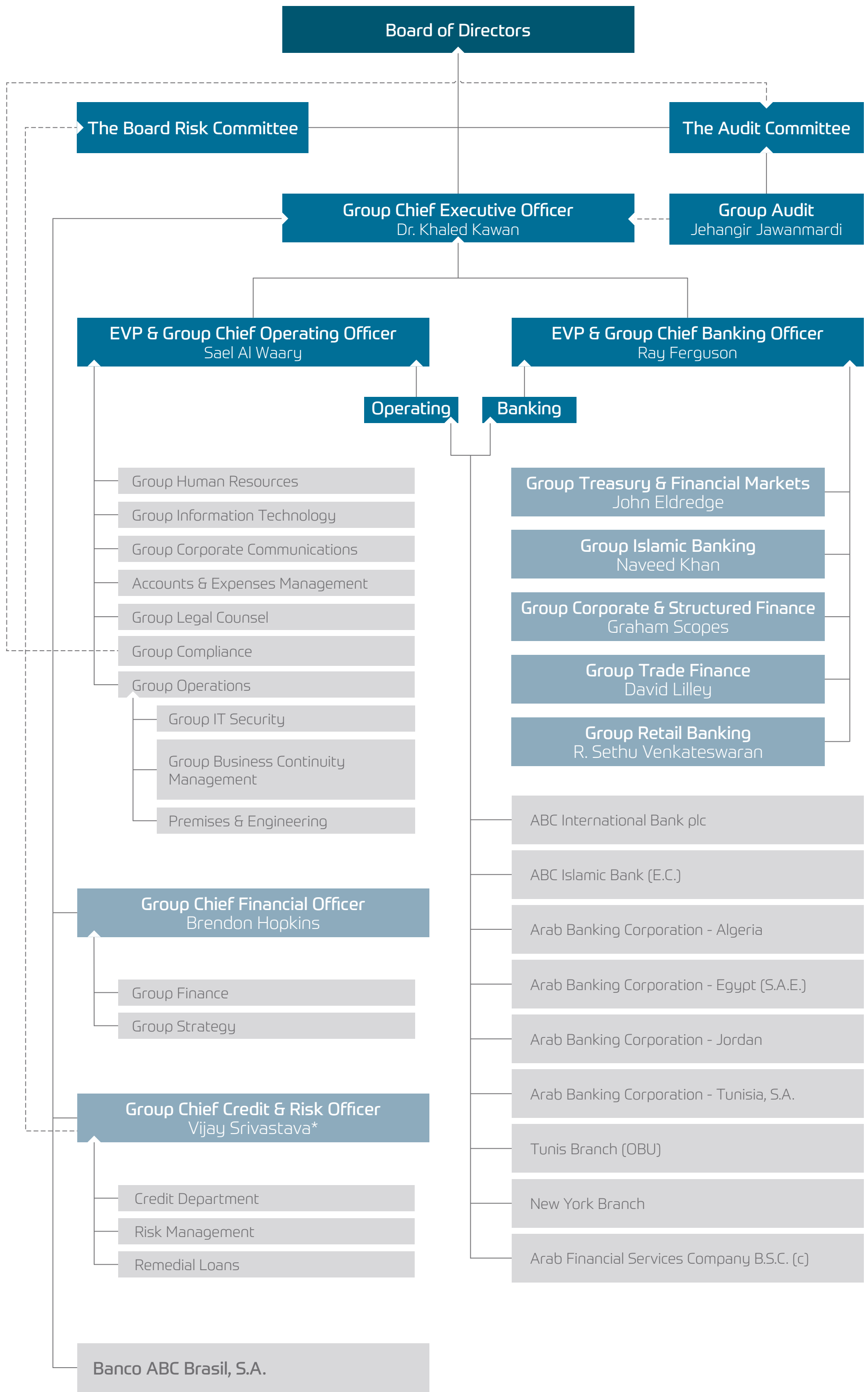
*Resigned in April 2016

Mr. Jehangir Jawanmardi
Group Chief Auditor

Fellow of the Institute of Chartered Accountants in England and Wales, U.K.

Mr. Jawanmardi is a Chartered Accountant who trained with KPMG in London. Upon qualification, he joined Hill Samuel Group in 1976 and was appointed a Director of Hill Samuel Bank in 1986. He spent more than 20 years at Hill Samuel, developing his expertise in various aspects of internal audit in the investment banking and asset management arena, before transferring to Lloyds TSB Group in the UK in January 1997, where he was Head of Audit, Wholesale and International Banking. Mr. Jawanmardi joined the ABC Group in May 2004 as Group Chief Auditor. He has more than 40 years of experience in the finance field.

Bank ABC Group Organisational Chart



* Resigned in April 2016

Group Performance

THE ABC GROUP

US$ millions

2015 Highlights	ABC Parent (ABC BSC)	ABC Group
Total Assets	16,905	28,195
Total Non trading securities	3,902	5,535
Total Loans and advances	5,767	13,958
Total Deposits	8,934	18,454
Shareholders' Funds	3,773	3,773

MENA SUBSIDIARIES

2015 Highlights	ABC Algeria	ABC Jordan	ABC Egypt	ABC Tunisie
Total Assets	585	1,451	1,291	218
Total Non trading securities	-	415	331	10
Total Loans and advances	377	767	326	89
Total Deposits	399	1,178	1,083	179
Shareholders' Funds	151	215	171	35
Number of Branches	24	27	28	12

WHOLESALE BANKING AND OTHER SUBSIDIARIES

2015 Highlights	ABC Int'l Bank plc	Banco ABC Brasil	ABC Islamic Bank	AFS
Total Assets	4,202	6,025	1,337	68
Total Non trading securities	73	457	365	14
Total Loans and advances	2,723	3,037	872	-
Total Deposits	3,052	4,370	1,046	1
Shareholders' Funds	656	675	278	58
Number of Branches	4	6	-	-

Financial Highlights

	31-Dec 2015	31-Dec 2014	31-Dec 2013	31-Dec 2012	31-Dec 2011
EARNINGS (US$ MILLION)					
Net interest income	**502**	541	504	521	508
Other operating income	**227**	347	353	295	310
Total operating income	**729**	888	857	816	818
Profit before provisions, taxation and non-controlling interests	**308**	449	417	413	404
Impairment provisions - net	**(70)**	(64)	(49)	(62)	(28)
Profit before taxation and non-controlling interests	**238**	385	368	351	376
Net profit for the year from continuing operations	**180**	256	239	205	204
FINANCIAL POSITION (US$ MILLION)					
Total assets	**28,195**	29,356	26,545	24,527	25,015
Loans and advances	**13,958**	14,819	13,653	12,860	11,985
Placements with banks and other financial institutions	**4,313**	5,870	5,018	4,334	4,305
Trading securities	**534**	539	194	64	64
Non-trading securities	**5,535**	4,627	5,116	4,005	6,050
Shareholders' funds	**3,773**	4,006	3,940	3,778	3,598
RATIOS (%)					
Profitability					
Cost: Income ratio (costs as % of gross operating income)	**58**	49	51	49	51
Net profit as % of average shareholders funds	**4.8**	6.5	6.2	5.5	5.7
Net profit as % of average assets	**0.63**	0.90	0.93	0.83	0.76
Dividend cover (times)	**-**	1.65	1.54	-	-
Capital					
Risk weighted assets (US$ million)	**23,537**	24,379	23,170	21,780	20,330
Capital base (US$ million)	**4,573**	5,132	5,161	5,135	4,947
Risk asset ratio - Tier 1 (2015 in accordance with the CBB Basel III guidelines)	**17.3**	17.1	17.9	18.6	19.2
Risk asset ratio – Total (2015 in accordance with the CBB Basel III guidelines)	**19.4**	21.1	22.3	23.6	24.3
Average shareholders' funds as % of average total assets	**13.3**	13.9	15.0	14.9	13.3
Loans and advances as a multiple of shareholders' funds (times)	**3.7**	3.7	3.5	3.4	3.3
Total debt as a multiple of shareholders' funds (times)	**6.5**	6.3	5.7	5.5	6.0
Term financing as multiple of shareholders' funds (times)	**1.05**	0.97	0.70	0.47	0.40

	31-Dec 2015	31-Dec 2014	31-Dec 2013	31-Dec 2012	31-Dec 2011
Assets					
Loans and advances as % of total assets	**49.5**	50.5	51.4	52.4	47.9
Securities as % of total assets	**21.5**	17.6	20.0	16.6	24.4
Impaired loans as % of gross loans	**3.4**	2.4	3.0	3.2	3.5
Loan loss provisions as % of impaired loans	**120.9**	160.4	135.3	137.1	134.4
Loan loss provisions as % of gross loans	**4.1**	3.8	4.1	4.4	4.7
Impaired securities as a % of gross non-trading securities	**2.2**	3.4	6.1	9.3	6.6
Securities provisions as a % of impaired securities	**94.5**	77.3	90.1	90.5	88.7
Securities provisions as a % of gross non-trading securities	**2.12**	2.65	5.53	8.42	5.89
Liquidity					
Liquid assets ratio	**43.3**	43.7	43.5	41.0	35.1
Deposits to loans cover (times)	**1.3**	1.3	1.3	1.3	1.3
Share Information					
Basic Earnings per share - Profit for the year	**$0.06**	$0.08	$0.08	$0.07	$0.07
Dividends per share - Cash	**-**	$0.05	$0.05	-	-
Net asset value per share	**$1.21**	$1.29	$1.27	$1.21	$1.16
Capitalisation (US$ million)					
Authorised	**3,500**	3,500	3,500	3,500	3,500
Issued, Subscribed and fully paid-up	**3,110**	3,110	3,110	3,110	3,110

Review of Operations

Dr. Khaled Kawan

"Our footprint across MENA, Europe, the Americas and Asia is an advantage that we are building on, aiming to fulfil our strategic intent to become MENA's leading international bank."

OVERALL GROUP

Bank ABC's businesses generally improved their year-on-year performances, in spite of challenges in some home countries including slow economic growth, geopolitical instability and currency headwinds. We carried on investing for the future, sharpening our focus on businesses that will benefit from growing trade and investment flows from and to the MENA region without absorbing excessive capital. Our liquidity base continued to be robust and the quality of our assets remained high.

Our footprint across MENA, Europe, the Americas and Asia is an advantage that we are building on, aiming to fulfil our strategic intent to become MENA's leading international bank. Most units grew their local-currency revenues; however, currency depreciation impacted some units in US dollar terms. Our large Brazilian business, Banco ABC Brasil, grew its revenues despite the country's recession, yet the Real's over 30% depreciation sharply reduced its dollar profits. Similarly, in MENA currency depreciation eroded otherwise strong profits, although to a lesser degree.

We are expanding in product areas that are capital light such as bond and loan distribution. So it was pleasing to be appointed joint lead manager for the Government of Bahrain's US$1.5 billion bond issue, and to rank first in the Middle East 2015 syndicated loan bookrunner league table. Islamic Finance had a successful year, raising our profile in the sukuk market, winning new clients and increasing profits. Treasury & Financial Markets profitability was subdued due to market volatility, but we succeeded in building product and sales capability resulting in increased cross selling of treasury products. Geopolitical instability in some MENA markets impacted trade finance volumes; however, we strengthened our trade business generation capabilities in Europe and Americas.

Our aim is to grow the Group's profits but to do so in a way that preserves capital and protects liquidity. With this in mind, we maintained a robust liquid assets-to-deposits ratio of 66%. Bank ABC also has a creditable non-performing loans to gross loans ratio (3.4% at 2015 year-end). Both of these demonstrate our strength and resilience, comparing well with our bank peers in the Gulf.

Making sure that the ABC Group's control functions are robust has been a priority for the last few years. In 2015, we embarked on a major upgrade of compliance and operations, recruiting additional experienced professionals and investing in new systems. Across the countries in which we operate, we intend to make sure we comply with the most exacting international regulatory standards.

As our Chairman has already described in the Directors' Report, 2015 was a landmark year for Bank ABC, in which we refined our strategy. Together with this, and signifying our singular strategic purpose, we rebranded our Group as Bank ABC and rolled out the new brand identity across our offices, subsidiaries and branches.

Returning to the implementation of our strategy, we carefully reviewed potential acquisitions that would transform the Group by increasing our presence in various MENA markets. Although we ultimately decided not to pursue the opportunities on offer, we will continue to seek an acquisition that would bring us scale, particularly in retail activities.

Looking to 2016, we expect the Group's resilience to serve us well in what will be a challenging external environment for the MENA countries and Brazil, with tighter financial liquidity, slow economic growth in several markets and continued geopolitical uncertainty. We will consider conservative growth targets and hedging options accordingly. Looking to the longer term, we also plan to grow our presence in MENA through an office in the UAE (DIFC) and in Asia, enhancing our representative office presence in Singapore to a full branch. In the following pages, I describe our progress in more detail.

BUSINESS UNITS REVIEWS

MENA

Bank ABC's four MENA subsidiaries in Egypt, Jordan, Algeria and Tunisia continued their steady growth, cautiously matching balance sheet and expansion to local opportunities and risks. There were investments in new products, and the branch network in Tunisia was expanded. All four countries rebranded as Bank ABC, rolling out our new brand identity across our markets.

Egypt

Egypt's political and economic environment continued to stabilise gradually. ABC Egypt (ABCE) took advantage of the improving conditions to grow its revenues and profits significantly, while also expanding its balance sheet.

Revenues rose to US$60.9 million from US$54.4 million. Net profits increased to US$15.3 million, up from US$13.5 million. Both the lending portfolio and clients' deposits showed steady growth.

> "Our aim is to grow the Group's profits but to do so in a way that preserves capital and protects liquidity. With this in mind, we maintained a robust liquid assets-to-deposits ratio of 66%."

Review of Operations

Corporate banking led a number of high-profile syndicated loans in the power & electricity, oil & gas, infrastructure and financial sectors. Meanwhile, Treasury also contributed to profits, helping clients with foreign exchange and hedging solutions and managing ABCE's liquidity effectively.

Our retail business continued to grow deposits and loans. Savings product development focused on account packages, competing through account benefits rather than interest rates. There was also a 14% growth in retail assets in local currency terms.

Egypt is still in the process of transitioning to a more stable economic and political situation. ABCE is well placed to take advantage of this. We will be further examining our risk appetite and growth options for the franchise in 2016.

Jordan

In spite of the geopolitical and economic headwinds from neighbouring countries, ABC Jordan (ABCJ) grew its profits and continued to implement its strategy.

We continued our drive, started in 2014, to increase lending to medium-sized enterprises. The retail business launched two credit card marketing schemes in order to increase market share. Lastly, our trade finance business continued to grow despite the difficulties in neighbouring countries. ABCJ's trade team worked closely with other units in the Group on major transactions.

Overall, ABCJ pursued a strategy of focusing on growth in resilient sectors, so striking a balance between expansion and maintaining the quality of its portfolio.

A 1.25% drop in central bank interest rates also allowed it to reduce its cost of funds. Accordingly, revenues rose to US$69.2 million from US$64.2 million for 2014. Net profits increased to US$22.1 million, up from US$19.0 million in 2014. The credit portfolio grew by US$26 million to reach US$767 million.

Looking forward, ABCJ continues to foster the sustainability of its liquidity base, mainly composed of customer deposits, and to continue the momentum in growing the credit facilities portfolio. ABCJ's capable team and clear vision for domestic businesses growth mean we are well positioned to weather the consequences of any regional political unrest or economic slowdown.

Algeria

Despite the weakness in Algeria's economy due to the decline in oil prices, ABC Algeria (ABCA) proved resilient. However, the Algerian dinar weakened by over 20% during 2015, leading to a decline in US dollar revenues and profits. Revenues of US$38.8 million compared with the US$46.5 million reported in 2014. Net profit of US$14.1 million was similarly lower than the US$18.8 million reported last year. Additionally, ABCA had benefited from some exceptional transactions in 2014 that did not recur.

Operating expenses were 13% lower at US$19.2 million compared to US$22.0 million in 2014, benefiting from currency movements while also reflecting the additional cost of investment in strategic initiatives to support the business growth.

The loans portfolio stood at US$377 million at the end of the year compared to US$358 million in 2014, again primarily reflecting the translation effect of the stronger US dollar. Our underlying businesses broadly remained on a growth trajectory, as the asset volumes grew in domestic currency terms by more than 12%.

In terms of strategic initiatives, ABCA successfully deployed the Group's core banking system and rolled out the new visual identity. Looking forward, ABCA is revamping its retail proposition, both on the liabilities and asset side, as the country is reshaping its plans for a resumption of its consumer franchising's initiatives.

Tunisia

Tunisia's economy faced several challenges but nevertheless continued to grow. ABC Tunisia (ABCT) increased its revenues during 2015, although a 13% decline in the Tunisian dinar against the US dollar reduced its contribution to the Group.

Taken together, ABCT's onshore subsidiary and offshore branch achieved a consolidated operating income of US$ 17.5 million, compared with US$15.1 million in 2014. This was due to development of the asset portfolio, improvement in trade finance and treasury incomes, and an increase in fees and commissions. Net profit was US$6.4 million, compared with US$6.1 million in 2014.

ABCT consolidated its market position through entering new sectors, attracting new customers, offering a more tailored service to major clients and providing new credit structures for specific needs. We also achieved good performance in trade finance and arranged several syndicated and bilateral loans. Our retail business adapted its products to improve their competitiveness.

We expanded our network, opening four new branches bringing the number of branches to 12.

