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In accordance with Regulation 32 of the Overseas Companies Regulations 2009.

OS AA01

Statement of details of parent law and other information for an overseas company

Companies House

✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law.

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COMPANIES HOUSE

Part 1 Corporate company name

→ **Filling in this form**
Please complete in typescript or in bold black capitals.

All fields are mandatory unless specified or indicated by *

Corporate name of overseas company ❶	Gulf International Bank B.S.C.
UK establishment number	B R 0 0 1 2 2 7

❶ This is the name of the company in its home state.

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited.

Legislation ❷	Central Bank of Bahrain Rulebook / Ministry of Commerce Bahrain

❷ This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts.

A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box.

☐ **No.** Go to **Section A3.**

☑ **Yes.** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3.**

Name of organisation or body ❸	International Financial Reporting Standards (IFRS)

❸ Please insert the name of the appropriate accounting organisation or body.

A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box.

☐ **No.** Go to **Section A5.**

☑ **Yes.** Go to **Section A4.**

OS AA01

Statement of details of parent law and other information for an overseas company

A4 Audited accounts

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box.

☐ **No.** Go to **Part 3 'Signature'**.

☑ **Yes.** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**.

Name of organisation or body ❶

International Standards on Auditing (ISA)

❶ Please insert the name of the appropriate accounting organisation or body.

A5 Unaudited accounts

Unaudited accounts

Is the company required to have its accounts audited?

Please tick the appropriate box.

☐ No.

☑ Yes.

Part 3 Signature

I am signing this form on behalf of the overseas company.

Signature

Signature

X S. [signature] X

This form may be signed by:
Director, Secretary, Permanent representative.

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name: Maryam Merali
Company name: Gulf International Bank (UK) Limited
Address: One Knightsbridge

Post town: London
County/Region:
Postcode: S W 1 X 7 X S
Country: United Kingdom
DX:
Telephone: 0207 259 3102

Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.

Important information

Please note that all this information will appear on the public record.

Where to send

You may return this form to any Companies House address:

England and Wales:
The Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF14 3UZ.
DX 33050 Cardiff.

Scotland:
The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post).

Northern Ireland:
The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG.
DX 481 N.R. Belfast 1.

Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

The Gulf's International Bank

Experience, Strength, Evolution

Annual Report 2015

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Contents

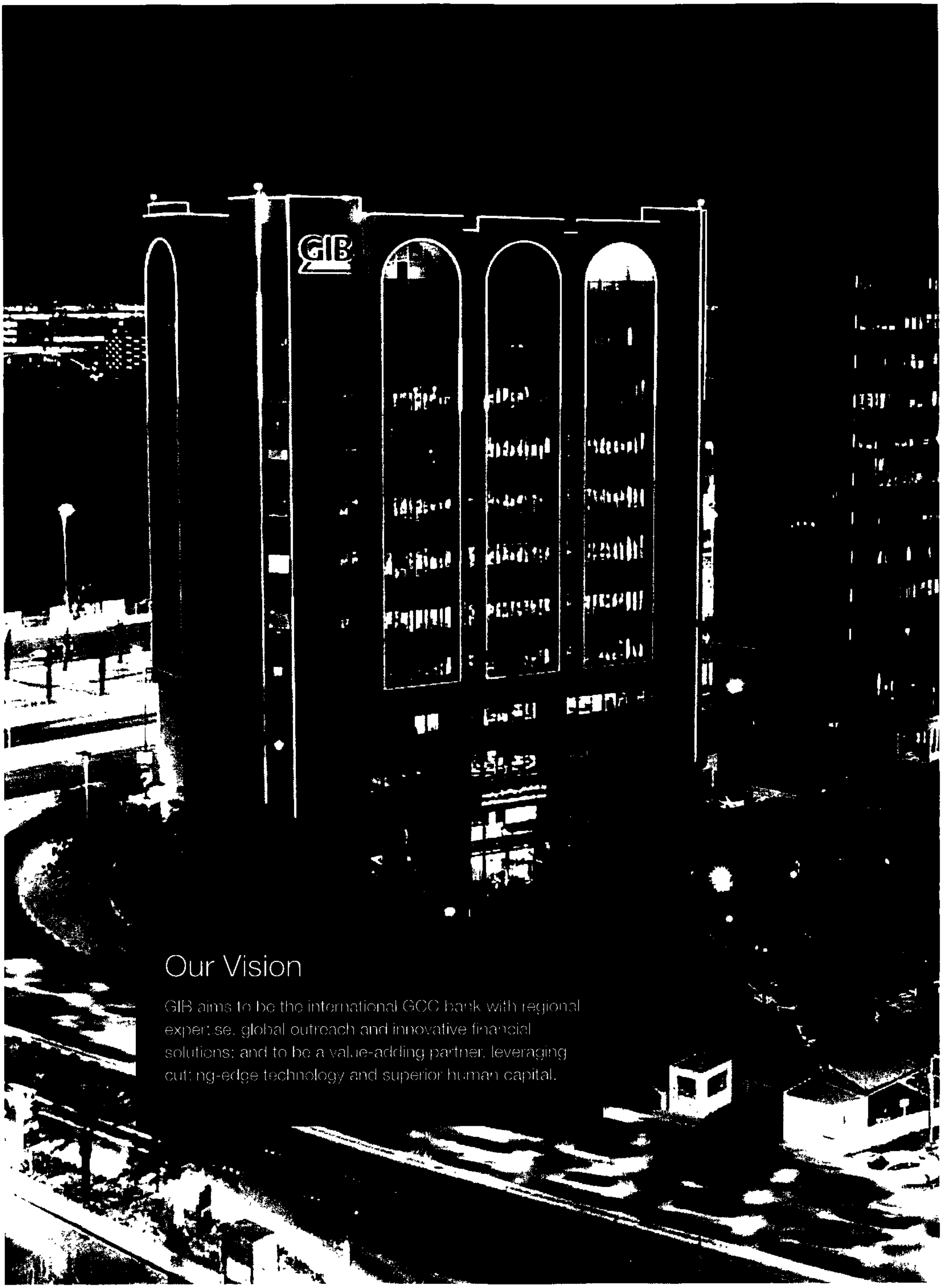
Gulf International Bank

Gulf International Bank B.S.C. (GIB) is a leading pan-GCC universal bank, specialising in corporate and investment banking, with a growing retail footprint.

Founded in 1975, GIB provides innovative, client-focused solutions covering wholesale banking, treasury, investment banking, asset management, financial market products, and Shariah-compliant banking. In January 2015, the Bank officially launched Meem by GIB (meemم), a Shariah-compliant retail bank in Saudi Arabia, offering a suite of innovative, non-traditional banking products and services.

GIB employs over 1,000 professionals across its offices around the world. Its main subsidiaries are UK-based Gulf International Bank (UK) Ltd.; and Saudi Arabian-based GIB Capital LLC. The Bank has branches in London, New York, Abu Dhabi, Dhahran, Riyadh and Jeddah, together with representative offices in Dubai and Beirut.

Headquartered in the Kingdom of Bahrain, GIB is licensed as a conventional wholesale bank by the Central Bank of Bahrain. Owned by the governments of the six GCC countries, GIB's principal shareholder is the Public Investment Fund of Saudi Arabia, with a majority stake of 97.2 per cent.



Our Vision

GIB aims to be the international GCC bank with regional expertise, global outreach and innovative financial solutions; and to be a value-adding partner, leveraging cutting-edge technology and superior human capital.

Board of Directors

H.E. Jammaz bin Abdullah Al-Suhaimi
Chairman
Kingdom of Saudi Arabia

H.E. Mr. Sulaiman bin Abdullah Al-Hamdan
Vice Chairman
President, General Authority of Civil Aviation
Kingdom of Saudi Arabia

Professor Abdullah bin Hassan Alabdulgader
Independent Consultant
Kingdom of Saudi Arabia

Mr. Abdulla bin Mohammed Al Zamil
Chief Executive Officer
Zamil Industrial Investment Company
Kingdom of Saudi Arabia

Mr. Khaled bin Saleh Al-Mudaifer
President and CEO
Maaden (Saudi Arabian Mining Company)
Kingdom of Saudi Arabia

Mr. Omar Hadir Al-Farisi
Managing Member
Diyala Advisors
United States of America

Dr. Yahya A. Alyahya
Chairman, Gulf International Bank (UK) Limited
Kingdom of Saudi Arabia

Financial highlights

	2015	2014	2013	2012	2011	2010
Earnings (US$ millions)						
Net income after tax	**90.4**	85.6	121.5	117.9	104.5	100.4
Net interest income	**188.2**	158.0	163.1	149.4	143.8	156.2
Fee and commission income	**70.2**	62.9	62.0	56.7	48.5	42.2
Operating expenses	**192.1**	164.9	151.6	136.1	119.8	113.3
Financial position (US$ millions)						
Total assets	**24,192.4**	21,300.2	21,156.9	17,704.8	16,788.9	15,527.7
Loans	**9,161.4**	7,931.5	8,317.2	7,110.3	6,751.8	7,510.1
Investment securities	**3,884.5**	3,944.5	3,725.8	3,560.1	3,151.7	3,067.8
Senior term financing	**2,420.0**	3,372.9	2,332.9	2,432.7	3,690.3	3,176.6
Equity	**2,431.0**	2,350.7	2,264.0	2,130.2	1,962.8	1,918.0
Ratios (per cent)						
Profitability						
Return on average equity	**3.8**	3.7	5.5	5.8	5.4	5.4
Return on average assets	**0.4**	0.4	0.6	0.7	0.6	0.6
Capital						
Risk asset ratio (Basel 3)						
– Total	**17.7**	19.6	18.9	20.1	23.3	24.3
– Tier 1	**16.8**	18.1	16.9	17.4	19.2	18.7
Equity as % of total assets	**10.0**	11.0	10.7	12.0	11.7	12.4
Asset quality						
Securities as % of total assets	**16.4**	18.9	17.9	20.7	19.3	20.3
Loans as % of total assets	**37.9**	37.2	39.3	40.2	40.2	48.4
Liquidity						
Liquid assets ratio	**60.0**	60.9	58.8	57.9	58.2	50.0
Deposits to loans cover (times)[1]	**2.1**	2.2	2.1	2.0	2.0	1.6

[1] Deposits include senior term financing

CREDIT RATINGS

	Fitch	**Moody's Ratings**	**Capital Intelligence**
Long-term Deposit Rating	A	Baa1	A+
Long-term Senior Unsecured Debt Rating	A	A3	-
Short-term Deposit Rating	F1	P-2	A1
Viability	bbb-	-	-
Financial Strength	-	-	BBB+
Outlook	Stable	Under review	Stable

H.E. Jammaz bin Abdullah Al-Suhaimi
Chairman

Chairman's statement

On behalf of the Board of Directors, it is my privilege and pleasure to present the annual report of Gulf International Bank (GIB) for the fiscal year ended 31 December 2015. Despite the many challenges during this period, not least the dramatic drop in oil prices and intensified market volatility, GIB posted a strong overall performance as measured by financial results, business and operational achievements, and solid progress on the delivery of the Bank's strategy.

Financial results

GIB recorded another robust financial performance for 2015. Net income after tax was US$90.4 million compared with US$85.6 million in the previous year, representing a 5.6 per cent year-on-year increase. Total income at US$308.0 million was US$50.4 million or 19.6 per cent up on 2014, with increases recorded in all income categories. This reflects the successful progress in implementing the new business strategy to transform GIB into a leading pan-GCC universal bank providing innovative customer-centric solutions. The growth in total income more than offset an increase in total expenses of US$27.2 million associated with GIB's innovative retail bank, resulting in an improvement in net income before provisions and tax of US$23.2 million or 25.0 per cent.

Net interest income at US$188.2 million for 2015 was US$30.2 million or 19.1 per cent up on the previous year. This growth principally reflected an increase in the loan volume, as the Bank continued to successfully re-orientate its lending activities from transactional-based long-term project and structured finance to relationship-based large and mid-cap corporates. Fee and commission income at US$70.2 million was US$7.3 million or 11.6 per cent up on 2014, and comprised 22.8 per cent of total income. This underlined the success of GIB's strategic focus on relationship-orientated products and services, and enhancement of fee income.

Foreign exchange income at US$19.8 million was US$0.4 million or 2.1 per cent up on 2014. This primarily comprised revenue from customer-related activities, and in particular, revenues derived from bespoke structured products designed to assist customers in hedging their foreign exchange exposures in volatile markets. Trading income at US$6.2 million improved by US$3.8 million over the previous year. This principally comprised gains on an investment in a fund managed by the Bank's London-based subsidiary, GIB (UK) Limited, and customer-related interest rate derivative income. Other income at US$23.6 million was US$8.7 million or 58.4 per cent up on 2014. Other income for 2015 consisted largely of dividends on equity investments and asset recoveries.

Total expenses at US$192.1 million for the year were US$27.2 million or 16.5 per cent up on 2014. The increase was attributable to the ongoing investment in GIB's new retail banking proposition, and the new core banking and treasury systems which were implemented in the middle of 2015. A loan provision charge of US$21.3 million was made in 2015 compared with US$10.3 million in the previous year.

Consolidated total assets at the end of 2015 stood at US$24.2 billion, being US$2.9 billion or 13.6 per cent higher than at the end of the previous year. The asset profile reflected a high level of liquidity. Cash and other liquid assets, and short-term placements, totalled US$10.5 billion and represented an exceptionally high 43.6 per cent of total assets. Investment securities, which principally comprised highly-rated and liquid debt securities issued by major financial institutions and regional government-related entities, amounted to US$3.9 billion. Loans and advances grew to US$9.2 billion, being US$1.2 billion or 15.5 per cent higher than 2014, reflecting new relationship-based large and mid-cap corporate loans. Shareholders' equity at the end of 2015 stood at US$2.43 billion compared with US$2.35 billion at the end of the previous year, with return on average equity for 2015 at 3.8 per cent against 3.7 per cent for 2014. Return on average equity has been subdued due to the Bank's business model, and we expect this to continue in the short-term. However, following the planned breakeven of the new retail bank in the next three to four years, we envisage returns to improve significantly.

There was a further improvement in the Bank's funding profile during 2015, with a US$1.8 billion or 13.8 per cent increase in customer deposits,

which accounted for 88.1 per cent of total deposits. Securities sold under agreements to repurchase (repos) increased by US$1.5 billion to US$2.1 billion. This reflected a strategic initiative to fund a higher proportion of the investment security portfolio through repos in order to minimise the related funding costs. A US$1.0 billion decrease in senior term financing was due to the maturity of a Saudi Riyal denominated bond issue in the second quarter of the year, while a US$0.3 billion decrease in subordinated term financing reflected the payment of a subordinated debt issue that matured in September 2015. GIB's robust funding position demonstrates the confidence of the Bank's customers and counterparties based on its strong ownership and financial strength. The Basel 3 total and tier 1 capital adequacy ratios at the end of 2015 were an exceptionally strong 17.8 per cent and 16.8 per cent, respectively.

Industry recognition

During 2015, the international rating agencies endorsed their confidence in GIB's financial strength. Significantly, Moody's Investors Service (Moody's) affirmed GIB's senior debt and foreign currency deposit rating at A3, and upgraded the outlook from negative to stable. Moody's stated that their ratings affirmation and outlook upgrade "reflects GIB's strong capital and liquidity buffers; improvements in the bank's asset quality metrics; and a reduction in the level of concentrations of the bank's asset base". We view this affirmation as solid confirmation of GIB's enhanced asset quality and robust capital position. We are confident that this strength will improve further in the future, as we expand our presence regionally and globally, generating a steady source of funding and diversified earnings for our shareholders.

Further recognition of our business achievements took the form of additional industry awards during the year. GIB was named 'Best Equity Bank in the Middle East', 'Best Investment Bank in Bahrain' and 'Safest Bank in Bahrain' by Global Finance; and was recognised as the 'Fastest-growing Asset Management Bank - Saudi Arabia' by Global Banking & Finance Review. GIB was also named 'Asset Manager of the Year - Bahrain' and 'Regional Equities Manager of the Year' by the Global Investor. The Bank won the 'Best IPO Deal in the Middle East', 'Best Sovereign Bond' and 'Best Merger & Acquisition Deal' awards from EMEA Finance; and 'Deal of the Year' award from The Banker. In addition, GIB's Emerging Markets Opportunities Fund received the 'Credit Specialist' award from Alternative Credit Intelligence.

Strategic progress

I am pleased to report that we made solid progress during the year in implementing our strategy. We continued to follow the vision first charted in 2010, to transform GIB into a pan-GCC universal bank, along with a strategy to enable its achievement. We previously defined three interconnected and equally-weighted priorities to help us deliver our strategy: grow the business; grow and diversify the funding base; and improve shareholder value. Each priority was complemented and underpinned by strategic initiatives within our operations.

Chairman's statement continued

The Bank's strategy is driven through five strategic pillars covering Wholesale Banking, Treasury, Retail Banking, Asset Management and Investment Banking. GIB continues to grow these businesses organically in each of the key GCC markets.

Key strategic highlights of 2015 include the official launch of GIB's unique technology-based retail bank in Saudi Arabia under the brand name Meem by GIB (meem), which marked the beginning of a new chapter in the Bank's strategic evolution. In addition, a new wholesale banking branch in Abu Dhabi was inaugurated, strengthening GIB's ambition to be the leading pan-GCC bank with strong regional expertise. GIB has had a representative office in Abu Dhabi since 1990, and the Emirate has played a pivotal role in the Bank's growth and evolution. Our operations in the UAE are further enhanced by the Dubai representative office, which was opened in 2014.

Business performance

Our strong business achievements during 2015 continued to support the implementation of the Bank's strategy. The development of new corporate banking and treasury relationships with large- and mid-cap corporates, has enabled GIB to grow its loan portfolio; increase non asset-based, client-related revenues; boost fee and commission income through better cross-selling; and enhance its funding profile by attracting deposits from new customers. Additionally, the Bank's Shariah-compliant banking business witnessed another active year. GIB Capital led a number of high-profile investment banking deals in 2015, with a particular focus on debt capital markets and debt advisory mandates. The Bank's asset management business, which is managed by GIB (UK) Limited, also performed well, with the fixed income business being the driver of improved revenue performance. Following the receipt of Securities & Exchange Commission (SEC) registration, the Bank won a US$100 million fixed income mandate from one of the top ten US pension funds.

Institutional capability

During 2015, we renewed our focus on strengthening the Bank's institutional capability, in order to support the realisation of our strategy and continued business growth. This involved the strategic alignment of people, products, processes and systems across the organisation. Key initiatives included the development and piloting of a new comprehensive HR change management programme; full deployment of the new core banking system with the implementation of new wholesale banking and treasury systems; and restructuring and

streamlining organisation-wide end-to-end operational processes and procedures. We further strengthened the Bank's corporate governance and risk management frameworks to ensure continued compliance with the latest rules and requirements of regulators in the various jurisdictions in which GIB operates. In addition, a new corporate social responsibility programme – WAGIB – was launched to support local communities in Bahrain and Saudi Arabia; and a new strategically-aligned corporate communications strategy was implemented.

Further recognition of our business achievements took the form of additional industry awards during the year. GIB was named 'Best Equity Bank in the Middle East', 'Best Investment Bank in Bahrain' and 'Safest Bank in Bahrain' by Global Finance.

Leadership changes

During 2015, the Board of Directors was re-appointed for a new three-year term. H.E. Dr. Hamad bin Sulaiman Al-Bazai resigned from the Board and was replaced as Vice Chairman by H.E. Mr. Sulaiman bin Abdullah Al-Hamdan. On behalf of my fellow directors, I thank Dr. Al-Bazai for his valuable contribution since 1999, and in turn welcome Dr. Yahya A. Alyahya, who joined the Board. Dr. Alyahya has stepped down as Chief Executive Officer at the end of January 2016, and has been replaced by Mr. Abdulaziz A. Al-Helaissi, who brings with him decades of banking experience that is uniquely relevant to leading GIB in the next phase of its strategic evolution. He was most recently Deputy Governor for Supervision at the Saudi Arabian Monetary Agency (SAMA), and previously held senior leadership positions over the course of 26 years with various banking institutions in Saudi Arabia.

The immense energy, focus and commitment of Dr. Alyahya to GIB over the past seven years are deeply valued by the Board. He was instrumental in returning the Bank to profitability in 2010 after two years of reporting material losses; and also led the launch of GIB's new strategy for becoming a pan-GCC universal bank. The successful restructuring of wholesale activities, the launch of retail operations, expansion of regional asset management capabilities, and strengthening of the support infrastructure, are testimony to his inspired leadership.

Looking ahead

As we prepare to embark upon our fifth decade of operations, we are fully aware that 2016 will be an extremely challenging year. Key issues facing the GCC region include declining oil prices, market volatility, lack of liquidity, and fiscal reforms; together with continuing geo-political tensions across many parts of the region. Nevertheless, GIB is strongly positioned to face all future challenges, and the Board has every confidence in the Bank's management to continue implementing our new strategy and achieve our ambitious business goals. Over the past few years, we have put in place solid foundations through which to support our strategic objectives to grow and develop the business across the GCC region.

Acknowledgements

On behalf of the Board of Directors, I would like to express my sincere appreciation for the unwavering confidence and support of our shareholders, the enduring trust and loyalty of our clients; the continued encouragement and cooperation of our counterparties, and the ongoing advice and guidance of the regulatory and supervisory bodies in the various jurisdictions where GIB operates.
I also take this opportunity to pay special tribute to the commitment and professionalism of our management and staff, and their positive attitude towards embracing change and implementing the Bank's strategic and cultural transformation.

Jammaz bin Abdullah Al-Suhaimi
Chairman of the Board

Economic review 2015

Global growth remains tepid amid uneven prospects for countries and regions around the world. The persistently modest pace of recovery in the developed economies, and the fifth consecutive year of growth decline in the emerging markets space fuelled uncertainty and volatility throughout the year.

Global economic trends and outlook

Declining commodity prices, reduced capital flows to emerging markets, exchange rate pressures, and increasing financial market volatility have tilted the balance of risks for global economic prospects towards the downside.

The US economic recovery continues but at an uneven pace, evidenced by the volatile performance of economic data, notably weakness in the manufacturing sector. Although impressive gains in the labour market have underpinned confidence, this has yet to translate into a meaningful improvement in consumer confidence and consumer spending. Inflation also continues to remain below the US Federal Reserve's (Fed) 2.0% target, and is not expected to rise to that pace until well into 2017, restrained by pass-through from the strong dollar, weak oil prices and anaemic wage gains.

The year ended with the Fed raising its target federal funds rate by a quarter percentage point from a range of 0% to 0.25% to between 0.25% and 0.50%. After an extraordinarily long period of accommodative monetary policy, the Fed cited confidence in the economic fundamentals, the health of US households, and domestic spending, as the factors driving the increase in interest rates. In spite of pressures on some sectors of the economy, particularly manufacturing and energy, the Fed added the potential for further rate increases during the course of the coming year.

A moderate recovery is also underway in the European Union (EU) supported by low oil prices, a euro depreciation, and continued accommodative policy through quantitative easing. However, growth potential remains weak, while subdued inflation is a key cause of concern. Similarly, while Japan's economic activity has improved gradually, policy has remained geared towards additional stimulus and quantitative easing, as growth and inflation indicators continue to disappoint.

The onset of a tightening US interest rate cycle has added to an already long list of challenges facing the global economy: concerns about China's overall economic prospects; rising global debt levels; festering deflation fears; weak corporate revenues, and the seeming ineffectiveness of the extraordinary action from central banks to buttress the economic recovery. Going forward, higher US interest rates and the further strengthening of the US dollar will dampen prospects for the rest of the world (particularly the emerging market countries), given the negative implications of higher debt repayments

for dollar-denominated borrowings and the heightened risk of capital outflows.

A number of downside risks have emerged, and pose a considerable challenge to the fragile and unbalanced state of the global economic recovery, including:

- The highly-volatile nature of financial markets coupled with the increased tendency and correlations for global asset prices to move in unison.
- The increased risk of global financial instability stemming from financial market volatility.
- Uncertainty about China's economic conditions, and the risk of spillovers into emerging markets.

- Lower prices for oil and other commodities complicate the outlook for commodity exporters, and are increasingly being viewed as indicators of faltering global demand and economic stagnation across developed and developing economies.
- Escalation of geopolitical tensions threatens the disruption in global trade, capital and investment flows.

Banking industry trends

Lacklustre global economic performance in an era of low growth and low interest rates continues to pose tremendous challenges for the banking industry. After the upheavals following the onset of the global financial crisis, banks are under tremendous stakeholder pressure to adopt new business models that capably meet the demands of the tough global banking environment. Key trends such as technology (digital revolution) and growing regulation are driving the change, making it harder for traditional players to cope. The former has lowered the industry's barriers to entry and fuelled intense competitive pressure, while the latter has significantly inflated the cost base. Unsurprisingly, the industry's return on equity has eroded and remains weak.

A changing customer base influenced by the technology and the digital revolution is also creating new and different banking needs. Huge investments are becoming necessary to rejuvenate seemingly out-of-date banking infrastructure and style. There is new focus on customer-centricity, including greater transparency; personalised products; seamless transition between channels; emphasis on solutions rather than products; and an array of digital offerings. Banks are also changing their operational footprint through enhancing entity rationalisation, functionalisation and efficiency. The business of banking is moving towards more simplification of the business model and the deconstructing of products.

Global outlook

In its latest forecasts, the International Monetary Fund (IMF) estimates global growth to strengthen from 3.1% in 2015 to a projected 3.4% in 2016 and 3.6% in 2017. Global activity is likely to progress at a more gradual pace, especially in emerging market and developing economies; while economic recovery in the developed economies will be ongoing, but remain modest and uneven. The IMF noted that near-term risks to the outlook remain tilted to the downside, and relate to the ongoing adjustments in the global economy: a generalised slowdown in emerging market economies; China's economic slowdown and rebalancing; lower commodity prices; and the gradual exit from extraordinarily accommodative monetary conditions in the United States. If these key challenges are not successfully managed, global growth could be derailed.

GCC economic trends and outlook

The year was dominated by the sharp fall in oil prices, and the debate over its impact on the GCC's regional economies. The steep decline in oil prices certainly poses numerous challenges for the Gulf countries as fiscal revenues and external surpluses

Economic review 2015 continued

have dramatically declined; and further led to significant volatility in the region's currencies and capital markets. However, as has been demonstrated since the oil price decline, regional economies have ample policy space to manage the downturn due to large foreign exchange reserves and low debt levels – the latter also underpin the region's dollar peg regime. In particular, continued strong public spending has helped mitigate the impact on economic activity.

Nevertheless, there remains uncertainty on the time period before regional conditions start to deteriorate, with the immediate focus on the structural challenges facing the banking system. Although regional banking systems are expected to remain reasonably sound in the short-term, there is risk of a sudden sharp withdrawal of government deposits, which would induce liquidity pressures in banks, should oil prices remain low for an extended period of time. The increase in US interest rates has exacerbated the concerns, as this will lead to a tightening in financial conditions across the GCC countries because of the exchange rate peg. Eventually, this may also lead to a deceleration in private sector credit growth – even if US rates rise only modestly.

Much will depend on the trajectory of oil prices and when the current downward trend starts to reverse. The wild card is oil supply, notably the outlook for unconventional hydrocarbon sources such as US shale oil and Iran's return to the market – both supply sources proving to be difficult to forecast.

So far, the risk of a collapse in the oil market does not appear to be the case. On the contrary, current oil market dynamics suggest that the seeds of the next oil boom may have already been sown for three key reasons. First, Saudi Arabia's decision to abandon its role of swing producer as part of a long-term strategy to retain market share has resulted in energy investment cuts worldwide; cooled the US shale boom; and impacted expansion in production capacity by other oil producers. Second, despite its high-cost status, US shale has proven to be resilient despite the dramatic fall in oil prices. However, production levels are beginning to fall, while US energy and environmental policies also limit how aggressively US companies can compete on exports. Third, various security and geopolitical risks in the Middle East have elevated the probability of sudden oil supply disruptions.

Indeed, large parts of the Middle East region are fractured by conflict and tension, including the civil war in Syria and spillover effects on neighbouring Jordan and Lebanon; the spread of Islamic State (ISIS), which now controls large territories of Syria and Iraq, ongoing insurgencies in Libya; the war in Yemen; the fragile political transitions in Egypt and Tunisia; and the still uncertain political liberalisations in Morocco and Jordan, which accompanied with weak macroeconomic fundamentals and unfinished reform agenda, have kept economic performance far below potential. Added to this are the still unknown ramifications on the political and economic relations between GCC countries and Iran in a post-sanctions era.

The GCC region is well positioned to cope with the slump in oil prices in the near-term, notwithstanding the challenging financial conditions.

GCC outlook

The GCC region is well positioned to cope with the slump in oil prices in the near-term, notwithstanding the challenging financial conditions. Regional countries are likely to be able to absorb adverse external headwinds, and expectations are that the real GDP growth will remain positive. Supporting the favourable outlook is the proactive stance adopted by GCC policy makers towards the decline in oil prices, with increased emphasis on efficiency; expenditure rationalisation (i.e. initiating reductions in subsidies to ease the financial pressures); and expectations that the region will implement a value-added tax in the near future.

Economic growth (both oil and non-oil) has started to decline, but is forecast to remain positive up to 2017 even under the most pessimistic scenarios. According to IMF data, real GDP growth is estimated to average around 3.4% in 2015 for the Gulf region, and forecast to drop moderately in 2016 to just below 3%. Recent announcements by GCC countries of local debt issuances, with Saudi Arabia tapping international capital markets for the first time, are considered positive developments for longer-term asset and liability management of the region. This entails better matching infrastructure needs with longer-term funding, and should reduce the drawdown of foreign exchange reserves, as well as contribute to the deepening of regional capital markets.

However, the region has to contend with a number of challenges associated with low oil prices. GCC financial markets have been under pressure since oil prices started to decline, and recently this has escalated speculation against the sustainability of the GCC currencies' peg to the US dollar. This is common during periods of low oil prices; in Saudi Arabia, during past episodes of speculation against the Saudi riyal peg to the US dollar, the Saudi Arabian Monetary Agency (SAMA) engaged in small-scale interventions to ward off concerns; and expectations are that it may do the same this time around. The Saudi riyal peg proved to be resilient during the more intense periods of speculation in 1993, 1998 and 2008; and now the Kingdom's substantially stronger financial position and very low indebtedness imply that despite the stress of low oil prices, there are no realistic prospects of an exchange rate adjustment anytime soon, either in Saudi Arabia or other GCC countries.

The Gulf region's corporate, construction, real estate, and infrastructure companies are expected to face a weaker operating environment in 2016 on the back of low oil prices, while government expenditures (although still at high levels) are slowing down amid easing economic growth. Most GCC countries have fiscal headroom to manage the current downturn; however, their resilience will depend on key policy responses in terms of government spending patterns and debt levels.

A delayed oil price recovery remains the most significant downside risk. If oil prices stay lower for longer, this would deplete the fiscal and external buffers, and entail a more negative impact on the economy. Tough policy adjustments will have to follow, particularly in terms of lowering fiscal spending, and this could adversely impact non-oil growth and the balance sheets of domestic banks.

Management review

The inauguration of the new wholesale banking branch in Abu Dhabi heralded the start of the Bank's geographic expansion plan to establish a solid footprint in all key GCC markets.

Dr. Yahya A. Alyahya
Chief Executive Officer
(from January 2009 to January 2016)

Wholesale Banking

In 2015, GIB continued to make excellent progress in transforming its wholesale banking division into a client-centric, relationship-based business. The strategy is based on three key pillars of client acquisition, geographic footprint and product diversification.

Client base

During the year, the Bank successfully increased its client base by 30 per cent, due in part to more focused customer targeting, and by expanding the relationship management team. A continued focus on cross-selling fee-based corporate and investment banking, treasury, trade finance, and asset management products and services to a wider client base, resulted in an increase in non-asset based client-related revenues. GIB also grew its core loan portfolio by almost a third through successfully re-orientating its lending activities from transactional-based long-term project and structured finance to relationship-based large and mid-cap corporates.

Noteworthy conventional and Shariah-compliant financing deals closed during the year included underwriting and syndicating a US$1 billion sovereign loan to the Government of Oman; acting as mandated lead arranger and book runner for a US$125 million five-year term facility to Bahrain Commercial Facilities Company; and arranging a US$109 million facility for Arab Maritime Petroleum Transport Company. Furthermore, GIB arranged an acquisition financing facility for the acquisition of a stake in a large group in Saudi Arabia; and a SAR157 million financing facility for AJA Pharma, a pharmaceuticals subsidiary of Saudi Chemical Company. The Bank also arranged through GIB Capital, its investment banking arm, a SAR700 million Murabaha facility to a privately-owned Saudi conglomerate.

GIB participated in a number of notable aircraft financing deals for major carriers in the region; and enhanced its relationship with Emirates National Oil Company (ENOC) by participating in a US$1.5 billion syndicated facility. Additionally, the Bank extended a SAR150 million revolving Murabaha facility to Abdulmohsen Alhokair Group for Tourism and Development, to finance working capital requirements.

Geographic footprint

The conversion of the Abu Dhabi representative office into a full-fledged wholesale banking branch has strengthened GIB's ambition to be the leading international GCC bank with regional expertise, global outreach and innovative financial solutions. The Bank's presence in the dynamic UAE market was further enhanced by the newly-established Dubai representative office.

Product diversification

In a key strategic development, GIB commenced implementation of its new transaction banking value proposition. Plans were finalised for the introduction in 2016 of new products such as cash management and structured trade finance, and the launch of a new corporate e-banking portal. Recruitment of a new dedicated team was initiated, together with the development of a network of business partners; while three new corporate banking branches were established to serve clients in the Eastern, Central and Western provinces of Saudi Arabia. GIB also further enhanced its Sharia-compliant product suite to meet growing client demand, by structuring and launching a number of new Shariah-compliant products during the year.

Investment Banking

Against the backdrop of a difficult macroeconomic environment, GIB Capital, the Bank's investment banking arm based in the Kingdom of Saudi Arabia, posted another strong performance in 2015. All three business lines – equity capital markets (ECM), debt capital markets (DCM) and debt advisory (DA) – closed high-profile investment transactions and were successful in securing new mandates. The year witnessed one of the best revenue performances in the history of GIB Capital, with ECM contributing the largest share of the revenues, and DCM and DA performing strongly. Advisory mandates largely comprised assisting corporates with mergers and acquisitions, rights issues, financial restructuring and debt arranging transactions.

ECM transactions in 2015 included a SAR200 million equity-raising exercise for Al Alamiya Cooperative Insurance Company, as well as two M&A transactions for high-profile corporates. DCM transactions included a US$1 billion Sukuk issue for the Islamic Development Bank, a SAR1 billion Sukuk issue for Saudi Binladen Group, and a SAR1 billion Sukuk issue for Abdullah Al Othaim Real Estate Investment & Development Company. DA transactions included a SAR700 million Murabaha facility for a prominent privately-owned company in Saudi Arabia, a US$500 million syndicated Ijarah finance facility for a state-owned utility authority in the UAE, and a US$137 million debt restructuring exercise for a listed company in Bahrain.

GIB Capital enjoyed further industry recognition during 2015 with the receipt of four awards. These were 'Best IPO Deal in the Middle East', 'Best Merger & Acquisition Deal' and 'Best Sovereign Bond' awards from EMEA Finance; and 'Deal of the Year' award from The Banker for landmark transactions concluded during the previous year.

Asset Management

GIB's asset management business, which is managed by its London-based subsidiary – GIB (UK) Limited (GIB UK) – posted another robust performance in 2015, despite increasingly volatile market conditions. Total revenues grew by 13.0 per cent, driven by the fixed income business, which includes the Bank's flagship Emerging Markets Opportunities Fund (EMOF). The global passive equity business, which represents the bulk of assets under management, benefited from strong market values in the first half of the year, before a market correction in the third quarter saw income remain neutral overall. Total funds under management at the end of the year stood at US$12.4 billion compared with US$13.0 billion at the end of 2014.

GIB UK made excellent progress in implementing its new five-year strategic plan for asset management, marked by key developments in sales and marketing activity, product development, and market penetration. A new sales team was formed with representation in Saudi Arabia, the GCC, Europe and the US to broaden the client base footprint; while a new relationship management team was

Management review continued

established to service existing clients. The recently-established product development team focused on the development of the existing product base with particular emphasis on Middle East and North Africa (MENA), and Shariah-compliant solutions for both equities and fixed income. This included the successful launching of a dedicated Sukuk portfolio management service. During the year, asset management won its first MENA Sukuk mandate from a Saudi-based insurance company.

In terms of developing a local Sukuk management profile in Saudi Arabia, GIB UK and GIB Capital collaborated to broaden an understanding of the market and explore potential opportunities. A joint process was initiated to recruit an analytical capability in the Kingdom, which will initially support the build out of Sukuk portfolio management; and work closely with the new Saudi-based sales executive employed through GIB Capital but dedicated to GIB UK asset management. In a key strategic breakthrough, GIB UK achieved Securities & Exchange Commission (SEC) registration in the US, which resulted in the winning of a US$100 million fixed income mandate from a top ten American pension fund. The achievements by asset management in 2015 resulted in the receipt of four prestigious industry awards. These were 'Fastest-growing Asset Management Bank - Saudi Arabia' by Global Banking & Finance Review; plus 'Asset Manager of the Year - Bahrain' and 'Regional Equities Manager of the Year' by the Global Investor. GIB's Emerging Markets Opportunities Fund received the 'Credit Specialist' award from Alternative Credit Intelligence.

Retail Banking

The public launch of the Bank's pioneering technology-led Shariah-compliant retail bank under the brand name Meem by GIB (meem) with an initial range of liability products, took place in January 2015 at Al-Khobar, Saudi Arabia. The launch event, which was attended by 400 guests, was streamed live on YouTube and attracted over 3,000 viewers; and also reached one million viewers on Twitter, representing over 2.5 million viral (non-paid) impressions. The results of an independent customer survey conducted during the year re-affirmed customers' strong perception of the brand, which was reinforced by the highly-encouraging growth in new customers during 2015.

Plans were finalised for the public launch of retail asset products in 2016, comprising credit cards, personal loans, and term loans based on the Tawarruq structure. These were successfully introduced during 2015 through a soft launch to staff, followed by a pilot launch to founding customers (known as Meemers). The necessary IT systems

to enable the introduction of new asset products were developed and tested during the year, and are fully compliant with the requirements of the Saudi Payment Network (SPAN) and Payment Card Industry Data Security Standard (PCI DSS). To support the retail bank's ambitious growth plans, additional staff were recruited; and the management team was strengthened with the appointment of Heads of Commercial, Marketing and Innovation. In addition, the change delivery framework was realigned to enhance the time-to-market delivery of product enhancements, and new products and services.

Treasury & Investments

GIB continued to invest in its core treasury business during 2015. New developments included the successful commissioning of a new treasury

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front-to-back office system and the recruitment of additional professionals In addition, a full-fledged treasury function was established at the newly-inaugurated Abu Dhabi wholesale banking branch in the UAE, which complements the treasury functions in Bahrain, Saudi Arabia and London.

During the year, Treasury continued to support GIB's new business strategy by providing the Bank's client base with bespoke treasury solutions, and supporting strategic cross-selling initiatives with the wholesale banking business. The Client Solutions Desk continued to upgrade and diversify the range of treasury solutions available to the Bank's clients in line with evolving market requirements.

