

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 2012 (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 [together the Group] as at 30 June 2012, comprising of the interim consolidated statement of financial position as at 30 June 2012 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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



22 July 2012
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012 (Unaudited)

All figures in US\$ million

	Unaudited 30 June 2012	<i>Audited</i> <i>31 December</i> <i>2011</i>
ASSETS		
Liquid funds	969	1,399
Trading securities	79	64
Placements with banks and other financial institutions	5,192	4,520
Non-trading securities	4,274	6,050
Loans and advances	12,724	11,985
Interest receivable	393	349
Other assets	696	527
Premises and equipment	117	121
TOTAL ASSETS	24,444	25,015
LIABILITIES		
Deposits from customers	11,481	11,526
Deposits from banks and other financial institutions	5,587	4,273
Certificates of deposit	31	30
Securities sold under repurchase agreements	761	2,907
Interest payable	230	225
Taxation	94	126
Other liabilities	498	461
TERM NOTES, BONDS AND OTHER TERM FINANCING	1,673	1,448
Total liabilities	20,355	20,996
EQUITY		
Share capital	3,110	3,110
Reserves	562	488
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	3,672	3,598
Non-controlling interests	417	421
Total equity	4,089	4,019
TOTAL LIABILITIES AND EQUITY	24,444	25,015

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 22 July 2012 and signed on their behalf by the Chairman and the President & Chief Executive.



Saddek El Kaber
Chairman



Hassan Ali Juma
President & Chief Executive

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF INCOME

Six-month period ended 30 June 2012 (Unaudited)

All figures in US\$ million

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
OPERATING INCOME				
Interest and similar income	268	275	548	554
Interest and similar expense	(135)	(152)	(279)	(307)
Net interest income	133	123	269	247
Other operating income	60	84	138	157
Total operating income	193	207	407	404
Impairment (provisions) writeback - net	(13)	8	(28)	1
NET OPERATING INCOME AFTER PROVISIONS	180	215	379	405
OPERATING EXPENSES				
Staff	72	72	140	142
Premises and equipment	8	9	17	18
Other	23	21	45	41
Total operating expenses	103	102	202	201
PROFIT BEFORE TAXATION	77	113	177	204
Taxation on foreign operations	(12)	(29)	(42)	(56)
PROFIT FOR THE PERIOD	65	84	135	148
Income attributable to non-controlling interests	(14)	(16)	(30)	(32)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	51	68	105	116
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	0.02	0.02	0.03	0.04



Saddek El Kaber
Chairman



Hassan Ali Juma
President & Chief Executive

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six-month period ended 30 June 2012 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	2012	2011	2012	2011
PROFIT FOR THE PERIOD	65	84	135	148
Other comprehensive income:				
Net fair value movements during the period after impairment effect	7	8	10	7
Amortisation of fair value shortfall on reclassified securities	2	11	9	17
Unrealised (loss) gain on exchange translation in foreign subsidiaries	(95)	43	(72)	62
Total other comprehensive (loss) income for the period	(86)	62	(53)	86
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	(21)	146	82	234
Total comprehensive income (loss) attributable to non-controlling interests	19	(33)	(8)	(57)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	(2)	113	74	177

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Six-month period ended 30 June 2012 (Unaudited)

All figures in US\$ million

	Six months ended 30 June	
	2012	2011
OPERATING ACTIVITIES		
Profit for the period	135	148
Adjustments for:		
Impairment provisions - net	28	(1)
Depreciation and amortisation	7	7
Gain on repurchase of term notes, bonds and other term financing	-	(13)
Amortisation of fair value shortfall on reclassified securities	9	17
Changes in operating assets and liabilities:		
Trading securities	(19)	(6)
Placements with banks and other financial institutions	(735)	803
Loans and advances	(1,069)	711
Interest receivable and other assets	(258)	(83)
Deposits from customers	116	407
Deposits from banks and other financial institutions	1,488	(1,513)
Securities sold under repurchase agreements	(2,147)	587
Interest payable and other liabilities	36	(9)
Other non-cash movements	(41)	(2)
Net cash (used in) from operating activities	(2,450)	1,053
INVESTING ACTIVITIES		
Purchase of non-trading securities	(510)	(514)
Sale and redemption of non-trading securities	2,328	1,403
Purchase of premises and equipment	(5)	(6)
Sale of premises and equipment	1	1
Additional investment in a subsidiary	(1)	(16)
Net cash from investing activities	1,813	868
FINANCING ACTIVITIES		
Issue (redemption) of certificates of deposit - net	3	(12)
Issue of term notes, bonds and other term financing	1,000	-
Repayment of other term notes, bonds and other term financing	(781)	(200)
Repurchase of term notes, bonds and other term financing	(6)	(89)
Dividend paid to non-controlling interests	(12)	(12)
Net cash from (used in) financing activities	204	(313)
Net change in liquid funds	(433)	1,608
Effect of exchange rate changes on liquid funds	3	(1)
Liquid funds at beginning of the period	1,399	485
LIQUID FUNDS AT END OF THE PERIOD	969	2,092

The attached notes 1 to 6 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 2012 (Unaudited)

