

**Arab Banking Corporation (B.S.C.)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2016**

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

### **Report on the audit of the consolidated financial statements**

#### *Opinion*

We have audited the 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 2016 and the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report, including in relation to these matters.

Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



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

### **Report on the audit of the consolidated financial statements (continued)**

#### *Key audit matters (continued)*

##### *Impairment provision of loans and advances*

**Risk:** Significant judgement using subjective assumptions is exercised when determining both the timing and the amounts of the impairment provision for loans and advances. Because of the significance of this judgement and the Group's exposure to loans and advances, the audit of impairment provision for loans is a key area of focus. As at 31 December 2016, the gross loans and advances amounted to US\$ 15,254 million against which accumulated loan loss impairment provision of US\$ 380 million and collective impairment provision of US\$ 191 million were recorded. The basis of the impairment provision policy is presented in the summary of significant accounting policies and in Note 9 to the consolidated financial statements.

#### **Our response:**

For the relevant credit processes, we have performed test of controls over the granting, booking and monitoring processes of loans and advances to confirm the operating effectiveness of the key controls in place which identify the impaired loans and advances against which impairment provisions are required. We also performed test of controls over the Group's internal credit rating system.

Where impairment was individually calculated, we tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner. Where impairment had been identified, we examined the forecasts of future cash flows prepared by the management to support the calculation of impairment provision, challenging the assumptions and comparing estimates to external evidence where available.

For the collective impairment provision, we obtained an understanding of the methodology used by the Group to determine the collective impairment provisions, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management.

We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

#### *Other information included in the Group's 2016 annual report*

Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Directors report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

### **Report on the audit of the consolidated financial statements (continued)**

#### *Other information included in the Group's 2016 annual report (continued)*

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of the Board of Directors for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

#### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



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

### **Report on the audit of the consolidated financial statements (continued)**

#### *Auditor's responsibilities for the audit of the consolidated financial statements (continued)*

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

**Report on the audit of the consolidated financial statements (continued)**

*Auditor's responsibilities for the audit of the consolidated financial statements (continued)*

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal and regulatory requirements**

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;
- c) 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 2016 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The partner in charge of the audit resulting in this independent auditor's report is Ashwani Siotia.



Partner's registration no: 117  
5 February 2017  
Manama, Kingdom of Bahrain



# Arab Banking Corporation (B.S.C.)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

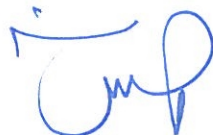
*All figures in US\$ Million*

	Note	2016	2015
<b>ASSETS</b>			
Liquid funds	6	1,831	1,002
Trading securities		711	534
Placements with banks and other financial institutions		4,130	4,313
Securities bought under repurchase agreements	26	1,556	1,447
Non-trading securities	7	5,635	5,535
Loans and advances	9	14,683	13,958
Interest receivable		430	355
Other assets	11	1,053	929
Premises and equipment		112	122
<b>TOTAL ASSETS</b>		<b>30,141</b>	<b>28,195</b>
<b>LIABILITIES</b>			
Deposits from customers		13,234	13,384
Deposits from banks and other financial institutions		6,906	5,029
Certificates of deposit		37	41
Securities sold under repurchase agreements	26	169	579
Interest payable		369	260
Taxation	12	94	70
Other liabilities	13	803	781
TERM NOTES, BONDS AND OTHER TERM FINANCING	14	4,269	3,943
<b>Total liabilities</b>		<b>25,881</b>	<b>24,087</b>
<b>EQUITY</b>			
Share capital	15	3,110	3,110
Statutory reserve		462	444
Retained earnings		859	693
Other reserves		(605)	(474)
<b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT</b>		<b>3,826</b>	<b>3,773</b>
Non-controlling interests		434	335
<b>Total equity</b>		<b>4,260</b>	<b>4,108</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>30,141</b>	<b>28,195</b>

The consolidated financial statements were authorised for issue by the Board of Directors on 5 February 2017 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 PROFIT OR LOSS

Year ended 31 December 2016

*All figures in US\$ Million*

	Note	2016	2015
<b>OPERATING INCOME</b>			
Interest and similar income	16	1,358	1,398
Interest and similar expense	17	(820)	(896)
<b>Net interest income</b>		<b>538</b>	<b>502</b>
Other operating income	18	327	227
<b>Total operating income</b>		<b>865</b>	<b>729</b>
Impairment provisions - net	10	(92)	(70)
<b>NET OPERATING INCOME AFTER PROVISIONS</b>		<b>773</b>	<b>659</b>
<b>OPERATING EXPENSES</b>			
Staff		291	277
Premises and equipment		33	33
Other		112	111
<b>Total operating expenses</b>		<b>436</b>	<b>421</b>
<b>PROFIT BEFORE TAXATION</b>		<b>337</b>	<b>238</b>
Taxation on foreign operations	12	(103)	(1)
<b>PROFIT FOR THE YEAR</b>		<b>234</b>	<b>237</b>
Profit attributable to non-controlling interests		(51)	(57)
<b>PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT</b>		<b>183</b>	<b>180</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)</b>			
	31	0.06	0.06



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 COMPREHENSIVE INCOME

Year ended 31 December 2016

All figures in US\$ Million

	Note	2016	2015
<b>PROFIT FOR THE YEAR</b>		<b>234</b>	237
<b>Other comprehensive income:</b>			
<b>Other comprehensive income that could be reclassified (or recycled) to profit or loss in subsequent periods:</b>			
Net fair value movements during the year after impairment effect	15	(3)	(41)
Amortisation of fair value shortfall on reclassified securities	15	2	4
Unrealised loss on exchange translation in foreign subsidiaries		(61)	(343)
		<b>(62)</b>	(380)
<b>Other comprehensive income that cannot be reclassified (or recycled) to profit or loss in subsequent periods:</b>			
Net change in pension fund reserve		(12)	-
		<b>(12)</b>	-
Total other comprehensive loss for the year		<b>(74)</b>	(380)
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>		<b>160</b>	(143)
Total comprehensive (income) loss attributable to non-controlling interests		<b>(108)</b>	63
<b>TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>		<b>52</b>	(80)

