

Arab Banking Corporation (B.S.C.)

INTERIM CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

30 SEPTEMBER 2013 (UNAUDITED)



المؤسسة العربية المصرفية (ش.م.ب.)
ARAB BANKING CORPORATION (B.S.C.)

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF ARAB BANKING CORPORATION (B.S.C.)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Arab Banking Corporation (B.S.C.) [the Bank] and its subsidiaries [together the Group] as at 30 September 2013, comprising of the interim consolidated statement of financial position as at 30 September 2013 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.



27 October 2013
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2013 (Unaudited)

All figures in US\$ million

| | Unaudited 30 September 2013 | Audited 31 December 2012 <i>Restated *</i> |
|--|--|--|
| ASSETS | | |
| Liquid funds | 1,061 | 1,532 |
| Trading securities | 108 | 64 |
| Placements with banks and other financial institutions | 4,598 | 4,334 |
| Securities bought under repurchase agreements | 961 | 578 |
| Non-trading securities | 5,020 | 4,005 |
| Loans and advances | 13,051 | 12,860 |
| Interest receivable | 329 | 364 |
| Other assets | 831 | 674 |
| Premises and equipment | 120 | 116 |
| TOTAL ASSETS | 26,079 | 24,527 |
| LIABILITIES | | |
| Deposits from customers | 12,354 | 12,029 |
| Deposits from banks and other financial institutions | 5,304 | 5,142 |
| Certificates of deposit | 28 | 35 |
| Securities sold under repurchase agreements | 398 | 419 |
| Interest payable | 256 | 245 |
| Taxation | 114 | 119 |
| Other liabilities | 552 | 552 |
| TERM NOTES, BONDS AND OTHER TERM FINANCING | 2,765 | 1,782 |
| Total liabilities | 21,771 | 20,323 |
| EQUITY | | |
| Share capital | 3,110 | 3,110 |
| Reserves | 774 | 668 |
| EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT | 3,884 | 3,778 |
| Non-controlling interests | 424 | 426 |
| Total equity | 4,308 | 4,204 |
| TOTAL LIABILITIES AND EQUITY | 26,079 | 24,527 |

* Restatement as described in note 2.3

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 27 October 2013 and signed on their behalf by the Chairman and the Acting President & Chief Executive.



Saddek El Kaber
Chairman



Khaled Kawan
Acting President & Chief Executive

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

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF INCOME

Nine-month period ended 30 September 2013 (Unaudited)

All figures in US\$ million

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|-------|-----------------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| OPERATING INCOME | | | | |
| Interest and similar income | 260 | 260 | 754 | 808 |
| Interest and similar expense | (134) | (132) | (382) | (411) |
| Net interest income | 126 | 128 | 372 | 397 |
| Other operating income | 82 | 72 | 277 | 210 |
| Total operating income | 208 | 200 | 649 | 607 |
| Impairment provisions - net | (6) | (13) | (44) | (41) |
| NET OPERATING INCOME AFTER PROVISIONS | 202 | 187 | 605 | 566 |
| OPERATING EXPENSES | | | | |
| Staff | 69 | 68 | 233 | 208 |
| Premises and equipment | 8 | 9 | 29 | 26 |
| Other | 22 | 21 | 65 | 66 |
| Total operating expenses | 99 | 98 | 327 | 300 |
| PROFIT BEFORE TAXATION | 103 | 89 | 278 | 266 |
| Taxation on foreign operations | (23) | (24) | (58) | (66) |
| PROFIT FOR THE PERIOD | 80 | 65 | 220 | 200 |
| Income attributable to non-controlling interests | (14) | (12) | (42) | (42) |
| PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT | 66 | 53 | 178 | 158 |
| BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$) | 0.02 | 0.02 | 0.06 | 0.05 |



Saddek El Kaber
Chairman



Khaled Kawan
Acting President & Chief Executive

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Nine-month period ended 30 September 2013 (Unaudited)