Looking forward, ABCT plans to continue its current strategy and to pace its growth through the expansion of its network and customer base.

TREASURY & FINANCIAL MARKETS

Volatility in financial markets and tightening regional liquidity impacted Treasury & Financial Markets' (T&FMs) revenues. Funding costs for MENA banks rose due to changes in market liquidity on the back of lower oil prices.

More positively, our strategic goal of creating a debt capital markets business showed early results. We won 10 co-lead manager roles, and the prestigious position of Joint Lead Manager for the Government of Bahrain's 10-year sovereign US$1.5 billion bond issue. Furthermore, our drive to build sales of treasury products is paying off, leading to good ancillary interest rate and FX swap business.

In order to build our capital markets platform, we are in the process of recruiting several capital markets sales and distribution people and have invested in building expertise on the asset-liability management and treasury sales desks.

Showing the resilience of Bank ABC's funding base, customer deposits remained stable. Seeking to diversify our funding further, we stepped up our targeting of corporates and financial institutions for deposits.

One of the successes this year has been the significant improvement in risk controls and enhancement of middle office.

Looking forward, MENA's financial markets are likely to be challenging in 2016. Volatility shows no sign of abating and funding costs are expected to remain high.

INTERNATIONAL WHOLESALE BANKING

Wholesale Banking (WB) comprises Global Trade Finance (GTF), Corporate Banking & Financial Institutions (CB&FI), Project & Structured Finance (P&SF), Islamic Finance (IF) and Syndications. In 2015, there was a slight decrease in total operating income to US$204 million (US$210 million in 2014), although profits grew.

While we achieved notable successes in areas such as IF, and led the league tables for MENA debt syndications, other areas such as GTF were impacted by difficult trading conditions. Actions were taken during the year to diversify our sources of trade finance business, as well as to make better use of our capital, build our presence in Islamic capital markets, and expand our loan distribution capability.

Global Trade Finance

GTF continued to focus on financing trade and commodity flows between MENA and the rest of the world. Instability in some MENA countries led to declining trade volumes and reduced risk appetite, while increased competition across trade finance markets squeezed margins generally. Even so, GTF's strong position in its home markets continued to provide interesting opportunities for business growth.

In order to broaden our franchise, GTF reorganised its European operations to take a more proactive approach to winning new business from European exporters. Additionally, the recently established trade finance desk in Brazil enabled us to capture new revenues between Brazil and MENA. The risk distribution team achieved a high level of sales, in line with our strategy of optimising use of capital by originating, structuring and then distributing finance.

In London, which is the focal point for our trade finance business, continued investment supported growth, and ensured full compliance with the developing regulatory environment.

Looking forward to 2016, conditions for trade in some MENA markets will remain challenging. However, the actions taken in the past year have strengthened our platform and sharpened our focus on new business. We will intensify our drive to diversify our financing of trade between MENA and the rest of the world as well as deepening our distribution capabilities.

Corporate Banking & Financial Institutions

CB&FI manages the Group's corporate and institutional client base across the GCC, India and Asia, delivering core credit products such as working capital finance and syndicated loans. We continued to grow our client base and to deliver a wider range of products and services, including treasury sales and risk management solutions. At the same time, we focused on providing enhanced banking solutions in geographies where ABC is present, especially North Africa, where GCC and Asian companies are increasingly active.

Working closely with Syndications, CB&FI helped to build a leading position in the region's syndicated loans market, with transactions for names such as Bank Sohar, Bank Dhofar, Banque Misr, Egyptian Electricity Holding Co. and Kuwait International Bank.

In 2016, we will extend our client coverage model, while strengthening ABC's core client relationships across the GCC, and looking to engage new clients in Asia.

Project & Structured Finance

P&SF had an active year, lifting revenues and profits while actively managing its asset base to improve return on capital. We are seeking more lead roles in syndicated loans, originating, structuring and distributing these transactions.

P&SF closed several transactions in the oil & gas and electricity sectors, including an oil pre-export financing for Egyptian General Petroleum Corporation (US$1.3 billion facility), and structured conventional and Islamic financing for Emirates National Oil Company (US$1.5 billion). We also concluded capital expenditure financing for two wholly-owned subsidiaries of Oman Electricity Holding Company: Mazoon Electricity Company (US$624 million) and Muscat

Review of Operations

Electricity Distribution Company (US$546 million).

Asset-backed transactions continued also to be an area of growth. Notably, International Air Finance Corporation mandated ABC as joint underwriter, bookrunner and lead arranger on a US$400 million Murabaha transaction to finance five A330-200 aircraft for Kuwait Airways, and Oman Brunei Investment Co. appointed us sole lead arranger of a US$62 million senior debt facility to finance the sale and leaseback of two Boeing 737-900ER aircraft for Oman Air. Bank ABC was also mandated lead arranger in a US$108 million club deal to finance two Suez Max product carriers for Arab Maritime Petroleum Company.

In 2016, P&SF will seek to increase its involvement in originating and distributing transactions. In view of the challenging economic environment, our approach to new transactions will be highly selective, focusing on robust deal structures and strong cashflows able to withstand severe stress tests.

Islamic Finance

In an expanding market for Islamic finance, our Islamic business continued to attract new clients from across the Middle East and led a number of high-profile transactions. As a result, IF grew its revenues and profits.

We raised our profile in the sukuk market, acting as co-leads on seven issues. These included sukuks for Mumtalakat, Sharjah Islamic Bank, Fly Dubai and the Bank of Indonesia – all of which were oversubscribed. IF also led a US$70 million syndicated Islamic facility for Al-Bayan. In London, ABC closed some landmark real estate transactions, in spite of mounting competition from European banks.

Looking forward to 2016, IF will continue its strategy of expanding the number of client relationships, and originating and distributing transactions. However, demand for Islamic financing may moderate as companies rein in capital expenditure in response to tight regional liquidity.

Syndications

The Syndications team originates, structures and distributes syndicated loan transactions, supporting our other wholesale banking businesses, as well as working closely with the treasury products team.

2015 was an active year. At year-end, we ranked first in the Middle East bookrunner league table, having completed 10 deals worth US$1.1 billion. Notably, we were sole bookrunner on Kuwait International Bank's US$320 million deal, which was significantly oversubscribed.

Additionally, as part of proactive balance sheet management, and to improve overall returns, Syndications was more active in secondary market loans sales in 2015. In 2016, this is expected to grow further, sourcing assets from our own balance sheet and selectively seizing attractive trading opportunities.

OTHER BUSINESSES

Banco ABC Brasil

In 2015 Banco ABC Brasil (BAB) delivered growth in income and profits in local currency while maintaining a solid balance sheet. This was achieved in spite of Brazil's mounting challenges, with an uncertain political scenario and a deteriorating economy.

The substantial depreciation in the Brazilian Real led to a decline in BAB's dollar-based contribution to the Group. Total operating income decreased to US$255 million in 2015 (US$347 million in 2014) and net profit fell to US$125 million (US$136 million in 2014). Reflecting the deteriorating economic environment, there was an increase in impairment provisions. However, in Brazilian Real terms underling profit grew from BRL321 million to BRL411 million, reflecting the strength of the business, notwithstanding the difficult economic conditions.

BAB continued to focus on providing loans, structured products and financial and advisory services to large corporates and mid-sized Brazilian companies. In view of Brazil's deteriorating economy, we focused more on the quality and profitability of assets than growing our balance sheet. Additionally, we sold more treasury products and launched cash management services.

2016 is forecast to be another year of recession in Brazil, with a slow recovery expected to unfold in 2017. Considering this uncertain scenario for the next two years, we will continue to prioritise asset quality and conservative management of the balance sheet, aiming to return to faster growth when the economy starts to recover.

ABC International Bank

ABC International Bank (ABCIB) is the centre of excellence for our Global Trade Finance (GTF) business and houses our UK-based Islamic finance activities.

The conditions for GTF and its performance are set out in the Wholesale Banking section above. Our UK-based Islamic Financial Services grew steadily for the sixth year. We have established ourselves as one of the UK's leading providers of Islamic finance for the real estate sector. Notably, construction of London's South Bank Tower, where ABCIB was the lead bank, was completed in the year.

2015 was a year when ABCIB reorganised its London base and wider European operations, both to improve new business generation and to create a stronger platform. Experienced new people were recruited to bolster senior management and the front office. We invested in the control environment to meet rising regulatory requirements, making appointments in audit, compliance and risk, as well as improving compliance systems.

Looking forward to 2016, ABCIB is optimistic that it will start to see improvements in trade finance, although these may not show their full effect until 2017. Islamic Financial Services is likely to continue its growth, although the environment will be challenging.

Arab Financial Services

As the MENA region continues to use more credit and debit cards, Arab Financial Services (AFS) is rapidly expanding its customer base. AFS is one of the region's largest and fastest-growing payment services providers, fuelling its expansion through continually investing in new technology and value-added services.

We signed up five new customer banks in the year, while existing customers acquired a wider range of services, such as our online loyalty platform, instant card issuance in branches, the 24x7 banking call centre and mobile phone-based payment instalment plans. AFS also embarked on a project for a major Saudi Arabian bank, to convert its entire customer base to contactless cards.

In order to facilitate debit card processing for UAE-based banks, AFS opened an office in Dubai and has plans to expand into Oman in 2016.

ABC's MENA retail banks also continued to migrate processing and other associated services to AFS. The units in Algeria, Egypt and Jordan have all converted to the AFS platform for debit card processing and ATM driving. Furthermore, Jordan became the first unit to use AFS's customer call centre services, which include advanced technology-based complaint handling and ticketing. All these initiatives resulted in a 2015 year-end net profit of US$6.0.

Looking forward to 2016, AFS plans to carry on investing in innovative product development in order to drive growth, as well as beginning to offer training and consultancy services. It will also look to acquire other card processing service providers. AFS will continue to focus on attracting, developing and retaining highly committed and accountable teams of professional individuals in order to deliver high-quality customer services.

SUPPORT FUNCTIONS

Bank ABC's support functions focused on strengthening the Group's international platform. This involved recruiting additional specialists to support our strategy for international expansion, launching a global brand and further bolstering control functions throughout the units.

We also rebranded Arab Banking Corporation as Bank ABC, supporting our strategic initiative to become MENA's leading international bank and sharpening our market positioning strategy. We introduced a common brand across most of the countries where our network is present. The new unified brand will support us as we develop as a global, client-centric organisation providing a bridge between the world's markets and the MENA region.

ABC recruited a number of experienced people in the year to strengthen the compliance function. One of the key focuses for 2015 was enhancing compliance systems. A new transaction monitoring system for anti-money laundering, know-your-customer and FATCA compliance was rolled out across most ABC units. Full implementation across all units is expected to be completed in the first half of 2016. The performance management system and variable compensation scheme (VCS) were both redesigned to further drive our performance culture in line with strategic goals.

Following the creation of the central Group Operations function in 2015, a number of projects are currently being progressed to deliver a greater degree of standardisation and embed operations management best practices across units. These initiatives will help to ensure that we have scalable and efficient processes in place, capable of supporting the Group's strategic ambitions.

Group Information Technology also continued to improve centralisation, efficiency and control. The roll out of the core retail banking system across MENA units was completed with its implementation in Algeria. Processing of Jordan and Egypt's debit card and ATM transactions was moved to our Arab Financial Services (AFS) subsidiary, following the successful migration of Algeria late last year. AFS also completely revamped its Bahrain-based call centre and now serves Bank ABC Jordan's customers with a range of new services. Finally, an automated retail collections system was introduced in Egypt, with implementation for other MENA units planned for 2016.

Finally, as I conclude this 2015 operating review, I would like to thank our clients for their trust and support. I also thank our staff for their contribution to the progress we have made in implementing our refined strategy. We have clear plans for profitable growth that will improve returns on capital, increase the sustainability of profits and further improve our resilience. I look forward to working with all of our stakeholders to achieve our goals in 2016.

Dr. Khaled Kawan
Group Chief Executive Officer

Corporate Governance

Arab Banking Corporation B.S.C. ("Bank ABC") follows internationally-recognised best practice principles and guidelines, having a corporate governance system that provides an effective and transparent control framework, which is fair and accountable.

The Central Bank of Bahrain ("CBB") licenses Bank ABC as a conventional wholesale bank. Incorporated in 1980 as a Bahrain joint stock company, Bank ABC has an authorised capital of US$3.5 billion and a paid-up capital of US$3.11 billion (as at 31 December 2015).

Bank ABC communicates all relevant information to stakeholders punctually and clearly through a variety of channels, including a well-maintained website. In particular, it reports its profits on an annual, semi-annual and quarterly basis.

At least the last five years' financial statements are available on the Bank ABC corporate website.

Shareholders

Bank ABC's shares have been listed on the Bahrain Bourse since 1990. The Central Bank of Libya ("CBL"), one of ABC's founding shareholders, owns a majority of the shares. CBL increased its shareholding to 59.37% in 2010 by participating in that year's capital increase and acquiring the Abu Dhabi Investment Authority's 17.72% shareholding. The Kuwait Investment Authority, another Bank ABC founding shareholder, continues to own 29.69% of the shares. Each of the foregoing shareholders is either a governmental entity or is (directly or indirectly) owned by a governmental entity in its jurisdiction of establishment. International and regional investors hold the remaining shares of Bank ABC.

The following table shows the ownership structure of Bank ABC as at 31 December 2015:

Name of Shareholder	Percentage Shareholding	Nationality
Central Bank of Libya	59.37%	Libyan
Kuwait Investment Authority	29.69%	Kuwaiti
Other shareholders with less than 5% holdings	10.94%	Various
Total	**100%**	

The following table shows the distribution of shareholdings as at 31 December 2015 and 31 December 2014.

% of shares held	2015 No. of shares	2015 No. of shareholders	2015 % of total outstanding shares	2014 No. of shares	2014 No. of shareholders	2014 % of total outstanding shares
less than 1%	**128,344,432**	**1,324**	**4.1**	128,344,432	1,339	4.1
1% up to less than 5%	**211,976,668**	**3**	**6.8**	211,976,668	3	6.8
5% up to less than 10%	**-**	**-**	**-**	-	-	-
10% up to less than 20%	**-**	**-**	**-**	-	-	-
20% up to less than 50%	**923,289,191**	**1**	**29.7**	923,289,191	1	29.7
50% and above	**1,846,389,709**	**1**	**59.4**	1,846,389,709	1	59.4
Total	**3,110,000,000**	**1,329**	**100.0**	3,110,000,000	1,344	100.0

Bank ABC's Corporate Governance Charter

In 2010, the CBB substantially updated its corporate governance requirements (particularly the CBB Rulebook's High Level Controls module) for financial institutions, which are incorporated in Bahrain (the "CBB Corporate Governance Requirements"). Such regulatory requirements largely correspond with the Corporate Governance Code of Bahrain of 2010 (the "Code"), which the Ministry of Industry and Commerce of Bahrain issued in March 2010. The Code applies to companies with shares listed on the Bahrain Bourse, including Bank ABC. The CBB Corporate Governance Requirements and the Code took full effect at the end of 2011. The Board of Directors adopted the Bank ABC Corporate Governance Charter in December 2010 (the "Corporate Governance Charter"), which substantially reflects the CBB Corporate Governance Requirements and the Code. The Corporate Governance Charter is displayed on the Bank ABC corporate website and deals with a number of corporate governance related matters, including:

- the role and responsibilities of the Board and its committees
- the responsibilities of Directors to Bank ABC and the shareholders
- the appointment, training and evaluation of the Board
- remuneration of the Board and of Bank ABC employees
- Bank ABC's management structure
- communications with shareholders and the disclosure of information to relevant stakeholders
- the detailed mandates of each of the committees of the Board.

Recent Corporate Governance Changes

The Corporate Governance Charter was updated in March 2015 to reflect the formal establishment of the Board Strategy Committee and its terms of references in the form of the Board Strategy Committee Charter. The Board Strategy Committee is responsible for reviewing and overseeing the implementation of the strategy for Bank ABC Group.

A new Board member, Dr. Tarik Yousef, was appointed to the Board of Bank ABC in 2015 to replace Dr. Khaled Kagigi. Following the appointment of Dr. Tarik Yousef, the Board remains at nine members. In September 2015, the CBB re-classified existing Board member, Mr. Bashir Omer, as an independent Director, which has increased the total number of independent Directors on the Board to four members, (which is compliant with the CBB Corporate Governance Requirements, which require that not less than one third of the Board must comprise of independent Directors).

With the reclassification of Mr. Bashir Omer as an independent Director, the Board Risk Committee in addition to the Audit Committee, the Corporate Governance Committee and the Nominations and Compensation Committee now have a majority of independent Directors as members on each of these committees. The chairmen of the Audit Committee and the Nominations and Compensation Committee are independent Directors.

Compliance with CBB Corporate Governance Requirements and the Code

Bank ABC was compliant with the CBB Corporate Governance Requirements and the Code as at 31 December 2015, save that the Chairman of the Board was not an independent Director, which is contrary only to the non-mandatory guidance/ recommendations included in the CBB Corporate Governance Requirements and the Code.

