



Gulf International Bank B.S.C.

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

For the six months ended 30th June 2016

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTSFor the six months ended 30th June 2016**Table of contents****Independent auditors' review report to the Board of Directors**

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF GULF INTERNATIONAL BANK B.S.C.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Gulf International Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group") as at 30 June 2016, comprising the interim consolidated statement of financial position as at 30 June 2016 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Bank's Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Other matter

The comparative amounts included in the accompanying interim condensed consolidated financial statements have been reviewed or audited, as applicable, by another auditor whose review report dated 10 July 2015 and audit report dated 12 February 2016 expressed an unmodified review conclusion and audit opinion respectively on those amounts.



26 July 2016
Manama, Kingdom of Bahrain

Consolidated statement of financial position

| | <i>Note</i> | <u>30.6.16</u> US\$ millions | <u>31.12.15</u> US\$ millions |
|---|-------------|---------------------------------|----------------------------------|
| ASSETS | | | |
| Cash and other liquid assets | | 3,068.4 | 4,309.7 |
| Securities purchased under agreements to resell | | 641.0 | 1,835.0 |
| Placements | | 5,433.9 | 4,402.9 |
| Trading securities | | 74.2 | 72.2 |
| Investment securities | 7 | 4,050.1 | 3,884.5 |
| Loans and advances | 8 | 9,547.3 | 9,161.4 |
| Other assets | | 522.9 | 526.7 |
| Total assets | | <u>23,337.8</u> | <u>24,192.4</u> |
| LIABILITIES | | | |
| Deposits from banks | | 2,931.1 | 1,985.9 |
| Deposits from customers | | 13,074.6 | 14,683.4 |
| Securities sold under agreements to repurchase | | 1,566.2 | 2,093.4 |
| Other liabilities | | 466.7 | 428.7 |
| Senior term financing | | 2,705.8 | 2,420.0 |
| Subordinated term financing | | 150.0 | 150.0 |
| Total liabilities | | <u>20,894.4</u> | <u>21,761.4</u> |
| EQUITY | | | |
| Share capital | | 2,500.0 | 2,500.0 |
| Reserves | 9 | 356.6 | 379.8 |
| Retained earnings | | (413.2) | (448.8) |
| Total equity | | <u>2,443.4</u> | <u>2,431.0</u> |
| Total liabilities & equity | | <u>23,337.8</u> | <u>24,192.4</u> |

The condensed interim consolidated financial statements were approved by the Board of Directors on 26th July 2016 and signed on its behalf by:-

Jammaz bin Abdullah Al-Suhaimi
Chairman

Abdullah bin Hassan Al-Abdulgader
Chairman of the Board Audit Committee

Abdulaziz A. Al-Helaissi
Chief Executive Officer

The notes on pages 6 to 13 form part of these condensed interim consolidated financial statements.

Consolidated statement of income

| | <i>Note</i> | Three months ended | | Six months ended | |
|---|-------------|--------------------|---------------|------------------|---------------|
| | | 30.6.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| | | US\$ millions | US\$ millions | US\$ millions | US\$ millions |
| Interest income | | 111.6 | 82.0 | 220.3 | 156.9 |
| Interest expense | | 67.9 | 36.1 | 129.3 | 71.3 |
| Net interest income | | 43.7 | 45.9 | 91.0 | 85.6 |
| Fee and commission income | 3 | 15.8 | 18.8 | 32.6 | 39.1 |
| Foreign exchange income | 4 | 4.8 | 4.7 | 9.0 | 11.8 |
| Trading income | 5 | 4.9 | 2.4 | 4.6 | 4.4 |
| Other income | 6 | 13.0 | 4.8 | 14.2 | 8.1 |
| Total income | | 82.2 | 76.6 | 151.4 | 149.0 |
| Staff expenses | | 35.4 | 32.2 | 68.9 | 62.5 |
| Premises expenses | | 4.5 | 3.7 | 8.5 | 8.0 |
| Other operating expenses | | 10.0 | 11.0 | 24.9 | 20.5 |
| Total operating expenses | | 49.9 | 46.9 | 102.3 | 91.0 |
| Net income before provisions and tax | | 32.3 | 29.7 | 49.1 | 58.0 |
| Provision (charge) / release for loans and advances | 8 | 0.6 | (8.4) | (3.9) | (9.9) |
| Net income before tax | | 32.9 | 21.3 | 45.2 | 48.1 |
| Taxation charge on overseas activities | | (1.7) | (0.4) | (3.5) | (0.8) |
| Net income | | 31.2 | 20.9 | 41.7 | 47.3 |

The notes on pages 6 to 13 form part of these condensed interim consolidated financial statements.

