Arab Banking Corporation (B.S.C.)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014 (REVIEWED)

المؤسسة العربية المصرفية (ش.م.ب)

ARAB BANKING CORPORATION [B.S.C.]

EY
Building a better working world

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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 June 2014, comprising of the interim consolidated statement of financial position as at 30 June 2014 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-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.

Ernst & Young

12 August 2014
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014 (reviewed)

All figures in US$ million

	Reviewed 30 June 2014	*Audited 31 December 2013*
ASSETS		
Liquid funds	**1,239**	1,055
Trading securities	**417**	194
Placements with banks and other financial institutions	**4,788**	5,018
Securities bought under repurchase agreements	**629**	349
Non-trading securities	**4,768**	5,116
Loans and advances	**14,893**	13,653
Interest receivable	**413**	345
Other assets	**787**	685
Premises and equipment	**134**	130
TOTAL ASSETS	**28,068**	26,545
LIABILITIES		
Deposits from customers	**13,859**	13,030
Deposits from banks and other financial institutions	**5,843**	5,255
Certificates of deposit	**38**	29
Securities sold under repurchase agreements	**240**	175
Interest payable	**319**	274
Taxation	**80**	76
Other liabilities	**484**	584
TERM NOTES, BONDS AND OTHER TERM FINANCING	**2,765**	2,763
Total liabilities	**23,628**	22,186
EQUITY		
Share capital	**3,110**	3,110
Reserves	**870**	830
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	**3,980**	3,940
Non-controlling interests	**460**	419
Total equity	**4,440**	4,359
TOTAL LIABILITIES AND EQUITY	**28,068**	26,545

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 12 August 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

INTERIM CONSOLIDATED STATEMENT OF INCOME

Six-month period ended 30 June 2014 (reviewed)

All figures in US$ million

	Reviewed			
	Three months ended 30 June		*Six months ended 30 June*	
	2014	*2013*	***2014***	*2013*
OPERATING INCOME				
Interest and similar income	**292**	246	**564**	494
Interest and similar expense	**(154)**	(124)	**(294)**	(248)
Net interest income	**138**	122	**270**	246
Other operating income	**104**	88	**198**	195
Total operating income	**242**	210	**468**	441
Impairment provisions - net	**(19)**	(10)	**(27)**	(38)
NET OPERATING INCOME AFTER PROVISIONS	**223**	200	**441**	403
OPERATING EXPENSES				
Staff	**80**	84	**153**	164
Premises and equipment	**9**	9	**18**	21
Other	**24**	22	**45**	43
Total operating expenses	**113**	115	**216**	228
PROFIT BEFORE TAXATION	**110**	85	**225**	175
Taxation on foreign operations	**(28)**	(14)	**(57)**	(35)
PROFIT FOR THE PERIOD	**82**	71	**168**	140
Profit attributable to non-controlling interests	**(16)**	(15)	**(31)**	(28)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	**66**	56	**137**	112
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US$)	**0.02**	0.02	**0.04**	0.04

Saddek El Kaber	Hilal Mishari Al Mutairi	Khaled Kawan
Chairman	Deputy Chairman	Group Chief Executive Officer

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six-month period ended 30 June 2014 (reviewed)

All figures in US$ million

	Reviewed			
	Three months ended 30 June		*Six months ended 30 June*	
	2014	*2013*	***2014***	*2013*
PROFIT FOR THE PERIOD	**82**	71	**168**	140
Other comprehensive income:				
Other comprehensive income that could be reclassified (or recycled) to profit or loss in subsequent periods:				
Net fair value movements during the period after impairment effect	**-**	(14)	**17**	(14)
Amortisation of fair value shortfall on reclassified securities	**3**	4	**5**	7
Unrealised gain (loss) on exchange translation of foreign subsidiaries	**25**	(88)	**57**	(92)
	28	(98)	**79**	(99)
Other comprehensive income that cannot be reclassified (or recycled) to profit or loss in subsequent periods:				
Net change in pension fund reserve	**-**	(1)	**1**	(1)
	-	(1)	**1**	(1)
Total other comprehensive income (loss) for the period	**28**	(99)	**80**	(100)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**110**	(28)	**248**	40
Attributable to non-controlling interests	**(27)**	19	**(53)**	1
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**83**	(9)	**195**	41