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

# Arab Banking Corporation (B.S.C.)

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

All figures in US\$ Million

	Note	2016	2015
<b>OPERATING ACTIVITIES</b>			
Profit for the year		234	237
Adjustments for:			
Impairment provisions - net	10	92	70
Depreciation and amortisation		18	18
Amortisation of fair value shortfall on reclassified securities	15	2	4
Gain on disposal of non-trading securities - net	18	(18)	(11)
Changes in operating assets and liabilities:			
Treasury bills and other eligible bills		(90)	(61)
Trading securities		(87)	(151)
Placements with banks and other financial institutions		(258)	1,315
Securities bought under repurchase agreements		117	(833)
Loans and advances		(901)	(892)
Interest receivable and other assets		(106)	(49)
Deposits from customers		627	365
Deposits from banks and other financial institutions		1,594	570
Securities sold under repurchase agreements		(412)	497
Interest payable and other liabilities		79	20
Other non-cash movements		(142)	48
Net cash from operating activities		749	1,147
<b>INVESTING ACTIVITIES</b>			
Purchase of non-trading securities		(4,908)	(3,069)
Sale and redemption of non-trading securities		4,689	2,139
Purchase of premises and equipment		(19)	(10)
Sale of premises and equipment		2	2
Investment in subsidiaries - net		3	(13)
Net cash used in investing activities		(233)	(951)
<b>FINANCING ACTIVITIES</b>			
Issue of certificates of deposit - net		(3)	1
Issue of term notes, bonds and other term financing		400	104
Repayment of term notes, bonds and other term financing		(53)	-
Repurchase of term notes, bonds and other term financing	14	(16)	(49)
Dividend paid to the Group shareholders		-	(156)
Dividend paid to non-controlling interests		(27)	(19)
Net cash from (used in) financing activities		301	(119)
Net change in cash and cash equivalents		817	77
Effect of exchange rate changes on cash and cash equivalents		(78)	(45)
Cash and cash equivalents at beginning of the year		791	759
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	6	<b>1,530</b>	<b>791</b>

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



# Arab Banking Corporation (B.S.C.)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

All figures in US\$ Million

	Equity attributable to the shareholders of the parent							Non-controlling interests	Total equity	
	Other reserves									
	Share capital	Statutory reserve	Retained earnings*	General reserve	Foreign exchange translation adjustments	Cumulative changes in fair value	Pension fund reserve	Total		
At 31 December 2014	3,110	426	684	100	(284)	(7)	(23)	4,006	420	4,426
Profit for the year	-	-	180	-	-	-	-	180	57	237
Other comprehensive loss for the year	-	-	-	-	(223)	(37)	-	(260)	(120)	(380)
Total comprehensive income (loss) for the year	-	-	180	-	(223)	(37)	-	(80)	(63)	(143)
Dividend paid	-	-	(156)	-	-	-	-	(156)	-	(156)
Transfers during the year	-	18	(18)	-	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	3	-	-	-	-	3	(22)	(19)
At 31 December 2015	3,110	444	693	100	(507)	(44)	(23)	3,773	335	4,108
Profit for the year	-	-	183	-	-	-	-	183	51	234
Other comprehensive (loss) income for the year	-	-	-	-	(118)	(1)	(12)	(131)	57	(74)
Total comprehensive income (loss) for the year	-	-	183	-	(118)	(1)	(12)	52	108	160
Transfers during the year	-	18	(18)	-	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	1	-	-	-	-	1	(9)	(8)
At 31 December 2016	3,110	462	859	100	(625)	(45)	(35)	3,826	434	4,260

\* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 419 million (2015: US\$ 414 million).

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

31 December 2016

## **1 INCORPORATION AND ACTIVITIES**

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

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

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

## **2 BASIS OF PREPARATION**

### **2.1 Statement of compliance**

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

### **2.2 Accounting convention**

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

The Group's consolidated financial statements are presented in United States Dollars, which is also the Group'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 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

## 2 BASIS OF PREPARATION (continued)

### 2.3 Basis of consolidation (continued)

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

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

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

## 3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

### 3.1 Standards effective for the year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following amendments to IFRS, applicable to the Group, and which are effective from 1 January 2016:

#### **Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

#### **Amendments to IAS 27: Equity Method in Separate Financial Statements**

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group's consolidated financial statements.

#### **Annual Improvements 2012-2014 Cycle**

These improvements include:

##### **IFRS 7 Financial Instruments: Disclosures**

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments. This did not have any impact on the consolidated financial statements of the Group.

### 3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

#### 3.1 Standards effective for the year (continued)

##### Annual Improvements 2012-2014 Cycle (continued)

###### IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. This did not have any impact on the consolidated financial statements of the Group.

##### Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

##### Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. This did not have any impact on the Group as it does not use investment entity exception.

#### 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

###### Introduction

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.



### 3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

#### 3.2 Standards issued but not yet effective (continued)

##### IFRS 9 Financial Instruments (continued)

###### Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the statement of profit or loss.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

The following is the outcome of an initial high level impact assessment performed by the Group during 2016:

- The majority of loans and advances to banks and customers, that are classified as loans and advances under IAS 39 are expected to be measured at amortised cost under IFRS 9;
- Financial assets held for trading and financial assets designated at FVPL are expected to continue to be measured at FVPL;
- The majority of the debt securities classified as available for sale under IAS 39 are expected to be measured at amortised cost or FVOCI. Some securities, however, will be classified as FVPL, either because of their contractual cash flow characteristics or the business model within which they are held; and
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

##### Hedge accounting

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9.

##### Impairment of financial assets

###### Overview

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

**3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)**

**3.2 Standards issued but not yet effective (continued)**

**IFRS 9 Financial Instruments (continued)**

**Impairment of financial assets (continued)**

The Group is currently working on establishing a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

- To calculate ECL, the Group will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Group under the contract, and
- The cash flows that the Group expects to receive, discounted at the effective interest rate of the loan.

Under IFRS 9, the Group expects to group its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are first recognised, the Group recognises an allowance based on 12-month expected credit losses.
- Stage 2 – Underperforming loans: when a loan shows a significant increase in credit risk, the Group records an allowance for the lifetime expected credit loss.
- Stage 3 – Impaired loans: the Group recognises the lifetime expected credit losses for these loans. In addition, in Stage 3 the Group recognises interest income on receipt basis.

During the year 2016, the Group performed a high level impact assessment taking into consideration the above impairment methodology. The Group is planning to carry out a detailed impact assessment during the year 2017.

**IFRS 15 Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

**IFRS 16 Leases**

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

### **3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)**

#### **3.2 Standards issued but not yet effective (continued)**

##### **IFRS 16 Leases (continued)**

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

##### **Amendments to IAS 12 Income Taxes**

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Group is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its consolidated financial statements.

##### **Amendments to IAS 7 Statement of Cash Flows**

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Liquid funds**

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

#### **Cash and cash equivalents**

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

#### **Trading securities**

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

#### **Placements with banks and other financial institutions**

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

#### **Non-trading securities**

These are classified as follows:

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

#### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Non-trading securities (continued)**

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

##### **Held to maturity**

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

##### **Available-for-sale**

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

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

##### **Other non-trading securities**

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

##### **Loans and advances**

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

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

##### **Derecognition of financial assets and financial liabilities**

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



**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Derecognition of financial assets and financial liabilities (continued)**

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

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

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

**Investments in associates**

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

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

**Premises and equipment**

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

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

**Impairment and uncollectability of financial assets**

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

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

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.