BOARD OF DIRECTORS

Responsibilities of the Board

Bank ABC has previously adopted both a corporate governance charter for the Board and charters for the

Corporate Governance

various Board committees (the "Bank ABC Board Mandates"). The Bank ABC Board Mandates are displayed on the Bank ABC corporate website. The Board of Directors is responsible for the overall direction, supervision and control of the Bank ABC Group. In particular, the Board's responsibilities include (but are not limited to):

a) those responsibilities assigned to the Board by the Articles of Association of Bank ABC
b) establishing Bank ABC's objectives
c) Bank ABC's overall business performance
d) monitoring management performance
e) the adoption and annual review of strategy
f) monitoring the implementation of strategy by management
g) causing financial statements to be prepared which accurately disclose Bank ABC's financial position
h) convening and preparing the agenda for shareholder meetings
i) monitoring conflicts of interest and preventing abusive related-party transactions
j) assuring equitable treatment of shareholders, including minority shareholders
k) the adoption and review of management structure and responsibilities
l) the adoption and review of the systems and controls framework
m) overseeing the design and operation of the remuneration systems of the Bank ABC Group and ensuring that such systems are not primarily controlled by the executive management of the Bank ABC Group.

The Board meets regularly to consider key aspects of the Group's affairs, strategy and operations.

The Board exercises its responsibilities for best practice management and risk oversight mainly through the Board Risk Committee, which oversees the definition of risk/reward guidelines, risk appetite, risk tolerance standards and risk policies and standards.

The Board Risk Committee is also responsible for coordinating with other Board committees in monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Group operates.

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

Appointment of Directors

The shareholders appoint the Board for a term of three years, with the current term of the Board commencing on 24 March 2013. At the 2015 year end, there were nine Directors on the Board, with diverse and relevant skills, who worked well together as a team. Collectively, they exercised independent and objective judgement in meeting their responsibilities.

In accordance with Bank ABC's Articles of Association, a shareholder or group of shareholders holding 25% or more of the share capital may nominate Directors proportionate to their respective shareholdings. Other Directors are elected.

In accordance with the Bank ABC Board Mandates, each proposal for the election or re-election of a Director shall be accompanied by a recommendation of the Board, and a summary of the advice of the Nominations and Compensation Committee (see the description of role of the Nominations and Compensation Committee in this report).

The Board also has the power under Bank ABC's Articles of Association to appoint new directors and fill any Board vacancies that may arise, subject to such appointments being subsequently ratified by shareholders.

When a new Director is inducted, the Chairman, or Bank ABC's Legal Counsel or Compliance Officer, or other individual delegated by the Chairman, reviews the Board's role and duties with that person. In particular, they describe the legal and regulatory requirements of the Bank ABC Board Mandates, the Code and the CBB Corporate Governance Requirements. The Chairman of the Board ensures that each new Director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. This includes meetings with senior management, internal and independent auditors and legal counsel; visits to Bank ABC facilities; presentations regarding strategic plans, compliance programmes, and significant financial, accounting and risk management issues.

Bank ABC has a written appointment agreement with each Director. This describes the Director's powers, duties, responsibilities and accountabilities, as well as other matters relating to his appointment including his term, the time commitment envisaged, the Board committee assignments (if any), Directors' remuneration and expense reimbursement entitlement, and Directors' access to independent professional advice when needed.

Assessment of the Board

The Bank ABC Board Mandates require that the Board evaluates its own performance each year, as well as the performance of each Board committee and individual Director. This evaluation includes:

a) assessing how the Board operates
b) evaluating the performance of each Board committee in light of its specific purposes and responsibilities, which shall include reviews of the self-evaluations undertaken by each Board committee
c) reviewing each Director's work, his attendance at Board and Board committee meetings, and his constructive involvement in discussions and decision making
d) reviewing the Board's current composition against its desired composition in order to maintain an appropriate balance of skills and experience, and to ensure planned and progressive refreshing of the Board
e) recommendations for new Directors to replace long-standing Directors, or those Directors whose contribution to Bank ABC or its Board committees (such as the Audit Committee) is not adequate.

The Board has conducted an evaluation and self-assessment of its performance, and the performance of each Board committee and each individual Director in relation to the financial year ending on 31 December 2015.

Independence of Directors

The Bank ABC Board Mandates include detailed criteria to determine whether a Director should be classified as independent or not. The Bank ABC independence criteria are at least as restrictive as the formal criteria specified in the CBB Corporate Governance Requirements.

Bank ABC had four independent, non-executive Directors and five non-independent, non-executive Directors as at 31 December 2015. The CBB Corporate Governance Requirements require that at least a third of Bank ABC's Board of Directors is independent and also require that certain Board committees (including the Audit Committee and the Nominations and Compensation Committee) be comprised of a certain number of Directors, a certain proportion of independent Directors and/or that such Board committees be chaired by an independent Director. Bank ABC is now fully compliant with such requirements. The CBB Corporate Governance Requirements also state that it is preferable for the Chairman of the Board to be an independent Director, whereas the Chairman of the Board is, in fact, classified as a non-executive, non-independent Director.

As a rule, Directors do not have any direct or indirect material interest in any contract of significance with Bank ABC, or any of its subsidiaries, or any material conflicts of interest. This remained the case in 2015. The Bank ABC Board Mandates require that any transaction that causes a Director to have a material conflict of interest must be unanimously approved by the Board (other than the relevant Director). Each Director is required to inform the entire Board of any actual, or potential, conflicts of interest in their activities with, or commitments to, other organisations as they arise, and to abstain from voting on these matters. Disclosures shall include all material facts.

Each Director has a legal duty of loyalty to Bank ABC, and can be personally sued by Bank ABC or shareholders for any violation.

Compensation & Interests of Directors

The general remuneration policy of Bank ABC with regard to Directors is included in the Bank ABC Board Mandates (as set out on the Bank ABC corporate website). The compensation for members of the Board of Directors consists of the following elements:

a) attendance fees payable to members attending different Board and Board committee meetings
b) monthly retainer
c) allowance to cover travelling, accommodation and subsistence while attending Board and Board committee meetings.

The remuneration structure for the Board of Directors is designed to reinforce its independence. In line with good corporate practice, this means that the Directors are paid a fee which is based on their role and time commitment only. Directors do not receive variable pay (annual or longer-term) or significant benefits. The remuneration of Directors is neither determined nor based on the performance of Bank ABC or the Bank ABC Group. The aggregate remuneration paid to Board members in 2015 amounted to US$1,842,139 (2014: US$1,780,484), which was divided between the three elements as follows:

Board remuneration 2015 (US$)	
Monthly Retainer Fee	1,208,750
Attendance Allowance	99,000
Travel Allowance (Per Diem & Airfare)	534,389
Total	**1,842,139**

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The aggregate remuneration paid to the members of the Nominations and Compensation Committee with respect to their membership of such committee for the year 2015 was US$25,000, which sum is included in the monthly retainer fee (the same amount was paid in 2014).

No Director owned or traded Bank ABC shares in 2015.

Board Committees

The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. In this respect, the Board, its committees and all Directors have access to senior management, external consultants and advisors. The Board Secretary is responsible for ensuring that the Board procedures, and applicable rules and regulations, are observed.

The Board has delegated specific responsibilities to a number of Board committees. Each such committee has its own formal written charter, which is set out in full in the Corporate Governance Charter. The main Board committees are:

- The **Audit Committee**, which is responsible to the Board for the integrity and effectiveness of the Group's system of financial and accounting controls and practices, and for reviewing compliance with legal requirements. This Committee also recommends the appointment, compensation and oversight of the external auditors, as well as the appointment of the Group Chief Auditor. The Audit Committee meets not less than four times a year.

- The **Board Risk Committee**, which is responsible for the review and approval of the Group's Credit and Risk Policies. The Committee reviews and makes recommendations to the Board regarding the annual risk strategy/appetite, within which business strategy, objectives and targets are formulated. The Committee delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, while ensuring that processes and controls are adequate to manage the Group's Risk Policies and Strategy. The Board Risk Committee meets not less than three times a year.

- The **Board Strategy Committee**, which is responsible for reviewing and overseeing the implementation of the strategy for Bank ABC and the Bank ABC Group. The Board Strategy Committee meets not less than once a year but meets as and when required.

- The **Corporate Governance Committee**, which assists the Board in shaping and monitoring the Group's Corporate Governance policies and practices, reviewing and assessing the adequacy of these policies and practices, and evaluating the Group's compliance with them. The Corporate Governance Committee meets not less than once a year.

- The **Executive Committee**, which is responsible for exercising the powers of the Board in the management of the business and affairs of the Group when the Board is not in service, excepting those powers that the Board expressly reserves for itself. The Executive Committee has no minimum number of meetings during the year, but meets as and when required.

- The **Nominations and Compensation Committee**, which is responsible for the formulation of the Group's executive and staff remuneration policy, as well as senior management appointments, ensuring that Bank ABC's remuneration levels remain competitive so it can attract, develop and retain the skilled staff needed to meet its strategic objectives. The Committee also ensures that the remuneration policy and philosophy of Bank ABC and the Bank ABC Group are aligned with Bank ABC's long-term business strategy, business objectives, risk appetite, values and long-term interests, while recognising the interests of relevant stakeholders. The Nominations and Compensation Committee meets not less than twice per year. Four meetings in this regard were held in 2014, while three meetings were held in 2015.

As at 31 December 2015, the members of each of the Board committees were as set out in the following table:

Board Committee	Member Name	Member Position	Classification of Director
The Audit Committee	Dr. Yousef Al Awadi	Chairman	Independent
	Dr. Anwar Al-Mudhaf	Member	Independent
	Mr. Isam Ghellai	Member	Non-Independent
The Board Risk Committee	Mr. Saddek El Kaber	Chairman	Non-Independent
	Dr. Anwar Al-Mudhaf	Member	Independent
	Mr. Bashir Omer	Member	Independent
	Mr. Isam Ghellai	Member	Non-Independent
	Dr. Yousef Al Awadi	Member	Independent
The Board Strategy Committee	Mr. Saddek El Kaber	Chairman	Non-Independent
	Dr. Anwar Al-Mudhaf	Member	Independent
	Dr. Tarik Yousef	Member	Non-Independent
	Dr. Yousef Al Awadi	Member	Independent
The Corporate Governance Committee	Mr. Abdallah Al Humaidhi	Chairman	Non-Independent
	Dr. Anwar Al-Mudhaf	Member	Independent
	Dr. Farouk El Okdah	Member	Independent
	Dr. Yousef Al Awadi	Member	Independent
The Executive Committee	Mr. Saddek El Kaber	Chairman	Non-Independent
	Mr. Hilal Al Mutairi	Deputy Chairman	Non-Independent
	Mr. Abdallah Al Humaidhi	Member	Non-Independent
	Dr. Yousef Al Awadi	Member	Independent
The Nomination and Compensation Committee	Dr. Anwar Al-Mudhaf	Chairman	Independent
	Mr. Abdallah Al Humaidhi	Member	Non-Independent
	Dr. Farouk El Okdah	Member	Independent
	Dr. Yousef Al Awadi	Member	Independent

Corporate Governance

Attendance of Directors

The details of Directors' 2015 attendance at Board and Board committee meetings are set out in the following table:

Board Members	Board Meetings	The Audit Committee	The Board Risk Committee	The Corporate Governance Committee	The Executive Committee Meeting	The Nominations & Compensation Committee
Mr. Saddek Omar El Kaber Chairman	7(7)	N/A	3(3)	N/A	1(1)	N/A
Mr. Hilal Al Mutairi Deputy Chairman	7(7)	N/A	N/A	N/A	0(1)	N/A
Mr. Abdullah Al Humaidhi Director	7(7)	N/A	N/A	3(4)	1(1)	3(3)
Dr. Anwar Al-Mudhaf Director	7(7)	5(5)	3(3)	4(4)	N/A	3(3)
Mr. Bashir Omer Director	6(7)	N/A	3(3)	N/A	N/A	N/A
Dr. Farouk El Okdah Director	7(7)	0(1)[1]	N/A	4(4)	N/A	3(3)
Mr. Isam Ghellai Director	6(7)	4(5)	3(3)	N/A	N/A	N/A
Dr. Khaled Kagigi Director	N/A[2]	1(1)[3]	N/A	N/A[4]	N/A[5]	N/A[6]
Dr. Tarik Yousef Director	6(6)[7]	N/A	N/A	N/A	N/A	N/A
Dr. Yousef Al Awadi Director	7(7)	5(5)	3(3)	4(4)	1(1)	3(3)

Figures in brackets indicate the maximum number of meetings during the period of membership. "N/A" indicates that a Director was not a member of the relevant Board committee during 2015.

[1] Retired from the Audit Committee on 18 February 2015
[2] Retired from the Board on 18 February 2015
[3] Retired from the Audit Committee on 18 February 2015
[4] Retired from the Corporate Governance Committee on 18 February 2015
[5] Retired from the Executive Committee on 18 February 2015
[6] Retired from the Nominations & Compensation Committee on 18 February 2015
[7] Appointed to the Board on 22 March 2015

Meeting dates during 2015:

The Board and its committees meet as frequently as is necessary for them to discharge their respective responsibilities, but the Board meets no less than four times a year. The Audit Committee meets no less than four times a year, the Nomination and Compensation Committee meets no less than twice a year, the Board Risk Committee meets no less than three times a year, and the Board Strategy Committee and the Corporate Governance Committee meet no less than once a year. The Executive Committee has no minimum number of meetings a year.

The details of the dates of the Board and Board committee meetings in 2015 are set out below:

	Dates of Meetings
Board meetings	27 and 28 February 2015 22 March 2015 11 June 2015 27 July 2015 14 November 2015 15 November 2015 20 December 2015
The Audit Committee	27 January 2015 8 April 2015 10 June 2015 4 October 2015 26 November 2015
The Board Risk Committee	10 June 2015 14 November 2015 19 December 2015
The Corporate Governance Committee	27 February 2015 22 March 2015 11 June 2015 19 December 2015
The Executive Committee	5 June 2015
The Nominations and Compensation Committee	27 February 2015 27 July 2015 19 December 2015

No meetings of the Board Strategy Committee were held during 2015.

Corporate Governance

INTERNAL CONTROLS

The Board of Directors is responsible for establishing and reviewing the Group's system of internal control. The Board receives minutes and reports from the Board Risk Committee ("BRC") and the Audit Committee, identifying any significant issues relating to the adequacy of the Group's risk management policies and procedures, as well as reports and recommendations from the Corporate Governance Committee and the Nominations and Compensation Committee. The Board then decides what action to take.

Management informs the Board regularly about how the Group is performing versus budget, identifying major business issues and examining the impact of the external business and economic environment.

Day-to-day responsibility for internal control rests with management. The key elements of the process for identifying, evaluating and managing the significant risks faced by the Group can be summarised as:

- a well-defined management structure – with clear authorities and delegation of responsibilities, documented procedures and authority levels – to ensure that all material risks are properly assessed and controlled

- internal control policies that require management to identify major risks, and to monitor the effectiveness of internal control procedures in controlling them and reporting on them

- a robust compliance function including, but not limited to, anti-money laundering and anti-insider trading policies

- an internal audit function, exercised through Group Audit, which reports to the Audit Committee on the effectiveness of key internal controls in relation to the major risks faced by the Group, and conducts reviews of the efficacy of management oversight in regard to delegated responsibilities, as part of its regular audits of Group departments and business units

- a comprehensive planning and budgeting process that delivers detailed annual financial forecasts and targets for Board approval, and

- a Group Risk Management function, comprising overarching Head Office risk management committees and a dedicated risk management support group.

Management structure

The Group Chief Executive Officer, supported by Head Office management, is responsible for managing the day-to-day operations of Bank ABC. There is a clear segregation of duties in the management structure at Bank ABC.

Senior managers did not hold or trade any shares in Bank ABC during 2015.

COMPLIANCE

Bank ABC is committed to complying with all applicable rules and regulations across all of its businesses and geographies, including the Central Bank of Bahrain (CBB) requirements and those of the local regulators in all relevant jurisdictions. The Group Compliance Officer (GCO) oversees, together with local heads of compliance, all regulatory compliance at Group level and within the units. The GCO reports directly to the Audit Committee and the Executive Vice President & Group Chief Operating Officer (GCOO).

Reflecting the rising bar of financial regulation worldwide, the footprint, activities and strategy of the Group, compliance governance and oversight continue to be important, and the Compliance function is being strengthened.

The Compliance function provides independent compliance oversight on behalf of the Board of Directors and senior management. Over the year, the Compliance function's capability and capacity has been upgraded. Additions to the Group team in Bahrain include a Group Business Compliance Advisor responsible for provision of business transaction advice and support, and a Group Compliance Operations Officer, responsible for implementing a compliance framework, standardisation of processes and alignment of compliance policies and procedures across the units. Additionally, heads of compliance were strategically upgraded within the units.

This drive to upgrade compliance started in 2014, when a new GCO with seasoned compliance experience was appointed. A dedicated Group Money Laundering Reporting Officer (Group MLRO) was designated. Furthermore, Group Compliance was made a standalone and independent function, reporting to the Audit Committee and the GCOO and with direct access to senior management and the Board of Directors. All Heads of Compliance and MLROs in Bank ABC units have a functional reporting line to the GCO and the Group MLRO respectively.

The Group Compliance Oversight Committee (GCOC) oversees the effective management of Bank ABC's compliance and financial crime risks on a Group-wide basis. The GCOC reports to the Group Chief Executive Officer and the Audit Committee and is chaired by the GCOO, with the Group Chief Banking Officer as Alternate Chair. In order to enhance governance at the local level, each unit established during 2015 a Compliance and Financial Crime Committee, chaired by the local Chief Executive Officer and/or Chief Operating Officer. Banco ABC Brasil has in place a combined Compliance and Operational Risk Committee. At the Group level, the GCO has the right to contact the CBB or any other local regulator where the Bank ABC Group operates.

