

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2016 (REVIEWED)

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 30 September 2016, comprising of the interim consolidated statement of financial position as at 30 September 2016 and the related interim consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the nine-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 and, consequently, 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.



13 November 2016
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2016 (Reviewed)

All figures in US\$ million

	Reviewed 30 September 2016	Audited 31 December 2015
ASSETS		
Liquid funds	1,187	1,002
Trading securities	688	534
Placements with banks and other financial institutions	4,730	4,313
Securities bought under repurchase agreements	1,715	1,447
Non-trading securities	6,116	5,535
Loans and advances	14,819	13,958
Interest receivable	428	355
Other assets	1,070	929
Premises and equipment	115	122
TOTAL ASSETS	30,868	28,195
LIABILITIES		
Deposits from customers	13,488	13,384
Deposits from banks and other financial institutions	7,304	5,029
Certificates of deposit	37	41
Securities sold under repurchase agreements	203	579
Interest payable	341	260
Taxation	112	70
Other liabilities	711	781
TERM NOTES, BONDS AND OTHER TERM FINANCING	4,337	3,943
Total liabilities	26,533	24,087
EQUITY		
Share capital	3,110	3,110
Reserves	796	663
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		
	3,906	3,773
Non-controlling interests	429	335
Total equity	4,335	4,108
TOTAL LIABILITIES AND EQUITY	30,868	28,195

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 13 November 2016 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 PROFIT OR LOSS

Nine-month period ended 30 September 2016 (Reviewed)

All figures in US\$ million

	<i>Reviewed</i>			
	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	2016	2015	2016	2015
OPERATING INCOME				
Interest and similar income	373	421	997	1,088
Interest and similar expense	(230)	(294)	(600)	(708)
Net interest income	143	127	397	380
Other operating income	73	15	261	134
Total operating income	216	142	658	514
Impairment provisions - net	(24)	(18)	(60)	(40)
NET OPERATING INCOME AFTER PROVISIONS	192	124	598	474
OPERATING EXPENSES				
Staff	75	67	221	211
Premises and equipment	9	9	26	25
Other	29	23	78	76
Total operating expenses	113	99	325	312
PROFIT BEFORE TAXATION	79	25	273	162
Taxation on foreign operations	(16)	38	(87)	26
PROFIT FOR THE PERIOD	63	63	186	188
Profit attributable to non-controlling interests	(14)	(15)	(36)	(44)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	49	48	150	144
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	0.02	0.02	0.05	0.05


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

Nine-month period ended 30 September 2016 (Reviewed)

All figures in US\$ million

	Reviewed			
	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
PROFIT FOR THE PERIOD	63	63	186	188
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	24	(47)	10	(45)
Amortisation of fair value shortfall on reclassified securities	-	1	1	3
Unrealised (loss) gain on exchange translation of foreign subsidiaries	(1)	(194)	31	(354)
	23	(240)	42	(396)
<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)	-	(2)
	-	(1)	-	(2)
Total other comprehensive income (loss) for the period	23	(241)	42	(398)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	86	(178)	228	(210)
Total comprehensive (income) loss attributable to non-controlling interests	(14)	56	(96)	81
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	72	(122)	132	(129)

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

Nine-month period ended 30 September 2016 (Reviewed)

