Arab Banking Corporation (B.S.C.)

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

المؤسسة العربية المصرفية (ش.م.ب)
ARAB BANKING CORPORATION (B.S.C.)

EY
Building a better working world

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Arab Banking Corporation (B.S.C.) [the Bank] and its subsidiaries [together 'the Group'] which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2013, 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 2013 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.

17 February 2014
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

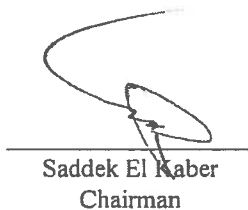
31 December 2013

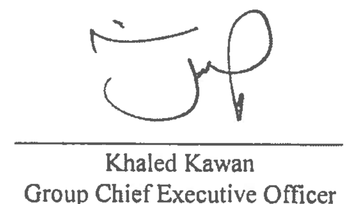
All figures in US$ Million

	Note	2013	2012 Restated *
ASSETS			
Liquid funds	6	**1,055**	1,532
Trading securities		**194**	64
Placements with banks and other financial institutions		**5,018**	4,334
Securities bought under repurchase agreements	26	**349**	578
Non-trading securities	7	**5,116**	4,005
Loans and advances	9	**13,653**	12,860
Interest receivable		**345**	364
Other assets	11	**685**	674
Premises and equipment		**130**	116
TOTAL ASSETS		**26,545**	24,527
LIABILITIES			
Deposits from customers		**13,030**	12,029
Deposits from banks and other financial institutions		**5,255**	5,142
Certificates of deposit		**29**	35
Securities sold under repurchase agreements	26	**175**	419
Interest payable		**274**	245
Taxation	12	**76**	119
Other liabilities	13	**584**	552
TERM NOTES, BONDS AND OTHER TERM FINANCING	14	**2,763**	1,782
Total liabilities		**22,186**	20,323
EQUITY	15		
Share capital		**3,110**	3,110
Reserves		**830**	668
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**3,940**	3,778
Non-controlling interests		**419**	426
Total equity		**4,359**	4,204
TOTAL LIABILITIES AND EQUITY		**26,545**	24,527

* Restatement as described in note 3.1

The consolidated financial statements were authorised for issue by the Board of Directors on 17 February 2014 and signed on their behalf by the Chairman, Deputy Chairman and the Group Chief Executive Officer.





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

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

Arab Banking Corporation (B.S.C.)

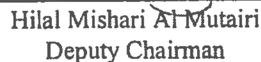
CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2013

All figures in US$ Million

	Note	*2013*	*2012*
OPERATING INCOME			
Interest and similar income	16	**1,027**	1,061
Interest and similar expense	17	**(523)**	(540)
Net interest income		**504**	521
Other operating income	18	**353**	295
Total operating income		**857**	816
Impairment provisions - net	10	**(49)**	(62)
NET OPERATING INCOME AFTER PROVISIONS		**808**	754
OPERATING EXPENSES			
Staff		**314**	279
Premises and equipment		**37**	37
Other		**89**	87
Total operating expenses		**440**	403
PROFIT BEFORE TAXATION		**368**	351
Taxation on foreign operations	12	**(71)**	(88)
PROFIT FOR THE YEAR		**297**	263
Income attributable to non-controlling interests		**(58)**	(58)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**239**	205
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US$)	31	**0.08**	0.07

Saddek El Kaber
Chairman



Hilal Mishari Al Mutairi
Deputy Chairman

Khaled Kawan
Group Chief Executive Officer

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

All figures in US$ Million

	Note	***2013***	*2012*
PROFIT FOR THE YEAR		**297**	263
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	**4**	33
Amortisation of fair value shortfall on reclassified securities	15	**12**	15
Unrealised loss on exchange translation in foreign subsidiaries		**(146)**	(87)
		(130)	(39)
Other comprehensive income that cannot be reclassified (or recycled) to profit or loss in subsequent periods:			
Net change in pension fund reserve		**(1)**	(4)
		(1)	(4)
Total other comprehensive loss for the year		**(131)**	(43)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**166**	220
Total comprehensive income attributable to non-controlling interests		**(4)**	(26)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**162**	194

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

All figures in US$ Million

	Note	***2013***	*2012*
OPERATING ACTIVITIES			
Profit for the year		**297**	263
Adjustments for:			
Impairment provisions - net	10	**49**	62
Depreciation and amortisation		**13**	13
Amortisation of fair value shortfall on reclassified securities	15	**12**	15
Gain on disposal of non-trading securities - net	18	**(15)**	(6)
Changes in operating assets and liabilities:			
Treasury bills and other eligible bills		**100**	145
Trading securities		**(148)**	(4)
Placements with banks and other financial institutions		**(791)**	(20)
Securities bought under repurchase agreements		**177**	(397)
Loans and advances		**(1,416)**	(1,179)
Interest receivable and other assets		**(59)**	(199)
Deposits from customers		**1,309**	630
Deposits from banks and other financial institutions		**480**	988
Securities sold under repurchase agreements		**(240)**	(2,488)
Interest payable and other liabilities		**87**	115
Other non-cash movements		**(440)**	(124)
Net cash used in operating activities		**(585)**	(2,186)
INVESTING ACTIVITIES			
Purchase of non-trading securities		**(2,043)**	(887)
Sale and redemption of non-trading securities		**1,320**	3,066
Purchase of premises and equipment		**(23)**	(11)
Sale of premises and equipment		**5**	1
Additional investment in a subsidiary		**(7)**	-
Net cash (used in) from investing activities		**(748)**	2,169
FINANCING ACTIVITIES			
Redemption (issue) of certificates of deposit - net		**(5)**	6
Issue of term notes, bonds and other term financing		**1,000**	1,084
Repayment of term notes, bonds and other term financing		**-**	(781)
Repurchase of term notes, bonds and other term financing	14	**-**	(6)
Dividend paid to non-controlling interests		**(18)**	(21)
Net cash from financing activities		**977**	282
Net change in liquid funds		**(356)**	265
Effect of exchange rate changes on liquid funds		**(21)**	13
Cash and cash equivalents at beginning of the year		**1,243**	965
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	**866**	1,243

