

Arab Banking Corporation (B.S.C.)
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
31 MARCH 2008 (UNAUDITED)

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 [the Group] as at 31 March 2008 comprising of the interim consolidated balance sheet as at 31 March 2008 and the related interim statements of income, cash flows and changes in equity for the three-month period then ended and explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 [IAS 34] "Interim Financial Reporting". 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.



29 April 08
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

CONSOLIDATED BALANCE SHEET

31 March 2008 (Unaudited)

All figures in US\$ Million

	<i>Note</i>	<i>Unaudited 31 March 2008</i>	<i>Audited 31 December 2007</i>
ASSETS			
Liquid funds		437	335
Trading securities		640	747
Placements with banks and other financial institutions		4,880	5,268
Non-trading securities		11,295	12,890
Loans and advances		12,837	12,329
Investments in associates		33	32
Interest receivable		394	392
Other assets		682	621
Premises and equipment		133	130
TOTAL ASSETS		31,331	32,744
LIABILITIES			
Deposits from customers		11,210	10,791
Deposits from banks and other financial institutions		13,534	15,013
Certificates of deposit		1,082	1,063
Interest payable		308	341
Taxation		22	73
Other liabilities		674	727
TERM NOTES, BONDS AND OTHER TERM FINANCING		2,577	2,579
TOTAL LIABILITIES		29,407	30,587
EQUITY			
Share capital		1,000	1,000
Reserves		45	218
Retained earnings		61	649
		1,106	1,867
Advance against rights issue	6	500	-
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		1,606	1,867
Minority interests		318	290
TOTAL EQUITY		1,924	2,157
TOTAL LIABILITIES AND EQUITY		31,331	32,744



Mohammed Layas
Chairman



Hassan Ali Juma
President & Chief Executive

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements.

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF INCOME

Three months ended 31 March 2008 (Unaudited)

All figures in US\$ Million

	Unaudited	
	31 March	
	2008	2007
OPERATING INCOME		
Interest income	476	353
Interest expense	(384)	(288)
Net interest income	92	65
Other operating income	35	73
Total operating income	127	138
Impairment (provisions) writebacks - net	(603)	6
OPERATING (LOSS) INCOME AFTER PROVISIONS	(476)	144
OPERATING EXPENSES		
Staff	63	44
Premises and equipment	6	5
Other	18	14
Total operating expenses	87	63
(LOSS) PROFIT BEFORE TAXATION	(563)	81
Taxation on foreign operations	(12)	(9)
(LOSS) PROFIT FOR THE PERIOD	(575)	72
Income attributable to minority interests	(12)	(2)
INCOME ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	(587)	70
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	(0.59)	0.07

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended 31 March 2008 (Unaudited)

All figures in US\$ Million

	Unaudited	
	31 March	
	2008	2007
OPERATING ACTIVITIES		
Income attributable to the shareholders of the parent	(587)	70
Items not involving cash flow:		
Impairment provisions (writebacks) - net	603	(6)
Depreciation	3	2
Item considered separately:		
Gains less losses on non-trading securities	4	(3)
Changes in operating assets and liabilities:		
Trading securities	103	(110)
Placements with banks and other financial institutions	1,097	59
Loans and advances	(485)	(118)
Other assets	(61)	(13)
Deposits from customers	381	1,162
Deposits from banks and other financial institutions	(1,488)	(509)
Other liabilities	(116)	31
Other non-cash movements	(147)	(1)
Net cash (used in) from operating activities	(693)	564
INVESTING ACTIVITIES		
Purchase of non-trading securities	(247)	(1,161)
Sale and redemption of non-trading securities	542	649
Purchase of premises and equipment	(11)	(2)
Sale of premises and equipment	4	1
Net cash from (used in) investing activities	288	(513)
FINANCING ACTIVITIES		
Advance against rights issue	500	-
Issue of certificates of deposit – net	3	28
Repayment of term notes, bonds and other term financing - net	(1)	(22)
Net cash from financing activities	502	6
Increase in liquid funds	97	57
Effect of exchange rate changes on liquid funds	5	1
Liquid funds at beginning of the period	335	274
Liquid funds at end of the period*	437	332

* Liquid funds comprise cash, nostro balances and balances with central banks.

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three months ended 31 March 2008 (Unaudited)