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Six-month period ended 30 June 2014 (reviewed)

All figures in US$ million

	Reviewed	
	Six months ended 30 June	
	2014	*2013*
OPERATING ACTIVITIES		
Profit for the period	**168**	140
Adjustments for:		
Impairment provisions - net	**27**	38
Depreciation and amortisation	**6**	6
Gain on disposal of non-trading securities - net	**(33)**	(11)
Amortisation of fair value shortfall on reclassified securities	**5**	7
Changes in operating assets and liabilities:		
Treasury bills and other eligible bills	**(454)**	35
Trading securities	**(203)**	(1)
Placements with banks and other financial institutions	**273**	(217)
Securities bought under repurchase agreements	**(254)**	(201)
Loans and advances	**(905)**	(779)
Interest receivable and other assets	**(136)**	(189)
Deposits from customers	**674**	739
Deposits from banks and other financial institutions	**368**	648
Securities sold under repurchase agreements	**60**	(14)
Interest payable and other liabilities	**(72)**	128
Other non-cash movements	**2**	(221)
Net cash (used in) from operating activities	**(474)**	108
INVESTING ACTIVITIES		
Purchase of non-trading securities	**(1,451)**	(1,247)
Sale and redemption of non-trading securities	**1,823**	655
Purchase of premises and equipment	**(8)**	(8)
Sale of premises and equipment	**2**	2
Additional investment in a subsidiary	**(9)**	(2)
Net cash from (used in) investing activities	**357**	(600)
FINANCING ACTIVITIES		
Redemption (issue) of certificates of deposit - net	**9**	(5)
Dividend paid to Group shareholders	**(156)**	-
Dividend paid to non-controlling interests	**(10)**	(13)
Net cash used in financing activities	**(157)**	(18)
Net change in cash and cash equivalents	**(274)**	(510)
Effect of exchange rate changes on liquid funds	**4**	(40)
Cash and cash equivalents at beginning of the period	**866**	1,243
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**596**	693

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six-month period ended 30 June 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	-	-	-	137	-	-	-	137	31	168
Other comprehensive income for the period	-	-	-	-	35	22	1	58	22	80
Total comprehensive income for the period	-	-	-	137	35	22	1	195	53	248
Dividend paid	-	-	-	(156)	-	-	-	(156)	-	(156)
Transfers during the period	-	-	(50)	50	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	-	1	-	-	-	1	(12)	(11)
At 30 June 2014 (reviewed)	**3,110**	**400**	**100**	**587**	**(189)**	**(10)**	**(18)**	**3,980**	**460**	**4,440**
At 31 December 2012	3,110	376	150	340	(132)	(48)	(18)	3,778	426	4,204
Profit for the period	-	-	-	112	-	-	-	112	28	140
Other comprehensive loss for the period	-	-	-	-	(63)	(7)	(1)	(71)	(29)	(100)
Total comprehensive income (loss) for the period	-	-	-	112	(63)	(7)	(1)	41	(1)	40
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	(9)	(9)
At 30 June 2013 (reviewed)	3,110	376	150	452	(195)	(55)	(19)	3,819	416	4,235

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

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 six-month period ended 30 June 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 six-month period ended 30 June 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 the Group is not an investment entity under IFRS 10.

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)

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

The following new standards and amendments have been issued by the IASB but are not yet mandatory for the year ending 31 December 2014:

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.

IFRS 15 Revenue from Contracts with Customers
IFRS 15, issued on 28 May 2014, 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 replaces 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.

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).

Six-month period ended 30 June 2014 (reviewed)	***MENA subsidiaries***	***International wholesale banking***	***Group treasury***	***ABC Brasil***	***Other***	***Total***
Net interest income	**62**	**53**	**31**	**124**	**-**	**270**
Other operating income	**22**	**53**	**46**	**64**	**13**	**198**
Total operating income	**84**	**106**	**77**	**188**	**13**	**468**
Profit before impairment provisions	**40**	**75**	**68**	**122**	**2**	**307**
Impairment (provisions) writeback - net	**(5)**	**(8)**	**-**	**(14)**	**-**	**(27)**
Profit before taxation and unallocated operating expenses	**35**	**67**	**68**	**108**	**2**	**280**
Taxation on foreign operations	**(11)**	**(4)**	**(1)**	**(41)**	**-**	**(57)**
Unallocated operating expenses						**(55)**
Profit for the period						**168**
Operating assets as at 30 June 2014	**3,455**	**9,045**	**7,907**	**7,600**	**61**	**28,068**
Operating liabilities as at 30 June 2014	**2,972**	-	**14,275**	**6,370**	**10**	**23,627**