All figures in US\$ million

	<i>Reviewed</i>	
	<i>Nine months ended</i>	
	<i>30 September</i>	
	2016	2015
OPERATING ACTIVITIES		
Profit for the period	186	188
Adjustments for:		
Impairment provisions - net	60	40
Depreciation and amortisation	10	9
Gain on disposal of non-trading securities - net	(18)	(21)
Amortisation of fair value shortfall on reclassified securities	1	3
Changes in operating assets and liabilities:		
Treasury bills and other eligible bills	44	87
Trading securities	(66)	(114)
Placements with banks and other financial institutions	(586)	1,459
Securities bought under repurchase agreements	(43)	(1,348)
Loans and advances	(658)	(1,001)
Interest receivable and other assets	(87)	(77)
Deposits from customers	184	732
Deposits from banks and other financial institutions	1,908	556
Securities sold under repurchase agreements	(378)	684
Interest payable and other liabilities	(54)	96
Other non-cash movements	127	218
Net cash from operating activities	630	1,511
INVESTING ACTIVITIES		
Purchase of non-trading securities	(4,827)	(2,693)
Sale and redemption of non-trading securities	4,108	1,570
Purchase of premises and equipment	(11)	(8)
Sale of premises and equipment	2	2
Investment in a subsidiary - net	3	(11)
Net cash used in investing activities	(725)	(1,140)
FINANCING ACTIVITIES		
(Redemption) Issue of certificates of deposit - net	(2)	1
Issue (Repurchase) of term notes, bonds and other term financing - net	384	54
Dividend paid to Group shareholders	-	(156)
Dividend paid to non-controlling interests	(21)	(15)
Net cash from (used in) financing activities	361	(116)
Net change in cash and cash equivalents	266	255
Effect of exchange rate changes on cash and cash equivalents	(37)	(56)
Cash and cash equivalents at beginning of the period	791	759
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	1,020	958

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

Nine-month period ended 30 September 2016 (Reviewed)

All figures in US\$ million

	Attributable to shareholders of the parent							Non-	Total	
	Share capital	Statutory reserve	General reserve	Retained earnings*	Foreign exchange translation adjustments	Cumulative changes in fair value	Pension fund reserve	controlling interests	equity	
At 31 December 2015	3,110	444	100	693	(507)	(44)	(23)	3,773	335	4,108
Profit for the period	-	-	-	150	-	-	-	150	36	186
Other comprehensive (loss) income for the period	-	-	-	-	(29)	11	-	(18)	60	42
Total comprehensive income (loss) for the period	-	-	-	150	(29)	11	-	132	96	228
Other equity movements in subsidiaries	-	-	-	1	-	-	-	1	(2)	(1)
At 30 September 2016 (reviewed)	3,110	444	100	844	(536)	(33)	(23)	3,906	429	4,335
At 31 December 2014	3,110	426	100	684	(284)	(7)	(23)	4,006	420	4,426
Profit for the period	-	-	-	144	-	-	-	144	44	188
Other comprehensive loss for the period	-	-	-	-	(229)	(42)	(2)	(273)	(125)	(398)
Total comprehensive income (loss) for the period	-	-	-	144	(229)	(42)	(2)	(129)	(81)	(210)
Dividend paid	-	-	-	(156)	-	-	-	(156)	-	(156)
Other equity movements in subsidiaries	-	-	-	3	-	-	-	3	(16)	(13)
At 30 September 2015 (reviewed)	3,110	426	100	675	(513)	(49)	(25)	3,724	323	4,047

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 419 million (31 December 2015: US\$ 414 million).

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

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2016 (Reviewed)

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 nine-month period ended 30 September 2016 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 2015. In addition, results for the nine-month period ended 30 September 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

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 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016.

The following new and amended accounting standards became effective in 2016 and have been adopted by the Group in preparation of these interim condensed consolidated financial statements as applicable. Whilst they did not have any material impact on these interim condensed consolidated financial statements, they may require additional disclosures in the annual consolidated financial statements for the year ending 31 December 2016:

IFRS 14 Regulatory Deferral Accounts (IFRS 14)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests (IFRS 11)

Amendments to IAS 27: Equity Method in Separate Financial Statements (IAS 27)

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (IFRS 5)

Amendments to IFRS 7 Financial Instruments: Disclosures: (i) Servicing contracts and (ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

Amendments to IAS 19 Employee Benefits

Amendments to IAS 34 Interim Financial Reporting

Amendments to IAS 1 Disclosure Initiative

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

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

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2016 (Reviewed)

All figures in US\$ million

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

2.4 New standards, interpretations and amendments issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

<i>Topic</i>	<i>Effective date</i>
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019

The Group is assessing the impact of implementation of these standards.

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 and treasury activities of the Brazilian subsidiary Banco ABC Brasil S.A., focusing on the corporate and middle market segments in Brazil; and
- **Other** includes activities of Arab Financial Services B.S.C. (c).