**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)

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

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

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

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

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

**Available-for-sale financial assets**

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

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment and uncollectability of financial assets (continued)**

Available-for-sale financial assets (continued)

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

**Deposits**

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

**Repurchase and reverse repurchase agreements**

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

**Provisions**

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

**Financial guarantees**

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

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

**Employee pension and other end of service benefits**

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

#### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Recognition of income and expenses**

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

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

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

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

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

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

##### **Fair value measurement**

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

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

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

#### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Fair value measurement (continued)**

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 valuation: Directly observable quotes for the same instrument (market prices).
- Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date (mark-to-model with market data).
- Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed (mark-to-model with deduced proxies).

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

##### **Taxation on foreign operations**

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

##### **Foreign currencies**

###### **Transactions and balances**

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

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

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

###### **Group companies**

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



**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Trade and settlement date accounting**

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

**Derivatives and hedge accounting**

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

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

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

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

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

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

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

#### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Derivatives and hedge accounting (continued)

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

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

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

##### Fiduciary assets

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

##### Offsetting

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

##### Term notes, bonds and other term financing

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

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

##### Significant accounting judgments, estimates and assumptions

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

##### Going concern

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Significant accounting judgments, estimates and assumptions (continued)**

**Fair value of financial instruments**

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

**Impairment losses on loans and advances**

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

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

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

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

**Impairment losses on available-for-sale investments**

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

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

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**5 CLASSIFICATION OF FINANCIAL INSTRUMENTS**

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

<b>At 31 December 2016</b>	<b>Held for trading</b>	<b>Available-for-sale</b>	<b>Amortised cost/ Loans and receivables</b>	<b>Total</b>
<b>ASSETS</b>				
Liquid funds	-	-	1,831	1,831
Trading securities	711	-	-	711
Placements with banks and other financial institutions	-	-	4,130	4,130
Securities bought under repurchase agreements	-	-	1,556	1,556
Non-trading securities *	-	4,631	1,004	5,635
Loans and advances	-	-	14,683	14,683
Interest receivable and other assets	435	-	1,030	1,465
	<b>1,146</b>	<b>4,631</b>	<b>24,234</b>	<b>30,011</b>
	<b>Held for trading</b>	<b>Available-for-sale</b>	<b>Amortised cost</b>	<b>Total</b>
<b>LIABILITIES</b>				
Deposits from customers	-	-	13,234	13,234
Deposits from banks and other financial institutions	-	-	6,906	6,906
Certificates of deposit	-	-	37	37
Securities sold under repurchase agreements	-	-	169	169
Interest payable, taxation and other liabilities	369	-	897	1,266
Term notes, Bonds and other term financing	-	-	4,269	4,269
	<b>369</b>	<b>-</b>	<b>25,512</b>	<b>25,881</b>

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**5 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)**

At 31 December 2015	Held for trading	Available-for-sale	Amortised cost/ Loans and receivables	Total
<b>ASSETS</b>				
Liquid funds	-	-	1,002	1,002
Trading securities	534	-	-	534
Placements with banks and other financial institutions	-	-	4,313	4,313
Securities bought under repurchase agreements	-	-	1,447	1,447
Non-trading securities *	-	3,774	1,761	5,535
Loans and advances	-	-	13,958	13,958
Interest receivable and other assets	337	-	929	1,266
	<u>871</u>	<u>3,774</u>	<u>23,410</u>	<u>28,055</u>
	Held for trading	Available-for-sale	Amortised cost	Total
<b>LIABILITIES</b>				
Deposits from customers	-	-	13,384	13,384
Deposits from banks and other financial institutions	-	-	5,029	5,029
Certificates of deposit	-	-	41	41
Securities sold under repurchase agreements	-	-	579	579
Interest payable, taxation and other liabilities	330	-	781	1,111
Term notes, Bonds and other term financing	-	-	3,943	3,943
	<u>330</u>	<u>-</u>	<u>23,757</u>	<u>24,087</u>

\* Included in the above are other non-trading securities amounting to US\$ 90 million (2015: US\$ 374 million) which were reclassified effective 1 July 2008. Refer note 8 for details.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 6 LIQUID FUNDS

	2016	2015
Cash on hand	37	37
Balances due from banks	242	387
Deposits with central banks	1,201	326
Treasury bills and other eligible bills with original maturities of three months or less	50	41
<b>Cash and cash equivalents</b>	<b>1,530</b>	<b>791</b>
Treasury bills and other eligible bills with original maturities of more than three months	301	211
	<b>1,831</b>	<b>1,002</b>

### 7 NON-TRADING SECURITIES

	2016			2015		
	Quoted	Unquoted*	Total	Quoted	Unquoted*	Total
<b>Available-for-sale</b>						
Debt securities	4,152	577	4,729	3,160	738	3,898
Equity securities	14	25	39	8	39	47
<b>Held to maturity</b>						
Debt securities	888	5	893	1,336	-	1,336
<b>Other non-trading securities carried at amortised cost **</b>	<b>90</b>	<b>-</b>	<b>90</b>	<b>374</b>	<b>-</b>	<b>374</b>
	<b>5,144</b>	<b>607</b>	<b>5,751</b>	<b>4,878</b>	<b>777</b>	<b>5,655</b>
Provisions against non- trading securities	(14)	(102)	(116)	(15)	(105)	(120)
	<b>5,130</b>	<b>505</b>	<b>5,635</b>	<b>4,863</b>	<b>672</b>	<b>5,535</b>

\* Includes unquoted equity securities carried at cost amounting to US\$ 15 million (2015: US\$ 26 million) net of impairment provisions. This is due to the unpredictable nature of future cash flows and the lack of suitable alternative methods to arrive at a reliable fair value. There is no market for these investments and the Group intends to hold them for the long term.

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

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

## 7 NON-TRADING SECURITIES (continued)

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

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

	2016	2015
AAA rated debt securities	921	458
AA to A rated debt securities	1,744	1,414
Other investment grade debt securities	1,359	2,237
Other non-investment grade debt securities	1,550	1,324
Unrated debt securities	138	175
Equity securities	39	47
	<b>5,751</b>	<b>5,655</b>
Provisions against non-trading securities	<b>(116)</b>	<b>(120)</b>
	<b>5,635</b>	<b>5,535</b>

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

	2016	2015
At 1 January	120	126
Charge for the year	3	-
Write backs / recoveries	-	(6)
Write-offs	(7)	-
At 31 December	<b>116</b>	<b>120</b>

The gross amount of non-trading securities individually determined to be impaired, before deducting any individually assessed impairment losses, amounts to US\$ 119 million (2015: US\$ 127 million). Interest income received during the year on impaired securities amounted to US\$ 1 million. (2015: nil).