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

All figures in US$ Million

	Equity attributable to the shareholders of the parent									
	Share capital	*Statutory reserve*	*General reserve*	*Retained earnings**	*Foreign exchange translation adjustments*	*Cumulative changes in fair value*	*Pension fund reserve*	*Total*	*Non-controlling interests*	*Total equity*
At 31 December 2011	3,110	355	150	156	(77)	(96)	-	3,598	421	4,019
Impact of adopting amendments to IAS 19R at 1 January 2012	-	-	-	-	-	-	(14)	(14)	-	(14)
	3,110	355	150	156	(77)	(96)	(14)	3,584	421	4,005
Profit for the year	-	-	-	205	-	-	-	205	58	263
Other comprehensive (loss) income for the year	-	-	-	-	(55)	48	(4)	(11)	(32)	(43)
Total comprehensive income (loss) for the year	-	-	-	205	(55)	48	(4)	194	26	220
Transfers during the year	-	21	-	(21)	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	(21)	(21)
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**

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US$ 406 million (2012: US$ 406 million).

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

1 INCORPORATION AND ACTIVITIES

Arab Banking Corporation (B.S.C.) [the Bank] is incorporated in the Kingdom of Bahrain by an Amiri decree and operates under a wholesale banking licence issued by the Central Bank of Bahrain. 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 2013. 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
- 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
- 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 adopted are consistent with those used in the previous financial year, except for the adoption of new standards and interpretations effective as of 1 January 2013.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendment to IAS 1

The amendment to IAS 1 introduces a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and had no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

The Group also adopted the revisions to IAS 19 *Employee Benefits* issued by the IASB in 2011, effective for annual periods beginning on or after 1 January 2013, retrospectively. The most significant amendment requires actuarial gains and losses to be recognised in other comprehensive income (OCI) and excluded permanently from profit and loss, and also removes the option to defer the recognition of actuarial gains and losses (i.e. the corridor approach) available under the previous standard.

The Group operates a defined benefit plan in ABC International Bank Plc ("ABCIB") [subsidiary of the Bank] known as the ABC International Bank Plc UK Retirement Benefits & Life Assurance Scheme ("the Scheme"), providing benefits based on final pensionable salary. The assets of the Scheme are held separately from those of ABCIB and are administered by the Trustees of the Scheme who include employees of ABCIB. The Scheme was closed to the future accrual of benefits on 30 September 2010 and is now closed to new entrants. All active members at this date became deferred members.

The change in accounting policy has been effected in accordance with IAS 8, requiring the restatement to be reflected in the earliest period presented. The impact of this change is reflected in the consolidated statement of financial position and the consolidated statement of comprehensive income.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

3.1 Standards effective for the year (continued)

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities. IFRS 12 disclosures are provided in note 19.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

Amendments to IFRS 7, 'Disclosures – Offsetting financial assets and financial liabilities' require additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. As the Group does not have any offsetting agreements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values. Application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires additional disclosures. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in note 23.

In addition to the above, the Group adopted the following new standards and amendments effective as of 1 January 2013:

- IAS 1 Clarification of the requirement for comparative information (Amendment)
- IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)
- IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures

The adoption of the above new standards and amendments did not have any material impact on the Group's financial position, performance or disclosures.

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. The Group intends to adopt these standards, if applicable, when they become effective.

- **IFRS 9 Financial Instruments**
  IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. The standard was initially effective for annual periods beginning on or after 1 January 2013, but amendments to IFRS 9 mandatory effective date of IFRS 9 and transition disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. On November 19, 2013, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 that introduced a new general hedge accounting and removed the 1 January 2015, mandatory effective date from IFRS 9. The new hedge accounting model significantly differs from the IAS 39 hedge accounting model in a number of aspects including eligibility of hedging instruments and hedged items, accounting for the time value component of options and forward contracts, qualifying criteria for applying hedge accounting, modification and discontinuation of hedging relationships etc. Under the amendments, entities that adopt IFRS 9 (as amended in November 2013) can choose an accounting policy of either adopting the new IFRS 9 hedge accounting model now or continuing to apply the hedge accounting model in IAS 39 for the time being.

