

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 2010 (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 [together the Group] as at 30 June 2010 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.



28 July 2010
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

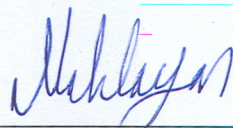
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010 (Unaudited)

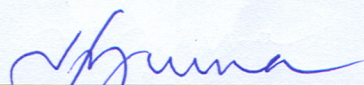
All figures in US\$ million

	Note	Unaudited 30 June 2010	Audited 31 December 2009
ASSETS			
Liquid funds		1,115	646
Trading securities		145	135
Placements with banks and other financial institutions		4,867	3,949
Non-trading securities		8,477	9,552
Loans and advances		11,073	10,949
Interest receivable		195	181
Other assets		338	430
Premises and equipment		115	123
TOTAL ASSETS		26,325	25,965
LIABILITIES			
Deposits from customers		9,271	9,909
Deposits from banks and other financial institutions		6,494	6,224
Certificates of deposit		34	34
Securities sold under repurchase agreements		3,512	4,079
Interest payable		161	139
Taxation		62	116
Other liabilities		508	539
TERM NOTES, BONDS AND OTHER TERM FINANCING	8	2,588	2,344
Total liabilities		22,630	23,384
EQUITY			
Share capital	7	3,110	2,000
Reserves		201	191
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		3,311	2,191
Non-controlling interests		384	390
Total equity		3,695	2,581
TOTAL LIABILITIES AND EQUITY		26,325	25,965

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 28 July 2010 and signed on their behalf by the Chairman and the President & Chief Executive.



Mohammed Layas
Chairman



Hassan Ali Juma
President & Chief Executive

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF INCOME

Six-month period ended 30 June 2010 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	2010	2009	2010	2009
OPERATING INCOME				
Interest and similar income	232	268	468	571
Interest and similar expense	(124)	(174)	(258)	(387)
Net interest income	108	94	210	184
Other operating income (note 9)	69	90	137	139
Total operating income	177	184	347	323
Impairment provisions - net	(22)	(50)	(34)	(65)
NET OPERATING INCOME AFTER PROVISIONS	155	134	313	258
OPERATING EXPENSES				
Staff	61	61	123	114
Premises and equipment	8	8	16	15
Other	21	19	39	38
Total operating expenses	90	88	178	167
PROFIT BEFORE TAXATION	65	46	135	91
Taxation on foreign operations	(18)	(13)	(34)	(19)
PROFIT FOR THE PERIOD	47	33	101	72
Income attributable to non-controlling interests	(13)	(11)	(26)	(18)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	34	22	75	54
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	0.01	0.01	0.03	0.03

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 2010 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	2010	2009	2010	2009
PROFIT FOR THE PERIOD	47	33	101	72
Other comprehensive income:				
Net fair value movements during the period after impairment effect	46	31	77	135
Amortisation of fair value shortfall on reclassified securities	2	3	7	15
Unrealised (loss) gain on exchange translation in foreign subsidiaries	(21)	88	(54)	86
Total other comprehensive income for the period	27	122	30	236
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	74	155	131	308
Comprehensive income attributable to non-controlling interests	(6)	(51)	(11)	(58)
COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	68	104	120	250

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 2010 (Unaudited)

All figures in US\$ million

	2010	2009
OPERATING ACTIVITIES		
Profit attributable to shareholders of the parent	75	54
Items not involving cash flow:		
Impairment provisions - net	34	65
Depreciation	7	6
Gain on repurchase of term notes, bonds and other term financing (note 8)	(2)	(25)
Changes in operating assets and liabilities:		
Trading securities	(15)	8
Placements with banks and other financial institutions	(1,039)	555
Loans and advances	(428)	1,441
Interest receivable and other assets	63	188
Deposits from customers	(465)	(1,161)
Deposits from banks and other financial institutions	468	(566)
Securities sold under repurchase agreements	(566)	(930)
Interest payable and other liabilities	(37)	(222)
Other non-cash movements	216	78
Net cash used in operating activities	<u>(1,689)</u>	<u>(509)</u>
INVESTING ACTIVITIES		
Purchase of non-trading securities	(659)	(646)
Sale and redemption of non-trading securities	1,597	1,217
Purchase of premises and equipment	(5)	(9)
Sale of premises and equipment	1	1
Net cash from investing activities	<u>934</u>	<u>563</u>
FINANCING ACTIVITIES		
Increase in share capital - rights issue (note 7)	1,110	-
Underwriting fees (note 7)	(110)	-
Issue (redemption) of certificates of deposit - net	1	(2)
Issue of term notes, bonds and other term financing - net (note 8)	289	-
Repurchase/repayment of term notes, bonds and other term financing (note 9)	(43)	(123)
Net cash from (used in) financing activities	<u>1,247</u>	<u>(125)</u>
INCREASE (DECREASE) IN LIQUID FUNDS	492	(71)
Effect of exchange rate changes on liquid funds	(23)	3
Liquid funds at beginning of the period	646	823
LIQUID FUNDS AT END OF THE PERIOD	<u><u>1,115</u></u>	<u><u>755</u></u>

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 2010 (Unaudited)

