

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS**

30 SEPTEMBER 2014 (REVIEWED)



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 30 September 2014, comprising of the interim consolidated statement of financial position as at 30 September 2014 and the related interim consolidated statements of income, 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. 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.



29 October 2014
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2014 (Reviewed)

All figures in US\$ million

	Reviewed 30 September 2014	<i>Audited</i> <i>31 December</i> <i>2013</i>
ASSETS		
Liquid funds	1,221	1,055
Trading securities	467	194
Placements with banks and other financial institutions	5,892	5,018
Securities bought under repurchase agreements	1,088	349
Non-trading securities	4,222	5,116
Loans and advances	14,609	13,653
Interest receivable	418	345
Other assets	879	685
Premises and equipment	129	130
TOTAL ASSETS	28,925	26,545
LIABILITIES		
Deposits from customers	13,772	13,030
Deposits from banks and other financial institutions	5,753	5,255
Certificates of deposit	40	29
Securities sold under repurchase agreements	187	175
Interest payable	337	274
Taxation	60	76
Other liabilities	675	584
TERM NOTES, BONDS AND OTHER TERM FINANCING	3,687	2,763
Total liabilities	24,511	22,186
EQUITY		
Share capital	3,110	3,110
Reserves	866	830
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	3,976	3,940
Non-controlling interests	438	419
Total equity	4,414	4,359
TOTAL LIABILITIES AND EQUITY	28,925	26,545

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 29 October 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

Nine-month period ended 30 September 2014 (Reviewed)

All figures in US\$ million

	<i>Reviewed</i>			
	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>	<i>2013</i>	<i>30 September</i>	<i>2013</i>
	2014	2013	2014	2013
OPERATING INCOME				
Interest and similar income	291	260	855	754
Interest and similar expense	(154)	(134)	(448)	(382)
Net interest income	137	126	407	372
Other operating income	71	82	269	277
Total operating income	208	208	676	649
Impairment provisions - net	(13)	(6)	(40)	(44)
NET OPERATING INCOME AFTER PROVISIONS	195	202	636	605
OPERATING EXPENSES				
Staff	75	69	228	233
Premises and equipment	8	8	26	29
Other	25	22	70	65
Total operating expenses	108	99	324	327
PROFIT BEFORE TAXATION	87	103	312	278
Taxation on foreign operations	(10)	(23)	(67)	(58)
PROFIT FOR THE PERIOD	77	80	245	220
Income attributable to non-controlling interests	(17)	(14)	(48)	(42)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	60	66	197	178
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	0.02	0.02	0.06	0.06



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 2014 (Reviewed)

All figures in US\$ million

	Reviewed			
	Three months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013
PROFIT FOR THE PERIOD	77	80	245	220
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	(4)	4	13	(10)
Amortisation of fair value shortfall on reclassified securities	1	2	6	9
Unrealised loss on exchange translation of foreign subsidiaries	(104)	(13)	(47)	(105)
	(107)	(7)	(28)	(106)
<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)
	(1)	-	-	(1)
Total other comprehensive loss for the period	(108)	(7)	(28)	(107)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	(31)	73	217	113
Attributable to non-controlling interests	27	(8)	(26)	(7)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	(4)	65	191	106

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 2014 (Reviewed)