- **Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)**
  These amendments are effective for annual periods beginning on or after 1 January 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment will be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

- **IAS 32 *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. These are effective for annual periods beginning on or after 1 January 2014. The management is considering the impact of this amendment on the Group's financial position and results.

- **IAS 39 *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. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments will be considered for future novations.

- **Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36 Impairment of Assets**

  These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which an impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group has not early adopted these amendments to IAS 36.

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
- 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading securities (continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 future write-off is later recovered, the recovery is credited to 'impairment provisions - net'.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectability of financial assets (continued)

Financial assets carried at amortised cost and loans and receivables (continued)
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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expenses (continued)
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

Policy applicable from 1 January 2013
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)

Fair value measurement (continued)

Policy applicable before 1 January 2013

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Changes in the fair value of derivatives that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in the statement of comprehensive income and the ineffective portion recognised in the consolidated statement of 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Significant accounting judgments, estimates and assumptions
In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the 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.

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).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Impairment losses on loans and advances (continued)
The Group's internal grading process takes into consideration factors such as collateral held, deterioration in country risk, industry, technological obsolescence as well as identified structural weakness or deterioration in cash flows.

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

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

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

All figures in US$ Million

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 31 December 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

All figures in US$ Million

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2012	*Held for trading*	*Available-for-sale*	*Amortised cost/ Loans and receivables*	*Total*
ASSETS				
Liquid funds	-	-	1,532	1,532
Trading securities	64	-	-	64
Placements with banks and other financial institutions	-	-	4,334	4,334
Securities bought under repurchase agreements	-	-	578	578
Non-trading securities *	-	2,527	1,478	4,005
Loans and advances	-	-	12,860	12,860
Interest receivable and other assets	121	-	895	1,016
	185	2,527	21,677	24,389

	Held for trading	*Available-for-sale*	*Amortised cost*	*Total*
LIABILITIES				
Deposits from customers	-	-	12,029	12,029
Deposits from banks and other financial institutions	-	-	5,142	5,142
Certificates of deposit	-	-	35	35
Securities sold under repurchase agreements	-	-	419	419
Interest payable, taxation and other liabilities	98	-	818	916
TERM NOTES, BONDS AND OTHER TERM FINANCING	-	-	1,782	1,782
	98	-	20,225	20,323

* Included in the above are other non-trading securities amounting to US$ 1,209 million (2012: US$ 1,416 million) which were reclassified effective 1 July 2008. Refer Note 8 for details.

All figures in US$ Million

6 LIQUID FUNDS

	2013	*2012*
Cash on hand and floats	**56**	31
Balances due from banks	**380**	528
Deposits with central banks	**229**	349
Treasury bills and other eligible bills with original maturities of three months or less	**201**	335
Cash and cash equivalents	**866**	1,243
Treasury bills and other eligible bills with original maturities of more than three months	**189**	289
	1,055	1,532

7 NON-TRADING SECURITIES

	2013			*2012*		
	Quoted	***Unquoted****	***Total***	*Quoted*	*Unquoted**	*Total*
Available-for-sale						
Debt securities	**2,612**	**1,239**	**3,851**	1,688	1,121	2,809
Equity securities	**10**	**64**	**74**	23	63	86
Held to maturity						
Debt securities	**-**	**196**	**196**	-	7	7
Other non-trading securities carried at amortised cost **	**1,294**	**-**	**1,294**	1,471	-	1,471
	3,916	**1,499**	**5,415**	3,182	1,191	4,373
Provision against non-trading securities	**(21)**	**(278)**	**(299)**	(31)	(337)	(368)
	3,895	**1,221**	**5,116**	3,151	854	4,005

* Includes unquoted equity securities carried at cost amounting to US$ 37 million (2012: US$ 38 million) net of provisions. This is due to the unpredictable nature of future cash flows and the lack of suitable alternative methods to arrive at a reliable fair value. There is no market for these investments and the Group intends to hold them for the long term.

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

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

All figures in US$ Million

7 NON-TRADING SECURITIES (continued)

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

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

	2013	*2012*
AAA rated debt securities	**806**	907
AA to A rated debt securities	**899**	801
Other investment grade debt securities	**2,126**	1,681
Other non-investment grade debt securities	**1,179**	643
Unrated debt securities	**331**	255
Equity securities	**74**	86
	5,415	4,373
Provisions against non-trading securities	**(299)**	(368)
	5,116	4,005

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

	2013	*2012*
At 1 January	**368**	379
Charge for the year	**-**	3
Write backs / recoveries	**(12)**	(11)
Write-offs	**(52)**	(9)
Foreign exchange translation and other adjustments	**(5)**	6
At 31 December	**299**	368

The gross amount of non-trading securities individually determined to be impaired, before deducting any individually assessed impairment losses, amounts to US$ 332 million (2012: US$ 407 million). Interest income received during the year on impaired securities amounted to US$ 1 million (2012: US$ 1 million).

8 RECLASSIFICATION OF FINANCIAL ASSETS

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

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

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

All figures in US$ Million

8 RECLASSIFICATION OF FINANCIAL ASSETS (continued)

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

	2013	*2012*
Carrying value	**1,209**	1,416
Fair value	**1,240**	1,432

Fair value gains that would have been recognised in other comprehensive income for the year ended 31 December 2013 had the other non-trading securities not been reclassified amounts to US$ 15 million (2012: fair value gains of US$ 135 million).

