

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 2019 (REVIEWED)

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Arab Banking Corporation (B.S.C.) [the "Bank"] and its subsidiaries [together the "Group"] as at 30 June 2019, comprising of the interim consolidated statement of financial position as at 30 June 2019 and the related interim consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity 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 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.



7 August 2019
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019 (Reviewed)

All figures in US\$ Million

	<i>Note</i>	Reviewed 30 June 2019	Audited 31 December 2018
ASSETS			
Liquid funds		1,342	1,607
Trading securities		957	977
Placements with banks and other financial institutions		2,399	2,991
Securities bought under repurchase agreements		1,798	1,668
Non-trading investments	4	6,070	5,661
Loans and advances	5	15,033	14,884
Other assets		1,892	1,601
Premises and equipment		169	160
TOTAL ASSETS		29,660	29,549
LIABILITIES			
Deposits from customers		16,377	16,425
Deposits from banks		3,698	4,207
Certificates of deposit		403	39
Securities sold under repurchase agreements		1,066	1,271
Taxation		44	43
Other liabilities		1,594	1,236
Borrowings		2,079	2,012
Total liabilities		25,261	25,233
EQUITY			
Share capital		3,110	3,110
Treasury shares		(5)	(4)
Statutory reserve		501	501
Retained earnings		986	966
Other reserves		(664)	(711)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		3,928	3,862
Non-controlling interests		471	454
Total equity		4,399	4,316
TOTAL LIABILITIES AND EQUITY		29,660	29,549

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



Saddek El Kaber
Chairman



Mohammad Abdulredha Saleem
Deputy Chairman



Khaled Kawan
Group Chief Executive Officer

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

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Six-month period ended 30 June 2019 (Reviewed)

All figures in US\$ Million

	<i>Note</i>	<i>Reviewed</i>			
		<i>Three months ended</i>		<i>Six months ended</i>	
		<i>30 June</i>		<i>30 June</i>	
		2019	2018	2019	2018
OPERATING INCOME					
Interest and similar income		368	382	745	741
Interest and similar expense		(228)	(243)	(466)	(464)
Net interest income		140	139	279	277
Other operating income	6	82	39	158	112
Total operating income		222	178	437	389
Credit loss expense on financial assets	7	(10)	(18)	(21)	(30)
NET OPERATING INCOME AFTER CREDIT LOSS EXPENSE		212	160	416	359
OPERATING EXPENSES					
Staff		84	80	170	162
Premises and equipment		10	10	20	19
Other		35	31	67	59
Total operating expenses		129	121	257	240
PROFIT BEFORE TAXATION		83	39	159	119
Taxation (expense) credit on foreign operations		(14)	34	(24)	20
PROFIT FOR THE PERIOD		69	73	135	139
Profit attributable to non-controlling interests		(12)	(13)	(23)	(26)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		57	60	112	113
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)					
		0.02	0.02	0.04	0.04



Saddek El Kaber
Chairman



Mohammad Abdulredha Saleem
Deputy Chairman



Khaled Kawan
Group Chief Executive Officer

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

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six-month period ended 30 June 2019 (Reviewed)

All figures in US\$ Million

	<i>Reviewed</i>			
	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
PROFIT FOR THE PERIOD	69	73	135	139
Other comprehensive income:				
<i>Other comprehensive income that will be reclassified (or recycled) to profit or loss in subsequent periods:</i>				
<u>Foreign currency translation:</u>				
Unrealised gain (loss) on exchange translation in foreign subsidiaries	20	(166)	22	(165)
<u>Debt instruments at FVOCI:</u>				
Net change in fair value during the period	-	(23)	29	(30)
Other comprehensive income (loss) for the period	20	(189)	51	(195)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	89	(116)	186	(56)
Attributable to:				
Shareholders of the parent	70	(64)	159	(14)
Non-controlling interests	19	(52)	27	(42)
	89	(116)	186	(56)

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

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Six-month period ended 30 June 2019 (Reviewed)