All figures in US\$ million

| | Three months ended | | Nine months ended | |
|--|--------------------|------|-------------------|------|
| | 30 September | | 30 September | |
| | 2013 | 2012 | 2013 | 2012 |
| PROFIT FOR THE PERIOD | 80 | 65 | 220 | 200 |
| Other comprehensive income: | | | | |
| <i>Other comprehensive income that could be reclassified (or recycled) to profit or loss in subsequent periods:</i> | | | | |
| Net fair value movements during the period after impairment effect | 4 | 12 | (10) | 22 |
| Amortisation of fair value shortfall on reclassified securities | 2 | 3 | 9 | 12 |
| Unrealised loss on exchange translation of foreign subsidiaries | (13) | (7) | (105) | (79) |
| | (7) | 8 | (106) | (45) |
| <i>Other comprehensive income that could not be reclassified (or recycled) to profit or loss in subsequent periods:</i> | | | | |
| Net change in pension fund reserve | - | (1) | (1) | (2) |
| | - | (1) | (1) | (2) |
| Total other comprehensive (loss) income for the period | (7) | 7 | (107) | (47) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 73 | 72 | 113 | 153 |
| Total comprehensive loss attributable to non-controlling interests | (8) | (3) | (7) | (11) |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT | 65 | 69 | 106 | 142 |

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Nine-month period ended 30 September 2013 (Unaudited)

All figures in US\$ million

| | Nine months ended 30 September | |
|---|-----------------------------------|----------------|
| | 2013 | 2012 |
| OPERATING ACTIVITIES | | |
| Profit for the period | 220 | 200 |
| Adjustments for: | | |
| Impairment provisions - net | 44 | 41 |
| Depreciation and amortisation | 9 | 10 |
| Gain on disposal of non-trading securities - net | (14) | (5) |
| Amortisation of fair value shortfall on reclassified securities | 9 | 12 |
| Changes in operating assets and liabilities: | | |
| Treasury bills and other eligible bills | 36 | 105 |
| Trading securities | (51) | (4) |
| Placements with banks and other financial institutions | (334) | (311) |
| Securities bought under repurchase agreements | (447) | (597) |
| Loans and advances | (657) | (1,308) |
| Interest receivable and other assets | (168) | (174) |
| Deposits from customers | 586 | 40 |
| Deposits from banks and other financial institutions | 410 | 1,508 |
| Securities sold under repurchase agreements | (18) | (2,319) |
| Interest payable and other liabilities | 62 | 110 |
| Other non-cash movements | (384) | (72) |
| Net cash used in operating activities | (697) | (2,764) |
| INVESTING ACTIVITIES | | |
| Purchase of non-trading securities | (1,808) | (642) |
| Sale and redemption of non-trading securities | 1,127 | 2,782 |
| Purchase of premises and equipment | (8) | (9) |
| Sale of premises and equipment | 4 | 1 |
| Additional investment in a subsidiary | (2) | (1) |
| Net cash (used in) from investing activities | (687) | 2,131 |
| FINANCING ACTIVITIES | | |
| (Redemption) issue of certificates of deposit - net | (5) | 6 |
| Issue of term notes, bonds and other term financing | 1,000 | 1,000 |
| Repayment of other term notes, bonds and other term financing | - | (781) |
| Repurchase of term notes, bonds and other term financing | - | (6) |
| Dividend paid to non-controlling interests | (19) | (16) |
| Net cash from financing activities | 976 | 203 |
| Net change in liquid funds | (408) | (430) |
| Effect of exchange rate changes on liquid funds | (27) | 6 |
| Cash and cash equivalents at beginning of the period | 1,243 | 964 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 808 | 540 |

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

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Nine-month period ended 30 September 2013 (Unaudited)