The Group earns an effective interest rate of 1% to 9% (2012: 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$ 124 million (2012: US$ 123 million) which have been hedged for changes in fair value, on account of changes in interest rates.

9 LOANS AND ADVANCES

	2013	*2012*
i) By industrial sector		
Financial services	**3,274**	3,266
Other services	**3,016**	2,639
Manufacturing	**4,243**	4,156
Construction	**1,149**	945
Mining and quarrying	**716**	671
Personal	**185**	191
Trade	**555**	621
Agriculture, fishing and forestry	**480**	436
Consumer	**431**	405
Government	**188**	120
	14,237	13,450
Loan loss provisions	**(584)**	(590)
	13,653	12,860

	2013	*2012*
ii) Loan loss provisions by industrial sector		
Financial services	**139**	190
Other services	**37**	21
Manufacturing	**63**	46
Construction	**3**	4
Mining and quarrying	**5**	12
Personal	**3**	3
Trade	**73**	52
Agriculture, fishing and forestry	**5**	3
Consumer	**13**	12
Government	**61**	63
Collective impairment	**182**	184
	584	590

All figures in US$ Million

9 LOANS AND ADVANCES (continued)

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

	Specific impairment		*Collective impairment*	
	2013	*2012*	***2013***	*2012*
At 1 January	**406**	392	**184**	195
Charge for the year	**80**	96	**-**	-
Write backs / recoveries	**(18)**	(19)	**(1)**	(7)
Write-offs	**(67)**	(47)	**-**	(4)
Foreign exchange translation and other adjustments	**1**	(16)	**(1)**	-
At 31 December	**402**	406	**182**	184

The gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance amounts to US$ 432 million (2012: US$ 430 million).

The fair value of tangible collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2013 amounts to US$ 34 million (2012: US$ 24 million).

At 31 December 2013, interest in suspense on past due loans amounts to US$ 237 million (2012: US$ 231 million).

10 IMPAIRMENT PROVISIONS - NET

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

	2013	*2012*
Non-trading securities (note 7)	**12**	8
Loans and advances (note 9)	**(61)**	(70)
	(49)	(62)

11 OTHER ASSETS

	2013	*2012*
Positive fair value of derivatives (note 20)	**299**	226
Bank owned life insurance	**35**	34
Staff loans	**27**	26
Investments in associates	**23**	22
Assets acquired on debt settlement	**18**	20
Margin dealing accounts	**59**	17
Others	**224**	329
	685	674

The negative fair value of derivatives amounting to US$ 191 million (2012: US$ 101 million) is included in other liabilities (note 13). Details of derivatives are given in note 20.

All figures in US$ Million

12 TAXATION ON FOREIGN OPERATIONS

	2013	*2012*
Consolidated statement of financial position		
Current tax liability	**55**	87
Deferred tax liability	**21**	32
	76	119
Consolidated statement of income		
Current tax on foreign operations	**67**	101
Deferred tax on foreign operations	**4**	(13)
	71	88
Analysis of tax charge		
At Bahrain (income tax rate of nil)	**-**	-
On profits of subsidiaries operating in other jurisdictions	**71**	88
Income tax expense reported in the consolidated statement of income	**71**	88

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 together with the details of the effective tax rates.

13 OTHER LIABILITIES

	2013	*2012*
Negative fair value of derivatives (note 20)	**191**	101
Employee related payables	**74**	77
Margin deposits including cash collateral	**60**	76
Cheques for collection	**33**	51
Deferred income	**29**	29
Securities purchased awaiting value	**-**	15
Non-corporate tax payable	**18**	8
Accrued charges and other payables	**179**	195
	584	552

The positive fair value of derivatives amounting to US$ 299 million (2012: US$ 226 million) is included in other assets (note 11). Details of derivatives are given in note 20.

All figures in US$ Million

14 TERM NOTES, BONDS AND OTHER TERM FINANCING

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

Total obligations outstanding at 31 December 2013

	Currency	Rate of Interest	*Parent bank*	*Subsidiary*	*Total*
Aggregate maturities					
2017	US$	*Libor + 2.25%*	**2,000**	-	**2,000**
2017 *	US$	*Libor + 1.35%*	**371**	-	**371**
2020 *	BRL	*7.88*	-	**392**	**392**
			2,371	**392**	**2,763**
Total obligations outstanding at 31 December 2012			1,371	411	1,782

* Subordinated
Parent bank's obligations bear a floating rate of interest whereas the subsidiary's obligations bear a fixed rate of interest.

During the year ended 31 December 2013, the Bank did not repurchase its term loan borrowings. In 2012 an amount of US$ 6 million was repurchased (including $ 1 million of subordinated debt) . No gain or loss resulted from those repurchases.

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 2013 and 2012.

