

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 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 30 June 2008 comprising of the interim consolidated balance sheet as at 30 June 2008 and the related interim consolidated statements of 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.



31 July 2008
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)
 INTERIM CONSOLIDATED BALANCE SHEET

30 June 2008 (Unaudited)

All figures in US\$ Million

	Note	Unaudited 30 June 2008	Audited 31 December 2007
ASSETS			
Liquid funds		585	335
Trading securities		532	747
Placements with banks and other financial institutions		4,606	5,268
Non-trading securities		11,526	12,890
Loans and advances		13,510	12,329
Investments in associates	7	5	32
Interest receivable		286	392
Other assets		604	621
Premises and equipment		143	130
TOTAL ASSETS		31,797	32,744
LIABILITIES			
Deposits from customers		12,374	10,791
Deposits from banks and other financial institutions		13,382	15,013
Certificates of deposit		39	1,063
Interest payable		216	341
Taxation		34	73
Other liabilities		692	727
TERM NOTES, BONDS AND OTHER TERM FINANCING		2,527	2,579
TOTAL LIABILITIES		29,264	30,587
EQUITY			
Share capital	6	2,000	1,000
Reserves		149	218
Retained earnings		5	649
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		2,154	1,867
Minority interests		379	290
TOTAL EQUITY		2,533	2,157
TOTAL LIABILITIES AND EQUITY		31,797	32,744



Mohammed Layas
 Chairman



Hassan Ali Juma
 President & Chief Executive

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF INCOME

Six months ended 30 June 2008 (Unaudited)

All figures in US\$ Million

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	2008	2007	2008	2007
OPERATING INCOME				
Interest income	447	393	923	746
Interest expense	(341)	(324)	(725)	(612)
Net interest income	106	69	198	134
Other operating income	86	98	121	171
Total operating income	192	167	319	305
Impairment (provisions) writebacks - net	(137)	4	(740)	10
OPERATING INCOME (LOSS) AFTER PROVISIONS	55	171	(421)	315
OPERATING EXPENSES				
Staff	62	60	125	104
Premises and equipment	8	6	14	11
Other	22	19	40	33
Total operating expenses	92	85	179	148
PROFIT (LOSS) BEFORE TAXATION	(37)	86	(600)	167
Taxation on foreign operations	(21)	(10)	(33)	(19)
PROFIT (LOSS) FOR THE PERIOD	(58)	76	(633)	148
Income attributable to minority interests	(13)	(3)	(25)	(5)
PROFIT (LOSS) ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	(71)	73	(658)	143
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	(0.06)	0.07	(0.61)	0.14

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2008 (Unaudited)

All figures in US\$ Million

	<i>Six months ended</i>	
	<i>30 June</i>	
	<i>2008</i>	<i>2007</i>
OPERATING ACTIVITIES		
(Loss) profit attributable to the shareholders of the parent	(658)	143
Items not involving cash flow:		
Impairment provisions (writebacks) - net	740	(10)
Depreciation	6	5
Item considered separately:		
Gains less losses on non-trading securities	(5)	(6)
Profit on sale of premises and equipment	-	(2)
Changes in operating assets and liabilities:		
Trading securities	215	(63)
Placements with banks and other financial institutions	716	(301)
Loans and advances	(896)	(836)
Other assets	149	(228)
Deposits from customers	1,399	1,782
Deposits from banks and other financial institutions	(1,783)	1,685
Other liabilities	(165)	605
Other non-cash movements	(71)	53
Net cash (used in) from operating activities	(353)	2,827
INVESTING ACTIVITIES		
Purchase of non-trading securities	(601)	(4,343)
Sale and redemption of non-trading securities	1,203	1,136
Purchase of premises and equipment	(30)	(5)
Sale of premises and equipment	5	7
Controlling interest in an associate (note 7)	(6)	-
Net cash from (used in) investing activities	571	(3,205)
FINANCING ACTIVITIES		
Increase in share capital - Rights issue	1,110	-
(Repayment) Issue of certificates of deposit - net	(1,041)	3
(Repayment) Issue of term notes, bonds and other term financing - net	(50)	53
Issue of subordinated debt	-	500
Cash dividend paid	-	(100)
Net cash from financing activities	19	456
Increase in liquid funds	237	78
Effect of exchange rate changes on liquid funds	13	4
Liquid funds at beginning of the period	335	274
Liquid funds at end of the period*	585	356

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

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2008 (Unaudited)

