Arab Banking Corporation (B.S.C.)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 SEPTEMBER 2020 (REVIEWED)

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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 September 2020, comprising of the interim consolidated statement of financial position as at 30 September 2020 and the related interim consolidated statements of profit or loss and comprehensive income for the three-month period and nine-month period then ended, and interim consolidated statements of cash flows and changes in equity for the nine-month period then ended and explanatory notes. The Bank's 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), as modified by the Central Bank of Bahrain [the "CBB"] referred to under note 2 of the accompanying interim condensed consolidated financial statements. 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 as modified by the CBB.

Ernst & Young

12 November 2020
Manama, Kingdom of Bahrain

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2020 (Reviewed)

All figures in US$ Million

	Notes	***Reviewed 30 September 2020***	*Audited 31 December 2019*
ASSETS			
Liquid funds		**1,666**	1,874
Trading securities		**460**	507
Placements with banks and other financial institutions		**2,239**	2,051
Securities bought under repurchase agreements		**1,528**	1,398
Non-trading investments	4	**5,998**	5,836
Loans and advances	5	**14,895**	16,452
Other assets		**2,533**	1,767
Premises and equipment		**190**	183
TOTAL ASSETS		**29,509**	30,068
LIABILITIES			
Deposits from customers		**16,449**	16,666
Deposits from banks		**3,536**	3,897
Certificates of deposit		**378**	399
Securities sold under repurchase agreements		**1,122**	1,008
Taxation		**98**	63
Other liabilities		**2,111**	1,466
Borrowings		**1,788**	2,080
Total liabilities		**25,482**	25,579
EQUITY			
Share capital		**3,110**	3,110
Treasury shares		**(6)**	(6)
Statutory reserve		**520**	520
Retained earnings		**997**	1,051
Other reserves		**(946)**	(644)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**3,675**	4,031
Non-controlling interests		**352**	458
Total equity		**4,027**	4,489
TOTAL LIABILITIES AND EQUITY		**29,509**	30,068

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 12 November 2020 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

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Nine-month period ended 30 September 2020 (Reviewed)

All figures in US$ Million

		Reviewed			
		Three months ended 30 September		*Nine months ended 30 September*	
	Notes	***2020***	*2019*	***2020***	*2019*
OPERATING INCOME					
Interest and similar income		**275**	392	**958**	1,137
Interest and similar expense		**(145)**	(250)	**(576)**	(716)
Net interest income		**130**	142	**382**	421
Other operating income	6	**58**	54	**46**	212
Total operating income		**188**	196	**428**	633
Credit loss expense	7	**(60)**	(25)	**(234)**	(46)
NET OPERATING INCOME AFTER CREDIT LOSS EXPENSE		**128**	171	**194**	587
OPERATING EXPENSES					
Staff		**66**	84	**218**	254
Premises and equipment		**11**	10	**32**	30
Other		**36**	33	**110**	100
Total operating expenses		**113**	127	**360**	384
PROFIT (LOSS) BEFORE TAXATION		**15**	44	**(166)**	203
Taxation (charge) reversal on foreign operations		**(2)**	15	**122**	(9)
PROFIT (LOSS) FOR THE PERIOD		**13**	59	**(44)**	194
Profit attributable to non-controlling interests		**(2)**	(10)	**(12)**	(33)
PROFIT (LOSS) ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**11**	49	**(56)**	161
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (EXPRESSED IN US$)		**0.00**	0.02	**(0.02)**	0.05

Saddek El Kaber
Chairman

Mohammad Abdulredha Saleem
Deputy Chairman

Khaled Kawan
Group Chief Executive Officer

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Nine-month period ended 30 September 2020 (Reviewed)

