2014

Bank ABC
Group Annual Report

Aspiring to be **MENA's** Leading International Bank

Bank ABC

Contents

Strategic Intent

To be MENA's Leading International Bank.

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.

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.

Directors' Report

Mr. Saddek Omar El Kaber

"The Group is in robust financial health. Deposits continued to grow, reaching US$19.7 billion at the end of 2014."

On behalf of the Board of Directors of the Arab Banking Corporation (ABC) Group, I am pleased to report that the Group continued to achieve growth in 2014. Net profit increased to US$256 million (US$239 million in 2013), supported by a rise in total operating income to US$888 million (US$857 million in 2013). Our investments in people, products and operations are paying off.

Most of the Group's units hit their targets, with a number of them making significant progress. In particular, our Global Treasury's profitability continued its positive trajectory, as a well-structured team of seniors drives forward its business. ABC's large business in Brazil increased profits even as local economic activity weakened. In other areas—such as New York Branch, Islamic banking and our franchises in MENA—performance improvements were material.

Testifying to the quality of ABC's asset portfolio, the ratio of non-performing loans to gross loans improved to 2.4% from 3% at the end of 2013, ranking ABC highly among its peer banks. This advance reflects credit risk management improvements over the past few years, and we continue to introduce new initiatives to further enhance our risk management profile.

The success of the Group's first syndicated loan issue in seven years reflected the international banking community's confidence in ABC's progress and solid financial position. After extensive due diligence, 17 leading international and regional banks participated in the US$750 million loan facility, which was oversubscribed. The banks priced the loan at a margin of 120 basis points over LIBOR, indicating strong market confidence at a level better than credit ratings would suggest.

The Group is in robust financial health. Deposits continued to grow, reaching US$19.7 billion at the end of 2014 (US$18.3 billion at 2013 year end). Also, liquidity remained strong, with a liquid assets-to-deposits ratio of 65% (63% at 2013 year end).

As supra-national and national regulators introduce higher capital requirements, ABC's capital adequacy remains comfortably higher than

(All figures stated in US dollars)

minimum levels. Calculated in line with the prevailing Basel II rules of Central Bank of Bahrain (CBB), the Group's total capital adequacy ratio at the end of the year is 21.1% and its Tier 1 ratio is 17.1%. This positions the group well for adopting the new Basel III rules that are being introduced by the CBB from 2015.

Taking into account the Group's progress and strong capital position, the Board of Directors has recommended a dividend payment of US$0.05 per share for the 2014 financial year (US$0.05 per share in 2013).

ABC strengthened its management structure during the year with the appointment of two new Executive Vice Presidents, Mr. Sael Al Waary, Group Chief Operating Officer, and Mr. Ray Ferguson, Group Chief Banking Officer. A new Group Chief Financial Officer, Mr. Brendon Hopkins, was also appointed. The two EVPs and the CFO report to the Group Chief Executive Officer.

Notably, we also appointed a highly-qualified new global head of compliance and elevated her reporting line to the EVP/GCOO, recognising the environment of heightened regulatory risk around the world. New IT systems were also deployed to support our monitoring of AML and reduce operational risk.

Across the Group, management of risk, operations and IT continued to be enhanced. We invested in new middle offices for Global Trade Finance and Group Treasury & Financial Markets. In addition, a Group Operations function was established, tasked with standardising and centralising processes in order to minimise operational risk. The roll out of the core banking system to all MENA countries will be completed when Algeria's system goes live, scheduled in early 2015. The three-year upgrade to the wholesale banking system was also completed and went live at the beginning of 2015.

Looking to 2015 and beyond, the Board will direct a new phase in ABC's transformation strategy to be Mena's leading international bank. Trends in trade flows and the retrenchment of global banks are creating opportunities in our core markets. Through expanding our geographic footprint, increasing internal synergies and introducing new products, we plan to form deeper relationships with our clients and to deliver a broader range of finance and risk management solutions. Coinciding with the 35th anniversary of ABC in 2015, a review of ABC's strategic intent and brand has been initiated, aiming at strengthening ABC's position in the market place and refreshing its corporate identity.

To further enhance the capabilities of the Board, we appointed two new Directors. Dr. Farouk El Okdah, former Governor of the Central Bank of Egypt, joined as an independent Director, meaning that three of our nine Directors are independent, in line with CBB corporate governance requirements. Furthermore, Mr. Bashir Omer, an investment banker with more than 20 years' experience, joined the Board. I would like to take this opportunity to welcome them both and value their contributions at an important time in ABC's growth drive.

I also would like to thank our employees for their continued hard work and commitment to the Bank in 2014, which made the year's progress possible. Similarly, I would like to acknowledge the support and guidance of the regulatory authorities in the countries where we operate, and especially the CBB.

Finally, I wish to thank our two major shareholders–the Central Bank of Libya and Kuwait Investment Authority–for their invaluable support and contribution. ABC is privileged to have shareholders that are so committed to supporting its business and transformation journey.

Saddek Omar El Kaber
Chairman

"Looking to 2015 and beyond, the Board will direct a new phase in ABC's transformation strategy to be MENA's leading international bank."

Board of Directors

Mr. Saddek Omar El Kaber

Chairman

EC RC ‡ >|<

MBA and MS in Public Accounting, University of Hartford, Connecticut, U.S.A.

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.

Dr. Khaled Kagigi

Director *

EC AC GC NC ‡ >|<

PhD in Accounting and Finance, MBA in International Banking and Finance, University of Birmingham, England.

Executive Director for Central Banking Operations, Central Bank of Libya, and Chairman of Arab Banking Corporation-Jordan. He has formerly served as Head of Payments and Settlements department, Central Bank of Libya and Director of BACB (British Arab Commercial Bank). Dr. Kagigi has taught extensively at the undergraduate level and also at the Master's and PhD levels at Benghazi University, Libya, and at the Academy for Higher Studies in Tripoli, Libya. Past key positions include Vice Chairman and Chief Executive Officer of the Libya Africa Investment Portfolio and Chairman of the National Commercial Bank, Libya. Dr. Kagigi has been a Director of Arab Banking Corporation (B.S.C.) since December 2011 and has more than 15 years of experience in international finance.

* Resigned in February 2015.

Mr. Abdallah Saud Al Humaidhi

Director

EC GC NC ‡ >|<

MS, American University of Beirut.

Chairman and Managing Director, 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; a Director of the Board of First National Bank S.A.L., Lebanon. Mr. Al Humaidhi is also a Member of the Board of the Kuwait Chamber of Commerce & Industry and the Deputy Chairman of ABC International Bank plc, U.K. He has been a Director of Arab Banking Corporation (B.S.C.) since 2001 and has more than 25 years of experience in the banking and investment sectors.

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

Dr. Anwar Ali Al-Mudhaf

Director

AC RC GC NC ‡ §

MBA and PhD in Finance, Peter F. Drucker Graduate School of Management, Claremont Graduate University, California, U.S.A.

Chairman & CEO of Al-Razzi Holding Company; Chairman of Banco ABC Brasil S.A.; Chairman of Ahli United Bank-Kuwiat; Vice Chairman for Shifa Healthcare; a Director of the Board of Governors of the Oxford Institute for Energy Studies; and a Lecturer in Corporate Finance, Investment Management and Financial Institutions at Kuwait University. He is also a member of the Board of Directors of the Public Authority for Applied Education. Dr. Al Mudhaf has formerly served as a Member of the Economic Task Force set up to deal with the implications of the Global Financial Crisis in Kuwait; Director of the Board of the Public Institution for Social Security (PIFSS); Advisor to the Finance and Economic Affairs Committee at Kuwait's Parliament, Vice Chairman in Al Mal Investment Company, and former Chairman of the International Bank of Asia in Hong Kong. Dr. Al Mudhaf joined the Board of Arab Banking Corporation (B.S.C.) in December 1999 and has more than 15 years experience in banking and finance.

Dr. Yousef Abdullah Al Awadi KBE

Director

EC AC RC GC NC ‡ §

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

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, U.K., a Director 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 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. Currently he is Deputy Director of the Financial Markets Department for Planning & Risk Analysis Affairs. He joined the Board of Arab Banking Corporation (B.S.C.) in March 2013.

Mr. Bashir Omer

Director

RC ‡ >|<

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

General Manager of the Libyan Long Term Investment Portfolio, Libya. Mr. Omer is also a Director 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 experience in banking, investment and finance.

Dr. Farouk El Okdah

Director

AC NC GC ‡ §

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 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 Group Deputy 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.

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 33 years banking, leadership and management experience garnered from the many senior positions he has held in both London and Bahrain. Mr. Al Waary is also Deputy Chairman of Arab Banking Corporation Jordan and the Chairman of Arab Financial Services Company B.S.C.(c) and has previously served on the Boards of Banco ABC Brasil and Arab Banking Corporation Egypt S.A.E.

Mr. Ray J. Ferguson

Executive Vice President & Group Chief Banking Officer

MBA from Henley Management College, is an Associate of the Institute of Bankers in Scotland; has been conferred Distinguished Fellow by Institute of Banking and Finance, Singapore and is member of the Singapore Institute of Directors.

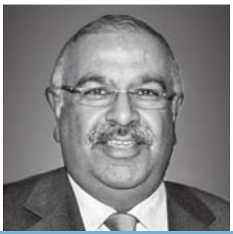
Mr. Ferguson, who joined ABC in May 2014, was formerly Chief Executive Officer of Standard Chartered Bank, Singapore from Aug 2009 until March 2014, in addition to his role as Regional CEO Southeast Asia which he held from December 2007 to January 2012. He has more than 25 years of senior leadership experience across four continents. He has served 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 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 of Strategy - Western Hemisphere, and Chief Executive Officer - Europe.



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.

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 Director of MDM Bank Moscow and is a Senior Representative for the International Capital Markets Association.

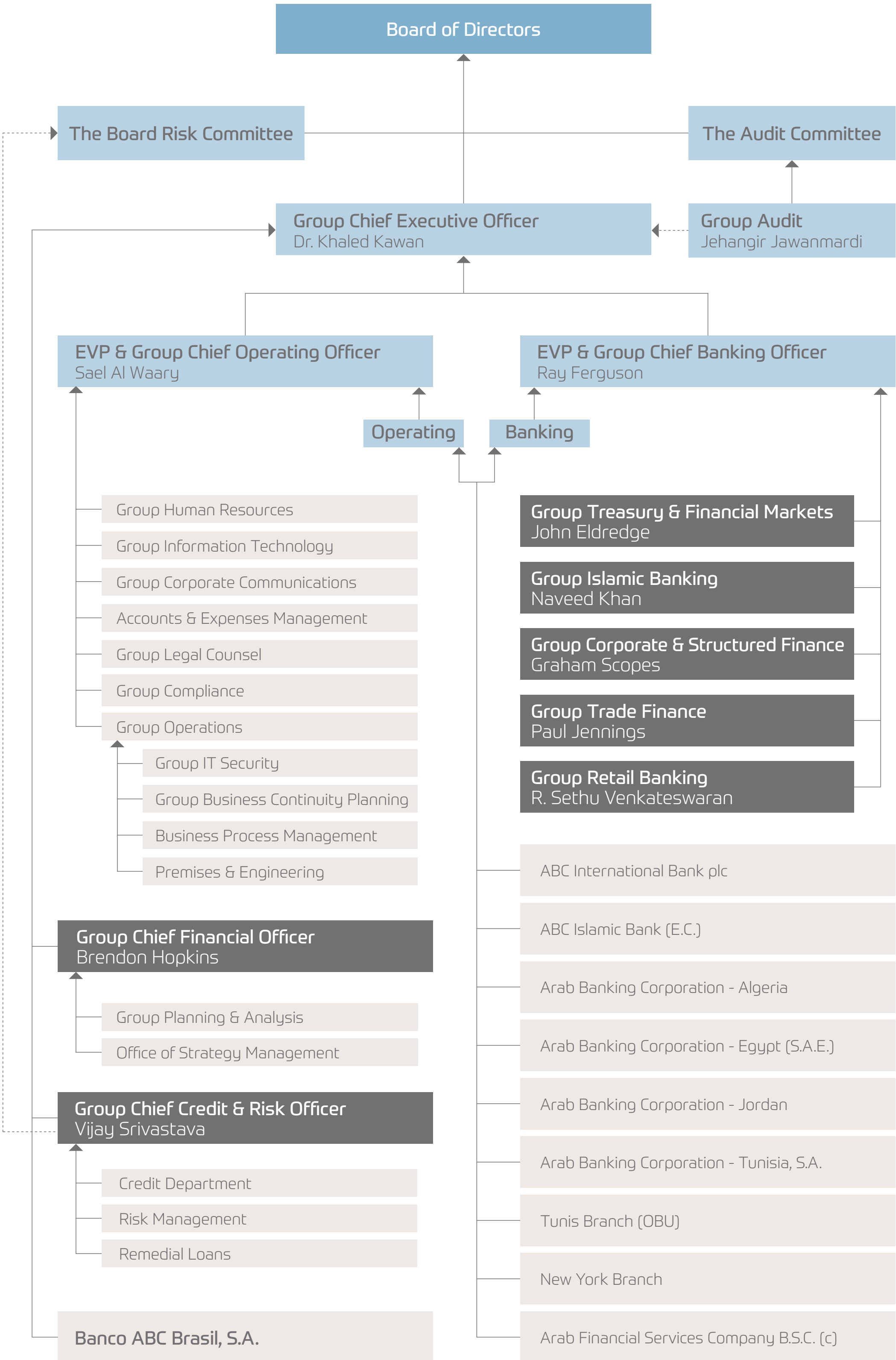
Mr. Jehangir Jawanmardi

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.

ABC Group Organisational Chart



Group Performance

THE ABC GROUP

US$ millions

2014 Highlights	ABC Parent (ABC BSC)	ABC Group
Total Assets	16,674	29,356
Total Non trading securities	2,841	4,627
Total Loans and advances	5,084	14,819
Total Deposits	8,625	19,660
Shareholders' Funds	4,006	4,006

MENA SUBSIDIARIES

US$ millions

2014 Highlights	ABC Algeria	ABC Jordan	ABC Egypt	ABC Tunisie
Total Assets	638	1,551	1,131	246
Total Non trading securities	-	422	466	11
Total Loans and advances	358	741	291	113
Total Deposits	394	1,280	926	186
Shareholders' Funds	189	207	172	38
Number of Branches	24	27	28	8

WHOLESALE BANKING AND OTHER SUBSIDIARIES

US$ millions

2014 Highlights	Int'l Bank plc	Banco ABC Brasil	ABC Islamic Bank	AFS
Total Assets	4,152	7,337	1,327	64
Total Non trading securities	81	552	282	10
Total Loans and advances	2,837	4,430	965	-
Total Deposits	3,043	5,638	1,051	1
Shareholders' Funds	668	855	265	54
Number of Branches	4	6	-	-

Financial Highlights

	31-Dec 2014	31-Dec 2013	31-Dec 2012	31-Dec 2011	31-Dec 2010
EARNINGS (US$ MILLION)					
Net interest income	**541**	504	521	508	440
Other operating income	**347**	353	295	310	279
Total operating income	**888**	857	816	818	719
Profit before provisions, taxation and non-controlling interests	**449**	417	413	404	360
Impairment provisions - net	**(64)**	(49)	(62)	(28)	(77)
Profit before taxation and non-controlling interests	**385**	368	351	376	283
Net profit for the year from continuing operations	**256**	239	205	204	143
FINANCIAL POSITION (US$ MILLION)					
Total assets	**29,356**	26,545	24,527	25,015	28,105
Loans and advances	**14,819**	13,653	12,860	11,985	12,186
Placements with banks and other financial institutions	**5,870**	5,018	4,334	4,305	6,300
Trading securities	**539**	194	64	64	65
Non-trading securities	**4,627**	5,116	4,005	6,050	8,057
Shareholders' funds	**4,006**	3,940	3,778	3,598	3,428
RATIOS (%)					
Profitability					
Cost: Income ratio (costs as % of gross operating income)	**49**	51	49	51	50
Net profit as % of average shareholders funds	**6.5**	6.2	5.5	5.7	4.3
Net profit as % of average assets	**0.90**	0.93	0.83	0.76	0.54
Dividend cover (times)	**1.65**	1.54	-	-	-
Capital					
Risk weighted assets (US$ million)	**24,379**	23,170	21,780	20,330	20,823
Capital base (US$ million)	**5,132**	5,161	5,135	4,947	4,818
Risk asset ratio - Tier 1	**17.1**	17.9	18.6	19.2	18.4
Risk asset ratio – Total	**21.1**	22.3	23.6	24.3	23.1
Average shareholders' funds as % of average total assets	**13.9**	15.0	14.9	13.3	12.5
Loans and advances as a multiple of shareholders' funds (times)	**3.7**	3.5	3.4	3.3	3.6
Total debt as a multiple of shareholders' funds (times)	**6.3**	5.7	5.5	6.0	7.2
Term financing as multiple of shareholders' funds (times)	**0.97**	0.70	0.47	0.40	0.64

	31-Dec 2014	31-Dec 2013	31-Dec 2012	31-Dec 2011	31-Dec 2010
Assets					
Loans and advances as % of total assets	**50.5**	51.4	52.4	47.9	43.4
Securities as % of total assets	**17.6**	20.0	16.6	24.4	28.9
Impaired loans as % of gross loans	**2.4**	3.0	3.2	3.5	3.5
Loan loss provisions as % of impaired loans	**160.4**	135.3	137.1	134.4	127.8
Loan loss provisions as % of gross loans	**3.8**	4.1	4.4	4.7	4.5
Impaired securities as a % of gross non-trading securities	**3.4**	6.1	9.3	6.6	6.6
Securities provisions as a % of impaired securities	**77.3**	90.1	90.5	88.7	90.8
Securities provisions as a % of gross non-trading securities	**2.65**	5.53	8.42	5.89	6.01
Liquidity					
Liquid assets ratio*	**43.7**	43.5	41.0	35.1	39.3
Deposits to loans cover (times)*	**1.3**	1.3	1.3	1.3	1.4
Share Information					
Basic Earnings per share - Profit for the year	**$0.08**	$0.08	$0.07	$0.07	$0.05
Dividends per share - Cash	**$0.05**	$0.05	-	-	-
Net asset value per share	**$1.29**	$1.27	$1.21	$1.16	$1.10
Capitalisation (US$ 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

**Comparative figures restated to conform with the presentation in the current year.*

Review of Operations

Dr. Khaled Kawan

"The spread of our geographical footprint across the MENA region, Europe, the Americas and Asia is distinctive among regional players. It puts us in a strong position to capture growing trade and investment flows."