Nine-month period ended 30 September 2016	<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	108	104	22	156	7	397
Other operating income	36	62	18	120	25	261
Total operating income	144	166	40	276	32	658
Profit before impairment provisions	70	124	27	195	12	428
Impairment provisions - net	(3)	(1)	-	(56)	-	(60)
Profit before taxation and unallocated operating expenses	67	123	27	139	12	368
Taxation on foreign operations	(18)	(5)	-	(64)	-	(87)
Unallocated operating expenses						(95)
Profit for the period						186
Operating assets as at 30 September 2016	3,635	10,056	9,941	7,164	72	30,868
Operating liabilities as at 30 September 2016	3,124	-	17,461	5,943	5	26,533

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2016 (Reviewed)

All figures in US\$ million

3 OPERATING SEGMENTS (continued)

Nine-month period ended 30 September 2015	<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	100	83	35	161	1	380
Other operating income	36	68	4	5	21	134
Total operating income	136	151	39	166	22	514
Profit before impairment provisions	66	106	25	83	4	284
Impairment provisions - net	(7)	(2)	6	(37)	-	(40)
Profit before taxation and unallocated operating expenses	59	104	31	46	4	244
Taxation on foreign operations	(18)	(3)	-	47	-	26
Unallocated operating expenses						(82)
Profit for the period						188
Operating assets as at 31 December 2015	3,588	9,622	8,879	6,039	67	28,195
Operating liabilities as at 31 December 2015	3,049	-	15,864	5,169	5	24,087

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 30 September 2016:

Financial assets measured at fair value:

	Level 1	Level 2	Total
Trading securities	685	3	688
Non-trading securities - available-for-sale			
<i>Quoted debt securities</i>	4,206	-	4,206
<i>Unquoted debt securities</i>	-	634	634
<i>Quoted equity shares</i>	2	-	2
<i>Unquoted equity shares</i>	-	-	-
Derivatives held for trading			
<i>Interest rate swaps</i>	-	38	38
<i>Currency swaps</i>	-	24	24
<i>Forward foreign exchange contracts</i>	-	74	74
<i>Options</i>	212	12	224
<i>Futures</i>	4	-	4
Derivatives held as hedges			
<i>Interest rate swaps</i>	-	-	-
<i>Forward foreign exchange contracts</i>	-	-	-
<i>Options</i>	-	-	-

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2016 (Reviewed)

All figures in US\$ million

4 FINANCIAL INSTRUMENTS (continued)

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 30 September 2016:

Financial liabilities measured at fair value:

	Level 1	Level 2	Total
Derivatives held for trading			
Interest rate swaps	-	50	50
Currency swaps	-	37	37
Forward foreign exchange contracts	-	21	21
Options	190	12	202
Futures	2	-	2
Derivatives held as hedges			
Interest rate swaps	-	2	2
Forward foreign exchange contracts	-	24	24
Options	-	-	-

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2015:

Financial assets measured at fair value:

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

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2015:

Financial liabilities measured at fair value:

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2016 (Reviewed)

All figures in US\$ million

4 FINANCIAL INSTRUMENTS (continued)

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.

	30 September 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Other non-trading securities	1,258	1,265	1,735	1,737
Financial liabilities				
Term notes, bonds and other term financing	4,337	4,346	3,943	3,790

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 30 September 2016 (31 December 2015: none).

5 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

	30 September 2016	31 December 2015
Short-term self-liquidating trade and transaction-related contingent items	2,984	3,347
Direct credit substitutes and guarantees	3,470	3,197
Undrawn loans and other commitments	1,846	1,735
	8,300	8,279
Risk weighted equivalents	2,855	2,699

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2016 (Reviewed)

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:

	30 September 2016	<i>31 December 2015</i>
Interest rate swaps	5,237	4,778
Currency swaps	662	676
Forward foreign exchange contracts	5,400	6,596
Options	4,632	4,024
Futures	3,060	2,769
Forward rate agreements	50	-
	<hr/> 19,041 <hr/>	<hr/> 18,843 <hr/>
Risk weighted equivalents (credit and market risk)	<hr/> 1,762 <hr/>	<hr/> 1,703 <hr/>