All figures in US$ Million

	Reviewed		*Reviewed*	
	Three months ended 30 September		*Nine months ended 30 September*	
	2020	*2019*	***2020***	*2019*
PROFIT (LOSS) FOR THE PERIOD	**13**	59	**(44)**	194
Other comprehensive income (loss):				
Other comprehensive income (loss) that will be reclassified (or recycled) to profit or loss in subsequent periods:				
Foreign currency translation:				
Unrealised loss on exchange translation in foreign subsidiaries	**(26)**	(84)	**(301)**	(62)
Debt instruments at FVOCI:				
Net change in fair value during the period	**42**	19	**(113)**	48
	16	(65)	**(414)**	(14)
Other comprehensive income that will not be reclassified (or recycled) to profit or loss in subsequent periods:				
Net change in pension fund reserve	**-**	-	**-**	-
Net change in fair value of equity securities during the period	**-**	-	**-**	-
	-	-	**-**	-
Other comprehensive income (loss) for the period	**16**	(65)	**(414)**	(14)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**29**	(6)	**(458)**	180
Attributable to:				
Shareholders of the parent	**38**	17	**(358)**	176
Non-controlling interests	**(9)**	(23)	**(100)**	4
	29	(6)	**(458)**	180

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Nine-month period ended 30 September 2020 (Reviewed)

All figures in US$ million

	Reviewed Nine months ended 30 September	
	2020	*2019*
OPERATING ACTIVITIES		
(Loss) profit for the period	**(44)**	194
Adjustments for:		
Credit loss expense	**234**	46
Depreciation and amortisation	**33**	29
Gain on disposal of non-trading debt investments - net	**(22)**	(10)
Changes in operating assets and liabilities:		
Treasury bills and other eligible bills	**78**	12
Trading securities	**(95)**	63
Placements with banks and other financial institutions	**(255)**	915
Securities bought under repurchase agreements	**(464)**	125
Loans and advances	**(242)**	(769)
Other assets	**(1,074)**	(401)
Deposits from customers	**1,152**	(63)
Deposits from banks	**165**	(370)
Securities sold under repurchase agreements	**127**	(371)
Other liabilities	**929**	385
Other non-cash movements	**(217)**	(16)
Net cash from (used in) operating activities	**305**	(231)
INVESTING ACTIVITIES		
Purchase of non-trading investments	**(4,533)**	(2,915)
Sale and redemption of non-trading investments	**4,413**	2,808
Purchase of premises and equipment	**(28)**	(22)
Sale of premises and equipment	**4**	3
Investment in subsidiaries - net	**20**	4
Net cash used in investing activities	**(124)**	(122)
FINANCING ACTIVITIES		
(Repayment) issue of certificates of deposit - net	**(16)**	287
Issue of borrowings	**184**	156
Repayment of borrowings	**(451)**	(116)
Repurchase of borrowings	**-**	(3)
Dividend paid to the Group's shareholders	**-**	(93)
Dividend paid to non-controlling interests	**(4)**	(18)
Purchase of treasury shares - net	**-**	(1)
Net cash (used in) from financing activities	**(287)**	212
Net change in cash and cash equivalents	**(106)**	(141)
Effect of exchange rate changes on cash and cash equivalents	**(24)**	1
Cash and cash equivalents at beginning of the period	**1,657**	1,341
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD*	**1,527**	1,201

*Cash and cash equivalents comprises of liquid funds excluding treasury and other eligible bills with original maturities of more than three months amounting to US$ 139 million (30 September 2019: US$ 254 million).

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Nine-month period ended 30 September 2020 (Reviewed)

All figures in US$ Million

	Equity attributable to the shareholders of the parent				*Other reserves*					*Non-controlling interests*	*Total equity*
	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 2019	3,110	(6)	520	1,051	100	(754)	42	(32)	4,031	458	4,489
(Loss) profit for the period	-	-	-	(56)	-	-	-	-	(56)	12	(44)
Other comprehensive loss for the period	-	-	-	-	-	(189)	(113)	-	(302)	(112)	(414)
Total comprehensive loss for the period	-	-	-	(56)	-	(189)	(113)	-	(358)	(100)	(458)
Other equity movements in subsidiaries	-	-	-	2	-	-	-	-	2	(6)	(4)
At 30 September 2020 (reviewed)	**3,110**	**(6)**	**520**	**997**	**100**	**(943)**	**(71)**	**(32)**	**3,675**	**352**	**4,027**

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US$ 481 million (31 December 2019: US$ 479 million).

