

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2015 (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 2015, comprising of the interim consolidated statement of financial position as at 30 September 2015 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 2015
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2015 (Reviewed)

All figures in US\$ million

	Reviewed 30 September 2015	Audited 31 December 2014
ASSETS		
Liquid funds	1,021	909
Trading securities	501	539
Placements with banks and other financial institutions	4,231	5,870
Securities bought under repurchase agreements	1,828	987
Non-trading securities	5,547	4,627
Loans and advances	14,080	14,819
Interest receivable	432	387
Other assets	860	1,090
Premises and equipment	122	128
TOTAL ASSETS	28,622	29,356
LIABILITIES		
Deposits from customers	13,781	13,945
Deposits from banks and other financial institutions	4,896	5,668
Certificates of deposit	41	47
Securities sold under repurchase agreements	769	87
Interest payable	301	319
Taxation	69	51
Other liabilities	790	922
TERM NOTES, BONDS AND OTHER TERM FINANCING	3,928	3,891
Total liabilities	24,575	24,930
EQUITY		
Share capital	3,110	3,110
Reserves	614	896
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	3,724	4,006
Non-controlling interests	323	420
Total equity	4,047	4,426
TOTAL LIABILITIES AND EQUITY	28,622	29,356

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 29 October 2015 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 2015 (Reviewed)

All figures in US\$ million

	<i>Reviewed</i>			
	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>	<i>2014</i>	<i>30 September</i>	<i>2014</i>
	2015	2014	2015	2014
OPERATING INCOME				
Interest and similar income	421	291	1,088	855
Interest and similar expense	(294)	(154)	(708)	(448)
Net interest income	127	137	380	407
Other operating income	15	71	134	269
Total operating income	142	208	514	676
Impairment provisions - net	(18)	(13)	(40)	(40)
NET OPERATING INCOME AFTER PROVISIONS	124	195	474	636
OPERATING EXPENSES				
Staff	67	75	211	228
Premises and equipment	9	8	25	26
Other	23	25	76	70
Total operating expenses	99	108	312	324
PROFIT BEFORE TAXATION	25	87	162	312
Taxation on foreign operations	38	(10)	26	(67)
PROFIT FOR THE PERIOD	63	77	188	245
Income attributable to non-controlling interests	(15)	(17)	(44)	(48)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	48	60	144	197
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	0.02	0.02	0.05	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 2015 (Reviewed)

All figures in US\$ million

	Reviewed			
	Three months ended 30 September		Nine months ended 30 September	
	2015	2014	2015	2014
PROFIT FOR THE PERIOD	63	77	188	245
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	(47)	(4)	(45)	13
Amortisation of fair value shortfall on reclassified securities	1	1	3	6
Unrealised loss on exchange translation of foreign subsidiaries	(194)	(104)	(354)	(47)
	(240)	(107)	(396)	(28)
<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)	(2)	-
	(1)	(1)	(2)	-
Total other comprehensive loss for the period	(241)	(108)	(398)	(28)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	(178)	(31)	(210)	217
Total comprehensive loss (income) attributable to non-controlling interests	56	27	81	(26)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	(122)	(4)	(129)	191

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 2015 (Reviewed)

All figures in US\$ million

	<i>Reviewed</i>	
	<i>Nine months ended</i>	
	<i>30 September</i>	
	2015	2014
OPERATING ACTIVITIES		
Profit for the period	188	245
Adjustments for:		
Impairment provisions - net	40	40
Depreciation and amortisation	9	9
Gain on disposal of non-trading securities - net	(21)	(32)
Amortisation of fair value shortfall on reclassified securities	3	4
Changes in operating assets and liabilities:		
Treasury bills and other eligible bills	87	141
Trading securities	(114)	(298)
Placements with banks and other financial institutions	1,459	(901)
Securities bought under repurchase agreements	(1,348)	(806)
Loans and advances	(1,001)	(1,308)
Interest receivable and other assets	(77)	(305)
Deposits from customers	732	947
Deposits from banks and other financial institutions	556	696
Securities sold under repurchase agreements	684	14
Interest payable and other liabilities	96	162
Other non-cash movements	218	112
Net cash from (used in) operating activities	1,511	(1,280)
INVESTING ACTIVITIES		
Purchase of non-trading securities	(2,693)	(2,244)
Sale and redemption of non-trading securities	1,570	3,077
Purchase of premises and equipment	(8)	(10)
Sale of premises and equipment	2	2
Additional investment in a subsidiary	(11)	(7)
Net cash (used in) from investing activities	(1,140)	818
FINANCING ACTIVITIES		
Redemption of certificates of deposit - net	1	12
Issue of term notes, bonds and other term financing	54	953
Dividend paid to Group shareholders	(156)	(156)
Dividend paid to non-controlling interests	(15)	(13)
Net cash (used in) from financing activities	(116)	796
Net change in cash and cash equivalents	255	334
Effect of exchange rate changes on liquid funds	(56)	(28)
Cash and cash equivalents at beginning of the period	759	866
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	958	1,172

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 2015 (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 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
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

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 413 million (31 December 2014: 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 2015 (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 2015 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 2014. In addition, results for the nine-month period ended 30 September 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

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 these 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 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015.