15 EQUITY

a) Share capital

	2013	*2012*
Authorised – 3,500 million shares of US$ 1 each (2012: 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 (2012: 3,110 million shares of US$ 1 each)	**3,110**	3,110

b) Statutory reserve

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

c) General reserve

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

All figures in US$ Million

15 EQUITY (continued)

d) Cumulative changes in fair value

	2013	*2012*
At 1 January	**(48)**	(96)
Transferred to consolidated statement of comprehensive income on impairment	**-**	2
Transferred to consolidated statement of comprehensive income on disposal	**(13)**	(5)
Net movement in fair value during the year	**17**	36
Amortisation of fair value shortfall on reclassified securities	**12**	15
At 31 December	**(32)**	(48)

16 INTEREST AND SIMILAR INCOME

	2013	*2012*
Loans and advances	**681**	725
Securities	**229**	209
Placements with banks and other financial institutions	**102**	95
Others	**15**	32
	1,027	1,061

17 INTEREST AND SIMILAR EXPENSE

	2013	*2012*
Deposits from banks and other financial institutions	**282**	329
Deposits from customers	**158**	162
Term notes, bonds and other term financing	**79**	45
Others	**3**	3
Certificates of deposit	**1**	1
	523	540

18 OTHER OPERATING INCOME

	2013	*2012*
Fee and commission income	**223**	200
Fee and commission expense	**(10)**	(8)
Bureau processing income	**36**	34
Gain on dealing in derivatives - net	**51**	32
Gain on dealing in foreign currencies - net	**23**	16
Gain on disposal of non-trading securities - net	**15**	6
Gain on trading securities - net	**(1)**	3
Other – net	**16**	12
	353	295

Included in the fee and commission income is US$ 13 million (2012: US$ 11 million) of fee income relating to trust and other fiduciary activities.

All figures in US$ Million

19 GROUP INFORMATION

19.1 Information about subsidiaries

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

	Principal activities	*Country of incorporation*	*Interest of Arab Banking Corporation (B.S.C.)*	
			2013 %	*2012* %
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*	**59.0**	58.0
ABC Algeria	*Banking*	*Algeria*	**87.6**	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.

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.

	2013	*2012*
Proportion of equity interest held by non-controlling interests (%)	**41.0**	42.0
Dividends paid to non-controlling interests	**15**	18

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

	2013	*2012*
Summarised statement of income:		
Interest and similar income	**543**	574
Interest and similar expense	**(322)**	(341)
Other operating income	**112**	111
Impairment provisions - net	**(36)**	(43)
Operating expenses	**(135)**	(126)
Profit before tax	**162**	175
Income tax	**(38)**	(51)
Profit for the year	**124**	124
Profit attributable to non-controlling interests	**51**	52
Total comprehensive income	**4**	46
Total comprehensive income attributable to non-controlling interests	**2**	19

All figures in US$ Million

19 GROUP INFORMATION (continued)

19.3 Material partly-owned subsidiaries (continued)

Banco ABC Brasil S.A. (continued)

	2013	*2012*
Summarised statement of financial position:		
Total assets	**6,668**	6,161
Total liabilities	**5,825**	5,312
Total equity	**843**	849
Equity attributable to non-controlling interests	**346**	356
Summarised cash flow information for the year ended:		
Operating activities	**104**	(25)
Investing activities	**(60)**	(16)
Financing activities	**(3)**	76
Net increase in cash and cash equivalent	**41**	35

All figures in US$ Million

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.

	2013			*2012*		
	Positive fair value	***Negative fair value***	***Notional amount***	*Positive fair value*	*Negative fair value*	*Notional amount*
Derivatives held for trading						
Interest rate swaps	**42**	**32**	**1,408**	68	55	1,639
Currency swaps	**11**	**10**	**257**	8	1	207
Forward foreign exchange contracts	**53**	**59**	**3,798**	37	36	3,982
Options	**64**	**64**	**617**	5	5	1,899
Futures	**7**	**6**	**3,717**	3	1	992
	177	**171**	**9,797**	121	98	8,719
Derivatives held as hedges						
Interest rate swaps	**10**	**20**	**1,324**	-	3	816
Forward foreign exchange contracts	**112**	**-**	**1,251**	105	-	317
	122	**20**	**2,575**	105	3	1,133
	299	**191**	**12,372**	226	101	9,852
Risk weighted equivalents (credit and market risk)			**1,651**			1,591

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 2013, the Group recognised a net gain of US$ 15 million (2012: loss of US$ 78 million) on hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to US$ 15 million (2012: gain of US$ 78 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 2013, the Group had deposits amounting to US$ 656 million (2012: US$ 620 million) which were designated as net investment hedges.

All figures in US$ Million

20 DERIVATIVES AND HEDGING (continued)

Derivative product types

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

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

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

Derivative related credit risk

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

Derivatives held or issued for trading purposes

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

Derivatives held or issued for hedging purposes

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

All figures in US$ Million

20 DERIVATIVES AND HEDGING (continued)

Derivatives held or issued for hedging purposes (continued)

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.