GIB's funding profile remained strong in 2015, demonstrating the continued confidence of existing clients and counterparties. The Bank's investment portfolios – which are composed of highly-rated bonds and Sukuks issued by governments, supra-nationals, financial institutions and corporates – remained on par with 2014 levels. The composition of the liquidity portfolio was adjusted in light of changing market conditions and regulations, with increased exposure to corporates and decreased exposure to financial institutions.

Risk Management

GIB's comprehensive risk management function comprises dedicated units covering enterprise risk management; credit, market, liquidity and operational risk; special assets management; information security; and economic analysis and legal. The risk management framework, processes and procedures are reviewed annually to ensure ongoing compliance with regulatory authorities in the various jurisdictions in which GIB operates. A key focus in 2015 was on managing the impact to the Bank's credit risk profile due to the changing economic and market environment resulting from the steep decline in oil prices, and reduced government expenditure across the GCC region. Accordingly, GIB reviewed and strengthened its lending policies; and de-emphasised certain segments such as contracting, which are dependent on government spending.

The Bank's asset quality remains strong, and the increase in the loan portfolio during the year was achieved with no dilution of the risk profile. This was reinforced by Moody's Investors Service (Moody's) affirming GIB's senior debt and foreign currency deposit rating at A3, and upgrading the outlook from negative to stable. Moody's stated that their ratings affirmation and outlook upgrade "reflects GIB's strong capital and liquidity buffers; improvements in the bank's asset quality metrics; and a reduction in the level of concentrations of the bank's asset base."

With the implementation of new core wholesale banking, retail banking, treasury and other systems, the Bank's Business Continuity Plan (BCP) and Disaster Recovery (DR) came under the spotlight during the second half of the year. Accordingly, the Bank's Operational Risk unit undertook a detailed Business Impact Assessment (BIA) and has documented the revised BCP and DR arrangements for the Bank. Appropriate testing is conducted twice a year as required by the Bank's policy.

Group Information Security continued their work on behalf of the Bank by

Management review continued

leading the achievement of the Payment Card Industry (PCI) Pin Transaction Standard (PTS) and maintaining GIB's newly-won PCI Data Security Standard (DSS) certification for the second year They also established a new frontline team, the Security Services Group (SSG), to act as a first point-of-contact for all security-related activity.

Human Capital

During 2015, GIB took further steps to expand the scope of its human capital framework to support the implementation of the Bank's strategy, and its vision of being the 'employer-of-choice' in the regional banking industry. The end-to-end recruitment process was completely overhauled, including implementation of the Oracle Taleo Cloud Service. The Bank also launched the use of candidate video screening, the first time that this has been adopted by a financial services organisation in Bahrain. These tools enable the recruitment of top performers with the right talent skills, aligning them to key goals and performance, while developing and compensating them appropriately.

A key development was the significant enhancement of the Young Professional Development Programme, which was first launched in 2013 and recruits 40 high-calibre GCC university graduates in two tranches each year. Improvements included new career pathways, and a revised curriculum that places greater emphasis on technical training and professional certification. A key driver of GIB's ongoing cultural transformation is the Mobilising Leadership for Change Programme. The second phase of this programme, targeting senior vice presidents and some vice presidents who comprise the second tier of senior management, was implemented during 2015. This programme sets out the behavioural competencies expected from the Bank's leaders, including a solutions-oriented mind-set, customer-centric focus, collaborative approach, and a commitment to translate strategy into action.

Despite the increasing competition for high-calibre talent in the regional banking industry, GIB was successful in recruiting new professionals to support the strategic development of the core business lines. At the end of the year, the headcount had grown to over 1,000 employees, and significantly, has almost doubled over the past three years.

Information Technology

In 2015, GIB passed a key information technology (IT) milestone, reaping the reward of a number of major projects in the past three years to completely overhaul its Group-wide IT infrastructure and system platforms. This comprised the implementation of a new retail branch network and the commissioning of new data centres; and the replacement of a number of key systems such as the core banking system, treasury front-to-back office system, and payment messaging system. It also included the development of a set of proprietary green field IT capabilities for the new retail bank.

The sheer scope and time frame of this project, involving the concurrent implementation of numerous key systems, is unprecedented in the regional banking industry. Additional achievements during 2015 included the implementation of an IT infrastructure and systems for the new Abu Dhabi branch and Dubai representative office; and compliance with the Payment Card Industry Data Security Standard (PCI

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DSS) for card issuance and acquiring by the new retail bank.

Corporate Communications

In 2015, GIB introduced a new corporate communications (CC) strategy that is closely aligned to the Bank's new transformational business strategy, and integrates all communications with concerned stakeholders across a broader digital footprint. The new CC strategy is directed towards enhancing GIB's image and reputation, reaching out to existing and prospective clients; as well as raising awareness of the Bank's name within the industry.

Key developments during the year in support of the new CC strategy included the launch of a totally-redesigned corporate website. This features easier navigation, improved functionality and embedded social media channels. In addition, professional event planning and management was introduced to promote key corporate and business developments. The Bank's internal communications programme was substantially enhanced with the addition of new communications channels including videos, and staff engagement events. GIB's corporate social responsibility (CSR) activities during 2015 are covered by the separate CSR Review in this annual report.

Moving Forward

As we prepare to enter our 40th year of operations, we remain optimistic about the prospects for GIB in 2016. The GCC region is well positioned to cope with declining oil prices in the near-term, while the IMF has forecast real GDP growth to remain positive. GCC governments have adopted a proactive stance to offset the decline in oil prices through economic and fiscal reforms designed to diversify revenues and reduce expenditure. This approach will be positive in the long-term for regional economies by making them more sustainable and competitive in an era of low oil prices.

Based on our considerable progress during 2015 and the past few years, GIB is well placed to address the challenges posed by a new regional economic reality. We will continue to focus on aligning people, products, processes and systems, in order to ensure the ongoing implementation of GIB's strategy and business model.

Corporate social responsibility review

GIB has a firm commitment to support the development of the regional banking industry, and contribute to the well-being of the local communities in which it operates. A key development in 2015 was the launch of WAGIB – the Bank's new corporate social responsibility (CSR) programme, which is aimed at supporting the local communities in Bahrain and Saudi Arabia. Some examples of CSR initiatives undertaken by GIB during the year are highlighted below.

New CSR programme launched

In 2015, GIB launched a new corporate social responsibility (CSR) programme – WAGIB – which is designed to enable the Bank to better support the local communities in Bahrain and Saudi Arabia, through financial and practical support, and special CSR events. GIB made its first donation under this programme to the Bahrain Down Syndrome Society, which provides support for individuals with Down Syndrome, together with their parents and families.

Health awareness

GIB participated in breast cancer awareness initiatives in Bahrain and Saudi Arabia during 2015, with staff raising money for Think Pink Bahrain and the Zahra Breast Cancer Association in Saudi Arabia. In a special gesture to support Breast Cancer Awareness, GIB floodlit its head office building in pink for the entire month of October.

In addition, GIB male staff took part in a 'Movember' initiative to raise awareness about men's cancer. The initiative included a lecture on men's health education and awareness.

Community engagement

GIB encourages and supports staff to participate in community engagement activities. For many years, the Bank has fielded teams in two of Bahrain's most enduring annual charitable fund-raising events – the Bahrain Marathon Relay and the Bahrain Raft Race.

The Bank participated in the 2015 Bahrain Marathon Relay, which is organised by the Bahrain Round Table in association with the Bahrain Athletics Association. The GIB team once again won first place in the financial institutions category, and third place overall from among 177 participating teams. GIB also took part in the 2015 Bahrain Raft Race organised by the Rotary Club of Salmaniya. A team of Bank employees took part in the men's open sea race category.

Events sponsorship

GIB sponsored and participated in the 10th Euromoney Saudi Arabia Conference held in Riyadh, Kingdom of Saudi Arabia during May 2015. Entitled 'Opportunities and Capital Markets', this prestigious financial and investment conference brought together over 1,500 government officials, policy makers, financiers and business leaders to share their thoughts and perspectives on the role of the Kingdom in the region and the global economy.

H.E. Dr. Ibrahim Al-Assaf, Minister of Finance, inaugurated the event, which included keynote addresses by H.E. Mr. Mohammed Al-Jadaan, Chairman of the Capital Markets Authority; Mr. Adel Al-Ghamdi, CEO of the Saudi Stock Exchange (Tadawul); Mr. Jean Lemierre, Chairman of BNP Paribas; and Dr. Yahya Alyahya, CEO of GIB (from January 2009 to January 2016). Dr. Alyahya also participated in a panel discussion on 'Bank Strategy'; while Mr. Khalid Al-Ghamdi, Acting CEO of GIB Capital, was a member of a panel entitled 'Equity Markets: Strategy, Governance and IPOs'.

10th Euromoney Saudi Arabia Conference, Riyadh

GIB sponsored and participated in the Conference, with over 1,500 government officials, policy makers, financiers and business leaders in attendance.

Think Pink Bahrain and Zahra Breast Cancer Association

In a special gesture to support Breast Cancer Awareness, GIB floodlit its head office building specially in pink for the entire month of October.

Bahrain Marathon Relay

The GIB team won first place in the financial institutions category and came third overall from 177 participating teams.

Financial review

GIB recorded consolidated net income after tax of US$90.4 million for the year ended 31 December 2015, compared to US$85.6 million in the prior year, representing a 6 per cent year-on-year increase.

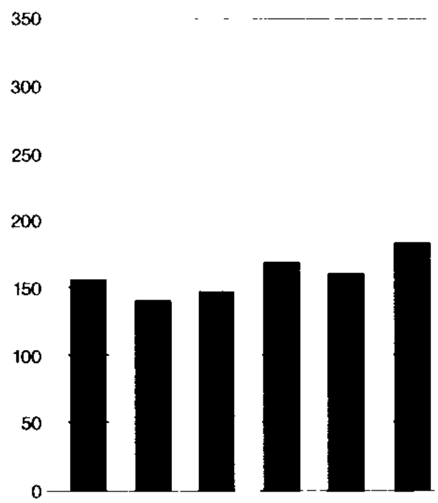
Total income at US$308.0 million was US$50.4 million or 20 per cent up on 2014, with increases recorded in all income categories. The growth in total income more than offset an increase in total expenses of US$27.2 million largely associated with GIB's innovative retail bank and new core banking and treasury IT systems implemented during 2015, resulting in an improvement in net income before provisions and tax of US$23.2 million or 25 per cent.

Net interest income, which at US$188.2 million represented the Bank's largest income source, was US$30.2 million or 19 per cent up on the previous year. This growth principally reflected increases in almost all sources of interest income, although in particular increases in both the loan volume and loan margins, as the Bank continues to successfully re-orientate its lending activities from transactional-based long-term project and structured finance to relationship based large and mid-cap corporates.

Fee and commission income at US$70.2 million was US$7.3 million or 12 per cent up on 2014, and comprised almost one quarter of total income. This underlined the success of GIB's strategic focus on relationship-orientated products and services, and enhancement of fee income. Foreign exchange income at US$19.8 million was US$0.4 million or 2 per cent up on 2014. This primarily comprised revenue from customer related activities, and in particular, revenues derived from bespoke structured products designed to assist customers in hedging their foreign exchange exposures in volatile markets. Trading income at US$6.2 million improved by US$3.8 million over the previous year. Trading income principally comprised gains on an investment in a fund managed by the Bank's London based subsidiary, GIB (UK) Limited (GIBUK), and customer-related interest rate derivative income. Other income at US$23.6 million was US$8.7 million or 58 per cent up on 2014. Other income for 2015 consisted largely of dividends on equity investments, and asset recoveries.

Total expenses at US$192.1 million for the year were US$27.2 million or 16 per cent up on 2014. The increase was attributable to the ongoing investment in GIB's new retail banking proposition, and the new core banking and treasury IT systems which went live in the middle of 2015. A loan provision charge of US$21.3 million was made in 2015 compared with US$10.3 million in the previous year.

TOTAL INCOME DEVELOPMENT (US$ millions)



	2010	2011	2012	2013	2014	**2015**
Non interest income	67.6	83.1	105.6	115.2	99.6	**119.8**
● Net interest income	156.2	143.8	149.4	163.1	158.0	**188.2**
Total income	223.8	226.9	255.0	278.3	257.6	**308.0**

Net interest income

Net interest income at US$188.2 million was US$30.2 million or 19 per cent higher than in the prior year.

Net interest income is principally derived from the following sources:

- margin income on the wholesale lending portfolio,
- margin income on the investment securities portfolio,
- money book activities, and
- earnings on the investment of the Group's net free capital.

Net interest income also incorporates the cost of term finance.

The year-on-year increase in net interest income was largely attributable to: (i) higher interest earnings derived from the wholesale lending portfolio, (ii) higher money book earnings, (iii) higher interest earnings on the investment of the net free capital, and (iv) a lower cost of term finance. Margin income on the investment portfolio was marginally lower than in the prior year.

Interest earnings on the wholesale lending portfolio accounted for 80 per cent of the Group's net interest income before the cost of term finance. Margin income derived from wholesale lending was 9 per cent higher than in the prior year due to a higher average performing loan volume and an increase in average performing loan margins. The average performing loan volume during 2015 was 4 per cent higher than in 2014 and average performing loan margins were 8 b.p. higher than in the prior year. The increase in both average performing loan volumes and loan margins reflected the ongoing success that has been achieved in the transformation of the Bank's wholesale banking strategy to focus on relationship-based lending to large and mid-cap corporates.

Margin income on the investment securities portfolio accounted for 13 per cent of net interest income before the cost of term finance. The interest earnings from the investment securities portfolio were 2 per cent lower than in the prior year. The year-on-year decrease was attributable to a 5 b.p. year-on-year decrease in the average spread on the portfolio resulting from the reinvestment of maturing securities at lower prevailing spreads. The average volume of investment debt securities was at the same level as the prior year. The investment securities portfolio is primarily maintained as a liquidity reserve. The key factors underpinning the portfolio are therefore liquidity and quality rather than income-generating characteristics.

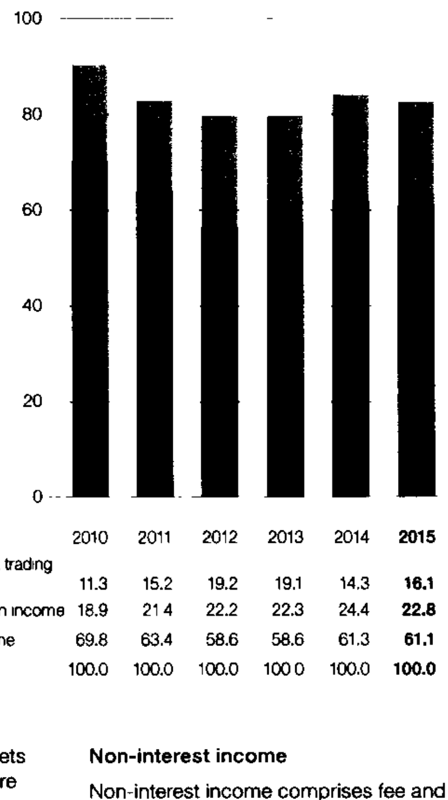
Money book earnings represent the differential between the funding cost of interest-bearing assets based on internal transfer pricing methodologies and the actual funding cost incurred by the Group. This includes benefits derived from the mismatch in the repricing profile of the Group's interest-bearing assets and liabilities. Money book earnings in 2015 accounted for 16 per cent of net interest income before the cost of term finance, and were 38 per cent up on the prior year. During 2015, the Group was successful in further increasing the volume of customer deposits and deposit average tenors while enhancing income derived from interest repricing mismatches.

Earnings on the investment of the Group's net free capital, which accounted for 11 per cent of net interest income before term finance costs, were 19 per cent up on the prior year. The net free capital was largely invested in shorter duration government bonds reflecting the Group's view that economic conditions in the United States were more conducive to a rise in US interest rates in the short-term, with the shorter tenor fixed rate instruments providing the opportunity to reinvest on maturity at higher yields as interest rates rise in the short- to medium-term. At the end of 2015, more than half of the Group's net free capital was invested in shorter duration fixed rate instruments, generating an enhanced return over short-term interest rates. Earnings on the net free capital in 2015 and 2014 were, however, negatively impacted by the historically low short-term US interest rates prevailing throughout both years. A rise in US interest rates would have a direct beneficial impact on the Group's interest earnings.

The cost of term finance decreased in 2015 as a result of the maturity of a SAR 3.5 billion (US$933.3 million) term finance facility in April 2015. The maturing bond had been refinanced in 2014, well ahead of the bond maturity in 2015, resulting in a higher cost of term finance in 2014. The Group continues to minimise its previous reliance on funding longer tenor assets with short-term deposits, and the associated liquidity and refinancing risk, with proactive actions having been taken over the previous five years to raise new term finance to minimise this undue risk. As a result, at 31st December 2015,

Financial review continued

TOTAL INCOME COMPOSITION (%)



	2010	2011	2012	2013	2014	**2015**
Foreign exchange, trading & other income	11.3	15.2	19.2	19.1	14.3	**16.1**
Fee & commission income	18.9	21.4	22.2	22.3	24.4	**22.8**
Net interest income	69.8	63.4	58.6	58.6	61.3	**61.1**
	100.0	100.0	100.0	100.0	100.0	**100.0**

the volume of illiquid assets or assets maturing beyond one year that were funded by non-sticky or short-term deposits represented only 15 per cent of non-sticky customer deposits. The remaining customer deposits and all bank deposits therefore funded shorter tenor or liquid assets. This effectively addresses one of the key focuses of the new Basel 3 regulatory guidelines whereby banks will have less ability to fund longer tenor assets with shorter tenor wholesale deposits. The initiatives to reduce the Group's exposure to liquidity risk resulted in a US$38.7 million or 17 per cent reduction in the Group's net interest income in 2015.

Non-interest income

Non-interest income comprises fee and commission income, foreign exchange income, trading income, and other income.

Fee and commission income at US$70.2 million was US$7.3 million or 12 per cent higher than in the prior year. An analysis of fee and commission income with prior year comparatives is set out in note 22 to the consolidated financial statements. Investment banking and management fees at US$38.3 million were the largest source of fee-based income, comprising 55 per cent of fee and commission income for the year, while commissions on letters of credit and guarantee at US$28.6 million represented 41 per cent.

Investment banking and management fees comprises fees generated by the Group's asset management, fund management, corporate advisory, debt and equity capital markets, and underwriting activities. Investment banking and management fees were US$10.4 million or 37 per cent higher than the prior year level and incorporated fees derived from a number of debt and equity capital market mandates during the year, as commented on in more detail in the Management Review section of the Annual Report, contributing to associated income in 2015 being more than twice the level recorded in the prior year. In addition, asset and fund management fees in 2015 were 13 per cent higher than in the prior year, reflecting strong performance fees for the funds under management. As referred to in note 35 to the consolidated financial statements, assets held in a fiduciary capacity amounted to US$12.4 billion at 31st December 2015. A US$3.5 million or 11 per cent year-on-year decrease in commissions on letters of credit and guarantee reflected an industry sector realignment during 2015 with a reduction in activity in the construction and contracting sectors. Loan commitment fees at US$2.1 million were US$0.1 million higher than in the prior year with a focus on the utilisation by customers of their commitment facilities.

Foreign exchange income at US$19.8 million for the year was US$0.4 million up on the prior year level. Foreign exchange income principally comprised income generated from customer initiated foreign exchange transactions that were offset in the market with matching transactions. Accordingly, there is no market risk associated with the transactions that contribute to this material source of income. The strong foreign exchange earnings reflected the success achieved in the cross-selling of innovative products to meet customers' needs and requirements, and the development of new products to meet

KEY PROFITABILITY DRIVERS

DRIVER	2015		2016 AND BEYOND	
Loan volume	Higher	Increase in average loan volume	Higher	Planned increase in 2016 and beyond to target level of $10 billion
Loan margins	Higher	Increase in core loan portfolio margins through successful re-orientation of lending activities from transactional-based long-term project and structured finance to relationship-based large and mid-cap corporates	Higher	Continued increase in loan margins by replacement of lower margin lending with higher margin mid-cap corporates and initiation of passing along market disruption to customers
Income on net free capital	Higher	Increase in interest yield over the previous year, with the majority of the available net free capital invested in shorter duration fixed rate instruments, generating an enhanced return over short-term interest rates	Higher	Rising interest rate environment in the context of rising inflation, providing the opportunity to reinvest on maturity at higher yields
Term finance cost. liquidity risk cost	Higher	Decrease in term finance arising on the maturity of a SAR 3.5 billion term facility in April, and the prepayment of a US$328 million subordinated facility in June	Lower	New term finance to be raised in the short-term but replaced by retail deposits in the medium- to long-term
Fee and commission income	Higher	Focus on cross-selling of non-asset based products and services, e.g. trade finance, investment banking services, and asset management	Higher	Focus on cross selling of non-asset based products and services, e g trade finance, investment banking services, and asset management
Treasury customer-related income: Foreign exchange and interest rate derivatives	Higher	Continued focus on cross-selling of treasury products and development of new products to assist customers in hedging their market risk exposures	Higher	Continued focus on cross selling of treasury products and development of new products to assist customers in hedging their market risk exposures
Overhead	Lower	Ongoing investment in the new retail bank, and new core IT systems that went live during 2015	Unchanged	Continued investment in retail banking proposition, and the development of the Bank's strategic initiatives
Loan provisions	Lower	Increase in loan provision charge	Unchanged	Any specific provisioning requirement to be reallocated from the non-specific provision buffer

Higher profitability Lower profitability Unchanged profitability

those needs. A growing demand is being witnessed for the products as customers experience the benefits derived from the new products in assisting them to effectively manage and hedge their currency exposures. Importantly, during 2015 the Group expanded its customer base to create a broader and a more desirable diversification of earnings from these products, as well as generating repeat business from existing clients.

The Group's various trading activities recorded a US$6.2 million profit for the year compared to a US$2.4 million profit in the prior year. Trading income is reported inclusive of all related income, including interest income, gains and losses arising on the purchase and sale, and from changes in the fair value of trading securities, dividend income, and interest expense, including all related funding costs. An analysis of trading income is set out in note 24 to the consolidated financial statements. Trading income in 2015 principally comprised profits recorded on managed funds and customer-related interest rate derivative income. The investment in managed funds represented an investment in an emerging market government-related debt fund managed by GIBUK. The fund, the Emerging Markets Opportunities Fund, generated a 6.11 per cent return in 2015.

Other income of US$23.6 million was recorded for the year. An analysis of other income is set out in note 25 to the consolidated financial statements. Other income principally comprised US$12.6 million of dividends received from equity investments classified as fair value through other comprehensive income (FVTOCI), US$7.9 million of asset recoveries, and a US$2.7 million profit realised on the sale of fixed rate investment debt securities in anticipation of a rise in US interest rates in the medium term.

Financial review continued

Operating expenses

Operating expenses at US$192.1 million were US$27.2 million or 16 per cent up on the prior year. The year-on-year increase was principally attributable to costs associated with the implementation of the Group's new universal banking strategy and new core banking and treasury IT systems which went live during 2015.

Staff expenses, which at US$128.4 million accounted for more than two thirds of total operating expenses, were US$13.0 million or 11 per cent up on the prior year. The year-on-year increase was attributable to an increase in headcount during 2015, in addition to specialist resources employed on a temporary basis to support the strategy implementation. The Group's total headcount at 31st December 2015 of 1,106 staff was 72 higher than at the end of 2014. The increase in headcount reflected an enhancement of resources in business areas and certain support functions, as well as the business build teams for the new retail bank. The headcount at 31st December 2015 included 209 retail banking front office staff.

Premises expenses at US$17.5 million were US$1.8 million or 11 per cent up on the prior year. This was due to rent and depreciation costs relating to the Group's new Kingdom of Saudi Arabia premises, and new premises for the Abu Dhabi branch and Dubai representative office that opened during 2015.

Other operating expenses at US$46.2 million were US$12.4 million or 37 per cent higher than in the prior year. The year-on-year increase was principally due to depreciation expenses relating to the new IT infrastructure that was implemented during 2015. There will be a further increase in other operating expenses in 2016 reflecting the full year depreciation expense for the new IT systems.

Provisions

In 2015, there was a US$21.3 million net loan provision charge. The loan provision charge comprised specific provisions that were aligned with provisioning guidelines proposed by the Saudi Arabian Monetary Agency (SAMA) and similar guidelines set out in a consultation paper issued by the Central Bank of Bahrain (CBB). The provisioning guidelines require specific provisions to be determined based on the period that credit facilities have been past due, with a 100 per cent specific provision required for credit facilities that are more than 360 days past due. GIB's specific loan provisions at 31st December 2015 were fully compliant with these provisioning guidelines in advance of their implementation dates. In addition, US$13.5 million was reallocated from the non-specific provision to specific provisions in relation to a number of impaired loan facilities for which new specific provisions were required in accordance with the SAMA and CBB provisioning guidelines. The total loan provision charge equated to 36.5 basis points based on gross loans at 31st December 2015 of US$9,522.4 million. This is well within the expected loss for the loan portfolio based on the rating profile and the prevailing related probabilities of default.

Capital strength

Total equity amounted to US$2,431.0 million at 31st December 2015. At the 2015 year end, the ratio of equity and tier 1 capital to total assets were both 10.0 per cent, ratios that are high by international comparison.

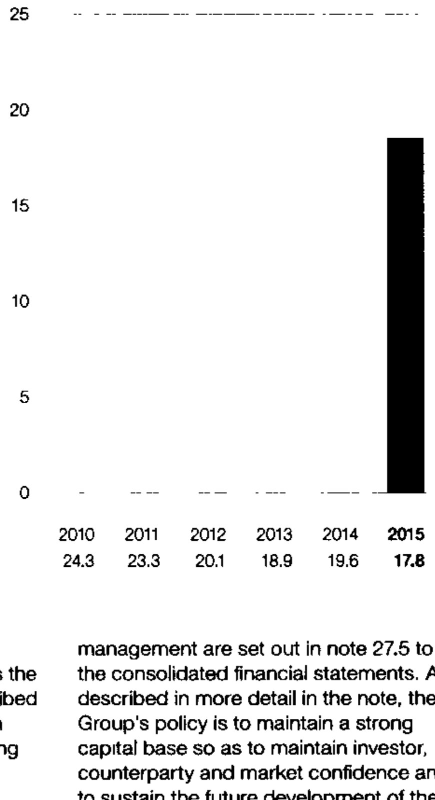
An US$80.3 million increase in total equity during 2015 comprised the net of the US$90.4 million profit for the year, a US$25.7 million net decrease in the fair value of equity investments classified as FVTOCI and derivative cash flow hedges , and a US$15.6 million increase in equity arising on the remeasurement of the defined benefit pension fund of the Group's London-based subsidiary, GIBUK.

With a total regulatory capital base of US$2,555.7 million and total risk-weighted exposure of US$14,376 9 million, the risk asset ratio calculated in accordance with the Central Bank of Bahrain's Basel 3 guidelines was 17.8 per cent while the tier 1 ratio was a particularly strong 16.8 per cent. In accordance with international regulatory guidelines, the fair value adjustments to equity arising under IFRS 9 in relation to derivative cash flow hedges are excluded from the regulatory capital base, while unrealised gains and losses on equity investments classified as FVTOCI are included in the regulatory capital base.

At 31st December 2015, the regulatory capital base would support an additional US$3.9 billion of 100 per cent risk-weighted assets while still maintaining the Group's target minimum risk asset ratio of 14 per cent. The Group therefore has more than sufficient regulatory capital to support future growth plans.

The risk asset ratio incorporates both market and operational risk-weighted exposures. With approval from the Central Bank of Bahrain, the Group applies the internal models approach for market risk, and the standardised approach for determining the capital requirement for operational risk. This demonstrates that the Group's regulator

RISK ASSET RATIO (%)



	2010	2011	2012	2013	2014	**2015**
Risk asset ratio	24.3	23.3	20.1	18.9	19.6	**17.8**

is satisfied that the Group's risk management framework fully meets the guidelines and requirements prescribed by both the Central Bank of Bahrain and the Basel Committee for Banking Supervision.

The Central Bank of Bahrain adopted the Basel 3 regulatory capital framework with effect from 1st January 2015. The Basel 3 framework revises the definition of regulatory capital. The application of the Basel 3 regulatory capital framework had only a very limited impact on the Bank's regulatory capital ratios.

The Basel 3 Pillar 3 report set out in a later section of the Annual Report provides further detail on capital adequacy and the Group's capital management framework. The Group's policies in relation to capital management are set out in note 27.5 to the consolidated financial statements. As described in more detail in the note, the Group's policy is to maintain a strong capital base so as to maintain investor, counterparty and market confidence and to sustain the future development of the Group's business.

Asset quality

The geographical distribution of risk assets is set out in note 28 to the consolidated financial statements. The credit risk profile of financial assets, based on internal credit ratings, is set out in note 27.1(b) to the consolidated financial statements. This note demonstrates that 82 per cent of all financial assets, comprising liquid assets, placements, securities and loans, were rated 4- or above, i.e. the equivalent of investment-grade rated.

Further assessment of asset quality can be facilitated by reference to note 37 to the consolidated financial statements on the fair value of financial instruments. Based on the valuation methodologies set out in that note, the net fair values of all on- and off-balance sheet financial instruments at 31st December 2015 were not significantly different to their carrying amounts.

At the 2015 year end, cash and other liquid assets, reverse repos and placements accounted for 44 per cent of total assets, investment securities accounted for 16 per cent, while loans and advances represented 38 per cent.

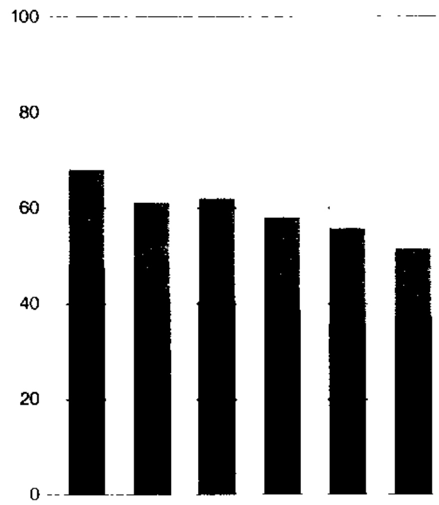
Investment Securities

Investment securities totalled US$3,884.5 million at 31st December 2015. The investment securities portfolio primarily represents the Group's liquidity reserve and accordingly, principally comprises investment-grade rated debt securities issued by major international and regional financial institutions and government-related entities.

Investment securities comprise two types of debt security portfolios and a limited investment in equities and equity funds. The larger debt security portfolio comprises floating rate securities or fixed rate securities that have been swapped to yield constant spreads over LIBOR. These accounted for US$2,005.0 million, or 56 per cent, of the total investment debt securities at the 2015 year end. The smaller debt security portfolio represents the investment of the Group's net free capital in fixed rate securities. This portfolio amounted to US$1,607.6 million at the end of 2015 and comprised investments in OECD and GCC government-related bonds. The Group had no exposure to troubled eurozone government debt, i.e. no exposure to Greek, Irish, Italian, Portuguese or Spanish government debt.

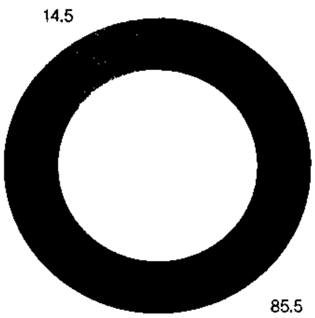
Financial review continued

ASSET MIX BY CATEGORY (%)



	2010	2011	2012	2013	2014	**2015**
Other	1.6	1.6	1.8	1.8	1 8	**2.2**
Placements & other liquid assets	29 8	38.9	37.3	41.0	42.1	**43.5**
● Securities	20.3	19.3	20.7	17.9	18.9	**16.4**
● Loans and advances	48.3	40.2	40.2	39.3	37.2	**37.9**
	100.0	100.0	100.0	100.0	100.0	**100.0**

INVESTMENT DEBT SECURITIES RATING PROFILE



	US$ millions	%
● AAA to A-/Aaa to A3	3,088.1	85.5
BBB+ to BBB-/Baa1 to Baa3	524 5	14.5
	3,612.6	**100.0**

Equity investments at the end of 2015 amounted to US$271.9 million. Equity investments at 31st December 2015 included listed equities amounting to US$163.8 million received in settlement of a secured past due loan. The remaining equity investments largely comprised private equity-related investments.

An analysis of the investment securities portfolio by rating category is set out in note 9.1 to the consolidated financial statements. US$3,088.1 million or 86 per cent of the debt securities at the 2015 year end were rated A- / A3 or above. Based on the rating of the issuer, a further US$524.5million or 14 per cent of the debt securities represented other investment-grade rated securities. Thus, all debt securities comprised investment-grade rated securities.

The fair value of investment debt securities at 31st December 2015 was US$3,599.5 million. The fair value was accordingly only US$4.0 million less than amortised cost. The small difference in fair value compared to the amortised cost of the investment debt securities reflected the high quality and high ratings of the securities.

There were no past due or impaired investment securities at 31st December 2015.

Loans and Advances

Loans and advances amounted to US$9,161.4 million at the 2015 year end. This represented a US$1,229.9 million or 16 per cent increase compared to the 2014 year end. As is evident from note 40 to the consolidated financial statements, the average volume of loans and advances during 2015 was US$8,798.8 million, being US$593.4 million higher than the average volume during 2014. The year-on-year increase was largely recorded in the second half of the year.

Based on contractual maturities at the balance sheet date, 59 per cent of the loan portfolio was due to mature within one year while 79 per cent was due to mature within three years. Only 9 per cent of loans were due to mature beyond five years. Details of the classification of loans and advances by industry are set out in note 10.2 to the consolidated financial statements while the geographical distribution of loans and advances is contained in note 28. At 31st December 2015, 21 per cent of the gross loan portfolio comprised exposure to the energy, oil and petrochemical sector compared to 38 per cent at the end of 2011. This sectorial exposure reflects the Group's previous strategic focus on project finance and syndicated lending in the GCC states. The largest industry sectorial exposure is to the trading and services sector, comprising 22 per cent of gross loans, reflecting the new strategic focus on relationship-based lending to large and mid-cap corporates. There was limited exposure to the construction and real estate sectors at the 2015 year end.

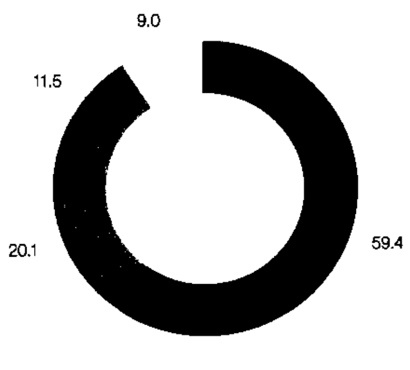
The credit risk profile of loans and advances, based on internal credit ratings, is set out in note 27.1(b) to the consolidated financial statements. US$5,243.6 million or 57 per cent of total loans were rated 4- or above, i.e. the equivalent of investment grade-rated. Only US$42.3 million of loans and advances, net of provisions for impairment, were classified as individually impaired. Individually impaired loans represent loans for which there is objective evidence that the Group will not collect all amounts due in accordance with the contractual terms of the obligation. Therefore, 99.5 per cent of loans and advances were not individually impaired.

Total loan loss provisions at 31st December 2015 amounted to US$361.0 million. Counterparty specific provisions amounted to US$226.5 million while non-specific provisions were US$134.5 million. Total provisions of US$361.0 million represented 160 per cent of the gross book value of past due loans. There was accordingly a significant buffer of provisions in excess of the volume of past due loans.

Specific provisions are determined based on the recoverable amount of the loan. The recoverable amount is measured as the present value of the expected future cash flows discounted based on the interest rate at the inception of the facility. Non-specific provisions are determined on a portfolio basis utilising an incurred loss model. The incurred loss model estimates the probable losses inherent within the portfolio at the balance sheet date but that have not been specifically identified. The model is based on applicable credit ratings and associated historical default probabilities, loss severity and rating migrations, and reflects the current macroeconomic, political and business environment and other pertinent indicators.

Non-specific loan provisions at 31st December 2015 amounted to US$134.5 million, representing a high 1.4 per cent of non-specifically provisioned loans. The probabilities of default applied in the calculation of the non-specific provisions at 31st December 2015 equated to circa two times the current level of probabilities of default. The default rates applied in the calculation of the non-specific loan provision and the resultant provisioning levels for senior, unsecured exposure by internal rating category were as follows:-

LOAN MATURITY PROFILE



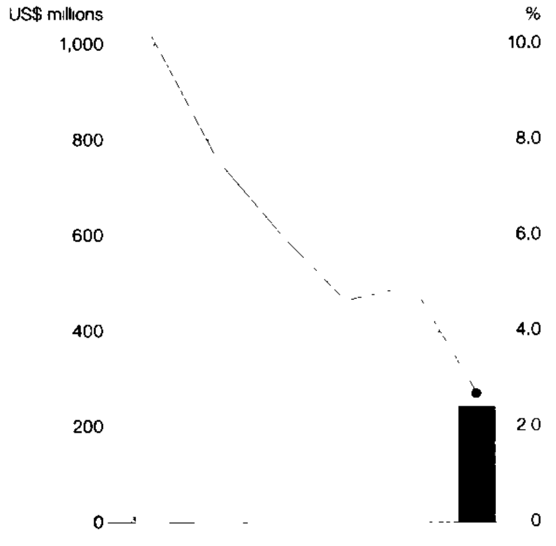
	US$ millions	%
Year 1	5,442.5	59.4
Year 2 and 3	1,838.8	20.1
Year 4 and 5	1,056.9	11.5
Over 5 years	823.2	9.0
	9,161.4	**100.0**

Internal rating grade	Probability of default (PDs)	Senior, unsecured provisioning level
	%	%
1	0.02%	-
2+	0.02%	-
2	0.02%	-
2-	0.04%	-
3+	0.12%	0.1%
3	0.16%	0.1%
3-	0.24%	0.1%
4+	0.49%	0.3%
4	0.70%	0.4%
4-	0.86%	0.5%
5+	1.50%	0.9%
5	2.32%	1.4%
5-	4.14%	2.5%
6+	6.58%	3.9%
6	16.15%	9.7%
6-	26.30%	15.8%
7	55.74%	33.4%

The provisioning level is based on a Loss Given Default (LGD) of 60 per cent for senior, unsecured exposure.

Financial review continued

PAST DUE LOAN DEVELOPMENT



	2010	2011	2012	2013	2014	**2015**
Gross past due loans (US$ millions)	885 6	582.5	462.9	475.9	469.2	**225.1**
Gross past due loans as % of gross loans	10 9	7.9	6.0	5.3	5.5	**2.4**

For the purpose of the calculation of the non-specific provision, the Group only takes account of collateral held in the form of cash or exchange-traded equities. While collateral in the form of securities, unlisted equities and physical assets is used for risk mitigation and protection purposes, it is not taken into account in the calculation of the non-specific provision.

The gross and net book values of past due loans at 31st December 2015 amounted to US$225.1 million and US$38.7 million respectively. The specific provisioning coverage for past due loans was 83 per cent. Past due loans are defined as those loans for which either principal or interest is over 90 days past due. Under IAS 39, interest on impaired loans should be recognised in income based on the net book value of the loan and the interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount. However, in accordance with guidelines issued by the Group's regulator, the CBB, interest on past due loans is only to be recognised in income on a cash basis. In view of the Group's high provisioning coverage for impaired loans, the difference between the two bases of accounting is not material.

Other Asset Categories

Cash and other liquid assets, amounting to US$4,309.7 million at the 2015 year end, are analysed in note 5 to the consolidated financial statements. They principally comprised cash and balances with central banks and banks.

