

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

31 MARCH 2009 (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 [the Group] as at 31 March 2009 and the related interim consolidated statements of income, comprehensive income, cash flows and changes in equity for the three-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.



22 April 2009
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2009 (Unaudited)

All figures in US\$ million

	<i>Unaudited</i> 31 March 2009	<i>Audited</i> 31 December 2008
ASSETS		
Liquid funds	808	823
Trading securities	117	126
Placements with banks and other financial institutions	3,479	4,017
Non-trading securities	10,286	10,623
Loans and advances	11,253	11,931
Investments in associates	5	5
Interest receivable	215	256
Other assets	562	591
Premises and equipment	111	114
TOTAL ASSETS	26,836	28,486
LIABILITIES		
Deposits from customers	9,571	10,728
Deposits from banks and other financial institutions	6,198	6,210
Certificates of deposit	33	38
Securities sold under repurchase agreements	5,421	5,814
Interest payable	178	213
Taxation	11	31
Other liabilities	686	866
TERM NOTES, BONDS AND OTHER TERM FINANCING	2,497	2,498
Total liabilities	24,595	26,398
EQUITY		
Equity attributable to shareholders of the parent		
Share capital	2,000	2,000
Retained earnings and reserves	(61)	(207)
	1,939	1,793
Non-controlling interests	302	295
Total equity	2,241	2,088
TOTAL LIABILITIES AND EQUITY	26,836	28,486


 Mohammed Layas
 Chairman


 Hassan Ali Juma
 President & Chief Executive

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF INCOME

Three-month period ended 31 March 2009 (Unaudited)

All figures in US\$ million

	2009	2008
OPERATING INCOME		
Interest income	303	476
Interest expense	(213)	(384)
Net interest income	90	92
Other operating income	49	35
Total operating income	139	127
Impairment provisions	(15)	(603)
NET OPERATING INCOME (LOSS) AFTER PROVISIONS	124	(476)
OPERATING EXPENSES		
Staff	53	63
Premises and equipment	7	6
Other	19	18
Total operating expenses	79	87
PROFIT (LOSS) BEFORE TAXATION	45	(563)
Taxation on foreign operations	(6)	(12)
PROFIT (LOSS) FOR THE PERIOD	39	(575)
Profit attributable to non-controlling interests	(7)	(12)
Profit (loss) attributable to shareholders of the parent	32	(587)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (EXPRESSED IN US\$)	0.02	(0.59)

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 2009 (Unaudited)

All figures in US\$ million

	2009	2008
PROFIT (LOSS) FOR THE PERIOD	39	(575)
Other comprehensive income:		
Fair value movements during the period	116	(173)
Unrealised (loss) gain on exchange translation in foreign subsidiaries	(2)	15
Total other comprehensive income (loss) for the period	114	(158)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	153	(733)
Comprehensive income attributable to non-controlling interests	(7)	(28)
Comprehensive income (loss) attributable to shareholders of the parent	146	(761)

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

Three-month period ended 31 March 2009 (Unaudited)

All figures in US\$ million

	2009	2008
OPERATING ACTIVITIES		
Income (loss) attributable to shareholders of the parent	32	(587)
Items not involving cash flow:		
Impairment provisions	15	603
Depreciation	3	3
Items considered separately:		
Gains on non-trading securities - net	-	4
Changes in operating assets and liabilities:		
Trading securities	10	103
Placements with banks and other financial institutions	502	1,097
Loans and advances	626	(485)
Other assets	69	(61)
Deposits from customers	(1,105)	381
Deposits from banks and other financial institutions	6	263
Securities sold under repurchase agreements	(393)	(1,751)
Other liabilities	(223)	(116)
Other non-cash movements	136	(147)
Net cash used in operating activities	(322)	(693)
INVESTING ACTIVITIES		
Purchase of non-trading securities	(212)	(247)
Sale and redemption of non-trading securities	568	542
Purchase of premises and equipment	(25)	(11)
Sale of premises and equipment	-	4
Net cash from investing activities	331	288
FINANCING ACTIVITIES		
Advance against rights issue	-	500
(Issue) redemption of certificates of deposit - net	(5)	3
Repayment of term notes, bonds and other term financing - net	-	(1)
Net cash (used in) from financing activities	(5)	502
INCREASE IN LIQUID FUNDS		
	4	97
Effect of exchange rate changes on liquid funds	(19)	5
Liquid funds at beginning of the period	823	335
LIQUID FUNDS AT END OF THE PERIOD	808	437

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 2009 (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	Advance	Total	Total	Total	
						exchange translation adjustments	changes in fair value				against rights issue
Balance at 31 December 2008	2,000	110	309	150	(261)	(81)	(434)	-	1,793	295	2,088
Total comprehensive income for the period	-	-	-	-	32	(2)	116	-	146	7	153
Balance at 31 March 2009	2,000	110	309	150	(229)	(83)	(318)	-	1,939	302	2,241
Balance at 31 December 2007	1,000	-	309	150	619	30	(241)	-	1,867	290	2,157
Total comprehensive loss for the period	-	-	-	-	(587)	(1)	(173)	-	(761)	28	(733)
Advance against rights issue	-	-	-	-	-	-	-	500	500	-	500
Balance at 31 March 2008	1,000	-	309	150	32	29	(414)	500	1,606	318	1,924

* Retained earnings include non-distributable reserves amounting to US\$ 389 million (31 December 2008: US\$ 389 million).

