

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 2009 (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 consolidated statement of financial position of Arab Banking Corporation (B.S.C.) [the Bank] and its subsidiaries [the Group] as at 30 June 2009 and the related interim consolidated statements of income, comprehensive income, cash flows and changes in equity for the six-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 July 2009
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

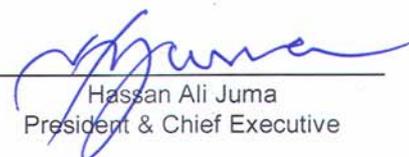
As at 30 June 2009 (Unaudited)

All figures in US\$ million

	<i>Unaudited</i> 30 June 2009	<i>Audited</i> 31 December 2008
ASSETS		
Liquid funds	755	823
Trading securities	135	126
Placements with banks and other financial institutions	3,666	4,017
Non-trading securities	10,176	10,623
Loans and advances	10,969	11,931
Interest receivable	200	256
Other assets	522	596
Premises and equipment	121	114
TOTAL ASSETS	26,544	28,486
LIABILITIES		
Deposits from customers	9,816	10,728
Deposits from banks and other financial institutions	6,104	6,210
Certificates of deposit	36	38
Securities sold under repurchase agreements	4,885	5,814
Interest payable	152	213
Taxation	39	31
Other liabilities	733	866
TERM NOTES, BONDS AND OTHER TERM FINANCING	2,383	2,498
Total liabilities	24,148	26,398
EQUITY		
Equity attributable to shareholders of the parent		
Share capital	2,000	2,000
Retained earnings and reserves	43	(207)
	2,043	1,793
Non-controlling interests	353	295
Total equity	2,396	2,088
TOTAL LIABILITIES AND EQUITY	26,544	28,486



Mohammed Layas
Chairman



Hassan Ali Juma
President & Chief Executive

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF INCOME

Six-month period ended 30 June 2009 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	2009	2008	2009	2008
OPERATING INCOME				
Interest income	268	447	571	923
Interest expense	(174)	(341)	(387)	(725)
Net interest income	94	106	184	198
Other operating income (note 9)	90	86	139	121
Total operating income	184	192	323	319
Impairment provisions	(50)	(137)	(65)	(740)
NET OPERATING INCOME (LOSS) AFTER PROVISIONS	134	55	258	(421)
OPERATING EXPENSES				
Staff	61	62	114	125
Premises and equipment	8	8	15	14
Other	19	22	38	40
Total operating expenses	88	92	167	179
PROFIT (LOSS) BEFORE TAXATION	46	(37)	91	(600)
Taxation on foreign operations	(13)	(21)	(19)	(33)
PROFIT (LOSS) FOR THE PERIOD	33	(58)	72	(633)
Profit attributable to non-controlling interests	(11)	(13)	(18)	(25)
Profit (loss) attributable to shareholders of the parent	22	(71)	54	(658)
BASIC AND DILUTED EARNINGS (LOSS)				
PER SHARE (EXPRESSED IN US\$)	0.01	(0.06)	0.03	(0.61)

The attached notes 1 to 9 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 2009 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	2009	2008	2009	2008
PROFIT (LOSS) FOR THE PERIOD	33	(58)	72	(633)
Other comprehensive income:				
Fair value movements during the period	34	(6)	150	(179)
Unrealised gain on exchange translation in foreign subsidiaries	88	36	86	51
Total other comprehensive income (loss) for the period	122	30	236	(128)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	155	(28)	308	(761)
Comprehensive income attributable to non-controlling interests	(51)	(34)	(58)	(62)
Comprehensive income (loss) attributable to shareholders of the parent	104	(62)	250	(823)

The attached notes 1 to 9 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 2009 (Unaudited)

