

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 2011 (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 2011 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.



17 July 2011
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011 (Unaudited)

All figures in US\$ million

	<i>Unaudited</i> 30 June 2011	<i>Audited</i> 31 December 2010
ASSETS		
Liquid funds	2,092	485
Trading securities	74	65
Placements with banks and other financial institutions	5,891	6,573
Non-trading securities	7,253	8,057
Loans and advances	11,799	12,186
Interest receivable	303	243
Other assets	421	374
Premises and equipment	124	122
TOTAL ASSETS	27,957	28,105
LIABILITIES		
Deposits from customers	11,795	11,175
Deposits from banks and other financial institutions	4,975	6,283
Certificates of deposit	31	41
Securities sold under repurchase agreements	4,311	3,719
Interest payable	213	182
Taxation	111	87
Other liabilities	560	575
TERM NOTES, BONDS AND OTHER TERM FINANCING	1,897	2,183
Total liabilities	23,893	24,245
EQUITY		
Share capital	3,110	3,110
Reserves	489	318
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	3,599	3,428
Non-controlling interests	465	432
Total equity	4,064	3,860
TOTAL LIABILITIES AND EQUITY	27,957	28,105

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 17 July 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 7 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 2011 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	2011	2010	2011	2010
OPERATING INCOME				
Interest and similar income	275	232	554	468
Interest and similar expense	(152)	(124)	(307)	(258)
Net interest income	123	108	247	210
Other operating income	84	69	157	137
Total operating income	207	177	404	347
Impairment writeback (provisions) - net	8	(22)	1	(34)
NET OPERATING INCOME AFTER PROVISIONS	215	155	405	313
OPERATING EXPENSES				
Staff	72	61	142	123
Premises and equipment	9	8	18	16
Other	21	21	41	39
Total operating expenses	102	90	201	178
PROFIT BEFORE TAXATION	113	65	204	135
Taxation on foreign operations	(29)	(18)	(56)	(34)
PROFIT FOR THE PERIOD	84	47	148	101
Income attributable to non-controlling interests	(16)	(13)	(32)	(26)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	68	34	116	75
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	0.02	0.01	0.04	0.03

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 COMPREHENSIVE INCOME

Six-month period ended 30 June 2011 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	2011	2010	2011	2010
PROFIT FOR THE PERIOD	84	47	148	101
Other comprehensive income:				
Net fair value movements during the period after impairment effect	8	46	7	77
Amortisation of fair value shortfall on reclassified securities	11	2	17	7
Unrealised gain (loss) on exchange translation in foreign subsidiaries	43	(21)	62	(54)
Total other comprehensive income for the period	62	27	86	30
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	146	74	234	131
Total comprehensive income attributable to non-controlling interests	(33)	(6)	(57)	(11)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	113	68	177	120

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-month period ended 30 June 2011 (Unaudited)

All figures in US\$ million

	<i>Six months ended</i>	
	<i>30 June</i>	
	2011	2010
OPERATING ACTIVITIES		
Profit attributable to shareholders of the parent	116	75
Items not involving cash flow:		
Impairment (writeback) provisions - net	(1)	34
Depreciation	7	7
Gain on repurchase of term notes, bonds and other term financing	(13)	(2)
Changes in operating assets and liabilities:		
Trading securities	(6)	(15)
Placements with banks and other financial institutions	803	(1,039)
Loans and advances	711	(428)
Interest receivable and other assets	(83)	63
Deposits from customers	407	(465)
Deposits from banks and other financial institutions	(1,513)	468
Securities sold under repurchase agreements	587	(566)
Interest payable and other liabilities	23	(37)
Other non-cash movements	3	216
Net cash from (used in) operating activities	1,041	(1,689)
INVESTING ACTIVITIES		
Purchase of non-trading securities	(514)	(659)
Sale and redemption of non-trading securities	1,403	1,597
Purchase of premises and equipment	(6)	(5)
Sale of premises and equipment	1	1
Additional investment in a subsidiary	(16)	-
Net cash from investing activities	868	934
FINANCING ACTIVITIES		
Increase in share capital - rights issue	-	1,110
Underwriting fees	-	(110)
(Redemption) issue of certificates of deposit - net	(12)	1
Repayment of term notes, bonds and other term financing - net	(200)	289
Repurchase of term notes, bonds and other term financing	(89)	(43)
Net cash (used in) from financing activities	(301)	1,247
Net change in liquid funds	1,608	492
Effect of exchange rate changes on liquid funds	(1)	(23)
Liquid funds at beginning of the period	485	646
LIQUID FUNDS AT END OF THE PERIOD	2,092	1,115

