Arab Banking Corporation (B.S.C.)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2019 (REVIEWED)

Ernst & Young Middle East
P.O. Box 140
10th Floor, East Tower
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
C.R. No. 29977

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 2019, comprising of the interim consolidated statement of financial position as at 31 March 2019 and the related interim consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity 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 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.

Ernst + Young

7 May 2019
Manama, Kingdom of Bahrain

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2019 (Reviewed)

All figures in US$ Million

	Note	***Reviewed 31 March 2019***	*Audited 31 December 2018*
ASSETS			
Liquid funds		**1,370**	1,607
Trading securities		**975**	977
Placements with banks and other financial institutions		**2,597**	2,991
Securities bought under repurchase agreements		**2,255**	1,668
Non-trading investments	4	**5,916**	5,661
Loans and advances	5	**14,909**	14,884
Other assets		**1,749**	1,601
Premises and equipment		**169**	160
TOTAL ASSETS		**29,940**	29,549
LIABILITIES			
Deposits from customers		**17,258**	16,425
Deposits from banks		**3,517**	4,207
Certificates of deposit		**386**	39
Securities sold under repurchase agreements		**902**	1,271
Taxation		**37**	43
Other liabilities		**1,567**	1,236
Borrowings		**1,947**	2,012
Total liabilities		**25,614**	25,233
EQUITY			
Share capital		**3,110**	3,110
Treasury shares		**(5)**	(4)
Statutory reserve		**501**	501
Retained earnings		**927**	966
Other reserves		**(677)**	(711)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**3,856**	3,862
Non-controlling interests		**470**	454
Total equity		**4,326**	4,316
TOTAL LIABILITIES AND EQUITY		**29,940**	29,549

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 7 May 2019 and signed on their behalf by the Chairman, Deputy Chairman and the Group Chief Executive Officer.

Saddek El Kaber	Mohammad Abdulredha Saleem	Khaled Kawan
Chairman	Deputy Chairman	Group Chief Executive Officer

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Three-month period ended 31 March 2019 (Reviewed)

All figures in US$ Million

		Reviewed	
		Three months ended 31 March	
	Note	***2019***	*2018*
OPERATING INCOME			
Interest and similar income		**377**	359
Interest and similar expense		**(238)**	(221)
Net interest income		**139**	138
Other operating income	6	**76**	73
Total operating income		**215**	211
Credit loss expense on financial assets	7	**(11)**	(12)
NET OPERATING INCOME AFTER CREDIT LOSS EXPENSE		**204**	199
OPERATING EXPENSES			
Staff		**86**	82
Premises and equipment		**10**	9
Other		**32**	28
Total operating expenses		**128**	119
PROFIT BEFORE TAXATION		**76**	80
Taxation on foreign operations		**(10)**	(14)
PROFIT FOR THE PERIOD		**66**	66
Profit attributable to non-controlling interests		**(11)**	(13)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**55**	53
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US$)		**0.02**	0.02

Saddek El Kaber	Mohammad Abdulredha Saleem	Khaled Kawan
Chairman	Deputy Chairman	Group Chief Executive Officer

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three-month period ended 31 March 2019 (Reviewed)

All figures in US$ Million

	Reviewed	
	Three months ended 31 March	
	2019	*2018*
PROFIT FOR THE PERIOD	**66**	66
Other comprehensive income:		
Other comprehensive income that will be reclassified (or recycled) to profit or loss in subsequent periods:		
Foreign currency translation:		
Unrealised gain on exchange translation in foreign subsidiaries	**2**	1
Debt instruments at FVOCI:		
Net change in fair value during the period	**29**	(7)
Other comprehensive income (loss) for the period	**31**	(6)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**97**	60
Attributable to:		
Shareholders of the parent	**89**	50
Non-controlling interests	**8**	10
	97	60

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Three-month period ended 31 March 2019 (Reviewed)