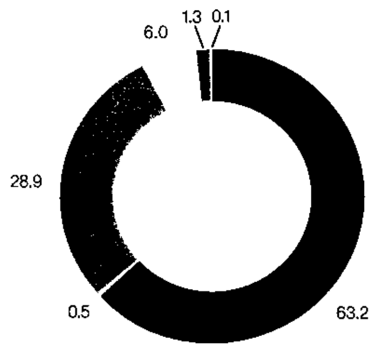
Placements totalled US$4,402.9 million at the 2015 year end and were well diversified by geography as illustrated in note 28 to the consolidated financial statements. Placements were largely with European, GCC and North American bank counterparties, representing the Group's principal operating locations. Placements represented 18 per cent of total assets at the 2015 year end. A high level of placements was being maintained in the prevailing uncertain and volatile market environment. At the end of 2015, placements were supplemented by US$1,835.0 million of securities purchased under agreements to resell. These represented collateralised placements, thereby reducing the Group's risk exposure to the financial institution sector.

Trading securities at US$72.2 million largely comprised investments in managed funds, providing exposure to emerging market government-related debt.

Risk Asset and Commitment Exposure

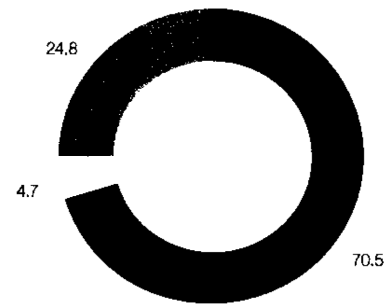
Risk asset and commitment exposure at 31st December 2015 amounted to US$28,128.1 million. Risk assets and commitments comprise all assets included in the balance sheet (with the exception of other assets) and credit related contingent items. As referred to earlier, an analysis of risk asset and commitment exposure by category and geography is contained in note 28 to the consolidated financial statements. As is evident from this note, US$17,769.1 million or 63 per cent of total risk assets and commitments represented exposure to counterparties and entities located in the GCC states. The remaining risk asset exposure largely represented short-term placements with major European and North American banks. An analysis of derivative and foreign exchange products is set out in note 31 to the consolidated financial statements while a further analysis of credit-related contingent items together with their risk-weighted equivalents is contained in note 32.

RISK ASSET AND COMMITMENT EXPOSURE



		US$ millions	%
●	GCC	17,769.1	63.2
	Other MENA	136.4	0.5
●	Europe	8,141 5	28 9
	North America	1,688.0	6.0
●	Asia	367.0	1.3
	Latin America	26.1	0.1
		28,128.1	**100.0**

DEPOSITS - GEOGRAPHICAL PROFILE



		US$ millions	%
●	GCC countries	11,749.6	70.5
	Other MENA	777.3	4.7
●	Other countries	4,142.4	24.8
		16,669.3	**100.0**

Funding

Bank and customer deposits at 31st December 2015 totalled US$16,669.3 million. Customer deposits amounted to US$14,683.4 million at the 2015 year end, representing 88 per cent of total deposits. Bank deposits at 31st December 2015 amounted to US$1,985.9 million, representing only 12 per cent of total deposits.

Total deposits are analysed by geography in note 13 to the consolidated financial statements. US$11,749.6 million or 70 per cent of total deposits were derived from counterparties in GCC countries. Deposits derived from non-MENA countries, principally Europe, amounted to US$4,142.4 million or 25 per cent of total deposits. The deposits from counterparties in non-MENA countries largely related to deposit activity by GIBUK. These deposits do not represent a core funding source for the Group. This compares to placements, reverse repos and other liquid assets with non-MENA counterparties of US$6,779.0 million and are placed on a short-term basis in the money market. The Group is therefore a net placer of funds in the international interbank market, and accordingly has no net reliance on the international interbank market.

Securities sold under agreements to repurchase (repos) were US$2,093.4 million at 31st December 2015. The Group utilises its high quality and highly rated investment securities to raise funding on a collateralised basis where effective from a cost and tenor perspective, as well as constantly validating its ability to repo the securities as part of the Group's liquidity contingency plans.

Senior term financing at 31st December 2015 totalled US$2,420.0 million. Term finance, including subordinated term finance, and equity represented 134 per cent of loans maturing beyond one year. A decrease in senior term finance during 2015 of US$952.9 million was largely attributable to a SAR3.5 billion (US$933.3 million) bond that matured in April 2015. The maturing bond had been refinanced in 2014, well ahead of its maturity in 2015.

Further commentary on liquidity and funding is provided in the Risk Management and Capital Adequacy report.

Corporate governance report

From inception, sound corporate governance has been essential at Gulf International Bank, both in achieving organisational integrity and efficiency, and in attaining fairness for all stakeholders.

Sound governance practices

When Gulf International Bank B.S.C. ("GIB" or the "Bank") was established in 1975, its Agreement of Establishment and Articles of Association ("AoA"), executed at the time by the GCC Governments that created it, set the foundation of solid governance practices for the Bank. From the start, sound corporate governance has been essential at GIB, both in achieving organisational integrity and efficiency as well as in attaining fairness for all stakeholders.

Over the years, GIB has progressively adopted and implemented standards of corporate governance relevant to publicly-traded financial institutions although it is not a listed company; and since 2003, GIB has regularly published a statement on corporate governance in its annual reports.

In 2010, when the Central Bank of Bahrain ("CBB") introduced new corporate governance requirements for banks in Bahrain, GIB had already put in place many measures that are hallmarks of good corporate governance practices, such as comprehensive mandates for the Board of Directors ("Board") and for Directors and for Board Committees; a Code of Conduct (Code on Conduct, Ethics and Avoiding Conflicts of Interest) in both English and Arabic published on the Bank's website, and a detailed Corporate Policy Manual and operating policies that anticipated the CBB's new requirements. Subsequently, GIB adopted additional measures that included, amongst other things, a new Board Charter and updated mandates of the Board Committees; an enhanced Whistle Blowing Policy; establishment of a dedicated Corporate Governance Committee; and an update of its variable remuneration framework to fully comply with the Sound Remuneration Practices issued by the CBB.

The Board and its respective Committees' mandates are subject to an annual review to ensure that they continue to reflect the current processes, best practices and any new regulatory requirements. The last updates were initiated and approved by the Board in December 2015.

The Board Charter is posted in its entirety on the Bank's website (www.gib.com), and largely reflects the corporate governance requirements contained in the HC (High Level Controls) Module of the CBB Rulebook Volume 1.

The measures adopted by GIB formally entrenched a culture of professional corporate governance in the organisation. They also demonstrated GIB's commitment to financial transparency, fairness and disclosure of financial information that will benefit all users of such information, including regulators, customers, counterparties, rating agencies and other stakeholders

In March of every year, the Board prepares for its Shareholders' Annual General Meeting ("AGM") a report on GIB's compliance with the CBB rules on corporate governance, which explains any non-compliance. The explanations contained in this year's "Comply or Explain" report are reproduced at the end of this section of the Annual Report.

GIB discloses in the Annual Report additional information required to be disclosed in accordance with Section PD-1.3.8 of the CBB Rulebook Volume 1, and the Board also discloses to the Shareholders the information required to be disclosed to them annually in accordance with Section PD-6.1.1 of the Rulebook.

SHAREHOLDERS

The current shareholding structure of GIB is as follows:

Shareholder	Percentage of shareholding
Public Investment Fund Kingdom of Saudi Arabia	97.226%
Kuwait Investment Authority State of Kuwait	0.730%
Qatar Holding Company State of Qatar	0.730%
Bahrain Mumtalakat Holding Company Kingdom of Bahrain	0.438%
State General Reserve Fund Sultanate of Oman	0.438%
Emirates Investment Authority United Arab Emirates	0.438%

Organisation - rules and roles

GIB maintains a corporate governance structure that delineates and segregates the functions, roles and responsibilities of the Board and Management, and ensures that the requisite separate attribution of responsibilities between them is maintained:

- There is an effective and appropriately constituted Board responsible for the stewardship of the Bank and the supervision of its business; it receives from Management all information required to properly fulfil its duties and the duties of the Committees that assist it; and it delegates to Management the authority and responsibility for managing the day-to day business of the Bank.
- There is an effective and appropriately organised management structure responsible for the day-to-day management of the Bank and the implementation of Board approved strategy, policies and controls.
- There is a clear division of roles and responsibilities between the Board and Management, and between the Chairman and the Chief Executive Officer (CEO).
- There are defined and documented mandates and responsibilities (as well as delegated authorities where applicable) for Senior Management.

The Bank's corporate governance structure and organisation chart is set out on page 52 of this Annual Report.

BOARD OF DIRECTORS

Under GIB's AoA, the Board comprises up to 10 members to be appointed or elected every three years. The AoA gives the right to each Shareholder holding 10 per cent of the share capital to appoint one member on the Board. The Shareholders exercising this right also have the right to terminate such appointment and replace the relevant Directors. The appointment of Directors is subject to prior approval from the CBB. In August 2015, the Shareholders re-appointed six Directors and appointed the CEO, Dr. Yahya A. Alyahya, as a Board member for a three-year term. Also, in October 2015, the Board assessed its composition and reconstituted its Committees, including the re-election of its Chairman and a new Vice Chairman of the Board.

GIB has a written appointment agreement with each Director. This agreement describes the Directors' powers, duties, responsibilities and accountabilities, as well as other matters relating to their appointment, including their term, the time commitment envisaged, their assignment on the Board Committees, their remuneration and expense reimbursement entitlement, and their access to independent professional advice when needed.

At the year end, the Board comprised seven Directors of whom six are non-executive directors, including the Chairman and Vice-Chairman, and one executive Director, who together bring a wide range of skills and experience to the Board. Their biographies are set out on page 48 of this Annual Report.

Corporate governance report continued

Independence of Directors

The independence or non-independence of the Directors is subject to an annual review by the Board. As at 31st December 2015, two Directors of the Bank were classified as non-independent in accordance with the CBB regulations, and the other Directors were classified as independent (see table below).

Board responsibilities

The Board is responsible for the overall business performance and strategy of the Bank.

The Board establishes the objectives of the Bank, the adoption and annual review of strategy, the management structure and responsibilities, and the systems and controls framework. It monitors Management performance, and the implementation of strategy by Management, keeps watch over conflicts of interest, and prevents abusive related party transactions.

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

The Board also convenes and prepares the agenda for Shareholders' meetings, and assures equitable treatment of Shareholders including minority Shareholders.

Finally, the Board delegates to Management the responsibility for the day-to-day management of the Bank in accordance with policies, guidelines and parameters set by the Board.

In preparation for Board and Committee meetings, the Directors receive, in a timely manner, regular reports and all other information required for such meetings, supplemented by any additional information specifically requested by the Directors from time to time. The Directors also receive monthly financial reports and other regular management reports that enable them to evaluate the Bank's and Management's performance against agreed objectives. As prescribed in GIB's Articles of Association, the Board plans at least four meetings per year, with further meetings to occur at the discretion of the Board.

The Board did not consider any issues that were outside the ordinary course of business during 2015.

The details of Board membership and Directors' attendance during 2015 are set out in the following table:

DIRECTORS' ATTENDANCE JANUARY – DECEMBER 2015

Board members	Board meetings	Executive Committee meetings	Audit Committee meetings	Nomination & Remuneration Committee meetings	Risk Policy Committee meetings	Corporate Governance Committee meetings	Executive / Non-executive	Independent / Non-independent
H.E. Jammaz bin Abdullah Al-Suhaimi, Chairman	6(6)	6(7)					Non-Executive	Independent
H.E. Dr. Hamad bin Sulaiman Al-Bazai, Vice Chairman*	4(4)	4(4)			3(3)		Non-Executive	Non-Independent
H.E. Mr. Sulaiman bin Abdullah Al-Hamdan, Vice Chairman	6(6)	7(7)		5(5)			Non-Executive	Independent
Professor Abdullah bin Hassan Al-Abdul-Gader	6(6)	7(7)	5(5)			2(2)	Non-Executive	Independent
Mr. Abdulla bin Mohammed Al Zamil	6(6)			5(5)	4(4)	2(2)	Non-Executive	Independent
Mr. Khaled bin Saleh Al-Mudaifer	6(6)		5(5)	5(5)		2(2)	Non-Executive	Independent
Mr. Omar Hadir Al-Farisi	6(6)	3(3)	5(5)		4(4)		Non-Executive	Non-Independent
Dr. Yahya Abdullah Alyahya**	2(2)				1(1)		Executive	Non-Independent

* Board membership term ended in August 2015
** Newly appointed in August 2015

Figures in (brackets) indicate the maximum number of meetings during the year

BOARD COMMITTEES

The Committees of the Board derive their authorities and powers from the Board. Details of Committees' membership and attendance are listed in the tables below:

BOARD COMMITTEES' MEMBERSHIP (JANUARY – JULY 2015)

Board committees	Member name	Member position
Executive Committee	H.E. Jammaz bin Abdullah Al-Suhaimi H.E. Dr. Hamad bin Sulaiman Al-Bazai H.E. Mr. Sulaiman bin Abdullah Al-Hamdan Professor Abdullah bin Hassan Alabdulgader	Chairman Member Member Member
Audit Committee	Professor Abdullah bin Hassan Alabdulgader Mr. Khaled bin Saleh Al-Mudaifer Mr. Omar Hadir Al-Farisi	Chairman Member Member
Nomination & Remuneration Committee	H.E. Mr. Sulaiman bin Abdullah Al-Hamdan Mr. Abdulla bin Mohammed Al Zamil Mr Khaled bin Saleh Al-Mudaifer	Chairman Member Member
Risk Policy Committee	H.E. Dr. Hamad bin Sulaiman Al-Bazai Mr. Abdulla bin Mohammed Al Zamil Mr. Omar Hadir Al-Farisi	Chairman Member Member
Corporate Governance Committee	Professor Abdullah bin Hassan Alabdulgader Mr. Abdulla bin Mohammed Al Zamil Mr. Khaled bin Saleh Al-Mudaifer	Chairman Member Member

BOARD COMMITTEES' MEMBERSHIP (AUGUST – DECEMBER 2015)

Board committees	Member name	Member position
Executive Committee	H.E. Jammaz bin Abdullah Al-Suhaimi H.E. Mr. Sulaiman bin Abdullah Al-Hamdan Professor Abdullah bin Hassan Alabdulgader Mr. Omar Hadir Al-Farisi	Chairman Member Member Member
Audit Committee	Professor Abdullah bin Hassan Alabdulgader Mr. Khaled bin Saleh Al-Mudaifer Mr. Omar Hadir Al-Farisi	Chairman Member Member
Nomination & Remuneration Committee	H.E. Mr. Sulaiman bin Abdullah Al-Hamdan Mr. Abdulla bin Mohammed Al Zamil Mr. Khaled bin Saleh Al-Mudaifer	Chairman Member Member
Risk Policy Committee	Mr. Omar Hadir Al-Farisi Mr. Abdulla bin Mohammed Al Zamil Dr. Yahya Abdullah Alyahya	Chairman Member Member
Corporate Governance Committee	Professor Abdullah bin Hassan Alabdulgader Mr. Abdulla bin Mohammed Al Zamil Mr. Khaled bin Saleh Al-Mudaifer	Chairman Member Member

Corporate governance report continued

BOARD AND COMMITTEES MEETINGS DURING 2015

Type of meeting	Meeting dates
Board of Directors	1. 13 February 2015 2. 12 March 2015 3. 24 April 2015 4. 10 July 2015 5. 2 October 2015 6. 11 December 2015
Executive Committee	1. 12 March 2015 2. 24 April 2015 3. 4 June 2015 4. 10 July 2015 5 28 August 2015 6 2 October 2015 7 11 December 2015
Audit Committee	1. 12 February 2015 2. 23 April 2015 3. 9 July 2015 4. 22 October 2015 5. 10 December 2015
Nomination & Remuneration Committee	1. 31 January 2015 2. 12 March 2015 3. 23 April 2015 4. 10 July 2015 5. 17 September 2015
Risk Policy Committee	1. 12 February 2015 2. 23 April 2015 3. 10 July 2015 4. 22 October 2015
Corporate Governance Committee	1. 12 February 2015 2. 10 December 2015

Executive Committee

The mandate of the Executive Committee requires it, among other things, to:

- Assist the Board in formulating the executive policy of the Bank and controlling its implementation.
- Assist the Board by reviewing, evaluating, and making recommendations to the Board with regard to key strategic issues or material changes in key strategic objectives or direction.
- Approve credit limits that exceed the authority of the CEO, subject to the limits approved by the Board.
- Carry out additional responsibilities specifically mandated to it by the Board.
- Exercise the powers of the Board on matters for which the Board has not otherwise given specific direction in circumstances in which it is impossible or impractical to convene a meeting of the Board (and subject to applicable law and GIB's Agreement of Establishment & Articles of Association). However, the Board may, acting unanimously, modify or amend any decision of the Committee on such matters.

In all cases, the members of the Committee must exercise their business judgement to act in what they reasonably believe to be in the best interests of the Bank and its Shareholders.

Audit Committee

The role of the Audit Committee is to review the Group's financial position and make recommendations to the Board on financial matters, internal controls, compliance and legal requirements. Its responsibilities include:

- Assisting the Board in its oversight of (i) the integrity and reporting of the Bank's quarterly and annual financial statements; (ii) compliance with legal and regulatory requirements, (iii) the Bank's systems of internal controls; and (iv) the qualifications, independence and performance of the Bank's internal and external auditors.
- Overseeing performance of the Bank's internal audit function and independent audits.

The mandate of the Audit Committee provides further particulars on financial reporting processes, process improvements, and additional ethical and legal compliance overview responsibilities. The Group Chief Auditor reports functionally to the Audit Committee and administratively to the CEO.

Risk Policy Committee

The Committee assists the Board in fulfilling its oversight responsibilities in respect of setting the overall risk appetite, parameters and limits within which the Bank conducts its activities. On an on-going basis, the Committee:

- Ensures that realistic policies in respect of management of all significant risks are drafted and approved appropriately.
- Receives, reviews, challenges and recommends for approval by the Board any proposed amendments to the overall risk appetite of the Bank.
- Monitors whether Management maintains a culture that rewards the recognition, communication and management of risks.
- Ensures that roles and responsibilities for risk management are clearly defined, with Group and/or division heads directly responsible, and that heads of risk management and the control functions are in supporting or monitoring roles, independent of business development.

- Ensures that Management reports significant excesses and exceptions, as and when they arise, to the Committee for information and review.
- Ensures that, on a timely basis, Management informs the Committee of all significant risks arising, and that it is comfortable with Management's responses and actions taken to address such findings.
- Reviews the Bank's risk profile and significant risk positions and in so doing:
  - Receives reports on credit exposure by country, credit rating, industry/concentration, nonperforming loans and credit stress tests
  - Receives reports on liquidity and market risk positions (VaR).
  - Receives updates on operational risk management.
  - Receives updates on cyber risks
  - Receives updates on strategic risks
  - Receives reports on changes to credit approvals or extension processes, credit risk measurement, market risk measurement and risk control measures.
  - Receives updates on retail banking risks.

Nomination & Remuneration Committee

The principal objective of the Committee is to help the Board with ensuring that the Bank's remuneration levels remain competitive for GIB to continue to attract, retain and motivate competent staff to achieve the strategy and objectives of the Bank. The responsibilities of the Committee, as stated in its mandate, also include, but are not limited to, the following:

Nomination matters:

- Assessing the skills and competencies required on the Board, the Committees of the Board, and Senior Management.
- Assessing from time to time the extent to which the required skills are represented on the Board and Senior Management.
- Establishing processes for reviewing the performance of the individual Directors and the Board as a whole.
- Establishing processes for reviewing the performance of the individual Senior Executives and Senior Management as a whole.
- Overseeing Directors' corporate governance educational activities.
- Establishing processes for the identification of suitable candidates for Senior Management, and identifying and recommending individuals qualified to become members of Senior Management.
- Establishing a succession plan for Senior Management.

Remuneration matters:

Reviewing and making recommendations to the Board in respect of:

- The executive remuneration and incentive policy which includes the fixed and variable remuneration for approved persons, and material risk-takers.
- Policies relating to recruitment, retention, performance measurement and termination for the Directors, the CEO and Senior Management.
- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration amounts for each approved person and material risk taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses and other employee benefits.

Corporate Governance Committee

The role of the Committee is to assist the Board in shaping and monitoring the corporate governance policies. Its responsibilities include:

- Overseeing the development and maintenance of corporate governance policies.
- Monitoring the Bank's compliance with regulatory requirements relating to corporate governance.
- Review mandates and performance evaluations of the Board and its Committees, and recommend to the Board any improvements deemed necessary or desirable to the mandates.
- Review classification of individual Directors, and declaration of Directors and members of Senior Management regarding their outside activities and interests to determine whether any conflict of interest exists, and take appropriate steps in that regard.
- Oversee the Bank's public reporting on corporate governance matters.

Evaluation of the Board of Directors

The mandates of the Corporate Governance and the Nomination & Remuneration Committees, as well as the Board Charter, reflect the requirement that the Board must conduct an evaluation of its performance, the performance of each Committee and of each individual Director, at least annually. The Board reviewed independent performance reports from each of its Committees as well as a report on its own performance by evaluating the major activities undertaken during the year in comparison with the respective mandates. The evaluation of individual Directors included measurable rating scales, self-evaluations and the Chairman's input. A report on the evaluations conducted each year is also provided to Shareholders at each AGM.

Corporate governance report continued

Induction and the continuing education of Directors

The Board and its Committees regularly receive updates on key developments in the regulatory and other areas that fall under their responsibilities (such as the update on the International Accounting Standards and the remuneration regulations issued by the CBB).

The Board also stresses the importance of providing training and development opportunities for the Directors. The Board has passed a resolution to encourage Directors to seek any training they deem necessary (with the Bank bearing the expenses of such training), and the Directors are frequently briefed on the availability of training opportunities.

MANAGEMENT

The Senior Management team is responsible for the day-to-day management of the Bank entrusted to it by the Board. It is headed by the CEO, who is assisted by the Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, Wholesale Banking Head, Retail Banking Head, Chief Investment and Treasury Officer, Chief Information Officer and Chief Human Resources Officer. The biographies of the key members of the Senior Management team are set out on page 50 of this Annual Report.

The following six Committees assist the CEO in the management of the Bank:

- Management Committee
- Group Risk Committee
- Assets and Liabilities Committee (ALCO)
- Human Resources Committee
- Information Security Committee
- Operational Risk Committee

These Committees derive their authorities from the CEO, based on the authorities and limits delegated by the Board.

In fulfilling its principal responsibility for the day-to-day management of the Bank, the Senior Management team is required to implement Board-approved policies and effective controls, within the strategy and objectives set by the Board.

Letters of appointment are issued to members of the Senior Management team setting out their specific responsibilities and accountabilities that include assisting with and contributing to the following.

- Formulation of the Bank's strategic objectives and direction.
- Formulation of the Bank's annual budget and business plan.
- Ensuring that high-level policies are in place for all areas, and that such policies are fully applied.
- The setting and management of risk return targets in line with the Bank's overall risk appetite.
- Determining the Bank's overall risk-based performance measurement standards.
- Reviewing business units' performance and initiating appropriate action.
- Ensuring that the Bank operates to the highest ethical standards, and complies with both the letter and spirit of the law, applicable regulations and codes of conduct.
- Ensuring that the Bank is an exemplar of good business practice and customer service.

Their attention is also drawn to the fact that these obligations are in addition to their specific functional responsibilities and objectives, and those set out in the Bank's Corporate Policy Manual.

REMUNERATION

The Bank's total compensation policy, which includes the variable remuneration policy, sets out GIB's policy on remuneration for Directors and Senior Management, and the key factors that were taken into account in setting the policy.

In 2014, the Bank adopted the Sound Remuneration Practices issued by the CBB, and updated its variable remuneration framework. The Board approved the revised policy framework and incentive components, and obtained Shareholders' approval at the 2015 AGM. The key features of the remuneration framework are summarised below.

Remuneration strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract, retain and motivate qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the Shareholders of the Bank. These elements support the achievement of set objectives through balancing reward for both short-term results and long-term sustainable performance. The strategy is designed to share its success and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all employees is fundamental to the success of the Bank. The Bank therefore aims to attract, retain and motivate the very best people who are committed to maintaining a career with the GIB, and who will perform their role in the long-term interests of Shareholders. The Bank's reward package comprises the following key elements

- Fixed pay
- Benefits
- Annual performance bonus
- Deferred bonus share plan.

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Nomination and Remuneration Committee of the Board ("NRC").

The Bank's remuneration policy, in particular, considers the role of each employee, and has set guidance depending on whether an employee is a Material Risk Taker and/or an Approved Person in business line, control or support functions. An Approved Person is an employee whose appointment would require prior regulatory approval because of the significance of the role within the Bank; and an employee is considered a Material Risk Taker if they head up significant business lines, and any individuals within their control have a material impact on the Bank's risk profile.

In order to ensure alignment between what is paid to employees and the business strategy, GIB assesses Bank-wide, divisional and individual performance against annual and long-term financial and non-financial objectives, summarised in line with the business planning and performance management process. This takes into account adherence to the Bank's values, risk and compliance measures and, above all, acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short- and long-term, but also importantly on how it is achieved, as the latter contributes to the long-term sustainability of the business.

NRC role and focus

The NRC has oversight of all reward policies for the Bank's employees. The NRC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing the variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, and the business plan and risk profile of the Bank.

The aggregate remuneration paid to the NRC members during the year in the form of sitting fees amounted to US$45,000 [2014: US$51,000].

External consultants

Consultants were appointed during 2014 to advise the Bank on amendments to its variable remuneration policy to be in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share-based Incentive Scheme for the Bank. The NRC also appointed consultants during the year to perform a pay benchmarking exercise to assist them in reviewing the total compensation offered by the Bank.

Scope of application of the remuneration policy

The principles of this remuneration policy apply on a Group-wide basis. However, application of deferral requirements and issue of non-cash instruments for foreign branches and subsidiaries of the Bank is determined by applicable local regulations and market norms.

Board remuneration

The Bank's Board remuneration is determined by its Shareholders in line with its Articles of Association. The compensation is linked to actual attendance of meetings. The structure and level of the compensation for the members of the Board are approved by the AGM, and consist of the following:

- Attendance fees payable to members attending different Board-related Committee meetings.
- Allowance to cover travelling, accommodation and subsistence, while attending Board and related Committee meetings.
- A pre-defined fixed amount representing an annual remuneration fee.

In 2015, the aggregate remuneration paid to Board members and key Management was US$9.4 million [2014: US$8.6 million] of which US$2.6 million [2014: US$2.5 million] was paid to the Board members.

Variable remuneration for staff

The variable remuneration is performance related, and consists primarily of the annual performance bonus award. As a part of the staff's variable remuneration, the annual bonus reward consists of delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis that the combination of meeting both financial performance and achievement of other non-financial factors would, all other things being equal, deliver a target bonus pool for the employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted to determine the variable remuneration pool, the NRC aims to balance the distribution of the Bank's profits between Shareholders and employees.

The key performance metrics at the Bank level include a combination of short-term and long-term measures, and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets, establishing market comparable bottom-up, setting a profit target and other qualitative performance measures that would result in a target top-down bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures.

The NRC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised and sustainable profits.

Corporate governance report continued

If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRC.

For the Bank to have any funding for distribution of a bonus pool, thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool, as determined above, is subject to risk adjustments in line with the risk adjustment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives, and is not to be determined by the individual financial performance of the business area they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations, as well as the market and regulatory environments, apart from value-adding tasks which are specific to each unit.

Variable remuneration for business units

The variable remuneration for the business units is primarily decided by the key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as the market and regulatory environments.

Risk assessment framework

The risk assessment framework of GIB aligns variable remuneration to the risk profile of the Bank, and also ensures that the remuneration policy reduces employees' incentives to take excessive and undue risk. The Bank considers both quantitative measures and qualitative measures in the risk assessment process, and risk adjustments are applied to ensure that the Bank's remuneration policies are aligned to its risk appetite.

The NRC considers whether the variable remuneration policy is in line with the Bank's risk profile, and ensures that through the ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues, whose timing and likelihood remain uncertain, are carefully evaluated.

Risk adjustments take into account all types of risks, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance, prior to distribution of the annual bonus. GIB ensures that total variable remuneration does not limit its ability to strengthen its capital base.

The bonus pool takes into account the performance of the Bank, which is considered within the context of its risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the Bank takes into account the full range of current and potential risks, including.

- The capital required to support the risks taken.
- The level of liquidity risk assumed in the conduct of business.
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRC keeps itself abreast of the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure that return, risk and remuneration are aligned.

Risk adjustments

The Bank has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework would work as follows:

- There would be considerable contraction of the Bank's total variable remuneration.
- At the individual level, poor performance by the Bank would mean individual KPIs are not met, and hence employee performance ratings would be lower.
- Reduction in value of deferred shares or awards.
- Possible changes in vesting periods, and additional deferral applied to unvested rewards.
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous bonus awards may be considered.

The NRC, with Board approval, can rationalise and make the following discretionary decisions:

- Increase/reduce the ex-post adjustment.
- Consider additional deferrals or increase in the quantum of share awards.
- Recovery through malus and clawback arrangements.

Malus and clawback framework

The Bank's malus and clawback provisions allow the NRC to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted, or the delivered variable remuneration could be recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors, on which reward decisions were based, turn out not to reflect the corresponding performance in the longer-term. All deferred remuneration awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on GIB during the concerned performance year. Any decision to take back an individual's award can only be taken by the NRC.

The Bank's malus and clawback provisions allow the Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include, but are not limited to, the following:

- Reasonable evidence of misbehaviour or material error by the employee causing harm to the Bank's reputation, or where the employee's actions have amounted to misconduct, incompetence or negligence.
- The employee's business unit suffers a material downturn in its financial performance, or a material risk management failure, or a material restatement of the financial statements of the Bank.
- The employee deliberately misleads the market and/or Shareholders in relation to the financial performance of the Bank.
- A significant deterioration in the financial health of the Bank, or the relevant line of business incurring losses.

Clawback can be used if the malus adjustment on the unvested portion is insufficient, given the nature and magnitude of the issue.

COMPONENTS OF VARIABLE REMUNERATION

Variable remuneration has following main components:

Upfront cash	The portion of the variable remuneration that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable remuneration that is awarded and paid in cash on a pro-rata basis over a period of 3 years.
Upfront share awards	The portion of variable remuneration that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable remuneration that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of GIB's Share Incentive Scheme. Any dividend on these shares is released to the employee, along with the shares (i.e. after the retention period).

Corporate governance report continued

DEFERRED REMUNERATION

All employees at the grade of Senior Vice-President ("SVP") and higher shall be subject to deferral of variable remuneration as follows:

	Allocation of variable remuneration					
Element of variable remuneration	CEO, MDs and the 5 most highly-paid business line employees	SVP and higher	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	50%	none	-	-	Yes
Upfront shares	-	10%	none	6 months	Yes	Yes
Deferred cash	10%	-	3 years*	-	Yes	Yes
Deferred share awards	50%	40%	3 years*	6 months	Yes	Yes

* The deferral vests on a pro-rata basis over a 3 year period

The NRC, based on its assessment of role profiles and risk taken by an employee, could increase the coverage of employees that would subject to deferral arrangements.

DETAILS OF REMUNERATION

Board of Directors

US$ thousands	2015	2014
Sitting fees	434	343
Remuneration fees	1,148	1,191
Others*	995	936
Total	**2,577**	**2,470**

* Represents allowances to cover travelling and accommodation while attending Board and related Committee meetings, including fees paid to a member for providing advisory services to the Bank US$360,000 [2014: US$360,000].

Employees

	2015											
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration						
						Upfront		Deferred				
US$ thousands	Number of staff	Cash	Others	(Cash / shares)	(Cash / shares)	Cash	Shares	Cash	Shares	Others	Total
Approved persons											
- Business Lines	8	3,162	335	-	-	807	14	184	976	-	5,478
- Control & Support	13	3,411	371	-	-	435	51	30	353	-	4,651
Other material risk takers	8	1,859	262	-	-	207	31	13	189	-	2,561
Other staff	254	27,165	4,441	-	-	2,958	50	-	199	-	34,813
Overseas staff	823	55,627	11,399	-	-	7,815	-	-	-	-	74,841
Total	**1,106**	**91,224**	**16,808**	**-**	**-**	**12,222**	**146**	**227**	**1,717**	**-**	**122,344**

Other staff expenses reported in the consolidated statement of income that have not been included in the table above, amounting to US$6.1 million, comprise indirect staff costs including training, recruitment expenses, life assurance contributions, and differences between accrued staff expenses and the amounts actually paid.

	2014										
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
US$ thousands	Number of staff	Cash	Others	(Cash / shares)	(Cash / shares)	Cash	Shares	Cash	Shares	Others	Total
Approved persons											
- Business Lines	7	2,880	331	-	-	803	8	190	985	-	5,197
- Control & Support	9	2,740	297	-	-	407	55	33	384	-	3,916
Other material risk takers	8	1,617	227	-	-	194	39	-	155	-	2,232
Other staff	241	24,452	4,563	-	-	2,660	36	-	145	-	31,856
Overseas staff	665	46,764	8,908	-	-	8,105	-	-	-	-	63,777
Total	**930**	**78,453**	**14,326**	**-**	**-**	**12,169**	**138**	**223**	**1,669**	**-**	**106,978**

Other staff expenses reported in the consolidated statement of income that have not been included in the table above, amounting to US$8.4 million, comprise indirect staff costs including training, recruitment expenses, life assurance contributions, and differences between accrued staff expenses and the amounts actually paid.

Deferred awards

	2015				
		Shares			
	Cash US$ thousands	Number	US$ thousands	Others US$ thousands	Total US$ thousands
Opening balance	-	-	-	-	-
Awarded during the period	223	1,943,801	1,807	-	2,030
Paid out / released during the period	-	(149,343)	(138)	-	(138)
Service, performance and risk adjustments	-	-	-	-	-
Changes in value of unvested awards	-	-	64	-	64
Closing balance*	**223**	**1,794,458**	**1,733**	**-**	**1,956**

* Closing balance Share value based on NAV as on 31-12-15.

Severance pay

The severance payments during the year amounted to US$219,878 [2014: US$410,117] of which the highest paid to a single person amounted to US$153,645 [2014: US$152,403].

Corporate governance report continued

Corporate Communications

The Bank has in place a Corporate Communications Strategy which ensures that the disclosures made by GIB are fair, transparent, comprehensive and timely; and reflect the character of the Bank and the nature, complexity and risks inherent in its business activities. Main communications channels include the website, annual report, corporate brochures, staff newsletters, and announcements in the appropriate media.

This transparency is also reflected in the Bank's website (www.gib.com) which provides substantial information on the Bank, its financial statements for the last five years, and its press releases.

Code of Conduct

The Bank's website also contains the Board-approved Code of Conduct that contains rules on conduct, ethics and on avoiding conflicts of interest, applicable to all the employees and Directors of the Bank. The Code of Conduct is designed to guide all employees and Directors through best practices to fulfil their responsibilities and obligations towards the Bank's stakeholders (Shareholders, clients, staff, regulators, suppliers, the public, and the host countries in which the Bank conducts business, etc.), in compliance with all applicable laws and regulations.

The Code addresses such issues as upholding the law and following best practices; acting responsibly, honestly, fairly and ethically; avoiding conflicts of interest; protecting Bank property and data; protecting client-confidential information and safeguarding the information of others; complying with inside information rules and with the prohibition on insider trading; preventing money laundering and terrorism financing; rejecting bribery and corruption; avoiding compromising gifts; as well as speaking up and 'whistle blowing'.

All employees and Directors of the Bank are reminded every year of their obligations under the Code of Conduct by means of an email from the Bank that includes a copy of the Code of Conduct (in English and Arabic), and everyone is required to sign an Acknowledgement and Declaration confirming that they have received and read the Code of Conduct and understand its requirements; have followed and will continue to follow these requirements; and agree that if they have any concern about any possible misconduct or breach of the Code of Conduct, they will raise the concern with the appropriate persons within the Bank as per the Code.

In addition, all employees of the Bank must sign an annual Declaration on outside employment and other activities, to ensure that no conflicts of interest exist. These Declarations are addressed to the Bank's Human Resources department. Similarly, all Directors and members of the Management Committee must complete and sign a similar annual Declaration, addressed to the Corporate Governance Committee of the Board.

Disclosures

The Bank's website also provides access to GIB's annual reports, and all the information contained in these reports is therefore accessible globally. The information includes Management discussion on the business activities of the Bank, as well as discussion and analysis of the financial statements and risk management. The financial information reflects the latest International Financial Reporting Standards that are applicable for adoption in 2015.

The Board-approved Disclosure Policy is in accordance with the requirements of Basel 3 Pillar 3, in compliance with CBB rules. The objective of this policy is to ensure transparency in the disclosure of the financial and risk profiles of the Bank to all interested parties.

Policy on Connected Counterparties

The Board-approved Policy on Connected Counterparties governs GIB's dealings with such parties. The policy defines which parties are considered to be connected with GIB within the criteria set by the CBB, and imposes not only the limitations placed by the CBB but also additional criteria imposed by GIB. The policy sets out the internal responsibilities for reporting GIB's connected counterparties exposures to the CBB, and the disclosures to be made in GIB's financial statements and annual reports, in line with applicable disclosure requirements

Policy on Related Party Transactions

GIB has a Board-approved Policy for the Approval of Related Party Transactions. The Bank's dealings with its Shareholders are conducted on an arms-length basis in respect of its exposure to and deposits received from them. If loans are extended to related parties, these are approved on the basis of authorities delegated by the Board to the CEO. If the loans exceed these authorities, then further approval from the Executive Committee or the Board is requested. The Bank will not deal with any of its Directors in a lending capacity. It should be noted that Article 16 of the Articles of Association prevents Directors of the Bank from having any interest, directly or indirectly, in any contract with the Bank.

All loans to Senior Management members (including the CEO and his direct reports), as well as staff of GIB, are governed by the policies applicable to staff. These policies are reviewed by the Nomination & Remuneration Committee of the Board at least annually. All dealings with companies associated with a GIB Director or member of the Senior Management are referred to the Board for approval.

Material transactions that require Board approval

The Bank has delegated credit authority to the CEO based on a risk-rating matrix. When considering transactions, any exposure to an entity that exceeds the CEO's limit will require the approval of the Board Executive Committee or the Board.

Compliance

The Compliance framework adopted by the Board reflects the principles for promoting sound compliance practices at GIB. It also demonstrates the Bank's adherence to applicable legal and regulatory requirements, and to high professional standards. The role of the Compliance function is to assist Senior Management in ensuring that the activities of GIB and its staff are conducted in conformity with applicable laws and regulations, and generally with sound practices pertinent to those activities. The Group Head of Compliance, who reports directly to the CEO, also has access to the Board through the Audit Committee, if required.

In ensuring that the tone emanates from the top, the CEO issues a yearly message to all GIB employees reminding everyone of the importance of complying with all laws and regulations applicable to GIB's operations. Good compliance behaviour is also rewarded by making it a mandatory measurement criteria in staff evaluations.

Anti-Money Laundering

The Bank's current Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) procedures and guidelines conform to the legal and regulatory requirements of the Kingdom of Bahrain. These legal and regulatory requirements largely reflect the FATF recommendations on Money Laundering. GIB's AML/CFT procedures and guidelines apply to all of the Bank's offices, branches and subsidiaries, wherever located. In addition, the GIB entities located outside Bahrain are subject to the laws and requirements of the jurisdictions where they operate, and if local standards differ, the higher standards apply.

