

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 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 September 2012, comprising of the interim consolidated statement of financial position as at 30 September 2012 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine-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.



11 November 2012
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2012 (Unaudited)

All figures in US\$ million

	Unaudited 30 September 2012	<i>Audited</i> <i>31 December</i> <i>2011</i>
ASSETS		
Liquid funds	869	1,399
Trading securities	65	64
Placements with banks and other financial institutions	4,643	4,305
Securities bought under repurchase agreements	763	215
Non-trading securities	3,982	6,050
Loans and advances	13,034	11,985
Interest receivable	378	349
Other assets	636	527
Premises and equipment	117	121
TOTAL ASSETS	24,487	25,015
LIABILITIES		
Deposits from customers	11,465	11,526
Deposits from banks and other financial institutions	5,658	4,273
Certificates of deposit	35	30
Securities sold under repurchase agreements	588	2,907
Interest payable	250	225
Taxation	110	126
Other liabilities	534	461
TERM NOTES, BONDS AND OTHER TERM FINANCING	1,689	1,448
Total liabilities	20,329	20,996
EQUITY		
Share capital	3,110	3,110
Reserves	632	488
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	3,742	3,598
Non-controlling interests	416	421
Total equity	4,158	4,019
TOTAL LIABILITIES AND EQUITY	24,487	25,015

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 11 November 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

Nine-month period ended 30 September 2012 (Unaudited)

All figures in US\$ million

	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
OPERATING INCOME				
Interest and similar income	260	284	808	838
Interest and similar expense	(132)	(159)	(411)	(466)
Net interest income	128	125	397	372
Other operating income	72	75	210	232
Total operating income	200	200	607	604
Impairment provisions - net	(13)	(20)	(41)	(19)
NET OPERATING INCOME AFTER PROVISIONS	187	180	566	585
OPERATING EXPENSES				
Staff	68	67	208	209
Premises and equipment	9	9	26	27
Other	21	21	66	62
Total operating expenses	98	97	300	298
PROFIT BEFORE TAXATION	89	83	266	287
Taxation on foreign operations	(24)	(24)	(66)	(80)
PROFIT FOR THE PERIOD	65	59	200	207
Income attributable to non-controlling interests	(12)	(18)	(42)	(50)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	53	41	158	157
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	0.02	0.01	0.05	0.05



Saddek El Kaber
Chairman



Hassan Ali Juma
President & Chief Executive

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Nine-month period ended 30 September 2012 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>	<i>2011</i>	<i>30 September</i>	<i>2011</i>
	2012		2012	
PROFIT FOR THE PERIOD	65	59	200	207
Other comprehensive income:				
Net fair value movements during the period after impairment effect	12	(3)	22	4
Amortisation of fair value shortfall on reclassified securities	3	4	12	21
Unrealised loss on exchange translation in foreign subsidiaries	(7)	(145)	(79)	(83)
Total other comprehensive income (loss) for the period	8	(144)	(45)	(58)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	73	(85)	155	149
Total comprehensive (loss) income attributable to non-controlling interests	(3)	50	(11)	(7)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	70	(35)	144	142

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 CASH FLOWS

Nine-month period ended 30 September 2012 (Unaudited)

All figures in US\$ million

	<i>Nine months ended</i>	
	<i>30 September</i>	
	2012	2011
OPERATING ACTIVITIES		
Profit for the period	200	207
Adjustments for:		
Impairment provisions - net	41	19
Depreciation and amortisation	10	10
Gain on repurchase of term notes, bonds and other term financing	-	(13)
Amortisation of fair value shortfall on reclassified securities	12	21
Changes in operating assets and liabilities:		
Trading securities	(4)	(22)
Placements with banks and other financial institutions	(311)	1,624
Securities bought under repurchase agreements	(597)	31
Loans and advances	(1,308)	305
Interest receivable and other assets	(174)	(368)
Deposits from customers	40	564
Deposits from banks and other financial institutions	1,508	(1,532)
Securities sold under repurchase agreements	(2,319)	(449)
Interest payable and other liabilities	110	111
Other non-cash movements	(82)	38
Net cash (used in) from operating activities	(2,874)	546
INVESTING ACTIVITIES		
Purchase of non-trading securities	(642)	(496)
Sale and redemption of non-trading securities	2,782	1,744
Purchase of premises and equipment	(9)	(9)
Sale of premises and equipment	1	1
Additional investment in a subsidiary	(1)	(16)
Net cash from investing activities	2,131	1,224
FINANCING ACTIVITIES		
Issue (redemption) of certificates of deposit - net	6	(12)
Issue of term notes, bonds and other term financing	1,000	-
Repayment of other term notes, bonds and other term financing - net	(781)	(517)
Repurchase of term notes, bonds and other term financing	(6)	(89)
Dividend paid to non-controlling interests	(16)	(15)
Net cash from (used in) financing activities	203	(633)
Net change in liquid funds	(540)	1,137
Effect of exchange rate changes on liquid funds	10	(24)
Liquid funds at beginning of the period	1,399	485
LIQUID FUNDS AT END OF THE PERIOD	869	1,598