Throughout its network of offices, Bank ABC has published policies and procedures for the appropriate implementation of laws, regulations, rules and standards, including in relation to conflicts of interest. This includes the Group Code of Conduct (see Appendix) and Group Compliance Policy, which are approved by the Board of Directors and updated on a regular basis. The Group Code of Conduct was updated during the year, and the updated Code was rolled out across the network. Bank ABC's Compliance Policy requires all officers and staff to comply with both the letter and the spirit of all relevant laws, rules, regulations and standards of good market practice.

In addition, Group Compliance is upgrading existing Compliance and Financial Crime systems including a new system for transaction monitoring (AML), know-your-customer (KYC), and FATCA compliance. This system was rolled out across most Bank ABC units in 2015, with full implementation across all units expected in 2016. The new system brings additional functionality and capability, enabling more effective and efficient management of AML and sanctions risks throughout the network.

The Group AML Manual was also updated and revised over the year, and a Group Financial Crime Programme, Policies and Standards were adopted. Pursuant to this, Senior Management and Group Compliance maintain appropriate and effective systems, controls and records to ensure compliance with AML, combating the financing of terrorism and sanctions regulations. Group Compliance develops and maintains Bank ABC's financial crime strategy and policies, as well as overseeing staff AML and sanctions training, and supervising and coordinating each ABC unit's MLRO activities.

In order to raise awareness, AML training is carried out across the Group. The scope of e-learning courses is being widened, and more face-to-face training and product and business specific trainings are being rolled out including in areas such as Trade Finance, Sanctions and Treasury specific training.

Group Compliance continually refreshes relevant policies and procedures in light of changing regulatory requirements and operational effectiveness. A process was implemented with Group policies and a schedule for systematically updating Group policies has been developed. Local units are required to analyse gaps and demonstrate how they are updating their policies and procedures for consistency with the Group.

Group Compliance reports material compliance and financial crime issues to senior management, the Audit Committee and the Board of Directors as appropriate.

REMUNERATION POLICIES OF BANK ABC IN COMPLIANCE WITH THE REQUIREMENTS OF THE CBB

Senior management and staff receive compensation based on a number of fixed elements, covering: salary, allowances and benefits, as well as variable, performance-related elements.

In January 2014, the Central Bank of Bahrain (CBB) issued new rules relating to the remuneration of approved persons and material risk-takers and others, which were subsequently amended later during 2014 (the "CBB Sound Remuneration Practices"). Bank ABC has implemented remuneration policies and procedures to cover both Bank ABC and Bank ABC Islamic, which are compliant with the CBB Remuneration Rules.

Senior management sought a consultant's advice to review the Bank's variable compensation scheme (VCS) and to work with Bank ABC to redesign the scheme in order to be fully compliant with the CBB's requirements. Key changes to Bank ABC's remuneration systems and governance processes were made during 2014 to comply with the CBB regulations and included:

i. Ensuring the risk framework is extensive and captured in decisions around variable pay, including confirming risk-adjustments to any bonus pool.

ii. Separating control functions from the Group bonus pool and ensuring they are measured independently from the businesses they oversee.

iii. Introducing an equity-linked vehicle in which to deliver the appropriate amount of variable remuneration for covered persons.

iv. Introducing deferral arrangements that defer the appropriate amount of variable remuneration for the Group Chief Executive Officer (GCEO), deputies, top five most highly-paid business line employees, material risk takers and approved persons.

v. Introducing clawback and malus policies that apply to variable remuneration.

Further changes to the VCS were planned to be introduced in early 2016 to encourage behaviours that will help fulfil the Group's strategic goals. Variable pay will now depend on a more extensive matrix of factors, rather than just the income generated.

Corporate Governance

These factors include the quality of the income, number of new clients won and the amount of capital used. The Performance Management System was redesigned at the same time to measure not just what has been achieved but also how it has been achieved.

The Nominations & Compensation Committee (NCC) reviews and approves Bank ABC's remuneration policy structure on a regular basis. Where rules on compensation exist in other jurisdictions in which Bank ABC operates, Bank ABC's Group policy is to take necessary steps to comply with local market regulations that are applicable to our foreign subsidiaries and branches. Where no rules are applicable, Bank ABC adopts local market practices.

A distinct and separate bonus pool has been created in order to reinforce the safeguarding role and independence of staff in Control Functions and is measured by the impact and quality of their safeguarding role. These measures are based on department-specific objectives and targets, which are independent of company financial performance.

Bank ABC conducts business within a set of overarching goals and limits that, together, define its risk appetite and tolerance. This is approved by the Board Risk Committee as part of the Group Risk Strategy, which complements the budgets and strategic plans proposed by the business. The Bank's bonus pool is subject to potential adjustments based on the review of the NCC, in respect of the approved risk appetite, risk tolerance and risk policies during the fiscal year.

Variable compensation and performance management are linked. Performance expectations are clearly articulated for revenue-generating, support and control functions. Individual bonus payments reflect Group, business unit and individual performance.

Bank ABC has adopted a remuneration deferral policy in line with the CBB Sound Remuneration Practices. This defers a required amount of the variable remuneration for the GCEO, deputies, top five most highly-paid business line employees, defined material risk takers and approved persons.

Bank ABC has also adopted a malus policy, which allows any form of deferred variable remuneration to be reduced or cancelled in specific and exceptional circumstances. Exceptional circumstances are defined as material events. They may include a material restatement of the Bank's financial statements, the discovery of significant failures in risk management or exposure to material financial losses at Group, business unit or individual level. In respect of unvested awards, and depending on each specific circumstance, malus may be applied to either that portion of unvested awards linked to the performance year in question or the total outstanding set of unvested awards.

A clawback policy has been introduced to allow Bank ABC to recover part, or all, of the awards already paid to an employee or former employee if a material event is discovered. Clawback provisions may be enforced upon the discovery of an employee's or former employee's, accountability or responsibility for, or direct implication in, material events that may bring the Bank into serious disrepute. Additionally, they may be enforced in the event of individual criminal or other substantial misconduct.

The design of the Bank's reward structure aligns pay outcomes with prudent risk management and sound governance practices. The mix of an individual employee's pay, allowances and variable compensation is dictated by the nature of the role he/she holds. Variable pay is delivered using a blend of cash and equity-linked instruments. It may be paid up-front in cash or deferred in accordance with the Bank's deferral policy. With Board approval, the variable pay multiples may be reviewed from time to time to ensure competitiveness with the market.

The remuneration disclosures have been reviewed and approved by the NCC, which has confirmed they are aligned with the CBB rulebook requirements.

Bank ABC takes risk seriously. Reward practices embed and reinforce the Bank's desired risk culture, and risk behaviours directly impact variable pay, based on the following principles:

i. Financial performance is not the sole measure of performance; both quantitative and qualitative approaches are used to measure risk; bonus pools are adjusted for all types of risk, both tangible and intangible, reflecting both Group and business unit performance;

ii. Bonuses can be diminished (or nil) in light of excessive risk taking at Group, business unit or individual level;

iii. Bonus pools reflect the cost of capital required and liquidity risk assumed in the conduct of business; and

iv. Pay for material risk takers is significantly weighted towards variable pay.

In addition, Bank ABC has a process for assessing the performance of senior management executives against a set of pre-agreed audit, risk & compliance (ARC) objectives, which are cascaded down in the organisation. Their pay is linked to long-term profitability and sustainable value.

Pay principles

The following 'pay principles' apply at Bank ABC and govern all current and future remuneration decisions. These principles have been approved by the NCC.

Summary

Principle	Theme
Principle 1	We pay for performance
Principle 2	We take risk seriously
Principle 3	We think long-term
Principle 4	Pay decisions are governed effectively
Principle 5	Clear and simple
Principle 6	Competitive, sustainable and affordable

Principle 1 | We pay for performance

Approach

- Performance expectations are clearly articulated for revenue-generating, support and control functions.
- Pay and performance management are linked.
- Bank ABC rewards performance that delivers its strategy, and that delivers the behaviours, cultures and ways of working that underpin doing business with the Bank.

Delivery

- Group and / or business unit underperformance can result in no bonus pool.
- Bonuses can be diminished (or nil) in light of poor Group, business unit or individual performance.
- Individual bonus payments reflect Group, business unit and individual performance.
- Group and business units are expected to meet demanding but achievable performance targets.
- Low performance ratings for any employee can result in no bonus.
- High performing business units may pay bonuses, even if the Group underperforms.
- Bank ABC differentiates high performance from average or low performance.
- Bonuses can be paid for non-profitable business units in start-up or turn-around phases.
- Bonus calculations reflect a measure of the appropriate behaviours, which support doing business with Bank ABC.
- Control functions are measured on the impact and quality of their safeguarding role.
- Pay for employees engaged in control functions promotes impartiality and objectivity – it ensures that all employees at Bank ABC take risk seriously.
- Bonuses can be paid to control function employees who exercise their roles effectively, even in light of poor Group or business unit performance.

Principle 2 | We take risk seriously

Approach

- Reward practices embed and reinforce Bank ABC's desired risk culture.
- Risk behaviours directly impact variable pay.

Delivery

- Financial performance is not the sole measure of performance.
- Bonuses can be diminished (or nil) in light of excessive risk taking at Group, business or individual level.
- Bonus pools reflect the cost of capital required, and liquidity risk assumed, in the conduct of business.
- Bonus pools are adjusted for all types of risk, both tangible and intangible, which are reflected in both Group and business unit performance.
- Both quantitative and qualitative approaches are used to measure risk.
- Pay for material risk takers is significantly weighted towards variable pay.
- Material risk takers' performance is rewarded using a mix of cash and equity (or an equity-linked vehicle) to reflect their influence on the Bank's risk profile.
- Risk behaviours of material risk takers have a direct impact on variable pay outcomes.

Principle 3 | We think long-term

Approach

- Pay is linked to long-term profitability and sustainable value.

Delivery

- Deferral mechanisms are used for approved persons / material risk takers.
- Deferral mechanisms include an equity-linked vehicle.
- 60% of variable pay for GCEO and the most highly-paid employees is deferred for three years.

Corporate Governance

- 40% of variable pay for material risk takers and approved persons (paid over BHD100,000) is deferred for three years.
- No form of guaranteed variable remuneration can be granted, except in exceptional circumstances, for a period of no more than one year following hire.
- Unvested deferred bonuses can be recovered in light of discovering past failures in risk management, or policy breaches, that led to the award originally being granted.
- Participation in deferral is reviewed on an annual basis, subject to meeting the minimum requirements under the CBB rules.

Principle 4 | Pay decisions are governed effectively

Approach

- Variable pay schemes are owned and monitored by the NCC.
- The NCC oversees remuneration practices across the Bank.

Delivery

- The NCC oversees the design and delivery of variable pay across the Bank.
- The NCC reviews and approves the Bank's remuneration policy on an annual basis.
- The GCEO and senior management do not directly own or control remuneration systems.
- The NCC reviews and approves bonus pools and payouts across the bank, and reviews and approves the pay proposals for material risk takers and approved persons.
- Risk and Compliance provide information to the NCC before it determines the bonus pool and Group performance.
- HR controls remuneration policies, while line managers have suitable discretion to apply them.
- HR develops compliance and monitoring practices to actively track global compliance with Group remuneration policy.

Principle 5 | Clear and simple

Approach

- Reward communications are clear, user-friendly and written in plain language.
- The aims and objectives of the new VCS are clear and transparent.

Delivery

- Clearly communicate what is meant by malus and clawback, and the instances in which these provisions could be applied.
- Open and easy access to the variable pay policy, plan rules and relevant communications.

Principle 6 | Competitive, sustainable and affordable

Approach

- The VCS helps to attract and retain high-calibre talent.
- The VCS structure can be maintained over the long term, and its total cost is always affordable to the Bank.

Delivery

- Bonus pools vary year-on-year, based on Group performance, external market conditions, the internal climate and affordability.
- Individual pay opportunities are driven by the external market and internal positioning.

Application of pay principles

Bank ABC will remunerate covered employees so as to attract, retain and motivate sufficient talent to safeguard the interests of the Bank and its shareholders, while ensuring the Bank avoids paying more than necessary. The remuneration systems fairly reward performance delivered within the risk appetite of the Bank, over an appropriate time horizon, so as to align with risk.

Variable remuneration is paid according to the scheme on the below categorisation:

- **Approved persons in business lines:** For the GCEO and the five most highly-paid business line employees, variable pay in 2015 was paid as 40% upfront cash, 10% in deferred cash and 50% in a deferred equity-linked vehicle. For the others in the same category, the pay split was 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- **Approved persons in control functions:** The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- **Other material risk takers:** The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- **Other staff of Bahrain operations:** The variable pay was paid fully in cash upfront.

Remuneration arrangements are structured to promote sound risk behaviours. Employees categorised as approved persons in business lines or material risk takers have their total remuneration weighted towards variable pay. Their performance is measured against a range of financial and non-financial factors related to risk. Employees categorised as approved persons in control functions have their remuneration weighted more heavily towards fixed pay. Their performance is measured independently of the business that they oversee, so ensuring sufficient independence and authority. All variable pay is subject to malus and clawback.

a) 2015

Employee Group	Number of Employees (as on 31/12/15)	Fixed Remuneration US$ million	Variable Remuneration US$ million
Approved Persons in Business Lines	6	6.2	3.9
Approved Persons in Control Functions	11	6.8	2.7
Other Material Risk Takers	37	12.4	4.1
Other staff of Bahrain operations not covered above	274	35.2	8.3
Total	**328**	**60.6**	**19**

Employee related expenses such as government charges, recruitment agency fees, etc, related to Head Office staff are excluded from the above table.

	Variable Remuneration Details*			
Employee Group	Upfront Cash US$ million	Deferred Cash US$ million	Upfront Equity-Linked Instrument US$ million	Deferred Equity Linked Instrument US$ million
Approved Persons in Business Lines	1.6	0.4	-	1.9
Approved Persons in Control Functions	1.3	-	0.3	1.1
Other Material Risk Takers	2.0	-	0.4	1.7
Other staff of Bahrain operations not covered above	8.3	-	-	-
Total	**13.2**	**0.4**	**0.7**	**4.7**

**no guaranteed bonus was awarded in 2015.*

	Sign on bonuses (Cash/Shares)		Severance Payments	
Employee Group	Number of employees	Amount US$ million	Number of employees	Amount US$ million
Approved Persons in Business Lines	-	-	-	-
Approved Persons in Control Functions	-	-	-	-
Other Material Risk Takers	-	-	3	1.2
Other staff of Bahrain operations not covered above	-	-	8	1.8
Total	**-**	**-**	**11**	**3.0**

		Shares		
Deferred awards	Cash US$ million	Number	US$ million	Total US$ million
Opening Balance	0.4	4.9	5.5	5.9
Awarded during the period	0.4	3.7	4.7	5.1
Paid out/released through performance adjustments	-	-	-	-
Closing Balance	**0.8**	**8.6**	**10.2**	**11**

Corporate Governance

b) 2014

Employee Group	Number of Employees (as on 31/12/14)	Fixed Remuneration US$ million	Variable Remuneration US$ million
Approved Persons in Business Lines	6	6.3	4.1
Approved Persons in Control Functions	12	9.4	3.1
Other Material Risk Takers	38	12.8	5.7
Other staff of Bahrain operations not covered above	262	34.2	10.1
Total	**318**	**62.7**	**23**

	Variable Remuneration Details*			
Employee Group	Upfront Cash US$ million	Deferred Cash US$ million	Upfront Equity-Linked Instrument US$ million	Deferred Equity Linked Instrument US$ million
Approved Persons in Business Lines	1.7	0.4	-	2.0
Approved Persons in Control Functions	1.5	-	0.3	1.2
Other Material Risk Takers	2.9	-	0.6	2.3
Other staff of Bahrain operations not covered above	10.1	-	-	-
Total	**16.2**	**0.4**	**0.9**	**5.5**

**no guaranteed bonus was awarded in 2014.*

	Sign on bonuses (Cash/Shares)		Severance Payments	
Employee Group	Number of employees	Amount US$ million	Number of employees	Amount US$ million
Approved Persons in Business Lines	-	-	-	-
Approved Persons in Control Functions	-	-	-	-
Other Material Risk Takers	1	0.2	-	-
Other staff of Bahrain operations not covered above	-	-	10	2.5
Total	**1**	**0.2**	**10**	**2.5**

	Cash	Shares		Total
Deferred awards	US$ million	Number	US$ million	US$ million
Opening Balance	-	-	-	-
Awarded during the period	0.4	4.9	5.5	5.9
Paid out/released through performance adjustments	-	-	-	-
Closing Balance	**0.4**	**4.9**	**5.5**	**5.9**

"We are committed to knowing our customers and developing long-term relationships"

Risk Management

Including Basel III - Pillar 3 disclosures

The Bank ABC Group complies with the Central Bank of Bahrain (CBB) reporting requirements, within the Basel III risk management framework.

This report describes the Group's risk management framework, makes the disclosures required by the CBB and profiles the risk-weighted assets.

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

- As per the CBB Basel III capital adequacy framework, off balance sheet exposures are converted into on balance sheet equivalents by applying a credit conversion factor (CCF). The CCF varies between 20%, 50% or 100% depending on the type of contingent item.

- Under this risk management section, the credit exposures are classified as per the 'Standard Portfolio' approach set out in the CBB's Basel III capital adequacy framework covering the 'Standardised Approach' for credit risk. In the case of guaranteed exposures, the exposures would normally be reported based on the guarantor. However, in the consolidated financial statements the assets are presented based on asset class (i.e. securities, loans and advances, etc.).