All figures in US\$ million

	Reviewed	
	Six months ended	
	30 June	
	2019	2018
OPERATING ACTIVITIES		
Profit for the period	135	139
Adjustments for:		
Credit loss expense on financial assets	21	30
Depreciation and amortisation	18	11
Gain on disposal of non-trading debt investments - net	(6)	(2)
Changes in operating assets and liabilities:		
Treasury bills and other eligible bills	(22)	(42)
Trading securities	29	(355)
Placements with banks and other financial institutions	609	820
Securities bought under repurchase agreements	(113)	148
Loans and advances	(115)	(436)
Other assets	(280)	(585)
Deposits from customers	(140)	205
Deposits from banks	(534)	(260)
Securities sold under repurchase agreements	(209)	(466)
Other liabilities	351	157
Other non-cash movements	(70)	155
Net cash used in operating activities	(326)	(481)
INVESTING ACTIVITIES		
Purchase of non-trading investments	(1,491)	(745)
Sale and redemption of non-trading investments	1,209	927
Purchase of premises and equipment	(18)	(12)
Sale of premises and equipment	2	3
Investment in subsidiaries - net	4	(2)
Net cash (used in) from investing activities	(294)	171
FINANCING ACTIVITIES		
Issue of certificates of deposit - net	366	11
Issue of borrowings	162	-
Repayment and repurchase of borrowings	(92)	(25)
Dividend paid to Group's shareholders	(93)	(93)
Dividend paid to non-controlling interests	(14)	(9)
Purchase of treasury shares	(1)	(1)
Net cash from (used in) financing activities	328	(117)
Net change in cash and cash equivalents	(292)	(427)
Effect of exchange rate changes on cash and cash equivalents	5	(15)
Cash and cash equivalents at beginning of the period	1,341	1,160
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	1,054	718

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

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six-month period ended 30 June 2019 (Reviewed)

All figures in US\$ Million

	Equity attributable to the shareholders of the parent									Non-controlling interests	Total equity
						Other reserves					
	Share capital	Treasury shares	Statutory reserve	Retained earnings*	General reserve	Foreign exchange translation adjustments	Cumulative changes in fair value	Pension fund reserve	Total		
At 31 December 2018	3,110	(4)	501	966	100	(744)	(37)	(30)	3,862	454	4,316
Profit for the period	-	-	-	112	-	-	-	-	112	23	135
Other comprehensive income for the period	-	-	-	-	-	18	29	-	47	4	51
Total comprehensive income for the period	-	-	-	112	-	18	29	-	159	27	186
Dividend	-	-	-	(93)	-	-	-	-	(93)	-	(93)
Purchase of treasury shares	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Other equity movements in subsidiaries	-	-	-	1	-	-	-	-	1	(10)	(9)
At 30 June 2019 (reviewed)	3,110	(5)	501	986	100	(726)	(8)	(30)	3,928	471	4,399

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 433 million (31 December 2018: US\$ 429 million).

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

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six-month period ended 30 June 2019 (Reviewed)

All figures in US\$ Million

	Equity attributable to the shareholders of the parent									Non-controlling interests	Total equity
	Other reserves										
	Share capital	Treasury shares	Statutory reserve	Retained earnings	General reserve	Foreign exchange translation adjustments	Cumulative changes in fair value	Pension fund reserve	Total		
At 31 December 2017	3,110	-	481	939	100	(638)	(29)	(33)	3,930	482	4,412
Impact of adopting IFRS 9	-	-	-	(62)	-	-	34	-	(28)	(8)	(36)
Restated balance as at 1 January 2018	3,110	-	481	877	100	(638)	5	(33)	3,902	474	4,376
Profit for the period	-	-	-	113	-	-	-	-	113	26	139
Other comprehensive loss for the period	-	-	-	-	-	(97)	(30)	-	(127)	(68)	(195)
Total comprehensive income (loss) for the period	-	-	-	113	-	(97)	(30)	-	(14)	(42)	(56)
Dividend	-	-	-	(93)	-	-	-	-	(93)	-	(93)
Purchase of treasury shares	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Other equity movements in subsidiaries	-	-	-	(2)	-	-	-	-	(2)	-	(2)
At 30 June 2018 (reviewed)	3,110	(1)	481	895	100	(735)	(25)	(33)	3,792	432	4,224

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS

30 June 2019 (Reviewed)

All figures in US\$ million

1 INCORPORATION AND ACTIVITIES

Arab Banking Corporation (B.S.C.) [the "Bank"] is incorporated in the Kingdom of Bahrain by an Amiri decree and operates under a wholesale banking licence issued by the Central Bank of Bahrain. The Bank is a Bahraini Shareholding Company with limited liability and is listed on the Bahrain Bourse. The Central Bank of Bahrain is the ultimate parent of the Bank and its subsidiaries (together the "Group").