All figures in US\$ million

	Attributable to shareholders of the parent						Non-controlling	Total	
	Share capital	Statutory reserve	General reserve	Retained earnings*	Foreign exchange translation adjustments	Cumulative changes in fair value	interests	equity	
Balance at 31 December 2011	3,110	355	150	156	(77)	(96)	3,598	421	4,019
Profit for the period	-	-	-	105	-	-	105	30	135
Other comprehensive (loss) income for the period	-	-	-	-	(50)	19	(31)	(22)	(53)
Total comprehensive income (loss) for the period	-	-	-	105	(50)	19	74	8	82
Other equity movements in subsidiaries	-	-	-	-	-	-	-	(12)	(12)
Balance at 30 June 2012	3,110	355	150	261	(127)	(77)	3,672	417	4,089
Balance at 31 December 2010	3,110	335	150	(22)	(20)	(125)	3,428	432	3,860
Profit for the period	-	-	-	116	-	-	116	32	148
Other comprehensive income for the period	-	-	-	-	37	24	61	25	86
Total comprehensive income for the period	-	-	-	116	37	24	177	57	234
Other equity movements in subsidiaries	-	-	-	(6)	-	-	(6)	(24)	(30)
Balance at 30 June 2011	3,110	335	150	88	17	(101)	3,599	465	4,064

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 405 million (31 December 2011: US\$ 402 million).

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

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2012 (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

Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended 30 June 2012 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 2011. In addition, results for the six-month period ended 30 June 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2011.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2012 (Unaudited)

All figures in US\$ million

4 RECLASSIFICATION OF FINANCIAL ASSETS

In October 2008, the International Accounting Standards Board [IASB] issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" titled "Reclassification of Financial Assets". The amendments to IAS 39 permit reclassification of financial assets from the available-for-sale category to the other non-trading securities category in certain circumstances.

The amendments to IFRS 7 introduced additional disclosure requirements if an entity has reclassified financial assets in accordance with the IAS 39 amendments. The amendments were effective retrospectively from 1 July 2008.

In line with the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified certain available-for-sale securities assets to other non-trading securities carried at amortised cost. The Group identified assets, eligible under the amendments, for which it had a clear intent to hold for the foreseeable future. The assets were reclassified with retrospective effect as on 1 July 2008.

The carrying value and fair value of the assets reclassified are as follows:

	<i>Unaudited</i>	<i>Audited</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2012</i>	<i>2011</i>
Carrying value	1,583	1,997
Fair value	1,537	1,878

Fair value gains that would have been recognised in other comprehensive income for the period ended 30 June 2012, had the other non-trading securities not been reclassified, amount to US\$ 73 million (30 June 2011: fair value gains of US\$ 67 million).

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2012 (Unaudited)

All figures in US\$ million

5 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).

	1 January to 30 June 2012 (unaudited)					
	<i>International</i>					
	<i>MENA subsidiaries</i>	<i>wholesale banking</i>	<i>Group treasury</i>	<i>ABC Brasil</i>	<i>Other</i>	<i>Total</i>
Net interest income	56	46	42	124	1	269
Other operating income	22	43	14	47	12	138
Total operating income	78	89	56	171	13	407
Profit before impairment provisions	37	62	47	107	1	254
Impairment (provisions) writeback - net	(6)	(12)	15	(18)	(7)	(28)
Profit before taxation and unallocated operating expenses	31	50	62	89	(6)	226
Taxation on foreign operations	(12)	(4)	(1)	(25)	-	(42)
Unallocated operating expenses	-	-	-	-	-	(49)
Profit for the period						135
Segment assets employed as at 30 June 2012	2,897	7,902	7,439	6,164	42	24,444
	1 January to 30 June 2011 (unaudited)					
	<i>International</i>					
	<i>MENA subsidiaries</i>	<i>wholesale banking</i>	<i>Group treasury</i>	<i>ABC Brasil</i>	<i>Other</i>	<i>Total</i>
Net interest income	44	29	27	143	4	247
Other operating income	20	47	29	53	8	157
Total operating income	64	76	56	196	12	404
Profit before impairment provisions	26	49	47	125	1	248
Impairment (provisions) writeback - net	(1)	(6)	20	(13)	1	1
Profit before taxation and unallocated operating expenses	25	43	67	112	2	249
Taxation on foreign operations	(9)	(2)	(1)	(44)	-	(56)
Unallocated operating expenses	-	-	-	-	-	(45)
Profit for the period						148
Segment assets employed as at 31 December 2011	2,653	7,488	9,279	5,540	55	25,015

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2012 (Unaudited)

All figures in US\$ million

6 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

	<i>Unaudited</i> 30 June 2012	<i>Audited</i> 31 December 2011
Short-term self-liquidating trade and transaction-related contingent items	4,877	4,570
Direct credit substitutes, guarantees and acceptances	3,543	3,138
Undrawn loans and other commitments	1,057	1,086
	9,477	8,794
Risk weighted equivalents	2,906	3,291

b) Derivatives

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

	<i>Unaudited</i> 30 June 2012	<i>Audited</i> 31 December 2011
Interest rate swaps	3,117	2,766
Currency swaps	217	132
Forward foreign exchange contracts	4,122	4,353
Options	2,668	1,950
Futures	1,762	1,104
	11,886	10,305
Risk weighted equivalents (credit and market risk)	1,594	1,475