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2009 (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.

The Bank's registered office is at ABC Tower, Diplomatic Area, P.O. Box 5698, Manama, Kingdom of Bahrain and is listed on 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 [the Group], for the three-month period ended 31 March 2009, 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 2008. In addition, results for the three-month period ended 31 March 2009 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2009.

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 2008 except as noted below.

During the period, the Group has adopted the following standards effective for the periods beginning on or after 1 January 2009.

IAS 1 Presentation of Financial Statements (Revised)

The revised standard requires changes in equity arising from transactions with shareholders of the parent in their capacity as owners (i.e. owner changes in income) to be presented in the consolidated statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in the consolidated statement of comprehensive income. Components of comprehensive income are not permitted to be presented in the consolidated statement of changes in equity.

IFRS 8 Operating Segments

The new standard which replaced IAS 14 'Segment Reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in a change to the reportable segments presented. As a result, the operating segments are reported in a manner that is consistent with the internal reporting provided to the senior management and the Board of Directors.

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 2009 (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 values and fair values of the assets reclassified are as follows:

	<i>Unaudited</i> <i>31 March</i> <i>2009</i>	<i>Audited</i> <i>31 December</i> <i>2008</i>
Carrying value	3,977	4,087
Fair value	3,326	3,662

Additional fair value losses that would have been recognised in the other comprehensive income for the period ended 31 March 2009 had the other non-trading securities not been reclassified amounts to US\$ 226 million.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2009 (Unaudited)

All figures in US\$ million

5 OPERATING SEGMENTS

For management purposes, the Group is organised into four 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:

- **Universal Banking** covers Retail and SME banking activities of the Group in the Arab World;
- **International Wholesale Banking** encompasses Project and Structured Finance, Trade Finance and Forfaiting, Islamic Financial Services, Corporate Banking & Financial Institutions, Syndications and Corporate Finance;
- **Treasury** comprises the activities of Treasury in Bahrain Head Office; and
- **Others** include activities of Banco ABC Brasil S.A and Arab Financial Services B.S.C. (c).

	1 January to 31 March 2009				
	<i>International Universal Banking</i>	<i>Wholesale Banking</i>	<i>Treasury</i>	<i>Other</i>	<i>Total</i>
Net interest and other income	29	50	17	43	139
Profit before impairment provisions	12	30	13	24	79
Impairment provisions	(1)	(1)	(1)	(12)	(15)
Profit for the period	11	29	12	12	64
Unallocated operating expenses					(19)
Profit before taxation					45
Segment assets employed	2,217	11,647	9,207	3,765	26,836
	1 January to 31 March 2008				
	<i>International Universal Banking</i>	<i>Wholesale Banking</i>	<i>Treasury</i>	<i>Other</i>	<i>Total</i>
Net interest and other income	29	44	18	36	127
Profit before provision	13	20	15	14	62
Impairment (provisions) write backs - net	1	(26)	(574)	(4)	(603)
Profit (loss) for the period	14	(6)	(559)	10	(541)
Unallocated operating expenses					(22)
Loss before taxation					(563)
Segment assets employed *	2,377	12,170	9,914	4,025	28,486

* At 31 December 2008

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2009 (Unaudited)

All figures in US\$ million

6 CREDIT COMMITMENTS, CONTINGENCIES AND OTHER OFF BALANCE SHEET ITEMS

a) Credit commitments and contingencies

	<i>Unaudited</i> 31 March 2009	<i>Audited</i> <i>31 December</i> <i>2008</i>
Short-term self-liquidating trade and transaction-related contingent items	5,102	6,036
Direct credit substitutes, guarantees and acceptances	1,491	1,351
Forward asset purchase commitments	72	-
Undrawn loans and other commitments	1,369	1,401
	8,034	8,788
	2,452	3,321

b) Other off balance sheet items

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

	<i>Unaudited</i> 31 March 2009	<i>Audited</i> <i>31 December</i> <i>2008</i>
Interest rate swaps	2,473	3,605
Currency swaps	160	192
Forward foreign exchange contracts	2,699	3,398
Options	2,589	4,147
Futures	4,442	2,507
	12,363	13,849
	1,064	1,006