The Bank's registered office is at ABC Tower, Diplomatic Area, P.O. Box 5698, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 10299 issued by the Ministry of Industry, Commerce and Tourism, Kingdom of Bahrain.

The Group offers a range of international wholesale banking services including Corporate Banking & Financial Institutions, Project & Structured Finance, Syndications, Treasury, Trade Finance services and Islamic Banking. Retail banking services are only provided in the MENA region.

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

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended 30 June 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018. The Bank has adopted IFRS 16 Leases (IFRS 16) from 1 January 2019 and accounting policies for this new standard is disclosed in note 3. In addition, results for the six-month period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

2.2 Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and its subsidiaries after elimination of inter-company transactions and balances.

2.3 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019.

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

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

2.3.1 IFRS 16 Leases

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

All figures in US\$ million

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

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

2.3.1 IFRS 16 Leases (continued)

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Right-of-use assets

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

All figures in US\$ million

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Lease liabilities

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

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

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

4 NON-TRADING INVESTMENTS

	<i>30 June 2019</i>	<i>31 December 2018</i>
Debt securities		
At amortised cost	1,293	1,124
At FVOCI	4,860	4,649
	6,153	5,773
ECL allowances	(92)	(121)
Debt securities - net	6,061	5,652
Equity securities		
At FVOCI	9	9
Equity securities	9	9
	6,070	5,661

Following are the stage wise break-up of debt securities as of 30 June 2019 and 31 December 2018:

	<i>30 June 2019</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Debt securities, gross	5,965	114	74	6,153
ECL allowances	(12)	(6)	(74)	(92)
	5,953	108	-	6,061
	<i>31 December 2018</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Debt securities, gross	5,534	137	102	5,773
ECL allowances	(13)	(6)	(102)	(121)
	5,521	131	-	5,652

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

All figures in US\$ million

5 LOANS AND ADVANCES

	<i>30 June 2019</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Loans and advances, gross	14,129	842	651	15,622
ECL allowances	(51)	(69)	(469)	(589)
	14,078	773	182	15,033
	<i>31 December 2018</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Loans and advances, gross	13,893	938	617	15,448
ECL allowances	(47)	(88)	(429)	(564)
	13,846	850	188	14,884

An analysis of movement in the ECL allowances during the periods ended 30 June 2019 and 30 June 2018 are as follows:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
As at 31 December 2018	47	88	429	564
Net transfers between stages	-	(16)	16	-
Amounts written-off	-	-	(20)	(20)
Charge for the period - net	4	(3)	22	23
Exchange adjustments and other movements	-	-	22	22
As at 30 June 2019	51	69	469	589
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
As at 1 January 2018	42	172	376	590
Net transfers between stages	4	(34)	30	-
Amounts written-off	-	-	(27)	(27)
Charge for the period - net	6	(12)	39	33
Exchange adjustments and other movements	(3)	(3)	(23)	(29)
As at 30 June 2018	49	123	395	567

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

All figures in US\$ million

6 OTHER OPERATING INCOME

	30 June 2019	30 June 2018
Fee and commission income - net	101	104
Bureau processing income	17	10
(Loss) gain on dealing in derivatives - net	(1)	15
Gain on dealing in foreign currencies - net	15	31
Gain (loss) on hedging foreign currency movements*	3	(49)
Gain on disposal of non-trading debt investments - net	6	2
Gain (loss) on trading securities - net	4	(11)
Other - net	13	10
	158	112

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

7 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS

	30 June 2019	30 June 2018
Non-trading debt investments	(1)	(3)
Loans and advances	24	33
Credit commitments, contingent items and other financial assets	(2)	-
	21	30