OVERALL GROUP

ABC's drive to transform and optimise its businesses continued to gain momentum during 2014. The investments we have made over the past years are having tangible results. Across the Group, our business units' profits increased and the quality of our assets improved. The success of our fund raising activities during the year also reflected the financial markets' confidence in ABC.

The spread of our geographical footprint across the MENA region, Europe, the Americas and Asia is distinctive among regional players. It puts us in a strong position to capture growing trade and investment flows. Most of our units achieved their profitability targets. Notably, our MENA banks' revenues rose. In Latin America, Banco ABC Brasil also stood out for its continued strong performance in a year when Brazil's economy weakened.

Likewise, our global products witnessed a steady performance. Group Treasury & Financial Markets had another good year developing a wider range of treasury products and investing in its talent base. Islamic Finance had a remarkable year, building new client relationships and deepening product expertise.

The market's confidence in ABC was evident when we returned to the syndicated loan markets after seven years. Our US$750 million, three-year syndicated loan attracted 17 international and regional banks and was over-subscribed, with pricing in line with an A- bank (our S&P and Fitch ratings being BBB-).

Further strengthening our funding position, total deposits increased by US$1.4 billion to US$19.7 billion (US$18.3 billion at 2013 year-end). Additionally, the Central Bank of Libya extended the maturity of various deposit facilities, demonstrating the excellent and on-going support we receive from our shareholders.

Our talent build up throughout the Group was strengthened with the recruitment of several high-calibre senior managers in our Business, Finance, Human Resources and Compliance areas.

Notably, we refreshed our strategic intent and core objectives and have just launched a new "one bank" brand identity for 2015 and beyond. This strategy is designed to boost our leadership position through a client centric approach leveraging our network to create greater reach, while we enhance our product and service proposition. This will help foster new revenue streams and increase share of client business to take advantage of opportunities presented as global banks retrench from our core markets.

BUSINESS UNIT REVIEWS

MENA

ABC continued to invest in expanding and improving the quality of its MENA subsidiaries' businesses in Egypt, Jordan, Tunisia and Algeria.

ABC Egypt

ABC Egypt (ABCE) grew revenues strongly in 2014, with progress in most business lines.

Revenues increased to US$54.4 million (US$50.0 million in 2013) and net profit increased marginally to US$13.5 million (US$13.2 million in 2013). The corporate loan portfolio grew by more than 24% to US$184 million (US$148 million in 2013), due to both new client mandates and increased lending to existing clients.

The retail banking business continued to strengthen its reputation for its high-quality service, and relocated one branch during the year. Additionally, ABCE re-launched its auto loan product. Retail loans increased to US$107 million (US$96 million in 2013). Importantly, ABCE's retail credit risk management team has kept provisions to a low level notwithstanding Egypt's political and economic uncertainty over the past two years. The Bank also added a total of US$65 million in deposits. Moreover, ABCE invested in its people, developing talent in order to further boost performance.

Egypt is expected to hold parliamentary elections in 2015. Greater stability, more foreign direct investment and support from the international community are expected in the aftermath of the Egypt Economic Development Conference which took place in March 2015. If so, this will benefit ABCE as it seeks to capitalise on improving economic conditions.

> **"New brand identity, and promise, has been announced and we are proud of the Arab Banking Corporation heritage that is encapsulated and transferred to our new 'Bank ABC' look and feel."**

Review of Operations

ABC Jordan

Despite the on-going economic and geopolitical risks in neighbouring countries, ABC Jordan (ABCJ) continued successful implementation of its strategy.

In 2014, revenue reached US$64.2 million (US$58.5 million in 2013), and net profit rose to reach US$19.0 million (US$16.4 million in 2013). The credit portfolio grew to US$741 million (US$691 million in 2013), an increase of 7%. ABCJ grew its retail banking loans portfolio by 7% during the year from US$338 million in 2013 to US$363 million. The corporate relationship team targeted the most resilient economic sectors, and in addition, a new unit was established to cater for medium-sized enterprises.

ABC Investments (ABCI), the subsidiary brokerage firm, successfully maintained its leading position among the top ten brokerage firms in Jordan, covering local, regional and international financial markets as part of its brokerage and investment services.

In the coming years, ABCJ is well positioned to continue its growth path. It will further build its sustainable liquidity base, mainly composed of customer deposits, and drive the momentum already created in its retail and corporate portfolios.

ABC Tunisia

Tunisia's economy grew steadily in 2014 as political uncertainty somewhat diminished. ABC in Tunisia – through its subsidiary ABC Tunisia (ABCT) and the offshore branch ABC Tunis – continued its successful expansion.

Profits in Tunisia more than doubled during the year. Taken together, the onshore subsidiary and offshore branch reported net profit of US$6.1 million for 2014 (US$2.6 million in 2013). Total operating income grew to US$ 15.1 million (US$11.8 million in 2013) driven by build-up in the asset portfolio, trade finance and treasury incomes, as well as a healthy increase in fees and commissions. Operating expenses were well controlled at US$ 8.4 million.

ABCT opened one branch during the year, bringing the total to eight, and a few more should be opened during 2015. To fund continuing growth in the branch network and balance sheet, the bank's capital was increased by US$25 million in 2014.

ABC Algeria

ABC Algeria (ABCA) reported revenues of US$46.5 million in 2014, slightly lower than the US$46.9 million reported in 2013. The net profits were slightly lower at US$18.8 million (US$19.1 million in 2013). ABCA's performance was affected by the new central bank regulations that came into effect during 2014, which limited commissions on trade finance activity. The Algerian Dinar exchange rate to the US dollar depreciated by 12% at the end of 2014 compared to 2013. As a result, despite the growth in underlying business volumes, ABCA's total assets in US$ terms declined to US$638 million, compared to US$664 million in 2013, with the loan portfolio declining to US$358 million (a decrease of 6% compared to 2013). In line with the above, the deposits declined to US$394 million (from US$406 million in 2013).

ABCA has improved corporate products and services by hiring additional relationship managers and offering cash solutions to large corporates. Retail banking activities did well, notwithstanding the prohibition on most loans to individuals. The "Soukna - refurbishment without mortgage" remained ABCA's most attractive product for households. A new savings product was launched, automatically sweeping excess cash from current accounts to savings account. ABCA also opened a new branch in Mostaganem to bring the Bank closer to its clients in the west of the country.

These actions are positioning ABCA to enhance its funding base and accelerate growth in 2015 and coming years.

GROUP TREASURY AND FINANCIAL MARKETS

Group Treasury & Financial Markets (GT&FM) made steady progress in 2014, in implementing its business growth strategy and diversifying the Group's funding base. The team distributed a number of benchmark bond issues for clients, broadened its product range and effectively managed the Group's fixed income investment portfolio.

Total operating income equalled the previous year's level at US$124 million, although other income increased to US$73 million (from US$65 million in 2013), reflecting opportunistic trading in proprietary portfolios and a shift in product mix towards sales of FX and derivative products to institutional investors.

Moreover, after seven years' absence, GT&FM facilitated ABC's return to the medium-term funding market, raising a US$750 million syndicated loan at a spread of 120bps, a pricing level equivalent to regional A- banks, from 17 global and regional banks. With pricing tighter than ABC's credit ratings would suggest, the syndicated loan leaves ABC well positioned for further medium-term fund raising, and we will consider bond issuance under a refreshed EMTN programme at the appropriate time.

GT&FM delivered a number of milestone debt capital markets deals and built out its financial products capabilities, aiming to become an important player in the region's bond markets. ABC was sole lead manager of the US$53 million Bahrain Commercial Facilities floating rate note issue and co-lead manager for the Government of Sharjah's US$750 million debut Sukuk. We were also co-leads for Mumtalakat (US$600 million 7-year Sukuk issue), FLY Dubai (US$500 million 5-year Sukuk issue) and Emirates NBD (US$1 billion 5-year bond issue). These important transactions reflect ABC's deepening client relationships and our improving distribution capability to manage underwriting risks.

Looking forward to 2015, GT&FM plans to continue to develop new products and business areas. This will be supplemented by a continuing focus on risk controls and enhancement of our middle office and market risk teams, with comprehensive compliance and monitoring activities across all GT&FM product areas.

WHOLESALE BANKING

Wholesale Banking (WB) comprises Global Trade Finance, Corporate Banking and Financial Institutions, Project and Structured Finance and Islamic Banking. In 2014, there was an overall increase in revenue to US$210 million (US$207 million in 2013). While some parts of the business, such as Islamic continued to grow, others, such as Global Trade Finance, were impacted by difficult trading conditions. In 2015, as part of our broader refresh of our strategy intent and objectives we will be refocusing our WB strategy, which will have some impact on the structure and organisation of our WB units.

Global Trade Finance

Global Trade Finance (GTF) continued its focus on financing trade and commodity flows between MENA and the rest of the world. However, instability in some MENA countries, weak economic activity in Europe and renewed competition for business created a difficult environment.

More positively, GTF continues to position to capture new revenue streams. The recently established trade desks in Brazil and MENA countries are targeting customer flows around our network. GTF is also strengthening its provision of insured receivables trade finance, and its Risk Distribution & Secondary Markets activities, both of which have great potential.

Looking forward to 2015, conditions for trade in some markets, e.g. Libya, are expected to remain challenging. However, trade finance will remain an area of core focus in our refreshed WB strategy and we will continue to diversify our client base, expand the product set and increase secondary market trading, so achieving more efficient use of capital.

Corporate Banking & Financial Institutions

Corporate Banking & Financial Institutions (CB&FI) manages the Group's corporate and institutional client base across GCC, India and Asia, delivering core credit products such as working capital finance. There was good deal flow from clients in Oman, Saudi Arabia and the United Arab Emirates. Additionally, CB&FI focused on client relationships in India.

A change in our approach to client coverage will be a key element of our refreshed WB strategy in 2015.

Project & Structured Finance

Project & Structured Finance (P&SF) improved year on year revenue performance. Regional project finance is becoming more buoyant, as new project development returns to the marketplace, and sponsors take advantage of low interest rates to refinance previous transactions. Additionally, the aviation and shipping finance markets remain active, enabling ABC to book several asset-backed finance transactions.

Notably, Bahrain Steel appointed ABC as an Initial Mandated Lead Arranger facility agent, security trustee and account bank for its US$340 million syndicated loan. The loan refinanced Bahrain Steel's existing facility, which ABC underwrote in 2007.

In 2015, ABC will continue to enhance its P&SF offering, marketing the full range of project finance and related services, including transaction structuring, debt arranging, and financial advisory. The strategic focus will be to ensure closer integration with our client coverage and GT&FM teams to offer integrated financing and risk management solutions, cross sell products, and drive relationship development with key clients across MENA.

Islamic Finance

In a year when the market for Islamic financial products grew significantly, ABC's Islamic Finance (ABCIF) business expanded its business volumes, strengthened client relationships and widened its product range, boosting year on year revenues.

ABC Group's Islamic Finance activity is carried through the hubs in Bahrain and London. Building its position in the market, ABCIF was appointed as co-lead manager of the Government of Sharjah's debut US$750 million Sukuk, which was ten times oversubscribed. Additionally, ABCIF arranged syndicated Murabaha facilities for two Turkish banks, one UAE bank and for one of Saudi Arabia's leading contracting and trading groups.

In addition, ABCIF widened its range of financial products by securing Shari'a approvals for Islamic derivative products related to rates and currencies and now offers one of the broadest Islamic product ranges available.

Review of Operations

Looking forward to 2015, ABCIF will remain a core part of ABC's refreshed WB strategy. We anticipate continued growth in revenues as we deepen relationships with key clients and provide an expanding range of Islamic products.

OTHER BUSINESSES

Banco ABC Brasil

While Brazil hosted the Soccer World Cup and held its presidential elections in 2014, this was a year of slow economic growth and challenging credit conditions. Despite these difficulties, Banco ABC Brasil (BAB) maintained its pace of growth, delivering solid results while preserving a strong balance sheet.

Total operating income increased to US$347 million in 2014 (US$333 million in 2013) and net profit rose to US$136 million (US$124 million in 2013). This strong performance reflects the Bank's success in originating high-quality assets and its disciplined approach to assessing credit risk.

In terms of strategy, BAB continues to focus on providing loans and structured products to large corporates and mid-sized businesses from offices across 21 cities in Brazil. BAB grew both businesses winning more clients and cross-selling products to existing clients, while carefully managing its risk appetite.

2015 is likely to be another year of low economic growth in Brazil, presenting challenges to all banks. The deprecation of the Brazilian Real and the fallout from the Petrobras scandal will likely have some impact on BAB's performance. Notwithstanding this, BAB remains well positioned in its core client business to handle challenges that will arise throughout the year.

ABC International Bank

ABC International Bank (ABCIB) houses a significant part of our Global Trade Finance business and our UK based Islamic Financial Services activities.

The performance and conditions relating to our Global Trade Finance business are set out in the WB section above. Our UK based Islamic Financial Services experienced its fifth year of steady growth. Euromoney magazine recognised its position as London's leading provider of Islamic real estate finance, naming one of its deals 'Best Islamic Real Estate Deal.' Furthermore, London's South Bank Tower extension, a landmark transaction for ABCIB, 'topped out' when the last beam was placed at the top of its structure ahead of completion in 2015.

Also in ABCIB there was a major focus on strengthening our approach to regulatory reporting, compliance and controls as the Prudential Regulation Authority embedded its more intensive supervisory approach on overseas banks operating in London. Significant management time and resources were allocated to ensure that ABCIB remains well controlled and positioned to grow its European business platform.

Looking forward to 2015, ABCIB's focus will be to build its European client strategy and reorganise its front office and European branch operations to complement the new WB client coverage approach we will be introducing across the Group.

Arab Financial Services

As the MENA region continues to use more credit and debit cards, Arab Financial Services (AFS) is growing its customer base. It is already one of the region's largest payment services providers. It signed up with several new banks during 2014, while launching new solutions and helping ABC to centralise its own cards business.

AFS launched several new solutions, designed both to improve the customer experience and to enhance management information. These included a powerful online loyalty programme, an analytics solution with around 200 key performance indicators, in-branch instant card issuance, eStatements and mobile phone-based payment instalment plans. Testifying to its high level of data encryption and physical security, AFS became the MENA region's first card services provider to be awarded the PCI 3.0 certification. It also successfully renewed its ISO 22301-Business Continuity Certification, demonstrating the company commitment in Business Continuity. AFS also invested and implemented a fully secure Business Continuity site in Bahrain and upgraded its offshore full-fledged Disaster Recovery Center in UAE.