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:

	2013	*2012*
Short-term self-liquidating trade and transaction-related contingent items	**4,385**	4,985
Direct credit substitutes and guarantees	**3,487**	3,739
Undrawn loans and other commitments	**1,880**	1,299
	9,752	10,023
Risk weighted equivalents	**3,177**	3,236

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

	2013	*2012*
On demand	**1,588**	1,020
1 - 6 months	**3,242**	3,464
6 - 12 months	**2,288**	3,179
1 - 5 years	**2,503**	2,167
Over 5 years	**131**	193
	9,752	10,023

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

All figures in US$ Million

21 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)

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:

	2013		*2012*	
Long (short)	***Currency***	***US$ equivalent***	*Currency*	*US$ equivalent*
Brazilian Real	**1,105**	**468**	1,024	500
Jordanian Dinar	**118**	**167**	145	204
Algerian Dinar	**13,650**	**174**	12,388	158
Egyptian Pound	**1,104**	**159**	852	136
Pound Sterling	**(10)**	**(16)**	(5)	(8)
UAE Dirham	**5**	**1**	5	1
Saudi Riyal	**11**	**3**	(366)	(98)
Euro	**11**	**15**	11	14

All figures in US$ Million

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 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	**2,612**	**-**	**2,612**
Unquoted debt securities	**-**	**1,239**	**1,239**
Quoted equity shares	**10**	**-**	**10**
Unquoted equity shares	**-**	**64**	**64**
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**

All figures in US$ Million

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

23.1 31 December 2013 (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 2013.

23.2 31 December 2012

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2012:

	Level 1	*Level 2*	*Total*
Financial assets			
Trading securities			
Debt securities	60	1	61
Externally managed funds	-	3	3
	60	4	64
Non-trading securities			
Available-for-sale			
Debt securities	1,751	726	2,477
Equity securities at fair value	12	-	12
	1,763	726	2,489
Loans and advances - available-for-sale	-	-	-
Derivatives held for trading	-	121	121
Derivatives held as hedges	-	105	105
Financial liabilities			
Derivatives held for trading	-	98	98
Derivatives held as hedges	-	3	3

All figures in US$ Million

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

23.2 31 December 2012 (continued)

Fair values of financial instruments not carried at fair value
The fair values of financial assets and financial liabilities which are not carried at fair value are not materially different from their carrying value except for the following:

	Carrying value	*Fair value*
Financial assets		
Other non-trading securities	1,471	1,487
Financial liabilities		
Term notes, bonds and other term financing	782	726

Financial instruments recorded at fair value
The description of the determination of fair value for financial instruments recorded at fair value using valuation techniques is discussed in note 4, which incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Transfers between level 1 and level 2
There were no transfers between level 1 and level 2 during the year ended 31 December 2012.

All figures in US$ Million

24 RISK MANAGEMENT

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

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

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

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

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

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

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

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Risk management structure (continued)
The ALCO 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. ALCO 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 or 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 Operational Risk Management Committee (ORCO) is responsible for defining long-term strategic plans and short-term tactical initiatives for operational risk. It also has the overall responsibility to monitor and prudently manage exposure to operational risks including strategic and reputation risks.

Risk measurement and reporting system

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

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

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

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

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.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Credit risk (continued)

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	
	2013	*2012*
Liquid funds	**999**	1,501
Trading debt securities	**192**	61
Placements with banks and other financial institutions	**5,018**	4,334
Securities bought under repurchase agreements	**349**	578
Non-trading debt securities	**5,073**	3,956
Loans and advances	**13,653**	12,860
Other credit exposures	**1,007**	1,016
	26,291	24,306
Credit commitments and contingent items (note 21)	**9,752**	10,023
Total	**36,043**	34,329

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.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Risk concentration of the maximum exposure to credit risk

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

	Assets		*Liabilities and equity*		*Credit commitments and contingent items*	
	2013	*2012*	***2013***	*2012*	***2013***	*2012*
Western Europe	**3,474**	3,882	**483**	775	**1,835**	2,127
Arab World	**9,717**	9,187	**20,238**	18,107	**3,844**	3,831
Asia	**2,110**	1,054	**70**	43	**375**	316
North America	**2,797**	3,034	**958**	995	**509**	370
Latin America	**6,862**	6,383	**4,418**	4,301	**2,991**	3,092
Other	**1,331**	766	**124**	85	**198**	287
Total	**26,291**	24,306	**26,291**	24,306	**9,752**	10,023

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*	
	2013	*2012*	***2013***	*2012*
Financial services	**10,715**	9,535	**10,346**	8,599
Other services	**4,592**	4,530	**4,496**	4,381
Manufacturing	**4,337**	4,220	**4,287**	4,104
Construction	**1,221**	991	**1,177**	933
Mining and quarrying	**745**	724	**740**	717
Agriculture, fishing and forestry	**487**	444	**487**	444
Trade	**496**	582	**487**	558
Consumer	**418**	393	**418**	393
Government	**3,071**	2,693	**3,056**	2,679
Personal	**209**	194	**171**	175
Total	**26,291**	24,306	**25,665**	22,983

All figures in US$ Million

24 RISK MANAGEMENT (continued)

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

An industry sector analysis of the Group's 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*	
	2013	*2012*	*2013*	*2012*
Financial services	**3,355**	3,964	**3,009**	2,094
Other services	**2,759**	2,700	**2,755**	2,694
Manufacturing	**1,972**	1,507	**1,954**	1,493
Construction	**763**	1,040	**759**	1,035
Mining and quarrying	**525**	395	**525**	395
Agriculture, fishing and forestry	**9**	14	**9**	14
Trade	**269**	296	**266**	294
Government	**25**	68	**25**	68
Other	**75**	39	**73**	38
Total	**9,752**	10,023	**9,375**	8,125