All figures in US$ million

	Reviewed	
	Three months ended 31 March	
	2019	*2018*
OPERATING ACTIVITIES		
Profit for the period	**66**	66
Adjustments for:		
Credit loss expense on financial assets	**11**	12
Depreciation and amortisation	**9**	5
Gain on disposal of non-trading debt investments - net	**(2)**	(1)
Changes in operating assets and liabilities:		
Treasury bills and other eligible bills	**12**	(30)
Trading securities	**(1)**	(450)
Placements with banks and other financial institutions	**436**	477
Securities bought under repurchase agreements	**(601)**	241
Loans and advances	**22**	68
Other assets	**(151)**	(266)
Deposits from customers	**771**	126
Deposits from banks	**(707)**	(431)
Securities sold under repurchase agreements	**(369)**	(548)
Other liabilities	**235**	124
Other non-cash movements	**(90)**	(25)
Net cash used in operating activities	**(359)**	(632)
INVESTING ACTIVITIES		
Purchase of non-trading investments	**(673)**	(342)
Sale and redemption of non-trading investments	**520**	698
Purchase of premises and equipment	**(12)**	(4)
Sale of premises and equipment	**1**	1
Investment in subsidiaries - net	**14**	4
Net cash (used in) from investing activities	**(150)**	357
FINANCING ACTIVITIES		
Issue of certificates of deposit - net	**348**	11
Issue of borrowings	**26**	-
Repayment and repurchase of borrowings	**(86)**	(26)
Dividend paid to non-controlling interests	**(6)**	(6)
Purchase of treasury shares	**(1)**	-
Net cash from (used in) financing activities	**281**	(21)
Net change in cash and cash equivalents	**(228)**	(296)
Effect of exchange rate changes on cash and cash equivalents	**3**	1
Cash and cash equivalents at beginning of the period	**1,341**	1,160
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**1,116**	865

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three-month period ended 31 March 2019 (Reviewed)

All figures in US$ Million

	Equity attributable to the shareholders of the parent									*Non-controlling interests*	*Total equity*
					Other reserves						
	Share capital	*Treasury shares*	*Statutory reserve*	*Retained earnings**	*General reserve*	*Foreign exchange translation adjustments*	*Cumulative changes in fair value*	*Pension fund reserve*	*Total*		
At 31 December 2018	3,110	(4)	501	966	100	(744)	(37)	(30)	3,862	454	4,316
Profit for the period	-	-	-	55	-	-	-	-	55	11	66
Other comprehensive income (loss) for the period	-	-	-	-	-	5	29	-	34	(3)	31
Total comprehensive income for the period	-	-	-	55	-	5	29	-	89	8	97
Dividend**	-	-	-	(93)	-	-	-	-	(93)	-	(93)
Purchase of treasury shares	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Other equity movements in subsidiaries	-	-	-	(1)	-	-	-	-	(1)	8	7
At 31 March 2019 (reviewed)	**3,110**	**(5)**	**501**	**927**	**100**	**(739)**	**(8)**	**(30)**	**3,856**	**470**	**4,326**

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US$ 430 million (31 December 2018: US$ 429 million).

** A dividend of US$ 0.03 per share (2018: US$ 0.03 per share) has been approved for payment at the Annual General Meeting held on 24 March 2019.

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three-month period ended 31 March 2019 (Reviewed)

All figures in US$ Million

	Equity attributable to the shareholders of the parent									*Non-controlling interests*	*Total equity*
					Other reserves						
	Share capital	*Treasury shares*	*Statutory reserve*	*Retained earnings*	*General reserve*	*Foreign exchange translation adjustments*	*Cumulative changes in fair value*	*Pension fund reserve*	*Total*		
At 31 December 2017	3,110	-	481	939	100	(638)	(29)	(33)	3,930	482	4,412
Impact of adopting IFRS 9	-	-	-	(62)	-	-	34	-	(28)	(8)	(36)
Restated balance as at 1 January 2018	3,110	-	481	877	100	(638)	5	(33)	3,902	474	4,376
Profit for the period	-	-	-	53	-	-	-	-	53	13	66
Other comprehensive income (loss) for the period	-	-	-	-	-	4	(7)	-	(3)	(3)	(6)
Total comprehensive income (loss) for the period	-	-	-	53	-	4	(7)	-	50	10	60
Dividend	-	-	-	(93)	-	-	-	-	(93)	-	(93)
Other equity movements in subsidiaries	-	-	-	(2)	-	-	-	-	(2)	9	7
At 31 March 2018 (reviewed)	3,110	-	481	835	100	(634)	(2)	(33)	3,857	493	4,350

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

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, Commerce and Tourism, 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 2019 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 consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018. The Bank has adopted IFRS 16 *Leases (IFRS 16)* from 1 January 2019 and accounting policies for this new standard is disclosed in note 3. In addition, results for the three-month period ended 31 March 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

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 2018, except for the adoption of new standards effective as of 1 January 2019.

For the accounting policies with respect to prior year comparative figures, refer to the annual consolidated financial statements for year ended 31 December 2018.

The following new and amended accounting standards became effective in 2019 and have been adopted by the Group in preparation of these interim condensed consolidated financial statements as applicable.

2.3.1 *IFRS 16 Leases*

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

All figures in US$ million

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)*

2.3.1 *IFRS 16 Leases (continued)*

Prior to the adoption of IFRS 16, the Group accounted and classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease in accordance with IAS 17.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Group adopted IFRS 16 using a modified retrospective method of adoption with the date of initial application of 1 January 2019, and accordingly, the comparative information is not restated. Under this method, IFRS 16 is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The Group has recorded right-of-use assets representing the right to use the underlying assets under other assets and the corresponding lease liabilities to make lease payments under other liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The adoption of IFRS 16 did not have a material impact on the Group.