ABC's MENA retail banks in Algeria and Jordan started to move their card processing to AFS during the year, gaining economies of scale and benefiting from the ongoing drive to develop best-in-class solutions.

Looking forward to 2015, AFS plans to open offices in UAE and Oman to facilitate debit card processing in these countries. It will continue to seek new customers, while marketing its expanding range of new value-added services to its customers.

SUPPORT OPERATIONS

ABC's support functions upgraded their capabilities with fresh urgency to prepare for a new phase in the Group's transformation programme.

The senior management team in support was strengthened, hiring senior managers from international banks, including a new Group Chief Financial Officer and Group Heads of Compliance and Group Human Resources, and expanding the mandate of the Group Chief Operating Officer.

In response to new regulations by the Central Bank of Bahrain, ABC adapted its remuneration scheme and in 2015 will continue placing greater emphasis on establishing a more performance-driven organisation.

In Information Technology (IT), the roll out of the core banking system to all MENA countries was completed when Algeria's system went live shortly after the year end. The three-year upgrade to the wholesale banking system was also completed in early 2015. IT also played an important part in the continual drive to upgrade regulatory compliance. New FATCA compliance and anti-money laundering systems were introduced. Moreover, a Basel III reporting system was implemented, enabling the Group to comply with new capital adequacy regulations. In addition, a Group Operations function was established in 2014, tasked with coordinating operations across ABC's units and geographies.

On top of all of this a new brand identity, and promise, has been announced and we are proud of the Arab Banking Corporation heritage that is encapsulated and transferred to our new "Bank ABC" look and feel.

Finally, as I round off this 2014 operating review, I would like to take this opportunity to thank our clients for their trust and support. I also sincerely thank our staff for their dedication and contribution. ABC has achieved much in 2014. I look forward to the continuing support of all our stakeholders as Bank ABC continues its transformation journey.

Dr. Khaled Kawan
Group Chief Executive Officer

Corporate Governance

"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."

Arab Banking Corporation (B.S.C.) ("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 ABC as a conventional wholesale bank. Incorporated in 1980 as a Bahrain joint stock company, ABC has an authorised capital of $3.5 billion and a paid-up capital of $3.11 billion (as at 31 December 2014).

ABC communicates all relevant information to stakeholders punctually and clearly through a variety of channels, including a well-maintained website. In particular, ABC reports its profits on an annual, semi-annual and quarterly basis. At least the last three years' financial statements are available on the ABC corporate website.

Shareholders

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 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 ABC.

(All figures stated in US dollars unless otherwise indicated)

The following table shows the ownership structure of ABC as at 31 December 2014:

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 2014 and 31 December 2013.

	2014			2013		
% of shares held	**No. of shares**	**No. of shareholders**	**% of total outstanding shares**	No. of shares	No. of shareholders	% of total outstanding shares
less than 1%	**128,344,432**	**1,339**	**4.1**	128,344,432	1,315	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**	**1,344**	**100.0**	3,110,000,000	1,320	100.0

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 ABC. The CBB Corporate Governance Requirements and the Code took full effect at the end of 2011. The Board of Directors of ABC adopted the 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 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 ABC and the shareholders
- the appointment, training and evaluation of the Board
- remuneration of the Board and of ABC employees
- 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 November 2014, when a number of changes were made, mainly relating to the Board's responsibilities with regard to employee remuneration and related changes to the mandates of the Nominations and Compensation Committee and the Corporate Governance Committee. These changes were approved in response to amendments to the CBB Corporate Governance Requirements in January and July 2014, which in turn were based on the Financial Stability Board's Principles and Standards for Sound Compensation Practices. Two of the main principles behind the recent amendment to the

Corporate Governance

Corporate Governance Charter are that the Board, rather than executive management, should be in control of employee remuneration, and that the remuneration policy and philosophy of ABC and the ABC Group should be aligned with ABC's long-term business strategy, business objectives, risk appetite, values and long-term interests, while recognising the interests of all relevant stakeholders.

Two additional Directors were appointed to the Board in 2014, one of whom (Dr. Farouk El Okdah) is an independent director. This resulted in the size of the Board increasing from seven members to nine members, of whom three are independent Directors (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).

One additional independent Director was added to each of the Nominations and Compensation Committee, the Corporate Governance Committee and the Audit Committee, so that independent Directors now constitute a majority of the members of each of these committees. In November 2014, independent Directors were appointed to act as the chairmen of the Nominations and Compensation Committee and the Audit Committee.

Compliance with CBB Corporate Governance Requirements and the Code

ABC was compliant with the CBB Corporate Governance Requirements and the Code as at 31 December 2014, save that the Chairman of the Board was not an independent Director, which is contrary to the non-mandatory guidance/ recommendations included in the CBB Corporate Governance Requirements and the Code.

BOARD OF DIRECTORS

Responsibilities of the Board

ABC has previously adopted both a corporate governance charter for the Board and charters for the various Board committees (the "ABC Board Mandates"). The ABC Board Mandates are displayed on the ABC corporate website. The Board of Directors is responsible for the overall direction, supervision and control of the 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 ABC
b) establishing ABC's objectives
c) 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 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.

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 though 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 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 24th March 2013. At the 2014 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 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 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 on page 24).

The Board also has the power under 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 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 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 ABC facilities; presentations regarding strategic plans, compliance programmes, and significant financial, accounting and risk management issues.

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 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 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 2014.

Independence of Directors

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

ABC had three independent, non-executive Directors and six non-independent, non-executive Directors as at 31 December 2014. The CBB Corporate Governance Requirements require that at least a third of 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. 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 ABC, or any of its subsidiaries, or any material conflicts of interest. This remained the case in 2014. The 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 ABC, and can be personally sued by ABC or shareholders for any violation.

Compensation & Interests of Directors

The general remuneration policy of ABC with regard to Directors is included in the ABC Board Mandates (as set out on the 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.

Corporate Governance

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 ABC or the ABC Group.

The aggregate remuneration paid to Board members in 2014 amounted to US$1,780,484 (2013: $1,557,936), which was divided between the three elements as follows:

Board remuneration (US$)	2014	2013
Monthly Retainer Fee	1,100,000	952,083
Attendance Allowance	117,000	85,500
Travel Allowance (Per Diem & Airfare)	563,484	520,353
Total	**1,780,484**	**1,557,936**

The aggregate remuneration paid to the members of the Nominations and Compensation Committee with respect to their membership of such committee for the year 2014 was US$25,000, which sum is included in the monthly retainer fee (the same amount was paid in 2013).

No Director owned or traded ABC shares in 2014.

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 **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 **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 **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 **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 **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 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 ABC and the ABC Group are aligned with 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. Three meetings in this regard were held in 2013, while four meetings were held in 2014.

As at 31 December 2014, 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 Executive Committee	Mr. Saddek Omar El Kaber	Chairman	Non-independent
	Mr. Hilal Al Mutairi	Deputy Chairman	Non-independent
	Mr. Abdallah Al Humaidhi	Member	Non-independent
	Dr. Khaled Kagigi	Member	Non-independent
	Dr. Yousef Al Awadi	Member	Independent
The Audit Committee	Dr. Yousef Al Awadi	Chairman	Independent
	Dr. Khaled Kagigi	Member	Non-independent
	Dr. Anwar Al-Mudhaf	Member	Independent
	Mr. Isam Ghellai	Member	Non-independent
	Dr. Farouk El Okdah	Member	Independent
The Board Risk Committee	Mr. Saddek Omar El Kaber	Chairman	Non-independent
	Dr. Anwar Al-Mudhaf	Member	Independent
	Mr. Isam Ghellai	Member	Non-independent
	Mr. Bashir Omer	Member	Non-independent
	Dr. Yousef Al Awadi	Member	Independent
The Corporate Governance Committee	Mr. Abdallah Al Humaidhi	Chairman	Non-independent
	Dr. Khaled Kagigi	Member	Non-independent
	Dr. Yousef Al Awadi	Member	Independent
	Dr. Anwar Al-Mudhaf	Member	Independent
	Dr. Farouk El Okdah	Member	Independent
The Nominations and Compensation Committee	Dr. Anwar Al-Mudhaf	Chairman	Independent
	Mr. Abdallah Al Humaidhi	Member	Non-independent
	Dr. Yousef Al Awadi	Member	Independent
	Dr. Khaled Kagigi	Member	Non-independent
	Dr. Farouk El Okdah	Member	Independent

Corporate Governance

Attendance of Directors

The details of Directors' 2014 attendance at Board and Board committee meetings are set out in the following table:

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

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 2014.

[1] Retired from the Nomination and Compensation Committee on 16 November 2014

[2] Appointed Chairman of the Nominations and Compensation Committee on 16 November 2014

[3] Appointed to the Board Risk Committee on 25 May 2014

[4] Appointed to the Board on 23 March 2014

[5] Appointed to the Board on 25 May 2014

[6] Appointed to the Nominations and Compensation Committee on 16 November 2014

Meeting dates during 2014:

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 Corporate Governance Committee meets 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 2014 are set out below:

	Dates of Meetings
Board meetings	17 February 2014 23 March 2014 25 May 2014 12 August 2014 16 November 2014 21 December 2014
The Audit Committee	2 February 2014 16 March 2014 4 May 2014 24 August 2014 30 October 2014
The Corporate Governance Committee	17 February 2014 23 March 2014 25 May 2014 15 November 2014
The Board Risk Committee	5 April 2014 24 May 2014 11 August 2014 15 November 2014 20 December 2014
The Nominations and Compensation Committee	25 May 2014 24 June 2014 15 November 2014 20 December 2014

No meetings of the Executive Committee were held during 2014.

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 ABC. There is a clear segregation of duties in the management structure at ABC.

Senior managers did not hold or trade any shares in ABC during 2014.

COMPLIANCE

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 oversees, together with local heads of compliance, all regulatory compliance at Group level and within the units.

The Compliance function provides independent compliance oversight on behalf of the Board of Directors and senior management. Over the year, the Compliance function has been strengthened as follows: A new Group Compliance Officer was appointed in August 2014 with seasoned compliance experience. A dedicated Group Money Laundering Reporting Officer (GMLRO) and Head of Bahrain Compliance were appointed with Group-wide responsibility to manage financial crime risks, and to oversee ABC Bahrain Compliance. Furthermore, Group Compliance is now a standalone and independent function, reporting directly to the Audit Committee and the Group Chief Operating Officer (GCOO), and with direct access to senior management and the Board of Directors. All Heads of Compliance and MLROs in ABC units have a solid reporting line to the Group Compliance Officer and the Group MLRO.

A senior level Committee was established over the year specifically to oversee compliance and financial crime risks. The Group Compliance Oversight Committee (GCOC) was established to oversee the effective management of ABC's compliance 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 acting as Chair in the absence of the GCOO. The Group Compliance Officer has the right to contact the CBB, or any other local regulator where the ABC Group operates.

Throughout its network of offices, ABC has published written guidelines to staff on policies and procedures for the appropriate implementation of laws, regulations, rules and standards including in relation to conflicts of interest. This includes the Code of Conduct (see Appendix, pages 107 to 111) and Group Compliance Policy, which are approved by the Board of Directors and updated on a regular basis. 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. Group Compliance is upgrading existing systems and implementing a new automated AML (anti money laundering) system for KYC ("Know your Customer"), for Transaction Monitoring and for FATCA compliance. This system is being rolled out across ABC units. The new system brings additional functionality and capability enabling more effective and efficient management of AML risks throughout the network.

In accordance with the Group's AML manual, Group Compliance maintains 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 ABC's AML strategy and policies, as well as overseeing staff AML training, and supervising and coordinating each ABC unit's MLRO activities. Group Compliance continually undertakes a refresh of relevant policies and procedures in light of changing regulatory requirements and operational effectiveness. Group Compliance reports critical money laundering issues to senior management, the Audit Committee and the Board of Directors, as appropriate.

REMUNERATION POLICIES OF ABC IN COMPLIANCE WITH THE REQUIREMENTS OF THE CENTRAL BANK OF BAHRAIN

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

The advice of an external consultant was sought by senior management to review the Bank's variable compensation scheme and to work with ABC to redesign the scheme in order to be fully compliant with the CBB's requirements. Key changes to ABC's remuneration systems and governance processes were made during the year to comply with the new 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 and top five most highly paid other business line employees, Material Risk Takers and Approved Persons, and

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

The Nominations & Compensation Committee reviews and approves ABC's remuneration policy structure on an annual basis. Where rules on compensation exist in the jurisdictions in which ABC operates, 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, ABC adopts local market practices.

In order to reinforce the safeguarding role and independence of staff in risk management, internal audit, operations, financial controls, AML and compliance functions, as well as legal and human resources, a distinct and separate bonus pool has been created. Control functions are 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.

ABC conducts business within a set of overarching goals and limits that together define ABC's 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 N&CC in the respect of the approved risk appetite, risk tolerance and risk policies during the fiscal year.

At ABC, the variable compensation and performance management are linked to levels of remuneration. Performance expectations are clearly articulated for revenue-generating, support and control functions. Individual bonus payments reflect Group, business unit and individual performance.

In accordance with the CBB requirements, ABC has adopted a remuneration deferral policy in line with the CBB Sound Remuneration Practices which has the required amount of variable remuneration for the GCEO, deputies, top five most highly paid business line employees,

Corporate Governance

defined material risk takers and approved persons to be deferred.

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 and 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 it may be applied to the total outstanding set of unvested awards.

A clawback policy has also been adopted to allow ABC to recover part or all of the awards already paid to an employee or former employee in response to the discovery of a material event. Clawback provisions may be enforced upon the discovery of an employee or former employee's accountability or responsibility for, or direct implication in, material events that may bring the Bank into serious disrepute or 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 they hold. Variable pay is delivered using a blend of cash and equity-linked instruments and 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 Nominations & Compensation Committee has reviewed the Bank's remuneration policy for 2014. Key changes were made to its remuneration systems and governance processes including: revising the N&CC remit, introducing a new approach to remuneration disclosures; ensuring the Bank's risk framework is extensive and captured in decisions around variable pay including confirming risk-adjustments to net profit; removing Control Functions from the Group bonus pool and ensuring they are measured independently from the businesses they oversee; introducing an equity-linked vehicle in which to deliver the appropriate amount of variable remuneration for covered persons; introducing deferral arrangements; and introducing clawback and malus policies that can apply to variable remuneration.

ABC takes risk seriously. Reward practices embed and reinforce ABC'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, and which reflect both Group and business unit performance;

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

iii. bonus pools are reflective of 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, ABC has a process in place for assessing the performance of senior management against a set of pre-agreed Audit, Risk & Compliance (ARC) objectives which are cascaded down in the organization, pay is linked to long-term profitability and sustainable value.

Pay Principles

The following Pay Principles apply at 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.
- ABC rewards performance that delivers ABC's strategy, and that delivers the behaviours, culture and ways of working that underpin doing business with ABC.

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 bonus, even if the Group underperforms.
- ABC differentiates high performance from average or low performance.
- Bonuses can be paid for non-profitable business units in start-up or turn-around.
- Bonus calculations reflect a measure of the appropriate behaviours which support doing business with ABC.
- Control functions are measured on the impact and quality of their safeguarding role.
- Pay for employees engaged in Control Functions promotes impartiality, objectivity and ensures that all employees at 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 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 are reflective of 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, and which reflect 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 mechanism includes an equity-linked vehicle.
- 60% of variable pay for GCEO and the most highly paid employees is deferred for 3 years.
- 40% of variable pay for Material Risk Takers and Approved Persons (paid over BHD100,000) is deferred for 3 years.
- Any form of guaranteed variable remuneration cannot 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 Nominations and Compensation Committee.
- The NCC oversees remuneration practices across the bank.

Delivery

- The NCC oversees the design and delivery of variable pay across the bank.

Corporate Governance

- 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 NCC prior to bonus pool and Group performance determination.
- HR controls remuneration policies, while line managers have suitable discretion to apply them.
- HR develops compliance and monitoring practices to actively track and monitor global compliance with Group remuneration policy.

Principle 5 | Clear and Simple

Approach

- Reward communications will be clear, user friendly and written using plain language.
- The aims and objectives of the new VCS will be 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 variable compensation scheme 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, internal climate and affordability.
- Individual pay opportunities are driven by the external market and internal positioning.