All figures in US\$ million

	2009	2008
OPERATING ACTIVITIES		
Profit (loss) attributable to shareholders of the parent	54	(658)
Items not involving cash flow:		
Impairment provisions	65	740
Depreciation	6	6
Items considered separately:		
Losses on non-trading securities - net	-	(5)
Changes in operating assets and liabilities:		
Trading securities	8	215
Placements with banks and other financial institutions	555	716
Loans and advances	1,441	(896)
Other assets	188	149
Deposits from customers	(1,161)	1,399
Deposits from banks and other financial institutions	(566)	(301)
Securities sold under repurchase agreements	(930)	(1,482)
Other liabilities	(222)	(165)
Other non-cash movements	73	(71)
Net cash used in operating activities	(489)	(353)
INVESTING ACTIVITIES		
Purchase of non-trading securities	(646)	(601)
Sale and redemption of non-trading securities	1,217	1,203
Purchase of premises and equipment	(29)	(30)
Sale of premises and equipment	1	5
Controlling interest in an associate (note 8)	-	(6)
Net cash from investing activities	543	571
FINANCING ACTIVITIES		
Increase in share capital - Rights issue (note 7)	-	1,110
Redemption of certificates of deposit - net	(2)	(1,041)
Repayment of term notes, bonds and other term financing - net (note 9)	(123)	(50)
Net cash (used in) from financing activities	(125)	19
(DECREASE) INCREASE IN LIQUID FUNDS	(71)	237
Effect of exchange rate changes on liquid funds	3	13
Liquid funds at beginning of the period	823	335
LIQUID FUNDS AT END OF THE PERIOD	755	585

The attached notes 1 to 9 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 2009 (Unaudited)

All figures in US\$ million

	Attributable to shareholders of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	General reserve	Retained earnings*	Foreign exchange translation adjustments	Cumulative changes in fair value		
							Sub- total		Total
Balance at 31 December 2008	2,000	110	309	150	(261)	(81)	1,793	295	2,088
Total comprehensive income for the period	-	-	-	-	54	46	250	58	308
Balance at 30 June 2009	2,000	110	309	150	(207)	(35)	2,043	353	2,396
Balance at 31 December 2007	1,000	-	309	150	619	30	1,867	290	2,157
Total comprehensive loss for the period	-	-	-	-	(658)	14	(823)	62	(761)
Issue of share capital (note 7)	1,000	110	-	-	-	-	1,110	-	1,110
Controlling interest acquired (note 8)	-	-	-	-	-	-	-	27	27
Balance at 30 June 2008	2,000	110	309	150	(39)	44	2,154	379	2,533

* Retained earnings include non-distributable reserves amounting to US\$ 396 million (31 December 2008: US\$ 389 million).

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2009 (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.

The Bank's registered office is at ABC Tower, Diplomatic Area, P.O. Box 5698, Manama, Kingdom of Bahrain and is listed on Bahrain Stock Exchange.

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 six-month period ended 30 June 2009, are prepared in accordance with the 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, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2008. In addition, results for the six-month period ended 30 June 2009 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2009.

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 2008 except as noted below.

During the period, the Group has adopted the following standards effective for the periods beginning on or after 1 January 2009.

IAS 1 Presentation of Financial Statements (Revised)

The revised standard requires changes in equity arising from transactions with shareholders of the parent in their capacity as owners (i.e. owner changes in income) to be presented in the consolidated statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in the consolidated statement of comprehensive income. Components of comprehensive income are not permitted to be presented in the consolidated statement of changes in equity.

IFRS 8 Operating Segments

The new standard which replaced IAS 14 'Segment Reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in a change to the reportable segments presented. As a result, the operating segments are reported in a manner that is consistent with the internal reporting provided to the senior management and the Board of Directors.

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 2009 (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 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the IAS 39 amendments. The amendments are effective retrospective from 1 July 2008.

