



Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
31 MARCH 2011 (UNAUDITED)**

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**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 [together the Group] as at 31 March 2011 and the related interim consolidated statements of income, comprehensive 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.



17 April 2011
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2011 (Unaudited)

All figures in US\$ million

	<i>Unaudited</i> 31 March 2011	<i>Audited</i> 31 December 2010
ASSETS		
Liquid funds	3,397	485
Trading securities	76	65
Placements with banks and other financial institutions	3,872	6,573
Non-trading securities	7,844	8,057
Loans and advances	12,256	12,186
Interest receivable	276	243
Other assets	490	374
Premises and equipment	124	122
TOTAL ASSETS	28,335	28,105
LIABILITIES		
Deposits from customers	11,482	11,175
Deposits from banks and other financial institutions	5,524	6,283
Certificates of deposit	32	41
Securities sold under repurchase agreements	4,441	3,719
Interest payable	190	182
Taxation	97	87
Other liabilities	664	575
TERM NOTES, BONDS AND OTHER TERM FINANCING	1,979	2,183
Total liabilities	24,409	24,245
EQUITY		
Share capital	3,110	3,110
Reserves	376	318
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	3,486	3,428
Non-controlling interests	440	432
Total equity	3,926	3,860
TOTAL LIABILITIES AND EQUITY	28,335	28,105

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 17 April 2011 and signed on their behalf by the Chairman and the President & Chief Executive.


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.)

INTERIM CONSOLIDATED STATEMENT OF INCOME

Three-month period ended 31 March 2011 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>	
	<i>31 March</i>	
	2011	2010
OPERATING INCOME		
Interest and similar income	279	236
Interest and similar expense	(155)	(134)
Net interest income	124	102
Other operating income	73	68
Total operating income	197	170
Impairment provisions - net	(7)	(12)
NET OPERATING INCOME AFTER PROVISIONS	190	158
OPERATING EXPENSES		
Staff	70	62
Premises and equipment	9	8
Other	20	18
Total operating expenses	99	88
PROFIT BEFORE TAXATION	91	70
Taxation on foreign operations	(27)	(16)
PROFIT FOR THE PERIOD	64	54
Income attributable to non-controlling interests	(16)	(13)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	48	41
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	0.02	0.02

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 COMPREHENSIVE INCOME

Three-month period ended 31 March 2011 (Unaudited)

All figures in US\$ million

	Three months ended 31 March	
	2011	2010
PROFIT FOR THE PERIOD	64	54
Other comprehensive income:		
Net fair value movements during the period after impairment effect	(1)	31
Amortisation of fair value shortfall on reclassified securities	6	5
Unrealised gain (loss) on exchange translation in foreign subsidiaries	19	(33)
Total other comprehensive income for the period	24	3
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	88	57
Total comprehensive income attributable to non-controlling interests	(24)	(5)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	64	52

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Three-month period ended 31 March 2011 (Unaudited)

All figures in US\$ million

	Three months ended	
	2011	2010
OPERATING ACTIVITIES		
Profit attributable to shareholders of the parent	48	41
Items not involving cash flow:		
Impairment provisions - net	7	12
Depreciation	3	3
Changes in operating assets and liabilities:		
Trading securities	(10)	(36)
Placements with banks and other financial institutions	2,789	856
Loans and advances	78	(162)
Interest receivable and other assets	(137)	50
Deposits from customers	201	(1,072)
Deposits from banks and other financial institutions	(877)	256
Securities sold under repurchase agreements	722	(404)
Interest payable and other liabilities	96	(67)
Other non-cash movements	(73)	117
Net cash from (used in) operating activities	<u>2,847</u>	<u>(406)</u>
INVESTING ACTIVITIES		
Purchase of non-trading securities	(225)	(381)
Sale and redemption of non-trading securities	524	909
Purchase of premises and equipment	(4)	(23)
Sale of premises and equipment	1	1
Additional investment in a subsidiary	(16)	-
Net cash from investing activities	<u>280</u>	<u>506</u>
FINANCING ACTIVITIES		
Increase in share capital - rights issue	-	1,110
Underwriting fees	-	(110)
(Redemption) issue of certificates of deposit - net	(11)	1
Repayment of other term notes, bonds and other term financing -	(204)	-
Net cash (used in) from financing activities	<u>(215)</u>	<u>1,001</u>
Net change in liquid funds	2,912	1,101
Effect of exchange rate changes on liquid funds	-	(9)
Liquid funds at beginning of the period	485	646
LIQUID FUNDS AT END OF THE PERIOD	<u><u>3,397</u></u>	<u><u>1,738</u></u>

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

Three-month period ended 31 March 2011 (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	Cumulative changes in fair value			
						exchange translation adjustments				
Total										
Balance at 31 December 2010	3,110	-	335	150	(22)	(20)	(125)	3,428	432	3,860
Profit for the period	-	-	-	-	48	-	-	48	16	64
Other comprehensive income for the period	-	-	-	-	-	11	5	16	8	24
Total comprehensive income for the period	-	-	-	-	48	11	5	64	24	88
Other equity movements in subsidiaries	-	-	-	-	(6)	-	-	(6)	(16)	(22)
Balance at 31 March 2011	3,110	-	335	150	20	(9)	(120)	3,486	440	3,926
Balance at 31 December 2009	2,000	110	321	150	(151)	(16)	(223)	2,191	390	2,581
Profit for the period	-	-	-	-	41	-	-	41	13	54
Other comprehensive income for the period	-	-	-	-	-	(25)	36	11	(8)	3
Total comprehensive income for the period	-	-	-	-	41	(25)	36	52	5	57
Issue of share capital	1,110	(110)	-	-	-	-	-	1,000	-	1,000
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	(11)	(11)
Balance at 31 March 2010	3,110	-	321	150	(110)	(41)	(187)	3,243	384	3,627

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 375 million (31 December 2010: US\$ 373 million).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2011 (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 license 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 its shares are listed on the Bahrain Stock Exchange.