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Nine-month period ended 30 September 2020 (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	-	-	-	161	-	-	-	-	161	33	194
Other comprehensive (loss) income for the period	-	-	-	-	-	(33)	48	-	15	(29)	(14)
Total comprehensive income (loss) for the period	-	-	-	161	-	(33)	48	-	176	4	180
Dividend	-	-	-	(93)	-	-	-	-	(93)	-	(93)
Purchase of treasury shares - net	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Other equity movements in subsidiaries	-	-	-	1	-	-	-	-	1	(14)	(13)
At 30 September 2019 (reviewed)	3,110	(5)	501	1,035	100	(777)	11	(30)	3,945	444	4,389

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 “CBB”). 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, Islamic Banking and the digital, mobile-only banking space named "ila Bank" within retail consumer banking services. 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

These interim condensed consolidated financial statements for the nine-month period ended 30 September 2020 have been prepared in accordance with applicable rules and regulations issued by the CBB including the recently issued CBB circulars on regulatory concessionary measures in response to novel coronavirus ("COVID-19"). These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020, require the adoption of all International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), except for:

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, in equity instead of profit or loss as required by IFRS 9 'Financial Instruments' (IFRS 9). Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9. Refer to note 2.3 for further details; and

(b) recognition of financial assistance received from the government and/or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of 2.1(a) above, and the balance amount to be recognised in profit or loss. Any other financial assistance is recognised in accordance with the requirements of IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' (IAS 20). Refer to note 2.3 for further details.

The above framework for basis of preparation of the annual consolidated financial statements of the Group is hereinafter referred to as ‘IFRS as modified by the CBB’.

These interim condensed consolidated financial statements have been presented in a condensed form in accordance with the guidance provided by International Accounting Standard 34 – ‘Interim Financial Reporting’ (IAS 34), using the IFRS as modified by the CBB framework. Hence, the framework used in the preparation of these interim condensed consolidated financial statements is hereinafter referred to as ‘IAS 34 as modified by the CBB’.

The accounting policies, estimates and assumptions used in the preparation of annual consolidated financial statements of the Group for the year ended 31 December 2019 were in accordance with IFRS as issued by IASB. However, except for the modifications to accounting policies as mentioned above and in note 3 changes in accounting policies on and / adoption of new and amended accounting standards and interpretations as set out in note 2.4, all of which that have been applied retrospectively, all other accounting policies remain the same and have been consistently applied in these interim condensed consolidated financial statements. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

These interim condensed consolidated financial statements do not contain all information and disclosures required for 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 2019. Further, results for the nine-month period ended 30 September 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020. Refer to note 13 for further details as well.

All figures in US$ million

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

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 Directives issued by the CBB and Government assistance

During the period ended 30 September 2020, based on a regulatory directive issued by the CBB (refer note 2.1 above) as concessionary measures to mitigate the impact of COVID-19 and customer requests received, the Group provided payment holidays on financing exposures amounting to US$ 923 million as part of its support to impacted customers, however, this did not result in any modification loss.

Further, an amount of US$ 4 million (representing amount of financial assistance received) has been recognised in profit or loss during the current period as the Group had no modification losses to be recorded in equity (in line with note 2.1). The amount was recorded as a deduction from related expenses in the interim consolidated statement of profit or loss.

2.4 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 2019, except for the two modifications set out earlier, adoption of new standards effective as of 1 January 2020 and the new accounting policies adopted by the Group, as set out in note 3, all restrospectively.

For the accounting policies with respect to prior year comparative figures, refer to the annual consolidated financial statements for year ended 31 December 2019.

The following new and amended accounting standards became effective in 2020 and have been adopted by the Group in preparation of these interim condensed consolidated financial statements as applicable.

2.4.1 Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the interim condensed consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

2.4.2 Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the interim condensed consolidated financial statements of the Group.

2.4.3 Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial statements of, nor is there expected to be any future impact to the Group.

All figures in US$ million

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

2.5 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 2020 which are applicable to the Group and not yet effective up to the date of issuance of the Group's interim condensed consolidated financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In addition to the change in accounting policy as disclosed in note 2.1 and the adoption of new and amended standards and interpretations as set out in note 2.4, the Group has applied below accounting policy retrospectively during the period ended 30 September 2020. The application of below accounting policy did not result in any change to the comparative financial information.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

4 NON-TRADING INVESTMENTS

	30 September 2020	*31 December 2019*
Debt securities		
At amortised cost	**1,036**	912
At FVOCI	**5,049**	5,005
	6,085	5,917
ECL allowances	**(96)**	(91)
Debt securities - net	**5,989**	5,826
Equity securities		
At FVOCI	**9**	10
Equity securities	**9**	10
	5,998	5,836

