

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

31 MARCH 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 31 March 2012, comprising of the interim consolidated statement of financial position as at 31 March 2012 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 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.



22 April 2012
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2012 (Unaudited)

All figures in US\$ million

| | Unaudited 31 March 2012 | <i>Audited</i> <i>31 December</i> <i>2011</i> |
|--|--|---|
| ASSETS | | |
| Liquid funds | 1,160 | 1,399 |
| Trading securities | 99 | 64 |
| Placements with banks and other financial institutions | 6,172 | 4,520 |
| Non-trading securities | 4,877 | 6,050 |
| Loans and advances | 12,567 | 11,985 |
| Interest receivable | 382 | 349 |
| Other assets | 480 | 527 |
| Premises and equipment | 121 | 121 |
| TOTAL ASSETS | 25,858 | 25,015 |
| LIABILITIES | | |
| Deposits from customers | 12,516 | 11,526 |
| Deposits from banks and other financial institutions | 5,730 | 4,273 |
| Certificates of deposit | 35 | 30 |
| Securities sold under repurchase agreements | 1,212 | 2,907 |
| Interest payable | 242 | 225 |
| Taxation | 99 | 126 |
| Other liabilities | 453 | 461 |
| TERM NOTES, BONDS AND OTHER TERM FINANCING | 1,453 | 1,448 |
| Total liabilities | 21,740 | 20,996 |
| EQUITY | | |
| Share capital | 3,110 | 3,110 |
| Reserves | 564 | 488 |
| EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT | 3,674 | 3,598 |
| Non-controlling interests | 444 | 421 |
| Total equity | 4,118 | 4,019 |
| TOTAL LIABILITIES AND EQUITY | 25,858 | 25,015 |

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 22 April 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

Three-month period ended 31 March 2012 (Unaudited)

All figures in US\$ million

| | <i>Three months ended</i> | |
|---|---------------------------|-------|
| | <i>31 March</i> | |
| | 2012 | 2011 |
| OPERATING INCOME | | |
| Interest and similar income | 280 | 279 |
| Interest and similar expense | (144) | (155) |
| Net interest income | 136 | 124 |
| Other operating income | 78 | 73 |
| Total operating income | 214 | 197 |
| Impairment provisions - net | (15) | (7) |
| NET OPERATING INCOME AFTER PROVISIONS | 199 | 190 |
| OPERATING EXPENSES | | |
| Staff | 68 | 70 |
| Premises and equipment | 9 | 9 |
| Other | 22 | 20 |
| Total operating expenses | 99 | 99 |
| PROFIT BEFORE TAXATION | 100 | 91 |
| Taxation on foreign operations | (30) | (27) |
| PROFIT FOR THE PERIOD | 70 | 64 |
| Income attributable to non-controlling interests | (16) | (16) |
| PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT | 54 | 48 |
| 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 2012 (Unaudited)

All figures in US\$ million

| | <i>Three months ended 31 March</i> | |
|--|--|------|
| | 2012 | 2011 |
| PROFIT FOR THE PERIOD | 70 | 64 |
| Other comprehensive income: | | |
| Net fair value movements during the period after impairment effect | 3 | (1) |
| Amortisation of fair value shortfall on reclassified securities | 7 | 6 |
| Unrealised gain on exchange translation in foreign subsidiaries | 23 | 19 |
| Total other comprehensive income for the period | 33 | 24 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 103 | 88 |
| Total comprehensive income attributable to non-controlling interests | (27) | (24) |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT | 76 | 64 |

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Three-month period ended 31 March 2012 (Unaudited)

All figures in US\$ million

| | <i>Three months ended</i> | |
|---|---------------------------|--------------|
| | <i>31 March</i> | |
| | 2012 | 2011 |
| OPERATING ACTIVITIES | | |
| Profit for the period | 70 | 64 |
| Items not involving cash flow: | | |
| Impairment provisions - net | 15 | 7 |
| Depreciation and amortisation | 3 | 3 |
| Amortisation of fair value shortfall on reclassified securities | 7 | 6 |
| Changes in operating assets and liabilities: | | |
| Trading securities | (33) | (10) |
| Placements with banks and other financial institutions | (1,588) | 2,789 |
| Loans and advances | (393) | 78 |
| Interest receivable and other assets | 33 | (137) |
| Deposits from customers | 848 | 201 |
| Deposits from banks and other financial institutions | 1,351 | (877) |
| Securities sold under repurchase agreements | (1,694) | 722 |
| Interest payable and other liabilities | (32) | 84 |
| Other non-cash movements | (80) | (79) |
| Net cash (used in) from operating activities | (1,493) | 2,851 |
| INVESTING ACTIVITIES | | |
| Purchase of non-trading securities | (293) | (225) |
| Sale and redemption of non-trading securities | 1,533 | 524 |
| Purchase of premises and equipment | (3) | (4) |
| Sale of premises and equipment | 1 | 1 |
| Additional investment in a subsidiary | - | (16) |
| Net cash from investing activities | 1,238 | 280 |
| FINANCING ACTIVITIES | | |
| Issue (redemption) of certificates of deposit - net | 5 | (11) |
| Repayment of other term notes, bonds and other term financing - net | (5) | (204) |
| Dividend paid to non-controlling interests | (4) | (4) |
| Net cash used in financing activities | (4) | (219) |
| Net change in liquid funds | (259) | 2,912 |
| Effect of exchange rate changes on liquid funds | 20 | - |
| Liquid funds at beginning of the period | 1,399 | 485 |
| LIQUID FUNDS AT END OF THE PERIOD | 1,160 | 3,397 |