All figures in US\$ million

	<i>Reviewed</i>	
	<i>Nine months ended</i>	
	<i>30 September</i>	
	2014	2013
OPERATING ACTIVITIES		
Profit for the period	245	220
Adjustments for:		
Impairment provisions - net	40	44
Depreciation and amortisation	9	9
Gain on disposal of non-trading securities - net	(32)	(14)
Amortisation of fair value shortfall on reclassified securities	4	9
Changes in operating assets and liabilities:		
Treasury bills and other eligible bills	141	36
Trading securities	(298)	(51)
Placements with banks and other financial institutions	(901)	(334)
Securities bought under repurchase agreements	(806)	(447)
Loans and advances	(1,308)	(657)
Interest receivable and other assets	(305)	(168)
Deposits from customers	947	586
Deposits from banks and other financial institutions	696	410
Securities sold under repurchase agreements	14	(18)
Interest payable and other liabilities	162	62
Other non-cash movements	112	(384)
Net cash used in operating activities	(1,280)	(697)
INVESTING ACTIVITIES		
Purchase of non-trading securities	(2,244)	(1,808)
Sale and redemption of non-trading securities	3,077	1,127
Purchase of premises and equipment	(10)	(8)
Sale of premises and equipment	2	4
Additional investment in a subsidiary	(7)	(2)
Net cash from (used in) investing activities	818	(687)
FINANCING ACTIVITIES		
Redemption (issue) of certificates of deposit - net	12	(5)
Issue of term notes, bonds and other term financing	953	1,000
Dividend paid to Group shareholders	(156)	-
Dividend paid to non-controlling interests	(13)	(19)
Net cash from financing activities	796	976
Net change in cash and cash equivalents	334	(408)
Effect of exchange rate changes on liquid funds	(28)	(27)
Cash and cash equivalents at beginning of the period	866	1,243
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	1,172	808

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 2014 (Reviewed)

All figures in US\$ million

	Attributable to 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	-	-	-	197	-	-	-	197	48	245
Other comprehensive (loss) income for the period	-	-	-	-	(25)	19	-	(6)	(22)	(28)
Total comprehensive income (loss) for the period	-	-	-	197	(25)	19	-	191	26	217
Dividend paid	-	-	-	(156)	-	-	-	(156)	-	(156)
Transfers during the period	-	-	(50)	50	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	-	1	-	-	-	1	(7)	(6)
At 30 September 2014 (reviewed)	3,110	400	100	647	(249)	(13)	(19)	3,976	438	4,414
At 31 December 2012	3,110	376	150	340	(132)	(48)	-	3,796	426	4,222
Impact of adopting amendments to IAS 19R at 1 January 2013	-	-	-	-	-	-	(18)	(18)	-	(18)
	3,110	376	150	340	(132)	(48)	(18)	3,778	426	4,204
Profit for the period	-	-	-	178	-	-	-	178	42	220
Other comprehensive loss for the period	-	-	-	-	(70)	(1)	(1)	(72)	(35)	(107)
Total comprehensive income (loss) for the period	-	-	-	178	(70)	(1)	(1)	106	7	113
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	(9)	(9)
At 30 September 2013 (reviewed)	3,110	376	150	518	(202)	(49)	(19)	3,884	424	4,308

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2014 (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 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 nine-month period ended 30 September 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.

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

IFRS 9 Financial Instruments

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments which combines classification and measurement, the expected credit loss impairment model and hedge accounting. This new standard will eventually replace IAS 39 and all previous versions of IFRS 9. Application is required for annual periods beginning on or after 1 January 2018, but early adoption is permitted.

The adoption of IFRS 9 will have an effect on the classification and measurement of financial assets. Financial assets are measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash-flow characteristics. Apart from the 'own credit risk' requirements, classification and measurement of financial liabilities is unchanged from existing requirements. The impairment requirements in the new standard are based on an expected credit loss model and replace the IAS 39 incurred loss model. The new hedge accounting model significantly differs from the IAS 39 hedge accounting model in a number of aspects including eligibility of hedging instrument and hedged item, accounting for the time value component of options and forward contracts, qualifying criteria for applying hedge accounting, modification and disconnection of hedging relationships etc.

The Group is currently evaluating the impact of the Standard.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other Standards, but that qualify to be deferred in accordance with this Standard because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services. This standard is effective for annual periods beginning on or after 1 January 2016. Earlier adoption is permitted. Management is considering the implications of this standard, its impact on the Group's financial position and results and the timing of their adoption by the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2014 (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 (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard replaced all current IFRS revenue recognition standards and interpretations including IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transaction involving Advertising Services. This standard is effective for annual periods beginning on or after 1 January 2017. Earlier adoption is permitted. Management is considering the implications of this standard, its impact on the Group's financial position and results and the timing of their adoption by the Group.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2014 (Reviewed)

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).