Following are the stage wise break-up of debt securities as of 30 September 2020 and 31 December 2019:

	30 September 2020			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Debt securities, gross	**5,996**	**-**	**89**	**6,085**
ECL allowances	**(14)**	**-**	**(82)**	**(96)**
	5,982	**-**	**7**	**5,989**

All figures in US$ million

4 NON-TRADING INVESTMENTS (continued)

	31 December 2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities, gross	5,788	55	74	5,917
ECL allowances	(13)	(4)	(74)	(91)
	5,775	51	-	5,826

5 LOANS AND ADVANCES

	30 September 2020			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Loans and advances, gross	**13,818**	**1,070**	**803**	**15,691**
ECL allowances	**(87)**	**(95)**	**(614)**	**(796)**
	13,731	**975**	**189**	**14,895**

	31 December 2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Loans and advances, gross	15,575	859	635	17,069
ECL allowances	(58)	(67)	(492)	(617)
	15,517	792	143	16,452

An analysis of movement in the ECL allowances during the periods ended 30 September 2020 and 30 September 2019 are as follows:

	Stage 1	***Stage 2***	***Stage 3***	***Total***
As at 1 January 2020	58	67	492	617
Net transfers between stages	(1)	3	(2)	-
Amounts written-off	-	-	(21)	(21)
Charge for the period - net	35	29	156	220
Exchange adjustments and other movements	(5)	(4)	(11)	(20)
As at 30 September 2020	**87**	**95**	**614**	**796**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
As at 1 January 2019	47	88	429	564
Net transfers between stages	-	(19)	19	-
Amounts written-off	-	-	(46)	(46)
Charge (reversal) for the period - net	11	(4)	35	42
Exchange adjustments and other movements	(1)	(1)	19	17
As at 30 September 2019	57	64	456	577

All figures in US$ million

6 OTHER OPERATING INCOME

	30 September 2020	*30 September 2019*
Fee and commission income - net*	**104**	147
Bureau processing income	**17**	24
Income (loss) from trading book - net	**121**	(1)
Gain on dealing in foreign currencies - net	**(109)**	28
(Loss) gain on hedging foreign currency movements**	**(133)**	(21)
Gain on disposal of non-trading debt investments - net	**22**	10
Gain on trading securities - net	**13**	5
Others - net	**11**	20
	46	212

*Included in the fee and commission income is US$ 10 million (30 September 2019: US$ 9 million) of fee income relating to funds under management.

**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

	30 September 2020	*30 September 2019*
Non-trading debt investments	**5**	(1)
Loans and advances	**220**	42
Credit commitments and contingent items	**8**	5
Other financial assets	**1**	-
	234	46

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
- **Others** includes activities of Arab Financial Services Company B.S.C. (c) and Ila Bank.

All figures in US$ million

8 OPERATING SEGMENTS (continued)

Nine-month period ended 30 September 2020	***MENA subsidiaries***	***International wholesale banking***	***Group treasury***	***ABC Brasil***	***Others***	***Total***
Net interest income	**90**	**124**	**48**	**108**	**12**	**382**
Other operating income (expense)	**25**	**44**	**42**	**(80)**	**15**	**46**
Total operating income	**115**	**168**	**90**	**28**	**27**	**428**
Profit (loss) before credit losses, taxation and unallocated operating expenses	**42**	**92**	**73**	**(44)**	**(18)**	**145**
Credit loss expense	**(14)**	**(174)**	**-**	**(45)**	**(1)**	**(234)**
Profit (loss) before taxation and unallocated operating expenses	**28**	**(82)**	**73**	**(89)**	**(19)**	**(89)**
Taxation (charge) reversal on foreign operations	**(12)**	**(2)**	**-**	**136**	**-**	**122**
Unallocated operating expenses						**(77)**
Loss for the period						**(44)**
Operating assets as at 30 September 2020	**3,578**	**8,568**	**9,961**	**7,254**	**148**	**29,509**
Operating liabilities as at 30 September 2020	**2,983**	**-**	**16,034**	**6,333**	**132**	**25,482**