All figures in US\$ million

| | Attributable to shareholders of the parent | | | | | | | Non-controlling | Total | |
|--|--|-------------------|-----------------|--------------------|----------------------------------|----------------------------------|----------------------|-----------------|------------|--------------|
| | Share capital | Statutory reserve | General reserve | Retained earnings* | Foreign | Cumulative changes in fair value | Pension fund reserve | Total | interests | equity |
| | | | | | exchange translation adjustments | | | | | |
| Balance at 31 December 2012 | 3,110 | 376 | 150 | 340 | (132) | (48) | - | 3,796 | 426 | 4,222 |
| Impact of adopting amendments to IAS 19R at 1 January 2013 | - | - | - | - | - | - | (18) | (18) | - | (18) |
| | 3,110 | 376 | 150 | 340 | (132) | (48) | (18) | 3,778 | 426 | 4,204 |
| Profit for the period | - | - | - | 178 | - | - | - | 178 | 42 | 220 |
| Other comprehensive loss for the period | - | - | - | - | (70) | (1) | (1) | (72) | (35) | (107) |
| Total comprehensive income (loss) for the period | - | - | - | 178 | (70) | (1) | (1) | 106 | 7 | 113 |
| Other equity movements in subsidiaries | - | - | - | - | - | - | - | - | (9) | (9) |
| Balance at 30 September 2013 | 3,110 | 376 | 150 | 518 | (202) | (49) | (19) | 3,884 | 424 | 4,308 |
| Balance at 31 December 2011 | 3,110 | 355 | 150 | 156 | (77) | (96) | - | 3,598 | 421 | 4,019 |
| Impact of adopting amendments to IAS 19R at 1 January 2012 | - | - | - | - | - | - | (14) | (14) | - | (14) |
| | 3,110 | 355 | 150 | 156 | (77) | (96) | (14) | 3,584 | 421 | 4,005 |
| Profit for the period | - | - | - | 158 | - | - | - | 158 | 42 | 200 |
| Other comprehensive (loss) income for the period | - | - | - | - | (48) | 34 | (2) | (16) | (31) | (47) |
| Total comprehensive income (loss) for the period | - | - | - | 158 | (48) | 34 | (2) | 142 | 11 | 153 |
| Other equity movements in subsidiaries | - | - | - | - | - | - | - | - | (16) | (16) |
| Balance at 30 September 2012 | 3,110 | 355 | 150 | 314 | (125) | (62) | (16) | 3,726 | 416 | 4,142 |

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 406 million (31 December 2012: US\$ 406 million).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2013 (Unaudited)

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.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the nine-month period ended 30 September 2013 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 2012. In addition, results for the nine-month period ended 30 September 2013 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

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 2012, except for the adoption of new standards and interpretations effective as of 1 January 2013.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendment to IAS 1

The amendment to IAS 1 introduces a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and had no impact on the Group's financial position or performance.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 New standards, interpretations and amendments adopted by the Group (continued)

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

The Group also adopted the revisions to IAS 19 *Employee Benefits* issued by the IASB in 2011, effective for annual periods beginning on or after 1 January 2013, retrospectively. The most significant amendment requires actuarial gains and losses to be recognised in other comprehensive income (OCI) and excluded permanently from profit and loss, and also removes the option to defer the recognition of actuarial gains and losses (i.e. the corridor approach) available under the previous standard.

The Group operates a defined benefit plan in ABC International Bank Plc ("ABCIB") [subsidiary of the Bank] known as the ABC International Bank plc UK Retirement Benefits & Life Assurance Scheme ("the Scheme"), providing benefits based on final pensionable salary. The assets of the Scheme are held separately from those of ABCIB and are administered by the Trustees of the Scheme who include employees of ABCIB. The Scheme was closed to the future accrual of benefits on 30 September 2010 and is now closed to new entrants. All active members at this date became deferred members.

The change in accounting policy has been effected in accordance with IAS 8, requiring the restatement to be reflected in the earliest period presented. The impact of this change is reflected in the interim consolidated statement of comprehensive income.