Systems are in place to ensure that business relationships are commenced with clients whose identity and activities can reasonably be established to be legitimate; to collect and record all relevant client information; to monitor and report suspicious transactions; to provide periodic AML/CFT training to employees; and to review with external auditors the effectiveness of the AML/CFT procedures and controls. The Bank's AML/CFT procedures prohibit dealing with shell banks. A proactive structure of officers is in place to ensure Group-wide compliance with AML/CFT procedures, and the timely update of the same to reflect the changes in regulatory requirements. This structure consists of the Group Head of Compliance and the Group Money Laundering Reporting Officer, MLROs, and Deputy MLROs.

Corporate Governance framework – Audit

The Internal Audit review of the Bank's Corporate Governance framework is conducted annually as a separate project since the introduction of the Corporate Governance Rules in 2010. Accordingly, the latest audit was undertaken in April 2015. The purpose of the audit was to provide a level of assurance about the processes of corporate governance within the Bank. The scope of the audit included reviewing the existing policies, procedures and current practices followed by GIB in light of the CBB rules contained in the HC Module of the CBB Rulebook.

The overall conclusion of the audit was that the Corporate Governance framework of GIB appears to be operating effectively, and is providing a sound framework to control the risks inherent in GIB's current business activities.

Status of compliance with the CBB rules (Module HC)

GIB is in compliance with the CBB rules on Corporate Governance outlined in Module HC of the CBB Rulebook, and instances of non-compliance in 2015 are explained as follows:

Module HC 7.2.2 requires all Directors to attend and be available to answer questions from Shareholders at any Shareholder meeting. The Chairman of the Board of Directors did not attend the Annual General Meeting ("AGM") that was held on 12 March 2015. The Vice-Chairman of the Board chaired the AGM.

Under Article 2 of GIB's Agreement of Establishment approved by Decree Law No. (30) for the year 1975 (as amended from time to time) (the "Agreement of Establishment"), GIB is subject to the Agreement of Establishment and its AoA (together the "GIB Constitutional Documents"), and in the event of any conflict between the GIB Constitutional Documents and the internal law of the Kingdom of Bahrain, the terms of the Constitutional Documents shall prevail. As a result, certain Corporate Governance requirements under HC-1, HC-4 and HC-5 that are in conflict with the AoA such as the nomination of Directors, the attendance requirements for Directors, the prohibition against proxies at Board Meetings, and the Board of Directors' total remuneration, have not been adopted.

Biographies of the Board of Directors

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1. H.E. Jammaz bin Abdullah Al-Suhaimi (1)

Chairman since 2008
Kingdom of Saudi Arabia

His Excellency Al-Suhaimi is ex-Chairman and Chief Executive of the Saudi Arabia Capital Market Authority (CMA), and ex-Deputy Governor of the Saudi Arabian Monetary Agency (SAMA), which he joined initially as Director General for Banking Control. He also served as Deputy Director General of the Saudi Industrial Development Fund. H.E. Al-Suhaimi is Vice Chairman of Saudi Arabian Investment Company (Sanabil Investments). He has also held board memberships in many leading public and private organisations, including the Saudi Arabian General Investment Authority, the General Petroleum and Minerals Organisation, the National Company for Cooperative Insurance, and the London-based Saudi International Bank (which merged with Gulf International Bank in 1999). H.E. Al-Suhaimi holds a Bachelor's degree in Electrical Engineering from the University of Washington, USA. He has 41 years' professional experience.

2. H.E. Mr. Sulaiman bin Abdullah Al-Hamdan (1) (4)

Vice Chairman since 2015
Director since 2009
Kingdom of Saudi Arabia

His Excellency Al-Hamdan is President of the Saudi General Authority of Civil Aviation. Prior to this, he was Board Member and Group Chief Executive Officer of National Air Services (NAS Holding) in Saudi Arabia. He was also a Member of the Saudi Arabian Advisory Commission of the Supreme Economic Council. He previously worked for Saudi British Bank, where his various positions included Deputy Managing Director, and General Manager - Personal Banking; and at the Saudi Fund for Development. H.E. Al-Hamdan is an ex-Member of the Board of Trustees at Al Yamamah University; and an ex-Member of the Advisory Committee to the Industrial Management College at King Fahd University of Petroleum and Minerals, and Prince Sultan University, Saudi Arabia. He previously served as Chairman of Saudi Hollandi Capital; and Board Member of Middle East Specialized Cables Company, and Al Ahlia Cooperative Insurance Company. H.E. Al- Hamdan holds an MBA from the University of New Haven, USA; and a Bachelor's degree in Administrative Science from King Saud University, Saudi Arabia. He has 36 years' professional experience

3. Professor Abdullah bin Hassan Alabdulgader (1) (2) (5)

Director since 2009
Kingdom of Saudi Arabia

Professor Alabdulgader is Chairman of the Board of Saudi Telecom Company (STC) and serves as Director at Saudi Arabian Investment Company (Sanabil) and Saudi Company for Development and Technology Investment (Taqnia). He also chairs the Advisory Committee of the Saudi Arabia Capital Market Authority (CMA), and the Professional Quality Monitoring Committee at the Saudi Organization of Certified Public Accountants. Prior to this, he was Professor of Business Administration at King Fahd University of Petroleum and Minerals; and a Commissioner at the CMA, where he led development of the Kingdom's corporate governance code. As a Founding Executive Director of the GCC Board Directors Institute, he continued to promote corporate governance in the region. Professor Alabdulgader holds a PhD in Business Administration from the University of Colorado Boulder, USA; and MBA and BSc degrees in Business Administration from King Fahd University of Petroleum and Minerals. He has 34 years' professional experience.

(1) Executive Committee member
(2) Audit Committee member
(3) Risk Policy Committee member
(4) Nomination & Remuneration Committee member
(5) Corporate Governance Committee member

4. Mr. Abdulla bin Mohammed Al Zamil (3) (4) (5)

Director since 2009
Kingdom of Saudi Arabia

Mr. Al Zamil is Board Member and Chief Executive Officer of Zamil Industrial Investment Company, having previously served as Chief Operating Officer. Prior to that, he was Senior Vice President at Zamil Air Conditioners, where he started his career as an industrial engineer. He is Chairman of GIB Capital, Saudi Global Ports and Singapore Ports Authority. Mr. Al Zamil's board memberships include GIB UK Limited, Gulf Insulation Group, Ranco-Zamil Concrete Industries, General Authority of Civil Aviation (Government Entity) and Viva Bahrain; together with Saudi Human Resources Development Fund, Saudi Food Bank (Etaam), Endeavor - Saudi Arabia, and Dhahran Ahliyya School. Mr. Al Zamil holds an MBA (with a concentration in Finance) from King Fahd University of Petroleum and Minerals, Saudi Arabia; and a Bachelor's degree in Industrial Engineering from the University of Washington, USA. He has 29 years' professional experience.

5. Mr. Khaled bin Saleh Al-Mudaifer (2) (4) (5)

Director since 2009
Kingdom of Aaudi Arabia

Mr. Al-Mudaifer is President and Chief Executive Officer of Saudi Arabian Mining Company (Ma'aden), where he was previously Vice President for phosphate & new business development. Prior to that, he was Managing Director of Qassim Cement Company; and Vice President - Finance at Eastern Petrochemical Company (Sharq), a Sabic Affiliate. He is a Board and Executive Committee Member of Ma'aden; and an ex-Board Member of Qassim Cement Company, and Saudi Arabian Railway Company. Mr. Al-Mudaifer holds MBA and BSc degrees in Engineering from King Fahd University of Petroleum and Minerals, Saudi Arabia. He has 31 years' professional experience.

6. Mr. Omar Hadir Al-Farisi (1) (2) (3)

Director since 2012
United States of America

Mr. Al-Farisi is Managing Member of Diyala Advisors in New York, and serves as an advisor to the Public Investment Fund of Saudi Arabia. Previously, he was an investment banker at Credit Suisse First Boston in New York, where he focused on energy sector financings, mergers and acquisitions, and related transactions. Prior to his career in banking, he was an attorney at the law firm of White & Case in New York, where he was a member of its Corporate & Financial Services Department. Mr. Al-Farisi holds a Juris Doctorate (JD) degree from Columbia University School of Law, USA; and a BA in Economics from the University of Notre Dame, USA. He has 22 years' professional experience.

7. Dr. Yahya A. Alyahya (3)

Director since 2015
Chairman, Gulf International Bank (UK) Limited
Kingdom of Saudi Arabia

Dr. Alyahya was Chief Executive Officer of Gulf International Bank (GIB) from January 2009 to January 2016. Prior to this, he was KSA Executive Director on the Board of the World Bank Group, where he held several prominent positions. Earlier, he was Advisor to the Governor of the Saudi Arabian Monetary Agency; GM of EA Juffali & Bro. in Riyadh; and Founder and Director General of the Institute of Banking, Riyadh. He was also Professor of Industrial and Systems Engineering at King Saud University, KSA, and the University of Michigan, USA; and Lecturer on Matching Problems and Algorithms at the Indian Statistical Institute, Bangalore, India. Dr. Alyahya is Chairman of GIB (UK); Saudi Airlines Catering Co; and Shuaibah Water and Electricity IWPP. He is a Board Member at the Institute of International Finance, Washington, and Co-Chairman of its Emerging Markets Advisory Council; and a Member of the Conciliation and Arbitration Panels of the International Center for Settlement of Investment Disputes. Previous board memberships include the Group of Twenty (G20) High Level Panel on Infrastructure Investment; NCB; GIC; Saudi Re, Oger Telecom; GIB; BSF, Saudi Agri Bank; and Saudi Eng. Soc. Dr. Alyahya holds a PhD in Industrial and Systems Engineering from the University of Michigan, USA, and graduated from King Fahd University of Petroleum and Minerals, KSA. He has 40 years' professional experience.

Biographies of senior management

Mr. Abdulaziz Al-Helaissi
Chief Executive Officer

Mr. Al-Helaissi has 26 years of banking experience primarily in Saudi Arabia, and served on a number of boards including Tadawul (Saudi Arabia Stock Exchange).

Prior to joining GIB in February 2016, Mr. Al-Helaissi held the position of Deputy Governor for Supervision at the Saudi Arabian Monetary Agency (SAMA) having started there in May 2013. At SAMA, his responsibilities included the oversight of the Banking and Insurance sectors as well as Finance company regulations (mortgage, leasing, and other non-bank finance agreements). He was additionally responsible for consumer protection.

Prior to his post at SAMA, Mr. Al-Helaissi was Senior Country Officer and Managing Director, Saudi Arabia for JP Morgan Chase as well as Head of Global Corporate Banking for the Middle East and North Africa between September 2010 and May 2013. Earlier in his career, he was Central Province Area General Manager at Saudi British Bank (SABB), an affiliate of HSBC, covering all key lines of business, including corporate and consumer banking.

Mr. Al-Helaissi holds a Bachelor of Arts in Economics from the University of Texas in Austin, USA.

Stewart Macphail
Senior Managing Director – Chief Operating Officer

Member of Management Committee, Assets and Liabilities Committee, Group Risk Committee, Operational Risk Committee, Human Resources Committee, and Information Security Committee

Stewart Macphail has over 26 years' international business experience in both financial services and other business sectors, ranging from retail to construction. Joining GIB in his current position in December 2014, he is responsible for Group Operations, Information Technology, Administration Services, Corporate Communications and the Enterprise Programme Management Office; and currently has responsibility for the Bank's retail business.

For seven years prior to joining GIB, Stewart Macphail held senior executive roles and board memberships across a diverse range of businesses in the MENA region, from large family groups and public companies to private equity-held businesses. In these positions, he operated at a strategic management level, developing restructuring strategies and translating them into clear operational implementation plans. Prior to moving to the Middle East, he worked for over 15 years in Europe with GE Capital, where his final position was CEO of GE Capital's Card Services business in the UK.

Stewart Macphail holds a BA Honours degree in Business and Law from Lancaster University, UK

Stephen D. Williams
Managing Director – Chief Financial Officer

Member of Management Committee, Assets and Liabilities Committee, Group Risk Committee, Operational Risk Committee, Human Resources Committee, and Information Security Committee

Stephen Williams has 31 years' international experience in banking, accountancy and audit. Joining GIB in 1987, he was appointed Group Financial Controller in 2000, and Chief Financial Officer in 2008. He is currently responsible for Group-wide statutory, regulatory and management reporting; financial and balance sheet planning, and capital management. He also has responsibility for the Bank's Basel 3 implementation project. Prior to joining GIB, he worked for KPMG in London and the Middle East.

A certified Chartered Accountant and Member of the Institute of Chartered Accountants in England and Wales (ICAEW), Stephen Williams is the Bahrain country representative for the ICAEW. He holds a BSc Degree in Economics from Cardiff University, UK and is a Member of the Working Groups on Capital Adequacy and Working Liquidity at the Institute of International Finance.

Masood Zafar
Managing Director – Chief Risk Officer

Member of Management Committee, Assets and Liabilities Committee, Group Risk Committee, Operational Risk Committee, and Information Security Committee

Masood Zafar has 36 years' international experience in banking, accountancy, audit and risk management. Joining GIB in 1982 in the Internal Audit department, he was subsequently appointed Chief Internal Auditor in 1987, Chief Credit Officer in 2004, and Chief Risk Officer in 2012. Prior to joining GIB, Mr. Zafar worked at Ernst & Young in London, and KPMG in Bahrain.

Masood Zafar is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mark Watts
Managing Director & Chief Executive Officer Gulf International Bank (UK) Limited

Mark Watts has 28 years' experience in asset management and banking gained in the UK, USA and UAE, covering equities, fixed income, alternatives, structured products, emerging markets, currencies, derivatives, and real estate. He was appointed to his current position in 2014.

Prior to joining GIB UK, Mark Watts spent four years with the National Bank of Abu Dhabi, where his final position was Managing Director and Chief Investment Officer of the Asset Management Group. Previously, he was Head of Asset Management at Qatar Islamic Bank-owned European Finance House based in London; and Head of Global Fixed Income at Aviva Investors. Before this, he spent over 17 years at Baring Asset Management, a leading UK-based investment management firm, working in the UK and the US.

Mark Watts is a CFA Charter Holder, and a Fellow of the Chartered Institute for Securities & Investment (CISI). He holds Diplomas from the CISI and the International Security Managers Association (ISMA), together with the Islamic Finance Qualification (IFQ).

Khalid Saleh Al-Ghamdi
Acting Chief Executive Officer GIB Capital

Khalid Al-Ghamdi has over 19 years' international experience in finance and investment banking. Joining GIB in 2004, he was appointed Head of Corporate Finance at GIB Capital in 2007, and subsequently promoted to his current position in 2013. Prior to GIB, he worked with Banque Saudi Fransi in Saudi Arabia; and with Merrill Lynch and Edward Jones in the UK.

Khalid Al-Ghamdi holds an MBA in Finance from the University of Colorado in Boulder, USA.

Ravi Krishnan
Executive Vice President – Acting Head of Wholesale Banking

Member of Management Committee, Assets and Liabilities Committee, Operational Risk Committee, Human Resources Committee, and Information Security Committee

Ravi Krishnan has over 15 years' banking experience in the GCC. Joining GIB in 2004 as Vice President - Project Finance, he was subsequently promoted to Senior Vice President - Head of Project Advisory, followed by Head of Credit Products and then Head of Relationship Management for GCC and International Markets. He was appointed to his current position in 2015. Prior to joining GIB, Ravi Krishnan worked with Arab Petroleum Investments Corporation (APICORP) in Saudi Arabia as a member of the Project Finance team. Previously, he was a Management Consultant with KPMG in the UK and Bahrain.

Ravi Krishnan is a Fellow of the Institute of Chartered Accountants of India. He is also a Member of the Institute of Cost & Works Accountants of India, and the Institute of Company Secretaries of India.

Steven J. Moulder
Acting Chief Investment & Treasury Officer

Member of Management Committee, Assets and Liabilities Committee, Operational Risk Committee, Human Resources Committee, and Information Security Committee

Steven Moulder has 35 years' international experience in banking and treasury. He started his career with GIB in 1987 as a Senior Dealer Foreign Exchange at the London Branch. In 1997, he was appointed Head of Treasury and then in 2000, Head of Treasury & Banking Services at the newly established GIB (UK) Limited. Steven Moulder moved to GIB Bahrain in 2009 as Head of Treasury Capital Markets, and assumed his current position in May 2015. Prior to joining GIB, he was a Foreign Exchange Dealer with the London branches of Crocker National Bank, ABN Bank and Bank of New Zealand.

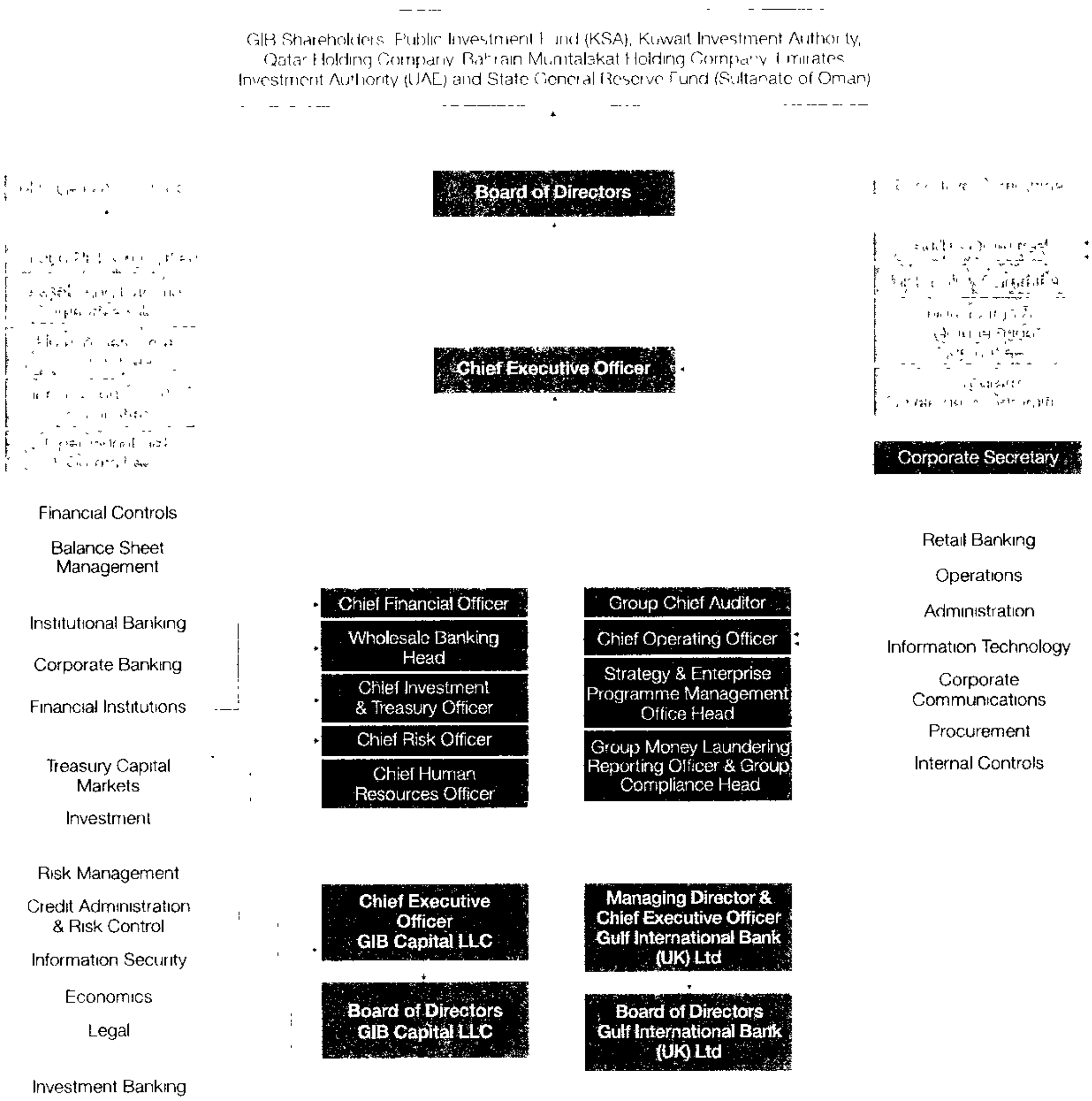
Steven Moulder attended the Advanced Development Programme at Cranfield University School of Management, UK.

Sakhr Bin Abdulrahman Almulhem
Head of Retail Banking (from June 2011 to January 2016)

Sakhr Almulhem has over 20 years' experience in the banking industry covering North and Central America, the UK and the Middle East. He joined GIB in 2011 as Senior Vice President – Head of Proposition in Retail Banking, and was appointed to the position of Head of Retail Banking in 2013. Prior to joining GIB, he was Senior Vice President – Divisional Head of Retail Customer Management at National Commercial Bank (NCB), Saudi Arabia. His previous positions with NCB included Vice President – Regional Manager, and Vice President – Head of Sales Development. He started his career with SABB where he held various positions in the areas of Relationship Management, Branch Management, Quality Management and Consumer Finance.

Sakhr Almulhem holds an MBA and a BBA in Marketing from Washington University, USA.

Organisation and corporate governance chart



Consolidated Financial Statements

For the year ended 31st December 2015

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Notes to the consolidated financial statements

Independent auditors' report to the shareholders

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Gulf International Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31st December 2015, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Report on other regulatory requirements
As required by the Bahrain Commercial Companies Law and 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 chairman's statement is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position, and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration No. 83
12th February 2016

Consolidated statement of financial position

	Note	31.12.15 US$ millions	31.12.14 US$ millions
ASSETS			
Cash and other liquid assets	5	**4,309.7**	2,472.6
Securities purchased under agreements to resell	6	**1,835.0**	1,305.2
Placements	7	**4,402.9**	5,180.5
Trading securities	8	**72.2**	72.7
Investment securities	9	**3,884.5**	3,944.5
Loans and advances	10	**9,161.4**	7,931.5
Other assets	11	**526.7**	393.2
Total assets		**24,192.4**	21,300.2
LIABILITIES			
Deposits from banks	13	**1,985.9**	1,240.1
Deposits from customers	13	**14,683.4**	12,897.8
Securities sold under agreements to repurchase	14	**2,093.4**	618.0
Other liabilities	15	**428.7**	342.9
Senior term financing	16	**2,420.0**	3,372.9
Subordinated term financing	17	**150.0**	477.8
Total liabilities		**21,761.4**	18,949.5
EQUITY			
Share capital	18	**2,500.0**	2,500.0
Reserves	19	**379.8**	392.0
Retained earnings		**(448.8)**	(541.3)
Total equity		**2,431.0**	2,350.7
Total liabilities & equity		**24,192.4**	21,300.2

The consolidated financial statements were approved by the Board of Directors on 12th February 2016 and signed on its behalf by:-

Jammaz bin Abdullah Al-Suhaimi
Chairman

Abdullah bin Hassan Alabdulgader
Chairman of Board Audit Committee

Abdulaziz A. Al-Helaissi
Chief Executive Officer

The notes on pages 60 to 102 form part of these consolidated financial statements.

Consolidated statement of income

	Note	**Year ended 31.12.15 US$ millions**	Year ended 31.12.14 US$ millions
Interest income	*21*	**344.0**	308.9
Interest expense	*21*	**155.8**	150.9
Net interest income		**188.2**	158.0
Fee and commission income	*22*	**70.2**	62.9
Foreign exchange income	*23*	**19.8**	19.4
Trading income	*24*	**6.2**	2.4
Other income	*25*	**23.6**	14.9
Total income		**308.0**	257.6
Staff expenses		**128.4**	115.4
Premises expenses		**17.5**	15.7
Other operating expenses		**46.2**	33.8
Total operating expenses		**192.1**	164.9
Net income before provisions and tax		**115.9**	92.7
Provision release for investment securities	*9*	**-**	4.5
Provision charge for loans and advances	*10*	**(21.3)**	(10.3)
Net income before tax		**94.6**	86.9
Taxation charge on overseas activities		**(4.2)**	(1.3)
Net income		**90.4**	85.6
Earnings per share	*38*	***US$0.04***	*US$0.03*

Jammaz bin Abdullah Al-Suhaimi
Chairman

Abdullah bin Hassan Alabdulgader
Chairman of Board Audit Committee

Abdulaziz A. Al-Helaissi
Chief Executive Officer

The notes on pages 60 to 102 form part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Year ended 31.12.15 US$ millions	Year ended 31.12.14 US$ millions
Net income	**90.4**	85.6
Other comprehensive income:-		
Items that may subsequently be reclassified to consolidated statement of income:-		
Cash flow hedges:-		
- net changes in fair value	**0.3**	(0.2)
- net amount transferred to consolidated statement of income	**-**	(0.1)
	0.3	(0.3)
Items that will not be reclassified to consolidated statement of income:-		
Net changes in fair value of equity investments classified as fair value through other comprehensive income (FVTOCI)	**(26.0)**	7.0
Remeasurement of defined benefit pension fund	**15.6**	(5.6)
	(10.4)	1.4
Total other comprehensive income	**(10.1)**	1.1
Total comprehensive income	**80.3**	86.7

The notes on pages 60 to 102 form part of these consolidated financial statements.

Consolidated statement of changes in equity

	Share capital US$ millions	Reserves US$ millions	Retained earnings US$ millions	Total US$ millions
At 1st January 2015	**2,500.0**	**392.0**	**(541.3)**	**2,350.7**
Net income for the year	**-**	**-**	**90.4**	**90.4**
Other comprehensive income for the year	**-**	**(25.4)**	**15.3**	**(10.1)**
Total comprehensive income for the year	**-**	**(25.4)**	**105.7**	**80.3**
Transfer from retained earnings	**-**	**13.2**	**(13.2)**	**-**
At 31st December 2015	**2,500.0**	**379.8**	**(448.8)**	**2,431.0**
At 1st January 2014	2,500.0	374.3	(610.3)	2,264.0
Net income for the year	-	-	85.6	85.6
Other comprehensive income for the year	-	2.9	(1.8)	1.1
Total comprehensive income for the year	-	2.9	83.8	86.7
Transfer from retained earnings	-	14.8	(14.8)	-
At 31st December 2014	2,500.0	392.0	(541.3)	2,350.7

The notes on pages 60 to 102 form part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Year ended 31.12.15 US$ millions	Year ended 31.12.14 US$ millions
OPERATING ACTIVITIES			
Net income		**90.4**	85.6
Adjustments to reconcile net income to net cash inflow from operating activities:-			
Provisions for investment securities		**-**	(4.5)
Provisions for loans and advances		**21.3**	10.3
Realised profits on debt investment securities		**(2.7)**	(1.4)
Amortisation of investment securities		**8.4**	13.8
Amortisation of senior term financing		**0.3**	0.2
Net (increase) / decrease in statutory deposits with central banks		**(59.2)**	10.6
Net (increase) / decrease in securities purchased under agreements to resell		**(529.8)**	437.5
Net decrease in placements		**777.6**	84.1
Net decrease / (increase) in trading securities		**0.5**	(21.8)
Net (increase) / decrease in loans and advances		**(1,251.2)**	375.4
Increase in accrued interest receivable		**(28.0)**	(3.6)
Increase in accrued interest payable		**27.0**	8.3
Net increase in other net assets		**(30.8)**	(54.7)
Net increase / (decrease) in deposits from banks		**745.8**	(206.2)
Net increase / (decrease) in deposits from customers		**1,785.6**	(553.5)
Net increase / (decrease) in securities sold under agreements to repurchase		**1,475.4**	(167.2)
Net cash inflow from operating activities		**3,030.6**	12.9
INVESTING ACTIVITIES			
Purchase of investment securities		**(1,192.5)**	(855.9)
Sale and maturity of investment securities		**1,220.8**	627.0
Net cash inflow / (outflow) from investing activities		**28.3**	(228.9)
FINANCING ACTIVITIES			
Net (decrease) / increase in senior term financing		**(953.2)**	1,039.8
Net decrease in subordinated term financing		**(327.8)**	-
Net cash (outflow) / inflow from financing activities		**(1,281.0)**	1,039.8
Increase in cash and cash equivalents		**1,777.9**	823.8
Cash and cash equivalents at 1st January		**2,339.6**	1,515.8
Cash and cash equivalents at 31st December	5	**4,117.5**	2,339.6

The notes on pages 60 to 102 form part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31st December 2015

1. Incorporation and registration

The parent company of the Group, Gulf International Bank B.S.C. (the Bank), is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain by Amiri Decree Law No. 30 dated 24th November 1975 and is registered as a conventional wholesale bank with the Central Bank of Bahrain. The registered office of the Bank is located at Al-Dowali Building, 3 Palace Avenue, Manama, Kingdom of Bahrain.

The Bank and its subsidiaries (the Group), is principally engaged in the provision of wholesale commercial, asset management and investment banking services. The Group operates through subsidiaries, branch offices and representative offices located in six countries worldwide. The total number of staff at the end of the financial year was 1,106.

2. Accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:-

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of trading securities, equity investment securities, and derivative financial instruments as explained in more detail in the following accounting policies. Recognised assets and liabilities that are hedged by derivative financial instruments are also stated at fair value in respect of the risk that is being hedged. The accounting policies have been consistently applied by the Bank and its subsidiaries and are consistent with those of the previous year, except for the adoption of applicable new accounting standards with effect from 1st January 2015 as referred to below.

IAS 19 – Employee Benefits

The amendments to IAS 19 clarify the requirements relating to contributions made by employees or third parties. The amendments have been applied retrospectively and have not had a significant impact on the Group's consolidated financial statements.

2.2 Consolidation principles

The consolidated financial statements include the accounts of Gulf International Bank B.S.C. and its subsidiaries. Subsidiary undertakings are companies and other entities, including special purpose entities, which the Bank controls. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The subsidiary's accounts are derecognised from the consolidated financial statements from the point when the control ceases. All intercompany balances and transactions, including unrealised gains and losses on transactions between Group companies, have been eliminated.

2.3 Foreign currencies

Items included in the consolidated financial statements of the Bank and its subsidiaries are measured based on the currency of the primary environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US Dollars, representing the Group's functional and presentation currency. Transactions in foreign currencies are converted to US Dollars at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at market rates of exchange prevailing at the balance sheet date.

2.4 Financial assets and liabilities

Financial assets and liabilities comprise all assets and liabilities reflected in the statement of financial position, although excluding investments in subsidiaries, associated companies and joint ventures, employee benefit plans, property and equipment, deferred taxation and taxation payable.

a) Initial recognition and measurement

The Group recognises financial assets and liabilities in the consolidated statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument.

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-

- financial assets at amortised cost
- financial assets at fair value through other comprehensive income (FVTOCI)
- financial assets at fair value through the profit or loss (FVTPL)

2. Accounting policies (continued)

2.4 Financial assets and liabilities (continued)

a) Initial recognition and measurement (continued)

Financial liabilities are classified into one of the following two categories:-

- financial liabilities at amortised cost
- financial liabilities at fair value through the profit or loss (FVTPL)

Financial assets are initially recognised at fair value, including transaction costs that are directly attributable to the acquisition of the financial asset.

Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and liabilities classified as FVTPL are recognised on the trade date, i.e. the date on which the Group commits to purchase or sell the financial asset or liability. All regular way purchases and sales of other financial assets and liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

b) Subsequent measurement

Subsequent to initial measurement, financial assets and liabilities are measured at either amortised cost or fair value. The classification and the basis for measurement are subject to the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

Financial assets at amortised cost

Financial assets are measured at amortised cost using the effective interest rate method if:-

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of these two criteria is not met, the financial assets are classified and measured at fair value, either through the profit or loss (FVTPL) or through other comprehensive income (FVTOCI).

Additionally, even if a financial asset meets the amortised cost criteria, the entity may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election to classify an equity investment that is not held for trading as FVTOCI.

For this purpose, a financial asset is deemed to be held for trading if the equity investment meets any of the following conditions:-

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profitability; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

The irrevocable election is on an instrument-by-instrument basis. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the consolidated statement of income.

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

Notes to the consolidated financial statements (continued)

For the year ended 31st December 2015

2. Accounting policies (continued)

2.4 Financial assets and liabilities (continued)

b) Subsequent measurement (continued)

Financial liabilities at amortised cost

All financial liabilities, other than those classified as financial liabilities at FVTPL, are classified as financial liabilities at amortised cost and are measured at amortised cost using the effective interest rate method as described in note 2.7(a).

Financial liabilities at fair value through the profit or loss

Financial liabilities not otherwise classified above are classified as financial liabilities at FVTPL. This classification includes derivatives that are liabilities measured at fair value.

c) Derecognition of financial assets and liabilities

Financial assets are derecognised and removed from the consolidated statement of financial position when the right to receive cash flows from the assets has expired; the Group has transferred its contractual right to receive the cash flows from the assets, and substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised and removed from the consolidated statement of financial position when the obligation is discharged, cancelled, or expires.

2.5 Impairment of financial assets

Only financial assets that are measured at amortised cost are tested for impairment. A provision for impairment is established where there is objective evidence that the Group will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the credit facility. Objective evidence that a financial asset is impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Provisions for impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset.

Provisions for impairment are also measured and recognised on a collective basis in respect of impairments that exist at the balance sheet date but which will only be individually identified in the future. Future cash flows for financial assets that are collectively assessed for impairment are estimated based on contractual cash flows and historical loss experiences for assets with similar credit risk characteristics. Historical loss experience is adjusted, based on current observable data, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based.

Provisions for impairment are recognised in the consolidated statement of income and are reflected in an allowance account against loans and advances and investment securities.

Financial assets are written off after all restructuring and collection activities have taken place and the possibility of further recovery is considered to be remote. Subsequent recoveries are included in other income.

Provisions for impairment are released and transferred to the consolidated statement of income where a subsequent increase in the recoverable amount is related objectively to an event occurring after the provision for impairment was established.

Financial assets which have been renegotiated are no longer considered to be past due and are replaced on performing status when all principal and interest payments are up to date and future payments are reasonably assured. Financial assets subject to individual impairment assessment and whose terms have been renegotiated, are subject to on-going review to determine whether they remain impaired or should be considered past due.

2.6 Offsetting financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2. Accounting policies (continued)

2.7 Revenue recognition

a) Interest income and interest expense

Interest income and interest expense for all interest-bearing financial assets and liabilities except those classified as FVTPL are recognised using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial asset or liability but excluding future credit losses. Fees, including loan origination fees and early redemption fees, are included in the calculation of the effective interest rate to the extent that they are considered to be an integral part of the effective interest rate.

Interest income is suspended when either interest or principal on a credit facility is overdue by more than 90 days whereupon all unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities are restored to accrual status only after all delinquent interest and principal payments have been brought current and future payments are reasonably assured.

b) Fees and commissions

Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate.

Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

c) Trading and foreign exchange income

Trading and foreign exchange income arise from earnings generated from customer business and market making, and from changes in fair value resulting from movements in interest and exchange rates, equity prices and other market variables. Changes in fair value and gains and losses arising on the purchase and sale of trading instruments are included in trading income, together with the related interest income, interest expense and dividend income.

d) Dividend income

Dividend income is recognised as follows:-

- dividends from equity instruments classified as FVTPL are recognised when the right to receive the dividend is established and are included in trading income.
- dividends from equity instruments classified as FVTOCI are recognised when the right to receive the dividend is established and are included in other income.

2.8 Securities financing arrangements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralised lending and borrowing transactions and are recorded in the consolidated statement of financial position at the amounts the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are included in interest income and interest expense respectively.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Accounting policies (continued)

2.9 Premises and equipment

Land is stated at cost. Other premises and equipment are stated at cost less accumulated depreciation. The residual values and useful lives of premises and equipment are reviewed at each balance sheet date, and adjusted where appropriate. Depreciation is calculated using the straight-line method over various periods. Where the carrying amount of premises or equipment is greater than the estimated recoverable amount, the carrying amount is reduced to the recoverable amount.

Generally, costs associated with the maintenance of existing computer software are recognised as an expense when incurred. However, expenditure that enhances and extends the benefits of computer software programs beyond their original specifications and lives is recognised as a capital improvement and capitalised as part of the original cost of the software.

2.10 Other provisions

Other provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, 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.

2.11 Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivative financial instruments are recognised in the consolidated statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In the consolidated statement of financial position, derivative financial instruments with positive fair values (unrealised gains) are included in other assets and derivative financial instruments with negative fair values (unrealised losses) are included in other liabilities.

The changes in the fair values of derivative financial instruments entered into for trading purposes or to hedge other trading positions are included in trading income.

The recognition of changes in the fair values of derivative financial instruments entered into for hedging purposes is determined by the nature of the hedging relationship. For the purposes of hedge accounting, derivative financial instruments are designated as a hedge of either: (i) the fair value of a recognised asset or liability (fair value hedge), or (ii) the future cash flows attributable to a recognised asset or liability or a firm commitment (cash flow hedge).

The Group's criteria for a derivative financial instrument to be accounted for as a hedge include:-

- the hedging instrument, the related hedged item, the nature of the risk being hedged, and the risk management objective and strategy must be formally documented at the inception of the hedge,
- it must be clearly demonstrated that the hedge is expected to be highly effective in offsetting the changes in fair values or cash flows attributable to the hedged risk in the hedged item,
- the effectiveness of the hedge must be capable of being reliably measured, and
- the hedge must be assessed on an on-going basis and determined to have actually been highly effective throughout the financial reporting period.

Changes in the fair values of derivative financial instruments 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 trading income together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk that is being hedged. Unrealised gains and losses arising on hedged assets or liabilities which are attributable to the hedged risk are adjusted against the carrying amounts of the hedged assets or liabilities in the consolidated statement of financial position. If the hedge no longer meets the criteria for hedge accounting, any adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to income over the remaining period to maturity.

2. Accounting policies (continued)

2.11 Derivative financial instruments and hedge accounting (continued)

Changes in the fair values of derivative financial instruments 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 other comprehensive income. Unrealised gains or losses recognised in other comprehensive income are transferred to the consolidated statement of income at the same time that the income or expense of the corresponding hedged item is recognised in the consolidated statement of income and are included in the same income or expense category as the hedged item. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are included in trading income.

The interest component of derivatives that are designated, and qualify, as fair value or cash flow hedges is included in interest income or interest expense relating to the hedged item over the life of the derivative instrument.

Hedge accounting is discontinued when the derivative hedging instrument either expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Gains and losses arising on the termination of derivatives designated as cash flow hedges are recognised in interest income or interest expense over the original tenor of the terminated hedge transaction.

Some hybrid instruments contain both a derivative and non-derivative component. In such cases, the derivative is categorised as an embedded derivative. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Where it is not practically possible to separate the embedded derivative, the entire hybrid instrument is categorised as a financial asset at FVTPL and measured at fair value. Changes in fair value are included in trading income.

2.12 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are issued to financial institutions and other counterparties on behalf of customers to secure loans, overdrafts and other banking facilities, and to other parties in relation to the performance of customers under obligations related to contracts, advance payments made by other parties, tenders and retentions.

Financial guarantees are initially recognised at fair value on the date the guarantee is issued. The guarantee liability is subsequently measured at the higher of the initial measurement, less amortisation to recognise the fee income earned over the period, or the present value of any expected financial obligation arising as a result of an anticipated non-recoverable payment under a guarantee. Any increase in a liability relating to guarantees is recognised in the consolidated statement of income. In the consolidated statement of financial position, financial guarantees are included in other liabilities.

2.13 Post retirement benefits

The majority of the Group's employees are eligible for post retirement benefits under either defined benefit or defined contribution pension plans which are provided through separate trustee-administered funds or insurance plans. The Group also pays contributions to Government defined contribution pension plans in accordance with the legal requirements in each location.

The Group's contributions to defined contribution pension plans are expensed in the year to which they relate.