- Eligible collateral is taken into consideration in arriving at the net exposure under the Basel III framework, whereas collateral is not netted in the consolidated financial statements.

- Under the Basel III framework, certain items are considered as a part of the regulatory capital base, whereas these items are netted off against assets in the consolidated financial statements.

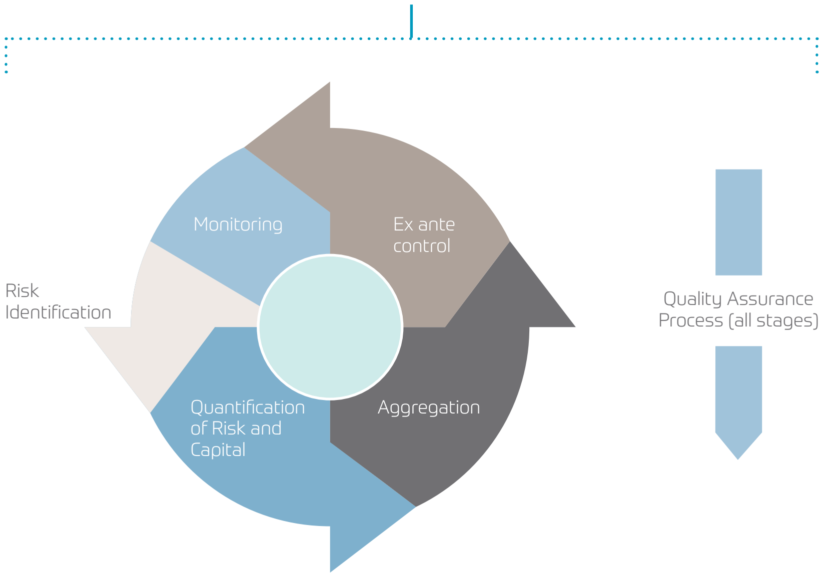
RISK MANAGEMENT FRAMEWORK

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

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

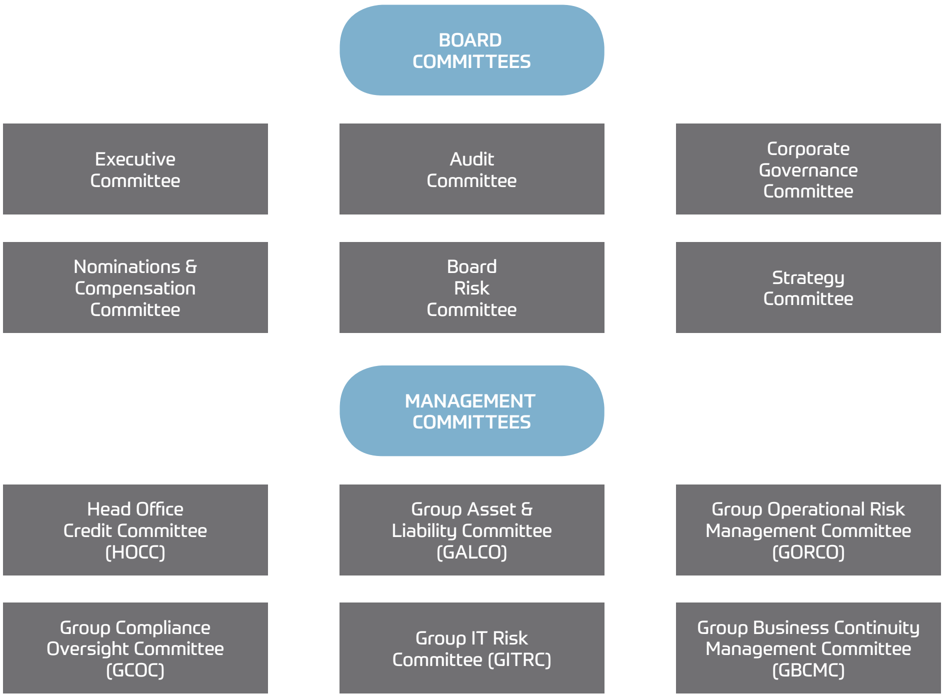
Figure 1:

Board and Senior Management Oversight



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

Figure 2: Risk Management Structure



Risk Management

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

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

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

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

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

The **Group IT Risk Committee (GITRC)** is responsible for the development, approval and periodic review of the frameworks for the management of IT Risk and Information Security in the Group.

The **Group Business Continuity Management Committee (GBCMC)** is responsible for proposing, approving and monitoring the implementation of Group-wide policies and procedures for Disaster Recovery and Business Continuity Management.

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

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

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

CREDIT RISK

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

The first level of protection against undue credit risk is through the Group's counterparty, country, industry and other risk threshold limits, together with customer and customer group credit limits. The BRC and the HOCC set these limits and allocate them between the Group and its banking subsidiaries. A tiered hierarchy of delegated approval authorities, based on the risk rating of the customer under the Group's internal credit rating system, controls credit exposure to individual customers or customer groups.

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

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

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

ABC remains committed to developing the credit skills of its entire staff involved in the credit process within the Bank. To this end, a training initiative has been running since 2012 as a means of both enhancing and unifying credit standards across the Group. This initiative, entitled Credit Culture Transformation or "CCT@ABC", harnesses the expertise of Moody's Analytics to deliver a broad bespoke training programme, ranging from corporate analysis through to the structuring skills required to preserve the quality of the Bank's asset book. In 2015, several training sessions were organised across the Group as part of this programme and it is intended that further topics will be added to the training programme as it is developed going forward.

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

Credit exposures that have significantly deteriorated are segregated and supervised more actively by the CRG's Remedial Loans Unit (RLU). Subject to minimum loan loss provision levels mandated under the Group Credit Policy, specific provisions in respect of impaired assets are based on estimated potential losses, through a quarterly portfolio review and adequacy of provisioning exercise. A collective impairment provision is also maintained to cover unidentified possible future losses.

As at 31 December 2015, the Group's exposures in excess of the 15% obligor limit to individual counterparties were as shown below:

US$ million	On balance sheet exposure	Off balance sheet exposure	Total exposure
Counterparty A	333	380	713

The exposure is exempt under the large exposure policy of the Central Bank of Bahrain.

DEFINITION OF EXPOSURE CLASSES PER STANDARD PORTFOLIO

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

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

a. **Claims on sovereigns**

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

b. **Claims on public sector entities (PSEs)**

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

c. **Claims on multilateral development banks (MDBs)**

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

d. **Claims on banks**

Claims on banks are risk-weighted based on the ratings assigned to them by external rating agencies. However, short-term claims on locally-incorporated banks are assigned a risk weighting of

20% where such claims on the banks are of original maturities of three months or less, and are denominated and funded in either Bahraini Dinars or US Dollars.

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

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

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

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

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

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

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

i. Equity portfolios
Investments in listed equities are risk-weighted at 100% while those in unlisted equities are risk-weighted at 150%.

j. Other exposures
These are risk-weighted at 100%.

Credit exposure and risk-weighted assets

US$ million	Gross credit exposure	Funded exposure	Unfunded exposure	Cash collateral	Eligible guarantees	Risk-weighted assets	Capital charge
Cash	37	37	-	-	-	3	-
Claims on sovereigns*	4,183	3,809	374	183	63	513	64
Claims on public sector entities **	2,350	2,228	122	434	2	1,585	198
Claims on multilateral development banks	163	163	-	-	-	19	2
Claims on banks	12,623	11,001	1,622	1,581	254	5,400	675
Claims on corporate portfolio	11,797	9,755	2,042	194	1	11,103	1,389
Regulatory retail exposures	750	698	52	-	-	562	70
Past due loans	161	161	-	1	-	194	24
Residential retail portfolio	116	116	-	5	-	113	14
Equity portfolios	165	165	-	-	-	265	33
Other exposures	536	460	76	-	-	694	87
	32,881	**28,593**	**4,288**	**2,398**	**320**	**20,451**	**2,556**

** Includes Ginnie Mae & Small Business Administration pools.*

*** Includes exposures to Collateralised Mortgage Obligations (CMOs) of Freddie Mac and Fannie Mae, both of which are deemed to be Government Sponsored Enterprises (GSEs).*

Monthly average gross exposures and the risk-weighted assets for 2015 were US$33,571 million and US$20,327 million respectively.

Geographical distribution of exposures

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

US$ million	Gross credit exposure	Impaired loans	Specific provision impaired loans	Impaired securities	Specific provision impaired securities
North America	3,090	29	3	110	105
Western Europe	5,209	73	29	-	-
Other Europe	1,759	2	-	-	-
Arab World	14,434	290	252	17	15
Other Africa	30	-	-	-	-
Asia	1,689	-	-	-	-
Australia/New Zealand	30	-	-	-	-
Latin America	6,640	95	44	-	-
	32,881	**489**	**328**	**127**	**120**

In addition to the above specific provisions the Group has collective impairment provisions amounting to US$183 million.

The geographical distribution of gross credit exposures, by major type of credit exposure, can be analysed as follows:

US$ million	North America	Western Europe	Other Europe	Arab World	Other Africa	Asia	Australia/ New Zealand	Latin America	Total
Cash	-	-	-	37	-	-	-	-	37
Claims on sovereigns*	482	699	67	2,417	-	118	-	400	4,183
Claims on public sector entities **	66	112	-	1,646	-	45	-	481	2,350
Claims on multilateral development banks	96	20	-	-	-	47	-	-	163
Claims on banks	940	3,062	1,544	4,457	-	1,277	2	1,341	12,623
Claims on corporate portfolio	1,318	1,088	146	4,777	30	199	28	4,211	11,797
Regulatory retail exposures	-	-	-	634	-	-	-	116	750
Past due loans	26	44	2	38	-	-	-	51	161
Residential retail portfolio	-	115	-	1	-	-	-	-	116
Equity portfolios	122	1	-	39	-	3	-	-	165
Other exposures	40	68	-	388	-	-	-	40	536
	3,090	**5,209**	**1,759**	**14,434**	**30**	**1,689**	**30**	**6,640**	**32,881**

** Includes Ginnie Mae & and Small Business Administration pools.*

*** Includes exposures to CMOs of Freddie Mac and Fannie Mae, both of which are deemed to be GSEs.*

Risk Management

The ageing analysis of past due loans, by geographical distribution can be analysed as follows:

US$ million	Less than 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Western Europe	43	-	-	1	44
Arab World	30	5	2	1	38
Latin America	39	12	-	-	51
North America	26	-	-	-	26
Other Europe	-	-	2	-	2
	138	**17**	**4**	**2**	**161**

Industrial sector analysis of exposures

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

US$ million	Gross exposure	Funded exposure	Unfunded exposure	Impaired loans	Specific provision impaired loans	Impaired securities	Specific provision impaired securities
Manufacturing	4,253	3,472	781	47	38	-	-
Mining and quarrying	131	103	28	33	9	-	-
Agriculture, fishing and forestry	23	23	-	2	2	-	-
Construction	1,182	943	239	54	19	-	-
Financial	15,140	13,263	1,877	95	94	127	120
Trade	755	707	48	130	75	-	-
Personal/Consumer finance	858	800	58	25	21	-	-
Commercial real estate financing	367	306	61	-	-	-	-
Government	4,282	3,908	374	22	22	-	-
Technology, media & telecommunications	461	366	95	22	22	-	-
Transport	891	808	83	-	-	-	-
Other sectors	4,538	3,894	644	59	26	-	-
	32,881	**28,593**	**4,288**	**489**	**328**	**127**	**120**

The industrial sector analysis of gross credit exposures, by major types of credit exposure, can be analysed as follows:

US$ million	Manufacturing	Mining and quarrying	Agriculture, fishing and forestry	Construction	Financial	Trade	Personal / consumer finance	Commercial real estate financing	Government	Technology, media & telecommunic-ations	Transport	Other sectors	Total
Cash	-	-	-	-	-	-	2	-	-	-	-	35	**37**
Claims on sovereigns*	-	-	-	-	88	-	-	-	4,095	-	-	-	**4,183**
Claims on public sector entities **	787	-	-	29	911	-	-	-	187	73	25	338	**2,350**
Claims on multilateral development banks	-	-	-	-	163	-	-	-	-	-	-	-	**163**
Claims on banks	-	-	-	-	12,623	-	-	-	-	-	-	-	**12,623**
Claims on corporate portfolio	3,457	107	23	1,118	1,210	700	77	258	-	388	866	3,593	**11,797**
Regulatory retail exposures	-	-	-	-	-	-	747	-	-	-	-	3	**750**
Past due loans	9	24	-	35	1	55	4	-	-	-	-	33	**161**
Residential retail portfolio	-	-	-	-	-	-	-	109	-	-	-	7	**116**
Equity portfolios	-	-	-	-	144	-	18	-	-	-	-	3	**165**
Other exposures	-	-	-	-	-	-	10	-	-	-	-	526	**536**
	4,253	**131**	**23**	**1,182**	**15,140**	**755**	**858**	**367**	**4,282**	**461**	**891**	**4,538**	**32,881**

** Includes Ginnie Mae & and Small Business Administration pools.*

*** Includes exposures to CMOs of Freddie Mac and Fannie Mae, both of which are deemed to be GSEs.*

The ageing analysis of past due loans, by industrial sector can be analysed as follows:

US$ million	Less than 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Manufacturing	6	2	-	1	**9**
Mining and quarrying	22	-	2	-	**24**
Construction	26	9	-	-	**35**
Financial	-	-	-	1	**1**
Trade	52	3	-	-	**55**
Personal / consumer finance	3	1	-	-	**4**
Other sectors	29	2	2	-	**33**
	138	**17**	**4**	**2**	**161**

Risk Management

Exposure by external credit rating

The Group uses external ratings from Standard & Poor's, Moody's, Fitch Ratings and Capital Intelligence (accredited External Credit Assessment Institutions). The breakdown of the Group's exposure into rated and unrated categories is as follows:

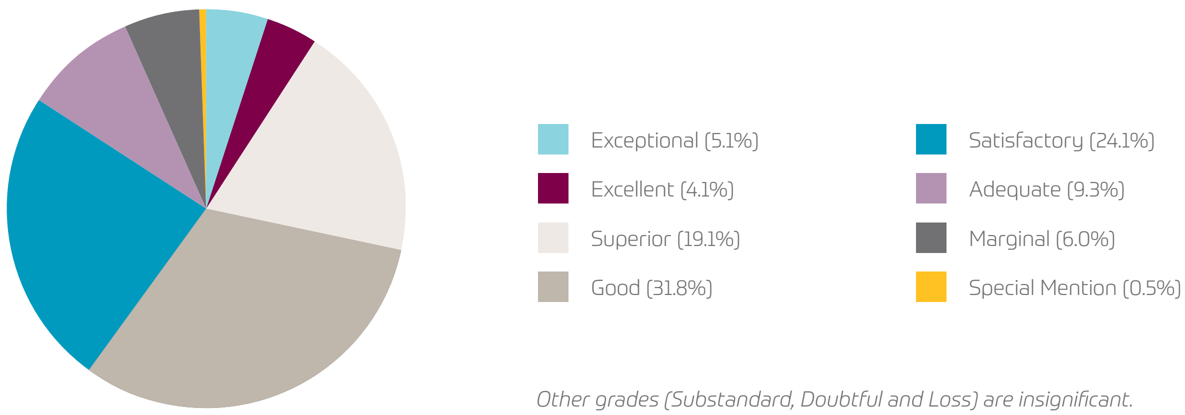
US$ million	Net credit exposure (after credit risk mitigation)	Rated exposure	Unrated exposure
Cash	37	-	37
Claims on sovereigns*	4,000	3,616	384
Claims on public sector entities**	1,916	480	1,436
Claims on multilateral development banks	163	163	-
Claims on banks	11,042	9,509	1,533
Claims on corporate portfolio	11,603	1,584	10,019
Regulatory retail exposure	750	-	750
Past due loans	160	-	160
Residential retail portfolio	111	-	111
Equity portfolios	165	-	165
Other exposures	536	-	536
	30,483	**15,352**	**15,131**

** Includes Ginnie Mae & Small Business Administration pools.*

*** Includes exposures to CMOs of Freddie Mac and Fannie Mae, both of which are deemed to be GSEs.*

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

The Group's credit risk distribution at the 2015 financial year end is shown below.



Other grades (Substandard, Doubtful and Loss) are insignificant.

