

Arab Banking Corporation (B.S.C.)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2014 (UNAUDITED)



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

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF ARAB BANKING CORPORATION (B.S.C.)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Arab Banking Corporation (B.S.C.) [the Bank] and its subsidiaries [together the Group] as at 31 March 2014, comprising of the interim consolidated statement of financial position as at 31 March 2014 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 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.



28 April 2014
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2014

All figures in US\$ million

	Unaudited 31 March 2014	<i>Audited</i> <i>31 December</i> <i>2013</i>
ASSETS		
Liquid funds	1,327	1,055
Trading securities	200	194
Placements with banks and other financial institutions	5,222	5,018
Securities bought under repurchase agreements	600	349
Non-trading securities	4,945	5,116
Loans and advances	14,351	13,653
Interest receivable	379	345
Other assets	767	685
Premises and equipment	130	130
TOTAL ASSETS	27,921	26,545
LIABILITIES		
Deposits from customers	13,929	13,030
Deposits from banks and other financial institutions	5,547	5,255
Certificates of deposit	31	29
Securities sold under repurchase agreements	251	175
Interest payable	299	274
Taxation	68	76
Other liabilities	698	584
TERM NOTES, BONDS AND OTHER TERM FINANCING	2,763	2,763
Total liabilities	23,586	22,186
EQUITY		
Share capital	3,110	3,110
Reserves	787	830
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	3,897	3,940
Non-controlling interests	438	419
Total equity	4,335	4,359
TOTAL LIABILITIES AND EQUITY	27,921	26,545

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 28 April 2014 and signed on their behalf by the Chairman, Deputy Chairman and the Group Chief Executive Officer.



Saddek El Kaber
Chairman



Hilal Mishari Al Mutairi
Deputy Chairman



Khaled Kawan
Group Chief Executive Officer

The attached notes 1 to 5 form part of these interim condensed consolidated financial statements

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF INCOME

Three-month period ended 31 March 2014

All figures in US\$ million

	<i>Unaudited</i>	
	<i>Three months ended</i>	
	<i>31 March</i>	
	2014	2013
OPERATING INCOME		
Interest and similar income	272	248
Interest and similar expense	(140)	(124)
Net interest income	132	124
Other operating income	94	107
Total operating income	226	231
Impairment provisions - net	(8)	(28)
NET OPERATING INCOME AFTER PROVISIONS	218	203
OPERATING EXPENSES		
Staff	73	80
Premises and equipment	9	12
Other	21	21
Total operating expenses	103	113
PROFIT BEFORE TAXATION	115	90
Taxation on foreign operations	(29)	(21)
PROFIT FOR THE PERIOD	86	69
Income attributable to non-controlling interests	(15)	(13)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	71	56
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	0.02	0.02



Saddek El Kaber
Chairman



Hilal Mishari Al Mutairi
Deputy Chairman



Khaled Kawan
Group Chief Executive Officer

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three-month period ended 31 March 2014

All figures in US\$ million

	<i>Unaudited</i>	
	<i>Three months ended</i>	
	<i>31 March</i>	
	2014	2013
PROFIT FOR THE PERIOD	86	69
Other comprehensive income:		
<i>Other comprehensive income that could be reclassified (or recycled) to profit or loss in subsequent periods:</i>		
Net fair value movements during the period after impairment effect	17	-
Amortisation of fair value shortfall on reclassified securities	2	3
Unrealised gain (loss) on exchange translation of foreign subsidiaries	32	(4)
	51	(1)
<i>Other comprehensive income that cannot be reclassified (or recycled) to profit or loss in subsequent periods:</i>		
Net change in pension fund reserve	1	-
	1	-
Total other comprehensive income (loss) for the period	52	(1)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	138	68
Total comprehensive income attributable to non-controlling interests	(26)	(18)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	112	50

The attached notes 1 to 5 form part of these interim condensed consolidated financial statements

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Three-month period ended 31 March 2014

All figures in US\$ million

	<i>Unaudited</i>	
	<i>Three months ended</i>	
	<i>31 March</i>	
	2014	2013
OPERATING ACTIVITIES		
Profit for the period	86	69
Adjustments for:		
Impairment provisions - net	8	28
Depreciation and amortisation	3	3
Gain on disposal of non-trading securities - net	(4)	-
Amortisation of fair value shortfall on reclassified securities	2	3
Changes in operating assets and liabilities:		
Treasury bills and other eligible bills	(133)	44
Trading securities	-	(80)
Placements with banks and other financial institutions	(166)	(337)
Securities bought under repurchase agreements	(234)	151
Loans and advances	(525)	(681)
Interest receivable and other assets	(98)	(41)
Deposits from customers	798	878
Deposits from banks and other financial institutions	174	(13)
Securities sold under repurchase agreements	72	(46)
Interest payable and other liabilities	(36)	(47)
Other non-cash movements	22	(146)
Net cash used in operating activities	(31)	(215)
INVESTING ACTIVITIES		
Purchase of non-trading securities	(590)	(651)
Sale and redemption of non-trading securities	768	393
Purchase of premises and equipment	(2)	(4)
Sale of premises and equipment	1	2
Additional investment in a subsidiary	(9)	(3)
Net cash from (used in) investing activities	168	(263)
FINANCING ACTIVITIES		
Redemption (issue) of certificates of deposit - net	1	(1)
Dividend paid to non-controlling interests	(4)	(4)
Net cash used in financing activities	(3)	(5)
Net change in cash and cash equivalents	134	(483)
Effect of exchange rate changes on liquid funds	5	(30)
Cash and cash equivalents at beginning of the period	866	1,243
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	1,005	730