The calculation of obligations in respect of the defined benefit pension plan is performed by a qualified actuary using the projected unit credit method. The Group's net obligation is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of the plan assets. When the calculation results in a potential asset for the Group, the recognised asset is limited to a ceiling so that it does not exceed the economic benefits available in the form of refunds from the plan or reductions in future contributions.

Remeasurements of the net defined benefit liability or asset, which comprises actuarial gains and losses, the return of plan assets (excluding interest) and the effect of the asset ceiling, are recognised immediately in the consolidated statement of other comprehensive income. The Group determines the net interest expense or income on the net defined benefit liability or asset for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the opening net defined benefit liability or asset. Net interest expense and other expenses related to the defined benefit plan are recognised in the consolidated statement of income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the consolidated statement of income. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Notes to the consolidated financial statements (continued)

For the year ended 31st December 2015

2. Accounting policies (continued)

2.14 Taxation

a) Current tax

Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and includes any adjustments to tax payable in respect of previous years.

b) Deferred tax

Deferred tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the unutilised tax losses and credits can be utilised. Currently enacted tax rates are used to determine deferred taxes.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents comprise cash and other liquid assets, excluding statutory deposits with central banks.

2.16 Segment reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which revenues are earned and expenses are incurred, including revenues and expenses that relate to transactions with any of the Group's other operating segments. All segments have discrete financial information which is regularly reviewed by the Group's Management Committee, being the Group's chief operating decision maker, to make decisions about resources allocated to the segment and to assess its performance. The Group's Management Committee assesses the segments based on net interest income which accounts for the majority of the Group's revenues.

2.17 Fiduciary activities

The Group administers and manages assets owned by clients which are not reflected in the consolidated financial statements. Asset management fees are earned for providing investment management services and for managing mutual fund products. Asset administration fees are earned for providing custodial services. Fees are recognised as the services are provided and are included in fee and commission income.

2.18 Dividends

Dividends on issued shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

2.19 Shariah-compliant banking

The Group offers various Shariah-compliant products to its customers. The Shariah compliant activities are conducted in accordance with Shariah principles and are subject to the supervision and approval of the Group's Shariah Supervisory Board. The disclosures set out in the consolidated financial statements in relation to these activities are prepared in accordance with Financial Accounting Standard 18 issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

2.20 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2.21 Future accounting developments

The International Accounting Standards Board (IASB) have issued a number of new standards, amendments to standards, and interpretations that are not yet effective and have not been applied in the preparation of the consolidated financial statements for the year ended 31st December 2015. The relevant new standards, amendments to standards, and interpretations, are as follows:-

- IFRS 15 – Revenue from contracts with customers:
  IFRS 15 introduces a new five-step model framework for determining whether, how much and when revenue is recognised. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of this standard.

2. Accounting policies (continued)

2.21 Future accounting developments (continued)

- IFRS 9 (2014) – Financial Instruments.

  IFRS 9 (2014) was issued as a complete standard including the requirements previously issued and adopted, and additional amendments to introduce a new expected loss impairment model, hedge accounting and revised guidance on the classification and measurement requirements of financial instruments. The Group had earlier adopted IFRS 9 (2010) and is currently assessing the potential impact on its consolidated financial statements resulting from the application of this standard.

3. Accounting estimates and assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment, the valuation of financial instruments, the valuation of the Group's defined benefit pension plan, and in determining control relationships over investees, as explained in more detail below.-

3.1 Provisions for impairment

Financial assets are evaluated for impairment on the basis set out in note 2.5.

In determining provisions for impairment, judgement is required in the estimation of the amount and timing of future cash flows.

In addition to provisions for impairment against specific assets, the Group also maintains provisions that are measured and recognised on a collective basis. Key assumptions included in the measurement of the portfolio provisions include data on the probability of default and the eventual recovery amount in the event of a forced sale or write off. These assumptions are based on observed historical data and updated as considered appropriate to reflect current conditions. The accuracy of the portfolio provisions would therefore be affected by unexpected changes in these assumptions.

3.2 Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

3.3 Retirement benefit obligations

Management, in coordination with an independent qualified actuary, are required to make assumptions regarding the defined benefit pension plan. The principal actuarial assumptions for the defined benefit pension plan are set out in note 12 and include assumptions on the discount rate, return on pension plan assets, mortality, future salary increases, and inflation. Changes in the assumptions could affect the reported asset, service cost and return on pension plan assets.

3.4 Determination of control over investees

The Group acts as fund manager to a number of investment funds. The determination of whether the Group controls an investment fund is based on an assessment of the aggregate economic interests of the Group in the fund and includes an assessment of any carried interests, expected management fees, and the investors' rights to remove the Group as fund manager.

Management are required to conclude whether the Group acts as an agent for the investors in the fund, or if the underlying fund is controlled by the Group.

The principal investment funds are set out in note 35.

Notes to the consolidated financial statements (continued)

For the year ended 31st December 2015

4. Classification of assets and liabilities

The classification of assets and liabilities by accounting categorisation was as follows:-

	Financial assets at amortised cost US$ millions	Financial assets & liabilities at FVTPL US$ millions	Financial assets at FVTOCI US$ millions	Financial liabilities at amortised cost US$ millions	Non-financial assets & liabilities US$ millions	Total US$ millions
At 31st December 2015						
Cash and other liquid assets	**4,309.7**	-	-	-	-	**4,309.7**
Securities purchased under agreements to resell	**1,835.0**	-	-	-	-	**1,835.0**
Placements	**4,402.9**	-	-	-	-	**4,402.9**
Trading securities	-	**72.2**	-	-	-	**72.2**
Investment securities	**3,612.6**	-	**271.9**	-	-	**3,884.5**
Loans and advances	**9,161.4**	-	-	-	-	**9,161.4**
Other assets	**197.9**	**172.6**	-	-	**156.2**	**526.7**
Total assets	**23,519.5**	**244.8**	**271.9**	-	**156.2**	**24,192.4**
Deposits from banks	-	-	-	**1,985.9**	-	**1,985.9**
Deposits from customers	-	-	-	**14,683.4**	-	**14,683.4**
Securities purchased under agreements to resell	-	-	-	**2,093.4**	-	**2,093.4**
Other liabilities	-	**176.8**	-	**183.0**	**68.9**	**428.7**
Senior term financing	-	-	-	**2,420.0**	-	**2,420.0**
Subordinated term financing	-	-	-	**150.0**	-	**150.0**
Equity	-	-	-	-	**2,431.0**	**2,431.0**
Total liabilities & equity	-	**176.8**	-	**21,515.7**	**2,499.9**	**24,192.4**
At 31st December 2014						
Cash and other liquid assets	2,472.6	-	-	-	-	2,472.6
Securities purchased under agreements to resell	1,305.2	-	-	-	-	1,305.2
Placements	5,180.5	-	-	-	-	5,180.5
Trading securities	-	72.7	-	-	-	72.7
Investment securities	3,636.9	-	307.6	-	-	3,944.5
Loans and advances	7,931.5	-	-	-	-	7,931.5
Other assets	132.7	130.0	-	-	130.5	393.2
Total assets	20,659.4	202.7	307.6	-	130.5	21,300.2
Deposits from banks	-	-	-	1,240.1	-	1,240.1
Deposits from customers	-	-	-	12,897.8	-	12,897.8
Securities sold under agreements to repurchase	-	-	-	618.0	-	618.0
Other liabilities	-	131.0	-	150.0	61.9	342.9
Senior term financing	-	-	-	3,372.9	-	3,372.9
Subordinated term financing	-	-	-	477.8	-	477.8
Equity	-	-	-	-	2,350.7	2,350.7
Total liabilities & equity	-	131.0	-	18,756.6	2,412.6	21,300.2

The other assets and other liabilities classified as financial assets and liabilities at FVTPL comprise the fair values of derivatives designated as fair value and cash flow hedges.

The fair value analysis of derivative financial instruments is set out in note 31.4.

5. Cash and other liquid assets

	31.12.15 US$ millions	31.12.14 US$ millions
Cash and balances with central banks	**3,605.9**	1,519.4
Cash and balances with banks	**471.7**	494.5
Government bills	**39.9**	274.7
Certificates of deposit	**-**	51.0
Cash and cash equivalents	**4,117.5**	2,339.6
Statutory deposits with central banks	**192.2**	133.0
Cash and other liquid assets	**4,309.7**	2,472.6

Statutory deposits with central banks are subject to local regulations which provide for restrictions on the deployment of these funds.

The increase in cash and balances with central banks and the decrease in government bills and certificates of deposits at 31st December 2015 was principally attributable to the deposit of liquid funds with central banks rather than investment in government bills, certificate of deposits or placements.

6. Securities purchased under agreements to resell

The Group enters into collateralised lending transactions (reverse repurchase agreements) in the ordinary course of its operating activities. The collateral is in the form of highly rated debt securities. The collateralised lending transactions are conducted under standardised terms that are usual and customary for such transactions.

7. Placements

Placements at 31st December 2015 included placements with central banks amounting to US$1,085.8 million (2014: US$1,511.0 million). The placements with central banks represented the placement of surplus liquid funds.

8. Trading securities

	31.12.15 US$ millions	31.12.14 US$ millions
Managed funds	**47.6**	60.6
Debt securities	**13.1**	-
Equity securities	**11.5**	12.1
	72.2	72.7

Equity and debt securities comprised securities acquired in relation to investment banking activities undertaken by the Group. The securities were held with the intention of selling in the near term.

Managed funds comprised funds placed for investment with specialist managers.

Notes to the consolidated financial statements (continued)

For the year ended 31st December 2015

9. Investment securities

9.1 Composition

The credit rating profile of investment securities, based on the lowest rating assigned by the major international rating agencies, was as follows:-

	31.12.15 US$ millions	31.12.15 %	31.12.14 US$ millions	31.12.14 %
AAA to A- / Aaa to A3	**3,088.1**	**85.5**	3,298.3	90.7
BBB+ to BBB- / Baa1 to Baa3	**524.5**	**14.5**	338.6	9.3
Total debt securities	**3,612.6**	**100.0**	3,636.9	100.0
Equity investments	**271.9**		307.6	
	3,884.5		3,944.5	

Investment securities principally comprised investment-grade rated debt securities issued by major international financial institutions and government-related entities.

Debt securities are classified as investment securities at amortised cost and equity investments are classified as FVTOCI.

9.2 Provisions for impairment

The movement in the provisions for impairment of investment securities were as follows:-

	2015 US$ millions	2014 US$ millions
At 1st January	**3.2**	7.7
Release for the year	**-**	(4.5)
At 31st December	**3.2**	3.2

At 31st December 2015, the provisions for the impairment of investment securities entirely comprised non-specific provisions for debt investment securities determined on a collective basis.

The provision release during the year ended 31st December 2014 arose on an adjustment to the historical loss estimate to reflect the effects of current conditions in relation to the investment-grade rated debt securities. The probabilities of default applied in the calculation of the collective provisions for impairment nevertheless continued to reflect stressed probabilities of default and exceeded prevailing default levels.

10. Loans and advances

10.1 Composition

	31.12.15 US$ millions	31.12.14 US$ millions
Gross loans and advances	**9,522.4**	8,532.6
Provisions for impairment	**(361.0)**	(601.1)
Net loans and advances	**9,161.4**	7,931.5

10. Loans and advances (continued)

10.2 Industrial classification

	31.12.15 US$ millions	31.12.14 US$ millions
Trading and services	**2,100.6**	1,739.6
Energy, oil and petrochemical	**1,986.5**	2,042.2
Financial	**1,861.7**	1,395.8
Transportation	**1,087.4**	1,068.8
Manufacturing	**917.7**	944.5
Construction	**765.2**	714.2
Real estate	**280.9**	143.3
Communication	**273.5**	267.9
Other	**248.9**	216.3
	9,522.4	8,532.6
Provisions for impairment	**(361.0)**	(601.1)
	9,161.4	7,931.5

Gross loans at 31st December 2015 included Shariah-compliant transactions amounting to US$3,268.0 million (2014: US$2,190.1 million).

10.3 Provisions for impairment

The movements in the provisions for the impairment of loans and advances were as follows:-

	2015			2014		
	Specific US$ millions	Non-specific US$ millions	Total US$ millions	Specific US$ millions	Non-specific US$ millions	Total US$ millions
At 1st January	**453.1**	**148.0**	**601.1**	423.3	168.0	591.3
Exchange rate movements	**(0.4)**	**-**	**(0.4)**	(0.5)	-	(0.5)
Amounts utilised	**(261.0)**	**-**	**(261.0)**	-	-	-
Amounts reallocated	**13.5**	**(13.5)**	**-**	20.0	(20.0)	-
Charge for the year	**21.3**	**-**	**21.3**	10.3	-	10.3
At 31st December	**226.5**	**134.5**	**361.0**	453.1	148.0	601.1

The level of non-specific loan provisions reflect the application of stressed probabilities of default in the calculation of provisions for impairment measured on a collective basis.

Non-specific provisions at 31st December 2015 represented 1.4 per cent of non-specifically provisioned loans (2014: 1.8 per cent).

The gross amount of specifically provisioned loans at 31st December 2015 was US$238.8 million (2014: US$462.5 million). Total specific provisions at 31st December 2015 represented 94.8 per cent of loans against which a specific provision had been made (2014: 98.0 per cent).

Notes to the consolidated financial statements (continued)
For the year ended 31st December 2015

10. Loans and advances (continued)

10.3 Provisions for impairment (continued)

Specific provisions as at 31st December 2015 included provisions against credit-related non-loan exposures of US$41.7 million (2014: US$37.6 million).

Amounts utilised during the year ended 31st December 2015 represented provisions utilised on the transfer of the related loans to the memorandum records. Recovery efforts on these loans are still ongoing with the intention to maximise potential recoveries.

10.4 Past due loans

The gross and carrying amounts of loans for which either principal or interest was over 90 days past due were as follows:-

	31.12.15 Gross US$ millions	**31.12.15 Carrying Amount US$ millions**	31.12.14 Gross US$ millions	31.12.14 Carrying Amount US$ millions
Corporates	**212.2**	**33.1**	335.1	9.4
Financial institutions	**12.9**	**5.6**	134.1	6.7
	225.1	**38.7**	469.2	16.1

Corporates include loans extended for investment purposes.

The overdue status of gross past due loans based on original contractual maturities was as follows:-

	31.12.15 Past due but not impaired US$ millions	**31.12.15 Past due and impaired US$ millions**	31.12.14 Past due but not impaired US$ millions	31.12.14 Past due and impaired US$ millions
Less than 1 year	**0.9**	**35.6**	-	66.7
Years 2 to 7	**5.6**	**183.0**	6.7	395.8
	6.5	**218.6**	6.7	462.5

At 31st December 2015, the past due but not impaired loan of US$5.6 million (2014: US$6.7 million) represented a loan guaranteed by a government export credit agency.

10.5 Restructured loans

During the year ended 31st December 2015, the Group restructured two loans amounting to US$20.3 million (2014: nil) and made concessions that would not ordinarily have been accepted, due to a deterioration in the customer's financial position.

10.6 Collateral

The Group did not take possession of any collateral during the years ended 31st December 2015 and 31st December 2014.

11. Other assets

	31.12.15 US$ millions	31.12.14 US$ millions
Derivative financial instruments	**172.6**	130.0
Accrued interest, fees and commissions	**121.6**	93.6
Prepayments	**98.4**	82.4
Premises and equipment	**55.4**	45.4
Deferred items	**2.4**	2.7
Pension asset	**13.0**	-
Other, including accounts receivable	**63.3**	39.1
	526.7	393.2

Derivative financial instruments represent the positive fair values of derivative financial instruments entered into for trading purposes, or designated as fair value or cash flow hedges. An analysis of the fair value of derivative financial instruments is set out in note 31.4.

An analysis of the pension asset is set out in note 12.

12. Post retirement benefits

The Group contributes to defined benefit and defined contribution pension plans which cover substantially all of its employees.

The Bank maintains defined contribution pension plans for the majority of its employees. Contributions are based on a percentage of salary. The amounts to be paid as retirement benefits are determined by reference to the amounts of the contributions and investment earnings thereon. The total cost of contributions to defined contribution pension plans for the year ended 31st December 2015 amounted to US$10.8 million (2014: US$9.0 million).

The Bank's principal subsidiary, Gulf International Bank (UK) Limited (GIBUK), maintains a defined benefit final salary pension plan for a number of its employees. The assets of the plan are held independently of the subsidiary's assets in a separate trustee administered fund. The fund is subject to the UK regulatory framework for pensions.

The fund exposes the Group to the risk of paying unanticipated contributions in times of adverse experience. Such events could be members living for longer than expected, higher than expected inflation or salary growth, and the risk that increases in the fund's obligations are not met by a corresponding improvement in the value of the fund's assets.

12.1 The amount recognised in the consolidated statement of financial position is analysed as follows:-

	31.12.15 US$ millions	31.12.14 US$ millions
Fair value of plan assets	**203.8**	214.5
Present value of fund obligations	**190.8**	216.8
Net asset / (liability) in the consolidated statement of financial position	**13.0**	(2.3)

Notes to the consolidated financial statements (continued)
For the year ended 31 ' December 2015

12. Post retirement benefits (continued)

12.2 The movements in the fair value of plan assets were as follows:-

	2015 **US$ millions**	2014 US$ millions
At 1st January	**214.5**	201.0
Included in the consolidated statement of income:-		
- Interest income on the plan assets	**7.1**	8.8
Included in the consolidated statement of other comprehensive income:-		
- Remeasurements:-		
- Return on plan assets excluding interest income	**(2.0)**	20.3
Other movements:-		
- Exchange rate movements	**(12.0)**	(12.7)
- Contributions paid by the Group	**0.7**	1.4
- Benefits paid by the plan	**(4.5)**	(4.3)
At 31st December	**203.8**	214.5

The plan assets at 31st December 2015 comprised a 50 per cent exposure to multi-asset funds, with the balance exposure to equities, debt and hedging funds in equal proportion. The plan assets have a quoted price in an active market and the hedging funds are designed to hedge the majority of inflation and interest rate risk.

12.3 The movements in the present value of fund obligations were as follows:-

	2015 **US$ millions**	2014 US$ millions
At 1st January	**216.8**	198.3
Included in the consolidated statement of income:-		
- Current service cost	**0.9**	0.9
- Interest cost on the fund obligations	**7.2**	8.6
Included in the consolidated statement of other comprehensive income:-		
- Remeasurements due to changed actuarial assumptions:-		
- Financial assumptions	**(11.6)**	25.9
- Experience	**(6.0)**	-
Other movements:-		
- Exchange rate movements	**(12.0)**	(12.6)
- Benefits paid by the plan	**(4.5)**	(4.3)
At 31st December	**190.8**	216.8

12. Post retirement benefits (continued)

12.4 The movements in the net asset / (liability) recognised in the consolidated statement of financial position were as follows:-

	2015 **US$ millions**	2014 US$ millions
At 1st January	**(2.3)**	2.7
Net expense included in consolidated statement of income	**(1.0)**	(0.7)
Remeasurement included in consolidated statement of comprehensive income	**15.6**	(5.6)
Contributions paid by the Group	**0.7**	1.4
Exchange rate movements	**-**	(0.1)
At 31st December	**13.0**	(2.3)

The Group paid US$0.7 million in contributions to the plan during 2015 and expects to pay US$0.7 million during 2016.

12.5 The principal actuarial assumptions used for accounting purposes were as follows:-

	2015	2014
Discount rate (per cent)	**3.9**	3.6
Retail price inflation (per cent)	**3.1**	3.1
Consumer price inflation (per cent)	**2.1**	2.1
Pension increase rate (per cent)	**3.1**	3.1
Salary growth rate (per cent)	**3.0**	3.0
Average life expectancy (years)	**89**	89

The present value of the fund's obligations, which has a weighted average duration of 21 years, was calculated based on certain actuarial assumptions. Should any one of the key assumptions change by an amount that is probable whilst holding the other assumptions constant, the present value of the fund's obligations would increase or decrease as follows:-

	2015 **US$ millions**
Life expectancy increased by 1 year	**4.8**
Discount rate increased by 0.1 per cent	**3.8**
Inflation increased by 0.1 per cent	**2.6**
Salary growth rate increased by 0.1 per cent	**0.2**

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2015

13. Deposits

The geographical composition of total deposits was as follows:-

	31.12.15 US$ millions	31.12.14 US$ millions
GCC countries	**11,749.6**	9,856.0
Other Middle East and North Africa countries	**777.3**	674.8
Other countries	**4,142.4**	3,607.1
	16,669.3	14,137.9

GCC deposits comprise deposits from GCC country governments and central banks and other institutions headquartered in the GCC states.

At 31st December 2015, GCC deposits represented 70.5 per cent of total deposits (2014: 69.7 per cent).

Deposits from other countries during the year ended 31st December 2015 and 31st December 2014 reflected a high level of deposit activity by the Group's London-based subsidiary, Gulf International Bank (UK) Limited.

Total deposits at 31st December 2015 included Shariah-compliant transactions amounting to US$4,112.0 million (2014: US$3,153.7 million). Shariah-compliant transactions comprise murabaha contracts.

14. Securities sold under agreements to repurchase

The Group enters into collateralised borrowing transactions (repurchase agreements) in the ordinary course of its financing activities. Collateral is provided in the form of securities held within the investment securities portfolio. At 31st December 2015, the fair value of investment securities that had been pledged as collateral under repurchase agreements was US$2,192.0 million (2014: US$711.3 million). The collateralised borrowing transactions are conducted under standardised terms that are usual and customary for such transactions.

15. Other liabilities

	31.12.15 US$ millions	31.12.14 US$ millions
Derivative financial instruments	**176.8**	131.0
Deferred items	**68.9**	61.9
Accrued interest	**95.8**	68.8
Pension liability	**-**	2.3
Other, including accounts payable and accrued expenses	**87.2**	78.9
	428.7	342.9

Derivative financial instruments represent the negative fair values of derivative financial instruments entered into for trading purposes, or designated as fair value or cash flow hedges. An analysis of the fair value of derivative financial instruments is set out in note 31.4.

16. Senior term financing

	Maturity	31.12.15 US$ millions	31.12.14 US$ millions
Floating rate loan	2016	**500.0**	500.0
Floating rate note	2017	**499.9**	499.6
Floating rate loans	2018	**615.0**	605.7
Floating rate note	2019	**533.3**	533.0
Floating rate loans	2019 - 2022	**271.8**	266.5
Floating rate note	2015	**-**	932.7
Floating rate repurchase agreements	2015	**-**	35.4
		2,420.0	3,372.9

The US$500.0 million floating rate loan maturing in 2016 was provided by the Group's majority shareholder, the Public Investment Fund. The loan was based on market rates and standardised terms that are usual and customary for such transactions.

At 31st December 2014, the fair value of investment securities that had been pledged as collateral under floating rate repurchase agreements was US$50.1 million. The floating rate repurchase agreements matured during 2015

17. Subordinated term financing

	Maturity	31.12.15 US$ millions	31.12.14 US$ millions
Floating rate loans	2016	**150.0**	150.0
Floating rate note	2015	**-**	327.8
		150.0	477.8

The subordinated term financing facilities represent unsecured obligations of the Group and are subordinated in right of payment to the claims of depositors and other creditors of the Group that are not also subordinated. The subordinated financing facilities have been approved for inclusion in tier 2 capital for capital adequacy purposes by the Bank's regulator, the Central Bank of Bahrain.

18. Share capital

The authorised share capital at 31st December 2015 comprised 3.0 billion shares of US$1 each (2014: 3.0 billion shares of US$1 each). The issued share capital at 31st December 2015 comprised 2.5 billion shares of US$1 each (2014: 2.5 billion shares of US$1 each). All issued shares are fully paid.

Notes to the consolidated financial statements (continued)
For the year ended 31st December 2015

19. Reserves

	Share Premium US$ millions	Compulsory reserve US$ millions	Voluntary reserve US$ millions	Cash flow hedge reserve US$ millions	Investment securities revaluation reserve US$ millions	Total US$ millions
At 1st January 2015	**7.6**	**214.1**	**151.6**	**(0.3)**	**19.0**	**392.0**
Net fair value gains on cash flow hedges	-	-	-	0.3	-	0.3
Net fair value gains on equity investments classified as FVTOCI	-	-	-	-	(25.7)	(25.7)
Net (decrease) / increase	-	-	-	0.3	(25.7)	(25.4)
Transfers from retained earnings	-	6.6	6.6	-	-	13.2
At 31st December 2015	**7.6**	**220.7**	**158.2**	**-**	**(6.7)**	**379.8**
At 1st January 2014	**7.6**	**206.7**	**144.2**	**-**	**15.8**	**374.3**
Net fair value losses on cash flow hedges	-	-	-	(0.2)	-	(0.2)
Net fair value gains on equity investments classified as FVTOCI	-	-	-	-	3.2	3.2
Transfers to consolidated statement of income	-	-	-	(0.1)	-	(0.1)
Net (decrease) / increase	-	-	-	(0.3)	3.2	2.9
Transfers from retained earnings	-	7.4	7.4	-	-	14.8
At 31st December 2014	**7.6**	**214.1**	**151.6**	**(0.3)**	**19.0**	**392.0**

In accordance with the Bank's articles of association, 10 per cent of the Bank's net profit for the year is required to be transferred to each of the compulsory and voluntary reserves. Transfers to the compulsory reserve are required until such time as this reserve represents 50 per cent of the issued share capital of the Bank. The voluntary reserve may be utilised at the discretion of the Board of Directors.

The investment securities revaluation reserve entirely comprised unrealised fair value gains and losses on equity investments arising since the adoption of IFRS 9 (2010) on 1st January 2012.

20. Dividends
No dividend is proposed in respect of the financial year ended 31st December 2015.

21. Net interest income

	Year ended 31.12.15 US$ millions	Year ended 31.12.14 US$ millions
Interest income		
Placements and other liquid assets	**48.1**	37.7
Investment securities	**60.7**	55.2
Loans and advances	**235.2**	216.0
Total interest income	**344.0**	308.9
Interest expense		
Deposits from banks and customers	**94.9**	84.2
Securities sold under agreements to repurchase	**8.2**	3.4
Term financing	**52.7**	63.3
Total interest expense	**155.8**	150.9
Net interest income	**188.2**	158.0

Interest income on loans and advances includes loan origination fees that form an integral part of the effective interest rate of the loan.

Accrued interest on impaired loans included in interest income for the year ended 31st December 2015 amounted to nil (2014: Nil). There was no accrued but uncollected interest included in interest income on past due loans or past due investment securities for either the year ended 31st December 2015 or 31st December 2014.

22. Fee and commission income

	Year ended 31.12.15 US$ millions	Year ended 31.12.14 US$ millions
Fee and commission income		
Investment banking and management fees	**38.3**	27.9
Commissions on letters of credit and guarantee	**28.6**	32.1
Loan commitment fees	**2.1**	2.0
Other fee and commission income	**2.6**	2.4
Total fee and commission income	**71.6**	64.4
Fee and commission expense	**(1.4)**	(1.5)
Net fee and commission income	**70.2**	62.9

Investment banking and management fees comprise fees relating to the provision of investment management and financial services, including asset and fund management, underwriting activities, and services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions.

Investment banking and management fees for the year ended 31st December 2015 included fee income relating to the Group's fiduciary activities amounting to US$23.5 million (2014: US$20.8 million).

Fee and commission expense principally comprises security custody fees.

Notes to the consolidated financial statements (continued)
For the year ended 31st December 2015

23. Foreign exchange income

Foreign exchange income principally comprises customer-initiated foreign exchange contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these offset customer-related foreign exchange contracts.

Foreign exchange includes spot and forward foreign exchange contracts, and currency futures and options.

24. Trading income

	Year ended 31.12.15 US$ millions	Year ended 31.12.14 US$ millions
Managed funds	**3.6**	1.2
Interest rate derivatives	**2.8**	0.7
Equity securities	**(0.2)**	0.5
	6.2	2.4

Trading income comprises gains and losses arising both on the purchase and sale, and from changes in the fair value, of trading instruments, together with the related interest income, interest expense and dividend income. Trading income accordingly incorporates all income and expenses related to the Group's trading activities.

25. Other income

	Year ended 31.12.15 US$ millions	Year ended 31.12.14 US$ millions
Dividends on equity investments classified as FVTOCI	**12.6**	9.5
Asset recoveries	**7.9**	3.8
Net realised profits on investment debt securities	**2.7**	1.4
Sundry income	**0.4**	0.2
	23.6	14.9

Asset recoveries comprised recoveries relating to assets that had previously been either written off or transferred to the memorandum records.

26. Segmental information

Segmental information is presented in respect of the Group's business and geographical segments. The primary reporting format, business segments, reflects the manner in which financial information is evaluated by the Board of Directors and the Group Management Committee.

26.1 Business segments

For financial reporting purposes, the Group is organised into four main operating segments:-

- Wholesale banking: the provision of wholesale commercial financing and other credit facilities for corporate and institutional customers, and the provision of financial advisory services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions.

- Treasury: the provision of a broad range of treasury and capital market products and services to corporate and financial institution clients, money market, proprietary investment and trading activities and the management of the Group's balance sheet, including funding.

26. Segmental information (continued)

26.1 Business segments (continued)

- Financial markets: the provision of asset and fund management services.

- Head office and support units: income arising on the investment of the Group's net free capital funds and expenses incurred by support units, including the investment in the retail banking strategy prior to the launch of all planned retail banking products and services.

The results reported for the business segments are based on the Group's internal financial reporting systems, which report interest revenue and interest expense on a net basis. The accounting policies of the segments are the same as those applied in the preparation of these consolidated financial statements and are set out in note 2. Transactions between business segments are conducted on normal commercial terms and conditions. Transfer pricing between the business units is based on the market cost of funds.

Segment results, assets and liabilities comprise items directly attributable to the business segments. Liabilities reported for head office and support units comprise senior and subordinated term finance facilities and related accrued interest, the cost of which is recharged to the relevant operating business segments.

The business segment analysis is as follows:-

	Wholesale banking US$ millions	Treasury US$ millions	Financial markets US$ millions	Head office and support units US$ millions	Total US$ millions
2015					
Net interest income	**94.6**	**62.7**	**-**	**30.9**	**188.2**
Total income	**145.0**	**90.4**	**25.2**	**47.4**	**308.0**
Segment result	**80.3**	**79.5**	**17.9**	**(83.1)**	**94.6**
Taxation charge on overseas activities					**(4.2)**
Net income after tax					**90.4**
Segment assets	**9,334.3**	**14,462.2**	**51.2**	**344.7**	**24,192.4**
Segment liabilities	**-**	**19,100.8**	**11.1**	**2,649.5**	**21,761.4**
Total equity					**2,431.0**
Total liabilities and equity					**24,192.4**
2014					
Net interest income	71.0	55.2	-	31.8	158.0
Total income	120.2	76.8	22.6	38.0	257.6
Segment result	67.9	66.6	16.7	(64.3)	86.9
Taxation charge on overseas activities					(1.3)
Net income after tax					85.6
Segment assets	8,086.1	12,846.2	39.0	328.9	21,300.2
Segment liabilities	-	15,014.6	10.7	3,924.2	18,949.5
Total equity					2,350.7
Total liabilities and equity					21,300.2

Notes to the consolidated financial statements (continued)

For the year ended 31st December 2015

26. Segmental information (continued)

26.2 Geographical segments

Although the Group's three main business segments are managed on a worldwide basis, they are considered to operate in two geographical markets: the GCC and the rest of the world

The geographical composition of total income and total assets based on the location in which transactions are booked and income is recorded was as follows:-

	2015 Total income US$ millions	**2015** Total assets US$ millions	2014 Total income US$ millions	2014 Total assets US$ millions
GCC	**247.7**	**16,881.0**	206.3	15,720.6
Other countries	**60.3**	**7,311.4**	51.3	5,579.6
	308.0	**24,192.4**	257.6	21,300.2

The geographical analyses of deposits and risk assets are set out in notes 13 and 28 respectively.

27. Risk management

The principal risks associated with the Group's businesses are credit risk, market risk, liquidity risk and operational risk. The Group has a comprehensive risk management framework in place for managing these risks which is constantly evolving as the business activities change in response to credit, market, product and other developments. The risk management framework is guided by a number of overriding principles including the formal definition of risk management governance, an evaluation of risk appetite expressed in terms of formal risk limits, risk oversight independent of business units, disciplined risk assessment and measurement including Value-at-Risk (VaR) methodologies and portfolio stress testing, and risk diversification. The Board of Directors set the Group's overall risk parameters and risk tolerances, and the significant risk management policies. A Board Risk Policy Committee reviews and reports to the Board of Directors on the Group's risk profile and risk taking activities. A Management Committee, chaired by the Group Chief Executive Officer, has the primary responsibility for sanctioning risk taking activities and risk management policies within the overall risk parameters and tolerances defined by the Board of Directors A Group Risk Committee, under the chairmanship of the Chief Risk Officer and comprising the Group's most senior risk professionals, provides a forum for the review and approval of risk measurement methodologies, risk control processes and the approval of new products. The Group Risk Committee also reviews all risk policies and limits that require the formal approval of the Management Committee. The risk management control process is based on a detailed structure of policies, procedures and limits, and comprehensive risk measurement and management information systems for the control, monitoring and reporting of risks. Periodic reviews by internal and external auditors and regulatory authorities subject the risk management processes to additional scrutiny which help to further strengthen the risk management environment.

The principal risks associated with the Group's businesses and the related risk management processes are described in detail in the Basel 3 Pillar 3 disclosure report in the Annual Report, and are summarised below together with additional quantitative analyses:-

27.1 Credit risk

Credit risk is the risk that counterparties will be unable to meet their obligations to the Group. Credit risk arises principally from the Group's lending and investment activities in addition to other transactions involving both on- and off-balance sheet financial instruments. Disciplined processes are in place at both the business unit and corporate level that are intended to ensure that risks are accurately assessed and properly approved and monitored. Formal credit limits are applied at the individual transaction, counterparty, country and portfolio levels. Overall exposures are also evaluated to ensure a broad diversification of credit risk. The credit management process involves the monitoring of concentrations by product, industry, single obligor, risk grade and geography, and the regular appraisal of counterparty credit quality through the analysis of qualitative and quantitative information.

27. Risk management (continued)

27.1 Credit risk (continued)

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor's financial condition, market position, business environment and quality of management. The risk assessment generates an internal credit risk rating for each exposure, which affects the credit approval decision and the terms and conditions of the transaction. For cross border transactions an analysis of country risk is also conducted. The Group bases its credit decision for an individual counterparty on the aggregate Group exposure to that counterparty and all its related entities. Groupwide credit limit setting and approval authorisation requirements are conducted within Board approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Groupwide basis in a consistent manner.

The Group also mitigates its credit exposures on foreign exchange and derivative financial instruments through the use of master netting agreements and collateral arrangements.

a) Maximum exposure to credit risk

The gross maximum exposure to credit risk before applying collateral, guarantees and other credit enhancements was as follows:-

	31.12.15 US$ millions	31.12.14 US$ millions
Balance sheet items:		
Cash and other liquid assets	**4,309.7**	2,472.6
Securities purchased under agreements to resell	**1,835.0**	1,305.2
Placements	**4,402.9**	5,180.5
Trading securities	**72.2**	72.7
Investment securities	**3,884.5**	3,944.5
Loans and advances	**9,161.4**	7,931.5
Accrued interest receivable	**121.6**	93.6
Total on-balance sheet credit exposure	**23,787.3**	21,000.6
Off-balance sheet items:		
Credit-related contingent items	**4,462.4**	3,976.0
Foreign exchange-related items	**239.7**	195.7
Derivative-related items	**34.2**	40.7
Commodity contracts	**1.1**	3.0
Total off-balance sheet credit exposure	**4,737.4**	4,215.4
Total gross credit exposure	**28,524.7**	25,216.0

Notes to the consolidated financial statements (continued)
For the year ended 31st December 2015

27. Risk management (continued)

27.1 Credit risk (continued)

b) Credit risk profile

The Group monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a rating scale from 1 to 10, subject to positive (+) and negative (-) modifiers for rating grades 2 to 6. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits. The internal credit rating system also serves as a key input into the Group's risk-adjusted return on capital (RAROC) performance measurement system. Ratings are assigned to obligors, rather than facilities, and reflect a medium-term time horizon, thereby rating through an economic cycle.

The internal ratings map directly to the rating grades used by the international credit rating agencies as follows:-

		External rating	
Internal rating grade	**Internal classification**	**Fitch and Standard & Poor's**	**Moody's**
Investment grade			
Rating grade 1	Standard	AAA	Aaa
Rating grade 2	Standard	AA	Aa
Rating grade 3	Standard	A	A
Rating grade 4	Standard	BBB	Baa
Sub-investment grade			
Rating grade 5	Standard	BB	Ba
Rating grade 6	Standard	B	B
Rating grade 7	Standard	CCC	Caa
Classified			
Rating grade 8	Substandard	CC	Ca
Rating grade 9	Doubtful	C	C
Rating grade 10	Loss	D	-

27. Risk management (continued)

27.1 Credit risk (continued)

b) Credit risk profile (continued)

The credit risk profile, based on internal credit ratings, was as follows:-

	31.12.15			**31 12.14**		
	Placements, reverse repos & other liquid assets US$ millions	**Securities US$ millions**	**Loans and advances US$ millions**	Placements, reverse repos & other liquid assets US$ millions	Securities US$ millions	Loans and advances US$ millions
Neither past due nor impaired						
Rating grades 1 to 4-	**10,427.6**	**3,625.7**	**5,243.6**	8,858.3	3,636.9	4,801.4
Rating grades 5+ to 5-	**120.0**	**-**	**3,328.2**	100.0	-	2,767.8
Rating grades 6+ to 6-	**-**	**-**	**540.8**	-	-	346.2
Equity investments	**-**	**331.0**	**-**	-	380.3	-
Carrying amount	**10,547.6**	**3,956.7**	**9,112.6**	8,958.3	4,017.2	7,915.4
Past due but not impaired						
Rating grades 1 to 7	**-**	**-**	**6.5**	-	-	6.7
Carrying amount	**-**	**-**	**6.5**	-	-	6.7
Past due and individually impaired						
Rating grade 7	**-**	**-**	**0.7**	-	-	-
Rating grade 8	**-**	**-**	**-**	-	-	3.8
Rating grade 9	**-**	**-**	**31.5**	-	-	5.6
Carrying amount	**-**	**-**	**32.2**	-	-	9.4
Individually impaired but not past due						
Rating grade 9	**-**	**-**	**10.1**	-	-	-
Carrying amount	**-**	**-**	**10.1**	-	-	-
	10,547.6	**3,956.7**	**9,161.4**	8,958.3	4,017.2	7,931.5

The above analysis is reported net of the following provisions for impairment:-

Provisions for impairment	**-**	**(3.2)**	**(361.0)**	-	(3.2)	(601.1)

Individually impaired financial assets represent assets for which there is objective evidence that the Group will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation.

Unimpaired financial assets are stated net of allocated non-specific provisions for impairment.

Notes to the consolidated financial statements (continued)

For the year ended 31st December 2015

27. Risk management (continued)

27.1 Credit risk (continued)

b) Credit risk profile (continued)

The Group holds collateral against loans and advances in the form of physical assets, cash deposits, securities and guarantees. The amount and type of collateral is dependent upon the assessment of the credit risk of the counterparty. The market / fair value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the underlying agreements. Collateral is not usually held against securities or placements and no such collateral was held at either 31st December 2015 or 31st December 2014.