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 CHANGES IN EQUITY

Six-month period ended 30 June 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 exchange translation adjustments	Cumulative changes in fair value			
Balance at 31 December 2010	3,110	-	335	150	(22)	(20)	(125)	3,428	432	3,860
Profit for the period	-	-	-	-	116	-	-	116	32	148
Other comprehensive income for the period	-	-	-	-	-	37	24	61	25	86
Total comprehensive income for the period	-	-	-	-	116	37	24	177	57	234
Other equity movements in subsidiaries	-	-	-	-	(6)	-	-	(6)	(24)	(30)
Balance at 30 June 2011	3,110	-	335	150	88	17	(101)	3,599	465	4,064
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 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	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

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 388 million (31 December 2010: US\$ 373 million).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 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 July 2011.

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 half of the year (or period ended 30 June 2011); 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 30 June 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 30 June 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 six-month period ended 30 June 2011 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, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2010. In addition, results for the six-month period ended 30 June 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 30 June 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>Audited</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2011</i>	<i>2010</i>
Carrying value	2,605	3,082
Fair value	2,599	3,009

Fair value gains that would have been recognised in the other comprehensive income for the period ended 30 June 2011 had the other non-trading securities not been reclassified amount to US\$ 67 million (30 June 2010: Fair value gains of US\$ 27 million).

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 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 30 June 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	44	29	27	143	4	247
Other operating income	20	47	29	53	8	157
Total operating income	<u>64</u>	<u>76</u>	<u>56</u>	<u>196</u>	<u>12</u>	<u>404</u>
Profit before impairment provisions	26	49	47	125	1	248
Impairment (provisions) writeback - net	(1)	(6)	20	(13)	1	1
Profit before taxation and unallocated operating expenses	25	43	67	112	2	249
Taxation on foreign operations	(9)	(2)	(1)	(44)	-	(56)
Unallocated operating expenses	-	-	-	-	-	(45)
Profit for the period						<u>148</u>
Segment assets employed as at (30 June 2011)	<u>2,514</u>	<u>6,852</u>	<u>12,106</u>	<u>6,437</u>	<u>48</u>	<u>27,957</u>

1 January to 30 June 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	41	29	29	107	4	210
Other operating income	23	47	18	39	10	137
Total operating income	<u>64</u>	<u>76</u>	<u>47</u>	<u>146</u>	<u>14</u>	<u>347</u>
Profit (loss) before impairment provision	28	51	39	91	(7)	202
Impairment (provisions) writeback - net	(2)	(27)	8	(13)	-	(34)
Profit before taxation and unallocated operating expenses	26	24	47	78	(7)	168
Taxation on foreign operations	(7)	-	-	(27)	-	(34)
Unallocated operating expenses	-	-	-	-	-	(33)
Profit for the period						<u>101</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 30 June 2011 (Unaudited)

All figures in US\$ million

6 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

	<i>Unaudited</i> 30 June 2011	<i>Audited</i> 31 December 2010
Short-term self-liquidating trade and transaction-related contingent items	5,179	6,037
Direct credit substitutes, guarantees and acceptances	3,409	2,762
Undrawn loans and other commitments	1,212	1,049
	9,800	9,848
Risk weighted equivalents	3,601	3,275

b) Derivatives

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

	<i>Unaudited</i> 30 June 2011	<i>Audited</i> 31 December 2010
Interest rate swaps	3,080	2,939
Currency swaps	853	373
Forward foreign exchange contracts	3,685	3,244
Options	1,695	2,105
Futures	809	2,175
	10,122	10,836
Risk weighted equivalents (credit and market risk)	1,833	1,567

7 OTHER OPERATING INCOME

During the six-month period ended 30 June 2011, the Bank repurchased a portion of its term loan borrowings with a nominal value of US\$ 50 million (30 June 2010: US\$ 45 million). The resultant net gain on the repurchase amounting to US\$ 4 million (30 June 2010 : US\$ 2 million) is included in "Other operating income".

In addition, during the six-month period ended 30 June 2011, the Bank also repurchased a portion of its subordinated liabilities with a nominal value of US\$ 39 million (30 June 2010 : US\$ nil). The resultant net gain on the repurchase amounting to US\$ 9 million (30 June 2010: US\$ nil) is included in "Other operating income".