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

There were no new standards, interpretations and amendments that are issued as of 1 January 2019 which are not yet effective up to the date of issuance of the Group’s interim condensed consolidated financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018 except for the policies explained below. Based on the adoption of new standards explained in note 2 above, the following accounting policies are applicable effective 1 January 2019 replacing / amending or adding to the corresponding accounting policies set out in the annual consolidated financial statements for year ended 31 December 2018.

3.1 Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated amortisation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are amortised on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The carrying value of right-of-use assets are recognised under other assets in the interim consolidated statement of financial position.

All figures in US$ million

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the interim consolidated statement of financial position.

3.3 Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e., below US$ 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

4 NON-TRADING INVESTMENTS

	31 March 2019	*31 December 2018*
Debt securities		
At amortised cost	**1,124**	1,124
At FVOCI	**4,903**	4,649
	6,027	5,773
ECL allowances	**(120)**	(121)
Debt securities - net	**5,907**	5,652
Equity securities		
At FVOCI	**9**	9
Equity securities	**9**	9
	5,916	5,661

Following are the stage wise break-up of debt securities as of 31 March 2019 and 31 December 2018:

	31 March 2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Debt securities, gross	**5,764**	**161**	**102**	**6,027**
ECL allowances	**(11)**	**(7)**	**(102)**	**(120)**
	5,753	**154**	**-**	**5,907**

	31 December 2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities, gross	5,534	137	102	5,773
ECL allowances	(13)	(6)	(102)	(121)
	5,521	131	-	5,652

All figures in US$ million

5 LOANS AND ADVANCES

	31 March 2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Loans and advances, gross	**13,993**	**862**	**621**	**15,476**
ECL allowances	**(49)**	**(78)**	**(440)**	**(567)**
	13,944	**784**	**181**	**14,909**

	31 December 2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Loans and advances, gross	13,893	938	617	15,448
ECL allowances	(47)	(88)	(429)	(564)
	13,846	850	188	14,884

An analysis of movement in the ECL allowances during the periods ended 31 March 2019 and 31 March 2018 are as follows:

	Stage 1	***Stage 2***	***Stage 3***	***Total***
As at 31 December 2018	47	88	429	564
Net transfers between stages	-	(12)	12	-
Amounts written-off	-	-	(11)	(11)
Charge for the period - net	2	2	10	14
As at 31 March 2019	**49**	**78**	**440**	**567**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
As at 1 January 2018	42	172	376	590
Net transfers between stages	-	(18)	18	-
Amounts written-off	-	-	(19)	(19)
Charge for the period - net	2	5	13	20
As at 31 March 2018	44	159	388	591

All figures in US$ million

6 OTHER OPERATING INCOME

	31 March 2019	*31 March 2018*
Fee and commission income - net	**50**	50
Bureau processing income	**6**	6
(Loss) gain on dealing in derivatives - net	**(1)**	3
Gain on dealing in foreign currencies - net	**9**	15
Loss on hedging foreign currency movements*	**(2)**	(2)
Gain on disposal of non-trading debt investments - net	**2**	1
Gain (loss) on trading securities - net	**4**	(3)
Other - net	**8**	3
	76	73

*Loss on hedging foreign currency movements relate to a transaction which has an offsetting impact on the tax expense for the period.

7 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS

	31 March 2019	*31 March 2018*
Non-trading debt investments	**(1)**	-
Loans and advances	**14**	20
Credit commitments, contingent items and other financial assets	**(2)**	(8)
	11	12

8 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).

All figures in US$ million

8 OPERATING SEGMENTS (continued)

Three-month period ended 31 March 2019	***MENA subsidiaries***	***International wholesale banking***	***Group treasury***	***ABC Brasil***	***Other***	***Total***
Net interest income	**29**	**41**	**8**	**44**	**17**	**139**
Other operating income	**11**	**23**	**8**	**29**	**5**	**76**
Total operating income	**40**	**64**	**16**	**73**	**22**	**215**
Profit before credit losses	**16**	**36**	**10**	**41**	**13**	**116**
Credit loss expense on financial assets	**(4)**	**1**	**-**	**(8)**	**-**	**(11)**
Profit before taxation and unallocated operating expenses	**12**	**37**	**10**	**33**	**13**	**105**
Taxation on foreign operations	**(5)**	**(2)**	**-**	**(3)**	**-**	**(10)**
Unallocated operating expenses						**(29)**
Profit for the period						**66**
Operating assets as at 31 March 2019	**3,367**	**9,351**	**9,349**	**7,808**	**65**	**29,940**
Operating liabilities as at 31 March 2019	**2,938**	**-**	**16,056**	**6,608**	**12**	**25,614**