An analysis of the credit risk in respect of foreign exchange and derivative financial instruments is set out in note 31 while the notional and risk-weighted exposures for off-balance sheet credit-related financial instruments are set out in note 32.

c) Credit risk concentration

The Group monitors concentrations of credit risk by sector and by geographic location. The industrial classification of loans and advances is set out in note 10.2. The geographical distribution of risk assets is set out in note 28. An analysis of the credit risk in respect of foreign exchange and derivative financial instruments is set out in note 31.

d) 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 by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring process.

27.2 Market risk

Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions, such as liquidity. The principal market risks to which the Group is exposed are interest rate risk, foreign exchange risk and equity price risk associated with its trading, investment and asset and liability management activities. The portfolio effects of holding a diversified range of instruments across a variety of businesses and geographic areas contribute to a reduction in the potential negative impact on earnings from market risk factors.

a) Trading market risk

The Group's trading activities principally comprise trading in debt and equity securities, foreign exchange and derivative financial instruments. Derivative financial instruments include futures, forwards, swaps and options in the interest rate, foreign exchange, equity, credit and commodity markets. The Group manages and controls the market risk within its trading portfolios through limit structures of both a VaR and non-VaR nature. Non-VaR based constraints relate, inter alia, to positions, volumes, concentrations, allowable losses and maturities. VaR is a risk measurement concept which uses statistical models to estimate, within a given level of confidence, the maximum potential negative change in the market value of a portfolio over a specified time horizon resulting from an adverse movement in rates and prices. It is recognised that there are limitations to the VaR methodology. These limitations include the fact that the historical data may not be the best proxy for future price movements. The Group performs regular back testing exercises to compare actual profits and losses with the VaR estimates to monitor the statistical validity of the VaR model. VaR is calculated based on the Group's market risk exposures at the close of the business each day. Intra-day risk levels may vary from those reported at the end of the day. In addition, losses beyond the specified confidence level are not captured by the VaR methodology. VaR is not a measure of the absolute limit of market risk and losses in excess of the VaR amounts will, on occasion, arise. To manage the risk associated with extreme market movements, the Group conducts stress testing which measures the impact of simulated abnormal changes in market rates and prices on the market values of the portfolios. The composition of the debt and equity trading securities is set out in note 8. An analysis of derivative financial instruments, including the VaR of foreign exchange and derivative trading contracts, is set out in note 31.

27. Risk management (continued)

27.2 Market risk (continued)

a) Trading market risk (continued)

The VaR for the Group's trading positions, as calculated in accordance with the basis set out in note 34, was as follows:-

				2015				2014
	31.12.15	**Average**	**High**	**Low**	31.12.14	Average	High	Low
	US$ millions	**US$ millions**	**US$ millions**	**US$ millions**	US$ millions	US$ millions	US$ millions	US$ millions
Total VaR	**0.7**	**0.9**	**1.3**	**0.7**	0.4	0.1	0.4	-
Total undiversified stressed VaR	**1.5**	**1.7**	**2.3**	**1.4**	0.6	0.3	1.5	0.1

b) Non-trading market risk

Structural interest rate risk arises in the Group's core balance sheet as a result of mismatches in the repricing of interest rate sensitive financial assets and liabilities. The associated interest rate risk is managed within VaR limits and through the use of models to evaluate the sensitivity of earnings to movements in interest rates. The repricing profile and related interest rate sensitivity of the Group's financial assets and liabilities are set out in note 30. Movements in the fair value of equity investment securities are accounted for in other comprehensive income. The Group does not maintain material foreign currency exposures. In general, the Group's policy is to match financial assets and liabilities in the same currency or to mitigate currency risk through the use of currency swaps. Details of significant foreign currency net open positions are set out in note 31.5.

The more significant market risk-related activities of a non-trading nature undertaken by the Group, the related risks associated with those activities, and the types of derivative financial instruments used to manage and mitigate such risks are summarised as follows:-

Activity	**Risk**	**Risk mitigant**
Management of the return on variable rate assets funded by shareholders' funds	Reduced profitability due to a fall in short-term interest rates	Receive fixed interest rate swaps
Fixed rate assets funded by floating rate liabilities	Sensitivity to increases in short-term interest rates	Pay fixed interest rate swaps
Investment in foreign currency assets	Sensitivity to strengthening of US$ against other currencies	Currency swaps
Profits generated in foreign currencies	Sensitivity to strengthening of US$ against other currencies	Forward foreign exchange contracts and purchased currency options

27.3 Liquidity risk

Liquidity risk is the risk that sufficient funds are not available to meet the Group's financial obligations on a punctual basis as they fall due.

Liquidity management policies are designed to ensure that funds are available at all times to meet the funding requirements of the Group, even in adverse conditions. In normal conditions the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. These objectives are met through the application of prudent liquidity controls. These controls provide security of access to funds without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits. The Group's liquidity controls ensure that, over the short-term, the future profile of cash flows from maturing assets is adequately matched to the maturity of liabilities. Liquidity controls also provide for the maintenance of a stock of liquid and readily realisable assets and a diversified deposit base in terms of both maturities and range of depositors.

Notes to the consolidated financial statements (continued)

For the year ended 31st December 2015

27. Risk management (continued)

27.3 Liquidity risk (continued)

The management of liquidity and funding is primarily conducted in the Group's individual geographic entities within limits set and approved by the Board of Directors. The limits take account of the depth and liquidity of the market in which the entity operates. It is the Group's general policy that each geographic entity should be self-sufficient in relation to funding its own operations.

The Group's liquidity management policies include the following:-

- the monitoring of (i) future contractual cash flows against approved limits, and (ii) the level of liquid resources available in a stress event
- the monitoring of balance sheet liquidity ratios
- the monitoring of the sources of funding in order to ensure that funding is derived from a diversified range of sources
- the monitoring of depositor concentrations in order to avoid undue reliance on individual depositors
- the maintenance of a satisfactory level of term financing
- the maintenance of appropriate standby funding arrangements, and
- the maintenance of liquidity and funding contingency plans. These plans identify early indicators of stress conditions and prescribe the actions to be taken in the event of systemic or other crisis, while minimising adverse long-term implications for the Group's business activities.

The Group has established approved limits which restrict the volume of liabilities maturing in the short-term. An independent risk management function monitors the future cash flow maturity profile against approved limits on a daily basis. The cash flows are monitored against limits applying to both daily and cumulative cash flows occurring over a 30 day period. The liquidity limits ensure that the net cash outflows over a 30 day period do not exceed the eligible stock of available liquid resources. The cash flow analysis is also monitored on a weekly basis by the Assets and Liabilities Committee (ALCO).

Customer deposits form a significant part of the Group's funding. The Group places considerable importance on maintaining the stability of both its customer and interbank deposits. The stability of deposits depends on maintaining confidence in the Group's financial strength and financial transparency.

The maturity profile of assets and liabilities is set out in note 29. An analysis of debt investment securities by rating classification is set out in note 27.1.

27.4 Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

A framework and methodology has been developed to identify and control the various operational risks. While operational risk cannot be entirely eliminated, it is managed and mitigated by ensuring that the appropriate infrastructure, controls, systems, procedures, and trained and competent people are in place throughout the Group. A strong internal audit function makes regular, independent appraisals of the control environment in all identified risk areas. Adequately tested contingency arrangements are also in place to support operations in the event of a range of possible disaster scenarios.

27.5 Capital management

The Group's lead regulator, the Central Bank of Bahrain (CBB), sets and monitors capital requirements for the Group as a whole. The parent company and individual banking operations are directly supervised by their local regulators.

As referred to in more detail in note 34, the Group adopted the Basel 2 capital adequacy framework with effect from 1st January 2008, and has adopted Basel 3 from 1st January 2015 as required by the CBB. The Basel 3 framework revises the definition of regulatory capital and introduces certain new liquidity and funding ratios. The Group's current capital position is sufficient to meet the new regulatory capital requirements.

In applying current capital requirements, the CBB requires the Group to maintain a prescribed minimum ratio of total regulatory capital to total risk-weighted assets. The CBB's minimum risk asset ratio is 12.5 per cent compared to a minimum ratio of 8 per cent prescribed by the Basel Committee on Banking Supervision. The Group calculates regulatory capital requirements for general market risk in its trading portfolios using a Value-at-Risk model and uses the CBB's prescribed risk-weightings under the standardised approach to determine the risk-weighted amounts for credit risk and specific market risk. Operational risk is calculated in accordance with the standardised approach. The regulatory capital requirement is calculated by applying the CBB's prescribed range of beta coefficients, ranging from 12 to 18 per cent, to the average gross income for the preceding three financial years for each of eight predefined business lines

27. Risk management (continued)

27.5 Capital management (continued)

The Group's regulatory capital is analysed into two tiers:-

- Tier 1 capital, comprising issued share capital, share premium, retained earnings and reserves, adjusted to exclude revaluation gains and losses arising on the remeasurement to fair value of derivative cash flow hedging transactions.
- Tier 2 capital, comprising qualifying subordinated term finance and collective impairment provisions, after applicable haircuts and ceiling limitations.

The CBB applies various limits to elements of the regulatory capital base. The amount of innovative tier 1 securities cannot exceed 15 per cent of total tier 1 capital, qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying subordinated term finance cannot exceed 50 per cent of tier 1 capital. There are also restrictions on the amount of collective impairment provisions that may be included as part of tier 2 capital.

The Group's risk exposures are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout and the issue of new shares.

The Group complied with all externally imposed capital requirements throughout the years ended 31st December 2015 and 31st December 2014.

There have been no material changes in the Group's management of capital during the years ended 31st December 2015 and 31st December 2014.

The capital adequacy ratio calculation is set out in note 34.

28. Geographical distribution of risk assets

					31.12.15	31.12.14
	Placements, reverse repos & other liquid assets US$ millions	**Securities US$ millions**	**Loans and advances US$ millions**	**Credit-related contingent items US$ millions**	**Total US$ millions**	Total US$ millions
GCC	**3,768.6**	**1,784.3**	**8,357.8**	**3,858.4**	17,769.1	16,406.5
Other Middle East & North Africa	**-**	**0.5**	**64.9**	**71.0**	136.4	46.9
Europe	**6,510.3**	**1,179.3**	**193.3**	**258.6**	8,141.5	5,962.8
North America	**220.8**	**805.0**	**443.2**	**219.0**	1,688.0	1,619.6
Asia	**47.9**	**185.9**	**77.8**	**55.4**	367.0	791.6
Latin America	**-**	**1.7**	**24.4**	**-**	26.1	55.6
	10,547.6	**3,956.7**	**9,161.4**	**4,462.4**	28,128.1	24,883.0

At 31st December 2015, risk exposures to customers and counterparties in the GCC represented 63.2 per cent (2014: 65.9 per cent) of total risk assets. The risk asset profile reflects the Group's strategic focus on wholesale banking activities in the GCC states.

Notes to the consolidated financial statements (continued)

For the year ended 31st December 2015

28. Geographical distribution of risk assets (continued)

Placements, reverse repos and other liquid assets exposure to Europe principally comprised exposure to financial institutions located in Belgium, Germany, Netherlands, Switzerland and the United Kingdom.

An analysis of derivative and foreign exchange instruments is set out in note 31.

29. Maturities of assets and liabilities

The maturity profile of the carrying amount of assets and liabilities, based on the contractual maturity dates, was as follows:-

	Within 3 months US$ millions	4 months to 1 year US$ millions	Years 2 and 3 US$ millions	Years 4 and 5 US$ millions	5 years and other US$ millions	Total US$ millions
At 31st December 2015						
Cash and other liquid assets	**4,296.8**	-	-	-	**12.9**	**4,309.7**
Securities purchased under agreements to resell	**685.0**	**1,100.0**	**50.0**	-	-	**1,835.0**
Placements	**3,699.2**	**703.7**	-	-	-	**4,402.9**
Trading securities	-	-	-	**13.1**	**59.1**	**72.2**
Investment securities	**174.3**	**502.8**	**1,627.6**	**859.5**	**720.3**	**3,884.5**
Loans and advances	**3,424.0**	**2,018.5**	**1,838.8**	**1,056.9**	**823.2**	**9,161.4**
Other assets	**108.1**	**49.6**	**94.5**	**50.3**	**224.2**	**526.7**
Total assets	**12,387.4**	**4,374.6**	**3,610.9**	**1,979.8**	**1,839.7**	**24,192.4**
Deposits	**13,067.4**	**3,597.9**	**4.0**	-	-	**16,669.3**
Securities sold under agreements to repurchase	**1,321.6**	**771.8**	-	-	-	**2,093.4**
Other liabilities	**102.8**	**43.3**	**79.1**	**42.7**	**160.8**	**428.7**
Term financing	**500.0**	**150.0**	**1,114.9**	**799.9**	**5.2**	**2,570.0**
Equity	-	-	-	-	**2,431.0**	**2,431.0**
Total liabilities & equity	**14,991.8**	**4,563.0**	**1,198.0**	**842.6**	**2,597.0**	**24,192.4**
At 31st December 2014						
Total assets	10,815.7	3,583.3	3,277.3	1,844.7	1,779.2	21,300.2
Total liabilities & equity	11,335.5	4,901.9	1,169.7	1,405.3	2,487.8	21,300.2

The asset and liability maturities presented in the table above are based on contractual repayment arrangements and as such do not take account of the effective maturities of deposits as indicated by the Group's deposit retention records. Formal liquidity controls are nevertheless based on contractual asset and liability maturities.

29. Maturities of assets and liabilities (continued)

The gross cash flows payable by the Group under financial liabilities, based on contractual maturity dates, was as follows:-

	Within 3 months US$ millions	4 months to 1 year US$ millions	Years 2 and 3 US$ millions	Years 4 and 5 US$ millions	Over 5 years and other US$ millions
At 31st December 2015					
Deposits	**13,137.6**	**3,730.3**	**4.3**	**-**	**-**
Securities sold under agreements to repurchase	**1,324.8**	**775.7**	**-**	**-**	**-**
Term financing	**517.5**	**194.8**	**1,192.2**	**804.1**	**5.4**
Derivative financial instruments					
- contractual amounts payable	**58.0**	**133.0**	**192.0**	**80.1**	**48.6**
- contractual amounts receivable	**(56.0)**	**(83.7)**	**(159.0)**	**(45.7)**	**(18.4)**
Total undiscounted financial liabilities	**14,981.9**	**4,750.1**	**1,229.5**	**838.5**	**35.6**
At 31st December 2014					
Deposits	10,619.5	3,551.4	4.5	-	-
Securities sold under agreements to repurchase	550.8	68.1	-	-	-
Term financing	44.8	1,290.0	1,209.2	1,413.6	-
Derivative financial instruments					
- contractual amounts payable	68.6	91.9	162.6	53.4	78.0
- contractual amounts receivable	(74.7)	(112.2)	(185.5)	(62.9)	(50.8)
Total undiscounted financial liabilities	11,209.0	4,889.2	1,190.8	1,404.1	27.2

Information on the contractual terms for the drawdown of gross loan commitments is set out in note 32.

The figures in the table above do not agree directly to the carrying amounts in the consolidated statement of financial position as they incorporate all cash flows, on an undiscounted basis, related to both principal as well as those associated with future coupon and interest payments. Coupons and interest payments for periods for which the interest rate has not yet been determined have been calculated based on the relevant forward rates of interest prevailing at the balance sheet date.

A maturity analysis of derivative and foreign exchange instruments based on notional amounts is set out in note 31.3.

Notes to the consolidated financial statements (continued)
For the year ended 31st December 2015

30. Interest rate risk
The repricing profile of assets and liabilities categories were as follows:-

	Within 3 months US$ millions	Months 4 to 6 US$ millions	Months 7 to 12 US$ millions	Over 1 year US$ millions	Non-interest bearing items US$ millions	Total US$ millions
At 31st December 2015						
Cash and other liquid assets	**4,296.8**	**-**	**-**	**-**	**12.9**	**4,309.7**
Securities purchased under agreements to resell	**685.0**	**1,000.0**	**100.0**	**50.0**	**-**	**1,835.0**
Placements	**3,699.2**	**479.2**	**224.5**	**-**	**-**	**4,402.9**
Trading securities	**-**	**13.1**	**-**	**-**	**59.1**	**72.2**
Investment securities						
- Fixed rate	**172.6**	**81.0**	**74.9**	**1,279.1**	**-**	**1,607.6**
- Floating rate	**1,783.2**	**225.0**	**-**	**-**	**(3.2)**	**2,005.0**
- Equities	**-**	**-**	**-**	**-**	**271.9**	**271.9**
Loans and advances	**7,088.4**	**1,954.4**	**253.1**	**-**	**(134.5)**	**9,161.4**
Other assets	**-**	**-**	**-**	**-**	**526.7**	**526.7**
Total assets	**17,725.2**	**3,752.7**	**652.5**	**1,329.1**	**732.9**	**24,192.4**
Deposits	**13,067.4**	**2,612.8**	**985.1**	**4.0**	**-**	**16,669.3**
Securities sold under agreements to repurchase	**1,321.6**	**710.9**	**60.9**	**-**	**-**	**2,093.4**
Other liabilities	**-**	**-**	**-**	**-**	**428.7**	**428.7**
Term financing	**2,420.0**	**-**	**150.0**	**-**	**-**	**2,570.0**
Equity	**-**	**-**	**-**	**-**	**2,431.0**	**2,431.0**
Total liabilities & equity	**16,809.0**	**3,323.7**	**1,196.0**	**4.0**	**2,859.7**	**24,192.4**
Interest rate sensitivity gap	**916.2**	**429.0**	**(543.5)**	**1,325.1**	**(2,126.8)**	**-**
Cumulative interest rate sensitivity gap	**916.2**	**1,345.2**	**801.7**	**2,126.8**	**-**	**-**
At 31st December 2014						
Cumulative interest rate sensitivity gap	(696.9)	615.6	869.0	2,071.3	-	-

The repricing profile is based on the remaining period to the next interest repricing date. Derivative financial instruments that have been used for asset and liability management purposes to hedge exposure to interest rate risk are incorporated in the repricing profiles of the related hedged assets and liabilities. The non-specific investment security and loan provisions are classified in non-interest bearing items.

The substantial majority of assets and liabilities reprice within one year. Accordingly, there is limited exposure to interest rate risk. The principal interest rate risk beyond one year, as set out in the asset and liability repricing profile, represents the investment of the Group's net free capital in fixed rate government securities. At 31st December 2015, the modified duration of these fixed rate securities was 2.33. Modified duration represents the approximate percentage change in the portfolio value resulting from a 100 basis point change in yield. More precisely in dollar terms, the price value of a basis point of the fixed rate securities was US$301,000.

30. Interest rate risk (continued)

Based on the repricing profile at 31st December 2015, and assuming that the financial assets and liabilities were to remain until maturity or settlement with no action taken by the Group to alter the interest rate risk exposure, an immediate and sustained one per cent increase in interest rates across all maturities would result in an increase in net income before tax for the following year by approximately US$7.0 million and an increase in the Group's equity by US$6.8 million. The impact on the Group's equity represents the cumulative effect of the increase in interest rates over the entire duration of the mismatches in the repricing profile of the interest rate sensitive financial assets and liabilities.

The Value-at-Risk by risk class for the Group's trading positions is set out in note 27. The market risk relating to derivative and foreign exchange instruments classified as FVTPL is set out in note 31.

31. Derivatives and foreign exchange instruments

The Group utilises derivative and foreign exchange instruments to meet the needs of its customers, to generate trading revenues and as part of its asset and liability management (ALM) activity to hedge its own exposure to market risk. Derivative instruments are contracts whose value is derived from one or more financial instruments or indices. They include futures, forwards, swaps and options in the interest rate, foreign exchange, equity, credit and commodity markets. Derivatives and foreign exchange are subject to the same types of credit and market risk as other financial instruments. The Group has appropriate and comprehensive Board-approved policies and procedures for the control of exposure to both market and credit risk from its derivative and foreign exchange activities.

In the case of derivative transactions, the notional principal typically does not change hands. It is simply a quantity which is used to calculate payments. While notional principal is a volume measure used in the derivative and foreign exchange markets, it is neither a measure of market nor credit risk. The Group's measure of credit exposure is the cost of replacing contracts at current market rates should the counterparty default prior to the settlement date. Credit risk amounts represent the gross unrealised gains on non-margined transactions before taking account of any collateral held or any master netting agreements in place.

The Group participates in both exchange traded and over-the-counter (OTC) derivative markets. Exchange traded instruments are executed through a recognised exchange as standardised contracts and primarily comprise futures and options. OTC contracts are executed between two counterparties who negotiate specific agreement terms, including the underlying instrument, notional amount, maturity and, where appropriate, exercise price. In general, the terms and conditions of these transactions are tailored to the requirements of the Group's customers although conform to normal market practice. Industry standard documentation is used, most commonly in the form of a master agreement. The existence of a master netting agreement is intended to provide protection to the Group in the event of a counterparty default.

The Group's principal foreign exchange transactions are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign exchange on a specific future date at an agreed rate. A currency swap involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a specified future date. Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a specified future date. As compensation for assuming the option risk, the option seller (or writer) receives a premium at the start of the option period.

The Group's principal interest rate-related derivative transactions are interest rate swaps, forward rate agreements, futures and options. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount for an agreed period. The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period. An interest rate future is an exchange traded contract for the delivery of a standardised amount of a fixed income security or time deposit at a future specified date. Interest rate options, including caps, floors and collars, provide the buyer with the right, but not the obligation, either to purchase or sell an interest rate financial instrument at a specified price or rate on or before a specified future date.

The Group's principal equity-related derivative transactions are equity and stock index options. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock or index at a specified price or level on or before a specified future date.

Notes to the consolidated financial statements (continued)

For the year ended 31st December 2015

31. Derivatives and foreign exchange instruments (continued)

The Group buys and sells credit protection through credit default swaps. Credit default swaps provide protection against the decline in value of a referenced asset as a result of credit events such as default or bankruptcy. It is similar in structure to an option whereby the purchaser pays a premium to the seller of the credit default swap in return for payment related to the deterioration in value of the referenced asset. Credit default swaps purchased and sold by the Group are classified as derivative financial instruments

31.1 Product analysis

The table below summarises the aggregate notional and credit risk amounts of foreign exchange, interest rate and commodity contracts.

			Notional amounts	Credit risk
	Trading	Hedging	Total	amounts
	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2015				
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	**3,842.0**	**3,313.9**	**7,155.9**	**227.1**
Options purchased	**1,790.6**	**-**	**1,790.6**	**12.6**
Options written	**1,790.6**	**-**	**1,790.6**	**-**
	7,423.2	**3,313.9**	**10,737.1**	**239.7**
Interest rate contracts:-				
Interest rate swaps	**1,362.9**	**12,951.2**	**14,314.1**	**34.2**
Options, caps and floors purchased	**9.9**	**-**	**9.9**	**-**
Options, caps and floors written	**9.9**	**-**	**9.9**	**-**
	1,382.7	**12,951.2**	**14,333.9**	**34.2**
Commodity contracts:-				
Options and swaps purchased	**26.1**	**-**	**26.1**	**1.1**
Options and swaps written	**26.1**	**-**	**26.1**	**-**
	52.2	**-**	**52.2**	**1.1**
	8,858.1	**16,265.1**	**25,123.2**	**275.0**
At 31st December 2014	8,738.6	14,607.6	23,346.2	239.4

There is no credit risk in respect of caps and floors written and options as they represent obligations of the Group.

At 31st December 2015, the Value-at-Risk of the foreign exchange, interest rate and credit derivative trading contracts analysed in the table above was US$0.1 million, nil and nil respectively (2014: nil, nil and nil respectively). Value-at-Risk is a measure of market risk exposure and represents an estimate, with a 99 per cent level of confidence, of the potential loss that might arise if the positions were to be held unchanged for ten consecutive business days. The estimate is based on a twelve month historical observation period of unweighted data from the DataMetrics data set.

31. Derivatives and foreign exchange instruments (continued)

31.2 Counterparty analysis

	Banks US$ millions	Corporates US$ millions	31.12.15 Total US$ millions	31.12.14 Total US$ millions
OECD countries	**137.8**	**87.4**	**225.2**	180.2
GCC countries	**5.9**	**43.9**	**49.8**	49.4
Other countries	**-**	**-**	**-**	9.8
	143.7	**131.3**	**275.0**	239.4

Credit risk is concentrated on major OECD-based banks and corporates.

31.3 Maturity analysis

	Year 1 US$ millions	Years 2 & 3 US$ millions	Years 4 & 5 US$ millions	Over 5 years US$ millions	Total US$ millions
At 31st December 2015					
Foreign exchange contracts	**7,557.1**	**3,112.5**	**67.5**	**-**	**10,737.1**
Interest rate contracts	**10,621.0**	**1,886.4**	**1,279.2**	**547.3**	**14,333.9**
Commodity contracts	**52.2**	**-**	**-**	**-**	**52.2**
	18,230.3	**4,998.9**	**1,346.7**	**547.3**	**25,123.2**
At 31st December 2014	18,728.0	3,326.1	1,008.2	283.9	23,346.2

The Group's derivative and foreign exchange activities are predominantly short-term in nature. Transactions with maturities over one year principally represent either fully offset trading transactions or transactions that are designated, and qualify, as fair value or cash flow hedges.

Notes to the consolidated financial statements (continued)

For the year ended 31st December 2015

31. Derivatives and foreign exchange instruments (continued)

31.4 Fair value analysis

	Positive fair value US$ millions	**31.12.15 Negative fair value US$ millions**	Positive fair value US$ millions	31.12.15 Negative fair value US$ millions
Derivatives classified as FVTPL:-				
Forward foreign exchange contracts	**120.6**	**(118.6)**	98.5	(82.2)
Interest rate swaps and swaptions	**52.0**	**(49.0)**	31.5	(30.1)
	172.6	**(167.6)**	130.0	(112.3)
Derivatives held as fair value hedges:-				
Interest rate swaps	**-**	**(9.2)**	-	(18.7)
Amount included in other assets / (other liabilities)	**172.6**	**(176.8)**	130.0	(131.0)

31.5 Significant net open positions

There were no significant derivative trading or foreign currency net open positions at either 31st December 2015 or at 31st December 2014.

31.6 Hedge effectiveness

Gains and losses recognised in the consolidated statement of income relating to fair value hedging relationships were as follows:-

	2015 US$ millions	2014 US$ millions
Net gains / (losses) on derivatives fair value hedging instruments	**0.7**	(2.3)
Net (losses) / gains on hedged items attributable to the hedged risk	**(0.7)**	2.3

There were no ineffective portions of derivative fair value or cash flow hedging transactions recognised in the consolidated statement of income in either the year ended 31st December 2015 or 31st December 2014.

Certain derivative cash flow hedging transactions were unwound during the year ended 31st December 2009. The resultant realised profits are being recognised in the consolidated statement of income over the respective tenors of the original transactions for periods to 2015.

32. Credit-related financial instruments

Credit-related financial instruments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the financing requirements of customers The credit risk on these transactions is generally less than the contractual amount. The table below sets out the notional principal amounts of outstanding credit-related contingent items and the risk-weighted exposures calculated in accordance with the CBB's Basel 3 guidelines.

	31.12.15 Notional principal amount US$ millions	**31.12.15** Risk-weighted exposure US$ millions	31.12.14 Notional principal amount US$ millions	31.12.14 Risk-weighted exposure US$ millions
Direct credit substitutes	**618.5**	**545.3**	528.3	470.5
Transaction-related contingent items	**1,950.1**	**767.4**	2,058.2	798.3
Short-term self-liquidating trade-related contingent items	**307.1**	**74.5**	498.4	75.0
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	**1,586.7**	**602.1**	891.1	373.3
	4,462.4	**1,989.3**	3,976.0	1,717.1

Commitments may be drawndown on demand.

Direct credit substitutes at 31st December 2015 included financial guarantees amounting to US$508.2 million (2014: US$467.2 million). Financial guarantees may be called on demand.

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities. At 31st December 2015, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US$569.1 million (2014. US$526.9 million).

33. Contingent liabilities

The Bank and its subsidiaries are engaged in litigation in various jurisdictions. The litigation involves claims by and against Group companies 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.

34. Capital adequacy

The Group adopted the Basel 3 capital adequacy framework with effect from 1st January 2015. The Basel 2 framework was applicable for the year ended 31st December 2014. The CBB's Basel 3 guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel 3 capital adequacy framework for banks incorporated in the Kingdom of Bahrain. The Basel 3 framework revises the definition of regulatory capital and introduces certain new liquidity and funding ratios. The application of the new Basel 3 framework had no material impact on the capital adequacy ratios of the Group.

Notes to the consolidated financial statements (continued)

For the year ended 31st December 2015

34. Capital adequacy (continued)

The risk asset ratio calculated in accordance with the CBB's Basel 3 guidelines (2014: Basel 2 guidelines) was as follows:-

	31.12.15 US$ millions	31.12.14 US$ millions
Regulatory capital base		
Tier 1 capital:		
Total equity	**2,431.0**	2,350.7
Tier 1 adjustments	**(13.0)**	(39.7)
Tier 1 capital	**2,418.0**	2,311.0
Tier 2 capital:		
Subordinated term financing	**-**	30.0
Non-specific provisions (subject to 1.25% credit risk-weighted exposure limit)	**137.7**	151.2
Tier 2 adjustments	**-**	17.9
Tier 2 capital	**137.7**	199.1
Total regulatory capital base	**2,555.7**	2,510.1

	Notional principal amount US$ millions	**Risk-weighted exposure US$ millions**	Notional principal amount US$ millions	Risk-weighted exposure US$ millions
Risk-weighted exposure				
Credit risk				
Balance sheet items:-				
Cash and other liquid assets	**4,309.7**	**102.2**	2,472.6	125.9
Securities purchased under agreements to resell	**1,835.0**	**14.4**	1,305.2	10.1
Placements	**4,402.9**	**898.9**	5,180.5	968.3
Investment securities	**3,956.7**	**1,318.1**	3,944.5	1,329.1
Loans and advances	**9,161.4**	**8,797.8**	7,931.5	7,587.3
Other assets, excluding derivative-related items	**354.1**	**377.5**	263.2	232.7
		11,508.9		10,253.4
Off-balance sheet items:-				
Credit-related contingent items	**4,462.3**	**1,989.3**	3,976.0	1,717.1
Foreign exchange-related items	**10,737.1**	**130.1**	11,070.6	103.6
Derivative-related items	**14,333.9**	**8.3**	12,243.2	33.5
Commodity contracts	**52.2**	**-**	32.4	-
Forward placements	**-**	**-**	60.3	12.1
Repo counterparty risk	**-**	**30.2**	-	37.3
		2,157.9		1,903.6
Credit risk-weighted exposure		**13,666.8**		12,157.0
Market risk				
General market risk		**85.9**		43.9
Specific market risk		**53.9**		39.8
Market risk-weighted exposure		**139.8**		83.7
Operational risk				
Operational risk-weighted exposure		**570.3**		541.4
Total risk-weighted exposure		**14,376.9**		12,782.1
Tier 1 risk asset ratio		**16.8%**		18.1%
Total risk asset ratio		**17.8%**		19.6%

34. Capital adequacy (continued)

For regulatory Basel 3 purposes, the Group has adopted the standardised approach for credit risk as mandated by CBB for all locally incorporated banks. For market risk, the Group uses the internal models approach. GIB applies the standardised approach for determining the capital requirement for operational risk.

In accordance with the capital adequacy guidelines of the CBB, revaluation gains and losses arising on the remeasurement to fair value of derivative cash flow hedging transactions are excluded from tier 1 capital, while unrealised gains and losses arising on the remeasurement to fair value of equity investment securities classified as fair value through other comprehensive income (FVTOCI) are included in tier 1 capital.

The Group's subordinated term financing facilities have been approved for inclusion in tier 2 capital by the CBB. During the last five years before maturity, a cumulative amortisation (discount) factor of 20 per cent per year is to be applied to the facilities. As at 31st December 2015, the amortisation amount excluded from tier 2 capital amounted to US$150.0 million (2014. US$447.8 million).

The Group calculates the regulatory capital requirement for general market risk using a Value-at-Risk model. The use of the internal model approach for the calculation of the capital requirement for general market risk has been approved by the Bank's regulator, the CBB. The multiplication factor to be applied to the Value-at-Risk calculated by the internal model has been set at 3.0 (2014. 3.0) by the CBB, representing the regulatory minimum. During 2012, the CBB implemented revisions to the market risk framework, consequently, the inclusion of metrics such as a 'stressed VaR' measure has been included in the calculation of the regulatory capital requirement.

Value-at-Risk is calculated based on a 99 per cent confidence level, a ten-day holding period and a twelve-month historical observation period of unweighted data from the DataMetrics regulatory data set. Correlations across broad risk categories are excluded. Prescribed additions in respect of specific risk are made to the general market risk. The resultant measure of market risk is multiplied by 12.5, the reciprocal of the 8 per cent international minimum capital ratio, to give market risk-weighted exposure on a basis consistent with credit risk-weighted exposure.

The regulatory capital requirement for operational risk is calculated by the Group in accordance with the standardised approach. The regulatory capital requirement is calculated based on a range of beta coefficients, ranging from 12 to 18 per cent, applied to the average gross income for the preceding three financial years for each of eight predefined business lines.

35. Fiduciary activities

The Group conducts investment management and other fiduciary activities on behalf of clients. Assets held in trust or in a fiduciary capacity are not assets of the Group and accordingly have not been included in the consolidated financial statements. The aggregate amount of the funds concerned at 31st December 2015 was US$12,406.5 million (2014: US$12,964.5 million).

The Group acts as fund manager to an investment fund called the Emerging Market Opportunities Fund. In its capacity as fund manager, the Group is entitled to performance and management fees. The Group maintains an investment with the fund.

The investors are able to vote by simple majority to remove the Group as the fund manager, without cause, and the Group's aggregate economic interest is less than 20 per cent. As a result, the Group has concluded that it acts as agent for the investors in this case, and therefore has not consolidated the fund.

The maximum exposure to loss is equal to the carrying amount of the trading securities, which at 31st December 2015 amounted to US$46.4 million (2014: US$59.0 million).

36. Related party transactions

The Group is owned by the six Gulf Cooperative Council (GCC) governments, with the Public Investment Fund holding a majority (97.2 per cent) controlling stake. The Public Investment Fund is an investment body of the Kingdom of Saudi Arabia. There were no individual or collectively significant transactions with the Public Investment Fund during the years ended 31st December 2015 or 31st December 2014, other than the senior term loan referred to in note 16.

The Group transacts with various entities controlled, jointly controlled or significantly influenced by the six GCC governments, these transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not government-related.

The Group's other related party transactions are limited to the compensation of its directors and executive officers.

Notes to the consolidated financial statements (continued)

For the year ended 31st December 2015

36. Related party transactions

The compensation of key management personnel was as follows:-

	2015 US$ millions	2014 US$ millions
Short-term employee benefits	**8.9**	8.2
Post-employment benefits	**0.5**	0.4
	9.4	8.6

Key management personnel comprise members of the Board of Directors, the Group Chief Executive Officer and the Managing Directors of the Group.

Post-employment benefits principally comprise compensation paid to personnel on retirement or resignation from the services of the Group.

37. Fair value of financial instruments

The Group's financial instruments are accounted for under the historical cost method with the exception of trading securities, equity investment securities and derivative financial instruments, which are accounted for at fair value. The fair value represents 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. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices (level 1 measurement) or to the pricing prevailing for similar financial instruments (level 2 measurement) and the use of unobservable inputs in estimation techniques such as discounted cash flow analysis (level 3 measurement).

The valuation methodologies applied are outlined below.

37.1 Trading securities

The fair values of trading securities are based on quoted prices (level 1) or valuation techniques (level 2 or 3).

37.2 Investment securities

The fair values of equity investment securities are based on quoted prices (level 1) or valuation techniques (level 2 or 3). The fair values of debt investment securities are based on quoted market prices (level 1) and approximate the carrying values.

37.3 Loans and advances

The fair values (level 2) of loans on a floating interest rate basis are principally estimated at book value. The fair values (level 3) of impaired loans are estimated at the recoverable amount, measured as the present value of expected future cash flows discounted based on the interest rate at the inception of the loan. The fair values of fixed rate loans are estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality. The fair values (level 2) approximate the carrying values.

37.4 Term financing

The fair value of term financing is based on observable market data, including quoted market prices for debt instruments issued by similarly rated financial institutions and with similar maturities, or estimated on a discounted cash flow basis utilising currently prevailing spreads for borrowings with similar maturities. The fair values (level 2) of senior term financing and subordinated term financing at 31st December 2015 approximate their respective book values.

37.5 Other on-balance sheet items

The fair values of foreign exchange and derivative financial instruments are based on market prices, discounted cash flow techniques or option pricing models as appropriate. The fair values of all other on-balance sheet financial assets and liabilities approximate their respective book values due to their short-term nature.

37. Fair value of financial instruments (continued)

37.6 Credit-related contingent items

There was no material fair value excess or shortfall in respect of credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams reflected contractual fees and commissions actually charged at the balance sheet date for agreements of similar credit standing and maturity. Specific provisions made in respect of individual transactions where a potential for loss has been identified are included in provisions for the impairment of loans and advances.

37.7 Valuation basis

The valuation basis for financial assets and financial liabilities carried at fair value was as follows:-

	Quoted prices (level 1) US$ millions	Valuation based on observable market data (level 2) US$ millions	Other valuation techniques (level 3) US$ millions
At 31st December 2015			
Financial assets:-			
Trading securities	**57.8**	**1.3**	**13.1**
Investment securities - equities	**172.4**	**-**	**99.5**
Derivative financial instruments	**-**	**172.6**	**-**
Financial liabilities:-			
Derivative financial instruments	**-**	**176.8**	**-**
At 31st December 2014			
Financial assets:-			
Trading securities	71.1	1.6	-
Investment securities - equities	183.5	-	124.1
Derivative financial instruments	-	130.0	-
Financial liabilities:-			
Derivative financial instruments	-	131.0	-

Quoted prices include prices obtained from lead managers, brokers and dealers. Investment securities valued based on other valuation techniques comprise private equity investments that have been valued based on price / earnings and price / book ratios for similar entities, discounted cash flow techniques or other valuation methodologies.

During the year ended 31st December 2015, the value of investment securities whose measurement was determined by other valuation techniques (level 3 measurement) decreased by US$24.6 million (2014: decrease of US$8.5 million). The decrease principally comprised changes in assigned valuations as recognised in other comprehensive income. A transfer into level 3 measurement classification was made during the year on purchase of a debt security of US$ 13.1 million. No transfers out of the level 3 measurement classification occurred during the years ended 31st December 2015 and 31st December 2014. Similarly, no transfers between level 1 and level 2 measurement classifications were made during the years ended 31st December 2015 and 31st December 2014.

Sensitivity of the movement in the fair value of financial instruments in the level 3 category is assessed as not significant to other comprehensive income or total equity.

Notes to the consolidated financial statements (continued)
For the year ended 31st December 2015

38. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders by the weighted average number of shares in issue during the year.

	2015	2014
Net income (US$ millions)	**90.4**	85.6
Weighted average number of shares in issue (millions)	**2,500**	2,500
Basic earnings per share (US$)	**0.04**	0.03

The diluted earnings per share is equivalent to the basic earnings per share set out above.

39. Principal subsidiaries

The principal subsidiary companies were as follows:-

	Principal activities	**Country of incorporation**
Gulf International Bank (UK) Limited	Asset management	United Kingdom
GIB Capital L.L.C.	Investment banking	Kingdom of Saudi Arabia

The Group's ownership interest in the principal subsidiary companies was 100 per cent for the years ended 31st December 2015 and 31st December 2014.