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 2013	***Neither past due nor impaired***			***Past due or individually impaired***	
	High grade	***Standard grade***	***Sub-standard grade***		***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**

31 December 2012	*Neither past due nor impaired*			*Past due or individually impaired*	
	High grade	*Standard grade*	*Sub-standard grade*		*Total*
Liquid funds	1,501	-	-	-	1,501
Trading debt securities	61	-	-	-	61
Placements with banks and other financial institutions	3,437	897	-	-	4,334
Securities bought under repurchase agreements	578	-	-	-	578
Non-trading debt securities	3,034	903	-	19	3,956
Loans and advances	5,939	6,828	-	93	12,860
Other credit exposures	870	146	-	-	1,016
	15,420	8,774	-	112	24,306

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Credit quality per class of financial assets (continued)

As at 31 December 2013, the total amount of past due but not impaired assets was US$ 54 million (2012: US$ 39 million).

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

	2013	*2012*
Loans and advances	**256**	234

Collateral and other credit enhancements

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

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

Settlement risk

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

Market risk

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

The Group has established risk management policies and limits within which exposure to market risk is monitored, measured and controlled by the Risk Management Department (RMD) with strategic oversight exercised by ALCO. The RMD's Market Risk Management (MRM) 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 ALCO approval. MRM's core responsibility is to measure and report market risk against limits throughout the Group.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

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.

	2013			
	Increase in basis points	***Sensitivity statement of income***	***Decrease in basis points***	***Sensitivity 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	**-**

	2012			
	Increase in basis points	*Sensitivity statement of income*	*Decrease in basis points*	*Sensitivity statement of income*
US Dollar	25	5	25	(5)
Euro	25	-	25	-
Pound Sterling	25	-	25	-
Brazilian Real	25	-	25	-
Others	25	1	25	(1)

All figures 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 2013 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 cash flow 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.

Currency	*Change in currency rate in % 2013*	*Effect on profit before tax 2013*	*Effect on equity 2013*	*Change in currency rate in % 2012*	*Effect on profit before tax 2012*	*Effect on equity 2012*
Brazilian Real	+/- 5%	+/-1	+/-24	+/- 5%	-	+/-24
Pound Sterling	+/- 5%	+/-1	-	+/- 5%	-	-
Egyptian Pound	+/- 5%	-	+/-8	+/- 5%	-	+/-7
Jordanian Dinar	+/- 5%	-	+/-8	+/- 5%	+/-1	+/-7
Algerian Dinar	+/- 5%	-	+/-9	+/- 5%	-	+/-8
Saudi Riyal	+/- 5%	-	-	+/- 5%	+/-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:

	% Change in equity price 2013	*Effect on statement of income/ equity 2013*	*% Change in equity price 2012*	*Effect on statement of income/ equity 2012*
Trading equities	+/- 5%	-	+/- 5%	-
Available-for-sale equities	+/- 5%	+/-2	+/- 5%	+/-2

All figures in US$ Million

24 RISK MANAGEMENT (continued)

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), event management, new product review and approval processes and business contingency plans.

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 ORCO, 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.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Liquidity risk

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

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

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 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 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
Term notes, bonds and other term financing	-	-	-	-	2,569	597	-	3,166
Total non-derivative undiscounted financial liabilities on statement of financial position	10,873	2,837	1,498	1,428	4,652	947	22	22,257
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

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

At 31 December 2012	*Within 1 month*	*1 - 3 months*	*3 - 6 months*	*6 - 12 months*	*1 - 5 years*	*5-10 years*	*10- 20 years*	*Total*
Financial liabilities								
Deposits from customers	7,460	2,229	839	446	1,228	192	-	12,394
Deposits from banks and other financial institutions	2,121	1,243	846	403	743	-	-	5,356
Securities sold under repurchase agreements	85	21	-	317	-	-	-	423
Certificates of deposits	9	2	10	5	9	-	-	35
Term notes, bonds and other term financing	-	-	-	-	1,371	515	-	1,886
Total non-derivative undiscounted financial liabilities on statement of financial position	9,675	3,495	1,695	1,171	3,351	707	-	20,094
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	2,372	1,015	265	404	148	317	-	4,521
Guarantees	3,567	-	-	-	-	-	-	3,567

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

At 31 December 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 agreements	-	-	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	-		