Three-month period ended 31 March 2018	*MENA subsidiaries*	*International wholesale banking*	*Group treasury*	*ABC Brasil*	*Other*	*Total*
Net interest income	30	40	10	48	10	138
Other operating income	11	20	7	31	4	73
Total operating income	41	60	17	79	14	211
Profit before credit losses	18	37	11	45	8	119
Credit loss expense on financial assets	(1)	(4)	-	(7)	-	(12)
Profit before taxation and unallocated operating expenses	17	33	11	38	8	107
Taxation on foreign operations	(5)	(2)	-	(7)	-	(14)
Unallocated operating expenses						(27)
Profit for the period						66
Operating assets as at 31 December 2018	3,283	9,540	8,877	7,778	71	29,549
Operating liabilities as at 31 December 2018	2,918	-	15,613	6,689	13	25,233

All figures in US$ million

9 FAIR VALUE OF 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 2019:

Financial assets measured at fair value:

	Level 1	*Level 2*	*Total*
Trading securities	**975**	**-**	**975**
Non-trading investments	**4,672**	**123**	**4,795**
Derivatives held for trading	**269**	**170**	**439**
Derivatives held as hedges	**-**	**10**	**10**

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 March 2019:

Financial liabilities measured at fair value:

	Level 1	*Level 2*	*Total*
Derivatives held for trading	**246**	**149**	**395**
Derivatives held as hedges	**-**	**52**	**52**

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2018:

Financial assets measured at fair value:

	Level 1	*Level 2*	*Total*
Trading securities	977	-	977
Non-trading investments	4,448	93	4,541
Derivatives held for trading	272	178	450
Derivatives held as hedges	-	18	18

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2018:

Financial liabilities measured at fair value:

	Level 1	*Level 2*	*Total*
Derivatives held for trading	263	150	413
Derivatives held as hedges	-	31	31

All figures in US$ million

9 FAIR VALUE OF 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.

	31 March 2019		*31 December 2018*	
	Carrying value	***Fair value***	*Carrying value*	*Fair value*
Financial assets				
Non-trading debt investments at amortised cost - gross	**1,124**	**1,134**	1,124	1,070
Financial liabilities				
Borrowings	**1,947**	**1,951**	2,012	2,017

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.

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 2019 (31 December 2018: none).

10 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Exposure (after applying credit conversion factor) and ECL by stage

	31 March 2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Credit commitments and contingencies	**3,711**	**182**	**38**	**3,931**
ECL allowances	**(14)**	**(10)**	**(25)**	**(49)**

	31 December 2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Credit commitments and contingencies	3,996	160	17	4,173
ECL allowances	(14)	(22)	(16)	(52)

All figures in US$ million

10 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)

a) Exposure (after applying credit conversion factor) and ECL by stage (continued)

An analysis of movement in the ECL allowances during the period are as follows:

	Stage 1	***Stage 2***	***Stage 3***	***Total***
As at 31 December 2018	14	22	16	52
ECL movements for the period - net	-	(12)	9	(3)
As at 31 March 2019	**14**	**10**	**25**	**49**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
As at 1 January 2018	13	37	3	53
ECL movements for the period - net	(1)	(7)	-	(8)
As at 31 March 2018	12	30	3	45

b) Credit commitments and contingencies

	31 March 2019	*31 December 2018*
Short-term self-liquidating trade and transaction-related contingent items	**2,987**	3,662
Direct credit substitutes, guarantees	**3,870**	4,043
Undrawn loans and other commitments	**2,377**	2,272
	9,234	9,977
Credit exposure after applying credit conversion factor	**3,931**	4,173
Risk weighted equivalents	**3,210**	3,274

c) Derivatives

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

	31 March 2019	*31 December 2018*
Interest rate swaps	**10,974**	9,719
Currency swaps	**616**	532
Forward foreign exchange contracts	**5,547**	3,661
Options	**10,332**	6,661
Futures	**5,311**	3,208
	32,780	23,781
Risk weighted equivalents (credit and market risk)	**2,236**	2,102

All figures in US$ million

11 TRANSACTIONS WITH RELATED PARTIES

Related parties represent the ultimate parent, major shareholders, associates, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

The period-end balances in respect of related parties included in the interim consolidated statement of financial position are as follows:

	Ultimate parent	***Major share-holder***	***Directors***	***31 March 2019***	*31 December 2018*
Deposits from customers	**3,126**	**670**	**7**	**3,803**	3,803
Borrowings	**1,505**	**-**	**-**	**1,505**	1,505
Short-term self-liquidating trade and transaction-related contingent items	**495**	**-**	**-**	**495**	515

The income and expenses in respect of related parties included in the interim consolidated statement of profit or loss are as follows:

	31 March 2019	*31 March 2018*
Commission income	**2**	2
Interest expense	**33**	26