The attached notes 1 to 5 form part of these interim condensed consolidated financial statements

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three-month period ended 31 March 2014

All figures in US\$ million

	Equity attributable to the shareholders of the parent							Non-controlling interests	Total equity	
	Share capital	Statutory reserve	General reserve	Retained earnings*	Foreign exchange translation adjustments	Cumulative changes in fair value	Pension fund reserve			Total
At 31 December 2013	3,110	400	150	555	(224)	(32)	(19)	3,940	419	4,359
Profit for the period	-	-	-	71	-	-	-	71	15	86
Other comprehensive income for the period	-	-	-	-	21	19	1	41	11	52
Total comprehensive income for the period	-	-	-	71	21	19	1	112	26	138
Dividend**	-	-	-	(156)	-	-	-	(156)	-	(156)
Transfers during the period	-	-	(50)	50	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	-	1	-	-	-	1	(7)	(6)
At 31 March 2014 (unaudited)	3,110	400	100	521	(203)	(13)	(18)	3,897	438	4,335
At 31 December 2012	3,110	376	150	340	(132)	(48)	(18)	3,778	426	4,204
Profit for the period	-	-	-	56	-	-	-	56	13	69
Other comprehensive (loss) income for the period	-	-	-	-	(9)	3	-	(6)	5	(1)
Total comprehensive income (loss) for the period	-	-	-	56	(9)	3	-	50	18	68
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	1	1
At 31 March 2013 (unaudited)	3,110	376	150	396	(141)	(45)	(18)	3,828	445	4,273

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 406 million (31 December 2013: US\$ 406 million).

**A dividend of US\$0.05 per share has been approved for payment at the Annual Ordinary General Meeting held on 23 March 2014.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2014 (unaudited)

All figures in US\$ million

1 INCORPORATION AND ACTIVITIES

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

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

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

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the three-month period ended 31 March 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2013. In addition, results for the three-month period ended 31 March 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

2.2 Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and its subsidiaries after elimination of inter-company transactions and balances.

2.3 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations effective as of 1 January 2014.

The nature and the impact of each new standard or amendment is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirements for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualify to be an investment entity under IFRS 10.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

2.3 New standards, interpretations and amendments adopted by the Group (continued)

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

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

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current period.

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

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments have no impact on the Group.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2014 (unaudited)

All figures in US\$ million

3 OPERATING SEGMENTS

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

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

Three-month period ended 31 March 2014	<i>International</i>					<i>Total</i>
	<i>MENA subsidiaries</i>	<i>wholesale banking</i>	<i>Group treasury</i>	<i>ABC Brasil</i>	<i>Other</i>	
Net interest income	31	27	15	59	-	132
Other operating income	11	28	15	33	7	94
Total operating income	42	55	30	92	7	226
Profit before impairment provisions	20	39	26	60	2	147
Impairment (provisions) writeback - net	(3)	5	-	(10)	-	(8)
Profit before taxation and unallocated operating expenses	17	44	26	50	2	139
Taxation on foreign operations	(5)	(3)	(1)	(20)	-	(29)
Unallocated operating expenses						(24)
Profit for the period						86
Operating assets as at 31 March 2014	3,333	8,646	8,411	7,468	63	27,921
Operating liabilities as at 31 March 2014	2,848	-	14,429	6,299	10	23,586

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2014 (unaudited)

All figures in US\$ million

3 OPERATING SEGMENTS (continued)

Three-month period ended 31 March 2013	<i>International</i>					<i>Total</i>
	<i>MENA subsidiaries</i>	<i>wholesale banking</i>	<i>Group treasury</i>	<i>ABC Brasil</i>	<i>Other</i>	
Net interest income	28	25	16	53	2	124
Other operating income	11	26	28	37	5	107
Total operating income	39	51	44	90	7	231
Profit before impairment provisions	18	36	37	57	2	150
Impairment (provisions) writeback - net	-	(14)	(2)	(12)	-	(28)
Profit before taxation and unallocated operating expenses	18	22	35	45	2	122
Taxation on foreign operations	(5)	1	1	(18)	-	(21)
Unallocated operating expenses						(32)
Profit for the period						69
Operating assets as at 31 December 2013	3,249	8,238	8,302	6,690	66	26,545
Operating liabilities as at 31 December 2013	2,808	-	13,799	5,565	14	22,186

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2014 (unaudited)

All figures in US\$ million

4 FINANCIAL INSTRUMENTS

The following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities.