Nine-month period ended 30 September 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	95	80	43	189	-	407
Other operating income	32	76	63	78	20	269
Total operating income	127	156	106	267	20	676
Profit before impairment provisions	59	110	92	167	3	431
Impairment (provisions) writeback - net	(8)	(15)	1	(18)	-	(40)
Profit before taxation and unallocated operating expenses	51	95	93	149	3	391
Taxation on foreign operations	(16)	(7)	(1)	(43)	-	(67)
Unallocated operating expenses	-	-	-	-	-	(79)
Profit for the period						245
Operating assets as at 30 September 2014	3,526	9,077	8,919	7,341	62	28,925
Operating liabilities as at 30 September 2014	3,006	-	15,325	6,169	11	24,511

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2014 (Reviewed)

All figures in US\$ million

3 OPERATING SEGMENTS (continued)

Nine-month period ended 30 September 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	86	79	44	161	2	372
Other operating income	38	76	53	91	19	277
Total operating income	124	155	97	252	21	649
Profit before impairment provisions	60	108	80	154	5	407
Impairment (provisions) writeback - net	(3)	(22)	12	(32)	1	(44)
Profit before taxation and unallocated operating expenses	57	86	92	122	6	363
Taxation on foreign operations	(16)	(6)	(1)	(35)	-	(58)
Unallocated operating expenses	-	-	-	-	-	(85)
Profit for the period						220
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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2014 (Reviewed)

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 30 September 2014:

Financial assets measured at fair value:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Trading securities	464	3	467
Non-trading securities - available-for-sale			
<i>Quoted debt securities</i>	2,495	-	2,495
<i>Unquoted debt securities</i>	-	850	850
<i>Quoted equity shares</i>	8	-	8
<i>Unquoted equity shares</i>	-	42	42
Derivatives held for trading			
<i>Interest rate swaps</i>	-	27	27
<i>Currency swaps</i>	-	7	7
<i>Forward foreign exchange contracts</i>	-	83	83
<i>Options</i>	1	155	156
<i>Futures</i>	5	-	5
Derivatives held as hedges			
<i>Interest rate swaps</i>	-	4	4
<i>Forward foreign exchange contracts</i>	-	118	118

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 30 September 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>	-	23	23
<i>Currency swaps</i>	-	15	15
<i>Forward foreign exchange contracts</i>	-	69	69
<i>Options</i>	1	154	155
<i>Futures</i>	12	-	12
Derivatives held as hedges			
<i>Interest rate swaps</i>	-	1	1
<i>Forward foreign exchange contracts</i>	-	-	-

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2014 (Reviewed)

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:

	Level 1	Level 2	Total
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:

	Level 1	Level 2	Total
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.

	30 September 2014		31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Other non-trading securities	951	970	1,490	1,512
Financial liabilities				
Term notes, bonds and other term financing	3,687	3,528	2,763	2,715

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2014 (Reviewed)

All figures in US\$ million

4 FINANCIAL INSTRUMENTS (continued)

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 2014 (31 December 2013: none).

5 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

	30 September 2014	<i>31 December 2013</i>
Short-term self-liquidating trade and transaction-related contingent items	3,758	4,385
Direct credit substitutes, guarantees and acceptances	3,683	3,487
Undrawn loans and other commitments	1,881	1,880
	9,322	9,752
Risk weighted equivalents	3,058	3,177

b) Derivatives

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

	30 September 2014	<i>31 December 2013</i>
Interest rate swaps	2,140	2,732
Currency swaps	337	257
Forward foreign exchange contracts	7,537	5,049
Options	1,893	617
Futures	4,374	3,717
	16,281	12,372
Risk weighted equivalents (credit and market risk)	1,598	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