Consolidated statement of comprehensive income

| | Three months ended | | Six months ended | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | 30.6.16 US\$ millions | 30.6.15 US\$ millions | 30.6.16 US\$ millions | 30.6.15 US\$ millions |
| Net income | 31.2 | 20.9 | 41.7 | 47.3 |
| Other comprehensive income:- | | | | |
| Items that may subsequently be reclassified to consolidated statement of income:- | | | | |
| Cash flow hedges:- | | | | |
| - net changes in fair value | - | 0.8 | - | 0.7 |
| | <u>-</u> | <u>0.8</u> | <u>-</u> | <u>0.7</u> |
| 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) | (3.3) | 2.1 | (22.9) | 12.8 |
| Remeasurement of defined benefit pension fund | (6.4) | 3.2 | (6.4) | 1.4 |
| | <u>(9.7)</u> | <u>5.3</u> | <u>(29.3)</u> | <u>14.2</u> |
| Total other comprehensive (loss) / income | <u>(9.7)</u> | <u>6.1</u> | <u>(29.3)</u> | <u>14.9</u> |
| Total comprehensive income | <u>21.5</u> | <u>27.0</u> | <u>12.4</u> | <u>62.2</u> |

The notes on pages 6 to 13 form part of these condensed interim consolidated financial statements.

Consolidated statement of changes in equity

| | Share capital | Reserves | Retained earnings | Total |
|--|--------------------------|----------------------|------------------------------|----------------------|
| | US\$ millions | US\$ millions | US\$ millions | US\$ millions |
| At 1st January 2016 | 2,500.0 | 379.8 | (448.8) | 2,431.0 |
| Net income for the period | - | - | 41.7 | 41.7 |
| Other comprehensive loss for the period | - | (22.9) | (6.4) | (29.3) |
| Total comprehensive (loss) / income for the period | - | (22.9) | 35.3 | 12.4 |
| Transfer to retained earnings | - | (0.3) | 0.3 | - |
| At 30th June 2016 | 2,500.0 | 356.6 | (413.2) | 2,443.4 |
| At 1st January 2015 | 2,500.0 | 392.0 | (541.3) | 2,350.7 |
| Net income for the period | - | - | 47.3 | 47.3 |
| Other comprehensive income for the period | - | 13.5 | 1.4 | 14.9 |
| Total comprehensive income for the period | - | 13.5 | 48.7 | 62.2 |
| Transfer to retained earnings | - | (0.1) | 0.1 | - |
| At 30th June 2015 | 2,500.0 | 405.4 | (492.5) | 2,412.9 |

The notes on pages 6 to 13 form part of these condensed interim consolidated financial statements.

Consolidated statement of cash flows

| | Six months ended 30.6.16 US\$ millions | Six months ended 30.6.15 US\$ millions |
|--|---|---|
| OPERATING ACTIVITIES | | |
| Net income | 41.7 | 47.3 |
| Adjustments to reconcile net income to net cash inflow from operating activities: | | |
| Provisions for loans and advances | 3.9 | 9.9 |
| Realised profits on debt investment securities | (1.2) | (2.2) |
| Amortisation of investment securities | 5.7 | 6.3 |
| Amortisation of senior term financing | 0.1 | 0.1 |
| Net decrease / (increase) in statutory deposits with central banks | 39.1 | (25.7) |
| Net decrease / (increase) in securities purchased under agreements to resell | 1,194.0 | (118.4) |
| Net (increase) / decrease in placements | (1,031.0) | 459.4 |
| Net (increase) / decrease in trading securities | (2.0) | 13.4 |
| Net increase in loans and advances | (389.8) | (930.6) |
| Increase in accrued interest receivable | (8.5) | (17.4) |
| Increase in accrued interest payable | 8.0 | 8.1 |
| Net decrease in other net assets | 6.3 | 3.4 |
| Net increase in deposits from banks | 945.2 | 316.1 |
| Net (decrease) / increase in deposits from customers | (1,608.8) | 1,859.4 |
| Net (decrease) / increase in securities sold under agreements to repurchase | (527.2) | 860.5 |
| Net cash (outflow) / inflow from operating activities | (1,324.5) | 2,489.6 |
| INVESTING ACTIVITIES | | |
| Purchase of investment securities | (907.6) | (816.8) |
| Sale and maturity of investment securities | 754.4 | 564.7 |
| Net cash outflow from investing activities | (153.2) | (252.1) |
| FINANCING ACTIVITIES | | |
| Net increase / (decrease) in senior term financing | 285.7 | (964.4) |
| Net decrease in subordinated term financing | - | (327.8) |
| Net cash inflow / (outflow) from financing activities | 285.7 | (1,292.2) |
| (Decrease) / increase in cash and cash equivalents | (1,192.0) | 945.3 |
| Cash and cash equivalents at 1st January | 4,117.5 | 2,339.6 |
| Cash and cash equivalents at 30th June | 2,925.5 | 3,284.9 |

The notes on pages 6 to 13 form part of these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30th June 2016

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.