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for reportable segments are reported in note 3.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period requires that they are provided. Accordingly, the Group has not made such disclosures.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements period. The Group provides these disclosures in note 4.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2013 (Unaudited)

All figures in US\$ million

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 New standards, interpretations and amendments adopted by the Group (continued)

In addition to the above, the Group adopted the following new standards and amendments effective as of 1 January 2013:

- IAS 1 Clarification of the requirement for comparative information (Amendment)
- IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)
- IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7
- IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures

The adoption of the above new standards and amendments did not have any material impact on the Group's financial position, performance or disclosures.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2013 (Unaudited)

All figures in US\$ million

3 OPERATING SEGMENTS

For management purposes, the Group is organised into five operating segments which are based on business units and their activities. The Group has accordingly been structured to place its activities under the distinct divisions which are as follows:

- **MENA subsidiaries** cover retail, corporate and treasury activities of subsidiaries in North Africa and Levant;
- **International wholesale banking** encompasses corporate and structured finance, trade finance, Islamic banking services and syndications;
- **Group treasury** comprises treasury activities of Bahrain Head Office, New York and London;
- **ABC Brasil** primarily reflects the commercial banking activities of the Brazilian subsidiary Banco ABC Brasil S.A., focussing on the corporate and middle market segments in Brazil; and
- **Other** includes activities of Arab Financial Services B.S.C. (c).

| Nine-month period ended 30 September 2013 | <i>International</i> | | | | | <i>Total</i> |
|---|--------------------------|--------------------------|-----------------------|-------------------|--------------|--------------|
| | <i>MENA subsidiaries</i> | <i>wholesale banking</i> | <i>Group treasury</i> | <i>ABC Brasil</i> | <i>Other</i> | |
| Net interest income | 86 | 79 | 44 | 161 | 2 | 372 |
| Other operating income | 38 | 76 | 53 | 91 | 19 | 277 |
| Total operating income | 124 | 155 | 97 | 252 | 21 | 649 |
| Profit before impairment provisions | 60 | 108 | 80 | 154 | 5 | 407 |
| Impairment (provisions) writeback - net | (3) | (22) | 12 | (32) | 1 | (44) |
| Profit before taxation and unallocated operating expenses | 57 | 86 | 92 | 122 | 6 | 363 |
| Taxation on foreign operations | (16) | (6) | (1) | (35) | - | (58) |
| Unallocated operating expenses | - | - | - | - | - | (85) |
| Profit for the period | | | | | | 220 |
| Operating assets as at 30 September 2013 | 3,224 | 7,931 | 8,282 | 6,582 | 60 | 26,079 |
| Operating liabilities as at 30 September 2013 | 2,878 | - | 13,438 | 5,444 | 11 | 21,771 |

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2013 (Unaudited)

All figures in US\$ million

3 OPERATING SEGMENTS (continued)

| Nine-month period ended 30 September 2012 | <i>International</i> | | | | | <i>Total</i> |
|---|--------------------------|--------------------------|-----------------------|-------------------|--------------|--------------|
| | <i>MENA subsidiaries</i> | <i>wholesale banking</i> | <i>Group treasury</i> | <i>ABC Brasil</i> | <i>Other</i> | |
| Net interest income | 84 | 72 | 58 | 180 | 3 | 397 |
| Other operating income | 32 | 64 | 18 | 78 | 18 | 210 |
| Total operating income | 116 | 136 | 76 | 258 | 21 | 607 |
| Profit before impairment provisions | 55 | 96 | 63 | 164 | 2 | 380 |
| Impairment (provisions) writeback - net | (8) | (6) | 13 | (33) | (7) | (41) |
| Profit before taxation and unallocated operating expenses | 47 | 90 | 76 | 131 | (5) | 339 |
| Taxation on foreign operations | (17) | (7) | (1) | (41) | - | (66) |
| Unallocated operating expenses | - | - | - | - | - | (73) |
| Profit for the period | | | | | | 200 |
| Operating assets as at 31 December 2012 | 3,135 | 7,818 | 7,341 | 6,189 | 44 | 24,527 |
| Operating liabilities as at 31 December 2012 | 2,802 | - | 12,474 | 5,036 | 11 | 20,323 |

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2013 (Unaudited)