Maturity analysis of funded exposures

Residual contractual maturity of the Group's major types of funded credit exposures, except for CMOs and Small Business Administration pools amounting to US$352 million which are based on expected realisation or settlement, is as follows:

US$ million	within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 – 5 years	5-10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months	Total
Cash	37	-	-	-	37	-	-	-	-	-	-	37
Claims on sovereigns*	1,669	442	351	273	2,735	736	295	35	-	8	1,074	3,809
Claims on public sector entities**	877	55	36	147	1,115	456	578	78	-	1	1,113	2,228
Claims on multilateral development banks	21	20	-	25	66	97	-	-	-	-	97	163
Claims on banks	5,324	1,240	1,006	1,066	8,636	2,357	8	-	-	-	2,365	11,001
Claims on corporate portfolio	1,091	1,539	732	821	4,183	3,608	1,200	257	-	507	5,572	9,755
Regulatory retail exposures	11	147	12	12	182	159	281	55	17	4	516	698
Past due loans	22	116	16	1	155	6	-	-	-	-	6	161
Residential retail portfolio	-	-	-	-	-	111	2	3	-	-	116	116
Equity portfolios	-	-	-	-	-	-	-	-	-	165	165	165
Other exposures	-	-	-	-	-	-	-	-	-	460	460	460
	9,052	**3,559**	**2,153**	**2,345**	**17,109**	**7,530**	**2,364**	**428**	**17**	**1,145**	**11,484**	**28,593**

** Includes Ginnie Mae & Small Business Administration pools.*

** * Includes exposures to CMOs of Freddie Mac and Fannie Mae, both of which are deemed to be GSEs.*

Risk Management

Maturity analysis of unfunded exposures

The residual contractual maturity analysis of unfunded exposures is as follows:

US$ million	within 1 month	1 - 3 months	3 - 6 months	6 – 12 months	Total within 12 months	1 – 5 years	5-10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months	Total
Claims on sovereigns	63	57	34	51	205	152	-	-	17	-	169	374
Claims on public sector entities	26	6	46	4	82	36	4	-	-	-	40	122
Claims on banks	262	415	197	168	1,042	548	23	1	8	-	580	1,622
Claims on corporate portfolio	153	350	397	417	1,317	658	41	16	10	-	725	2,042
Regulatory retail exposures	4	24	2	5	35	17	-	-	-	-	17	52
Other Exposure	-	-	-	-	-	-	-	-	-	76	76	76
	508	**852**	**676**	**645**	**2,681**	**1,411**	**68**	**17**	**35**	**76**	**1,607**	**4,288**

Unfunded exposures are divided into the following exposure types, in accordance with the calculation of credit risk-weighted assets in the CBB's Basel III capital adequacy framework:

(a) Credit-related contingent items comprising letters of credit, acceptances, guarantees and commitments.

(b) Derivatives including futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

In addition to counterparty credit risk, in accordance with the Basel III Accord, derivatives are also exposed to market risk, which requires a separate capital charge.

Credit-related contingent items

As mentioned above, for credit-related contingent items the nominal value is converted to an exposure through the application of a credit conversion factor (CCF). The CCF is at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off-statement of financial position notional amounts into an equivalent on-statement of financial position exposure.

Undrawn loans and other commitments represent commitments that have not been drawn down or utilised at the reporting date. The nominal amount is the base upon which a CCF is applied for calculating the exposure. The CCF ranges between 20% and 50% for commitments with original maturities of up to one year and over one year respectively. The CCF is 0% for commitments that can be unconditionally cancelled at any time.

The table below summarises the notional principal amounts and the relative exposure before the application of credit risk mitigation:

US$ million	Notional Principal	Credit exposure*
Short-term self-liquidating trade and transaction-related contingent items	3,347	1,532
Direct credit substitutes and guarantees	3,197	1,416
Undrawn loans and other commitments	1,735	802
	8,279	**3,750**
RWA		**2,699**

** Credit exposure is after applying CCF.*

At 31 December 2015, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$371 million.

Derivatives

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

The Group uses forward foreign exchange contracts, currency options and currency swaps to hedge against specifically identified currency risks. Additionally, the Group uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified loans and securities bearing fixed interest rates. The Group participates in both exchange-traded and over-the-counter derivative markets.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations, and is limited to the positive fair value of instruments that are favourable to the Group. The majority of the Group's derivative contracts are entered into with other financial institutions, and there was no significant concentration of credit risk in respect of contracts with positive fair value with any individual counterparty as at 31 December 2015.

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

For regulatory capital adequacy purposes, the Group uses the current exposure method to calculate the counterparty credit risk of derivative and foreign exchange instruments, in accordance with the credit risk framework in the CBB's Basel III capital adequacy framework. Counterparty credit exposure comprises the sum of replacement cost and potential future exposure. The potential future exposure is an estimate that reflects possible changes in the market value of the individual contract during the remaining life of the contract, and is measured as the notional principal amount multiplied by an add-on factor.

The aggregate notional amounts for interest rate and foreign exchange contracts as at 31 December 2015 were as follows:

	Derivatives		
US$ million	**Interest rate contracts**	**Foreign exchange contracts**	**Total**
Notional – Trading book	5,352	9,765	15,117
Notional – Banking book	2,152	1,574	3,726
	7,504	**11,339**	**18,843**
Credit RWA (replacement cost plus potential future exposure)	192	199	391
Market RWA	200	1,112	1,312

IMPAIRMENT OF ASSETS

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

Please refer to Note 4 of the Consolidated Financial Statements for detailed disclosures on the impairment loss assessment methodology.

Risk Management

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

US$ million	Provision charges	Write-offs
Manufacturing	21	22
Financial	-	-
Trade	5	1
Personal / consumer finance	4	-
Government	(5)	-
Other services	7	5
Construction	28	17
Agriculture, fishing & forestry	1	-
Mining & quarrying	8	-
Transport	1	8
Technology, media & telecommunications	-	-
	70	**53**

Impaired loans as a percentage of gross loans increased from 2.4% in 2014 to 3.4% in 2015. When measured as a percentage of equity, impaired loans increased to 13.0% as at 2015 year-end, compared with 9.2% at the end of 2014.

In 2015, the Group made total provisions of US$70 million. The provisions coverage ratio (total provisions as percentage of impaired loans) decreased from 160.4% in 2014 to 120.9% in 2015.

Restructured facilities

The carrying amount of restructured facilities amounted to US$207 million as at 31 December 2015. The impact of restructured credit facilities on provisions and present and future earnings is insignificant.

MARKET RISK

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

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

The Group classifies market risk as follows:

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

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

- Value-at-Risk (VaR) (i.e. 1-day 99th percentile VaR using the 'historical simulation' methodology)
- Sensitivity analysis(i.e. basis-point value (BPV) for interest rates and 'Greeks' for options)
- Stress testing / scenario analysis
- Non-technical risk measures (e.g. nominal position values, stop loss vs. P&L, and concentration risk)
- Forward-looking analysis of distress using CDS prices, equity prices and implied volatilities
- A price-discovery and liquidity assessment process to assess liquidity risk of the AFS portfolio
- Hedge funds analytics, including mapping risk factors of hedge fund managers to market risk drivers.

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

Currency rate risk

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

Interest rate risk

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

As at 31 December 2015, a 200 basis points parallel shift in interest rates would potentially impact the Group's economic value by US$69 million.

Equity price risk

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

Equity positions in the banking book

Quoted Equities	3
Unquoted Equities	26
	29
Realised gain during the year	-
Unrealised gain as at year end	1

Market risk capital

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

US$ million	RWA	Year-end Capital Charge	Capital charge – Minimum*	Capital charge – Maximum*
Interest rate risk	331	41	41	93
- Specific interest rate risk	131	16	16	35
- General interest rate risk	200	25	25	58
Equity position risk	1	-	-	1
Foreign exchange risk	1,112	139	121	153
Options risk	-	-	-	-
Total market risk	**1,444**	**180**	**162**	**247**

** The information in these columns shows the minimum and maximum capital charge of each of the market risk categories during the year ended 31 December 2015.*

Risk Management

Liquidity risk

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

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

A maturity gap report, which reviews mismatches, is used to monitor medium- and long-term liquidity. The maturity profile of the Group's assets, liabilities and off-balance sheet items is given in Note 24 to the consolidated financial statements.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems — or from external events. Operational risk in ABC Group includes legal risk.

Reputational impact, regulatory impact and impact on clients and operations are taken into consideration when assessing the impact of actual, and potential, operational risk events.

The Group applies the 'Standardised Approach' for calculating its Pillar 1 operational risk capital. As at 31 December 2015, the total capital charge in respect of operational risk was US$ 205 million.

The Group applies modern, proven methodologies for the qualitative management of its operational and other non-financial risks, adapting them to the Group's size, nature, complexity and risk profile.

The Group-wide framework has to be implemented by all entities that Arab Banking Corporation (B.S.C.) controls directly or indirectly.

The operational risk management framework is being introduced across the Group, following the Operational Risk Committee's rolling two-year 'master plan'. Local operational risk committees implement corresponding plans at the subsidiary levels.

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

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

Operational risk tolerance

The Group uses quantitative and qualitative elements to classify actual and potential operational risks as 'very high', 'high', 'medium', 'low' or 'very low'. 'Very high' and 'high' risks must be mitigated. They can only be accepted at the Group level.

A separate escalation procedure requires, among other things, that the Senior Management of the Group be immediately informed of all risk events classified 'very high' or 'high' that have either happened or are likely to happen.

BUSINESS CONTINUITY

The Group has robust business continuity plans – both in order to meet local and international regulatory obligations, and in order to protect the Group's business functions, assets and employees. These plans provide each ABC subsidiary with the necessary guidelines and procedures in case of an emergency. The business continuity plans cover local and regional risk scenarios. Continuous updates of these plans are performed regularly, to ensure that they are kept up to date with changes in each ABC unit.

LEGAL RISK

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

CAPITAL STRUCTURE

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

The portion of Tier 1 and Tier 2 instruments attributable to non-controlling interests are added to the respective capital tiers in accordance with the regulatory definitions.

The issued and paid-up share capital of the Bank is US$3,110 million at 31 December 2015, comprising 3,110 million shares of US$1 each.

The Tier 2 capital includes subordinated term debt of US$319 million (eligible portion) at 31 December 2015. These have been raised at the parent and at a subsidiary of the bank. The details of these issues are described in appendix PD 3 of this section.

The Group's capital base and risk weighted assets is summarised below:

Capital base and Risk weighted assets (RWA)	US$ million
Capital base	
CET 1	**4,026**
AT 1	**45**
Total Tier 1 capital	**4,071**
Tier 2	**502**
Total capital base	**4,573**
Risk weighted assets	
Credit risk	**20,451**
Market risk	**1,444**
Operational risk	**1,642**
Total Risk weighted assets	**23,537**
CET 1 ratio	**17.1%**
Tier 1 ratio	**17.3%**
Capital adequacy ratio	**19.4%**

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

Capital adequacy ratios (CAR)

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

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

No changes have been made in the objectives, policies and processes from the previous year.

The Group's total capital adequacy ratio as at 31 December 2015 was 19.4% compared with the minimum regulatory requirement of 12.5%. The total Tier 1 ratio was 17.3% for the Group. The Group ensures adherence to the CBB's requirements by monitoring its capital adequacy against higher internal limits.

Each banking subsidiary in the Group is directly regulated by its local banking supervisor, which sets and monitors local capital adequacy requirements. ABC ensures that each subsidiary maintains sufficient capital levels for legal and regulatory compliance purposes. There have been no instances of deficiencies in the banking subsidiaries' local capital adequacy requirements.

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

Subsidiaries (over 5% of Group regulatory capital)	Tier 1 ratio	CAR (total)
ABC Islamic Bank (E.C.)	**27.9%**	**27.9%**
ABC International Bank Plc*	**19.9%**	**22.4%**
Banco ABC Brasil S.A.*	**12.6%**	**16.2%**

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

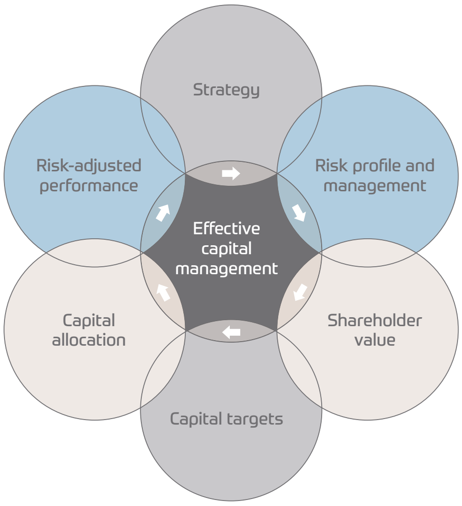
Risk Management

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

CAPITAL MANAGEMENT

Internal Capital Adequacy Assessment Process (ICAAP)

The Group aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, while always meeting minimum regulatory ratio requirements. The diagram illustrates this concept:



Among the key principles driving capital management at the Group are:

- Adequate capital is maintained as a buffer for unexpected losses to protect stakeholders, i.e. shareholders and depositors
- Return on capital is maximised to generate a sustainable return above the cost of capital.

The methodologies for internally estimating capital for the Group's key risks are as follows:

a. **Credit risk:** Assessed on the basis of Foundation IRB Risk Weights (FIRB). This supports the internal estimation of economic capital per business segment, business unit and aggregated at the Group level. The Group uses stress-testing to review its risk exposure against budgeted levels.

b. **Market risk:** Assessed using the Value at Risk (VaR) metric.

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

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

The historical simulation method provides a full valuation going back in time, such as over the last 500 days, by applying current weights to a time series of historical returns.

The Group uses the stress-testing methodology to review its exposures against historical and Group-specific extreme scenarios.

c. **Operational risk:** Applied on the Standardised Approach basis.

d. Other risks such as liquidity, strategic and reputational risks are currently captured providing a capital buffer.

Related-party transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's senior management, and are based on arm's length rationale. Please refer to Note 27 of the Consolidated Financial Statements for detailed disclosures on related-party transactions.

Exposures to related-parties other than those disclosed in the above mentioned note are as follows:

Claims on directors & senior management	4
Claims on staff	26

PILLAR-III APPENDIX

PD 2 : Reconciliation of Regulatory Capital

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

	US$ millions	
	Balance sheet as in published financial statements	Consolidated PIR data
Liquid funds	1,002	
Cash and balances at central banks		1,261
Placements with banks and similar financial institutions	4,313	5,501
Reverse repurchase agreements and other similar secured lending	1,447	
Financial assets at fair value through P&L	534	534
Non-trading securities	5,535	5,535
Loans and advances	13,958	14,141
Investment properties	-	-
Interest receivable	355	355
Other assets	929	906
Investments in associates and joint ventures		18
Goodwill and intangible assets		5
Property, plant and equipment	122	122
TOTAL ASSETS	**28,195**	**28,378**
Deposits from banks and other financial institutions	5,029	9,812
Deposits from customers	13,384	8,601
Certificate of deposits issued	41	41
Repurchase agreements and other similar secured borrowing	579	579
Interest payable	260	260
Taxation	70	851
Other liabilities	781	
Term notes, bonds and other term financing	3,943	3,230
Subordinated liabilities		713
TOTAL LIABILITIES	**24,087**	**24,087**
Paid-in share capital	3,110	3,110
Reserves	663	663
Non - controlling interest	335	335
Collective impairment provision	-	183
TOTAL SHAREHOLDER'S EQUITY	**4,108**	**4,291**

Risk Management

PILLAR-III APPENDIX (CONTINUED)

PD 2 : Reconciliation of Regulatory Capital (continued)

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

	US$ millions		
	Balance sheet as in published financial statements	Consolidated PIR data	Reference
ASSETS			
Liquid funds	1,002		
Cash and balances at central banks		1,261	
Placements with banks and similar financial institutions	4,313	5,501	
Reverse repurchase agreements and other similar secured lending	1,447		
Financial assets at fair value through P&L	534	534	
Loans and advances	13,958	14,141	
Non-trading securities	5,535	5,535	
of which investment NOT exceeding regulatory threshold	5,535	5,535	
Interest receivable	355	355	
Other assets	929	906	
Deferred tax assets arising from carryforwards of unused tax losses, unused tax credits and all other		9	
Deferred tax assets arising from temporary differences		105	f
Investments in associates and joint ventures		18	
of which Significant investment exceeding regulatory threshold			
of which Significant investment NOT exceeding regulatory threshold		18	
Goodwill and intangible assets		5	
of which goodwill		-	
of which other intangibles (excluding MSRs) phased in at 20%		1	e
of which MSRs			
Property, plant and equipment	122	122	
TOTAL ASSETS	**28,195**	**28,378**	
LIABILITIES			
Deposits from banks and financial institutions	5,029	9,812	
Deposits from customers	13,384	8,601	
Certificate of deposits issued	41	41	
Repurchase agreements and other similar secured borrowing	579	579	
Interest payable	260	260	
Taxation	70	851	
Other liabilities	781		
Term borrowing	3,943	3,230	
Subordinated liabilities		713	
Of which amount eligible for TII		319	h
Of which amount Ineligible		394	
TOTAL LIABILITIES	**24,087**	**24,087**	

PILLAR-III APPENDIX (CONTINUED)

PD 2 : Reconciliation of Regulatory Capital (continued)

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

	US$ millions		
	Balance sheet as in published financial statements	Consolidated PIR data	Reference
SHAREHOLDERS' EQUITY			
Paid-in share capital	3,110	3,110	
Of which form part of CET1		3,110	
Ordinary Share Capital		3,110	a
Reserves	663	663	
Of which form part of CET1			
Retained earnings/(losses) brought forward	513	532	b
Net profit for the current year	180	180	c1
Legal reserve	444	425	c2
General (disclosed) reserves	100	100	c3
Fx translation adjustment	(507)	(507)	c4
Cumulative changes in fair value	(44)	(44)	c5
Pension fund reserve	(23)	(23)	c6
Non - controlling interest	335	335	
Of which amount eligible for CETI		262	d
Of which amount eligible for ATI		45	g
Of which amount eligible for TII			
Of which amount Ineligible		28	
Collective impairment provision		183	
Of which amount eligible for TII (Maximum 1.25% of RWA)		183	i
Of which amount Ineligible			
TOTAL LIABILITIES	**4,108**	**4,291**	

Risk Management

PILLAR-III APPENDIX (CONTINUED)