Nine-month period ended 30 September 2019	*MENA subsidiaries*	*International wholesale banking*	*Group treasury*	*ABC Brasil*	*Others*	*Total*
Net interest income	88	129	24	130	50	421
Other operating income	32	59	32	72	17	212
Total operating income	120	188	56	202	67	633
Profit before credit losses, taxation and unallocated operating expenses	46	104	41	105	38	334
Credit loss expense	(14)	(10)	-	(22)	-	(46)
Profit before taxation and unallocated operating expenses	32	94	41	83	38	288
Taxation charge on foreign operations	(10)	(4)	-	5	-	(9)
Unallocated operating expenses						(85)
Profit for the period						194
Operating assets as at 31 December 2019	3,558	10,132	8,198	8,113	67	30,068
Operating liabilities as at 31 December 2019	3,041	-	15,572	6,923	43	25,579

All figures in US$ million

9 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables 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 2020:

Financial assets measured at fair value:

	Level 1	*Level 2*	*Total*
Trading securities	**460**	**-**	**460**
Non-trading investments	**4,706**	**257**	**4,963**
Loans and advances	**7**	**508**	**515**
Derivatives held for trading	**439**	**675**	**1,114**
Derivatives held as hedges	**-**	**1**	**1**

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 30 September 2020:

Financial liabilities measured at fair value:

	Level 1	*Level 2*	*Total*
Derivatives held for trading	**397**	**600**	**997**
Derivatives held as hedges	**-**	**184**	**184**

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2019:

Financial assets measured at fair value:

	Level 1	*Level 2*	*Total*
Trading securities	507	-	507
Non-trading investments	4,762	165	4,927
Loans and advances	11	192	203
Derivatives held for trading	213	302	515
Derivatives held as hedges	-	3	3

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

Financial liabilities measured at fair value:

	Level 1	*Level 2*	*Total*
Derivatives held for trading	150	313	463
Derivatives held as hedges	-	57	57

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.

	30 September 2020		*31 December 2019*	
	Carrying value	***Fair value***	*Carrying value*	*Fair value*
Financial assets				
Non-trading debt investments at amortised cost - gross	**1,036**	**1,037**	912	913
Financial liabilities				
Borrowings	**1,788**	**1,788**	2,080	2,079

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 reporting 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 current period and prior year.

10 CREDIT COMMITMENTS AND CONTINGENT ITEMS

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

	30 September 2020			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Credit commitments and contingencies	**2,848**	**221**	**14**	**3,083**
ECL allowances	**(13)**	**(8)**	**(11)**	**(32)**

	31 December 2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Credit commitments and contingencies	3,789	289	25	4,103
ECL allowances	(14)	(13)	(11)	(38)

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 1 January 2020	14	13	11	38
ECL movements for the period - net	(1)	(5)	-	(6)
As at 30 September 2020	**13**	**8**	**11**	**32**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
As at 1 January 2019	14	22	16	52
ECL movements for the period - net	(1)	(6)	(5)	(12)
As at 30 September 2019	13	16	11	40

b) Credit commitments and contingencies

	30 September 2020	*31 December 2019*
Short-term self-liquidating trade and transaction-related contingent items	**2,538**	2,449
Direct credit substitutes, guarantees	**2,595**	3,349
Undrawn loans and other commitments	**1,823**	2,416
	6,956	8,214
Credit exposure after applying credit conversion factor	**3,083**	4,103
Risk weighted equivalents	**2,561**	3,059

c) Derivatives

The outstanding notional amounts at the reporting date were as follows:

	30 September 2020	*31 December 2019*
Interest rate swaps	**12,618**	14,163
Currency swaps	**412**	663
Forward foreign exchange contracts	**5,389**	5,447
Options	**6,831**	8,373
Futures	**4,996**	4,234
	30,246	32,880
Risk weighted equivalents (credit and market risk)	**1,915**	2,226

All figures in US$ million

11 RISK MANAGEMENT

Liquidity risk

The Group is required to comply with the liquidity requirements as stipulated by its regulator, the CBB. These requirements relate to maintaining a minimum of 100% (temporarily reduced to 80% up to 31 December 2020) liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). LCR is calculated as a ratio of its stock of HQLA and net outflows over the next 30 calendar days. NSFR is calculated as a ratio of ‘available stable funding’ to ‘required stable funding’. As at 30 September 2020, the Group’s LCR and NSFR were at 266% (31 December 2019: 303%) and 120% (31 December 2019: 115%) respectively.