The following amended accounting standards became effective in 2015 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 2015:

Amendments to IAS 19 Defined Benefits Plans: Employee Contributions

Annual Improvement Cycle : 2010-2012

Annual Improvement Cycle : 2011-2013

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2015 (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 14 Regulatory Deferral Accounts	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to IFRS 11 Joint Arrangement: Accounting for acquisition of interest	1 January 2016
Amendments to IAS 16 and IAS 38: Clarification of acceptable depreciation and amortization	1 January 2016
Amendments to IAS 27: Equity method in separate financial statements	1 January 2016

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 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 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 30 September 2015	3,633	9,518	9,219	6,187	65	28,622
Operating liabilities as at 30 September 2015	3,066	-	16,123	5,349	37	24,575

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2015 (Reviewed)

All figures in US\$ million

3 OPERATING SEGMENTS (continued)

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 - 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 31 December 2014	3,603	9,091	9,247	7,352	63	29,356
Operating liabilities as at 31 December 2014	2,981	-	15,643	6,296	10	24,930

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2015 (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 2015:

Financial assets measured at fair value:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Trading securities	365	136	501
Non-trading securities - available-for-sale			
<i>Quoted debt securities</i>	3,162	-	3,162
<i>Unquoted debt securities</i>	-	726	726
<i>Quoted equity shares</i>	3	-	3
<i>Unquoted equity shares</i>	-	-	-
Derivatives held for trading			
<i>Interest rate swaps</i>	-	38	38
<i>Currency swaps</i>	-	23	23
<i>Forward foreign exchange contracts</i>	-	45	45
<i>Options</i>	5	12	17
<i>Futures</i>	6	-	6
Derivatives held as hedges			
<i>Interest rate swaps</i>	-	2	2
<i>Forward foreign exchange contracts</i>	-	-	-

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 30 September 2015:

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>	-	57	57
<i>Forward foreign exchange contracts</i>	-	53	53
<i>Options</i>	8	11	19
<i>Futures</i>	11	-	11
Derivatives held as hedges			
<i>Interest rate swaps</i>	-	2	2
<i>Forward foreign exchange contracts</i>	-	2	2

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2015 (Reviewed)

All figures in US\$ million

4 FINANCIAL INSTRUMENTS (continued)

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

Financial assets measured at fair value:

	Level 1	Level 2	Total
Trading securities	466	73	539
Non-trading securities - available-for-sale			
<i>Quoted debt securities</i>	3,013	-	3,013
<i>Unquoted debt securities</i>	-	779	779
<i>Quoted equity shares</i>	4	-	4
<i>Unquoted equity shares</i>	-	-	-
Derivatives held for trading			
<i>Interest rate swaps</i>	-	27	27
<i>Currency swaps</i>	-	9	9
<i>Forward foreign exchange contracts</i>	-	131	131
<i>Options</i>	1	296	297
<i>Futures</i>	17	-	17
Derivatives held as hedges			
<i>Interest rate swaps</i>	-	3	3
<i>Forward foreign exchange contracts</i>	-	136	136

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

Financial liabilities measured at fair value:

	Level 1	Level 2	Total
Derivatives held for trading			
<i>Interest rate swaps</i>	-	23	23
<i>Currency swaps</i>	-	25	25
<i>Forward foreign exchange contracts</i>	-	104	104
<i>Options</i>	2	297	299
<i>Futures</i>	29	-	29
Derivatives held as hedges			
<i>Interest rate swaps</i>	-	-	-
<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 2015		31 December 2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Other non-trading securities	1,629	1,632	803	809
Financial liabilities				
Term notes, bonds and other term financing	3,928	3,860	3,891	3,890

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 2015 (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 2015 (31 December 2014: none).

5 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

	<i>30 September 2015</i>	<i>31 December 2014</i>
Short-term self-liquidating trade and transaction-related contingent items	3,440	3,333
Direct credit substitutes, guarantees	2,841	3,603
Undrawn loans and other commitments	1,815	2,070
	<u>8,096</u>	<u>9,006</u>
Risk weighted equivalents	<u>2,592</u>	<u>2,989</u>

b) Derivatives

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

	<i>30 September 2015</i>	<i>31 December 2014</i>
Interest rate swaps	4,547	2,866
Currency swaps	782	368
Forward foreign exchange contracts	6,297	8,048
Options	1,306	1,211
Futures	3,112	3,364
	<u>16,044</u>	<u>15,857</u>
Risk weighted equivalents (credit and market risk)	<u>1,446</u>	<u>2,135</u>