PD 3 : Main features of regulatory capital instruments

Disclosure template for main features of regulatory capital instruments

1	Issuer	Arab Banking Corporation	Arab Banking Corporation	Banco ABC Brasil
2	Unique identifier	ABC	EG2959302 - XS0293688304; CBB FIL 64/2006	EI2084396 - USP0763MBW03; Brazilian Central Bank CMN Resolution 3444
3	Governing law(s) of the instrument	Laws of Bahrain	Laws of Bahrain	Laws of the Federative republic of Brazil
	Regulatory treatment			
4	Transitional CBB rules	Common Equity Tier 1	Not applicable	Not applicable
5	Post-transitional CBB rules	Common Equity Tier 1	Tier 2	Tier 2
6	Eligible at solo/group/group & solo	Group & Solo	Group & Solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common equity shares	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	US$3,110	US$74	US$245
9	Par value of instrument (US$ each)	1	1000	1000
10	Accounting classification	Shareholders equity	Liability- Amortised cost	Liability- Amortised cost
11	Original date of issuance	Various	4-Apr-07	8-Apr-10
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	4-Apr-17	8-Apr-20
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	NA	7 April 15 @ 100	No
16	Subsequent call dates, if applicable	NA	NA	NA
	Coupons/dividends			
17	Fixed or floating dividend/coupon	Floating (Dividend as decided by the shareholders)	Floating	Fixed
18	Coupon rate and any related index	NA	3M Libor+135bps	7.875
19	Existence of a dividend stopper	NA	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	NA	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	NA	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA

PILLAR-III APPENDIX (CONTINUED)

PD 3 : Main features of regulatory capital instruments (continued)

Disclosure template for main features of regulatory capital instruments (continued)

28	If convertible, specify instrument type convertible into	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA
30	Write-down feature	No	No	No
31	If write-down, write-down trigger(s)	NA	NA	NA
32	If write-down, full or partial	NA	NA	NA
33	If write-down, permanent or temporary	NA	NA	NA
34	If temporary write-down, description of write-up mechanism	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all depositors and creditors (including subordinated debt) of the Bank	Subordinated to all depositors and creditors of the Bank	Subordinated to all depositors and creditors of the Bank
36	Non-compliant transitioned features	No	Yes	Yes
37	If yes, specify non-compliant features	NA	Non Viability Loss Absorption	Non Viability Loss Absorption

Risk Management

PILLAR-III APPENDIX (CONTINUED)

PD 4 : Capital Composition Disclosure Template

Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018)

		US$ millions		
		PIR as on 31 December 2015	Amounts Subject To Pre-2015 Treatment	Reference
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES				
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	3,110		a
2	Retained earnings	532		b
3	Reserves	154		c1+c2+c3+c4+c5
4	Not applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	262	102	d
6	Common Equity Tier 1 capital before regulatory adjustments	**4,058**		
COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS				
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	-		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	1	4	e
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	9		f
11	Cash-flow hedge reserve	-		
12	Shortfall of provisions to expected losses	-		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Not applicable	-		
15	Defined-benefit pension fund net assets	23		c6
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-		
17	Reciprocal cross-holdings in common equity	-		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-		
20	Mortgage servicing rights (amount above 10% threshold)	-		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		
22	Amount exceeding the 15% threshold	-		
23	of which: significant investments in the common stock of financials	-		
24	of which: mortgage servicing rights	-		
25	of which: deferred tax assets arising from temporary differences	-		

PILLAR-III APPENDIX (CONTINUED)

PD 4 : Capital Composition Disclosure Template (continued)

Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018) (continued)

		US$ millions		
		PIR as on 31 December 2015	Amounts Subject To Pre-2015 Treatment	Reference
26	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
	OF WHICH:			
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		
28	**Total regulatory adjustments to Common equity Tier 1**	32		
29	**Common Equity Tier 1 capital (CET1)**	**4,026**		
	ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-		
31	of which: classified as equity under applicable accounting standards			
32	of which: classified as liabilities under applicable accounting standards			
33	Directly issued capital instruments subject to phase out from Additional Tier 1			
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	45	12	9
35	of which: instruments issued by subsidiaries subject to phase out	12	12	
36	**Additional Tier 1 capital before regulatory adjustments**	**45**		
	ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS			
37	Investments in own Additional Tier 1 instruments			
38	Reciprocal cross-holdings in Additional Tier 1 instruments			
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)			
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
41	National specific regulatory adjustments			
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	OF WHICH:			
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions			
43	**Total regulatory adjustments to Additional Tier 1 capital**			
44	**Additional Tier 1 capital (AT1)**	**45**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,071**		

Risk Management

PILLAR-III APPENDIX (CONTINUED)

PD 4 : Capital Composition Disclosure Template (continued)

Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018) (continued)

		US$ millions		
		PIR as on 31 December 2015	Amounts Subject To Pre-2015 Treatment	Reference
	TIER 2 CAPITAL: INSTRUMENTS AND PROVISIONS			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	74		h
47	Directly issued capital instruments subject to phase out from Tier 2	-		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in Group Tier 2)	245	113	h
49	of which: instruments issued by subsidiaries subject to phase out	113	113	
50	Provisions & Reserves	183		i
51	**Tier 2 capital before regulatory adjustments**	**502**		
	TIER 2 CAPITAL: REGULATORY ADJUSTMENTS			
52	Investments in own Tier 2 instruments	-		
53	Reciprocal cross-holdings in Tier 2 instruments	-		
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-		
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
56	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT OF WHICH	-		
57	**Total regulatory adjustments to Tier 2 capital**	-		
58	**Tier 2 capital (T2)**	**502**		
59	**Total capital (TC = T1 + T2)**	**4,573**		

		US$ millions
		PIR as on 31 December 2015
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	**4**
	Of Which: Intangible assets (RW @ 100%)	**4**
	Of Which: Non Significant Investments (RW @ 100%)	**-**
	Of Which: Non Significant Investments (RW @ 150%)	**-**
	Of Which: Significant Investments (RW @ 250%)	**-**
60	**Total risk weighted assets**	**23,537**

PILLAR-III APPENDIX (CONTINUED)

PD 4 : Capital Composition Disclosure Template (continued)

Basel III Common disclosure template (For transition period from 1 January 2015 to 31 December 2018) (continued)

		US$ millions
		PIR as on 31 December 2015
CAPITAL RATIOS		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	17.1%
62	Tier 1 (as a percentage of risk weighted assets)	17.3%
63	Total capital (as a percentage of risk weighted assets)	**19.4%**
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	2.5%
65	*Of Which: capital conservation buffer requirement*	2.5%
66	*Of Which: bank specific countercyclical buffer requirement (N/A)*	NA
67	*Of Which: G-SIB buffer requirement (N/A)*	NA
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	
NATIONAL MINIMA (IF DIFFERENT FROM BASEL III)		
69	CBB Common Equity Tier 1 minimum ratio (including buffers)	9%
70	CBB Tier 1 minimum ratio (including buffers)	10.5%
71	CBB total capital minimum ratio (including buffers)	12.5%
AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (BEFORE RISK WEIGHTING)		
72	Non-significant investments in the capital of other financials	122
73	Significant investments in the common stock of financials	18
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	105
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	183
77	Cap on inclusion of provisions in Tier 2 under standardised approach	256
78	N/A	
79	N/A	
CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JAN 2020 AND 1 JAN 2024)		
80	Current cap on CET1 instruments subject to phase out arrangements	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A
84	Current cap on T2 instruments subject to phase out arrangements	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A

Group Financial Review

INCOME STATEMENT

The Bank ABC Group reported a net profit of US$180 million for 2015 compared with a net profit of US$256 million for 2014.

Net interest income was 7% lower than 2014 at US$502 million (2014: US$541 million), while non-interest income declined by 35% to US$227 million (2014: US$347 million). Net impairment provisions rose to US$70 million, compared with US$64 million put aside in 2014. The net operating income was US$659 million, as against US$824 million in 2014.

Operating expenses amounted to US$421 million (2014: US$439 million). Profit before taxation and income attributable to non-controlling interests was, therefore, US$238 million, compared to US$385 million in 2014. After taxation on operations outside Bahrain of US$1 million (2014: US$67 million) and income attributable to non-controlling interests of US$57 million (2014: US$62 million), the net profit for the year was US$180 million (2014: US$256 million).

SOURCES AND USES OF FUNDS

The Group's asset profile is predominantly made up of loans and advances, securities and placements. The loans and advances portfolio stood at US$13,958 million (2014: US$14,819 million). Non-trading securities increased by US$908 million to US$5,535 million and money market placements declined by US$1,557 million to US$4,313 million. Liquid funds increased slightly by US$93 million to US$1,002 million.

Deposits from customers decreased by US$561 million to US$13,384 million. Deposits from banks and other financial institutions and repos totalled US$5,608 million (2014: US$5,755 million) while term notes, bonds and other term financings totalled US$3,943 million (2014: US$3,891 million).

Total assets of the Group at the end of the year stood at US$28,195 million (2014: US$29,356 million). Average assets for the year were US$28,373 million (2014: US$28,568 million) and average liabilities US$24,590 million (2014: US$24,603 million).

CREDIT COMMITMENTS, CONTINGENT ITEMS AND DERIVATIVES

The notional value of the Group's consolidated off-balance sheet items stood at US$27,122 million (2014: US$24,863 million) comprising credit commitments and contingencies of

US$8,279 million (2014: US$9,006 million) and derivatives of US$18,843 million (2014: US$15,857 million). The credit risk-weighted asset equivalent of these off-balance sheet items was US$3,090 million (2014: US$3,638 million).

The Group uses a range of derivative products for the purposes of hedging and servicing customer-related requirements, as well as for short-term trading purposes. The total market risk-weighted equivalent of the exposures under these categories at the end of 2015 was US$1,312 million (2014: US$1,486 million).

No significant credit derivative trading activities were undertaken during the year.

GEOGRAPHICAL AND MATURITY DISTRIBUTION OF THE BALANCE SHEET

The Group's assets are well diversified across mainly the Arab world, the Americas and Western Europe. The Group's liabilities and equity are predominantly in the Arab world 77%, followed by Latin America 14%, mainly at the Brazilian subsidiary.

	Financial assets		Liabilities & equity		Loans & advances	
(%)	**2015**	2014	**2015**	2014	**2015**	2014
Arab world	**44**	45	**77**	76	**52**	48
Western Europe	**14**	12	**4**	4	**9**	9
Asia	**6**	6	**-**	-	**4**	4
North America	**10**	8	**4**	4	**3**	2
Latin America	**21**	24	**14**	16	**22**	30
Others	**5**	5	**1**	-	**10**	7
	100	100	**100**	100	**100**	100

An analysis of the maturity profile of financial assets according to when they are expected to be recovered or settled, or when they could be realised, shows that at the end of 2015, 67% (2014: 68%) was within one year maturity. Loans and advances maturing within one year amounted to 52% (2014: 55%). The proportion of liabilities maturing within one year was 43% (2014: 46%).

	Financial assets		Liabilities & equity	
(%)	**2015**	2014	**2015**	2014
Within 1 month	**34**	36	**21**	24
1-3 months	**10**	10	**8**	7
3-6 months	**13**	12	**7**	7
6-12 months	**10**	10	**7**	8
Over 1 year	**29**	28	**40**	35
Undated	**4**	4	**17**	19
	100	100	**100**	100

Group Financial Review

DISTRIBUTION OF CREDIT EXPOSURE

ABC Group's credit exposure (defined as the gross credit risk to which the Group is potentially exposed) at 31 December 2015 is given below:

(US$ millions)	Funded exposure		Credit commitments & contingent items		Derivatives*	
	2015	2014	**2015**	2014	**2015**	2014
CUSTOMER TYPE						
Banks	**12,552**	11,161	**3,557**	3,402	**247**	1,194
Non-banks	**10,816**	11,755	**4,526**	5,167	**95**	60
Sovereign	**3,670**	4,074	**196**	437	**7**	1
	27,038	26,990	**8,279**	9,006	**349**	1,255
RISK RATING						
1 = Exceptional	**1,486**	1,247	**349**	630	**-**	-
2 = Excellent	**1,244**	1,556	**131**	220	**91**	79
3 = Superior	**6,042**	6,889	**572**	609	**208**	234
4 = Good	**8,286**	6,455	**3,004**	3,802	**38**	39
5 = Satisfactory	**6,109**	7,060	**2,457**	2,194	**11**	9
6 = Adequate	**1,934**	2,374	**1,393**	1,108	**-**	894
7 = Marginal	**1,798**	1,342	**351**	439	**-**	-
8 = Special Mention	**133**	49	**22**	1	**1**	-
9 = Substandard	**2**	11	**-**	1	**-**	-
10 = Doubtful	**2**	5	**-**	1	**-**	-
11 = Loss	**2**	2	**-**	1	**-**	-
	27,038	26,990	**8,279**	9,006	**349**	1,255

** Derivative exposures are computed as the cost of replacing derivative contracts represented by mark-to-market values where they are positive, and an estimate of the potential change in market values reflecting the volatilities that affect them.*

CLASSIFIED EXPOSURES AND IMPAIRMENT PROVISIONS

Impaired loans and off-balance sheet credits are formally defined as those in default on contractual repayments of principal or on payment of interest in excess of 90 days. In practice, however, all credits that give rise to reasonable doubt as to timely collection, whether or not they are in default as so defined, are treated as non-performing and specific provisions made, if required. Such credits are immediately placed on non-accrual status and all past due interest reversed. Any release of the accumulated unpaid interest thereafter is made only as permitted by International Financial Reporting Standards.

The total of all impaired loans at the end of 2015 was US$489 million (2014: US$369 million). Aggregate provisions at the end of 2015 stood at US$591 million (2014: US$592 million) and constituted 121% (2014: 160%) of all non-performing loans and 4.1% of gross loans and advances (2014: 3.8%).

The total of all impaired securities at the end of 2015 was US$127 million (2014: US$163 million). Aggregate provisions at the end of 2015 stood at US$120 million (2014: US$126 million) and constituted 94% (2014: 77%) of impaired securities and 2.1% (2014: 2.7%) of gross non-trading securities.

The ageing analysis of impaired loans and securities is as follows:

Impaired loans

(US$ millions)	Principal	Provisions	Net book value
Less than 3 months	169	31	138
3 months to 1 year	41	24	17
1 to 3 years	64	60	4
Over 3 years	215	213	2
	489	328	161

Impaired securities

(US$ millions)	Principal	Provisions	Net book value
Less than 3 months	-	-	-
3 months to 1 year	-	-	-
1 to 3 years	6	2	4
Over 3 years	121	118	3
	127	120	7

GROUP CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIOS

The Group's capital base of US$4,573 million comprises Total tier 1 capital of US$4,071 million (2014: US$4,165 million) and Tier 2 capital of US$502 million (2014: US$967 million). The consolidated capital adequacy ratio at 31 December 2015, calculated in accordance with the prevailing Basel III rules, was 19.4% (2014: 21.1% under Basel II), well above the 12.5% minimum set by the Central Bank of Bahrain.

All ABC Group subsidiaries meet the capital adequacy requirements of their respective regulatory authorities.

FACTORS AFFECTING HISTORICAL OR FUTURE PERFORMANCE

The Group's primary financial goal is the delivery of consistently rising profitability for its shareholders through sustainable earnings and assets growth. Management is optimistic that the Group will be able to achieve this goal, despite continuing unrest in some MENA countries, based on its evaluation of the following factors, which may have an impact on performance.

Political stability – Social and political unrest continued in 2015 and the situation remains unpredictable. The Group's activities and assets are increasingly diversified across a range of developing and developed countries, which mitigates the political risk in MENA. While these events continue to disrupt some of the Group's businesses, these are a relatively small part of the overall Group. Further, the Group has in place rigorous, regularly tested, disaster recovery procedures to face eventualities arising from political or other disruptions. The Group has no significant risk exposures outside the Arab world, the United States, Brazil and Europe.

Energy prices – Global hydrocarbon prices have a direct impact on the economies of many countries in the Arab world, as well as on those of OECD countries. Lower hydrocarbon prices reduce the flow of revenues to producing countries, tending to decrease the demand for capital equipment and construction services for infrastructure building and development projects, as well as for consumer goods. As the Group's main activities are focused on trade flows between MENA and the rest of the world, lower hydrocarbon prices are a risk for profitability. Hydrocarbon prices declined significantly during 2015.

Instability in financial markets – Towards the end of 2015, volatility increased in financial markets. There were concerns about weaker economic growth in China and rising US interest rates. Bank ABC remains conservatively positioned. It has a comfortable liquidity position and makes adequate provisions against securities considered to be impaired.

Foreign currency values – Where its subsidiaries are capitalised with currencies other than the US dollar, Bank ABC is exposed to fluctuations in the value of those currencies. The Group takes appropriate steps to hedge against those fluctuations when deemed practicable and desirable.

Volatility of currency markets – Foreign exchange volatility can affect the Group's foreign exchange trading revenues.

Interest rates – Although the Group's net interest revenue can be negatively affected by interest rate changes, this mainly affects its equity earnings, as lending and marketable securities holdings are based predominantly on floating and short-term interest rates. They are, therefore, largely insulated from interest rate swings.

“We work together as one team across our international network providing a superior client experience”

Consolidated Financial Statements

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

EY
Building a better working world

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C.R. No. 6700

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.

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 stated 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 Omar 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 stated 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 Omar 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 stated 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 stated 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 stated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015 (All figures stated in US$ million)

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 programmes, 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.

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectability of financial assets (continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectability of financial assets (continued)

Available-for-sale financial assets (continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expenses (continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedge accounting (continued)

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:

- 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:

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

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.