All figures in US\$ million

	Attributable to shareholders of the parent							Non-controlling	Total	
	Share capital	Share premium	Statutory reserve	General reserve	Retained earnings*	Foreign	Cumulative changes in fair value	Total	interests	equity
						exchange translation adjustments				
Balance at 31 December 2009	2,000	110	321	150	(151)	(16)	(223)	2,191	390	2,581
Profit for the period	-	-	-	-	75	-	-	75	26	101
Other comprehensive (loss) income for the period	-	-	-	-	-	(39)	84	45	(15)	30
Total comprehensive income for the period	-	-	-	-	75	(39)	84	120	11	131
Issue of share capital - rights issue (note 7)	1,110	(110)	-	-	-	-	-	1,000	-	1,000
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	(17)	(17)
Balance at 30 June 2010	3,110	-	321	150	(76)	(55)	(139)	3,311	384	3,695
Balance at 31 December 2008	2,000	110	309	150	(261)	(81)	(434)	1,793	295	2,088
Profit for the period	-	-	-	-	54	-	-	54	18	72
Other comprehensive income for the period	-	-	-	-	-	46	150	196	51	247
Total comprehensive income for the period	-	-	-	-	54	46	150	250	69	319
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	(11)	(11)
Balance at 30 June 2009	2,000	110	309	150	(207)	(35)	(284)	2,043	353	2,396

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 422 million (31 December 2009: US\$ 418 million).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2010 (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.

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 six-month period ended 30 June 2010 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 2009. In addition, results for the six-month period ended 30 June 2010 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2010.

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 2009.

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 2010 (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>30 June</i> <i>2010</i>	<i>Audited</i> <i>31 December</i> <i>2009</i>
Carrying value	3,261	3,903
Fair value	3,136	3,751

Fair value gains that would have been recognised in the other comprehensive income for the period ended 30 June 2010 had the other non-trading securities not been reclassified amount to US\$ 27 million (30 June 2009: Fair value gains of US\$ 36 million).

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2010 (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;
- **Other** includes activities of Banco ABC Brasil S.A. and Arab Financial Services B.S.C. (c).

	1 January to 30 June 2010 (unaudited)				
	<i>International</i>				
	<i>MENA subsidiaries</i>	<i>wholesale banking</i>	<i>Group treasury</i>	<i>Other</i>	<i>Total</i>
Net interest income	41	29	29	111	210
Other operating income	23	47	18	49	137
Total operating income	64	76	47	160	347
Profit before impairment provisions	28	51	39	84	202
Impairment (provisions) writeback - net	(2)	(29)	3	(6)	(34)
Profit before taxation and unallocated operating expenses	26	22	42	78	168
Taxation on foreign operations	(7)	-	-	(27)	(34)
Unallocated operating expenses	-	-	-	-	(33)
Profit for the period					101
Segment assets employed	2,366	6,935	10,619	6,405	26,325

	1 January to 30 June 2009 (unaudited)				
	<i>International</i>				
	<i>MENA subsidiaries</i>	<i>wholesale banking</i>	<i>Group treasury</i>	<i>Other</i>	<i>Total</i>
Net interest income	36	31	46	71	184
Other operating income	22	44	11	62	139
Total operating income	58	75	57	133	323
Profit before impairment provisions	25	48	49	70	192
Impairment provisions - net	(1)	(29)	(7)	(28)	(65)
Profit before taxation and unallocated operating expenses	24	19	42	42	127
Taxation on foreign operations	(5)	-	-	(14)	(19)
Unallocated operating expenses	-	-	-	-	(36)
Profit for the period					72
Segment assets employed *	2,460	7,506	10,413	5,586	25,965

* At 31 December 2009

During the period ended 30 June 2010, the Group restructured the internal reporting lines for some of its segments. Previous period's figures have been reclassified accordingly.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2010 (Unaudited)

All figures in US\$ million

6 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

	<i>Unaudited</i> 30 June 2010	<i>Audited</i> 31 December 2009
Short-term self-liquidating trade and transaction-related contingent items	5,684	5,987
Direct credit substitutes, guarantees and acceptances	2,263	1,913
Undrawn loans and other commitments	1,012	894
	8,959	8,794
Risk weighted equivalents	2,885	2,725

b) Derivatives

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

	<i>Unaudited</i> 30 June 2010	<i>Audited</i> 31 December 2009
Interest rate swaps	2,141	1,989
Currency swaps	181	40
Forward foreign exchange contracts	4,790	3,188
Options	2,966	3,053
Futures	1,268	1,714
	11,346	9,984
Risk weighted equivalents (credit and market risk)	1,306	1,596

7 EQUITY

At an Extraordinary General Meeting (EGM) held on 28 January 2010, the shareholders resolved to increase the authorised share capital of the Bank from US\$ 2,500 million to US\$ 3,500 million and the issued and paid up capital from US\$ 2,000 million to US\$ 3,110 million by way of a priority rights to existing shareholders.

The priority rights share issue, amounting to US\$ 1,110 million, was closed on 24 March 2010 and legal formalities relating to the issue was completed.

The rights issue was fully underwritten by the Central Bank of Libya. The underwriting fee of US\$ 110 million has been adjusted against the share premium outstanding as at 31 December 2009.

8 TERM NOTES, BONDS AND OTHER TERM FINANCING

During the period ended 30 June 2010, subordinated debt of a nominal amount of US\$ 300 million (2009: nil) was raised by a subsidiary of the Bank.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS

As at 30 June 2010 (Unaudited)

All figures in US\$ million

9 OTHER OPERATING INCOME

During the six-month period ended 30 June 2010, the Bank repurchased a portion of its term loan borrowings with a nominal value of US\$ 45 million. The resultant net gain on the repurchase amounting to US\$ 2 million is included in "Other operating income".

During the six-month period ended 30 June 2009, the Bank repurchased a portion of its subordinated liabilities with a nominal value of US\$ 56 million. The resultant net gain on the repurchase amounting to US\$ 25 million is included in "Other operating income".