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 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 | | | |
| Total | | | | | | | | | |
| Balance at 31 December 2011 | 3,110 | 355 | 150 | 156 | (77) | (96) | 3,598 | 421 | 4,019 |
| Profit for the period | - | - | - | 54 | - | - | 54 | 16 | 70 |
| Other comprehensive income for the period | - | - | - | - | 12 | 10 | 22 | 11 | 33 |
| Total comprehensive income for the period | - | - | - | 54 | 12 | 10 | 76 | 27 | 103 |
| Other equity movements in subsidiaries | - | - | - | - | - | - | - | (4) | (4) |
| Balance at 31 March 2012 | 3,110 | 355 | 150 | 210 | (65) | (86) | 3,674 | 444 | 4,118 |
| 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 |

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 404 million (31 December 2011: US\$ 402 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 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 of the Bank and its subsidiaries [together the Group] for the three-month period ended 31 March 2012 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 2011. In addition, results for the three-month period ended 31 March 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 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>31 March</i> | <i>31 December</i> |
| | <i>2012</i> | <i>2011</i> |
| Carrying value | 1,809 | 1,997 |
| Fair value | 1,780 | 1,878 |

Fair value gains that would have been recognised in other comprehensive income for the period ended 31 March 2012, had the other non-trading securities not been reclassified, amount to US\$ 90 million (31 March 2011: Fair value gains of US\$ 66 million).

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 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 31 March 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 | 27 | 23 | 21 | 65 | - | 136 |
| Other operating income | 10 | 22 | 8 | 31 | 7 | 78 |
| Total operating income | 37 | 45 | 29 | 96 | 7 | 214 |
| Profit before impairment provisions | 17 | 31 | 25 | 64 | 1 | 138 |
| Impairment (provisions) writeback - net | (3) | (9) | 5 | (7) | (1) | (15) |
| Profit before taxation and unallocated operating expenses | 14 | 22 | 30 | 57 | - | 123 |
| Taxation on foreign operations | (5) | (2) | - | (23) | - | (30) |
| Unallocated operating expenses | - | - | - | - | - | (23) |
| Profit for the period | | | | | | <u>70</u> |
| Segment assets employed as at 31 March 2012 | <u>2,909</u> | <u>7,733</u> | <u>8,982</u> | <u>6,179</u> | <u>55</u> | <u>25,858</u> |
| | 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 | 31 | 40 | 22 | 97 | 7 | 197 |
| 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 December 2011 | <u>2,653</u> | <u>7,488</u> | <u>9,279</u> | <u>5,540</u> | <u>55</u> | <u>25,015</u> |

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2012 (Unaudited)

All figures in US\$ million

6 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

| | Unaudited 31 March 2012 | <i>Audited 31 December 2011</i> |
|--|--|---|
| Short-term self-liquidating trade and transaction-related contingent items | 4,633 | 4,570 |
| Direct credit substitutes, guarantees and acceptances | 3,504 | 3,138 |
| Undrawn loans and other commitments | 1,050 | 1,086 |
| | 9,187 | 8,794 |
| Risk weighted equivalents | 3,134 | 3,291 |

b) Derivatives

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

| | Unaudited 31 March 2012 | <i>Audited 31 December 2011</i> |
|--|--|---|
| Interest rate swaps | 3,001 | 2,766 |
| Currency swaps | 199 | 132 |
| Forward foreign exchange contracts | 5,635 | 4,353 |
| Options | 1,522 | 1,950 |
| Futures | 1,364 | 1,104 |
| | 11,721 | 10,305 |
| Risk weighted equivalents (credit and market risk) | 1,521 | 1,475 |