Application of Pay Principles

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

The Variable Remuneration is paid according to the scheme on the below categorization as detailed in tables (a) and (b) listed here after:

- **approved Persons in Business Lines:** For the Group Chief Executive Officer and the top 5 most highly paid business line employees their variable pay was paid as 40% upfront Cash, 10% in deferred Cash and 50% in deferred Equity-Linked Vehicle and 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 is 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 is paid as 50% upfront Cash, 10% upfront Equity-Linked Vehicle, 40% deferred Equity-Linked Vehicle
- **other staff of Bahrain Operations:** The variable pay is paid fully in cash upfront.

Remuneration arrangements will be structured to promote alignment of sound risk behaviours. For employees categorized as Approved Persons in Business Lines or Material Risk Takers they will have their total remuneration weighted towards variable pay and their performance will be measured against a range of financial and non-financial factors related to risk. While employees categorized as Approved persons in Control Functions will have their pay more heavily towards fixed pay and their performance measured independently of the business which they oversee to ensure sufficient independence and authority. All variable pays are subject to malus and clawback.

Of note, ABC has examined all existing employment contracts and can confirm that no contractual obligations relating to termination payments outside of the Labour Law of the Kingdom of Bahrain are mentioned therein.

a) 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
Other staff of branches and subsidiaries not covered above	2466	163.4	53.9
Total	**2784**	**226.1**	**76.9**

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	1.7	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			
Other staff of branches and subsidiaries not covered above	53.9			
Total	**70.1**	**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**

		Shares		
Deferred awards	Cash US$ million	(Number) million	US$ million	Total 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**

b) 2013

Employee Group	Number of Employees (as on 31/12/13)	Fixed Remuneration US$ million	Variable Remuneration US$ million
Approved Persons in Business Lines	4	14.7	2.7
Approved Persons in Control Functions	13	6.1	2.6
Other Material Risk Takers	40	16.2	5.1
Other staff of Bahrain operations not covered above	266	43.1	9.1
Other staff of branches and subsidiaries not covered above	2456	163	50.7
Total	**2779**	**243**	**70.2**

	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	2.7	-	-	-
Approved Persons in Control Functions	2.6	-	-	-
Other Material Risk Takers	5.1	-	-	-
Other staff of Bahrain operations not covered above	9.1	-	-	-
Other staff of branches and subsidiaries not covered above	50.7	-	-	-
Total	**70.2**	**-**	**-**	**-**

* no guaranteed bonus was awarded in 2013

	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	-	-	2	5.3
Approved Persons in Control Functions	-	-	-	-
Other Material Risk Takers	-	-	8	3.7
Other staff of Bahrain operations not covered above	-	-	51	8.6
Total	**-**	**-**	**61**	**17.6**

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

Risk Management

Including Basel II - Pillar 3 disclosures

"Over the last few years, the Group has invested heavily in developing a comprehensive and robust risk management infrastructure."

The Group complies with the Central Bank of Bahrain (CBB) reporting requirements, within the Basel II risk management framework (which will be adapted to Basel III in 2015).

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 II and International Financial Reporting Standards. These differences are as follows:

- Under the Basel II framework, 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 statement of financial position exposure. In the consolidated financial statements, the nominal values of credit-related contingent items are considered off-statement of financial position.
- Under this risk management section, the credit exposures are classified as per the 'Standard Portfolio' approach set out in the CBB's Basel II 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.).

Risk Management

- Eligible collateral is taken into consideration in arriving at the net exposure under the Basel II framework, whereas collateral is not netted in the consolidated financial statements.
- Securities in the non-trading securities portfolio are considered at cost under the Basel II framework, whereas they are considered at fair value in the consolidated financial statements.
- Under the Basel II 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.

Comment on Basel III

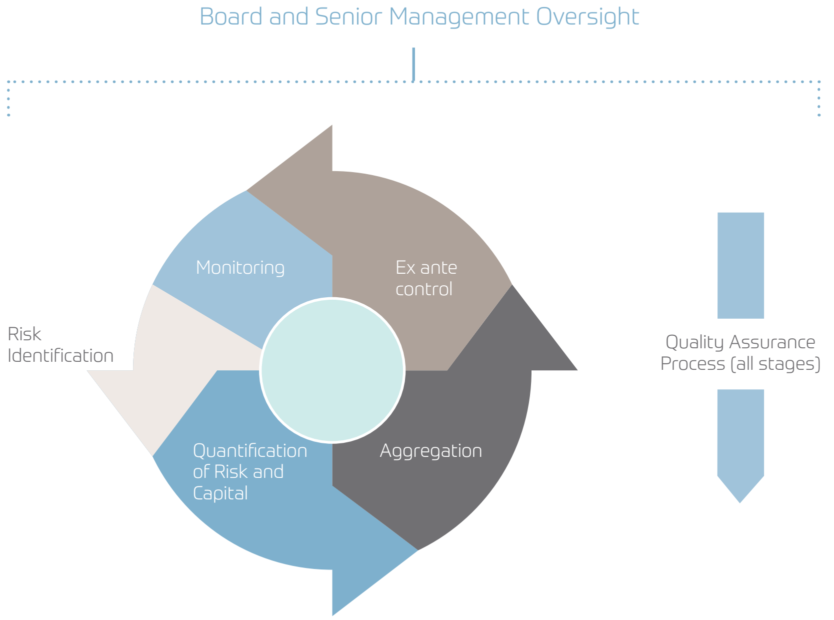
The Central Bank of Bahrain (CBB) has issued the Basel III Capital Adequacy Pillar 1 guidelines, which come into effect from January 2015; while guidelines for Basel III Liquidity have yet to be issued at the time of writing this report. The Bank has commenced pro-forma reporting of Basel III ratios to the CBB and is well positioned to meet their enhanced regulatory and capital requirements.

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.

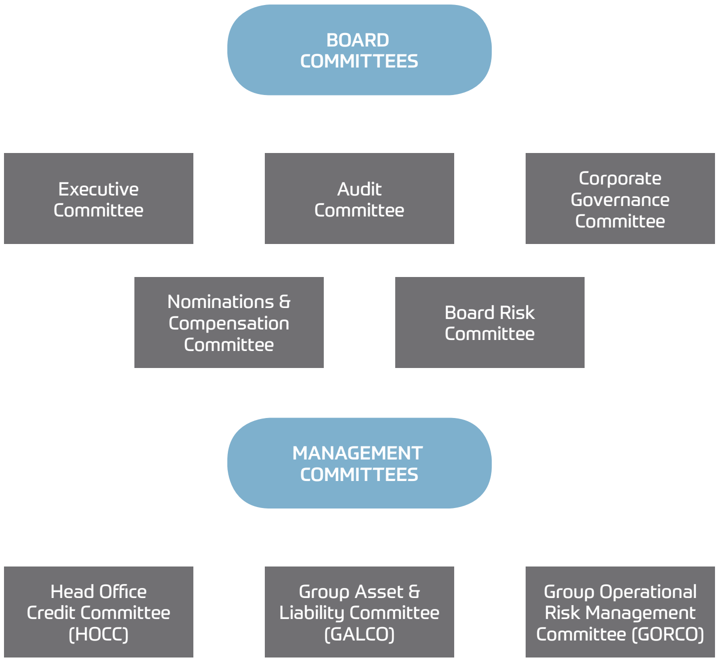
Figure 1:



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

(All figures stated in US dollars unless otherwise indicated)

Figure 2: Risk Management Structure



Within the broader governance infrastructure, the Board Committees carry the main responsibility for best practice management and risk oversight. At this level, the **Board Risk Committee (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; 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 **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

Risk Management

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 sets these limits and allocates 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 in late 2012, a training initiative was launched 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 2014, 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 2014, the Group's exposures in excess of the 15% obligor limit to individual counterparties were as shown below:

US$ million	On balance sheetexposure	Off balance sheetexposure	Total exposure
Counterparty A	1	1,401	1,402

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 II 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)**

Listed Bahrain PSEs 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 Banks' 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 favourable 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.

Investments in the subordinated debt of banking, securities and financial entities are risk-weighted at a minimum risk weight of 100% for listed entities or 150% for unlisted entities, unless such investments exceed 20% of the eligible capital of the investee entity, in which case they are deducted from the Group's capital.

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	54	54	-	-	-	2	-
Claims on sovereigns*	4,487	4,235	252	-	55	468	56
Claims on public sector entities **	2,394	2,211	183	55	14	1,962	236
Claims on multilateral development banks	214	214	-	-	-	14	2
Claims on banks	12,150	10,127	2,023	222	371	5,458	655
Claims on corporate portfolio	13,408	11,148	2,260	299	-	12,598	1,512
Regulatory retail exposures	126	125	1	-	-	95	11
Past due loans	37	37	-	-	-	37	4
Residential retail portfolio	134	134	-	6	-	130	16
Equity portfolios	32	32	-	-	-	47	6
Other exposures	311	288	23	-	-	311	37
	33,347	**28,605**	**4,742**	**582**	**440**	**21,122**	**2,535**

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

*** Includes exposures to Collateralized 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 2014 were US$33,126 million and US$21,069 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	2,750	-	-	110	105
Western Europe	4,420	28	27	-	-
Other Europe	1,563	-	-	-	-
Arab World	14,315	284	263	17	15
Other Africa	37	-	-	-	-
Asia	2,127	5	1	36	6
Australia/New Zealand	63	-	-	-	-
Latin America	8,072	52	41	-	-
	33,347	**369**	**332**	**163**	**126**

In addition to the above specific provisions the Group has collective impairment provisions amounting to US$181 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	-	-	-	54	-	-	-	-	54
Claims on sovereigns*	492	445	50	2,197	-	100	-	1,203	4,487
Claims on public sector entities**	82	228	-	1,971	-	35	-	78	2,394
Claims on multilateral development banks	72	23	-	96	-	23	-	-	214
Claims on banks	1,111	2,474	1,368	4,510	1	1,810	2	874	12,150
Claims on corporate portfolio	941	1,147	145	5,059	36	150	61	5,869	13,408
Regulatory retail exposures	-	4	-	114	-	-	-	8	126
Past due loans	-	1	-	21	-	4	-	11	37
Residential retail portfolio	-	57	-	66	-	-	-	11	134
Equity portfolios	7	1	-	19	-	5	-	-	32
Other exposures	45	40	-	208	-	-	-	18	311
	2,750	**4,420**	**1,563**	**14,315**	**37**	**2,127**	**63**	**8,072**	**33,347**

** 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 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	-	-	-	1	1
Arab World	5	2	13	1	21
Asia	-	-	4	-	4
Latin America	7	4	-	-	11
	12	**6**	**17**	**2**	**37**

Risk Management

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	4,969	4,119	850	57	53	-	-
Mining and quarrying	143	131	12	3	1	-	-
Agriculture, fishing and forestry	41	41	-	3	3	-	-
Construction	1,562	1,303	259	21	15	-	-
Financial	14,041	11,776	2,265	95	94	121	118
Trade	722	650	72	74	71	-	-
Personal / Consumer finance	827	778	49	23	19	-	-
Commercial real estate financing	338	329	9	-	-	-	-
Government	4,606	4,390	216	22	22	24	6
Technology, media & telecommunications	499	360	139	23	22	-	-
Transport	852	725	127	18	7	-	-
Other sectors	4,747	4,003	744	30	25	18	2
	33,347	**28,605**	**4,742**	**369**	**332**	**163**	**126**

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 & telecommu-nications	Transport	Other sectors	Total
Cash	-	-	-	-	-	-	-	-	-	-	-	54	54
Claims on sovereigns*	-	-	-	-	212	-	-	-	4,275	-	-	-	4,487
Claims on public sector entities **	1,011	-	-	23	502	-	-	-	317	75	149	317	2,394
Claims on multilateral development banks	-	-	-	-	214	-	-	-	-	-	-	-	214
Claims on banks	-	-	-	-	12,150	-	-	-	-	-	-	-	12,150
Claims on corporate portfolio	3,954	141	41	1,533	918	719	681	338	14	423	692	3,954	13,408
Regulatory retail exposures	-	-	-	-	5	-	110	-	-	-	-	11	126
Past due loans	4	2	-	6	1	3	4	-	-	1	11	5	37
Residential retail portfolio	-	-	-	-	-	-	10	-	-	-	-	124	134
Equity portfolios	-	-	-	-	31	-	-	-	-	-	-	1	32
Other exposures	-	-	-	-	8	-	22	-	-	-	-	281	311
	4,969	**143**	**41**	**1,562**	**14,041**	**722**	**827**	**338**	**4,606**	**499**	**852**	**4,747**	**33,347**

** 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	1	1	1	1	4
Mining and quarrying	-	-	2	-	2
Construction	6	-	-	-	6
Financial	-	-	-	1	1
Trade	2	-	1	-	3
Personal / consumer finance	3	1	-	-	4
Technology, media & telecommunications	-	-	1	-	1
Transport	-	-	11	-	11
Other sectors	-	4	1	-	5
	12	**6**	**17**	**2**	**37**

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:

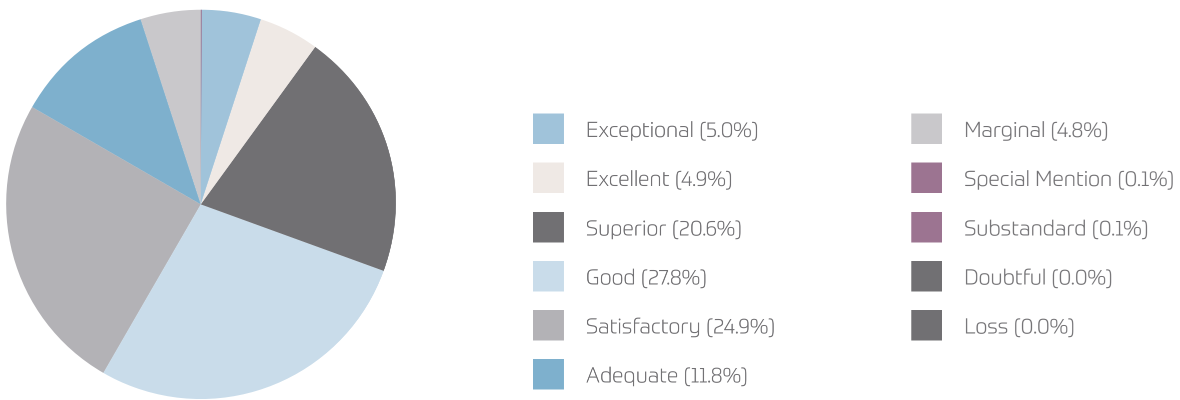
US$ million	Net credit exposure (after credit risk mitigation)	Rated exposure	Unrated exposure
Cash	54	-	54
Claims on sovereigns*	4,487	4,046	441
Claims on public sector entities**	2,340	537	1,803
Claims on multilateral development banks	214	214	-
Claims on banks	11,928	10,291	1,637
Claims on corporate portfolio	13,109	1,273	11,836
Regulatory retail exposure	126	-	126
Past due loans	36	-	36
Residential retail portfolio	128	-	128
Equity portfolios	32	-	32
Other exposures	311	-	311
	32,765	**16,361**	**16,404**

** 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 2014 financial year end is shown below.



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$436 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	54	-	-	-	54	-	-	-	-	-	-	54
Claims on sovereigns*	1,225	516	338	295	2,374	1,114	431	-	303	13	1,861	4,235
Claims on public sector entities**	393	156	43	198	790	436	894	79	-	12	1,421	2,211
Claims on multilateral development banks	96	46	-	25	167	47	-	-	-	-	47	214
Claims on banks	4,821	1,133	951	990	7,895	2,103	51	-	-	78	2,232	10,127
Claims on corporate portfolio	1,019	1,697	1,231	1,219	5,166	3,986	1,444	163	1	388	5,982	11,148
Regulatory retail exposures	-	11	1	4	16	69	34	4	-	2	109	125
Past due loans	-	12	-	6	18	17	2	-	-	-	19	37
Residential retail portfolio	-	-	-	-	-	-	2	3	-	129	134	134
Equity portfolios	-	-	-	-	-	-	-	-	-	32	32	32
Other exposures	-	-	-	-	-	-	-	-	-	288	288	288
	7,608	**3,571**	**2,564**	**2,737**	**16,480**	**7,772**	**2,858**	**249**	**304**	**942**	**12,125**	**28,605**

** Includes exposures to Ginnie Mae and Small Business Administration pools.*

** * Includes exposures to CMOs of Freddie Mac and Fannie Mae, both of which are deemed to be 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	Total over 12 months	Total
Claims on sovereigns	49	102	41	26	218	4	-	-	30	34	252
Claims on public sector entities	1	9	59	44	113	59	11	-	-	70	183
Claims on banks	419	374	248	366	1,407	229	156	219	12	616	2,023
Claims on corporate portfolio	174	410	416	549	1,549	686	19	-	6	711	2,260
Regulatory retail exposures	-	-	-	-	-	1	-	-	-	1	1
Other Exposure	-	-	-	-	-	23	-	-	-	23	23
	643	**895**	**764**	**985**	**3,287**	**1,002**	**186**	**219**	**48**	**1,455**	**4,742**

Unfunded exposures are divided into the following exposure types, in accordance with the calculation of credit risk-weighted assets in the CBB's Basel II 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 II 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	3,333	1,367
Direct credit substitutes, guarantees and acceptances	3,603	1,658
Undrawn loans and other commitments	2,070	902
	9,006	**3,927**
RWA		**2,989**

** Credit exposure is after applying CCF.*

At 31 December 2014, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$266 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 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 2014.