40. Average consolidated statement of financial position

The average consolidated statement of financial position was as follows:-

	31.12.15 US$ millions	31.12.14 US$ millions
ASSETS		
Cash and other liquid assets	**3,366.1**	2,210.4
Securities purchased under agreements to resell	**1,631.9**	2,645.6
Placements	**4,766.6**	5,395.6
Trading securities	**70.7**	60.3
Investment securities	**4,105.5**	3,722.9
Loans and advances	**8,798.8**	8,205.4
Other assets	**486.4**	414.7
Total assets	**23,226.0**	22,654.9
LIABILITIES		
Deposits from banks	**1,616.3**	1,420.5
Deposits from customers	**14,522.5**	14,398.4
Securities sold under agreements to repurchase	**1,345.8**	729.8
Other liabilities	**399.3**	344.0
Senior term financing	**2,645.0**	2,960.1
Subordinated term financing	**286.6**	477.8
Total liabilities	**20,815.5**	20,330.6
Total equity	**2,410.5**	2,324.3
Total liabilities & equity	**23,226.0**	22,654.9

Risk management and capital adequacy report

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Risk management and capital adequacy report

31st December 2015

Executive summary

The Central Bank of Bahrain (CBB) Basel 3 guidelines prescribe the capital adequacy framework for banks incorporated in the Kingdom of Bahrain. GIB (the Group) adopted Basel 3 from 1st January 2015 as required by the CBB. The Basel 3 framework revises the definition of regulatory capital and introduces certain new liquidity and funding ratios.

This Risk Management and Capital Adequacy report encompasses the Pillar 3 disclosure requirements prescribed by the CBB based on the Basel Committee's Pillar 3 guidelines. The report contains a description of GIB's risk management and capital adequacy policies and practices, including detailed information on the capital adequacy process.

For regulatory purposes, GIB has adopted the standardised approach for credit risk. GIB uses the internal models approach for market risk and the standardised approach for determining the capital requirement for operational risk.

The disclosed tier 1 and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel 3 framework.

GIB's total risk-weighted assets at 31st December 2015 amounted to US$14,376.9 million. Credit risk accounted for 95.1 per cent, market risk 0.9 per cent and operational risk 4.0 per cent of the total risk-weighted assets. Tier 1 and total regulatory capital were US$2,418.0 million and US$2,555.7 million respectively.

At 31st December 2015, GIB's tier 1 and total capital adequacy ratios were 16.8 per cent and 17.8 per cent respectively. GIB aims to maintain a tier 1 capital adequacy ratio above 10.5 per cent and a total capital adequacy ratio in excess of 14.0 per cent.

GIB views the Pillar 3 disclosures as an important contribution to increased risk transparency within the banking industry, and particularly important during market conditions characterised by high uncertainty. In this regard, GIB has provided more disclosure in this report than is required in accordance with the CBB's Pillar 3 guidelines in order to provide the level of transparency that is believed to be appropriate and relevant to the Group's various stakeholders and market participants.

All figures presented in this report are as at 31st December 2015 unless otherwise stated.

1. **The Basel 3 framework**

The CBB's Basel 3 framework is based on three pillars, consistent with the Basel 3 framework developed by the Basel Committee, as follows:-

- Pillar 1: the calculation of the risk-weighted amounts (RWAs) and capital requirement.
- Pillar 2: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar 3: the disclosure of risk management and capital adequacy information.

1.1 **Pillar 1**

Pillar 1 prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar 1 sets out the definition and calculations of the RWAs, and the derivation of the regulatory capital base. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total RWAs.

With the introduction of Pillar 2, the CBB will implement a minimum ratio threshold to be determined for each institution individually, as described in more detail in the Pillar 2 section of this report. As at 31st December 2015, and pending the finalisation of the CBB's Pillar 2 guidelines, all banks incorporated in Bahrain are required to maintain a minimum capital adequacy ratio of 12.5 per cent and a tier 1 ratio of 10.5 per cent.

In the event that the capital adequacy ratio falls below 12.5 per cent, additional prudential reporting requirements apply and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB.

The table below summarises the approaches available for calculating RWAs for each risk type in accordance with the CBB's Basel 3 capital adequacy framework:-

Approaches for determining regulatory capital requirements

Credit risk	Market risk	Operational risk
Standardised approach	Standardised approach	Basic indicator approach
	Internal models approach	Standardised approach

The approach applied by GIB for each risk type is as follows:-

a) **Credit risk**

For regulatory reporting purposes, GIB applies the standardised approach for credit risk.

The RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

b) **Market risk**

For the regulatory market risk capital requirement, GIB applies the internal models approach based on a Value-at-Risk (VaR) model. The use of the internal models approach for the calculation of regulatory market risk capital has been approved by the CBB.

c) **Operational risk**

Under the CBB's Basel 3 capital adequacy framework, all banks incorporated in Bahrain are required to apply the basic indicator approach for operational risk unless approval is granted by the CBB to use the standardised approach. The CBB's Basel 3 guidelines do not currently permit the use of the advanced measurement approach (AMA) for operational risk. The standardised approach for the calculation of regulatory operational risk capital has been approved by the CBB.

Under the standardised approach, the regulatory capital requirement is calculated based on a range of beta coefficients, ranging from 12 to 18 per cent, applied to the average gross income for the preceding three financial years for each of eight predefined business lines.

Risk management and capital adequacy report (continued)

31st December 2015

1. The Basel 3 framework (continued)

1.2 Pillar 2

Pillar 2 defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy.

Under the CBB's Pillar 2 guidelines, each bank is to be individually assessed by the CBB and an individual minimum capital adequacy ratio is to be determined for each bank. The CBB is yet to undertake the assessment exercises, which will allow their setting of higher minimum capital ratios based on the CBB's assessment of the financial strength and risk management practices of the institution. Currently, pending finalisation of the assessment process, all banks incorporated in Bahrain are required to maintain a 12.5 per cent minimum capital adequacy ratio and a tier 1 ratio of 10.5 per cent.

Pillar 2 comprises two processes:-

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. GIB's ICAAP has been developed around its economic capital framework which is designed to ensure that the Group has sufficient capital resources available to meet regulatory and internal capital requirements, even during periods of economic or financial stress. The ICAAP addresses all components of GIB's risk management, from the daily management of more material risks to the strategic capital management of the Group.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions identify their material risks and allocate adequate capital, and employ sufficient management processes to support such risks.

The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar 1 framework. Other risk types which are not covered by the minimum capital requirements in Pillar 1 include liquidity risk, interest rate risk in the banking book, business risk and concentration risk. These are covered either by capital, or risk management and mitigation processes under Pillar 2.

1.3 Pillar 3

In the CBB's Basel 3 framework, the third pillar prescribes how, when, and at what level information should be disclosed about an institution's risk management and capital adequacy practices.

The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar 3 disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas fuller disclosure is required to coincide with the financial year end reporting.

In this report, GIB's disclosures are beyond the minimum regulatory requirements and provide disclosure of the risks to which it is exposed, both on- and off-balance sheet. The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements presented in accordance with International Financial Reporting Standards (IFRS).

2. Group structure and overall risk and capital management

This section sets out the consolidation principles and the capital base of GIB as calculated in accordance with the Pillar 1 guidelines, and describes the principles and policies applied in the management and control of risk and capital.

2.1 Group structure

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. For capital adequacy purposes, all subsidiaries are included within the Gulf International Bank B.S.C. Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

Under the CBB capital adequacy framework, subsidiaries reporting under a Basel 3 framework in other regulatory jurisdictions may, at the bank's discretion, be consolidated based on that jurisdiction's Basel 3 framework, rather than based on the CBB's guidelines. Under this aggregation consolidation methodology, the risk-weighted assets of subsidiaries are consolidated with those of the rest of the Group based on the guidelines of their respective regulator to determine the Group's total risk-weighted assets.

GIB's principal subsidiary, Gulf International Bank (UK) Limited (GIBUK), is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) of the United Kingdom, and has calculated its risk-weighted assets in accordance with the PRA's guidelines.

The principal subsidiaries and basis of consolidation for capital adequacy purposes are as follows.-

Subsidiary	Domicile	Ownership	Consolidation basis
Gulf International Bank (UK) Limited	United Kingdom	100%	Aggregation
GIB Capital LLC	Saudi Arabia	100%	Full Consolidation

No investments in subsidiaries are treated as a deduction from the Group's regulatory capital.

2.2 Risk and capital management

GIB maintains a prudent and disciplined approach to risk taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels. A key tenet of this culture is the clear segregation of duties and reporting lines between personnel transacting business and personnel processing that business. The Group's risk management is underpinned by its ability to identify, measure, aggregate and manage the different types of risk it faces.

The Board of Directors has created from among its members a Board Risk Policy Committee to review the Group's risk taking activities and report to the Board in this regard. The Board has the ultimate responsibility for setting the overall risk parameters and tolerances within which the Group conducts its activities, including responsibility for setting the capital ratio targets. The Board reviews the Group's overall risk profile and significant risk exposures as well as the Group's major risk policies, processes and controls.

The Management Committee, chaired by the Chief Executive Officer (CEO), has the primary responsibility for sanctioning risk taking policies and activities within the tolerances defined by the Board. The Group Risk Committee assists the Management Committee in performing its risk related functions.

The Group Risk Committee, under the chairmanship of the Chief Risk Officer (CRO) and comprising the Group's most senior risk professionals, provides a forum for the review and approval of new products, risk measurement methodologies and risk control processes. The Group Risk Committee also reviews all risk policies and limits that require approval by the Management Committee. The Assets and Liabilities Committee (ALCO), chaired by the Chief Financial Officer (CFO), provides a forum for the review of asset and liability activities within GIB. It co-ordinates the asset and liability functions and serves as a link between the funding sources and usage in the different business areas.

From a control perspective, the process of risk management is facilitated through a set of independent functions, which report directly to senior management. These functions include Credit Risk, Market Risk, Operational Risk, Financial Control and Internal Audit. This multi-faceted approach aids the effective management of risk by identifying, measuring and monitoring risks from a variety of perspectives.

Risk management and capital adequacy report (continued)

31st December 2015

2. Group structure and overall risk and capital management (continued)

2.2 Risk and capital management (continued)

Internal Audit is responsible for carrying out a risk-based programme of work designed to provide assurance that assets are being safeguarded. This involves ensuring that controls are in place and working effectively in accordance with Group policies and procedures as well as with laws and regulations. The work carried out by Internal Audit includes providing assurance on the effectiveness of the risk management functions, as well as that of controls operated by the business units. The Board Audit Committee approves the annual audit plan and also receives regular reports of the results of audit work.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future business development. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout or the issue of new shares.

The CFO is responsible for the capital planning process. Capital planning includes capital adequacy reporting, economic capital and parameter estimation, i.e. probability of default (PD) and loss given default (LGD) estimates, used for the calculation of economic capital. The CFO is also responsible for the balance sheet management framework.

The governance structure for risk and capital management is set out in the table below:-

	Board of Directors	
Board Audit Committee		**Board Risk Policy Committee**
	Chief Executive Officer	
Management Committee (Chairman: CEO)	Group Risk Committee (Chairman: CRO)	Assets and Liabilities Committee (Chairman. CFO)

The risk, liquidity and capital management responsibilities are set out in the table below:-

	Chief Executive Officer	
Chief Financial Officer (CFO)		**Chief Risk Officer (CRO)**
Balance sheet management framework Capital management framework		Risk management framework and policies Group credit control Credit risk Market risk Operational risk Liquidity risk

2.3 Risk types

The major risks associated with the Group's business activities are credit, market, operational and liquidity risk. These risks together with a commentary on the way in which the risks are managed and controlled are set out in the following sections, based on the Basel 3 pillar in which the risks are addressed.

2.4 Risk in Pillar 1

Pillar 1, which forms the basis for the calculation of the regulatory capital requirement, addresses three specific risk types: credit, market and operational risk.

Risk management and capital adequacy report (continued)

31st December 2015

2. Group structure and overall risk and capital management (continued)

2.4 Risk in Pillar 1 (continued)

a) Credit risk

Credit risk is the risk that a customer, counterparty or an issuer of securities or other financial instruments fails to perform under its contractual payment obligations thus causing the Group to suffer a loss in terms of cash flow or market value. Credit risk is the predominant risk type faced by the Group in its banking, investment and treasury activities, both on- and off-balance sheet. Where appropriate, the Group seeks to minimise its credit exposure using a variety of techniques including, but not limited to, the following:-

- entering netting agreements with counterparties that permit the offsetting of receivables and payables
- obtaining collateral
- seeking third party guarantees of the counterparty's obligations
- imposing restrictions and covenants on borrowers

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is undertaken which includes an analysis of the obligor's financial condition, market position, business environment and quality of management. The risk assessment generates an internal credit risk rating for each counterparty, which affects the credit approval decision and the terms and conditions of the transaction. For cross-border transactions, an analysis of country risk is also conducted. The credit decision for an individual counterparty is based on the aggregate Group exposure to that counterparty and all its related entities. Groupwide credit limit setting and approval authorisation requirements are conducted within Board approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Groupwide basis in a consistent manner. Overall exposures are evaluated to ensure broad diversification of credit risk. Potential concentration risks by product, industry, single obligor, credit risk rating and geography are regularly assessed with a view to improving overall portfolio diversification. Established limits and actual levels of exposure are regularly reviewed by the Chief Risk Officer (CRO), Chief Credit Officer (CCO) and other members of senior management. All credit exposures are reviewed at least once a year. Credit policies and procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review. The credit risk associated with foreign exchange and derivative instruments is assessed in a manner similar to that associated with on-balance sheet activities. The Group principally utilises derivative transactions to facilitate customer transactions and for the management of interest and foreign exchange risks associated with the Group's longer-term lending, borrowing and investment activities. Unlike on-balance sheet products, where the principal amount and interest generally represent the maximum credit exposure, the notional amount relating to a foreign exchange or derivative transaction typically exceeds the credit exposure by a substantial margin. The measure of credit exposure for foreign exchange and derivative instruments is therefore more appropriately considered to be the replacement cost at current market rates plus an add-on amount commensurate with the position's size, volatility and remaining life. Derivative contracts may also carry legal risk; the Group seeks to minimise these risks by the use of standard contract agreements.

b) Market risk

Market risk is the risk of loss of value of a financial instrument or a portfolio of financial instruments as a result of adverse changes in market prices and rates, and market conditions such as liquidity. Market risk arises from the Group's trading, asset and liability management, and investment activities.

The categories of market risk to which the Group is exposed are as follows:-

Interest rate risk results from exposure to changes in the level, slope, curvature and volatility of interest rates and credit spreads. The credit spread risk is the risk that the interest yield for a security will increase, with a reduction in the security price, relative to benchmark yields as a result of the general market movements for that rating and class of security. Interest rate risk is the principal market risk faced by the Group and arises from the Group's investment activities in debt securities, asset and liability management, and the trading of debt and off-balance sheet derivative instruments.

Foreign exchange risk results from exposure to changes in the price and volatility of currency spot and forward rates. The principal foreign exchange risk arises from the Group's foreign exchange forward and derivative trading activities.

Equity risk arises from exposures to changes in the price and volatility of individual equities or equity indices.

Risk management and capital adequacy report (continued)

31st December 2015

2. Group structure and overall risk and capital management (continued)

2.4 Risk in Pillar 1 (continued)

b) Market risk (continued)

The Group seeks to manage exposure to market risk through the diversification of exposures across dissimilar markets and the establishment of hedges in related securities or off-balance sheet derivative instruments. To manage the Group's exposures, in addition to the exercise of business judgement and management experience, the Group utilises limit structures including those relating to positions, portfolios, maturities and maximum allowable losses.

A key element in the Group's market risk management framework is the estimation of potential future losses that may arise from adverse market movements. The Group utilises Value-at-Risk (VaR) to estimate such losses. The VaR is derived from quantitative models that use statistical and simulation methods that take account of all market rates and prices that may cause a change in a position's value. These include interest rates, foreign exchange rates and equity prices, their respective volatilities and the correlations between these variables. The Group's VaR is calculated on a Monte Carlo simulation basis using historical volatilities and correlations to generate a profit and loss distribution from several thousand scenarios.

The VaR takes account of potential diversification benefits of different positions both within and across different portfolios. Consistent with general market practice, VaR is computed for all financial instruments for which there are readily available daily prices or suitable proxies. VaR is viewed as an effective risk management tool and a valuable addition to the non-statistically based limit structure. It permits a consistent and uniform measurement of market risk across all applicable products and activities. Exposures are monitored against a range of limits both by risk category and portfolio and are regularly reported to and reviewed by senior management and the Board of Directors.

An inherent limitation of VaR is that past market movements may not provide an accurate prediction of future market losses. Historic analyses of market movements have shown that extreme market movements (i.e. beyond the 99 per cent confidence level) occur more frequently than VaR models predict. Stress tests are regularly conducted to estimate the potential economic losses in such abnormal markets. Stress testing combined with VaR provides a more comprehensive picture of market risk. The Group regularly performs stress tests that are constructed around changes in market rates and prices resulting from pre-defined market stress scenarios, including both historical and hypothetical market events. Historical scenarios include the 1997 Asian crisis, the 1998 Russian crisis, the events of 9/11 and the 2008 credit crisis. In addition, the Group performs stress testing based on internally developed hypothetical market stress scenarios. Stress testing is performed for all material market risk portfolios.

c) Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all businesses and covers a large number of potential operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

Whilst operational risk cannot be eliminated in its entirety, the Group endeavours to minimise the risk by ensuring that a strong control infrastructure is in place throughout the organisation. The various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. In addition, other control strategies, including business continuity planning and insurance, are in place to complement the control processes, as applicable.

The Group has an independent operational risk function. As part of the Group's Operational Risk Management Framework (ORMF), comprehensive risk assessments are conducted, which identify operational risks inherent in the Group's activities, processes and systems. The controls in place to mitigate these risks are also reviewed, and enhanced if necessary.

2. Group structure and overall risk and capital management (continued)

2.5 Risk in Pillar 2

Other risk types are measured and assessed in Pillar 2. GIB measures and manages these risk types although they are not included in the calculation of the regulatory capital adequacy ratio. Most of the Pillar 2 risks are included in GIB's calculation of internal economic capital. Pillar 2 risk types include liquidity risk, interest rate risk in the banking book, business risk and concentration risk.

a) Liquidity risk

Liquidity risk is the risk that sufficient funds are not available to meet the Group's financial obligations on a punctual basis as they fall due. The risk arises from the timing differences between the maturity profiles of the Group's assets and liabilities. It includes the risk of losses arising from the following:-

- forced sale of assets at below normal market prices
- raising of deposits or borrowing funds at excessive rates
- the investment of surplus funds at below market rates

Liquidity management policies are designed to ensure that funds are available at all times to meet the funding requirements of the Group, even in adverse conditions. In normal conditions, the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. These objectives are met through the application of prudent liquidity controls. These controls provide access to funds without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits.

The Group's liquidity controls ensure that, over the short-term, the future profile of cash flows from maturing assets is adequately matched to the maturity of liabilities. Liquidity controls also provide for the maintenance of a stock of liquid and readily realisable assets and a diversified deposit base in terms of both maturities and range of depositors.

The management of liquidity and funding is primarily conducted in the Group's individual geographic entities within approved limits. The limits ensure that contractual net cash flows occurring over the following 30 day period do not exceed the eligible stock of available liquid resources

It is the Group's general policy that each geographic entity should be self-sufficient in relation to funding its own operations.

The Group's liquidity management policies include the following:-

- the monitoring of (i) future contractual cash flows against approved limits, and (ii) the level of liquid resources available in a stress event
- the monitoring of balance sheet liquidity ratios
- the monitoring of the sources of funding in order to ensure that funding is derived from a diversified range of sources
- the monitoring of depositor concentrations in order to avoid undue reliance on individual depositors
- the maintenance of a satisfactory level of term financing
- the maintenance of appropriate standby funding arrangements; and
- the maintenance of liquidity and funding contingency plans. These plans identify early indicators of stress conditions and prescribe the actions to be taken in the event of a systemic or other crisis, while minimising adverse long-term implications for the Group's business activities.

b) Interest rate risk in the banking book

Structural interest rate risk arises in the Group's core balance sheet as a result of mismatches in the repricing of interest rate sensitive financial assets and liabilities. The associated interest rate risk is managed within VaR limits and through the use of models to evaluate the sensitivity of earnings to movements in interest rates.

c) Business risk

Business risk represents the earnings volatility inherent in all businesses due to the uncertainty of revenues and costs associated with changes in the economic and competitive environment. Business risk is evaluated based on the observed volatility in historical profits and losses.

Risk management and capital adequacy report (continued)

31st December 2015

2. Group structure and overall risk and capital management (continued)

2.5 Risk in Pillar 2 (continued)

d) Concentration risk

Concentration risk is the risk related to the degree of diversification in the credit portfolio, i.e. the risk inherent in doing business with large customers or not being equally exposed across industries and regions.

Concentration risk is captured in GIB's economic capital framework through the use of a credit risk portfolio model which considers single-name concentrations in the credit portfolio. Economic capital add-ons are applied where counterparty exposures exceed specified thresholds.

Potential concentration risks by product, industry, single obligor, and geography are regularly assessed with a view to improving overall portfolio diversification. Established limits and actual levels of exposure are regularly reviewed by senior management and the Board of Directors.

2.6 Monitoring and reporting

The monitoring and reporting of risk is conducted on a daily basis for market and liquidity risk, and on a monthly or quarterly basis for credit and operational risk.

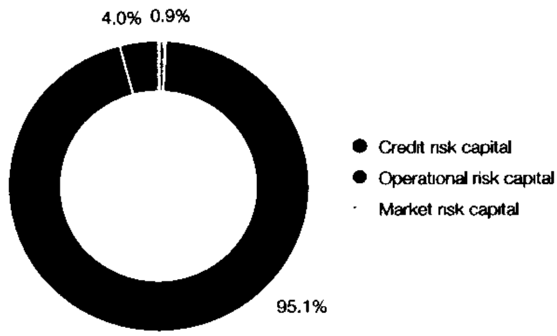
Risk reporting is regularly made to senior management and the Board of Directors. The Board of Directors receives internal risk reports covering market, credit, operational and liquidity risks.

Capital management, including regulatory and internal economic capital ratios, is reported to senior management and the Board of Directors on a monthly basis.

3. Regulatory capital requirements and the capital base

This section describes the Group's regulatory capital requirements and capital base.

The composition of the total regulatory capital requirement was as follows:-



3.1 Capital requirements for credit risk

For regulatory reporting purposes, GIB calculates the capital requirements for credit risk based on the standardised approach. Under the standardised approach, on- and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. The exposure categories are referred to in the CBB's Basel 3 capital adequacy framework as standard portfolios. The primary standard portfolios are claims on sovereigns, claims on banks and claims on corporates. Following the assignment of exposures to the relevant standard portfolios, the RWAs are derived based on prescribed risk-weightings. Under the standardised approach, the risk-weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB. GIB uses ratings assigned by Standard & Poor's, Moody's and Fitch.

3. Regulatory capital requirements and the capital base (continued)

3.1 Capital requirements for credit risk (continued)

An overview of the exposures, RWAs and capital requirements for credit risk analysed by standard portfolio is presented in the table below:-

	Rated exposure US$ millions	Unrated exposure US$ millions	Total exposure US$ millions	Average risk weight %	RWA US$ millions	Capital requirement US$ millions
Sovereigns	5,487.1	3.7	5,490.8	0%	8.0	1.0
PSEs	155.5	0.5	156.0	20%	31.6	4.0
Banks	8,781.8	108.5	8,890.3	23%	2,039.7	255.0
Corporates	1,046.3	10,465.6	11,511.9	95%	10,933.7	1,366.7
Equities	-	290.2	290.2	122%	353.5	44.2
Past due loans	-	26.4	26.4	103%	27.2	3.4
Other assets	23.2	269.1	292.3	93%	273.1	34.1
	15,493.9	**11,164.0**	**26,657.9**	**51%**	**13,666.8**	**1,708.4**

Exposures are stated after taking account of credit risk mitigants where applicable. The treatment of credit risk mitigation is explained in more detail in section 4.4(g) of this report.

The unrated exposure to banks principally represents unrated subordinated loans to rated banks.

The definitions of each standard portfolio and the related RWA requirements are set out in section 4 of this report.

3.2 Capital requirements for market risk

GIB uses a Value-at-Risk (VaR) model to calculate the regulatory capital requirements relating to general market risk.

The VaR calculated by the internal model is subject to a multiplication factor determined by the CBB. GIB's multiplication factor has been set at the regulatory minimum of 3.0 by the CBB.

Prescribed additions in respect of specific risk are made to general market risk. The resultant measure of market risk is multiplied by 12.5, to give market risk-weighted exposure on a basis consistent with credit risk-weighted exposure.

The RWAs and capital requirements for market risk are presented in the table below:-

	RWA US$ millions	Capital requirement US$ millions
Interest rate risk	3.8	0.5
Equities	74.6	9.3
Foreign exchange risk	7.5	0.9
Total general market risk	85.9	10.7
Total specific market risk	53.9	6.7
	139.8	**17.4**

From April 2012, the general market risk calculation includes the addition of stressed VaR in accordance with CBB guidelines.

Risk management and capital adequacy report (continued)

31st December 2015

3. Regulatory capital requirements and the capital base (continued)

3.3 Capital requirements for operational risk

For regulatory reporting purposes, the capital requirement for operational risk is calculated in accordance with the standardised approach. Under this approach, the Group's average gross income over the preceding three financial years is multiplied by a range of beta coefficients. The beta coefficients are determined based on the business line generating the gross income and are prescribed in the CBB's Basel 3 capital adequacy framework and range from 12 to 18 per cent.

The capital requirement for operational risk at 31st December 2015 amounted to US$70.6 million.

3.4 Capital base

The regulatory capital base is set out in the table below.-

	Tier 1 US$ millions	Tier 2 US$ millions	Total US$ millions
Share capital	2,500.0	-	2,500.0
Share premium	7.6	-	7.6
Compulsory reserve	220.7	-	220.7
Voluntary reserve	158.2	-	158.2
Retained earnings	(448.8)	-	(448.8)
Unrealised losses from fair valuing equity investments	(6.7)	-	(6.7)
Collective impairment provisions	-	137.7	137.7
Regulatory capital deduction:			
Defined benefit pension fund asset	(13.0)	-	(13.0)
Tier 1 and tier 2 capital base	**2,418.0**	**137.7**	**2,555.7**

Tier 1 capital is defined as capital of the same or close to the character of paid up capital and comprises share capital, share premium, retained earnings and eligible reserves. Eligible reserves exclude revaluation gains and losses arising on the remeasurement to fair value of derivative cash flow hedging transactions, although include unrealised gains and losses arising on the remeasurement to fair value of equity investment securities classified as fair value through other comprehensive income (FVTOCI). Regulatory capital deductions are applied to tier 1 and tier 2 capital with respect to investment exposures for entities where the Group does not own more than 10 per cent of the issued share capital of the entity, and to tier 1 capital to exclude any outstanding cash flow hedge reserves.

Tier 2 capital comprises qualifying subordinated term finance and collective impairment provisions, after applicable haircuts and ceiling limitations.

The CBB applies various limits to elements of the regulatory capital base. The amount of innovative tier 1 securities cannot exceed 15 per cent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying subordinated term finance cannot exceed 50 per cent of tier 1 capital. There are also restrictions on the amount of collective impairment provisions that may be included as part of tier 2 capital.

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers of statutory deposits with central banks and safeguards to ensure minimum regulatory capital requirements are met for subsidiary companies.

4. Credit risk – Pillar 3 disclosures

This section describes the Group's exposure to credit risk and provides detailed disclosures on credit risk in accordance with the CBB's Basel 3 framework in relation to Pillar 3 disclosure requirements.

4.1 Definition of exposure classes

GIB has a diversified on- and off-balance sheet credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB's Basel 3 capital adequacy framework for the standardised approach for credit risk. A high-level description of the counterparty exposure classes, referred to as standard portfolios in the CBB's Basel 3 capital adequacy framework, and the generic treatments, i.e. the risk weights to be used to derive the RWAs, are as follows.-

4. Credit risk – Pillar 3 disclosures (continued)

4.1 Definition of exposure classes (continued)

Sovereigns portfolio
The sovereigns portfolio comprises exposures to governments and their respective central banks. The risk weights are 0 per cent for exposures in the relevant domestic currency, or in any currency for exposures to GCC governments. Foreign currency claims on other sovereigns are risk-weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereigns portfolio and treated as exposures with a 0 per cent risk-weighting.

PSE portfolio
Public sector entities (PSEs) are risk-weighted according to their external ratings with the exception of Bahrain PSEs, and domestic currency claims on other PSEs which are assigned a 0 per cent risk weight by their respective country regulator.

Banks portfolio
Claims on banks are risk-weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short-term exposures. Short-term exposures are defined as exposures with an original tenor of three months or less.

The Banks portfolio also includes claims on investment firms, which are risk-weighted based on their external credit ratings although without any option for preferential treatment for short-term exposures. A regulatory deduction is applied to investment exposures for entities where the Group does not own more than 10 per cent of the issued share capital of the bank.

Corporates portfolio
Claims on corporates are risk-weighted based on their external credit ratings. A 100 per cent risk weight is assigned to unrated corporate exposures. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a 0 per cent risk weight.

Equities portfolio
The equities portfolio comprises equity investments in the banking book, i.e. in the investment securities portfolio and non-qualifying equities and funds in the trading portfolio. The credit (specific) risk for qualifying equities in the trading book is included in market risk RWAs for regulatory capital adequacy calculation purposes. A regulatory deduction is applied to investment exposures for entities where the Group does not own more than 10 per cent of the issued share capital of the entity.

A 100 per cent risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk-weighted at 150 per cent. Investments in rated funds are risk-weighted according to their external credit rating. Equity investments in securitisations are deducted from the regulatory capital base.

In addition to the standard portfolios, other exposures are assigned to the following exposure classes:-

Past due exposures
All past due loan exposures, irrespective of the categorisation of the exposure if it were performing, are classified separately under the past due exposures asset class. A risk-weighting of either 100 per cent or 150 per cent is applied depending on the level of provision maintained against the loan.

Other assets and holdings of securitisation tranches
Cash balances are risk-weighted at 0 per cent, other assets are risk-weighted at 100 per cent. A credit valuation adjustment (CVA) is applied to applicable derivative exposures.

Securitisation tranches are risk-weighted based on their external credit ratings and tenor. Risk-weightings range from 20 per cent to 1250 per cent.

4.2 External rating agencies
GIB uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk-weightings under the CBB's Basel 3 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to derive the risk-weightings for regulatory capital adequacy purposes.

Risk management and capital adequacy report (continued)

31st December 2015

4. Credit risk – Pillar 3 disclosures (continued)

4.3 Credit risk presentation under Basel 3

The credit risk exposures presented in this report may differ from the credit risk exposures reported in the consolidated financial statements. Differences arise due to the application of different methodologies, as illustrated below:-

- Under the CBB's Basel 3 framework, off-balance sheet exposures are converted into credit exposure equivalents by applying a credit conversion factor (CCF). The off-balance sheet exposure is multiplied by the relevant CCF applicable to the off-balance sheet exposure category. Subsequently, the exposure is treated in accordance with the standard portfolios referred to in section 4.1 of this report in the same manner as on-balance sheet exposures.

- Credit risk exposure reporting under Pillar 3 is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty. For example, a loan to a bank would be classified in the Banks standard portfolio under the capital adequacy framework although is classified in loans and advances in the consolidated financial statements.

- Certain eligible collateral is applied to reduce exposure under the Basel 3 capital adequacy framework, whereas no such collateral netting is applicable in the consolidated financial statements.

- Based on the CBB's Basel 3 guidelines, certain exposures are either included in, or deducted from, regulatory capital rather than treated as an asset as in the consolidated financial statements.

- Under the CBB's Basel 3 capital adequacy framework, external rating agency ratings are based on the highest rating from the lowest two ratings, while for internal credit risk management purposes the Group uses the lowest rating.

4.4 Credit exposure

a) Gross credit exposure

The gross and average gross exposure to credit risk before applying collateral, guarantees, and other credit enhancements was as follows:-

	Gross credit exposure US$ millions	Average gross credit exposure US$ millions
Balance sheet items:		
Cash and other liquid assets	4,309.7	3,366.1
Securities purchased under agreements to resell	1,835.0	1,631.9
Placements	4,402.9	4,766.6
Trading securities	72.2	70.7
Investment securities	3,884.5	4,105.5
Loans and advances	9,161.4	8,798.8
Accrued interest receivable	121.6	112.5
Total on-balance sheet credit exposure	**23,787.3**	**22,852.1**
Off-balance sheet items:		
Credit-related contingent items	4,462.4	3,982.9
Derivative and foreign exchange instruments	275.0	288.8
Total off-balance sheet credit exposure	**4,737.4**	**4,271.7**
Total gross credit exposure	**28,524.7**	**27,123.8**

The average gross credit exposure is based on daily averages during the year ended 31st December 2015.

4. **Credit risk – Pillar 3 disclosures** (continued)

4.4 **Credit exposure** (continued)

a) **Gross credit exposure** (continued)

The gross credit exposure for derivative and foreign exchange instruments is the replacement cost (current exposure) representing the cost of replacing the contracts at current market rates should the counterparty default prior to the settlement date. The gross credit exposure reported in the table above does not include potential future exposure. Further details on the counterparty credit risk relating to off-balance sheet exposures are set out in section 7.3(a) of this report.

b) **Credit exposure by geography**

The classification of credit exposure by geography, based on the location of the counterparty, was as follows:-

	Placements, reverse repos & other liquid assets US$ millions	Securities US$ millions	Loans and advances US$ millions	Accrued interest receivable US$ millions	Off-balance sheet items US$ millions	Total US$ millions
GCC	3,768.6	1,784.3	8,357.8	74.7	3,908.3	17,893.7
Other MENA	-	0.5	64.9	0.2	72.1	137.7
Europe	6,510.3	1,179.3	193.3	32.7	395.3	8,310.9
North America	220.8	805.0	443.2	10.7	244.3	1,724.0
Asia	47.9	185.9	77.8	3.1	117.4	432.1
Latin America	-	1.7	24.4	0.2	-	26.3
	10,547.6	**3,956.7**	**9,161.4**	**121.6**	**4,737.4**	**28,524.7**

The MENA region comprises the Middle East and North Africa.

c) **Credit exposure by industrial sector**

The classification of credit exposure by industrial sector was as follows:-

	Placements, reverse repos & other liquid assets US$ millions	Securities US$ millions	Loans and advances US$ millions	Accrued interest receivable US$ millions	Off-balance sheet items US$ millions	Total US$ millions
Financial services	5,592.2	1,389.5	1,791.1	63.7	632.9	9,469.4
Government	4,955.4	1,429.1	-	9.8	88.0	6,482.3
Energy, oil and petrochemical	-	482.5	1,911.2	10.1	956.4	3,360.2
Construction	-	21.2	736.2	2.9	2,109.9	2,870.2
Trading and services	-	20.0	2,021.0	7.2	298.7	2,346.9
Transportation	-	151.6	1,046.2	3.2	197.7	1,398.7
Manufacturing	-	19.2	882.9	4.3	204.3	1,110.7
Real estate	-	65.1	270.2	4.3	30.1	369.7
Communication	-	47.5	263.2	1.0	34.1	345.8
Equity investments	-	331.0	-	-	3.2	334.2
Other	-	-	239.4	15.1	182.1	436.6
	10,547.6	**3,956.7**	**9,161.4**	**121.6**	**4,737.4**	**28,524.7**

Risk management and capital adequacy report (continued)

31st December 2015

4. Credit risk – Pillar 3 disclosures (continued)

4.4 Credit exposure (continued)

d) Credit exposure by internal rating

The credit risk profile based on internal credit ratings was as follows:-

	Placements, reverse repos & other liquid *assets* US$ millions	*Securities* US$ millions	Loans and *advances* US$ millions	Accrued interest *receivable* US$ millions	Off-balance *sheet items* US$ millions	*Total* US$ millions
Neither past due nor impaired						
Rating grades 1 to 4-	10,427.6	3,625.7	5,243.6	104.7	2,336.6	21,738.2
Rating grades 5+ to 5-	120.0	-	3,328.2	15.9	2,314.5	5,778.6
Rating grades 6+ to 6-	-	-	540.8	1.0	51.0	592.8
Rating grade 7	-	-	-	-	20.3	20.3
Rating grade 9	-	-	-	-	11.8	11.8
Equity investments	-	331.0	-	-	3.2	334.2
Carrying amount	10,547.6	3,956.7	9,112.6	121.6	4,737.4	28,475.9
Past due but not impaired						
Rating grade 7	-	-	6.5	-	-	6.5
Carrying amount	-	-	6.5	-	-	6.5
Past due and individually impaired						
Rating grade 7	-	-	0.7	-	-	0.7
Rating grade 9	-	-	31.5	-	-	31.5
Carrying amount	-	-	32.2	-	-	32.2
Individually impaired but not past due						
Rating grade 9	-	-	10.1	-	-	10.1
Carrying amount	-	-	10.1	-	-	10.1
	10,547.6	**3,956.7**	**9,161.4**	**121.6**	**4,737.4**	**28,524.7**

The analysis is presented prior to the application of credit risk mitigation techniques.

The Group's internal credit rating system is commented on in more detail in section 8.1 of this report.

4. Credit risk - Pillar 3 disclosures (continued)

4.4 Credit exposure (continued)

e) Credit exposure by maturity

The maturity profile of funded credit exposures based on contractual maturity dates was as follows:-

	Placements, reverse repos & other liquid assets US$ millions	Securities US$ millions	Loans and advances US$ millions	Accrued interest receivable US$ millions	Total US$ millions
Within 3 months	8,681.0	174.3	3,424.0	84.6	12,363.9
4 months to 1 year	1,803.7	502.8	2,018.5	36.3	4,361.3
Years 2 to 5	50.0	2,500.2	2,895.7	0.7	5,446.6
Years 6 to 10	-	425.0	645.9	-	1,070.9
Years 11 to 20	-	26.6	177.3	-	203.9
Over 20 years and other	12.9	327.8	-	-	340.7
	10,547.6	**3,956.7**	**9,161.4**	**121.6**	**23,787.3**

An analysis of off-balance sheet exposure is set out in section 7 of this report.

Securities exposure over 20 years comprises equity investments and the securities non-specific provision.

Placements, reverse repos & other liquid assets exposure over 20 years comprises cash in hand.

f) Equities held in the banking book

Equity investments included in investment securities in the consolidated balance sheet are included in the equities standard portfolio in the Pillar 1 credit risk capital adequacy framework. Such equity investment securities principally comprise listed equities received in settlement of a past due loan, investments of a private equity nature, and investments in funds managed by specialist managers

At 31st December 2015, equity investment securities held in the banking book amounted to US$271.9 million, of which US$163.8 million comprised listed equities received in settlement of a secured past due loan and US$20.8 million comprised managed funds.

During the year ended 31st December 2015, US$0.3 million of losses were realised on equity investments. At 31st December 2015, net unrealised losses on equity investment securities amounted to US$6.7 million and are included in tier 1 capital.

g) Credit risk mitigation

The credit exposure information presented in section 4 of this report represents gross exposures prior to the application of any credit risk mitigants. Collateral items and guarantees which can be used for credit risk mitigation under the capital adequacy framework are referred to as eligible collateral. Only certain types of collateral and some issuers of guarantees are eligible for preferential risk weights for regulatory capital adequacy purposes. Furthermore, the collateral management process and the terms in the collateral agreements have to fulfil the CBB's prescribed minimum requirements (such as procedures for the monitoring of market values, insurance and legal certainty) set out in their capital adequacy regulations.