Approval of financial statements

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 17 April 2011.

The annual consolidated financial statements of the Bank and its subsidiaries (the Group) were authorised for issue by the Board of Directors on 3 February 2011. The Annual General Meeting of the shareholders is scheduled to take place on 28 April 2011 to approve the consolidated financial statements for the year ended 31 December 2010.

Recent developments in the MENA region

The Group operates or undertakes business in several countries in the MENA region in which serious social and political unrest has occurred over the course of the first quarter; in some countries, the unrest has now largely abated, whilst in others the unrest is continuing. The Group is closely monitoring developments in these countries and has taken steps to mitigate any adverse impact on its operations.

The Board of Directors considers that these events may disrupt the flow of new business to the Group for a short period. However, the geographical diversification of the Group is serving it well in mitigating this situation, as a number of stable markets where the Group operates continue to perform up to expectations or better. In the longer term, as events stabilise, the Board of Directors is optimistic that the Group's long established relationships and contacts in these markets will mean that business levels will return to normal levels.

During the period ended 31 March 2011, as a result of events arising out of social and political unrest in Libya, the United Nations Security Council called upon member states to impose economic sanctions on a number of Libyan or Libyan related individuals and entities, including the Central Bank of Libya. The Central Bank of Libya owns 59.37% of the issued share capital of the Bank. Neither the United Nations Security Council nor any member state has called for any economic sanctions to be imposed on any member of the Group.

In 2010, the Bank entered into an agreement to acquire a 49% equity stake in Mediterranean Bank, a bank incorporated in Libya. However, the conditions precedent to the completion of the acquisition were not satisfied by Mediterranean Bank by 31 January 2011 (the contractually required cut-off date) and, therefore, the Bank is no longer obligated to complete the acquisition. In view of recent events in Libya, it is not expected that the Bank will take any steps to complete the acquisition in the near future.

At the time of approval of these interim condensed financial statements, the Board of Directors were satisfied that the liquidity position of the Group remained satisfactory, and that the Group had liquidity resources to enable it to meet its obligations for the foreseeable future, including its prospective flow of new business.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2011 (Unaudited)

All figures in US\$ million

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Bank and its subsidiaries [together the Group] for the three-month period ended 31 March 2011 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 2010. In addition, results for the three-month period ended 31 March 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

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 2010.

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 31 March 2011 (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 value and fair value of the assets reclassified are as follows:

	<i>Unaudited</i> <i>31 March</i> <i>2011</i>	<i>Audited</i> <i>31 December</i> <i>2010</i>
Carrying value	3,003	3,082
Fair value	2,996	3,009

Fair value gains that would have been recognised in the other comprehensive income for the period ended 31 March 2011 had the other non-trading securities not been reclassified amount to US\$ 66 million (31 March 2010: Fair value gains of US\$ 86 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2011 (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 31 March 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	21	16	13	71	3	124
Other operating income	10	24	9	26	4	73
Total operating income	<u>31</u>	<u>40</u>	<u>22</u>	<u>97</u>	<u>7</u>	<u>197</u>
Profit before impairment provisions	13	26	18	63	1	121
Impairment (provisions) writeback - net	(1)	1	(1)	(7)	1	(7)
Profit before taxation and unallocated operating expenses	12	27	17	56	2	114
Taxation on foreign operations	(4)	(2)	-	(21)	-	(27)
Unallocated operating expenses	-	-	-	-	-	(23)
Profit for the period						<u>64</u>
Segment assets employed as at (31 March 2011)	<u>2,486</u>	<u>7,380</u>	<u>12,379</u>	<u>5,965</u>	<u>125</u>	<u>28,335</u>

1 January to 31 March 2010 (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	20	15	14	51	2	102
Other operating income	12	25	8	20	4	69
Total operating income	<u>32</u>	<u>40</u>	<u>22</u>	<u>71</u>	<u>6</u>	<u>171</u>
Profit before impairment provisions	15	27	18	44	(5)	99
Impairment provisions - net	(2)	(15)	9	(4)	-	(12)
Profit before taxation and unallocated operating expenses	13	12	27	40	(5)	87
Taxation on foreign operations	(3)	-	-	(13)	-	(16)
Unallocated operating expenses	-	-	-	-	-	(17)
Profit for the period						<u>54</u>
Segment assets employed as at (31 December 2010)	<u>2,420</u>	<u>7,256</u>	<u>12,494</u>	<u>5,817</u>	<u>118</u>	<u>28,105</u>

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2011 (Unaudited)

All figures in US\$ million

6 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

	Unaudited 31 March 2011	<i>Audited</i> <i>31 December</i> <i>2010</i>
Short-term self-liquidating trade and transaction-related contingent items	5,585	6,037
Direct credit substitutes, guarantees and acceptances	3,053	2,762
Undrawn loans and other commitments	1,196	1,049
	9,834	9,848
Risk weighted equivalents	3,679	3,275

b) Derivatives

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

	Unaudited 31 March 2011	<i>Audited</i> <i>31 December</i> <i>2010</i>
Interest rate swaps	3,129	2,939
Currency swaps	419	373
Forward foreign exchange contracts	3,308	3,244
Options	1,799	2,105
Futures	953	2,175
	9,608	10,836
Risk weighted equivalents (credit and market risk)	1,599	1,567