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 II 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 2014 were as follows:

	Derivatives		
US$ million	**Interest rate contracts**	**Foreign exchange contracts**	**Total**
Notional – Trading book	4,632	9,098	13,730
Notional – Banking book	1,529	598	2,127
	6,161	**9,696**	**15,857**
Credit RWA (replacement cost plus potential future exposure)	255	394	649
Market RWA	227	1,259	1,486

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 income.

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	20	26
Financial	(4)	184
Trade	1	3
Personal / Consumer finance	3	-
Government	(1)	-
Other services	6	6
Construction	17	-
Agriculture	1	-
Mining & Quarrying	4	-
Transportation	(2)	1
Technology, media & telecommunications	19	-
	64	**220**

Remedial Loans Unit

Impaired loans as a percentage of gross loans improved from 3.0% in 2013 to 2.4% in 2014. When measured as a percentage of equity, impaired loans fell to 9.0% as at 2014 year end, compared with 11.0% at the end of 2013.

In 2014, the Group made total provisions of US$64 million. The provisions coverage ratio (total provisions as percentage of impaired loans) increased from 135.3% in 2013 to 160.4% in 2014.

Restructured facilities

The carrying amount of restructured facilities amounted to US$191 million as at 31 December 2014. 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 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.

With a view to ensuring independent oversight over all Treasury activities, the Bank has established the 'Treasury and Financial Markets Risk' unit (T&FMR). The unit's mandate includes the following four verticals: Market Risk, Middle Office, Liquidity Risk and Product Control. This function resides within CRG and 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, and

- 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 2014, a 200 basis points parallel shift in interest rates would potentially impact the Group's economic value by US$46 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	4
Unquoted Equities	28
	32
Realised gain during the year	12
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	375	45	27	66
- Specific interest rate risk	148	18	5	18
- General interest rate risk	227	27	22	48
Equity position risk	2	-	-	1
Foreign exchange risk	1,259	151	124	175
Options risk	1	-	-	-
Total market risk	**1,637**	**196**	**151**	**242**

** 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 2014.*

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 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 2014, the total capital charge in respect of operational risk was US$194 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

Capital Structure

The Group's capital base comprises (a) Tier 1 capital which includes share capital, reserves, retained earnings and non-controlling interests, and (b) Tier 2 capital which consists of the subordinated term debt, collective impairment provisions, profit for the year and equity revaluation reserves.

The issued and paid-up share capital of the Bank is US$3,110 million at 31 December 2014, comprising 3,110 million shares of US$1 each.

During the year ended 31 December 2007, the subordinated term debt, amounting to US$500 million, was raised under its US$2,500 million Euro Medium Term Deposit Note Programme, and represents unsecured obligations of the

Group, and is subordinated in the right of payment to the claims of all depositors and creditors of the Group. These are issued for 10 years with a call option which can only be exercised after five years. The Bank had repurchased a portion of the debt in the previous years. The inclusion of the subordinated term debt in the Tier 2 capital base, and the subsequent repurchases, has been approved by the CBB.

During the previous year, a subsidiary of the Bank raised subordinated debt of a nominal amount of US$100 million, adding to the already existing subordinated debt borrowed in 2010 amounting to US$300 million. These are issued for ten years without an investor put option.

During the year, cash dividends of 5% of the issued share capital (US$0.05 per share), amounting to US$ 156 million for the year ended 31 December 2013, were distributed following approval at the Annual General Meeting held on 23 March 2014.

The Group's capital base of US$5,132 million comprises Tier 1 capital of US$4,165 million and Tier 2 capital of US$967 million as detailed below:

Breakdown of capital base

US$ million	Tier 1	Tier 2	Total
Share capital	3,110	-	3,110
Statutory reserve *	400	-	400
General reserve	100	-	100
Retained earnings brought forward	432	-	432
Profit for the year	-	256	256
Minority interest in consolidated subsidiaries	420	-	420
Foreign currency translation adjustment	(284)	-	(284)
Unrealized gains from fair value of equity securities	-	1	1
Collective impairment provisions	-	181	181
Subordinated term debt	-	542	542
Tier 1 and Tier 2 capital before deductions			
Significant minority investments in banking, securities and other financial entities	(11)	(11)	(22)
Other deductions – Unamortized IT costs	(2)	(2)	(4)
Tier 1 and Tier 2 capital base	**4,165**	**967**	**5,132**

** Prior to transfer of statutory reserve for the year 2014 US$26 million*

Risk-weighted assets (RWA)

Credit risk	**21,122**
Market risk	**1,637**
Operational risk	**1,620**
Total	**24,379**
Tier 1 ratio	**17.1%**
Capital adequacy ratio	**21.1%**

Risk Management

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

Management expects the change to capital structure implemented in 2010 to have a positive impact on the earnings of the Group. 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.

The Group's total capital adequacy ratio as at 31 December 2014 was 21.1% compared with the minimum regulatory requirement of 12%. The Tier 1 ratio was 17.1% 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:

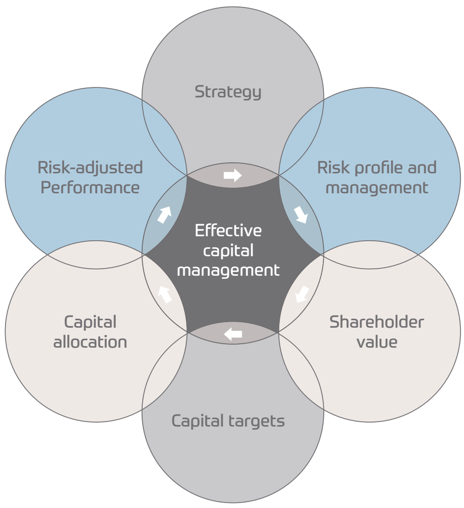
Subsidiaries (over 5% of Group regulatory capital)	Tier 1 ratio	CAR (total)
ABC Islamic Bank (E.C.)	22.2%	23.6%
ABC International Bank Plc*	20.9%	21.0%
Banco ABC Brasil S.A.*	10.9%	14.4%

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

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

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 below 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; and
- 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:** Computed for both the trading and the banking books per the guidelines provided in Basel II.

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; and
- 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.

SUPERVISORY REVIEW AND EVALUATION PROCESS (SERP)

The CBB is the lead regulator for the Group, and sets and monitors capital requirements on both a consolidated and an unconsolidated basis. Individual banking subsidiaries are regulated directly by their local banking supervisors, who set and monitor their capital adequacy requirements.

The CBB requires each Bahrain-based bank or banking group to maintain a minimum ratio of total capital to risk-weighted assets of 12%, taking into account both on- and off-balance sheet transactions. However, under the SERP guidelines the CBB would also make an individual risk assessment of all banks and, instead of applying a standard minimum capital adequacy requirement, the supervisor may allow a lower capital adequacy ratio in excess of 8% for a bank with sound risk management capabilities.

The CBB initiated this assessment process in the first quarter of 2008.

The Group's capital management strategy is currently to maintain a buffer over the 12% minimum regulatory capital requirement to account for liquidity, concentration, reputation, strategic, country and other risks while enhancing its risk management and risk control infrastructure. This would ultimately allow the Group to achieve a successful assessment and pursue possible lower capital requirements from the CBB. At the same time, senior management strongly believes in the economic value of capital, and is committed to maximising intrinsic value for all stakeholders. Details of risk-weighted assets, capital base and the risk asset ratio are provided in Note 32 to the consolidated financial statements.

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	3
Claims on staff	26

Group Financial Review

"The Group's primary financial goal is the delivery of consistently rising profitability for its shareholders through sustainable earnings and assets growth."

INCOME STATEMENT

The Group reported a net profit of US$256 million for 2014 compared with a net profit of US$239 million in 2013.

Net interest income was 7% higher than 2013 at US$541 million (2013: US$504 million), while non-interest income decreased by 2% to US$347 million (2013: US$353 million). Net impairment provisions rose to US$64 million, compared with US$49 million put aside in 2013. The net operating income was US$824 million, as against US$808 million in 2013.

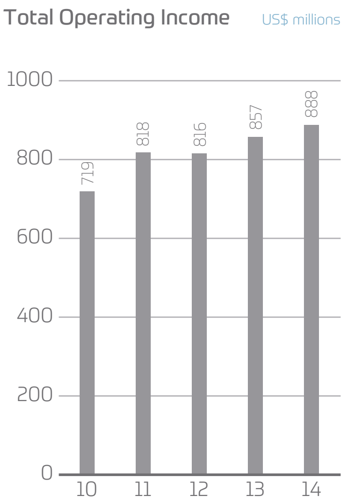
Operating expenses amounted to US$439 million (2013: US$440 million). Profit before taxation and income attributable to non-controlling interests was, therefore, US$385 million, compared to US$368 million in 2013. After taxation on operations outside Bahrain of US$67 million (2013: US$71 million) and income attributable to non-controlling interests of US$62 million (2013: US$58 million), the net profit for the year was US$256 million (2013: US$239 million).

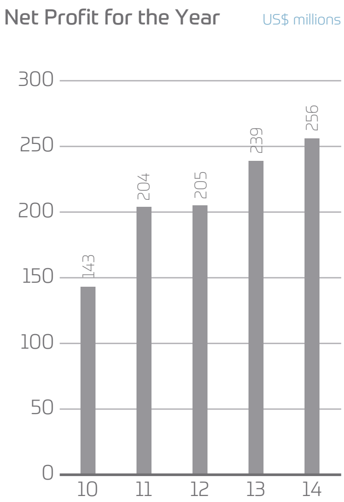
SOURCES AND USES OF FUNDS

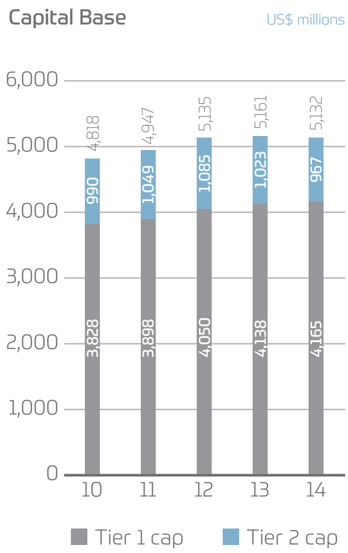
The Group's asset profile is predominantly made up of loans, securities and placements. The loans and advances portfolio stood at US$14,819 million (2013: US$13,653 million). Non-trading securities declined by US$489 million to US$4,627 million and money market placements rose by US$852 million to US$5,870 million. Liquid funds decreased by US$146 million to US$909 million.

Deposits from customers increased by US$915 million to US$13,945 million. Deposits from banks and other financial institutions and repos totalled US$5,755 million (2013: US$5,430 million) while term notes, bonds and other term financings was augmented to US$3,891 million (2013: US$2,763 million) following the successful closure of the syndicated loan issue.

Total assets of the Group at the end of the year stood at US$29,356 million (2013: US$26,545 million). Average assets for the year were US$28,568







million (2013: US$25,756 million) and average liabilities US$24,603 million (2013: US$21,888 million).

CREDIT COMMITMENTS, CONTINGENT ITEMS AND DERIVATIVES

The notional value of the Group's consolidated off-balance sheet items stood at US$24,863 million (2013: US$22,124 million) comprising credit commitments and contingencies of US$9,006 million (2013: US$9,752 million) and derivatives of US$15,857 million (2013: US$12,372 million). The credit risk-weighted asset equivalent of these off-balance sheet items was US$3,638 million (2013: US$3,438 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 2014 was US$1,486 million (2013: US$1,390 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 (76%), followed by Latin America (16%) mainly at the Brazilian subsidiary.

	Financial assets		Liabilities & equity		Loans & advances	
(%)	**2014**	2013	**2014**	2013	**2014**	2013
Arab world	**45**	37	**76**	77	**48**	49
Western Europe	**12**	13	**4**	2	**9**	7
Asia	**6**	8	**-**	-	**4**	10
North America	**8**	11	**4**	4	**2**	1
Latin America	**24**	26	**16**	17	**30**	31
Others	**5**	5	**-**	-	**7**	2
	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 2014, 68% (2013: 67%) was within one year maturity. Loans and advances maturing within one year amounted to 55% (2013: 51%). The proportion of liabilities maturing within one year was 46% (2013: 53%).

Group Financial Review

(%)	Financial assets 2014	Financial assets 2013	Liabilities & equity 2014	Liabilities & equity 2013
Within 1 month	**36**	33	**24**	33
1-3 months	**10**	12	**7**	9
3-6 months	**12**	11	**7**	6
6-12 months	**10**	11	**8**	5
Over 1 year	**28**	29	**35**	28
Undated	**4**	4	**19**	19
	100	100	**100**	100

DISTRIBUTION OF CREDIT EXPOSURE

ABC Group's credit exposure (defined as the gross credit risk to which the Group is potentially exposed) as at 31 December 2014 is given below:

(US$ millions)	Funded exposure		Credit commitments & contingent items		Derivatives*	
	2014	2013	**2014**	2013	**2014**	2013
CUSTOMER TYPE						
Banks	**11,161**	10,906	**3,402**	4,041	**1,194**	772
Non-banks	**11,755**	10,836	**5,167**	5,508	**60**	54
Sovereign	**4,074**	3,505	**437**	203	**1**	2
	26,990	25,247	**9,006**	9,752	**1,255**	828
RISK RATING						
1 = Exceptional	**1,247**	1,829	**630**	533	**-**	-
2 = Excellent	**1,556**	1,146	**220**	190	**79**	35
3 = Superior	**6,889**	5,378	**609**	621	**234**	171
4 = Good	**6,455**	6,679	**3,802**	3,944	**39**	21
5 = Satisfactory	**7,060**	6,681	**2,194**	1,704	**9**	19
6 = Adequate	**2,374**	2,290	**1,108**	2,379	**894**	582
7 =Marginal	**1,342**	1,155	**439**	368	**-**	-
8 = Special Mention	**49**	48	**1**	3	**-**	-
9 = Substandard	**11**	27	**1**	9	**-**	-
10 = Doubtful	**5**	12	**1**	-	**-**	-
11 = Loss	**2**	2	**1**	1	**-**	-
	26,990	25,247	**9,006**	9,752	**1,255**	828

** 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 as at the end of 2014 was US$369 million (2013: US$432 million). Aggregate provisions at the end of 2014 stood at US$592 million (2013: US$584 million) and constituted 160% (2013: 135%) of all non-performing loans and 3.8% (2013: 4.1%) of gross loans and advances.

The total of all impaired securities as at the end of 2014 was US$163 million (2013: US$332 million). Aggregate provisions at the end of 2014 stood at US$126 million (2013: US$299 million) and constituted 77% (2013: 90%) of impaired securities and 2.7% (2013: 5.5%) of gross non-trading securities.

The ageing analysis of impaired loans and securities with related specific provisions is as follows:

Impaired loans

(US$ millions)	Principal	Provisions	Net book value
Less than 3 months	35	23	12
3 months to 1 year	49	43	6
1 to 3 years	64	47	17
Over 3 years	221	219	2
	369	332	37

Impaired securities

(US$ millions)	Principal	Provisions	Net book value
Less than 3 months	6	2	4
3 months to 1 year	-	-	-
1 to 3 years	-	-	-
Over 3 years	157	124	33
	163	126	37

GROUP CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIOS

The Group's capital base of US$5,132 million comprises Tier 1 capital of US$4,165 million (2013: US$4,138 million) and Tier 2 capital of US$967 million (2013: US$1,023 million). The consolidated capital adequacy ratio as at 31 December 2014, calculated in accordance with the prevailing Basel 2 rules, was 21.1% (2013: 22.3%), well above the 12% 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 in some MENA countries continued in 2014 and the situation remains unpredictable in some countries. The Group's activities and assets are increasingly diversified across a range of developing and developed economies, which mitigates

Group Financial Review

this 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 USA, Brazil and Europe.