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 March 2014:

Financial assets measured at fair value:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Trading securities	197	3	200
Non-trading securities - available-for-sale			
<i>Quoted debt securities</i>	2,926	-	2,926
<i>Unquoted debt securities</i>	-	965	965
<i>Quoted equity shares</i>	8	-	8
<i>Unquoted equity shares</i>	-	49	49
Derivatives held for trading	-	-	-
<i>Interest rate swaps</i>	-	39	39
<i>Currency swaps</i>	-	12	12
<i>Forward foreign exchange contracts</i>	-	105	105
<i>Options</i>	-	41	41
<i>Futures</i>	4	-	4
Derivatives held as hedges			
<i>Interest rate swaps</i>	-	33	33
<i>Forward foreign exchange contracts</i>	-	104	104

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 March 2014:

Financial liabilities measured at fair value:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Derivatives held for trading			
<i>Interest rate swaps</i>	-	29	29
<i>Currency swaps</i>	-	4	4
<i>Forward foreign exchange contracts</i>	-	63	63
<i>Options</i>	-	41	41
<i>Futures</i>	3	-	3
Derivatives held as hedges			
<i>Interest rate swaps</i>	-	18	18
<i>Forward foreign exchange contracts</i>	-	-	-

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2014 (unaudited)

All figures in US\$ million

4 FINANCIAL INSTRUMENTS (continued)

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

Financial assets measured at fair value:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Trading securities	192	2	194
Non-trading securities - available-for-sale			
<i>Quoted debt securities</i>	2,612	-	2,612
<i>Unquoted debt securities</i>	-	1,239	1,239
<i>Quoted equity shares</i>	10	-	10
<i>Unquoted equity shares</i>	-	64	64
Derivatives held for trading			
<i>Interest rate swaps</i>	-	42	42
<i>Currency swaps</i>	-	11	11
<i>Forward foreign exchange contracts</i>	-	53	53
<i>Options</i>	1	63	64
<i>Futures</i>	7	-	7
Derivatives held as hedges			
<i>Interest rate swaps</i>	-	10	10
<i>Forward foreign exchange contracts</i>	-	112	112

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

Financial liabilities measured at fair value:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Derivatives held for trading			
<i>Interest rate swaps</i>	-	32	32
<i>Currency swaps</i>	-	10	10
<i>Forward foreign exchange contracts</i>	-	59	59
<i>Options</i>	2	62	64
<i>Futures</i>	6	-	6
Derivatives held as hedges			
<i>Interest rate swaps</i>	-	20	20
<i>Forward foreign exchange contracts</i>	-	-	-

Fair values of financial instruments not carried at fair value

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

	31 March 2014		31 December 2013	
	<i>Carrying value</i>	<i>Fair value</i>	<i>Carrying value</i>	<i>Fair value</i>
Financial assets				
Other non-trading securities	819	846	1,490	1,512
Financial liabilities				
Term notes, bonds and other term financing	2,763	2,753	2,763	2,715

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2014 (unaudited)

All figures in US\$ million

4 FINANCIAL INSTRUMENTS (continued)

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily DAX, FTSE 100 and Dow Jones equity investments classified as trading securities or available for sale.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 during the period ended 31 March 2014 (31 December 2013: none).

5 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

	<i>Unaudited</i> 31 March 2014	<i>Audited</i> 31 December 2013
Short-term self-liquidating trade and transaction-related contingent items	4,616	4,385
Direct credit substitutes, guarantees and acceptances	3,758	3,487
Undrawn loans and other commitments	1,779	1,880
	10,153	9,752
Risk weighted equivalents	3,220	3,177

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2014 (unaudited)

All figures in US\$ million

5 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)

b) Derivatives

The outstanding notional amounts at the consolidated statement of financial position date were as follows:

	Unaudited	<i>Audited</i>
	31 March	<i>31 December</i>
	2014	<i>2013</i>
Interest rate swaps	2,693	2,732
Currency swaps	283	257
Forward foreign exchange contracts	5,513	5,049
Options	783	617
Futures	4,798	3,717
	14,070	12,372
Risk weighted equivalents (credit and market risk)	1,754	1,651

Arab Banking Corporation
ABC Tower, Diplomatic Area,
P.O. Box 5698, Manama,
Kingdom of Bahrain
Tel: (+973) 17 543 000
Fax: (+973) 17 533 163
Email: webmaster@arabbanking.com
www.arabbanking.com