2. Accounting policies

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The condensed interim consolidated financial statements for the six months ended 30th June 2016 have been prepared in compliance with International Accounting Standard (IAS) No. 34: Interim Financial Reporting. The accounting policies have been consistently applied by the Bank and its subsidiaries and are consistent with those of the previous year, as set out in the consolidated financial statements for the year ended 31st December 2015.

All 30th June figures in these condensed interim consolidated financial statements have been reviewed by the external auditors, while those at 31st December 2015 are audited.

3. Fee and commission income

| | Three months ended | | Six months ended | |
|--|--------------------|---------------|------------------|---------------|
| | 30.6.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| | US\$ millions | US\$ millions | US\$ millions | US\$ millions |
| Fee and commission income | | | | |
| Investment banking and management fees | 8.3 | 10.8 | 17.7 | 23.3 |
| Commissions on letters of credit and guarantee | 6.2 | 6.9 | 12.7 | 14.1 |
| Loan commitment fees | 0.9 | 0.4 | 1.6 | 0.8 |
| Other fee and commission income | 0.7 | 1.1 | 1.2 | 1.6 |
| Total fee and commission income | 16.1 | 19.2 | 33.2 | 39.8 |
| Fee and commission expense | (0.3) | (0.4) | (0.6) | (0.7) |
| Net fee and commission income | 15.8 | 18.8 | 32.6 | 39.1 |

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.

Fee and commission expense principally comprises security custody fees and bank charges and commissions.

4. 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.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30th June 2016

5. Trading income

| | Three months ended | | Six months ended | |
|---------------------------|--------------------|---------------|------------------|---------------|
| | 30.6.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| | US\$ millions | US\$ millions | US\$ millions | US\$ millions |
| Interest rate derivatives | 1.4 | 0.6 | 2.2 | 1.1 |
| Managed funds | 0.7 | 1.7 | 1.3 | 3.5 |
| Equity securities | 2.6 | 0.1 | 0.9 | (0.2) |
| Commodity options | 0.1 | - | 0.1 | - |
| Debt securities | 0.1 | - | 0.1 | - |
| | 4.9 | 2.4 | 4.6 | 4.4 |

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.

Interest rate derivative income comprises customer-initiated interest rate derivative contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these offset customer-related interest rate derivative contracts.

6. Other income

| | Three months ended | | Six months ended | |
|--|--------------------|---------------|------------------|---------------|
| | 30.6.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| | US\$ millions | US\$ millions | US\$ millions | US\$ millions |
| Recoveries on previously written off assets | 8.5 | 0.1 | 8.5 | 0.1 |
| Dividends on equity investments classified as FVTOCI | 3.2 | 2.6 | 4.5 | 5.8 |
| Net realised profits on investment debt securities | 1.3 | 2.1 | 1.2 | 2.2 |
| | 13.0 | 4.8 | 14.2 | 8.1 |

7. Investment securities

7.1 Composition

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

| | 30.6.16 | | 31.12.15 | |
|-----------------------------|----------------|--------------|----------------|--------------|
| | US\$ millions | % | US\$ millions | % |
| AAA to A- / Aaa to A3 | 3,272.6 | 86.1 | 3,088.1 | 85.5 |
| BBB+ to BBB- / Baa1 to Baa3 | 346.5 | 9.1 | 514.0 | 14.2 |
| BB+ to BB- / Ba1 to Ba3 | 183.3 | 4.8 | 10.5 | 0.3 |
| Total debt securities | 3,802.4 | 100.0 | 3,612.6 | 100.0 |
| Equity investments | 247.7 | | 271.9 | |
| | 4,050.1 | | 3,884.5 | |

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.