## 8 RECLASSIFICATION OF FINANCIAL ASSETS

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

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

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

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**8 RECLASSIFICATION OF FINANCIAL ASSETS (continued)**

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

	2016	2015
Carrying value	90	374
Fair value	90	377

Fair value losses that would have been recognised in other comprehensive income for the year ended 31 December 2016 had the other non-trading securities not been reclassified amounts to US\$ 3 million (2015: fair value losses of US\$ 9 million).

The Group earns an effective interest rate of 1% to 4% (2015: 1% to 8%) on these investments and the carrying values reflect the cash flows expected to be recovered as of year-end. At year end, no reclassified available-for-sale financial assets at cost (2015: US\$ 54 million) have been hedged for changes in fair value, on account of changes in interest rates.

**9 LOANS AND ADVANCES**

	2016	2015
<b>i) By industrial sector</b>		
Financial services	4,091	3,826
Other services	2,778	2,657
Manufacturing	3,609	3,314
Construction	1,007	1,003
Mining and quarrying	600	665
Transport	861	795
Personal/Consumer finance	641	744
Trade	754	707
Agriculture, fishing and forestry	398	344
Technology, media and telecommunications	216	185
Government	299	309
	<b>15,254</b>	<b>14,549</b>
Loan loss provisions	<b>(571)</b>	<b>(591)</b>
	<b>14,683</b>	<b>13,958</b>
	<b>2016</b>	<b>2015</b>
<b>ii) Loan loss provisions by industrial sector</b>		
Financial services	93	124
Other services	28	25
Manufacturing	63	45
Construction	44	22
Mining and quarrying	23	10
Personal/Consumer finance	21	22
Trade	77	75
Agriculture, fishing and forestry	7	3
Technology, media and telecommunications	22	22
Government	2	60
Collective impairment	191	183
	<b>571</b>	<b>591</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**9 LOANS AND ADVANCES (continued)**

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

	<b>Specific impairment</b>		<b>Collective impairment</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
At 1 January	<b>408</b>	411	<b>183</b>	181
Charge for the year	<b>102</b>	77	<b>10</b>	4
Write backs / recoveries	<b>(23)</b>	(5)	-	-
Write-offs	<b>(49)</b>	(53)	-	-
Foreign exchange translation and other adjustments	<b>(58)</b>	(22)	<b>(2)</b>	(2)
At 31 December	<b>380</b>	408	<b>191</b>	183

The gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance amounts to US\$ 632 million (2015: US\$ 489 million).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2016 amounts to US\$ 313 million (2015: US\$ 245 million).

At 31 December 2016, interest in suspense on past due loans amounts to US\$ 64 million (2015: US\$ 257 million).

**10 IMPAIRMENT PROVISIONS - NET**

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

	<b>2016</b>	<b>2015</b>
Non-trading securities (note 7)	<b>(3)</b>	6
Loans and advances (note 9)	<b>(89)</b>	(76)
	<b>(92)</b>	(70)

**11 OTHER ASSETS**

	<b>2016</b>	<b>2015</b>
Positive fair value of derivatives (note 20)	<b>435</b>	382
Trade receivables	<b>236</b>	161
Deferred tax assets	<b>107</b>	114
Advances and prepayments	<b>28</b>	113
Bank owned life insurance	<b>36</b>	36
Staff loans	<b>27</b>	29
Investments in associates	<b>18</b>	18
Assets acquired on debt settlement	<b>43</b>	19
Margin dealing accounts	<b>15</b>	1
Others	<b>108</b>	56
	<b>1,053</b>	929

The negative fair value of derivatives amounting to US\$ 394 million (2015: US\$ 337 million) is included in other liabilities (note 13). Details of derivatives are given in note 20.

## 12 TAXATION ON FOREIGN OPERATIONS

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

	2016	2015
<b>Consolidated statement of financial position</b>		
Current tax liability	24	28
Deferred tax liability	70	42
	<b>94</b>	<b>70</b>
<b>Consolidated statement of profit or loss</b>		
Current tax on foreign operations	69	40
Deferred tax on foreign operations	34	(39)
	<b>103</b>	<b>1</b>
<b>Analysis of tax charge</b>		
At Bahrain (income tax rate of nil)	-	-
On profits of subsidiaries operating in other jurisdictions	54	73
Charge (credit) arising from tax treatment of hedging currency movements	49	(72)
	<b>103</b>	<b>1</b>
Income tax expense reported in the consolidated statement of profit or loss	<b>103</b>	<b>1</b>

The effective tax rates on the profit of subsidiaries in MENA and United Kingdom were 27% (2015: 31%) and 14% (2015: 21%) as against the actual tax rates of 17.5% to 42.5% (2015: 23% to 35%) and 20% (2015: 20%) respectively. In the bank's Brazilian subsidiary, the effective tax rate was 38% (2015: 0%) as against the actual tax rate of 45% (2015: 45%).

As reflected above, the tax charge for the year includes US\$ 49 million arising from the tax treatment of hedging currency movements (2015: offset by tax credit US\$ 72 million) on a certain transaction. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. After giving effect to these adjustments at the group level, the average effective tax rate is 31% (2015: 0.4%).

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

## 13 OTHER LIABILITIES

	2016	2015
Negative fair value of derivatives (note 20)	394	337
Employee related payables	113	90
Margin deposits including cash collateral	41	45
Cheques for collection	27	30
Deferred income	22	19
Securities purchased awaiting value	-	20
Non-corporate tax payable	2	15
Accrued charges and other payables	204	225
	<b>803</b>	<b>781</b>

The positive fair value of derivatives amounting to US\$ 435 million (2015: US\$ 382 million) is included in other assets (note 11). Details of derivatives are given in note 20.



**14 TERM NOTES, BONDS AND OTHER TERM FINANCING**

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

**Total obligations outstanding at 31 December 2016**

	Currency	Rate of Interest	Parent bank	Subsidiaries	Total
<b>Aggregate maturities</b>					
2017	US\$	Libor + 2.25%	670	-	670
2017*	US\$	Libor + 1.35%	356	-	356
2017	US\$	Libor + 1.20%	750	-	750
2017	US\$	Libor + 1.20%	100	-	100
2017	EUR	Euribor + 1.10%	-	53	53
2017	US\$	Libor + 1.20%	-	175	175
2018	US\$	Libor + 1.25%	50	-	50
2018	US\$	Libor + 1.24%	50	-	50
2018	US\$	Libor + 0.90%	-	50	50
2020*	US\$	7.875	-	338	338
2021	US\$	Libor + 1.80%	347	-	347
2022	US\$	Libor + 2.25%	1,330	-	1,330
			<b>3,653</b>	<b>616</b>	<b>4,269</b>
Total obligations outstanding at 31 December 2015			3,322	621	3,943

\* Subordinated

During the year ended 31 December 2016, the Bank repurchased a portion of its term loan borrowings with a nominal value of US\$ 16 million (2015: US\$ 49 million). The resultant net gain on the repurchase amounting to US\$ nil (2015 : US\$ 6 million) is included in "Other operating income".