Risk management and capital adequacy report (continued)

31st December 2015

4. Credit risk – Pillar 3 disclosures (continued)

4.4 Credit exposure (continued)

g) Credit risk mitigation (continued)

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation, as follows:-

- Adjusted exposure amount: GIB uses the comprehensive method for financial collateral such as cash, bonds and shares. The exposure amount is adjusted with regard to the financial collateral. The size of the adjustment depends on the volatility of the collateral and the exposure. GIB uses volatility adjustments specified by the CBB, known as supervisory haircuts, to reduce the benefit of collateral and to increase the magnitude of the exposure.

- Substitution of counterparty: The substitution method is used for guarantees, whereby the rating of the counterparty is substituted with the rating of the guarantor. This means that the credit risk in respect of the counterparty is substituted by the credit risk of the guarantor and the capital requirement is thereby reduced. Hence, a fully guaranteed exposure will be assigned the same capital treatment as if the exposure was to the guarantor rather than to the counterparty.

Description of the main types of credit risk mitigation

GIB uses a variety of credit risk mitigation techniques in several different markets which contribute to risk diversification and credit protection. The different credit risk mitigation techniques such as collateral, guarantees, credit derivatives, netting agreements and covenants are used to reduce credit risk. All credit risk mitigation activities are not necessarily recognised for capital adequacy purposes as they are not defined as eligible under the CBB's Basel 3 capital adequacy framework, e.g. covenants and non-eligible tangible collateral such as unquoted equities.

Exposures secured by eligible financial collateral, guarantees and credit derivatives, presented by standard portfolio were as follows:-

	Exposure before credit risk mitigation US$ millions	Eligible collateral US$ millions	Of which secured by: Eligible guarantees or credit derivatives US$ millions
Sovereigns	109.1	-	109.1
Banks	4,578.4	3,935.0	582.6
Corporates	333.3	106.3	-

Guarantees and credit derivatives

Only eligible providers of guarantees and credit derivatives may be recognised in the standardised approach for credit risk. Guarantees issued by corporate entities may only be taken into account if their rating corresponds to A- or higher. The guaranteed exposures receive the risk weight of the guarantor.

GIB uses credit derivatives as credit risk protection only to a limited extent as the credit portfolio is considered to be well diversified.

Collateral and valuation principles

The amount and type of collateral is dependent upon the assessment of the credit risk of the counterparty. The market/ fair value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the facility agreements. In general, lending is based on the customer's repayment capacity rather than the collateral value. However, collateral is considered the secondary alternative if the repayment capacity proves inadequate. Collateral is not usually held against securities or placements.

Types of eligible collateral commonly accepted

The Group holds collateral against loans and advances in the form of physical assets, cash deposits, securities and guarantees.

4. Credit risk – Pillar 3 disclosures (continued)

4.5 Impaired credit facilities and provisions for impairment

Individually impaired financial assets represent assets for which there is objective evidence that the Group will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation. Objective evidence that a financial asset is impaired may include: a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial re-organisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Provisions for impairment are determined based on the difference between the net carrying amount and the recoverable amount of a financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral.

Provisions for impairment are also measured and recognised on a collective basis in respect of impairments that exist at the reporting date but which will only be individually identified in the future. Future cash flows for financial assets that are collectively assessed for impairment are estimated based on contractual cash flows and historical loss experiences for assets with similar credit risk characteristics. Historical loss experience is adjusted, based on current observable data, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based. Provisions for impairment are recognised in the consolidated statement of income and are reflected in an allowance account against loans and advances and investment securities.

a) Impaired loan facilities and related provisions for impairment

Impaired loan facilities and the related provisions for impairment were as follows:-

	Gross exposure US$ millions	Impairment provisions US$ millions	Net exposure US$ millions
Corporates	231.5	219.2	12.3
Financial institutions	7.3	7.3	-
	238.8	**226.5**	**12.3**

The gross amount of specifically provisioned loans at 31st December 2015 was US$238.8 million. Total specific provisions at 31st December 2015 represented 94.8 per cent of impaired loans.

The impaired loan facilities were principally to counterparties in the GCC.

Risk management and capital adequacy report (continued)

31st December 2015

4. Credit risk – Pillar 3 disclosures (continued)

4.5 Impaired credit facilities and provisions for impairment (continued)

b) Provisions for impairment – loans and advances

The movements in the provisions for the impairment of loans and advances were as follows:-

	Specific provisions				
	Corporates US$ millions	**Financial institutions** US$ millions	**Total** US$ millions	**Collective provisions** US$ millions	**Total provisions** US$ millions
At 1st January 2015	325.7	127.4	**453.1**	148.0	**601.1**
Exchange rate movements	0.2	(0.6)	**(0.4)**	-	**(0.4)**
Amounts utilised	(141.5)	(119.5)	**(261.0)**	-	**(261.0)**
Amounts reallocated	13.5	-	**13.5**	(13.5)	**-**
Charge for the year	21.3	-	**21.3**	-	**21.3**
At 31st December 2015	**219.2**	**7.3**	**226.5**	**134.5**	**361.0**

Amounts utilised during the year ended 31st December 2015 represented provisions utilised on the transfer of the related loans to the memorandum records. Recovery efforts on these loans are still ongoing with the intention to maximise potential recoveries.

c) Impaired investment securities and related provisions for impairment

There were no impaired debt investment securities at 31st December 2015.

d) Provisions for impairment – investment securities

The movements in the provisions for the impairment of investment securities were as follows:-

	Specific provisions US$ millions	**Collective provisions** US$ millions	**Total provisions** US$ millions
At 1st January and 31st December 2015	**-**	**3.2**	**3.2**

At 31st December 2015, the provisions for the impairment of investment securities entirely comprised non-specific provisions for debt investment securities determined on a collective basis.

4.6 Past due facilities

In accordance with guidelines issued by the CBB, credit facilities are placed on non-accrual status and interest income suspended when either principal or interest is overdue by 90 days whereupon unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities classified as past due are assessed for impairment in accordance with the IFRS guidelines as set out in section 4.5 of this report. A specific provision is established only where there is objective evidence that a credit facility is impaired.

4. Credit risk – Pillar 3 disclosures (continued)

4.6 Past due facilities (continued)

a) Loans

The gross and carrying amount of loans for which either principal or interest was over 90 days past due were as follows:-

	Gross US$ millions	Carrying amount US$ millions
Corporates	212.2	33.1
Financial Institutions	12.9	5.6
	225.1	**38.7**

The past due loan facilities were principally to counterparties in the GCC.

Non-specific loan provisions of US$134.5 million represented 3.5 times the net carrying amount of past due loans.

The overdue status of gross past due loans based on original contractual maturities were as follows:-

	Less than 1 year US$ millions	Years 2 and 3 US$ millions	Over 3 years US$ millions	Total US$ millions
Corporates	36.5	90.3	85.4	212.2
Financial Institutions	-	-	12.9	12.9
	36.5	**90.3**	**98.3**	**225.1**

b) Investment securities

There were no debt investment securities for which either principal or interest was over 90 days past due.

5. Market risk – Pillar 3 disclosures

5.1 Market risk

Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions, such as liquidity. The principal market risks to which the Group is exposed are interest rate risk and foreign exchange risk associated with its trading, investment and asset and liability management activities. The portfolio effects of holding a diversified range of instruments across a variety of businesses and geographic areas contribute to a reduction in the potential negative impact on earnings from market risk factors.

The Group's trading and foreign exchange activities principally comprise trading in debt securities, foreign exchange and derivative financial instruments. Derivative financial instruments include futures, forwards, swaps and options in the interest rate and foreign exchange markets. The Group manages and controls the market risk within its trading portfolios through limit structures of both a VaR and non-VaR nature. Non-VaR based constraints relate, inter alia, to positions, volumes, concentrations, allowable losses and maturities.

Risk management and capital adequacy report (continued)

31st December 2015

5. Market risk – Pillar 3 disclosures (continued)

5.2 VaR model

A key element in the Group's market risk management framework is the estimation of potential future losses that may arise from adverse market movements. Exposure to general market risk is calculated utilising a VaR model. The use of the internal model approach for the calculation of the capital requirement for general market risk has been approved by the CBB The multiplication factor to be applied to the VaR calculated by the internal model has been set at the regulatory minimum of 3.0 by the CBB.

An inherent limitation of VaR is that past market movements may not provide an accurate prediction of future market losses. Historic analyses of market movements have shown that extreme market movements (i.e. beyond the 99 per cent confidence level) occur more frequently than VaR models predict. Stress tests are therefore regularly conducted to estimate the potential economic losses in such abnormal markets. Stress testing combined with VaR provides a more comprehensive picture of market risk. The Group regularly performs stress tests that are constructed around changes in market rates and prices resulting from pre-defined market stress scenarios, including both historical and hypothetical market events. Historical scenarios include the 1997 Asian crisis, the 1998 Russian crisis, the events of 9/11 and the 2008 credit crisis. In addition, the Group performs stress testing based on internally developed hypothetical market stress scenarios. Stress testing is performed for all material market risk portfolios.

From April 2012, the CBB has required that the VaR used for regulatory capital adequacy purposes incorporate a stressed VaR measure. This measure is intended to replicate the VaR for the Group's market risk exposures during periods of stress. The stressed VaR is increased by the multiplication factor and then added to the actual VaR to determine the regulatory capital requirement for market risk.

A key objective of asset and liability management is the maximisation of net interest income through the proactive management of the asset and liability repricing profile based on anticipated movements in interest rates. VaR-based limits are utilised to manage the risk associated with fluctuations in interest earnings resulting from changes in interest rates. The asset and liability repricing profile of the various asset and liability categories is set out in section 8.2(c) of this report.

For internal risk management purposes, the Group measures losses that are anticipated to occur within a 95 per cent confidence level. Internally, the Group measures VaR utilising a one-month assumed holding period for both trading and banking book positions. For regulatory capital adequacy purposes, the figures are calculated using the regulatory VaR basis at a 99 per cent confidence level (2.33 standard deviations) and a ten-day holding period using one-year unweighted historical daily movements in market rates and prices. Correlations across broad risk categories are excluded for regulatory capital adequacy purposes.

The VaR for the Group's trading positions as calculated in accordance with the regulatory parameters set out above, was as follows:-

	31.12.15 US$ millions	Average US$ millions	High US$ millions	Low US$ millions
Total VaR	0.7	0.9	1.3	0.7
Total undiversified stressed VaR	1.5	1.7	2.3	1.4

Risk management and capital adequacy report (continued)

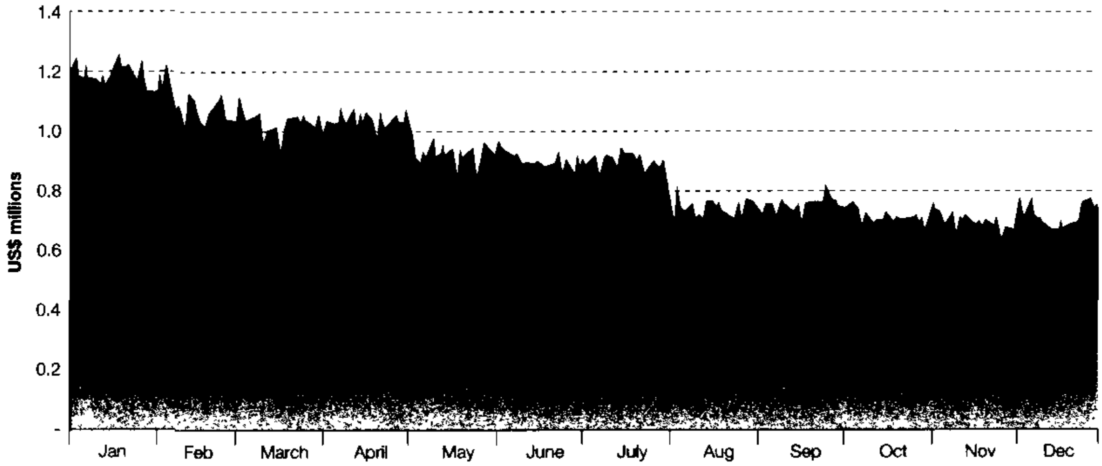
31st December 2015

5. **Market risk – Pillar 3 disclosures** (continued)

5.2 VaR model (continued)

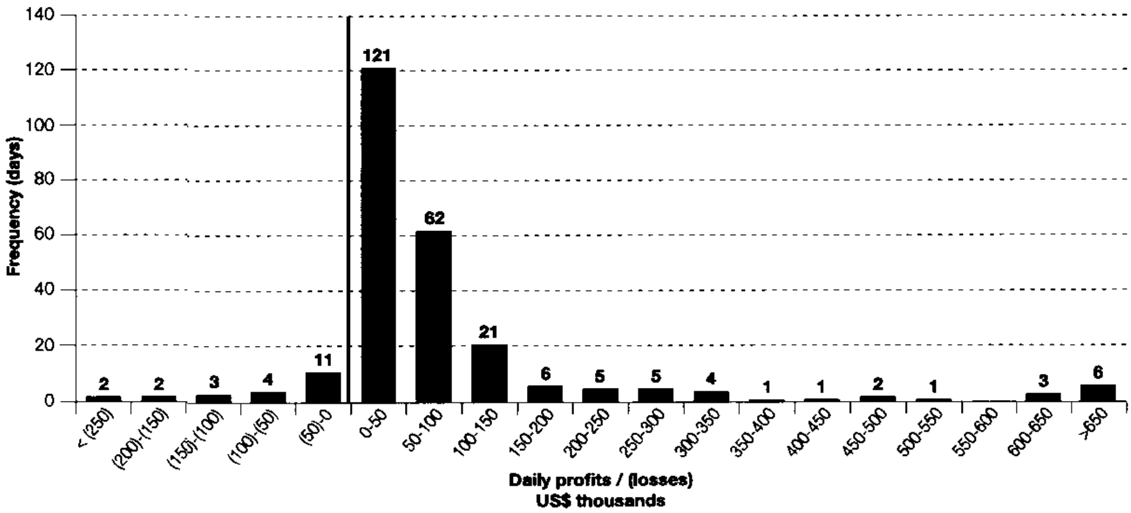
The graph below sets out the total VaR for all the Group's trading activities at the close of each business day throughout the year ended 31st December 2015:-

Trading Value-at-Risk daily development



The daily trading profits and losses during the year ended 31st December 2015 are summarised as follows:-

Histogram of daily trading profits & losses



The Group conducts daily VaR back testing both for regulatory compliance purposes and for the internal evaluation of VaR against actual trading profits and losses. During the year ended 31st December 2015, there were no instances of a daily trading loss exceeding the trading VaR at the close of business on the previous business day.

Risk management and capital adequacy report (continued)

31st December 2015

5. Market risk – Pillar 3 disclosures (continued)

5.2 VaR model (continued)

The five largest daily trading losses during the year ended 31st December 2015 compared to the 1-day VaR at the close of business on the previous business day were as follows:-

	Daily trading losses US$ thousands	1-day VaR US$ thousands
16th November	1,132	241
4th March	291	387
7th May	182	301
5th March	157	374
3rd December	123	252

5.3 Sensitivity analysis

The sensitivity of the interest rate risk in the banking book to changes in interest rates is set out in section 8.2(c) of this report.

The Group's investment debt securities are measured at amortised cost. However, the Group nevertheless monitors the impact of changes in credit spreads on the fair value of the debt securities.

6. Operational risk – Pillar 3 disclosures

6.1 Operational risk

Whilst operational risk cannot be eliminated in its entirety, the Group endeavours to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. The various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. In addition, other control strategies, including business continuity planning and insurance, are in place to complement the procedures, as applicable.

As part of the Group's Operational Risk Management Framework (ORMF), comprehensive risk self-assessments are conducted, which identify the operational risks inherent in the Group's activities, processes and systems. The controls in place to mitigate these risks are also reviewed, and enhanced as necessary. A database of measurable operational risk events is maintained, together with a record of key risk indicators, which can provide an early warning of possible operational risk.

The capital requirement for operational risk is calculated for regulatory purposes according to the standardised approach, in which the regulatory capital requirement is calculated based on a range of beta coefficients, ranging from 12 to 18 per cent, applied to the average gross income for the preceding three financial years for each of eight predefined business lines. Consequently, the operational risk capital requirement is updated only on an annual basis.

7. Off-balance sheet exposure and securitisations

Off-balance sheet exposures are divided into two exposure types in accordance with the calculation of credit risk RWAs in the CBB's Basel 3 capital adequacy framework:-

- Credit-related contingent items: Credit-related contingent items comprise guarantees, credit commitments and unutilised approved credit facilities

- Derivative and foreign exchange instruments: Derivative and foreign exchange instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets

In addition to counterparty credit risk measured within the Basel 3 credit risk framework, derivatives also incorporate exposure to market risk and carry a potential market risk capital requirement, as commented on in more detail in section 5 of this report. A credit valuation adjustment (CVA) is applied to the relevant derivative exposure RWAs.

7. Off-balance sheet exposure and securitisations (continued)

For the two off-balance exposure types, there are different possible values for the calculation base of the regulatory capital requirement, as commented on below:-

7.1 Credit-related contingent items

For credit-related contingent items, the notional principal amount is converted to an exposure at default (EAD) through the application of a credit conversion factor (CCF). The CCF factor is 50 per cent or 100 per cent depending on the type of contingent item, and is intended to convert off-balance sheet notional amounts into equivalent on-balance sheet exposures.

Credit commitments and unutilised approved credit facilities represent commitments that have not been drawndown or utilised. The notional amount provides the calculation base to which a CCF is applied for calculating the EAD. The CCF ranges between 0 per cent and 100 per cent depending on the approach, product type and whether the unutilised amounts are unconditionally cancellable or irrevocable.

The table below summarises the notional principal amounts, RWAs and capital requirements for each credit-related contingent category -

	Notional principal amount US$ millions	RWA US$ millions	Capital requirement US$ millions
Direct credit substitutes	618.5	545.3	68.2
Transaction-related contingent items	1,950.1	767.4	95.9
Short-term self-liquidating trade-related contingent items	307.1	74.5	9.3
Commitments	1,586.7	602.1	75.3
	4,462.4	**1,989.3**	**248.7**

Commitments include undrawn loan commitments and underwriting commitments under note issuance and revolving facilities, and may be drawndown on demand.

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities. At 31st December 2015, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US$569.1 million.

7.2 Derivative and foreign exchange instruments

The Group utilises derivative and foreign exchange instruments to meet the needs of its customers, to generate trading revenues and as part of its asset and liability management activity to hedge its own exposure to market risk. Derivative and foreign exchange instruments are subject to the same types of credit and market risk as other financial instruments. The Group has appropriate and comprehensive Board-approved policies and procedures for the control of exposure to both credit and market risk from its derivative and foreign exchange activities.

In the case of derivative transactions, the notional principal typically does not change hands. It is simply a quantity which is used to calculate payments. While notional principal is a volume measure used in the derivative and foreign exchange markets, it is neither a measure of market nor credit risk. The Group's measure of credit exposure is the cost of replacing contracts at current market rates should the counterparty default prior to the settlement date. Credit risk amounts represent the gross unrealised gains on non-margined transactions before taking account of any collateral held or any master netting agreements in place.

The Group participates in both exchange traded and over-the-counter (OTC) derivative markets. Exchange traded instruments are executed through a recognised exchange as standardised contracts and primarily comprise futures and options. OTC contracts are executed between two counterparties who negotiate specific agreement terms, including the underlying instrument, notional amount, maturity and, where appropriate, exercise price. In general, the terms and conditions of these transactions are tailored to the requirements of the Group's customers although conform to normal market practice. Industry standard documentation is used, most commonly in the form of a master agreement. The existence of a master netting agreement is intended to provide protection to the Group in the event of a counterparty default.

Risk management and capital adequacy report (continued)

31st December 2015

7. Off-balance sheet exposure and securitisations (continued)

7.2 Derivative and foreign exchange instruments (continued)

The Group's derivative and foreign exchange activities are predominantly short-term in nature. Transactions with maturities over one year principally represent either fully offset trading transactions or transactions that are designated, and qualify, as fair value or cash flow hedges.

The aggregate notional amounts for derivative and foreign exchange instruments at 31st December 2015 were as follows:-

	Trading **US$ millions**	**Hedging** **US$ millions**	**Total** **US$ millions**
Foreign exchange contracts:-			
Unmatured spot, forward and futures contracts	3,842.0	3,313.9	7,155.9
Options purchased	1,790.6	-	1,790.6
Options written	1,790.6	-	1,790.6
	7,423.2	3,313.9	10,737.1
Interest rate contracts:-			
Interest rate swaps	1,362.9	12,951.2	14,314.1
Options, caps and floors purchased	9.9	-	9.9
Options, caps and floors written	9.9	-	9.9
	1,382.7	12,951.2	14,333.9
Commodity contracts:-			
Options and swaps purchased	26.1	-	26.1
Options and swaps written	26.1	-	26.1
	52.2	-	52.2
	8,858.1	**16,265.1**	**25,123.2**

7.3 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the interest rate, foreign exchange, equity or credit markets defaults prior to the maturity of the contract. The counterparty credit risk for derivative and foreign exchange instruments is subject to credit limits on the same basis as other credit exposures. Counterparty credit risk arises in both the trading book and the banking book.

a) Counterparty credit risk calculation

For regulatory capital adequacy purposes, GIB uses the current exposure method to calculate the exposure for counterparty credit risk for derivative and foreign exchange instruments in accordance with the credit risk framework in the CBB's Basel 3 capital adequacy framework. A capital charge to cover the risk of mark-to-market losses on expected counterparty risk (CVA) is applied to over-the-counter derivatives. Credit exposure comprises the sum of current exposure (replacement cost), and potential future exposure. The potential future exposure is an estimate, which reflects possible changes in the market value of the individual contract during the remaining life of the contract, and is measured as the notional principal amount multiplied by a risk weight. The risk weight depends on the risk categorisation of the contract and the contract's remaining life. Netting of potential future exposures on contracts within the same legally enforceable netting agreement is done as a function of the gross potential future exposure.

7. **Off-balance sheet exposure and securitisations** (continued)

7.3 **Counterparty credit risk** (continued)

a) **Counterparty credit risk calculation** (continued)

The EAD, CVA, RWAs and capital requirements for the counterparty credit risk of derivative and foreign exchange instruments analysed by standard portfolio, is presented in the table below:-

	Exposure at Default (EAD)					
	Current exposure US$ millions	**Future exposure** US$ millions	**Total exposure** US$ millions	**CVA** US$ millions	**RWA** US$ millions	**Capital requirement** US$ millions
Banks	171.0	70.5	241.5	30.1	80.8	13.9
Corporates	32.8	46.0	78.8	28.3	57.5	10.7
Governments	71.2	0.3	71.5	6.7	0.1	0.9
	275.0	**116.8**	**391.8**	**65.1**	**138.4**	**25.4**

b) **Mitigation of counterparty credit risk exposure**

Risk mitigation techniques are widely used to reduce exposure to single counterparties. The most common risk mitigation technique for derivative and foreign exchange-related exposure is the use of master netting agreements, which allow the Group to net positive and negative replacement values of contracts under the agreement in the event of default of the counterparty.

The reduction of counterparty credit risk exposure for derivative and foreign exchange instruments through the use of risk mitigation techniques is demonstrated as follows:-

	Current exposure US$ millions	**Effect of netting agreements** US$ millions	**Netted current exposure** US$ millions
Counterparty credit risk exposure	275.0	(15.2)	259.8

7.4 **Securitisations**

Securitisations are defined as structures where the cash flow from an underlying pool of exposures is used to secure at least two different stratified risk positions or tranches reflecting different degrees of credit risk. Payments to the investors depend upon the performance of the underlying exposures, as opposed to being derived from an obligation of the entity originating those exposures.

At 31st December 2015, the Group had no exposure to securitisation tranches.

The Group provides collateral management services to five collateralised debt obligations (CDOs) issued between 2002 and 2006. The CDOs are intended to extract relative value from a wide range of asset classes across a broad spectrum of credit ratings. The underlying collateral of the CDOs includes leveraged loans, residential and commercial real estate, consumer finance, lending to small and medium sized enterprises, and other receivables. Each CDO holds up to 45 individual investments.

At 31st December 2015 the underlying investments in the CDOs for which the Group acted as collateral manager amounted to US$0.5 billion. At 31st December 2015, GIB did not hold any exposure to CDOs managed by the Group.

8. **Internal capital including other risk types**

GIB manages and measures other risk types that are not included under Pillar 1 in the CBB's Basel 3 framework. These are principally covered in the Group's internal economic capital model.

This section describes GIB's economic capital model and discusses the treatment of the other risk types that are not addressed in Pillar 1 of the CBB's Basel 3 framework.

Risk management and capital adequacy report (continued)

31st December 2015

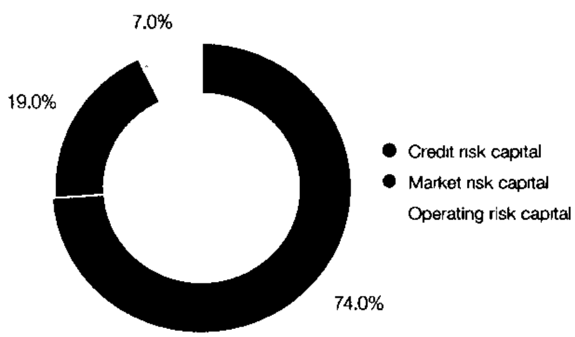
8. Internal capital including other risk types (continued)

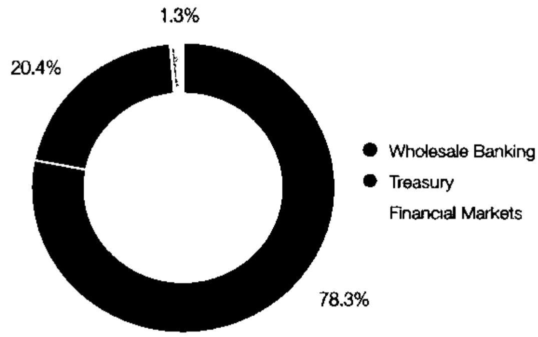
8.1 Economic capital model

For many years, GIB has applied economic capital and risk-adjusted return on capital (RAROC) methodologies which are used for both decision making purposes and performance reporting and evaluation.

GIB calculates economic capital for the following major risk types: credit, market and operating risk. Operating risk includes business risk. Additionally, the economic capital model explicitly incorporates concentration risk, interest rate risk in the banking book and business risk.

The composition of economic capital by risk type and business unit was as follows:-





The primary differences between economic capital and regulatory capital under the CBB's Basel 3 framework are summarised as follows:-

- In the economic capital methodology, the confidence level for all risk types is set at 99.88 per cent, compared to 99.0 per cent in the CBB's Basel 3 framework
- Credit risk is calculated using GIB's estimates of probability of default, loss given default and exposures at default, rather than the regulatory values in the standardised approach
- The economic capital model utilises GIB's embedded internal rating system, as described in more detail later in this section of the report, to rate counterparties rather than using the ratings of credit rating agencies or the application of a 100 per cent risk-weighting for unrated counterparties
- Concentration risk is captured in the economic capital model through the use of an internal credit risk portfolio model and add-on factors where applicable
- The economic capital model applies a capital charge for interest rate risk in the banking book
- The economic capital model applies a business risk capital charge where applicable

Internal rating system

The economic capital model is based on an internal credit rating system. The internal credit rating system is used throughout the organisation and is inherent in all business decisions relating to the extension of credit. A rating is an estimate that exclusively reflects the quantification of the repayment capacity of the customer, i.e. the risk of customer default.

The Group monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a rating scale from 1 to 10, subject to positive (+) and negative (-) modifiers for rating grades 2 to 6. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits. The internal credit rating system also serves as a key input into the Group's RAROC performance measurement system. Ratings are assigned to obligors, rather than facilities, and reflect a medium-term time horizon, thereby rating through an economic cycle.

8. Internal capital including other risk types (continued)

8.1 Economic capital model (continued)

The internal ratings map directly to the rating grades used by the international credit rating agencies as illustrated below:-

Internal rating grade	Internal classification	Historical default rate range %	Fitch and Standard & Poor's	Moody's
Investment grade				
Rating grade 1	Standard	0.00 - 0.00	AAA	Aaa
Rating grade 2	Standard	0.00 - 0.03	AA	Aa
Rating grade 3	Standard	0.06 - 0.08	A	A
Rating grade 4	Standard	0.13 - 0.30	BBB	Baa
Sub-investment grade				
Rating grade 5	Standard	0.40 - 1.09	BB	Ba
Rating grade 6	Standard	2.23 - 7.50	B	B
Rating grade 7	Standard	26.38	CCC	Caa
Classified				
Rating grade 8	Substandard	26.38	CC	Ca
Rating grade 9	Doubtful	26.38	C	C
Rating grade 10	Loss	-	D	-

The rating mapping does not intend to reflect that there is a fixed relationship between GIB's internal rating grades and those of the external agencies as the rating approaches differ.

8.2 Other risk types

a) Liquidity risk

The Group has established approved limits which restrict the volume of liabilities maturing in the short-term. An independent risk management function monitors the future cash flow maturity profile against approved limits on a daily basis. The cash flows are monitored against limits applying to both daily and cumulative cash flows occurring over a 30 day period. The liquidity limits ensure that the net cash outflows over a 30 day period do not exceed the eligible stock of available liquid resources. The cash flow analysis is also monitored on a weekly basis by the Assets and Liabilities Committee (ALCO).

Customer deposits form a significant part of the Group's funding. The Group places considerable importance on maintaining the stability of both its customer and interbank deposits. The stability of deposits depends on maintaining confidence in the Group's financial strength and financial transparency.

The funding base is enhanced through term financing, amounting to US$2,570.0 million at 31st December 2015. Access to available but uncommitted short-term funding from the Group's established GCC and international relationships provides additional comfort. In addition to the stable funding base, the Group maintains a stock of liquid and marketable securities that can be readily sold or repoed.

Contractual standby facilities are available to the Group, providing access to US$500.0 million of collateralised funding based on pre-determined terms.

At 31st December 2015, 69.3 per cent of total assets were contracted to mature within one year. With regard to deposits, retention records demonstrate that there is considerable divergence between their contractual and effective maturities.

Risk management and capital adequacy report (continued)

31st December 2015

8. Internal capital including other risk types (continued)

8.2 Other risk types (continued)

a) Liquidity risk (continued)

US$11,749.6 million or 70.5 per cent of the Group's deposits at 31st December 2015 were from GCC countries. Historical experience has shown that GIB's deposits from counterparties in the GCC region are more stable than deposits derived from the international interbank market. At 31st December 2015, placements and other liquid assets with counterparties in non-GCC countries were 1.4 times the deposits received, demonstrating that the Group is a net lender of funds in the international interbank market.

b) Concentration risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. the risk inherent in doing business with large customers or being overexposed in particular industries or geographic regions. GIB's internal economic capital methodology for credit risk addresses concentration risk through the application of a single-name concentration add-on.

Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15 per cent of the regulatory capital base. At 31st December 2015, the following single obligor exposure exceeded 15 per cent of the Group's regulatory capital base (i.e. exceeding US$383.4 million).

	On-balance sheet exposure US$ millions	**Off-balance sheet exposure** US$ millions	**Total exposure** US$ millions
Counterparty A	190.5	290.0	480.5

c) Interest rate risk in the banking book

Structural interest rate risk arises in the Group's core balance sheet as a result of mismatches in the repricing of interest rate sensitive financial assets and liabilities. The associated interest rate risk is managed within VaR limits and through the use of models to evaluate the sensitivity of earnings to movements in interest rates.

8. Internal capital including other risk types (continued)

8.2 Other risk types (continued)

c) Interest rate risk in the banking book (continued)

The repricing profile of the Group's assets and liabilities, including the trading book, are set out in the table below:-

	Within 3 months US$ millions	Months 4 to 6 US$ millions	Months 7 to 12 US$ millions	Over 1 year US$ millions	Non-interest bearing items US$ millions	Total US$ millions
Cash and other liquid assets	4,296.8	-	-	-	12.9	4,309.7
Securities purchased under agreements to resell	685.0	1,000.0	100.0	50.0	-	1,835.0
Placements	3,699.2	479.2	224 5	-	-	4,402.9
Trading securities	-	13.1	-	-	59.1	72.2
Investment securities:						
- Fixed rate	172.6	81.0	74.9	1,279.1	-	1,607.6
- Floating rate	1,783.2	225.0	-	-	(3.2)	2,005.0
- Equities	-	-	-	-	271.9	271.9
Loans and advances	7,088 4	1,954.4	253.1	-	(134.5)	9,161.4
Other assets	-	-	-	-	526.7	526.7
Total assets	**17,725.2**	**3,752.7**	**652.5**	**1,329.1**	**732.9**	**24,192.4**
Deposits	13,067.4	2,612.8	985.1	4.0	-	16,669.3
Securities sold under agreements to repurchase	1,321.6	710.9	60.9	-	-	2,093.4
Other liabilities	-	-	-	-	428.7	428.7
Term financing	2,420.0	-	150.0	-	-	2,570.0
Equity	-	-	-	-	2,431.0	2,431.0
Total liabilities & equity	**16,809.0**	**3,323.7**	**1,196.0**	**4.0**	**2,859.7**	**24,192.4**
Interest rate sensitivity gap	**916.2**	**429.0**	**(543.5)**	**1,325.1**	**(2,126.8)**	**-**
Cumulative interest rate sensitivity gap	**916.2**	**1,345.2**	**801.7**	**2,126.8**	**-**	**-**

The repricing profile is based on the remaining period to the next interest repricing date. Derivative financial instruments that have been used for asset and liability management purposes to hedge exposure to interest rate risk are incorporated in the repricing profiles of the related hedged assets and liabilities. The non-specific investment security and loan provisions are classified in non-interest bearing items.

The substantial majority of assets and liabilities reprice within one year.

Interest rate exposure beyond one year amounted to US$1,325.1 million or 5.5 per cent of total assets. This exposure principally represented the investment of the net free capital funds in fixed rate government securities. At 31st December 2015, the modified duration of these fixed rate government securities was 2.33. Modified duration represents the approximate percentage change in the portfolio value resulting from a 100 basis point change in yield. More precisely in dollar terms, the price value of a basis point of the fixed rate securities was US$301,000.

Risk management and capital adequacy report (continued)

31st December 2015

8. Internal capital including other risk types (continued)

8.2 Other risk types (continued)

c) Interest rate risk in the banking book (continued)

Based on the repricing profile at 31st December 2015, and assuming that the financial assets and liabilities were to remain until maturity or settlement with no action taken by the Group to alter the interest rate risk exposure, an immediate and sustained one per cent (100 basis points) increase in interest rates across all maturities would result in an increase in net income before tax for the following year of approximately US$7.0 million and an increase in the Group's equity of approximately US$6.8 million. The impact on the Group's equity represents the cumulative effect of the increase in interest rates over the entire duration of the mismatches in the repricing profile of the interest rate sensitive financial assets and liabilities.

d) Foreign exchange risk

The Group does not maintain material foreign currency exposures. In general, the Group's policy is to match assets and liabilities in the same currency or to mitigate currency risk through the use of currency swaps.

e) Business risk

Business risk represents the earnings volatility inherent in all businesses due to the uncertainty of revenues and costs due to changes in the economic and competitive environment.

For economic capital purposes, business risk is calculated based on the annualised cost base of applicable business areas.

9. Capital adequacy ratios and other issues

9.1 Capital adequacy ratios

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout or the issue of new shares.

The capital adequacy ratios of GIB's principal subsidiary, GIBUK, and the Group were as follows:-

	GIBUK	Group
Total RWAs (US$ millions)	838.9	14,376.9
Capital base (US$ millions)	318.9	2,555.7
Tier 1 capital (US$ millions)	318.9	2,418.0
Total ratio (per cent)	**38.0**	**17.8**
Tier 1 ratio (per cent)	**38.0**	**16.8**

GIB aims to maintain a minimum tier 1 ratio in excess of 10.5 per cent and a total capital adequacy ratio in excess of 14.0 per cent.

Strategies and methods for maintaining a strong capital adequacy ratio

GIB prepares multi-year strategic projections on a rolling annual basis which include an evaluation of short-term capital requirements and a forecast of longer-term capital resources.

The evaluation of the strategic planning projections have historically given rise to capital injections. The capital planning process triggered the raising of additional tier 2 capital through a US$400 million subordinated debt issue in 2005 to enhance the total regulatory capital adequacy ratio, and a US$500 million capital increase in March 2007 to provide additional tier 1 capital to support planned medium-term asset growth. A further US$1.0 billion capital increase took place in December 2007 to enhance capital resources and compensate for the impact of likely provisions relating to exposures impacted by the global credit crisis.

9. Capital adequacy ratios and other issues (continued)

9.2 ICAAP considerations

Pillar 2 in the Basel 3 framework covers two main processes: the ICAAP and the supervisory review and evaluation process. The ICAAP involves an evaluation of the identification, measurement, management and control of material risks in order to assess the adequacy of internal capital resources and to determine an internal capital requirement reflecting the risk appetite of the institution. The purpose of the supervisory review and evaluation process is to ensure that institutions have adequate capital to support the risks to which they are exposed and to encourage institutions to develop and apply enhanced risk management techniques in the monitoring and measurement of risk.

GIB's regulatory capital base exceeded the CBB's minimum requirement of 12.5 per cent throughout the year ended 31st December 2015. Based on the results of capital adequacy stress testing and capital forecasting, GIB considers that the buffers held for regulatory capital adequacy purposes are sufficient and that GIB's internal minimum capital targets of 10.5 per cent for tier 1 capital and 14.0 per cent for total capital are adequate given its current risk profile and capital position. The Group's regulatory capital adequacy ratios set out in section 9.1 of this report significantly exceeded the minimum capital targets and are high by international comparison.

GIB uses its internal capital models, economic capital, and capital adequacy calculations when considering internal capital requirements both with and without the application of market stress scenarios. As a number of Pillar 2 risk types exist within GIB's economic capital framework (i.e. interest rate risk in the banking book, concentration risk and business risk), GIB uses its existing internal capital measurements as the basis for determining additional capital buffers. GIB considers the results of its capital adequacy stress testing, along with economic capital and RWA forecasts, to determine its internal capital requirement and to ensure that the Group is adequately capitalised in stress scenarios reflecting GIB's risk appetite.

Risk management and capital adequacy report (continued)

31st December 2015

10. Glossary of abbreviations

ALCO	Assets and Liabilities Committee
AMA	Advanced Measurement Approach
Basel Committee	Basel Committee for Banking Supervision
CBB	Central Bank of Bahrain
CCF	Credit Conversion Factor
CDO	Collateralised Debt Obligation
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CCO	Chief Credit Officer
CRO	Chief Risk Officer
CVA	Credit Valuation Adjustment
EAD	Exposure at Default
FCA	Financial Conduct Authority (of the United Kingdom)
FVTOCI	Fair Value through Other Comprehensive Income
GCC	Gulf Cooperation Council
GIB	Gulf International Bank B.S.C.
GIBUK	Gulf International Bank (U.K.) Limited
The Group	Gulf International Bank B.S.C. and subsidiaries
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
LGD	Loss Given Default
MENA	Middle East and North Africa
ORMF	Operational Risk Management Framework
OTC	Over-The-Counter
PD	Probability of Default
PRA	Prudential Regulation Authority (of the United Kingdom)
PSE	Public Sector Entity
RAROC	Risk-adjusted Return on Capital
RWA	Risk-weighted Amount
VaR	Value-at-Risk

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