Per 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 values and fair values of the assets reclassified are as follows:

	<i>Unaudited</i> <i>30 June</i> <i>2009</i>	<i>Audited</i> <i>31 December</i> <i>2008</i>
Carrying value	4,062	4,087
Fair value	3,673	3,662

Fair value gains that would have been recognised in the other comprehensive income for the period ended 30 June 2009 had the other non-trading securities not been reclassified amounts to US\$ 36 million.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2009 (Unaudited)

All figures in US\$ million

5 OPERATING SEGMENTS

For management purposes, the Group is organised into four 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:

- **Universal Banking** covers Retail and SME banking activities of the Group in the Arab World;
- **International Wholesale Banking** encompasses Project and Structured Finance, Trade Finance and Forfaiting, Islamic Financial Services, Corporate Banking & Financial Institutions, Syndications and Corporate Finance;
- **Treasury** comprises the activities of Treasury in Bahrain Head Office; and
- **Others** include activities of Banco ABC Brasil S.A and Arab Financial Services B.S.C. (c).

	1 January to 30 June 2009				
	<i>International</i>				
	<i>Universal Banking</i>	<i>Wholesale Banking</i>	<i>Treasury</i>	<i>Other</i>	<i>Total</i>
Net interest and other income	59	95	45	124	323
Profit before impairment provisions	25	45	38	84	192
Impairment provisions - net	(1)	(39)	(7)	(18)	(65)
Profit for the period	24	6	31	66	127
Unallocated operating expenses					(36)
Profit before taxation					91
Segment assets employed	2,233	11,067	9,127	4,117	26,544
	1 January to 30 June 2008				
	<i>International</i>				
	<i>Universal Banking</i>	<i>Wholesale Banking</i>	<i>Treasury</i>	<i>Other</i>	<i>Total</i>
Net interest and other income	61	105	41	112	319
Profit before impairment provisions	28	56	35	59	178
Impairment provisions - net	-	(26)	(708)	(6)	(740)
Profit (loss) for the period	28	30	(673)	53	(562)
Unallocated operating expenses					(38)
Loss before taxation					(600)
Segment assets employed *	2,377	12,170	9,914	4,025	28,486

* At 31 December 2008

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2009 (Unaudited)

All figures in US\$ million

6 CREDIT COMMITMENTS, CONTINGENCIES AND OTHER OFF BALANCE SHEET ITEMS

a) Credit commitments and contingencies

	<i>Unaudited</i> 30 June 2009	<i>Audited</i> 31 December 2008
Short-term self-liquidating trade and transaction-related contingent items	5,512	6,036
Direct credit substitutes, guarantees and acceptances	1,428	1,351
Undrawn loans and other commitments	1,312	1,401
	8,252	8,788
Risk weighted equivalents	2,730	3,321

b) Other off balance sheet items

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

	<i>Unaudited</i> 30 June 2009	<i>Audited</i> 31 December 2008
Interest rate swaps	2,322	3,605
Currency swaps	148	192
Forward foreign exchange contracts	2,723	3,398
Options	2,421	4,147
Futures	2,581	2,507
	10,195	13,849
Risk weighted equivalents (credit and market risk)	1,362	1,006

7 RIGHTS ISSUE

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.

The authorised share capital of the Bank was increased from US\$ 1.5 billion to US\$ 2.5 billion and the issued share capital from US\$ 1 billion to US\$ 2 billion through a priority rights offering of 1 billion shares (nominal value US\$ 1 per share) to existing shareholders. These shares were issued at a premium of US\$ 0.11 per share and the allotment was completed on 18 June 2008.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2009 (Unaudited)

All figures in US\$ million

8 CONTROLLING INTEREST ACQUIRED IN AN ASSOCIATE

In May 2008, the Group increased its shareholding in Arab Financial Services Company B.S.C. (c) [AFS] to 54.6%, from 45.7% held previously, resulting in the Group acquiring a controlling interest in AFS.

The financial statements of AFS have been consolidated in the financial statements of the Group from the date control was transferred to the Group.

The details of assets, liabilities, income and expenses of AFS has not been disclosed as these are not material to the interim condensed consolidated financial statements.

9 SUBORDINATED DEBT

During the period, the Bank repurchased a portion of its subordinated liabilities with a nominal value of US\$ 56 million (2008: Nil). The resultant net gain on the repurchase amounting to US\$ 25 million (2008: Nil) is included as a part of "Other operating income" in the interim condensed consolidated financial statements for the six-month period ended 30 June 2009.