Energy prices – Global hydrocarbon prices have a direct impact on the economies of many of the countries in the Arab world, as well as on those of OECD countries. High hydrocarbon prices lead to an inflow of revenues to producing countries and an increase in their demand for capital equipment and construction services for infrastructure building and development projects, as well as for consumer goods. OECD-based capital exporters and project contractors likewise prosper. Lower energy prices benefit residents of developed countries, increasing demand for developing countries' goods and tourism services. As its main activities are focused on the trade flows between MENA region and OECD countries, the Group's revenues benefit from both scenarios. The prognosis for hydrocarbon prices appeared to decline significantly at the end of 2014, due to new supply in North America and weaker demand in parts of Asia.

Instability in financial markets – During 2014, financial markets were relatively stable, although concerns persisted about the withdrawal of quantitative easing in the United States, renewed economic weakness in Europe and the possibility of weaker economic growth in China. 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, ABC is exposed to fluctuations in the values of those currencies. ABC takes all appropriate steps to hedge against such fluctuations where deemed practicable and desirable.

Volatility of currency markets – Foreign exchange risk volatility can affect the Group's foreign exchange trading revenues. The Group believes that, overall, it benefits from currency volatility in view of the opportunities for profitable proprietary trading thus generated.

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

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

EY
Building a better working world

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Kingdom of Bahrain

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ey.com/mena
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 2014, and the consolidated statement of income, 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 2014, 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 2014 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: 145
28 February 2015
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014 (All figures stated in US$ Million)

	Note	2014	2013
ASSETS			
Liquid funds	6	**909**	1,055
Trading securities		**539**	194
Placements with banks and other financial institutions		**5,870**	5,018
Securities bought under repurchase agreements	26	**987**	349
Non-trading securities	7	**4,627**	5,116
Loans and advances	9	**14,819**	13,653
Interest receivable		**387**	345
Other assets	11	**1,090**	685
Premises and equipment		**128**	130
TOTAL ASSETS		**29,356**	26,545
LIABILITIES			
Deposits from customers		**13,945**	13,030
Deposits from banks and other financial institutions		**5,668**	5,255
Certificates of deposit		**47**	29
Securities sold under repurchase agreements	26	**87**	175
Interest payable		**319**	274
Taxation	12	**51**	76
Other liabilities	13	**922**	584
TERM NOTES, BONDS AND OTHER TERM FINANCING	14	**3,891**	2,763
Total liabilities		**24,930**	22,186
EQUITY	15		
Share capital		**3,110**	3,110
Reserves		**896**	830
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**4,006**	3,940
Non-controlling interests		**420**	419
Total equity		**4,426**	4,359
TOTAL LIABILITIES AND EQUITY		**29,356**	26,545

The consolidated financial statements were authorised for issue by the Board of Directors on 28 February 2015 and signed on their behalf by the Chairman, Deputy Chairman and the Group Chief Executive Officer.

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

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

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2014 (All figures stated in US$ million)

	Note	2014	2013
OPERATING INCOME			
Interest and similar income	16	**1,147**	1,027
Interest and similar expense	17	**(606)**	(523)
Net interest income		**541**	504
Other operating income	18	**347**	353
Total operating income		**888**	857
Impairment provisions - net	10	**(64)**	(49)
NET OPERATING INCOME AFTER PROVISIONS		**824**	808
OPERATING EXPENSES			
Staff		**304**	314
Premises and equipment		**35**	37
Other		**100**	89
Total operating expenses		**439**	440
PROFIT BEFORE TAXATION		**385**	368
Taxation on foreign operations	12	**(67)**	(71)
PROFIT FOR THE YEAR		**318**	297
Income attributable to non-controlling interests		**(62)**	(58)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**256**	239
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US$)	31	**0.08**	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 2014 (All figures stated in US$ million)

	Note	2014	2013
PROFIT FOR THE YEAR		**318**	297
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	**18**	4
Amortisation of fair value shortfall on reclassified securities	15	**7**	12
Unrealised loss on exchange translation in foreign subsidiaries		**(110)**	(146)
		(85)	(130)
Other comprehensive income that cannot be reclassified (or recycled) to profit or loss in subsequent periods:			
Net change in pension fund reserve		**(4)**	(1)
		(4)	(1)
Total other comprehensive loss for the year		**(89)**	(131)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**229**	166
Total comprehensive income attributable to non-controlling interests		**(12)**	(4)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**217**	162

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014 (All figures stated in US$ million)

	Note	2014	2013
OPERATING ACTIVITIES			
Profit for the year		**318**	297
Adjustments for:			
Impairment provisions - net	10	**64**	49
Depreciation and amortisation		**12**	13
Amortisation of fair value shortfall on reclassified securities	15	**7**	12
Gain on disposal of non-trading securities - net	18	**(35)**	(15)
Changes in operating assets and liabilities:			
Treasury bills and other eligible bills		**39**	100
Trading securities		**(404)**	(148)
Placements with banks and other financial institutions		**(982)**	(791)
Securities bought under repurchase agreements		**(752)**	177
Loans and advances		**(2,053)**	(1,416)
Interest receivable and other assets		**(532)**	(59)
Deposits from customers		**1,385**	1,309
Deposits from banks and other financial institutions		**941**	480
Securities sold under repurchase agreements		**(87)**	(240)
Interest payable and other liabilities		**425**	87
Other non-cash movements		**219**	(440)
Net cash used in operating activities		**(1,435)**	(585)
INVESTING ACTIVITIES			
Purchase of non-trading securities		**(2,858)**	(2,043)
Sale and redemption of non-trading securities		**3,264**	1,320
Purchase of premises and equipment		**(15)**	(23)
Sale of premises and equipment		**6**	5
Additional investment in a subsidiary		**(7)**	(7)
Net cash from (used in) investing activities		**390**	(748)
FINANCING ACTIVITIES			
Redemption (issue) of certificates of deposit - net		**21**	(5)
Issue of term notes, bonds and other term financing		**1,126**	1,000
Dividend paid to Group shareholders		**(156)**	-
Dividend paid to non-controlling interests		**(17)**	(18)
Net cash from financing activities		**974**	977
Net change in liquid funds		**(71)**	(356)
Effect of exchange rate changes on liquid funds		**(36)**	(21)
Cash and cash equivalents at beginning of the year		**866**	1,243
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	**759**	866

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014 (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 2012	3,110	376	150	340	(132)	(48)	(18)	3,778	426	4,204
Profit for the year	-	-	-	239	-	-	-	239	58	297
Other comprehensive (loss) income for the year	-	-	-	-	(92)	16	(1)	(77)	(54)	(131)
Total comprehensive income (loss) for the year	-	-	-	239	(92)	16	(1)	162	4	166
Transfers during the year	-	24	-	(24)	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	(11)	(11)
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**

** Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US$ 406 million (2013: US$ 406 million).*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014 (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. 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 2014. 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 statement of comprehensive income 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 2014:

Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. The Group has not novated its derivatives during the current or prior periods.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments have no impact on 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 which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for 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. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. 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.

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. Management is considering the implications of this amendment, 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 2017 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.

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 2010-2012 Cycle
- Annual improvements 2011-2013 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 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 income 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 income.

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 income.

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 income. 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 income 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 income 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 income.

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 income. 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 income.

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 income. 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 income. 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 income, the impairment loss is reversed through the consolidated statement of income.

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 income is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. 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 income.

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 income 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 income in 'impairment provisions - net'. The premium received is recognised in the consolidated statement of income 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 income.

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 profit of 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 income.

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)

Foreign currencies (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 income. The gains or losses on cash flow hedges recognised initially in equity are transferred to the consolidated statement of income 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 income 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 income 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 income.

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 income. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of income.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 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

31 December 2014 (All figures stated in US$ million)

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2013	Held for trading	Available-for-sale	Amortised cost/ Loans and receivables	Total
ASSETS				
Liquid funds	-	-	1,055	1,055
Trading securities	194	-	-	194
Placements with banks and other financial institutions	-	-	5,018	5,018
Securities bought under repurchase agreements	-	-	349	349
Non-trading securities *	-	3,589	1,527	5,116
Loans and advances	-	-	13,653	13,653
Interest receivable and other assets	177	-	830	1,007
	371	3,589	22,432	26,392

	Held for trading	Available-for-sale	Amortised cost	Total
LIABILITIES				
Deposits from customers	-	-	13,030	13,030
Deposits from banks and other financial institutions	-	-	5,255	5,255
Certificates of deposit	-	-	29	29
Securities sold under repurchase agreements	-	-	175	175
Interest payable, taxation and other liabilities	171	-	763	934
Term notes, Bonds and other term financing	-	-	2,763	2,763
	171	-	22,015	22,186

* Included in the above are other non-trading securities amounting to US$ 613 million (2013: US$ 1,209 million) which were reclassified effective 1 July 2008. Refer note 8 for details.

31 December 2014 (All figures stated in US$ million)

6 LIQUID FUNDS

	2014	2013
Cash on hand	**54**	56
Balances due from banks	**281**	380
Deposits with central banks	**249**	229
Treasury bills and other eligible bills with original maturities of three months or less	**175**	201
Cash and cash equivalents	**759**	866
Treasury bills and other eligible bills with original maturities of more than three months	**150**	189
	909	1,055

7 NON-TRADING SECURITIES

	2014			2013		
	Quoted	**Unquoted***	**Total**	Quoted	Unquoted*	Total
Available-for-sale						
Debt securities	**3,023**	**871**	**3,894**	2,612	1,239	3,851
Equity securities	**9**	**41**	**50**	10	64	74
Held to maturity						
Debt securities	**186**	**-**	**186**	-	196	196
Other non-trading securities carried at amortised cost **	**623**	**-**	**623**	1,294	-	1,294
	3,841	**912**	**4,753**	3,916	1,499	5,415
Provisions against non-trading securities	**(21)**	**(105)**	**(126)**	(21)	(278)	(299)
	3,820	**807**	**4,627**	3,895	1,221	5,116

* Includes unquoted equity securities carried at cost amounting to US$ 28 million (2013: US$ 37 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.

31 December 2014 (All figures stated in US$ million)

7 NON-TRADING SECURITIES (continued)

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

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

	2014	2013
AAA rated debt securities	**694**	806
AA to A rated debt securities	**850**	899
Other investment grade debt securities	**1,315**	2,126
Other non-investment grade debt securities	**1,390**	1,179
Unrated debt securities	**454**	331
Equity securities	**50**	74
	4,753	5,415
Provisions against non-trading securities	**(126)**	(299)
	4,627	5,116

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

	2014	2013
At 1 January	**299**	368
Charge for the year	**2**	-
Write backs / recoveries	**(1)**	(12)
Write-offs	**(174)**	(52)
Foreign exchange translation and other adjustments	**-**	(5)
At 31 December	**126**	299

The gross amount of non-trading securities individually determined to be impaired, before deducting any individually assessed impairment losses, amounts to US$ 163 million (2013: US$ 332 million). Interest income received during the year on impaired securities amounted to US$ 1 million (2013: 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.

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8 RECLASSIFICATION OF FINANCIAL ASSETS (continued)

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

	2014	2013
Carrying value	613	1,209
Fair value	625	1,240

Fair value losses that would have been recognised in other comprehensive income for the year ended 31 December 2014 had the other non-trading securities not been reclassified amounts to US$ 19 million (2013: fair value gains of US$ 15 million).

The Group earns an effective interest rate of 1% to 9% (2013: 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$ 98 million (2013: US$ 124 million) which have been hedged for changes in fair value, on account of changes in interest rates.

9 LOANS AND ADVANCES

	2014	2013
i) By industrial sector		
Financial services	3,776	3,274
Other services	2,497	2,187
Manufacturing	3,875	4,243
Construction	1,479	1,149
Mining and quarrying	859	716
Transport	796	584
Personal/Consumer finance	742	616
Trade	610	555
Agriculture, fishing and forestry	435	480
Technology, media and telecommunications	175	245
Government	167	188
	15,411	14,237
Loan loss provisions	(592)	(584)
	14,819	13,653

31 December 2014 (All figures stated in US$ million)

9 LOANS AND ADVANCES (continued)

	2014	2013
ii) Loan loss provisions by industrial sector		
Financial services	**124**	139
Other services	**26**	25
Manufacturing	**56**	63
Construction	**19**	3
Mining and quarrying	**4**	5
Transport	**7**	9
Personal/Consumer finance	**19**	16
Trade	**71**	73
Agriculture, fishing and forestry	**3**	5
Technology, media and telecommunications	**22**	3
Government	**60**	61
Collective impairment	**181**	182
	592	584

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

	Specific impairment		Collective impairment	
	2014	2013	**2014**	2013
At 1 January	**402**	406	**182**	184
Charge for the year	**84**	80	**-**	-
Write backs / recoveries	**(20)**	(18)	**(1)**	(1)
Write-offs	**(46)**	(67)	**-**	-
Foreign exchange translation and other adjustments	**(9)**	1	**-**	(1)
At 31 December	**411**	402	**181**	182

The gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance amounts to US$ 369 million (2013: US$ 432 million).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2014 amounts to US$ 122 million (2013: US$ 34 million).

At 31 December 2014, interest in suspense on past due loans amounts to US$ 246 million (2013: US$ 237 million).

31 December 2014 (All figures stated in US$ million)

10 IMPAIRMENT PROVISIONS - NET

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

	2014	2013
Non-trading securities (note 7)	**(1)**	12
Loans and advances (note 9)	**(63)**	(61)
	(64)	(49)

11 OTHER ASSETS

	2014	2013
Positive fair value of derivatives (note 20)	**620**	299
Trade receivables	**169**	108
Advances and prepayments	**31**	25
Bank owned life insurance	**35**	35
Staff loans	**26**	27
Investments in associates	**22**	23
Assets acquired on debt settlement	**15**	18
Margin dealing accounts	**12**	59
Others	**160**	91
	1,090	685

The negative fair value of derivatives amounting to US$ 480 million (2013: US$ 191 million) is included in other liabilities (note 13). Details of derivatives are given in note 20.

12 TAXATION ON FOREIGN OPERATIONS

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

	2014	2013
Consolidated statement of financial position		
Current tax liability	**29**	55
Deferred tax liability	**22**	21
	51	76
Consolidated statement of income		
Current tax on foreign operations	**61**	67
Deferred tax on foreign operations	**6**	4
	67	71
Analysis of tax charge		
At Bahrain (income tax rate of nil)	**-**	-
On profits of subsidiaries operating in other jurisdictions	**67**	71
Income tax expense reported in the consolidated statement of income	**67**	71

31 December 2014 (All figures stated in US$ million)

12 TAXATION ON FOREIGN OPERATIONS (continued)

The effective tax rates on the profit of subsidiaries in MENA, Brazil and in United Kingdom were 29% (2013:30%), 20% (2013:25%) and 21% (2013: 19%) as against the actual tax rates of 25% to 35% (2013: 25% to 35%), 40% (2013: 40%) and 21.5% (2013: 23.25%) respectively. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments at the group level, the average effective tax rate is 17% (2013: 19%).

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

	2014	2013
Negative fair value of derivatives (note 20)	**480**	191
Employee related payables	**99**	74
Margin deposits including cash collateral	**60**	60
Cheques for collection	**51**	33
Deferred income	**24**	29
Non-corporate tax payable	**13**	18
Accrued charges and other payables	**195**	179
	922	584

The positive fair value of derivatives amounting to US$ 620 million (2013: US$ 299 million) is included in other assets (note 11). Details of derivatives are given in note 20.

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 2014

	Currency	Rate of Interest	Parent bank	Subsidiaries	Total
Aggregate maturities					
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**
2018	US$	Libor + 1.25%	**50**	-	**50**
2018	US$	Libor + 1.25%	**50**	-	**50**
2017	US$	Libor + 1.20%	-	**175**	**175**
2020 *	BRL	7.875	-	**394**	**394**
			3,322	**569**	**3,891**
Total obligations outstanding at 31 December 2013			2,371	392	2,763

* Subordinated

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 2014 and 2013.