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.

31 December 2015 (All figures stated 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

31 December 2015 (All figures stated 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.

31 December 2015 (All figures stated 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.

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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.

31 December 2015 (All figures stated 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
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

31 December 2015 (All figures stated 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.

31 December 2015 (All figures stated 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.

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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

	Currency	Rate of Interest	Parent bank	Subsidiaries	Total
Aggregate maturities					
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.

31 December 2015 (All figures stated in US$ million)

15 EQUITY (continued)

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.

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.

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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

31 December 2015 (All figures stated 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.

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.

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.

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20 DERIVATIVES AND HEDGING (continued)

Derivatives held or issued for hedging purposes (continued)

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

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.

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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

31 December 2015 (All figures stated 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

31 December 2015 (All figures stated 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).

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

Risk measurement and reporting system (continued)

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.

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.

31 December 2015 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

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

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

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31 December 2015 (All figures stated 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	Total
	High grade	Standard grade	Sub-standard grade		
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	Total
	High grade	Standard grade	-Sub standard grade		
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.

24 RISK MANAGEMENT (continued)

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

	2015	2014
Loans and advances	207	191

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

Interest rate risk (continued)

	2015			
	Increase in basis points	Sensitivity statement of income	Decrease in basis points	statement of income
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 income	Decrease in basis points	statement of income
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.

24 RISK MANAGEMENT (continued)

Currency risk (continued)

	2015			2014		
	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
Currency						
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/+	-

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.

31 December 2015 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

Operational risk (continued)

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.

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

31 December 2015 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

At 31 December 2014	Within 1 month	3 - 1 months	6 - 3 months	12 - 6 months	5 - 1 years	5-10 years	20 10- 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

31 December 2015 (All figures stated 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.

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24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

At 31 December 2014	Within 1 month	-3 1 months	6 - 3 months	12 - 6 months	Total within 12 months	5 - 1 years	5-10 years	20 - 10 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-CONTROL-LING 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	-		

31 December 2015 (All figures stated 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

31 December 2015 (All figures stated 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:

	Bahrain	ABCIB	Banco ABC Brasil	Other	Total
2015					
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.

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 December 2015 (All figures stated in US$ million)

31 BASIC AND DILUTED EARNINGS PER SHARE AND PROPOSED DIVIDENDS AND TRANSFERS (continued)

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).

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.

		2015	2014
CAPITAL BASE			
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			
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.

APPENDIX

Bank ABC Code of Conduct

1. ABOUT THE CODE

1.1. Introduction

Bank ABC ("the Bank") is committed to maintaining the highest standards of ethical and professional conduct.

This Code sets out the minimum standards of behavior that are expected across the Group from all our staff,directors, senior management andcontract and temporary workers.

This Code is supported by relevant policies and procedures that you are also expected to read and understand. It should also be read in conjunction with the Human Resources Policies and your employment contract.

Where local laws or regulations set stricter requirements than those detailed in this Code, they must be followed.

If you have any questions about the Code, seek advice from your line manager or local Head of Compliance.

1.2. Our Values

You should display behaviors that reflect our Values in your day to day activities performed on behalf of the Bank. Our Values are:

Client Centric

We are committed to knowing our clients and developing long-term relationships with them, making sure we provide them with superb services.

- Focused on building client relationships at every level
- Responding quickly to our clients, recognizing the importance of speed in today's world
- Maintaining continuous and open dialogue to identify client needs
- Identifying and delivering insights and tailored solutions

Collaborative

We work together as one team across our international network providing a superior client experience.

- Harnessing our international network footprint
- Focused on a cohesive team working across boundaries
- Putting our client's needs for cross-border service before our individual targets
- Finding new ways to conduct our business and streamline operations

Consistent

We are trusted to deliver every time in the right way, demonstrating integrity to all our stakeholders.

- Services are delivered to a high operational standard
- Reputation placed before short-term revenues
- Relentless focus on compliance with regulation, ensuring a sustainable business
- We consistently deliver on our promises to clients and to colleagues

1.3. Your Responsibilities

We rely on your personal integrity to protect our reputation.

Your responsibility under this Code is to:

- Understand and comply with the Code
- Act fairly, honestly and with integrity when performing your duties on behalf of the Bank

1. ABOUT THE CODE (continued)

- Avoid conflicts of interest
- Comply with all applicable laws and regulations
- Adhere to our policies and procedures
- Observe your limits of authority when acting on behalf of the Bank
- Cooperate with any investigations, examination, litigation or inquiry related to our business
- Complete mandatory training related to the Code when required
- Report any legal or regulatory proceeding that involves you personally
- Report any concerns of misconduct

Managers have a greater level of responsibility. As a manager you should:

- Lead by example
- Promote equal opportunity and not favor or victimize any colleagues
- Help staff with ethical queries or direct them to someone who can help
- Encourage staff to report misconduct
- Protect staff from any form of retaliation if they report misconduct in good faith

We promote a culture of personal responsibility and transparency which requires you to report and discuss any actual or pending incident or risk event that you are aware of with your line manager, who may be required to further escalate the information as per the Escalation Policy.

1.4. Compliance with the Code

On joining and annually thereafter, you must acknowledge in writing or electronically that you have read and understood your obligations under the Code and the supporting policies and procedures, and that you agree to comply with them.

If a situation arises where you find that you have breached this Code or any supporting policies, you should immediately consult your line manager and Head of Compliance who will deal with the matter in a sympathetic manner and help to ensure that the breach is remedied effectively.

However, a willful breach or any failure to disclose a known breach of the Code could result in consequences for you and/or the Bank and may result in disciplinary action including dismissal, or in some circumstances, criminal prosecution.

1.5. Ethical Decision Making

Not every situation will be covered in the Code and our policies and procedures. Here are some basic questions you can apply to help you make ethical decisions:

- Is it legal and in keeping with the spirit of the law?
- Is it consistent with our Code?
- Am I making an informed decision?
- Do I need to consult others?
- Who else could be affected by the decision?
- Could it reflect negatively on me or the Bank?
- How would it look in the media?
- Would I be embarrassed if others knew I had made this decision?
- Does it feel right?

APPENDIX

Bank ABC Code of Conduct

2. OUR PEOPLE

We recognize that our staff are our most valuable asset and essential for the success of our business. We aim to provide a safe working environment in which you are treated fairly and with respect.

2.1. Performance Management

We develop, support and embed a culture of high performance where relevant objectives are agreed, reviewed and assessed; where exceeding objectives is recognised; and where development is supported.

2.2. Equal Opportunities

We offer equal treatment to all job applicants and employees. We will not discriminate on the grounds of race, religion, color, nationality, ethnic or national origin, gender, marital status, disability or any other basis prohibited by applicable law.

Discrimination, harassment, violence or bullying of any kind will not be tolerated.

It is each employee's responsibility to report any behavior that violates this policy. We take all allegations seriously.

2.3. Fitness for Duty

You are responsible for ensuring you are fit and able to perform your duties when you report for work.

The use of alcohol or illegal drugs on our premises or during normal working hours is prohibited.

Showing signs of intoxication or consumption of illegal drugs may result in disciplinary action including termination of employment.

2.4. Safe Workplace

You have a personal responsibility while at work to take reasonable care of your own and others' health and safety.

In particular:

- Adhere to our Fire, Health and Safety Policy
- Ensure you understand the risks present in the daily work environment and take all reasonable precautions to prevent workplace accidents and injuries
- Immediately report any unsafe work conditions, serious accidents or 'near misses' to your line manager
- Know what to do in the event of an emergency
- Complete Health and Safety training as assigned by the Bank

3. OUR CLIENTS AND THE MARKETPLACE

3.1. Treating Clients Fairly

Treating clients in a fair, ethical and non-discriminatory manner, throughout the life cycle of the relationship, is an integral part of our working culture. This helps to build long-term relationships with our clients.

Always make sure:

- Communications with our clients are clear, fair and not misleading
- Only to sell approved products and services that are suitable for the client
- To handle client complaints sensitively, professionally and efficiently

3. OUR CLIENTS AND THE MARKETPLACE (continued)

Never take advantage of our clients through:

- Manipulation
- Concealment
- Abuse of privileged information
- Misrepresentation of material facts
- Any other unfair practice

3.2. Insider Trading

Insider trading undermines the integrity of the financial system by creating an unfair advantage. As an employee, you may have access to non-public material information ("Inside Information") about the Bank, our clients or other companies that we do business with. Inside Information, if it were known to the public, is likely to affect the market price of a company's securities, or affect the decision of a reasonable investor to buy or sell a company's securities.

It is a criminal offence to communicate unpublished price sensitive information to anyone who is not authorised to have it, or to act on such information.

In particular do not:

- Trade securities in your own account or any account over which you exercise control when you have Inside Information relating to those securities
- Cause anyone else to trade securities by tipping them off or passing on Inside Information relating to those securities

3.3. Confidentiality

All information that you obtain through your employment with us should be considered confidential unless clearly stated otherwise by the information owner in writing.

You must not disclose Bank, client or any other parties' information unless you are authorised to do so or required by law. This obligation applies even after you have left employment with the Bank.

You should only use the information obtained through employment with us to perform your duties of the Bank.

3.4. Supplier Relationships

You must ensure that all suppliers and contractors are treated fairly and that their selection is based on price and quality of service. There should be no personal favoritism.

Always follow our Outsourcing or Procurement Policy and Procedures when dealing with suppliers and contractors.

3.5. Conduct with Competitors

Any information gathered on the marketplace and our competitors must be obtained only through legal and ethical channels.

You must not engage an employee of a competitor to gain proprietary information.

3.6. Public Communication

Only designated spokespersons are permitted to issue statements on behalf of the Bank. Refer to the Media Policy for more guidance.

3.7. Political Neutrality

We are politically neutral. If you wish to participate in political activity such as campaigning or making political donations, do so in your own personal capacity and not as a representative of the Bank. Such activities should not be undertaken on our premises or during working hours.

APPENDIX

Bank ABC Code of Conduct

4. FINANCIAL CRIME

4.1. Introduction

We are committed to promoting the highest ethical and professional standards and strive to prevent the Bank from being used, intentionally or unintentionally, for financial crime.

We adhere to all applicable laws, regulations and international standards. This includes the financial crime regulations issued by the Central Bank of Bahrain and local regulators of jurisdictions in which we operate. We also adhere to the recommendations of the Financial Action Task Force (FATF).

Financial crime includes:

- Money laundering
- Terrorist financing
- Breach of Sanctions
- Fraud
- Bribery and Corruption

4.2. Your Financial Crime Responsibilities

You are required to:

- Understand and comply with our Financial Crime Policies and Procedures, and all related laws and regulations
- Never ignore red flags indicating that a client may be seeking to engage in a relationship or transaction for other than a lawful purpose or with the proceeds of alleged illegal activity
- Never establish client relationships or engage in transactions with prohibited clients, including clients prohibited by sanctions, or clients who refuse to provide required information, intentionally provide misleading information or provide information that is insufficient to meet the on-boarding procedures
- Attend financial crime training as your job requires
- Understand and follow legally binding sanctions restrictions
- Report suspicious activity immediately to your MLRO

4.3. Bribery, Corruption, Gifts, Entertainment and Hospitality

We take a zero-tolerance approach to bribery and corruption. This includes giving or receiving inappropriate gifts, entertainment, facilitation payments or anything else of value to obtain improper business advantage.

In many of the jurisdictions in which we operate or do business, it is a criminal offence to offer, promise, give, request, or accept a bribe, and significant penalties can be imposed if found guilty.

All gifts, entertainment and hospitality given or received should be reportedin accordance with the Bribery, Corruption, Gifts, Entertainment and Hospitality Policy.

4.4. Expenses

You are responsible for the accurate and timely reporting of expenses. All expenditures must be ordinary and necessary to accomplish expected business purposes, include required approvals and be in accordance with existing expense policies. Further, you must not use your business credit card for any purpose other than appropriate business expenses.

4.5. Charities and Non-Profit Organisations

When getting involved with a charity or non-profit organisation, remember to:

- Make sure it does not interfere with your responsibilities at the Bank
- Not solicit clients, suppliers or other employees for contributions or other participation

4. FINANCIAL CRIME (continued)

At times we may be asked by clients or suppliers to make a contribution to a charity or non-profit organisation. All contributions must be pre-approved by the Head of Compliance to ensure they do not contravene any local laws or policies governing these activities. For example, a contribution that would benefit a government official could breach our Anti-Bribery, Corruption, Gifts, Entertainment and Hospitality Policy.

5. PROTECTING OUR ASSETS

5.1. Introduction

You are responsible for safeguarding our assets against theft, loss, waste or abuse. They should be used for our legitimate business only.

Our assets include:

- Office furnishings, equipment and supplies
- Software, information systems and support systems
- Records, data, and any logically related group of information (e.g. backup media)
- Cash and securities
- Intellectual property
- Client relationships

5.2. Data Protection

You must comply with Data Protection laws where applicable. The following key principles are provided as guidance.

Personal information that we hold must be:

- Collected and used fairly and lawfully
- Accurate, relevant and up to date
- Held secure and stored as required in relevant legislations, regulations and, if applicable, contractual clauses
- Only disclosed to those authorised to receive it
- Not kept longer than is necessary

Respect individual's rights in respect to their personal information:

- Provide a copy of their information on request
- Provide details of where the information is sourced and how we use it
- Ensure inaccurate data is corrected or deleted

5.3. Information Security

Information and information systems are vital to our business and operations. Incidents involving the loss of confidentiality, integrity or availability of information can be costly and damaging to our reputation.

We may monitor, review and disclose data that you create, store, send or receive on our systems. You should not have any expectation of personal privacy when you use our systems or infrastructure.

You must adhere to our Information Security Policy.In particular, you must not:

- Send confidential information outside our network without using an encryption or security program
- Send confidential information to your personal email account
- Violate software licensing agreements or intellectual property rights

APPENDIX

Bank ABC Code of Conduct

5. PROTECTING OUR ASSETS (continued)

- Use the Bank's computer and network resources to commit illegal activities or use the them in a manner that could be embarrassing or harmful to the Bank or detrimental to its reputation or interests
- Share your password with anyone or have possession of anyone else's password
- Try to get access or scan systems, shared folders or network areas you are not entitled to
- Make unauthorised changes on the functionality or configuration of assets under your management or control
- Leave sensitive information unattended, including your company laptop and mobile devices
- Disclose or discuss sensitive matters or proprietary or confidential information in public places, including the Internet (e.g. public email, social media, etc.).

5.4. Intellectual Property

We own all rights, title and interest in all intellectual property that you develop during your employment with us.

Intellectual property includes any inventions, discoveries, improvements, ideas, processes or work related to the Bank.

5.5. Record Keeping

You are responsible for keeping accurate and complete records in accordance with relevant laws and regulations.

6. CONFLICT OF INTEREST

6.1. Introduction

It is important you avoid situations where personal interests conflict, or appear to conflict, with the interests of the Bank or our clients.

A conflict of interest exists, or maybe perceived to exist, where a personal circumstance impairs professional judgment or the ability to act in the best interest of the Bank or our clients.

6.2. Avoiding Conflicts

It is difficult to identify every situation where a conflict, or perception of, may arise. You should use good judgment and seek advice from the Head of Compliance if you are unsure of the proper course of action.

Typical conflicts that may arise are:

- An outside business interest
- Hiring or working with relatives or someone with whom you have an intimate relationship
- Dealing on your own account or using your position in the Bank to gain unfair advantage
- Acting for the Bank in a transaction or business relationship that involves yourself, relatives or other people or organisations where you or your relatives have a significant person connection or financial interest

You have a responsibility to identify and disclose any conflicts or potential conflicts of interest to your Division Head, Head of HR and Head of Compliance.

6.3. Personal Finances

Conduct your own financial affairs responsibly, with integrity and in compliance with the law, to avoid situations that could reflect unfavorably on the Bank.

In general you may not:

- Participate in personal transactions with colleagues, clients or suppliers, including investment activities (unless part of a Bank sponsored investment plan)
- Borrow from or lend money to your colleagues, clients or suppliers (except nominal amounts such as for lunch)

7. RELATIONS WITH REGULATORS AND AUDITORS

It is our aim to achieve excellence in compliance when meeting all relevant regulatory obligations. Maintaining a strong and positive relationship with the regulators and other government organisations is essential for ensuring the continued success of our business.

You must be completely open, candid, co-operative and prompt with regulators and external and internal auditors, keeping them fully informed about matters which should reasonably be disclosed to them.

You must:

- Refer all enquiries received from regulators to your Head of Compliance
- Do not contact the regulators unless authorised to do so by your Head of Compliance

8. RAISING CONCERNS

We are committed to integrity, honesty and transparency in everything we do.

You are often the first person to realise that your co-workers are participating in activities that are inappropriate or contrary to our standards and policies.

We strongly encourage you to report all suspected criminal or unethical conduct. We treat all reports confidentially, consistently, fairly and in a timely manner. As long as you make the report in good faith you will be protected from suffering any detriment, loss of employment or victimization.

You can raise your concerns through the Bank's hotline, email address or mailing address as mentioned in the Whistleblowing Policy:

Hotline: +973 1754 3277
Email: gco-wb@bank-abc.com
Mail: Group Compliance Officer, Bank ABC, P.O. Box 5698, Manama, Bahrain

If you do not receive a satisfactory response you may report your concern to the Group Chief Auditor:

Telephone: +973 1754 3387
Email: Jehangir.jawanmardi@bank-abc.com

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