All figures in US\$ Million

	Attributable to shareholders of the parent					Minority interests	Total equity		
	Share capital	Statutory reserve	General reserve	Retained earnings*	Cumulative changes in fair value			Advance against rights issue	Total
Movements in 2008									
Balance at 31 December 2007	1,000	309	150	649	(241)	-	1,867	290	2,157
Foreign exchange translation adjustments	-	-	-	(1)	-	-	(1)	16	15
Cumulative changes in fair values and other	-	-	-	-	(173)	-	(173)	-	(173)
Net income recognised directly in equity	-	-	-	(1)	(173)	-	(174)	16	(158)
Loss for the three month period ended 31 March 2008	-	-	-	(587)	-	-	(587)	12	(575)
Total recognised income and expense for the period	-	-	-	(588)	(173)	-	(761)	28	(733)
Advance against rights issue (note 6)	-	-	-	-	-	500	500	-	500
Balance at 31 March 2008	1,000	309	150	61	(414)	500	1,106	318	1,924
Movements in 2007									
Balance at 31 December 2006	1,000	296	150	612	10	-	2,068	50	2,118
Foreign exchange translation adjustments	-	-	-	1	-	-	1	1	2
Cumulative changes in fair values and other	-	-	-	-	6	-	6	-	6
Net income recognised directly in equity	-	-	-	1	6	-	7	1	8
Profit for the three month period ended 31 March 2007	-	-	-	70	-	-	70	2	72
Total recognised income and expense for the period	-	-	-	71	6	-	77	3	80
Dividend	-	-	-	(100)	-	-	(100)	-	(100)
Balance at 31 March 2007	1,000	296	150	583	16	-	2,045	53	2,098

* Retained earnings include US\$ 29 million (31 December 2007) representing net unrealised gains / losses on translation of investments in foreign subsidiaries into US dollars and non-distributable reserves amounting to US\$ 278 million (31 December 2007: US\$ 275 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2008 (Unaudited)

All figures in US\$ Million

1 INCORPORATION AND ACTIVITIES

The Parent Bank, 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.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Bank and its subsidiaries [the Group], for the three months ended 31 March 2008, are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting".

The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the three months ended 31 March 2008 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2008.

Significant accounting policies

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 2007.

3 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.

4 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business and geographical segments. The primary reporting format business segments, is based on the products and services provided or the type of customer serviced and reflects the manner in which financial information is evaluated by management and the Board of Directors.

The results reported for the business segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements. Transactions between segments are conducted at estimated market rates on an arm's length basis.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2008 (Unaudited)

All figures in US\$ Million

4 SEGMENTAL INFORMATION (continued)

	1 January to 31 March 2008								
	Treasury	Project and structured finance	Trade finance	Commercial banking and corporate	Islamic banking services	Retail	Investment banking	Equity and Other	Total
Net interest and other income	13	9	21	32	4	16	-	32	127
Segment result before provision	2	6	10	19	1	5	(2)	32	73
Impairment (provisions) writebacks - net	(601)	(2)	-	2	-	(2)	-	-	(603)
Segment result	(599)	4	10	21	1	3	(2)	32	(530)
Unallocated operating expenses									(33)
Loss before taxation									(563)
Segment assets employed	16,870	2,726	2,443	5,863	1,691	666	29	1,043	31,331
Segment liabilities and equity	28,711	-	-	-	-	-	-	2,620	31,331
	1 January to 31 March 2007								
Treasury	Project and structured finance	Trade finance	Commercial banking and corporate	Islamic banking services	Retail	Investment banking	Equity and Other	Total	
Net interest and other income	42	7	17	26	6	9	-	31	138
Segment result before provision	34	4	9	17	3	2	-	28	97
Write back of provisions - net	-	-	-	6	-	-	-	-	6
Segment result	34	4	9	23	3	2	-	28	103
Unallocated operating expenses									(22)
Profit before taxation									81
Segment assets employed *	18,765	2,521	2,472	5,554	1,620	568	178	1,066	32,744
Segment liabilities and equity*	29,787	-	-	-	-	-	-	2,957	32,744

* At 31 December 2007

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2008 (Unaudited)

All figures in US\$ Million

5 CREDIT COMMITMENTS, CONTINGENCIES AND OTHER OFF BALANCE SHEET ITEMS

a) Credit commitments and contingencies

	<i>Unaudited 31 March 2008</i>	<i>Audited 31 December 2007</i>
Short-term self-liquidating trade and transaction-related contingent items	5,719	4,078
Direct credit substitutes, guarantees and acceptances	1,262	1,125
Forward asset purchase commitments	86	200
Undrawn loans and other commitments	2,326	2,822
	<u>9,393</u>	<u>8,225</u>
Risk weighted equivalents	<u>3,052</u>	<u>2,891</u>

b) Other off balance sheet items

The outstanding notional amounts at the balance sheet date were as follows:

	<i>Unaudited 31 March 2008</i>	<i>Audited 31 December 2007</i>
Interest rate swaps	5,452	7,943
Currency swaps	400	223
Forward foreign exchange contracts	5,652	5,463
Options	7,453	6,988
Futures	1,489	1,107
	<u>20,446</u>	<u>21,724</u>
Risk weighted equivalents (credit and market risk)	<u>1,185</u>	<u>975</u>

6 EQUITY

The Board of Directors at its meeting held on 25 March 2008 resolved to increase the authorised, issued and paid up capital of the Bank.

At an Extraordinary General Meeting held on 29 April 2008, the shareholders resolved to increase the authorised share capital of the Bank from US\$ 1.5 billion to US\$ 2.5 billion and to offer 1 billion shares with a nominal value of US\$ 1 each to existing shareholders in the ratio of one share for every share held, amounting to US\$ 1 billion. This rights issue is subject to regulatory approvals.

As at 31 March 2008, the Bank had received US\$ 500 million as advance against this rights issue.