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15 EQUITY

a) Share capital

	2014	2013
Authorised – 3,500 million shares of US$ 1 each (2013: 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 (2013: 3,110 million shares of US$ 1 each)	**3,110**	3,110

b) Statutory reserve

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

c) General reserve

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

d) Cumulative changes in fair value

	2014	2013
At 1 January	**(32)**	(48)
Transferred to consolidated statement of comprehensive income on disposal	**(35)**	(13)
Net movement in fair value during the year	**53**	17
Amortisation of fair value shortfall on reclassified securities	**7**	12
At 31 December	**(7)**	(32)

16 INTEREST AND SIMILAR INCOME

	2014	2013
Loans and advances	**671**	681
Securities	**308**	229
Placements with banks and other financial institutions	**150**	102
Others	**18**	15
	1,147	1,027

17 INTEREST AND SIMILAR EXPENSE

	2014	2013
Deposits from banks and other financial institutions	**289**	282
Deposits from customers	**194**	158
Term notes, bonds and other term financing	**121**	79
Certificates of deposit and others	**2**	4
	606	523

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18 OTHER OPERATING INCOME

	2014	2013
Fee and commission income	**218**	223
Fee and commission expense	**(6)**	(10)
Bureau processing income	**38**	36
Gain on dealing in derivatives - net	**31**	51
Gain on dealing in foreign currencies - net	**(1)**	23
Gain on disposal of non-trading securities - net	**35**	15
Gain on trading securities - net	**(1)**	(1)
Other – net	**33**	16
	347	353

Included in the fee and commission income is US$ 16 million (2013: US$ 13 million) of fee income relating to trust and other fiduciary activities.

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.)	
			2014 %	2013 %
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	**59.7**	59.0
ABC Algeria	Banking	Algeria	**87.7**	87.6
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.

31 December 2014 (All figures stated in US$ million)

19 GROUP INFORMATION (continued)

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.

	2014	2013
Proportion of equity interest held by non-controlling interests (%)	**40.3**	41.0
Dividends paid to non-controlling interests	**15**	15

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

	2014	2013
Summarised statement of income:		
Interest and similar income	**619**	543
Interest and similar expense	**(367)**	(322)
Other operating income	**95**	112
Impairment provisions - net	**(44)**	(36)
Operating expenses	**(136)**	(135)
Profit before tax	**167**	162
Income tax	**(31)**	(38)
Profit for the year	**136**	124
Profit attributable to non-controlling interests	**55**	51
Total comprehensive income	**61**	4
Total comprehensive income attributable to non-controlling interests	**25**	2
Summarised statement of financial position:		
Total assets	**7,337**	6,668
Total liabilities	**6,482**	5,825
Total equity	**855**	843
Equity attributable to non-controlling interests	**345**	346
Summarised cash flow information for the year ended:		
Operating activities	**(122)**	104
Investing activities	**72**	(60)
Financing activities	**(2)**	(3)
Net (decrease) increase in cash and cash equivalents	**(52)**	41

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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.

	2014			2013		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount
Derivatives held for trading						
Interest rate swaps	**27**	**23**	**1,337**	42	32	1,408
Currency swaps	**9**	**25**	**368**	11	10	257
Forward foreign exchange contracts	**131**	**104**	**7,450**	53	59	3,798
Options	**297**	**299**	**1,211**	64	64	617
Futures	**17**	**29**	**3,364**	7	6	3,717
	481	**480**	**13,730**	177	171	9,797
Derivatives held as hedges						
Interest rate swaps	**3**	**-**	**1,529**	10	20	1,324
Forward foreign exchange contracts	**136**	**-**	**598**	112	-	1,251
	139	**-**	**2,127**	122	20	2,575
	620	**480**	**15,857**	299	191	12,372
Risk weighted equivalents (credit and market risk)			**2,135**			1,651

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

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 2014, the Group recognised a net loss of US$ 61 million (2013: gain of US$ 15 million) on hedging instruments. The total gain on hedged items attributable to the hedged risk amounted to US$ 61 million (2013: loss of US$ 15 million).

b) There were no net investment hedges comprising of forward foreign exchange contracts both at the year-end and last year. Hence, the fair value of the forward foreign exchange contracts was nil.

In addition to the forward foreign exchange contracts, the Group uses deposits which are accounted for as hedges of net investment in foreign operations. As at 31 December 2014, the Group had deposits amounting to US$ 697 million (2013: US$ 656 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.

20 DERIVATIVES AND HEDGING (continued)

Derivative product types (continued)

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.

The Group uses forward foreign exchange contracts 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.

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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:

	2014	2013
Short-term self-liquidating trade and transaction-related contingent items	3,333	4,385
Direct credit substitutes and guarantees	3,603	3,487
Undrawn loans and other commitments	2,070	1,880
	9,006	9,752
Risk weighted equivalents	2,989	3,177

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

	2014	2013
On demand	1,370	1,588
1 - 6 months	3,195	3,242
6 - 12 months	2,187	2,288
1 - 5 years	2,124	2,503
Over 5 years	130	131
	9,006	9,752

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

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

22 SIGNIFICANT NET FOREIGN CURRENCY EXPOSURES

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

	2014		2013	
Long (short)	Currency	US$ equivalent	Currency	US$ equivalent
Brazilian Real	1,320	497	1,105	468
Jordanian Dinar	140	197	118	167
Algerian Dinar	13,985	159	13,650	174
Egyptian Pound	1,142	160	1,104	159
Pound Sterling	(2)	(4)	(10)	(16)
Qatari Riyal	724	199	-	-
Euro	54	66	11	15
Swiss Francs	(60)	(61)	-	-

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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 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

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	803	804	5	809
Other non-trading securities				
Financial liabilities				
Term notes, bonds and other term financing	3,891	770	3,120	3,890

31 December 2014 (All figures stated in US$ million)

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

23.2 31 December 2013

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2013:

Financial assets measured at fair value:

	Level 1	Level 2	Total
Trading securities	192	2	194
Non-trading securities - available-for-sale			
Quoted debt securities	2,581	-	2,581
Unquoted debt securities	-	987	987
Quoted equity shares	5	-	5
Unquoted equity shares	-	-	-
Derivatives held for trading			
Interest rate swaps	-	42	42
Currency swaps	-	11	11
Forward foreign exchange contracts	-	53	53
Options	1	63	64
Futures	7	-	7
Derivatives held as hedges			
Interest rate swaps	-	10	10
Forward foreign exchange contracts	-	112	112

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2013:

Financial liabilities measured at fair value:

	Level 1	Level 2	Total
Derivatives held for trading			
Interest rate swaps	-	32	32
Currency swaps	-	10	10
Forward foreign exchange contracts	-	59	59
Options	2	62	64
Futures	6	-	6
Derivatives held as hedges			
Interest rate swaps	-	20	20
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	1,490	1,427	85	1,512
Financial liabilities				
Term notes, bonds and other term financing	2,763	715	2,000	2,715

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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 2014 (31 December 2013: 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.

31 December 2014 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

Risk measurement and reporting system

Risk mitigation

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

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

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

Excessive risk concentration

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

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

Credit risk

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

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

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	
	2014	2013
Liquid funds	**855**	999
Trading debt securities	**538**	192
Placements with banks and other financial institutions	**5,870**	5,018
Securities bought under repurchase agreements	**987**	349
Non-trading debt securities	**4,595**	5,073
Loans and advances	**14,819**	13,653
Other credit exposures	**1,455**	1,007
	29,119	26,291
Credit commitments and contingent items (note 21)	**9,006**	9,752
Total	**38,125**	36,043

31 December 2014 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

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

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

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

Risk concentration of the maximum exposure to credit risk

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

	Assets		Liabilities and equity		Credit commitments and contingent items	
	2014	2013	**2014**	2013	**2014**	2013
Western Europe	**3,499**	3,474	**1,136**	483	**1,057**	1,835
Arab World	**12,973**	9,717	**22,027**	20,238	**3,493**	3,844
Asia	**1,813**	2,110	**80**	70	**432**	375
North America	**2,470**	2,797	**1,095**	958	**507**	509
Latin America	**6,951**	6,862	**4,697**	4,418	**3,095**	2,991
Other	**1,413**	1,331	**84**	124	**422**	198
Total	**29,119**	26,291	**29,119**	26,291	**9,006**	9,752

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	
	2014	2013	**2014**	2013
Financial services	**10,984**	10,715	**10,552**	10,346
Other services	**5,413**	4,592	**5,303**	4,496
Manufacturing	**4,218**	4,337	**4,162**	4,287
Construction	**1,576**	1,221	**1,529**	1,177
Mining and quarrying	**873**	745	**869**	740
Agriculture, fishing and forestry	**446**	487	**446**	487
Trade	**556**	496	**547**	487
Personal /Consumer finance	**716**	627	**672**	589
Government	**4,337**	3,071	**4,283**	3,056
Total	**29,119**	26,291	**28,363**	25,665

31 December 2014 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

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

An industry sector analysis of the Group's 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	
	2014	2013	**2014**	2013
Financial services	**3,521**	3,355	**3,281**	3,009
Other services	**2,062**	2,759	**2,054**	2,755
Manufacturing	**1,640**	1,972	**1,631**	1,954
Construction	**915**	763	**912**	759
Mining and quarrying	**405**	525	**405**	525
Agriculture, fishing and forestry	**16**	9	**16**	9
Trade	**250**	269	**247**	266
Government	**155**	25	**155**	25
Other	**42**	75	**40**	73
Total	**9,006**	9,752	**8,741**	9,375

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 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

31 December 2014 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

Credit quality per class of financial assets (continued)

31 December 2013	Neither past due nor impaired				
	High grade	Standard grade	Sub-standard grade	Past due and individually impaired	Total
Liquid funds	999	-	-	-	999
Trading debt securities	164	28	-	-	192
Placements with banks and other financial institutions	3,989	1,029	-	-	5,018
Securities bought under repurchase agreements	349	-	-	-	349
Non-trading debt securities	3,600	1,455	-	18	5,073
Loans and advances	6,412	7,130	6	105	13,653
Other credit exposures	870	137	-	-	1,007
	16,383	9,779	6	123	26,291

As at 31 December 2014, the total amount of past due but not impaired assets was US$ 43 million (2013: US$ 54 million), all aged under ninety days.

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

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

	2014	2013
Loans and advances	**191**	256

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.

31 December 2014 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

Market risk (continued)

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 income.

The sensitivity of the consolidated statement of income 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.

	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)**

	2013			
	Increase in basis points	Sensitivity statement of income	Decrease in basis points	statement of income
US Dollar	25	4	25	(4)
Euro	25	2	25	(2)
Pound Sterling	25	(1)	25	1
Brazilian Real	25	-	25	-
Others	25	-	25	-

31 December 2014 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

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 2014 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 income (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 income or equity, while a positive amount reflects a potential net increase.

	2014			2013		
	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%	-	+/-25	+/- 5%	-/+1	+/-24
Pound Sterling	+/- 5%	-	-	+/- 5%	+/-1	-
Egyptian Pound	+/- 5%	-	+/-8	+/- 5%	-	+/-8
Jordanian Dinar	+/- 5%	+/-1	+/-9	+/- 5%	-	+/-8
Algerian Dinar	+/- 5%	-	+/-8	+/- 5%	-	+/-9
Qatari Riyal	+/- 5%	+/-10	-	+/- 5%	-	-
Euro	+/- 5%	+/-3	-	+/- 5%	-/+4	-
Swiss Francs	+/- 5%	-/+3	-	+/- 5%	-	-

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:

	2014		2013	
	% Change in equity price	Effect on statement of income/ equity	% Change in equity price	Effect on statement of income/ equity
Trading equities	+/- 5%	-	+/- 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.

31 December 2014 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

Operational risk (continued)

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

Group policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions. Each business line – including Operations, Information Technology, Human Resources, Legal & Compliance and Financial Control - 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 2014 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 2014	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	10- 20 years	Total
Financial liabilities								
Deposits from customers	8,519	1,276	1,136	2,005	1,091	304	16	14,347
Deposits from banks and other financial institutions	1,827	1,205	1,147	927	721	60	1	5,888
Securities sold under repurchase agreements	-	4	74	-	2	11	-	91
Certificates of deposits	10	4	7	5	23	-	-	49
Interest payable and other liabilities	1,050	41	54	48	44	4	-	1,241
Term notes, bonds and other term financing	-	-	-	-	3,775	600	-	4,375
Total non-derivative undiscounted financial liabilities on statement of financial position	11,406	2,530	2,418	2,985	5,656	979	17	25,991
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	5,654	1,183	320	716	299	244	-	8,416
Guarantees	3,348	-	-	-	-	-	-	3,348

31 December 2014 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

At 31 December 2013	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	10- 20 years	Total
Financial liabilities								
Deposits from customers	8,819	1,899	402	757	1,177	331	22	13,407
Deposits from banks and other financial institutions	2,053	933	962	662	851	3	-	5,464
Securities sold under repurchase agreements	-	1	129	2	42	16	-	190
Certificates of deposits	1	4	5	7	13	-	-	30
Interest payable and other liabilities	722	23	31	30	49	3	-	858
Term notes, bonds and other term financing	-	-	-	-	2,569	597	-	3,166
Total non-derivative undiscounted financial liabilities on statement of financial position	11,595	2,860	1,529	1,458	4,701	950	22	23,115
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	2,925	1,128	295	481	201	276	-	5,306
Guarantees	3,289	-	-	-	-	-	-	3,289

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

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.

31 December 2014 (All figures stated in US$ million)

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

At 31 December 2013	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	668	201	90	74	1,033	22	-	-	-	-	22	1,055
Trading securities	-	-	-	12	12	60	98	22	-	2	182	194
Placements with banks and other financial institutions	3,835	595	259	329	5,018	-	-	-	-	-	-	5,018
Securities bought under repurchase agreements	249	100	-	-	349	-	-	-	-	-	-	349
Non-trading securities	2,783	206	849	522	4,360	667	17	27	2	43	756	5,116
Loans and advances	1,331	2,015	1,611	1,962	6,919	5,422	1,211	90	11	-	6,734	13,653
Others	14	23	20	33	90	97	7	8	-	958	1,070	1,160
Total assets	8,880	3,140	2,829	2,932	17,781	6,268	1,333	147	13	1,003	8,764	26,545
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	6,692	1,474	415	711	9,292	3,471	253	14	-	-	3,738	13,030
Deposits from banks and other financial institutions	2,052	928	954	648	4,582	671	2	-	-	-	673	5,255
Certificates of deposit	2	4	5	6	17	12	-	-	-	-	12	29
Securities sold under repurchase agreement	-	-	127	1	128	34	13	-	-	-	47	175
Term notes, bonds and other term financing	-	-	-	-	-	2,371	392	-	-	-	2,763	2,763
Others	29	23	31	30	113	49	3	-	-	769	821	934
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,359	4,359	4,359
Total liabilities, shareholders' equity and non-controlling interests	8,775	2,429	1,532	1,396	14,132	6,608	663	14	-	5,128	12,413	26,545
Net liquidity gap	105	711	1,297	1,536	3,649	(340)	670	133	13	(4,125)	(3,649)	-
Cumulative net liquidity gap	105	816	2,113	3,649		3,309	3,979	4,112	4,125	-		

31 December 2014 (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).

	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) write-back - 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**

	2013					
	MENA subsidiaries	International wholesale banking	Group treasury	ABC Brasil	Other	Total
Net interest income	117	105	59	221	2	504
Other operating income	50	102	65	111	25	353
Total operating income	167	207	124	332	27	857
Profit before impairment provisions	79	142	101	197	6	525
Impairment (provisions) write-back - net	(6)	(20)	12	(36)	1	(49)
Profit before taxation and unallocated operating expenses	73	122	113	161	7	476
Taxation on foreign operations	(22)	(7)	(1)	(41)	-	(71)
Unallocated operating expenses						(108)
Profit for the year						297
Operating assets	3,249	8,238	8,302	6,690	66	26,545
Operating liabilities	2,808	-	13,799	5,565	14	22,186

31 December 2014 (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 2014 and 2013:

	Bahrain	ABCIB	Banco ABC Brasil	Other	Total
2014					
Total operating income	**167**	**117**	**347**	**257**	**888**
2013					
Total operating income	170	126	332	229	857

There were no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenue (2013: 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$ 87 million (2013: US$ 175 million). The carrying value of securities sold under repurchase agreements at the year-end amounted to US$ 109 million (2013: US$ 179 million).