The increase in the investment securities rated BB+ to BB- / Ba1 to Ba3 during the six months ended 30th June 2016 was principally attributable to the downgrade of certain GCC sovereign ratings.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30th June 2016

7. Investment securities (continued)

7.2 Provisions for impairment

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

| | <u>2016</u> | <u>2015</u> |
|--|---------------|---------------|
| | US\$ millions | US\$ millions |
| At 1 st January and 30 th June | <u>3.2</u> | <u>3.2</u> |

The provisions for the impairment of investment securities entirely comprised non-specific provisions for debt investment securities determined on a collective basis.

8. Loans and advances

8.1 Composition

| | <u>30.6.16</u> | <u>31.12.15</u> |
|-------------------------------|----------------|-----------------|
| | US\$ millions | US\$ millions |
| Gross loans and advances | 9,865.5 | 9,522.4 |
| Provisions for impairment | (318.2) | (361.0) |
| Net loans and advances | <u>9,547.3</u> | <u>9,161.4</u> |

8.2 Provisions for impairment

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

| | <u>2016</u> | | | <u>2015</u> | | |
|--------------------------------|-----------------|---------------------|---------------|-----------------|---------------------|---------------|
| | <u>Specific</u> | <u>Non-specific</u> | <u>Total</u> | <u>Specific</u> | <u>Non-specific</u> | <u>Total</u> |
| | US\$ millions | US\$ millions | US\$ millions | US\$ millions | US\$ millions | US\$ millions |
| At 1 st January | 226.5 | 134.5 | 361.0 | 453.1 | 148.0 | 601.1 |
| Exchange rate movements | (0.7) | - | (0.7) | 0.1 | - | 0.1 |
| Amounts utilised | (46.0) | - | (46.0) | (261.0) | - | (261.0) |
| Amounts reallocated | 9.4 | (9.4) | - | 5.5 | (5.5) | - |
| Charge for the period | 3.9 | - | 3.9 | 9.9 | - | 9.9 |
| At 30th June | <u>193.1</u> | <u>125.1</u> | <u>318.2</u> | <u>207.6</u> | <u>142.5</u> | <u>350.1</u> |

Amounts utilised during the periods ended 30th June 2016 and 30th June 2015 represented provisions utilised on the transfer of the related assets to the memorandum records. Recovery efforts on these loans are still ongoing with the intention to maximise potential recoveries.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30th June 2016

9. Reserves

| | Share premium | Compulsory reserve | Voluntary reserve | Cash flow hedge reserve | Investment securities revaluation reserve | Total |
|--|------------------|-----------------------|----------------------|-------------------------------|--|---------------|
| | US\$ millions | US\$ millions | US\$ millions | US\$ millions | US\$ millions | US\$ millions |
| At 1st January 2016 | 7.6 | 220.7 | 158.2 | - | (6.7) | 379.8 |
| Net fair value losses on equity investments classified as FVTOCI | - | - | - | - | (22.9) | (22.9) |
| Transfers to retained earnings | - | - | - | - | (0.3) | (0.3) |
| Net increase | - | - | - | - | (23.2) | (23.2) |
| At 30th June 2016 | 7.6 | 220.7 | 158.2 | - | (29.9) | 356.6 |
| At 1st January 2015 | 7.6 | 214.1 | 151.6 | (0.3) | 19.0 | 392.0 |
| Net fair value gains on cash flow hedges | - | - | - | 0.7 | - | 0.7 |
| Net fair value gains on investments classified as FVTOCI | - | - | - | - | 12.8 | 12.8 |
| Transfers to retained earnings | - | - | - | - | (0.1) | (0.1) |
| Net increase | - | - | - | 0.7 | 12.7 | 13.4 |
| At 30th June 2015 | 7.6 | 214.1 | 151.6 | 0.4 | 31.7 | 405.4 |

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30th June 2016

10. Derivatives and foreign exchange instruments

The notional amounts of derivatives and foreign exchange instruments were as follows:-