12 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 and year-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***	***30 September 2020***
Deposits from customers	**3,110**	**700**	**8**	**3,818**
Borrowings	**1,505**	**-**	**-**	**1,505**
Short-term self-liquidating trade and transaction-related contingent items	**204**	**-**	**-**	**204**

	Ultimate parent	*Major share-holder*	*Directors*	*31 December 2019*
Deposits from customers	3,161	700	8	3,869
Borrowings	1,505	-	-	1,505
Short-term self-liquidating trade and transaction-related contingent items	348	-	-	348

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

	30 September 2020	*30 September 2019*
Commission income	**4**	6
Interest expense	**73**	123

13 IMPACT OF COVID-19

On 11 March 2020, the spread of the COVID-19 virus around the world was declared a pandemic by the World Health Organisation. Many countries’ governments, including the Kingdom of Bahrain and other countries where the Group operates, have implemented restrictions aimed at limiting the rate of its spread which have had immediate impact on people, businesses and economies. Additionally, governments and central banks of economies where the Group operates have launched economic support and relief measures (including payment reliefs) to minimise the impact on individuals and corporates.

The Group is closely monitoring the situation and to ensure operational resilience and continuity of our operations. The Bank has activated its business continuity planning and other risk management practices to manage the potential impact of the business disruption due to COVID-19 outbreak, on its operations and financial performance.

All figures in US$ million

13 IMPACT OF COVID-19 (continued)

Further, banking and accounting regulators have provided guidance on the appropriate provisioning treatment relative to the support provided to customers as a result of the COVID-19 crisis. Accordingly, the Group has performed an assessment of COVID-19 implications on its financial results, Expected Credit Loss (ECL) methodology, use of forward looking information and judgements for the period ended 30 September 2020, and these are described below.

a) Reasonableness of forward looking information and probability weights

The Group uses a range of macro-economic factors in ECL assessment relevant to multiple jurisdictions of operations considering its global footprint under three scenarios, upward, base and downward case. The Group reviews and updates selected economic series on regular basis and applies its judgement in determining what constitutes reasonable and forward-looking estimates.

During the third quarter of 2020, the Group has used the Moody’s latest macroeconomic data which has been reviewed and approved by the management and considered as fit for use for the purpose of ECL modelling. In making estimates, the Group assessed a range of possible outcomes by stressing the macroeconomic factors (that includes upward, base and downward case scenarios) and changed the weightings of upward, base and downward cases to 30%, 60% and 10% respectively (31 December 2019: 30%, 40% and 30% respectively for upward, base and downward cases).

b) Support for customers and associated ECL treatment

Obligors seeking forbearance in the form of a deferral of repayments or interest as a result of the impact of COVID-19 have been treated in line with local regulatory guidelines in each jurisdiction. The staging and ECL estimation for such customers and any associated reporting are also done in line with regulatory guidance.

c) Application of overlays to specific industry and customer portfolios

Considering the current scenario, the Group has applied overlays on the ECL estimates based on internal stress testing analysis (alongside significant judgements). While estimating the overlays, considerations were given to potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well the potential trajectory of the subsequent recovery. The Group also considered the likely differential impacts on portfolio and sector classes, including pronouncements from different regulatory bodies regarding IFRS 9 application in the context of COVID-19. The Group will continue to reassess these overlays and scenario weightages as more information becomes available.

As a result of the COVID-19 event, the Group reviewed its entire portfolio of obligors and associated exposures. For those obligors where an SICR was considered as being probable in the short-term, the Group sought to reflect the change in risk through imposing overlays including lowering the respective credit rating.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

d) Modification of financial assets

The CBB issued several circulars with respect to COVID-19 outbreak to banks in the Kingdom of Bahrain with respect to deferral of repayments of principal and interest due for affected sectors, pursuant to which the Group has assessed the deferral requests received on a case to case basis in compliance with CBB circulars. As the Group has not granted any interest waiver requests, no modification loss has been recognised during the period ended 30 September 2020.

e) Subsequent events

The implications of the COVID-19 pandemic are ongoing and the outcome of this event cannot still be estimated with reasonable certainty. Hence, "non-adjusting events" in line with IAS 10 "Subsequent events" cannot be reasonably quantified at the date of issuance of these interim condensed consolidated financial statements.