The Group has not had any defaults of principal, interest or other breaches with regard to any of its liabilities during the years ended 31 December 2016 and 2015.

**15 EQUITY****a) Share capital**

	2016	2015
Authorised – 3,500 million shares of US\$ 1 each (2015: 3,500 million shares of US\$ 1 each)	<b>3,500</b>	3,500
Issued, subscribed and fully paid – 3,110 million shares of US\$ 1 each (2015: 3,110 million shares of US\$ 1 each)	<b>3,110</b>	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.

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**15 EQUITY (continued)****d) Cumulative changes in fair value**

	<b>2016</b>	<b>2015</b>
At 1 January	<b>(44)</b>	(7)
Transferred to consolidated statement of comprehensive income on disposal	<b>(17)</b>	(11)
Net movement in fair value during the year	<b>14</b>	(30)
Amortisation of fair value shortfall on reclassified securities	<b>2</b>	4
At 31 December	<b>(45)</b>	(44)

**16 INTEREST AND SIMILAR INCOME**

	<b>2016</b>	<b>2015</b>
Loans and advances	<b>742</b>	843
Securities	<b>380</b>	338
Placements with banks and other financial institutions	<b>228</b>	213
Others	<b>8</b>	4
	<b>1,358</b>	1,398

**17 INTEREST AND SIMILAR EXPENSE**

	<b>2016</b>	<b>2015</b>
Deposits from banks and other financial institutions	<b>489</b>	593
Deposits from customers	<b>205</b>	174
Term notes, bonds and other term financing	<b>123</b>	126
Certificates of deposit and others	<b>3</b>	3
	<b>820</b>	896

**18 OTHER OPERATING INCOME**

	<b>2016</b>	<b>2015</b>
Fee and commission income - net	<b>192</b>	181
Bureau processing income	<b>43</b>	37
Loss on dealing in derivatives - net	<b>(20)</b>	(20)
Gain on dealing in foreign currencies - net	<b>87</b>	1
Gain on disposal of non-trading securities - net	<b>18</b>	11
Loss on trading securities - net	<b>(3)</b>	(17)
Gain on repurchase of subordinated debt (note 14)	<b>-</b>	6
Other - net	<b>10</b>	28
	<b>327</b>	227

Included in the fee and commission income is US\$ 13 million (2015: US\$ 13 million) of fee income relating to trust and other fiduciary activities.

# Arab Banking Corporation (B.S.C.)

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### 19 GROUP INFORMATION

#### 19.1 Information about subsidiaries

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

	Principal activities	Country of incorporation	Interest of Arab Banking Corporation (B.S.C.)	
			2016 %	2015 %
ABC International Bank Plc	Banking	United Kingdom	100.0	100.0
ABC Islamic Bank (E.C.)	Banking	Bahrain	100.0	100.0
Arab Banking Corporation (ABC) - Jordan	Banking	Jordan	87.0	87.0
Banco ABC Brasil S.A.	Banking	Brazil	61.0	61.2
ABC Algeria	Banking	Algeria	87.7	87.7
Arab Banking Corporation - Egypt [S.A.E.]	Banking	Egypt	99.8	99.6
ABC Tunisie	Banking	Tunisia	100.0	100.0
Arab Financial Services Company B.S.C. (c)	Credit card services	Bahrain	54.7	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.

	2016	2015
<b>Proportion of equity interest held by non-controlling interests (%)</b>	<b>39.0</b>	<b>38.8</b>
<b>Dividends paid to non-controlling interests</b>	<b>23</b>	<b>14</b>

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

	2016	2015
<b>Summarised statement of profit or loss:</b>		
Interest and similar income	733	850
Interest and similar expense	(518)	(644)
Other operating income	154	49
Impairment provisions - net	(78)	(60)
Operating expenses	(113)	(107)
<b>Profit before tax</b>	<b>178</b>	<b>88</b>
Income tax	(67)	37
<b>Profit for the year</b>	<b>111</b>	<b>125</b>
<b>Profit attributable to non-controlling interests</b>	<b>43</b>	<b>49</b>
<b>Total comprehensive income (loss)</b>	<b>151</b>	<b>(164)</b>
<b>Total comprehensive income (loss) attributable to non-controlling interests</b>	<b>59</b>	<b>(64)</b>

**19 GROUP INFORMATION (continued)****19.3 Material partly-owned subsidiaries (continued)****Banco ABC Brasil S.A. (continued)**

	2016	2015
<b>Summarised statement of financial position:</b>		
Total assets	7,793	6,025
Total liabilities	6,875	5,350
<b>Total equity</b>	<b>918</b>	<b>675</b>
<b>Equity attributable to non-controlling interests</b>	<b>358</b>	<b>262</b>
<b>Summarised cash flow information for the year ended:</b>		
Operating activities	221	(61)
Investing activities	(215)	67
Financing activities	(17)	(7)
<b>Net decrease in cash and cash equivalents</b>	<b>(11)</b>	<b>(1)</b>

**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.

	2016			2015		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
<b>Derivatives held for trading</b>						
Interest rate swaps	47	42	3,389	29	26	2,626
Currency swaps	21	27	623	67	31	676
Forward foreign exchange contracts	79	33	4,200	63	136	5,821
Options	279	256	5,842	123	100	3,225
Futures	9	11	2,491	55	37	2,769
Forward rate agreements	-	-	50	-	-	-
	<b>435</b>	<b>369</b>	<b>16,595</b>	<b>337</b>	<b>330</b>	<b>15,117</b>
<b>Derivatives held as hedges</b>						
Interest rate swaps	-	-	1,678	2	1	2,152
Forward foreign exchange contracts	-	25	878	35	-	775
Options	-	-	-	8	6	799
	<b>-</b>	<b>25</b>	<b>2,556</b>	<b>45</b>	<b>7</b>	<b>3,726</b>
	<b>435</b>	<b>394</b>	<b>19,151</b>	<b>382</b>	<b>337</b>	<b>18,843</b>
<b>Risk weighted equivalents (credit and market risk)</b>			<b>1,774</b>			<b>1,703</b>

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

## 20 DERIVATIVES AND HEDGING (continued)

Derivatives held as hedges include:

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

For the year ended 31 December 2016, the Group recognised a net gain of US\$ 54 million (2015: gain of US\$ 80 million) on hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to US\$ 54 million (2015: loss of US\$ 80 million).

- b) Net investment hedges comprising of currency options of US\$ nil (2015:US\$ 799 million.)