All figures in US\$ million

4 FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments held by the Group as at 30 September 2013:

| | <i>Held for trading</i> | <i>Available-for-sale</i> | <i>Amortised cost/ Loans and receivables</i> | <i>Total</i> |
|--|-------------------------|---------------------------|--|---------------|
| FINANCIAL ASSETS | | | | |
| Liquid funds | - | - | 1,061 | 1,061 |
| Trading securities | 108 | - | - | 108 |
| Placements with banks and other financial institutions | - | - | 4,598 | 4,598 |
| Securities bought under repurchase agreements | - | - | 961 | 961 |
| Non-trading securities * | - | 3,389 | 1,631 | 5,020 |
| Loans and advances | - | - | 13,051 | 13,051 |
| Interest receivable and other assets | - | - | 1,160 | 1,160 |
| | 108 | 3,389 | 22,462 | 25,959 |
| FINANCIAL LIABILITIES | | | | |
| Deposits from customers | - | - | 12,354 | 12,354 |
| Deposits from banks and other financial institutions | - | - | 5,304 | 5,304 |
| Certificates of deposit | - | - | 28 | 28 |
| Securities sold under repurchase agreements | - | - | 398 | 398 |
| Interest payable, taxation and other liabilities | - | - | 922 | 922 |
| TERM NOTES, BONDS AND OTHER TERM FINANCING | - | - | 2,765 | 2,765 |
| | - | - | 21,771 | 21,771 |

* Available-for-sale non-trading securities include unquoted equity securities carried at cost amounting to US\$ 37 million net of provisions. This is due to the unpredictable nature of future cash flows and lack of suitable alternative methods to arrive at a reliable fair value. There is no market for these investments and the Group intends to hold them for the long term.

Derivative financial instruments

At 30 September 2013, derivatives held for trading amounted to US\$ 10,511 million and derivatives held as hedges amounted to US\$ 2,411 million.

Fair value

Fair value is an amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

The fair values of financial assets and financial liabilities which are not carried at fair value are not materially different from their carrying value.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2013 (Unaudited)

All figures in US\$ million

4 FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 valuation: Directly observable quotes for the same instrument (market prices).

Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date (mark-to-model with market data).

Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed (mark-to-model with deduced proxies).

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.

As at 30 September 2013, the Group held the following classes of financial instruments measured at fair value:

| | <i>Level 1</i> | <i>Level 2</i> | <i>Total</i> |
|------------------------------|----------------|----------------|--------------|
| Financial assets | | | |
| Trading securities | 105 | 3 | 108 |
| Non-trading securities | 2,760 | 592 | 3,352 |
| Derivatives held for trading | - | 165 | 165 |
| Derivatives held as hedges | - | 113 | 113 |
| Financial liabilities | | | |
| Derivatives held for trading | - | 159 | 159 |
| Derivatives held as hedges | - | 5 | 5 |

Transfers between level 1 and level 2

During the period ended 30 September 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Valuation techniques

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2013 (Unaudited)

All figures in US\$ million

5 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

| | Unaudited 30 September 2013 | Audited 31 December 2012 |
|--|--|---|
| Short-term self-liquidating trade and transaction-related contingent items | 4,409 | 4,985 |
| Direct credit substitutes, guarantees and acceptances | 3,560 | 3,739 |
| Undrawn loans and other commitments | 1,506 | 1,299 |
| | 9,475 | 10,023 |
| | 3,128 | 3,236 |

b) Derivatives

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

| | Unaudited 30 September 2013 | Audited 31 December 2012 |
|------------------------------------|--|---|
| Interest rate swaps | 2,692 | 2,455 |
| Currency swaps | 241 | 207 |
| Forward foreign exchange contracts | 5,397 | 4,299 |
| Options | 907 | 1,899 |
| Futures | 3,685 | 992 |
| | 12,922 | 9,852 |
| | 1,654 | 1,591 |



المؤسسة العربية المصرفية (ش.م.ب.)
ARAB BANKING CORPORATION (B.S.C.)