| | Trading | Hedging | 30.6.16 Total | 31.12.15 Total |
|---|----------------|-----------------|------------------|-------------------|
| | US\$ millions | US\$ millions | US\$ millions | US\$ millions |
| Foreign exchange contracts:- | | | | |
| Unmatured spot, forward and futures contracts | 2,752.6 | 4,489.2 | 7,241.8 | 7,155.9 |
| Options purchased | 2,464.3 | - | 2,464.3 | 1,790.6 |
| Options written | 2,464.3 | - | 2,464.3 | 1,790.6 |
| | <u>7,681.2</u> | <u>4,489.2</u> | <u>12,170.4</u> | <u>10,737.1</u> |
| Interest rate contracts:- | | | | |
| Interest rate swaps | 1,794.4 | 11,840.2 | 13,634.6 | 14,314.1 |
| Cross currency swaps | 293.2 | - | 293.2 | - |
| Options, caps and floors purchased | 8.9 | - | 8.9 | 9.9 |
| Options, caps and floors written | 8.9 | - | 8.9 | 9.9 |
| | <u>2,105.4</u> | <u>11,840.2</u> | <u>13,945.6</u> | <u>14,333.9</u> |
| Commodity contracts:- | | | | |
| Options and swaps purchased | 33.5 | - | 33.5 | 26.1 |
| Options and swaps written | 33.5 | - | 33.5 | 26.1 |
| | <u>67.0</u> | <u>-</u> | <u>67.0</u> | <u>52.2</u> |
| | <u>9,853.6</u> | <u>16,329.4</u> | <u>26,183.0</u> | <u>25,123.2</u> |

11. Credit-related financial instruments

| | 30.6.16 Notional principal amount | 31.12.15 Notional principal amount |
|---|--|---|
| | US\$ millions | US\$ millions |
| Direct credit substitutes | 543.3 | 618.5 |
| Transaction-related contingent items | 1,955.0 | 1,950.1 |
| Short-term self-liquidating trade-related contingent items | 422.0 | 307.1 |
| Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities | 1,255.3 | 1,586.7 |
| | <u>4,175.6</u> | <u>4,462.4</u> |

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities. At 30th June 2016, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US\$412.1 million (31st December 2015: US\$569.1 million).

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June 2016

12. 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.

12.1 Trading securities

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

12.2 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.

12.3 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.

12.4 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 approximate their respective book values.

12.5 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.

12.6 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.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30th June 2016

12. Fair value of financial instruments (continued)

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

| | Quoted prices (level 1) <u>US\$ millions</u> | Valuation based on observable market data (level 2) <u>US\$ millions</u> | Other valuation techniques (level 3) <u>US\$ millions</u> |
|---|---|---|---|
| At 30th June 2016 | | | |
| Financial assets:- | | | |
| Trading securities | 47.9 | 1.1 | 25.2 |
| Investment securities - equities | 149.9 | - | 97.8 |
| Derivative financial instruments | - | 166.3 | - |
| Financial liabilities:- | | | |
| Derivative financial instruments | - | 160.3 | - |
| 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 | - |

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 period ended 30th June 2016, the value of investment securities whose measurement was determined by other valuation techniques (level 3 measurement) decreased by US\$1.7 million (30th June 2015: US\$3.8 million). The decrease principally comprised changes in assigned valuations as recognised in other comprehensive income.

The increase in the value of trading securities whose measurement was determined by other valuation techniques (level 3 measurement) was principally related to the transfer of a trading security from level 1 to level 3 due to the unavailability of reliable price.

No transfers between level 1 and level 2 measurement classifications were made during the period ended 30th June 2016.

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.

13. Segmental information

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.
- 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.

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13. Segmental information (continued)

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 condensed interim consolidated financial statements. 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 business segment analysis is as follows:-

| | Wholesale banking | Treasury | Financial markets | Head office and support units | Total |
|---|------------------------------|-----------------|------------------------------|--|---------------|
| | US\$ millions | US\$ millions | US\$ millions | US\$ millions | US\$ millions |
| Six months ended 30.6.16 | | | | | |
| Net interest income | 49.5 | 33.7 | - | 7.8 | 91.0 |
| Total income | 81.2 | 46.6 | 13.3 | 10.3 | 151.4 |
| Segment result | 62.2 | 41.1 | 9.3 | (67.4) | 45.2 |
| Taxation charge on overseas activities | | | | | (3.5) |
| Net income after tax | | | | | 41.7 |
| Six months ended 30.6.15 | | | | | |
| Net interest income | 38.4 | 30.9 | - | 16.3 | 85.6 |
| Total income | 65.2 | 48.2 | 15.9 | 19.7 | 149.0 |
| Segment result | 35.5 | 43.0 | 12.9 | (43.3) | 48.1 |
| Taxation charge on overseas activities | | | | | (0.8) |
| Net income after tax | | | | | 47.3 |
| At 30th June 2016 | | | | | |
| Segment assets | 9,666.1 | 13,307.4 | 39.2 | 325.1 | 23,337.8 |
| Segment liabilities | - | 17,958.3 | 10.4 | 2,925.7 | 20,894.4 |
| Total equity | | | | | 2,443.4 |
| Total liabilities and equity | | | | | 23,337.8 |
| At 31st December 2015 | | | | | |
| 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 |