In addition to the currency options, the Group uses deposits which are accounted for as hedges of net investment in foreign operations. As at 31 December 2016, the Group had deposits amounting to US\$ 588 million (2015: US\$ 676 million) which were designated as net investment hedges.

### Derivative product types

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

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

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

### Derivative related credit risk

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

### Derivatives held or issued for trading purposes

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



**20 DERIVATIVES AND HEDGING (continued)****Derivatives held or issued for hedging purposes**

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

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

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

**21 CREDIT COMMITMENTS AND CONTINGENT ITEMS**

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

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

	2016	2015
Short-term self-liquidating trade and transaction-related contingent items	2,843	3,347
Direct credit substitutes and guarantees	3,581	3,197
Undrawn loans and other commitments	2,166	1,735
	<u>8,590</u>	<u>8,279</u>
Risk weighted equivalents	<u>2,890</u>	<u>2,699</u>

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

	2016	2015
On demand	999	1,243
1 - 6 months	2,844	2,740
6 - 12 months	2,481	1,567
1 - 5 years	2,151	2,524
Over 5 years	115	205
	<u>8,590</u>	<u>8,279</u>

**21 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)**

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

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

**22 SIGNIFICANT NET FOREIGN CURRENCY EXPOSURES**

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

Long (short)	2016		2015	
	Currency	US\$ equivalent	Currency	US\$ equivalent
Brazilian Real	1,816	558	1,074	271
Jordanian Dinar	159	224	146	206
Algerian Dinar	14,224	129	13,732	128
Egyptian Pound	1,718	94	1,294	165
Pound Sterling	(6)	(7)	(8)	(12)
Qatari Riyal	-	-	720	198
Bahrain Dinar	-	-	28	74
Omani Riyal	2	5	59	154
UAE Dirham	2	1	(353)	(94)

**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 2016****Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2016:****Financial assets measured at fair value:**

	Level 1	Level 2	Total
Trading securities	708	3	711
Non-trading securities - available-for-sale			
Quoted debt securities	4,142	-	4,142
Unquoted debt securities	-	485	485
Quoted equity shares	4	-	4
Unquoted equity shares	-	-	-
Derivatives held for trading			
Interest rate swaps	-	47	47
Currency swaps	-	21	21
Forward foreign exchange contracts	-	79	79
Options	228	51	279
Futures	9	-	9
Derivatives held as hedges			
Interest rate swaps	-	-	-
Forward foreign exchange contracts	-	-	-
Options	-	-	-

**23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****23.1 31 December 2016 (continued)****Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2016:  
(continued)****Financial liabilities measured at fair value:**

	Level 1	Level 2	Total
Derivatives held for trading			
Interest rate swaps	-	42	42
Currency swaps	-	27	27
Forward foreign exchange contracts	-	33	33
Options	204	52	256
Futures	11	-	11
Derivatives held as hedges			
Interest rate swaps	-	-	-
Forward foreign exchange contracts	-	25	25
Options	-	-	-

**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
<b>Financial assets</b>				
Other non-trading securities	989	1,012	-	1,012
<b>Financial liabilities</b>				
Term notes, bonds and other term financing	4,269	707	3,573	4,280

**23.2 31 December 2015****Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2015:****Financial assets measured at fair value:**

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

**23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**23.2 31 December 2015 (continued)**

**Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2015:  
(continued)**

**Financial liabilities measured at fair value:**

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

**Fair values of financial instruments not carried at fair value**

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

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

**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 2016 (31 December 2015: none).

## 24 RISK MANAGEMENT

### Introduction

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

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

### Risk management structure

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

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

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

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

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

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

The above management structure, supported by teams of risk and credit analysts, as well as the IT systems provide a coherent infrastructure to carry credit and risk functions in a seamless manner.

Each subsidiary is responsible for managing its own risks and has its own Board Risk Committee and Management Committees with responsibilities generally analogous to the Group Committees.

**24 RISK MANAGEMENT (continued)**

**Risk measurement and reporting system**

**Risk mitigation**

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

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

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

**Excessive risk concentration**

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

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

**Credit risk**

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

All figures in US\$ Million

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

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

	<b>Gross maximum exposure</b>	
	<b>2016</b>	<b>2015</b>
Liquid funds	<b>1,794</b>	965
Trading debt securities	<b>708</b>	416
Placements with banks and other financial institutions	<b>4,130</b>	4,313
Securities bought under repurchase agreements	<b>1,556</b>	1,447
Non-trading debt securities	<b>5,610</b>	5,506
Loans and advances	<b>14,683</b>	13,958
Other credit exposures	<b>1,465</b>	1,266
	<b>29,946</b>	27,871
Credit commitments and contingent items (note 21)	<b>8,590</b>	8,279
Total	<b>38,536</b>	36,150

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

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

**Risk concentration of the maximum exposure to credit risk**

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

	<b>Assets</b>		<b>Liabilities and equity</b>		<b>Credit commitments and contingent items</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Western Europe	<b>4,043</b>	3,743	<b>987</b>	1,008	<b>1,220</b>	1,510
Arab World	<b>11,763</b>	12,353	<b>21,252</b>	21,403	<b>3,373</b>	3,744
Asia	<b>1,144</b>	1,547	<b>550</b>	90	<b>463</b>	250
North America	<b>3,234</b>	2,850	<b>927</b>	1,048	<b>580</b>	520
Latin America	<b>8,049</b>	5,931	<b>5,842</b>	3,965	<b>2,923</b>	2,105
Other	<b>1,713</b>	1,447	<b>388</b>	357	<b>31</b>	150
Total	<b>29,946</b>	27,871	<b>29,946</b>	27,871	<b>8,590</b>	8,279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

All figures in US\$ Million

**24 RISK MANAGEMENT (continued)**

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

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

	<b>Gross maximum exposure</b>		<b>Net maximum exposure</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Financial services	<b>11,541</b>	11,809	<b>9,572</b>	10,095
Other services	<b>6,419</b>	5,558	<b>6,390</b>	5,487
Manufacturing	<b>3,699</b>	3,645	<b>3,663</b>	3,617
Construction	<b>1,136</b>	1,068	<b>1,037</b>	998
Mining and quarrying	<b>643</b>	725	<b>643</b>	725
Agriculture, fishing and forestry	<b>408</b>	357	<b>408</b>	357
Trade	<b>879</b>	645	<b>870</b>	635
Personal /Consumer finance	<b>635</b>	698	<b>634</b>	697
Government	<b>4,586</b>	3,366	<b>4,544</b>	3,318
<b>Total</b>	<b>29,946</b>	27,871	<b>27,761</b>	25,929

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:

	<b>Gross maximum exposure</b>		<b>Net maximum exposure</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Financial services	<b>3,240</b>	3,201	<b>2,933</b>	2,851
Other services	<b>2,190</b>	2,186	<b>2,185</b>	2,181
Manufacturing	<b>1,462</b>	1,539	<b>1,455</b>	1,531
Construction	<b>590</b>	689	<b>588</b>	686
Mining and quarrying	<b>462</b>	365	<b>462</b>	365
Agriculture, fishing and forestry	<b>24</b>	5	<b>24</b>	5
Trade	<b>545</b>	205	<b>543</b>	202
Government	<b>52</b>	59	<b>50</b>	57
Other	<b>25</b>	30	<b>25</b>	30
<b>Total</b>	<b>8,590</b>	8,279	<b>8,265</b>	7,908

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

All figures in US\$ Million

**24 RISK MANAGEMENT (continued)**

**Credit quality per class of financial assets**

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

**31 December 2016**

	Neither past due nor impaired			Past due and individually impaired	Total
	High grade	Standard grade	Sub-standard grade		
Liquid funds	1,794	-	-	-	1,794
Trading debt securities	-	708	-	-	708
Placements with banks and other financial institutions	3,121	1,009	-	-	4,130
Securities bought under repurchase agreements	148	1,408	-	-	1,556
Non-trading debt securities	4,062	1,545	-	3	5,610
Loans and advances	5,268	9,163	-	252	14,683
Other credit exposures	1,240	225	-	-	1,465
	<b>15,633</b>	<b>14,058</b>	<b>-</b>	<b>255</b>	<b>29,946</b>

**31 December 2015**

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

As at 31 December 2016, the total amount of past due but not impaired assets was US\$ 73 million (2015: US\$ 58 million), all aged under ninety days.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio through a risk rating system. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of 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**

	<b>2016</b>	<b>2015</b>
Loans and advances	<b>294</b>	<b>207</b>

**24 RISK MANAGEMENT (continued)**

**Collateral and other credit enhancements**

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

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

**Settlement risk**

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

**Market risk**

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

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

**Interest rate risk**

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

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

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

**24 RISK MANAGEMENT (continued)**

**Interest rate risk (continued)**

	2016			
	Increase in basis points	Sensitivity statement of profit or loss	Decrease in basis points	Sensitivity statement of profit or loss
US Dollar	25	(2)	25	2
Euro	25	1	25	(1)
Pound Sterling	25	-	25	-
Brazilian Real	25	3	25	(3)
Others	25	4	25	(4)

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

**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 2016 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US\$, with all other variables held constant on the consolidated statement of profit or loss (due to the fair value of currency sensitive trading and non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as fair value hedges) and the effect of the impact of foreign currency movements on the structural positions of the Bank in its subsidiaries. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss or equity, while a positive amount reflects a potential net increase.

	2016			2015		
	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
<b>Currency</b>						
Brazilian Real	+/- 5%	-	+/-28	+/- 5%	+/-11	+/-2
Pound Sterling	+/- 5%	-	-	+/- 5%	+/-1	-
Egyptian Pound	+/- 5%	+/-1	+/-4	+/- 5%	-	+/-8
Jordanian Dinar	+/- 5%	+/-2	+/-9	+/- 5%	+/-1	+/-9
Algerian Dinar	+/- 5%	-	+/-6	+/- 5%	-	+/-6
Qatari Riyal	+/- 5%	-	-	+/- 5%	+/-10	-
Omani Riyal	+/- 5%	-	-	+/- 5%	+/-8	-
Bahrain Dinar	+/- 5%	-	-	+/- 5%	+/-4	-
UAE Dirham	+/- 5%	-	-	+/- 5%	-/+5	-

**24 RISK MANAGEMENT (continued)****Equity price risk**

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

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

	2016		2015	
	% Change in equity price	Effect on statement of profit or loss/ equity	% Change in equity price	Effect on statement of profit or loss/ equity
<b>Trading equities</b>	+/- 5%	-	+/- 5%	+/-6
<b>Available-for-sale equities</b>	+/- 5%	+/-1	+/- 5%	+/-2

**Operational risk**

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

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

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



**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 2016 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.

<b>At 31 December 2016</b>	<b>Within 1 month</b>	<b>1 - 3 months</b>	<b>3 - 6 months</b>	<b>6 - 12 months</b>	<b>1 - 5 years</b>	<b>5-10 years</b>	<b>10- 20 years</b>	<b>Total</b>
<b>Financial liabilities</b>								
Deposits from customers	5,670	2,090	1,036	1,498	3,092	49	81	13,516
Deposits from banks and other financial institutions	2,671	782	1,072	1,337	1,077	192	1	7,132
Securities sold under repurchase agreements	155	-	12	-	2	-	-	169
Certificates of deposits	9	1	5	10	12	-	-	37
Interest payable and other liabilities	929	45	42	67	86	3	-	1,172
Term notes, bonds and other term financing	-	64	1,155	955	1,114	1,554	-	4,842
<b>Total non-derivative undiscounted financial liabilities on statement of financial position</b>	<b>9,434</b>	<b>2,982</b>	<b>3,322</b>	<b>3,867</b>	<b>5,383</b>	<b>1,798</b>	<b>82</b>	<b>26,868</b>
<b>ITEMS OFF STATEMENT OF FINANCIAL POSITION</b>								
Gross settled foreign currency derivatives	3,379	868	654	326	551	44	-	5,822
Guarantees	3,333	-	-	-	-	-	-	3,333

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

All figures in US\$ Million

**24 RISK MANAGEMENT (continued)****Liquidity risk (continued)**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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 2016	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
<b>ASSETS</b>												
Liquid funds	1,480	50	111	55	1,696	135	-	-	-	-	135	1,831
Trading securities	-	11	30	6	47	643	16	2	-	3	664	711
Placements with banks and other financial institutions	3,810	229	61	30	4,130	-	-	-	-	-	-	4,130
Securities bought under repurchase agreements	1,507	-	49	-	1,556	-	-	-	-	-	-	1,556
Non-trading securities	2,509	409	975	542	4,435	1,015	158	2	-	25	1,200	5,635
Loans and advances	2,188	1,863	1,903	1,983	7,937	5,241	1,228	264	13	-	6,746	14,683
Others	58	10	17	24	109	197	16	1	-	1,272	1,486	1,595
<b>Total assets</b>	<b>11,552</b>	<b>2,572</b>	<b>3,146</b>	<b>2,640</b>	<b>19,910</b>	<b>7,231</b>	<b>1,418</b>	<b>269</b>	<b>13</b>	<b>1,300</b>	<b>10,231</b>	<b>30,141</b>
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS</b>												
Deposits from customers	3,604	1,247	550	1,158	6,559	6,599	38	38	-	-	6,675	13,234
Deposits from banks and other financial institutions	2,790	647	1,024	1,236	5,697	1,055	153	1	-	-	1,209	6,906
Certificates of deposit	9	1	5	10	25	12	-	-	-	-	12	37
Securities sold under repurchase agreements	155	-	12	-	167	2	-	-	-	-	2	169
Term notes, bonds and other term financing	-	53	1,125	925	2,103	836	1,330	-	-	-	2,166	4,269
Others	51	45	42	67	205	86	3	-	-	972	1,061	1,266
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,260	4,260	4,260
<b>Total liabilities, shareholders' equity and non-controlling interests</b>	<b>6,609</b>	<b>1,993</b>	<b>2,758</b>	<b>3,396</b>	<b>14,756</b>	<b>8,590</b>	<b>1,524</b>	<b>39</b>	<b>-</b>	<b>5,232</b>	<b>15,385</b>	<b>30,141</b>
Net liquidity gap	4,943	579	388	(756)	5,154	(1,359)	(106)	230	13	(3,932)	(5,154)	-
Cumulative net liquidity gap	4,943	5,522	5,910	5,154		3,795	3,689	3,919	3,932	-		