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

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

At 31 December 2012	*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	1,026	321	62	123	1,532	-	-	-	-	-	-	1,532
Trading securities	3	-	8	-	11	10	11	32	-	-	53	64
Placements with banks and other financial institutions	2,904	563	565	300	4,332	1	-	-	-	1	2	4,334
Securities bought under repurchase agreements	578	-	-	-	578	-	-	-	-	-	-	578
Non-trading securities	2,105	125	573	411	3,214	724	17	1	-	49	791	4,005
Loans and advances	1,238	1,806	1,885	2,097	7,026	4,879	851	93	11	-	5,834	12,860
Others	9	16	23	80	128	97	5	-	-	924	1,026	1,154
Total assets	7,863	2,831	3,116	3,011	16,821	5,711	884	126	11	974	7,706	24,527
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	5,267	1,803	577	388	8,035	3,485	132	-	-	377	3,994	12,029
Deposits from banks and other financial institutions	2,119	1,236	832	382	4,569	568	-	-	-	5	573	5,142
Certificates of deposit	9	2	10	5	26	9	-	-	-	-	9	35
Securities sold under repurchase agreement	85	20	-	314	419	-	-	-	-	-	-	419
Term notes, bonds and other term financing	-	-	-	-	-	1,371	411	-	-	-	1,782	1,782
Others	38	25	26	18	107	43	2	-	-	764	809	916
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,204	4,204	4,204
Total liabilities, shareholders' equity and non-controlling interests	7,518	3,086	1,445	1,107	13,156	5,476	545	-	-	5,350	11,371	24,527
Net liquidity gap	345	(255)	1,671	1,904	3,665	235	339	126	11	(4,376)	(3,665)	-
Cumulative net liquidity gap	345	90	1,761	3,665		3,900	4,239	4,365	4,376	-		

All figures in US$ Million

25 OPERATING SEGMENTS

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

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

	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**

	2012					
	MENA subsidiaries	*International wholesale banking*	*Group treasury*	*ABC Brasil*	*Other*	*Total*
Net interest income	112	98	73	235	3	521
Other operating income	47	88	23	110	27	295
Total operating income	159	186	96	345	30	816
Profit before impairment provisions	76	130	79	219	4	508
Impairment (provisions) write-back - net	(10)	(12)	10	(43)	(7)	(62)
Profit before taxation and unallocated operating expenses	66	118	89	176	(3)	446
Taxation on foreign operations	(23)	(8)	(2)	(55)	-	(88)
Unallocated operating expenses						(95)
Profit for the year						263
Operating assets	3,135	7,818	7,341	6,189	44	24,527
Operating liabilities	2,802	-	12,474	5,036	11	20,323

All figures in US$ Million

25 OPERATING SEGMENTS (continued)

Geographical information

The Group operates in six geographic markets: Middle East and North Africa, Western Europe, Asia, North America, Latin America and others. The following table show the external total operating income of the major units within the Group, based on the country of domicile of the entity for the years ended 31 December 2013 and 2012:

2013	*Bahrain*	*ABCIB*	*Banco ABC Brasil*	*Other*	*Total*
Total operating income	**170**	**126**	**332**	**229**	**857**
2012					
Total operating income	145	114	345	212	816

There were no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenue (2012: 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$ 175 million (2012: US$ 419 million). The carrying value of securities sold under repurchase agreements at the year-end amounted to US$ 179 million (2012: US$ 464 million).

Amounts paid for assets purchased under resale agreements at the year-end amounted to US$ 349 million (2012: US$ 578 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$ 367 million (2012: US$ 603 million).

All figures in US$ 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*	*2013*	*2012*
Deposits from customers	**2,797**	-	**4**	**2,801**	2,647
Term notes, bonds and other term financing	**1,330**	**670**	-	**2,000**	1,000
Short-term self-liquidating trade and transaction-related contingent items	**996**	-	-	**996**	1,339

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

	2013	*2012*
Commission income	**17**	6
Interest expense	**48**	24

Compensation of the key management personnel is as follows:

	2013	*2012*
Short term employee benefits	**21**	20
Post employment benefits	**11**	6
	32	26

28 FIDUCIARY ASSETS

Funds under management at the year-end amounted to US$ 15,901 million (2012: US$ 13,949 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$ 234 million (2012: US$ 257 million). Loans and advances and non-trading securities include Islamic assets of US$ 931 million (2012: US$ 870 million) and US$ 219 million (2012: US$ 229 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$ 383 million (2012: US$ 297 million) have been pledged as security for borrowings and other banking operations.

All figures in US$ Million

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:

	2013	*2012*
Profit attributable to the shareholders of the parent	**239**	205
Weighted average number of shares outstanding during the year (millions)	**3,110**	3,110
Basic and diluted earnings per share (US$)	**0.08**	0.07

31.2 Proposed dividends and transfers

	2013	*2012*
Proposed cash dividend for 2013 of US$ 0.05 per share (2012: Nil)	**156**	-

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

A proposal to transfer US$ 50 million (2012: Nil) from General Reserve to Retained Earnings will also be submitted for 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.

CAPITAL BASE		*2013*	*2012*
Tier 1 capital		**4,138**	4,050
Tier 2 capital		**1,023**	1,085
Total capital base	[a]	**5,161**	5,135

All figures in US$ Million

32 CAPITAL ADEQUACY (continued)

RISK WEIGHTED EXPOSURES

Credit risk weighted assets and off balance sheet items		**20,203**	18,889
Market risk weighted assets and off balance sheet items		**1,431**	1,441
Operational risk weighted assets		**1,536**	1,450
Total risk weighted assets	[b]	**23,170**	21,780
Risk asset ratio	[a/b*100]	**22.3%**	23.6%
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.

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