All figures in US\$ Million

	Attributable to shareholders of the parent						Minority	Total	
	Share capital	Share premium	Statutory reserve	General reserve	Retained earnings*	Cumulative changes in fair value	interests	equity	
Movements in 2008									
Balance at 31 December 2007	1,000	-	309	150	649	(241)	1,867	290	2,157
Foreign exchange translation adjustments	-	-	-	-	14	-	14	37	51
Cumulative changes in fair values and other	-	-	-	-	-	(179)	(179)	-	(179)
Net income recognised directly in equity	-	-	-	-	14	(179)	(165)	37	(128)
Loss for the six month period ended 30 June 2008	-	-	-	-	(658)	-	(658)	25	(633)
Total recognised income and expense for the period	-	-	-	-	(644)	(179)	(823)	62	(761)
Issue of share capital (note 6)	1,000	110	-	-	-	-	1,110	-	1,110
Controlling interest acquired (note 7)	-	-	-	-	-	-	-	27	27
Balance at 30 June 2008	2,000	110	309	150	5	(420)	2,154	379	2,533
Movements in 2007									
Balance at 31 December 2006	1,000	-	296	150	612	10	2,068	50	2,118
Foreign exchange translation adjustments	-	-	-	-	4	-	4	1	5
Cumulative changes in fair values and other	-	-	-	-	-	(3)	(3)	-	(3)
Net income recognised directly in equity	-	-	-	-	4	(3)	1	1	2
Profit for the six month period ended 30 June 2007	-	-	-	-	143	-	143	5	148
Total recognised income and expense for the period	-	-	-	-	147	(3)	144	6	150
Dividend	-	-	-	-	(100)	-	(100)	-	(100)
Balance at 30 June 2007	1,000	-	296	150	659	7	2,112	56	2,168

* Retained earnings include US\$ 44 million (31 December 2007: US\$ 30 million) representing net unrealised gains / losses on translation of investments in foreign subsidiaries into US dollars and non-distributable reserves amounting to US\$ 311 million (31 December 2007: US\$ 275 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS

30 June 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 six months ended 30 June 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 six months ended 30 June 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 annual consolidated financial statements. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008 (Unaudited)

All figures in US\$ Million

4 SEGMENTAL INFORMATION (continued)

<i>1 January to 30 June 2008</i>									
	<i>Treasury</i>	<i>Project and structured finance</i>	<i>Trade finance</i>	<i>Commercial banking and corporate</i>	<i>Islamic banking services</i>	<i>Retail</i>	<i>Investment banking</i>	<i>Equity and Other</i>	<i>Total</i>
Net interest and other income	62	19	44	70	19	36	1	68	319
Segment result before provision	41	12	21	41	14	12	(3)	66	204
Impairment (provisions) writebacks - net	(736)	(1)	-	2	-	(4)	-	(1)	(740)
Segment result	(695)	11	21	43	14	8	(3)	65	(536)
Unallocated operating expenses									(64)
Loss before taxation									(600)
Segment assets employed	16,387	2,740	2,602	6,206	1,835	829	30	1,168	31,797
Segment liabilities and equity	28,538	-	-	-	-	-	-	3,259	31,797
<i>1 January to 30 June 2007</i>									
	<i>Treasury</i>	<i>Project and structured finance</i>	<i>Trade finance</i>	<i>Commercial banking and corporate</i>	<i>Islamic banking services</i>	<i>Retail</i>	<i>Investment banking</i>	<i>Equity and Other</i>	<i>Total</i>
Net interest and other income	94	16	38	49	16	19	-	73	305
Segment result before provision	78	10	20	30	10	3	-	72	223
Write back of provisions - net	-	-	-	10	-	(1)	-	1	10
Segment result	78	10	20	40	10	2	-	73	233
Unallocated operating expenses									(66)
Profit before taxation									167
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

The Group restructured the internal reporting lines for some of its segments. Previous year's figures have been reclassified accordingly.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008 (Unaudited)

All figures in US\$ Million

5 CREDIT COMMITMENTS, CONTINGENCIES AND OTHER OFF BALANCE SHEET ITEMS

a) Credit commitments and contingencies

	<i>Unaudited</i> <i>30 June</i> <i>2008</i>	<i>Audited</i> <i>31 December</i> <i>2007</i>
Short-term self-liquidating trade and transaction-related contingent items	6,517	4,078
Direct credit substitutes, guarantees and acceptances	1,414	1,125
Forward asset purchase commitments	15	200
Undrawn loans and other commitments	2,071	2,822
	<u>10,017</u>	<u>8,225</u>
Risk weighted equivalents	<u>3,760</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</i> <i>30 June</i> <i>2008</i>	<i>Audited</i> <i>31 December</i> <i>2007</i>
Interest rate swaps	4,462	7,943
Currency swaps	475	223
Forward foreign exchange contracts	4,121	5,463
Options	7,633	6,988
Futures	1,691	1,107
	<u>18,382</u>	<u>21,724</u>
Risk weighted equivalents (credit and market risk)	<u>1,341</u>	<u>975</u>

6 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.

7 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.