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

Nine-month period ended 30 September 2012 (Unaudited)

All figures in US\$ million

	Attributable to shareholders of the parent						Non-controlling interests	Total equity	
	Share capital	Statutory reserve	General reserve	Retained earnings*	Foreign exchange translation adjustments	Cumulative changes in fair value			
Balance at 31 December 2011	3,110	355	150	156	(77)	(96)	3,598	421	4,019
Profit for the period	-	-	-	158	-	-	158	42	200
Other comprehensive (loss) income for the period	-	-	-	-	(48)	34	(14)	(31)	(45)
Total comprehensive income (loss) for the period	-	-	-	158	(48)	34	144	11	155
Other equity movements in subsidiaries	-	-	-	-	-	-	-	(16)	(16)
Balance at 30 September 2012	3,110	355	150	314	(125)	(62)	3,742	416	4,158
Balance at 31 December 2010	3,110	335	150	(22)	(20)	(125)	3,428	432	3,860
Profit for the period	-	-	-	157	-	-	157	50	207
Other comprehensive (loss) income for the period	-	-	-	-	(40)	25	(15)	(43)	(58)
Total comprehensive income (loss) for the period	-	-	-	157	(40)	25	142	7	149
Other equity movements in subsidiaries	-	-	-	(6)	-	-	(6)	(26)	(32)
Balance at 30 September 2011	3,110	335	150	129	(60)	(100)	3,564	413	3,977

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 406 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 September 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 nine-month period ended 30 September 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 nine-month period ended 30 September 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.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 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 September</i>	<i>31 December</i>
	<i>2012</i>	<i>2011</i>
Carrying value	1,436	1,997
Fair value	1,439	1,878

Fair value gains that would have been recognised in other comprehensive income for the period ended 30 September 2012, had the other non-trading securities not been reclassified, amount to US\$ 122 million (30 September 2011: fair value losses of US\$ 33 million).

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 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 September 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	84	72	58	180	3	397
Other operating income	32	64	18	78	18	210
Total operating income	116	136	76	258	21	607
Profit before impairment provisions	55	96	63	164	2	380
Impairment (provisions) writeback - net	(8)	(6)	13	(33)	(7)	(41)
Profit before taxation and unallocated operating expenses	47	90	76	131	(5)	339
Taxation on foreign operations	(17)	(7)	(1)	(41)	-	(66)
Unallocated operating expenses	-	-	-	-	-	(73)
Profit for the period						200
Segment assets employed as at 30 September 2012	2,941	8,040	7,174	6,283	49	24,487
	1 January to 30 September 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	67	44	39	217	5	372
Other operating income	36	70	35	76	15	232
Total operating income	103	114	74	293	20	604
Profit before impairment provisions	47	75	61	187	2	372
Impairment (provisions) writeback - net	(2)	(11)	15	(23)	2	(19)
Profit before taxation and unallocated operating expenses	45	64	76	164	4	353
Taxation on foreign operations	(16)	(4)	(1)	(59)	-	(80)
Unallocated operating expenses	-	-	-	-	-	(66)
Profit for the period						207
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 September 2012 (Unaudited)

All figures in US\$ million

6 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

	Unaudited 30 September 2012	<i>Audited</i> <i>31 December</i> <i>2011</i>
Short-term self-liquidating trade and transaction-related contingent items	4,845	4,570
Direct credit substitutes, guarantees and acceptances	3,516	3,138
Undrawn loans and other commitments	1,085	1,086
	9,446	8,794
Risk weighted equivalents	2,979	3,291

b) Derivatives

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

	Unaudited 30 September 2012	<i>Audited</i> <i>31 December</i> <i>2011</i>
Interest rate swaps	3,016	2,766
Currency swaps	199	132
Forward foreign exchange contracts	4,668	4,353
Options	4,019	1,950
Futures	1,665	1,104
	13,567	10,305
Risk weighted equivalents (credit and market risk)	1,537	1,475