Amounts paid for assets purchased under resale agreements at the year-end amounted to US$ 987 million (2013: US$ 349 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$ 1,004 million (2013: US$ 367 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**	**2014**	2013
Deposits from customers	**3,144**	**30**	**4**	**3,178**	2,801
Term notes, bonds and other term financing	**1,505**	**670**	**-**	**2,175**	2,000
Short-term self-liquidating trade and transaction-related contingent items	**494**	**-**	**-**	**494**	996
Other assets	**295**	**-**	**-**	**295**	60

Other assets comprise the fair value of derivatives transactions entered into with the parent US$ 295 million (2013 : US$ 60 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.

27 TRANSACTIONS WITH RELATED PARTIES (continued)

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

	2014	2013
Commission income	**11**	17
Interest expense	**57**	48

Compensation of the key management personnel is as follows:

	2014	2013
Short term employee benefits	**18**	21
Post employment benefits	**4**	11
	22	32

28 FIDUCIARY ASSETS

Funds under management at the year-end amounted to US$ 15,147 million (2013: US$ 15,901 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 and banks and financial institutions include Islamic deposits of US$ 552 million (2013: US$ 449 million). Loans and advances and non-trading securities include Islamic assets of US$ 1,559 million (2013: US$ 1,353 million) and US$ 282 million (2013: US$ 219 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$ 281 million (2013: US$ 383 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:

	2014	2013
Profit attributable to the shareholders of the parent	**256**	239
Weighted average number of shares outstanding during the year (millions)	**3,110**	3,110
Basic and diluted earnings per share (US$)	**0.08**	0.08

31 December 2014 (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

	2014	2013
Proposed cash dividend for 2014 of US$ 0.05 per share (2013: US$ 0.05 per share)	**156**	156

The proposed cash dividend is subject to regulatory approvals and approval at the Annual General Meeting.

In 2013, a transfer of US$ 50 million from General Reserve to Retained Earnings was done following approval at the Annual General Meeting.

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 are based on standardised measurement methodology and in accordance with the CBB Basel II guidelines.

		2014	2013
CAPITAL BASE			
Tier 1 capital		**4,165**	4,138
Tier 2 capital		**967**	1,023
Total capital base	[a]	**5,132**	5,161
RISK WEIGHTED EXPOSURES			
Credit risk weighted assets and off balance sheet items		**21,122**	20,203
Market risk weighted assets and off balance sheet items		**1,637**	1,431
Operational risk weighted assets		**1,620**	1,536
Total risk weighted assets	[b]	**24,379**	23,170
Risk asset ratio	[a/b*100]	**21.1%**	22.3%
Minimum requirement		**12.0%**	12.0%

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings, statutory reserve, general reserve, non-controlling interests, foreign currency translation adjustments in equity and Tier 2 capital, which includes subordinated long 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

ABC Head Office Code of Conduct

1. LEGAL COMPLIANCE

In every country where it operates, ABC will abide by the laws and regulations of that country. In situations where the law does not give guidance, the Group applies its own standards based on its corporate values and culture. In the event of conflict between mandatory law and the principles contained in the Code of Conduct, the law shall prevail.

2. INTEGRITY

We must all display high standards of professional integrity in our work. Integrity implies being completely worthy of the trust placed in us by our customers and employers. This is achieved by being honest and impartial, which means:-

- Acting at all times in an honest way in our business dealings or personal life so that no action of ours would, or would be likely to, bring the Bank into disrepute.
- Complying fully with the laws and regulations of all countries in which we do business.
- Refraining from illegal, fraudulent or unethical behaviour, particularly in relation to financial and/or business dealings, and also with respect to laws and regulations that affect us personally e.g. personal tax regulations.
- Not knowingly engaging in any actions outside or inside the Bank which might in any way be associated with, or regarded as supportive of, illegal or criminal activities.
- Maintaining Bank information and systems so that all transactions are recorded in an accurate and prompt fashion and not falsifying records or obscuring, omitting or misrepresenting facts in records or communications.
- Setting a good example in personal financial management and avoiding practices which could make us vulnerable to financial difficulties or which could lead to malpractice.
- Promoting equal opportunity in the Bank and treating colleagues, clients and other counterparties in a manner that does not discriminate with regard to gender, race, religion, age, disability, nationality, social or ethnic origin.

3. CONFIDENTIALITY

ABC owes a strict duty of confidentiality to its customers.

You must keep customers' financial, business and personal affairs secret from any third party, unless:-

- The customer has given prior written consent to disclosure.
- Disclosure is compelled by a court or statutory authority of competent jurisdiction (an order of a foreign court or body will not normally be sufficient by itself).
- Disclosure is compelled by law.

You must keep information relating to the business and systems of the Bank and its subsidiaries and associated companies completely confidential.

You must be careful of what, and to whom, you say, write or communicate electronically and you must safeguard information relating to the ABC Group's affairs, restricting access to any confidential or sensitive documents which should be carefully secured at the Bank.

This duty of confidentiality exists not only during your employment in the Bank but also at all times after you have left its employment.

All contracts of employment are accepted by employees in writing and incorporate a pledge of confidentiality on all business matters pertaining to the ABC Group and its customers.

4. CONFLICT OF INTEREST

Employees will conduct their private and external activities and financial interests in a manner which does not conflict with the interests of the Group. All employees must avoid conflict between self-interest and the interest of the ABC Group or its customers and should disclose any potentially compromising or conflicting business relationships or shareholdings.

4. CONFLICT OF INTEREST (continued)

Except as may otherwise be permitted under your Employment Contract with ABC, you should not have an interest or concern in any other business enterprise or activity.

You should decline secondary employment or offers of consultancies or directorships or partnerships except as may be provided for by your Employment Contract or expressly approved in writing by your Head of Department and the Head of Human Resources & Administration.

You should not act as an attorney, trustee, executor or administrator (except for an immediate relative) without prior permission of your Head of Department and the Head of Human Resources & Admin.

A conflict of interest may arise between a business unit and its customer or between customers or prospective customers. In this instance, the major consideration is to ensure the fair treatment of customers concerned. Guidance will be necessary from your Head of Department and the Head of Human Resources & Admin.

When Heads of Departments themselves have to seek approval or guidance, this will be from their immediate superior.

5. INFORMATION SECURITY

Information and its supporting systems are critical business assets and, as such, must be protected by suitable controls. The ABC Information Security Policy specifies the requirements and sets the general direction for the Group's information security and is supported with detailed guidelines and procedures. All employees are required to carefully read and understand the Information Security Policy (copy published on the intranet page) upon joining ABC.

The particular points of security of internet and electronic mail are brought to your attention:

- Internet and e-mails are to be used mainly for business purposes
- Reasonable, occasional personal use of the internet and e-mails is allowed
- Great care must be taken when downloading information and files from the internet to safeguard against malicious code and inappropriate material
- The attachment of data files to an e-mail is only permitted after confirming the classification of the information being sent and having scanned and verified the file for the possibility of a virus
- Unsolicited e-mail is to be treated with caution
- Ensure that information you are forwarding by e-mail is correctly addressed and only being sent to appropriate persons
- Incoming e-mail must be treated with the utmost care due to its inherent Information Security risks
- Data retention periods for e-mail must be established to meet legal and business requirements and must be adhered to by all staff

Any communications by employees via e-mail or voice mail that may constitute verbal abuse, slander, or defamation or may be considered offensive, harassing, vulgar, obscene, or threatening is prohibited. Offensive content would include, but not be limited to, sexual comments or images, racial slurs, gender-specific comments, or any comments that would offend someone on the basis of his or her age, race, sex, color, religion, national origin, handicap or disability. The communication, dissemination, or printing of any copyrighted materials in violation of copyright laws is also prohibited. Additionally, downloading, distributing, or sending pornographic or obscene materials is prohibited.

6. POLITICAL INVOLVEMENT

ABC maintains neutrality with regard to political parties and candidates and neither the names nor the assets of the ABC Group will be used to promote the interests of political parties or candidates.

7. GIFTS

You may not solicit from or accept for yourself or a relative, or offer to, an existing or prospective customer, counter-party, supplier or contractor of any ABC Group company any favour, gift, service, entertainment or other benefit the size or frequency of which exceeds normal business contact; specifically cash or cash convertible gifts should not be given or accepted.

You must not accept anything which is likely to influence (or which other people may think is likely to influence) your independent, commercial judgment, the ABC Group›s reputation or the performance of your duties.

Normal business entertainment on a reciprocal basis or the receipt of non-monetary gifts below the value of US$ 100, (often for publicity or public relations purposes or at the time of traditional festive occasions) are acceptable but, if in doubt, refer to your Head of Department for guidance. If an unsolicited gift/benefit is received outside these guidelines and you believe that refusal would adversely affect a business relationship, you must immediately write for guidance to your Head of Department and the Head of Human Resources & Administration.

When doing business with governmental customers, ABC's employees should refrain from offering any favors or gratuities to such customers, except as described above or with the approval of Senior Management. Most governmental customers have a zero tolerance policy as regards soliciting or accepting favors or gratuities and this ABC's policy is intended to avoid what could otherwise become embarrassing situations for the customer and become a reason for the customer terminating its business relationship with ABC.

When Heads of Departments themselves have to seek approval or guidance, this will be from their immediate superior.

8. STAFF DEALING RULES

Personal dealing in any kind of securities/investment by Bank employees is subject to specific rules which must be strictly observed at all times.

In particular, there are restrictions which apply if you are in possession of inside information. Confidential information must never be used for personal gain.

The ABC Insider Trading policy is made available to every staff member. It satisfies the obligation of ABC to prevent insider trading, help personnel of the Bank to comply with appropriate insider trading regulations and avoid the severe consequences associated with their violation.

9. MONEY LAUNDERING

Money Laundering is the process by which criminals attempt to conceal the true origin and ownership of the proceeds of their criminal activities by using the financial system to deposit funds, make payments and transfer funds. The objective of such activities is to transform illicit funds into legitimate funds.

Anti-money laundering is a continuous process. ABC is committed to promote the highest ethical and professional standards and strives to prevent the Bank from being used, intentionally or unintentionally, by criminal elements. ABC has pledged to fully comply with the recommendations made by the Basel Committee and the FATF. This is in addition to the need to adhere to the applicable regulations issued in each of the countries in which ABC operates and the Money Laundering Regulations issued by the Central Bank of Bahrain. The substance of the CBB Regulations and of the recommendations made by the Basel Committee / FATF has been incorporated into the body of the ABC Group Anti-Money Laundering Manual, the text of which is available on ABC's intranet.

Bahrain's AML laws / regulations are applicable to all ABC units both within and outside Bahrain. Where local standards differ the higher standards must be applied.

All staff who deal with customers and customer transactions or who are managerially responsible for such staff must be aware of the responsibilities imposed upon them under the AML Law and CBB Regulations. In particular:

a) Staff must ensure that adequate customer due diligence has been performed to ensure that a customer's identity (and that of any parties on whose behalf the customer may be acting) and source of funds has been satisfactorily established and (where necessary) verified before any business relationship is entered into.

9. MONEY LAUNDERING (continued)

b) Satisfactory Know Your Customer/Business procedures provide the basis for recognising unusual and suspicious activities. Where there is a business relationship with a customer, a suspicious activity or instruction will often be one that is inconsistent with a customer's known or pre-advised legitimate business, or with the normal business activities usually undertaken for that type of account or customer. Therefore the key to recognising suspicious transactions is to know the details of your customer and your customer's normal and anticipated activities.

c) You must be aware of the identity of the locally appointed Money Laundering Reporting Officer. This information is available on ABC's intranet.

d) Staff have a personal responsibility under Bahrain's AML Laws to report 'Suspicious Transactions'. You must be aware of ABC's procedures (outlined below) in this regard.

If you have knowledge, suspicion, or reasonable grounds for knowing or suspecting, that any person is laundering the proceeds of any criminal conduct in the course of business activities or is acting fraudulently, you must make an Internal Suspicious Transaction Report (ISTR) in writing (which includes email) to the Money Laundering Reporting Officer (MLRO) or his authorised designate. Your ISTR must be made as soon as is reasonably practical after the information comes to your attention and you should obtain an acknowledgement of receipt from the MLRO.

Failure to report could result in internal disciplinary proceedings but most importantly staff must realise that this also constitutes a criminal offence.

The opinion of your line manager or colleagues must not dissuade you from following your suspicions. It is your call. If in doubt, report suspicious circumstances to the MLRO. This will discharge you from your obligation under the AML law. All reports will be treated in confidence. If your ISTR is regarded as having foundation this will be reported by the MLRO to the relevant authorities.

In recent years, money laundering techniques have become increasingly sophisticated. While it is difficult to give firm guidance regarding the type of customer activity or transaction that may justify the raising of an internal STR, the following general typologies should be borne in mind:

1. transactions that do not appear to have a clear purpose or which make no obvious commercial sense and/or unusual patterns of transactions inconsistent with previous transaction volumes or the known status of the customer;
2. unusual investment transactions without any discernable profit motive;
3. a transaction which yields an apparent profit which is unusually high for the type of business being transacted;
4. where, the underlying business being undertaken is out of line with the customer's pre-advised or established pattern of business in terms of volume or frequency of transactions, the commodities or countries of business, or relative profitability;
5. where the customer refuses to provide the information requested;
6. where a customer uses the Bank for a single transaction or for only a very short period of time, and there is no continuity of business;
7. the wide use of offshore accounts, companies or structures in circumstances where the customer's needs do not appear to require them.

Staff are reminded that Money Laundering prevention is NOT a "box ticking exercise". Application of CBB Regulations/ABC's Group AML Manual requires professional thought to consider if there are reasonable grounds for suspicion and what documentary evidence must be requested to ensure that the identity and source of funds of our customers is adequately established and (where necessary) verified.

Relevant staff should maintain their knowledge of Bahrain's AML Regulations and the requirements of the ABC Group AML Manual on an ongoing basis. The text of these documents is published on ABC's intranet and it is recommended that staff read them periodically to update and remind themselves of their contents.

10. REGULATORS & AUDITORS

We 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.

It is essential that we demonstrate, as well as practise, full compliance with relevant laws and regulatory requirements and that the ABC Group is seen to be professionally managed.

11. EXTERNAL COMMUNICATIONS

Employees should not answer any questions from outside parties relating to ABC's business activities unless they have been specifically authorized to do so. Any inquiries from industry analysts or reporters must be directed to the employee's Head of Department or the Head of Corporate Communications. Any inquiries from attorney's, investigators or law enforcement officers that concern ABC's business activities should be referred to ABC's Legal Counsel. All press releases must be approved by either ABC's President & Chief Executive Officer, Deputy Chief Executive & Chief Banking Officer, Chief Operating Officer or Head of Corporate Communications.

12. REPORTING

It is your duty to report to your Head of Department, Head of Internal Audit or Head of Human Resources & Administration any contravention of the law, regulatory requirements or this Code. If you have reason to believe that these requirements are about to be broken, this must also be reported.

Any failure to comply with the Code or to report known breaches by others may result in disciplinary action.

13. CUSTOMER INTEREST

ABC and its employees must pay due regard to the legitimate interests and information needs of their customers and communicate with them in a fair and transparent manner. ABC and its approved employees, when dealing with customers who are entitled to rely on their advice or discretionary decisions, must take reasonable care to ensure the suitability of such advice or decisions.

14. CUSTOMER ASSETS

ABC and its approved employees must take reasonable care to safeguard the assets of customers for which they are responsible.

15. NON-DISCRIMINATION & NON-HARASSMENT

ABC employees must offer equal treatment to potential clients, customers and colleagues without regard to race, colour, nationality, religion, sex, ethnic or national origin, age, disability, marital status or sexual orientation.

It is ABC's policy to maintain a working environment free from discriminatory harassment. Any form of unlawful discrimination, including harassment based on race, colour, nationality, religion, sex, ethnic or national origin, age, disability, marital status or sexual orientation is strictly prohibited.

16. SUBSTANCE ABUSE

To protect employees and ABC from the abuses of illegal or controlled substances or alcohol, ABC's policy calls for disciplinary action up to and including termination for anyone who uses, sells, possesses or is under the influence of illegal drugs or the use of alcohol while conducting business for ABC, whether or not consumed during working hours or whether or not consumed on ABC's premises. ABC also reserves the right, in certain circumstances, to test for the presence of illegal or controlled substances.

17. HEALTH & SAFETY

ABC is committed to conducting its business in a manner designed to protect the health and safety of its employees, clients, customers and the environment. ABC employees must comply with all relevant laws and regulations and must promptly report to their management any conditions that may pose a health, safety or environmental hazard.

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