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

All figures in US\$ Million

**24 RISK MANAGEMENT (continued)****Liquidity risk (continued)**

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

## 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).

	2016					Total
	MENA subsidiaries	International wholesale banking	Group treasury	ABC Brasil	Other	
Net interest income	139	143	30	215	11	538
Other operating income	38	84	15	156	34	327
<b>Total operating income</b>	<b>177</b>	<b>227</b>	<b>45</b>	<b>371</b>	<b>45</b>	<b>865</b>
Profit before impairment provisions	79	141	30	258	18	526
Impairment provisions - net	(3)	(11)	-	(78)	-	(92)
Profit before taxation and unallocated operating expenses	76	130	30	180	18	434
Taxation on foreign operations	(22)	(7)	(1)	(73)	-	(103)
Unallocated operating expenses						(97)
<b>Profit for the year</b>						<b>234</b>
Operating assets	3,146	9,924	9,178	7,815	78	30,141
Operating liabilities	2,688	-	16,591	6,597	5	25,881
	2015					Total
	MENA subsidiaries	International wholesale banking	Group treasury	ABC Brasil	Other	
Net interest income	135	113	45	207	2	502
Other operating income	51	91	7	48	30	227
<b>Total operating income</b>	<b>186</b>	<b>204</b>	<b>52</b>	<b>255</b>	<b>32</b>	<b>729</b>
Profit before impairment provisions	91	122	32	147	8	400
Impairment provisions - net	(7)	(9)	6	(60)	-	(70)
Profit before taxation and unallocated operating expenses	84	113	38	87	8	330
Taxation on foreign operations	(26)	(6)	(1)	32	-	(1)
Unallocated operating expenses						(92)
<b>Profit for the year</b>						<b>237</b>
Operating assets	3,588	9,622	8,879	6,039	67	28,195
Operating liabilities	3,049	-	15,864	5,169	5	24,087

## 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 2016 and 2015:

	Bahrain	ABCIB	Banco ABC Brasil	Other	Total
<b>2016</b>					
<b>Total operating income</b>	<b>197</b>	<b>103</b>	<b>371</b>	<b>194</b>	<b>865</b>
<b>2015</b>					
<b>Total operating income</b>	<b>174</b>	<b>95</b>	<b>255</b>	<b>205</b>	<b>729</b>

There were no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenue (2015: none).

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\$ 169 million (2015: US\$ 579 million). The carrying value of securities sold under repurchase agreements at the year-end amounted to US\$ 169 million (2015: US\$ 619 million).

Amounts paid for assets purchased under resale agreements at the year-end amounted to US\$ 1,556 million (2015: US\$ 1,447 million) and relate to customer product and treasury activities. The market value of the securities purchased under resale agreements at the year-end amounted to US\$ 1,569 million (2015: US\$ 1,478 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	2016	2015
Deposits from customers	3,224	-	5	3,229	3,362
Term notes, bonds and other term financing	1,505	670	-	2,175	2,175
Short-term self-liquidating trade and transaction-related contingent items	377	-	-	377	842



**27 TRANSACTIONS WITH RELATED PARTIES (continued)**

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

	2016	2015
Commission income	13	6
Interest expense	77	66

Compensation of the key management personnel is as follows:

	2016	2015
Short term employee benefits	17	17
Post employment benefits	3	4
	<u>20</u>	<u>21</u>

**28 FIDUCIARY ASSETS**

Funds under management at the year-end amounted to US\$ 14,715 million (2015: US\$ 14,514 million). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

**29 ISLAMIC DEPOSITS AND ASSETS**

Deposits from customers, banks and financial institutions and term notes, bonds and other financing include Islamic deposits of US\$ 388 million (2015: US\$ 718 million). Loans and advances, non-trading securities and placements include Islamic assets of US\$ 1,473 million (2015: US\$ 1,174 million), US\$ 697 million (2015: US\$ 365 million) and US\$ 149 million (2015: US\$ 160 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\$ 642 million (2015: US\$ 213 million) have been pledged as security for borrowings and other banking operations.

**31 BASIC AND DILUTED EARNINGS PER SHARE AND PROPOSED DIVIDENDS AND TRANSFERS****31.1 Basic and diluted earnings per share**

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

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

	2016	2015
Profit attributable to the shareholders of the parent	183	180
Weighted average number of shares outstanding during the year (millions)	3,110	3,110
Basic and diluted earnings per share (US\$)	0.06	0.06

**31.2 Proposed dividends and transfers**

	2016	2015
Proposed cash dividend for 2016 of US\$ 0.03 per share (2015: nil)	93	-

The proposed cash dividend is subject to regulatory approvals and 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 2016 are based on standardised measurement methodology and in accordance with the CBB Basel III guidelines.

<b>CAPITAL BASE</b>		<b>2016</b>	<b>2015</b>
CET 1		<b>4,101</b>	4,026
AT 1		<b>53</b>	45
Total Tier 1 capital		<b>4,154</b>	4,071
Tier 2		<b>384</b>	502
Total capital base	[a]	<b>4,538</b>	4,573
<b>RISK WEIGHTED EXPOSURES</b>		<b>2016</b>	<b>2015</b>
Credit risk weighted assets and off balance sheet items		<b>20,757</b>	20,451
Market risk weighted assets and off balance sheet items		<b>1,412</b>	1,444
Operational risk weighted assets		<b>1,568</b>	1,642
Total risk weighted assets	[b]	<b>23,737</b>	23,537
Risk asset ratio	[a/b*100]	<b>19.1%</b>	19.4%
Minimum requirement		<b>12.5%</b>	12.5%

The Group's capital base primarily comprises:

(a) Tier 1 capital: share capital, reserves, retained earnings, non controlling interests, profit for the year and cumulative changes in fair value

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

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