8 OPERATING SEGMENTS

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

All figures in US\$ million

8 OPERATING SEGMENTS (continued)

Six-month period ended	<i>International</i>					<i>Total</i>
	<i>MENA subsidiaries</i>	<i>wholesale banking</i>	<i>Group treasury</i>	<i>ABC Brasil</i>	<i>Others</i>	
30 June 2019						
Net interest income	58	85	17	85	34	279
Other operating income	21	41	17	68	11	158
Total operating income	79	126	34	153	45	437
Profit before credit losses	30	71	22	88	26	237
Credit loss expense on financial assets	(7)	-	-	(14)	-	(21)
Profit before taxation and unallocated operating expenses	23	71	22	74	26	216
Taxation on foreign operations	(7)	(3)	-	(14)	-	(24)
Unallocated operating expenses						(57)
Profit for the period						135
Operating assets as at 30 June 2019	3,428	8,924	9,320	7,927	61	29,660
Operating liabilities as at 30 June 2019	2,991	-	15,568	6,683	19	25,261
Six-month period ended	<i>International</i>					<i>Total</i>
	<i>MENA subsidiaries</i>	<i>wholesale banking</i>	<i>Group treasury</i>	<i>ABC Brasil</i>	<i>Others</i>	
30 June 2018						
Net interest income	60	80	21	93	23	277
Other operating income	22	40	24	17	9	112
Total operating income	82	120	45	110	32	389
Profit before credit losses	35	72	34	44	21	206
Credit loss expense on financial assets	(3)	(7)	-	(20)	-	(30)
Profit before taxation and unallocated operating expenses	32	65	34	24	21	176
Taxation (expense) credit on foreign operations	(9)	(5)	-	34	-	20
Unallocated operating expenses						(57)
Profit for the period						139
Operating assets as at 31 December 2018	3,283	9,540	8,877	7,778	71	29,549
Operating liabilities as at 31 December 2018	2,918	-	15,613	6,689	13	25,233

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

All figures in US\$ million

9 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Quantitative disclosure of fair value measurement hierarchy for assets as at 30 June 2019:

Financial assets measured at fair value:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Trading securities	957	-	957
Non-trading investments	4,608	173	4,781
Loans and advances	18	405	423
Derivatives held for trading	256	321	577
Derivatives held as hedges	-	1	1

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 30 June 2019:

Financial liabilities measured at fair value:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Derivatives held for trading	228	316	544
Derivatives held as hedges	-	87	87

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

Financial assets measured at fair value:

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

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

Financial liabilities measured at fair value:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Derivatives held for trading	263	150	413
Derivatives held as hedges	-	31	31

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

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.

	<i>30 June 2019</i>		<i>31 December 2018</i>	
	<i>Carrying value</i>	<i>Fair value</i>	<i>Carrying value</i>	<i>Fair value</i>
Financial assets				
Non-trading debt investments				
at amortised cost - gross	1,293	1,303	1,124	1,070
Financial liabilities				
Borrowings	2,079	2,084	2,012	2,017

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 during the period ended 30 June 2019 (31 December 2018: none).

10 CREDIT COMMITMENTS AND CONTINGENT ITEMS**a) Exposure (after applying credit conversion factor) and ECL by stage**

	<i>30 June 2019</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Credit commitments and contingencies	3,582	211	17	3,810
ECL allowances	(14)	(10)	(14)	(38)
	<i>31 December 2018</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Credit commitments and contingencies	3,996	160	17	4,173
ECL allowances	(14)	(22)	(16)	(52)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

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:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
As at 31 December 2018	14	22	16	52
ECL movements for the period - net	-	(12)	(2)	(14)
As at 30 June 2019	14	10	14	38
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
As at 1 January 2018	13	37	3	53
ECL movements for the period - net	-	5	(2)	3
As at 30 June 2018	13	42	1	56

b) Credit commitments and contingencies

	<i>30 June 2019</i>	<i>31 December 2018</i>
Short-term self-liquidating trade and transaction-related contingent items	2,796	3,662
Direct credit substitutes, guarantees	3,715	4,043
Undrawn loans and other commitments	2,359	2,272
	8,870	9,977
Credit exposure after applying credit conversion factor	3,810	4,173
Risk weighted equivalents	3,204	3,274

c) Derivatives

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

	<i>30 June 2019</i>	<i>31 December 2018</i>
Interest rate swaps	12,124	9,719
Currency swaps	631	532
Forward foreign exchange contracts	5,674	3,661
Options	7,638	6,661
Futures	2,953	3,208
	29,020	23,781
Risk weighted equivalents (credit and market risk)	2,188	2,102

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

*All figures in US\$ million***11 TRANSACTIONS WITH RELATED PARTIES**

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

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

	<i>Ultimate parent</i>	<i>Major share- holder</i>	<i>Directors</i>	<i>30 June 2019</i>	<i>31 December 2018</i>
Deposits from customers	3,183	700	7	3,890	3,803
Borrowings	1,505	-	-	1,505	1,505
Short-term self-liquidating trade and transaction-related contingent items	398	-	-	398	515

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

	<i>30 June 2019</i>	<i>30 June 2018</i>
Commission income	4	3
Interest expense	82	72