All figures in US$ million

3 OPERATING SEGMENTS (continued)

Six-month period ended 30 June 2013 (reviewed)	*MENA subsidiaries*	*International wholesale banking*	*Group treasury*	*ABC Brasil*	*Other*	*Total*
Net interest income	55	51	32	105	3	246
Other operating income	27	53	38	66	11	195
Total operating income	82	104	70	171	14	441
Profit before impairment provisions	39	72	59	105	3	278
Impairment (provisions) writeback - net	(1)	(18)	4	(24)	1	(38)
Profit before taxation and unallocated operating expenses	38	54	63	81	4	240
Taxation on foreign operations	(11)	(2)	-	(22)	-	(35)
Unallocated operating expenses	-	-	-	-	-	(65)
Profit for the period						140
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

All figures in US$ million

4 FINANCIAL INSTRUMENTS

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

Quantitative disclosure of fair value measurement hierarchy for assets as at 30 June 2014:

Financial assets measured at fair value:

	Level 1	***Level 2***	***Total***
Trading securities	414	3	417
Non-trading securities - available-for-sale			
Quoted debt securities	2,719	-	2,719
Unquoted debt securities	-	999	999
Quoted equity shares	21	-	21
Unquoted equity shares	-	30	30
Derivatives held for trading			
Interest rate swaps	-	32	32
Currency swaps	-	14	14
Forward foreign exchange contracts	-	76	76
Options	1	49	50
Futures	10	-	10
Derivatives held as hedges			
Interest rate swaps	-	6	6
Forward foreign exchange contracts	-	98	98

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 30 June 2014:

Financial liabilities measured at fair value:

	Level 1	***Level 2***	***Total***
Derivatives held for trading			
Interest rate swaps	-	28	28
Currency swaps	-	2	2
Forward foreign exchange contracts	-	38	38
Options	-	49	49
Futures	2	-	2
Derivatives held as hedges			
Interest rate swaps	-	22	22
Forward foreign exchange contracts	-	-	-

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			
Quoted debt securities	2,612	-	2,612
Unquoted debt securities	-	1,239	1,239
Quoted equity shares	10	-	10
Unquoted equity shares	-	64	64
Derivatives held for trading			
Interest rate swaps	-	42	42
Currency swaps	-	11	11
Forward foreign exchange contracts	-	53	53
Options	1	63	64
Futures	7	-	7
Derivatives held as hedges			
Interest rate swaps	-	10	10
Forward foreign exchange contracts	-	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			
Interest rate swaps	-	32	32
Currency swaps	-	10	10
Forward foreign exchange contracts	-	59	59
Options	2	62	64
Futures	6	-	6
Derivatives held as hedges			
Interest rate swaps	-	20	20
Forward foreign exchange contracts	-	-	-

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 June 2014 (reviewed)		*31 December 2013 (audited)*	
	Carrying value	***Fair value***	*Carrying value*	*Fair value*
Financial assets				
Other non-trading securities	**805**	**832**	1,490	1,512
Financial liabilities				
Term notes, bonds and other term financing	**2,765**	**2,769**	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.

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 June 2014 (31 December 2013: none).

5 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

	30 June 2014 (reviewed)	*31 December 2013 (audited)*
Short-term self-liquidating trade and transaction-related contingent items	**4,390**	4,385
Direct credit substitutes, guarantees and acceptances	**4,104**	3,487
Undrawn loans and other commitments	**1,965**	1,880
	10,459	9,752
Risk weighted equivalents	**3,382**	3,177

b) Derivatives

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

	30 June 2014 (reviewed)	*31 December 2013 (audited)*
Interest rate swaps	**2,626**	2,732
Currency swaps	**275**	257
Forward foreign exchange contracts	**5,830**	5,049
Options	**703**	617
Futures	**4,857**	3,717
	14,291	12,372
Risk weighted equivalents (credit and market risk)	**1,828**	1,651

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