

Arab Banking Corporation (B.S.C.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

31 MARCH 2010 (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 31 March 2010 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.



25 April 2010
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

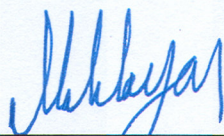
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2010 (Unaudited)

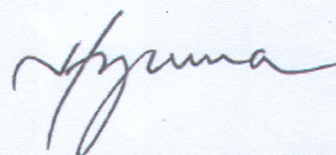
All figures in US\$ million

	Unaudited 31 March 2010	Audited 31 December 2009
ASSETS		
Liquid funds	1,738	646
Trading securities	169	135
Placements with banks and other financial institutions	3,007	3,949
Non-trading securities	8,970	9,552
Loans and advances	10,907	10,949
Interest receivable	172	181
Other assets	378	430
Premises and equipment	118	123
TOTAL ASSETS	25,459	25,965
LIABILITIES		
Deposits from customers	8,729	9,909
Deposits from banks and other financial institutions	6,335	6,224
Certificates of deposit	35	34
Securities sold under repurchase agreements	3,676	4,079
Interest payable	134	139
Taxation	92	116
Other liabilities	487	539
TERM NOTES, BONDS AND OTHER TERM FINANCING	2,344	2,344
Total liabilities	21,832	23,384
EQUITY		
Share capital	3,110	2,000
Reserves	133	191
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	3,243	2,191
Non-controlling interests	384	390
Total equity	3,627	2,581
TOTAL LIABILITIES AND EQUITY	25,459	25,965

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 25 April 2010 and signed on their behalf by the Chairman and the President & Chief Executive.



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 2010 (Unaudited)

All figures in US\$ million

	2010	2009
OPERATING INCOME		
Interest and similar income	236	303
Interest and similar expense	(134)	(213)
Net interest income	102	90
Other operating income	68	49
Total operating income	170	139
Impairment provisions - net	(12)	(15)
NET OPERATING INCOME AFTER PROVISIONS	158	124
OPERATING EXPENSES		
Staff	62	53
Premises and equipment	8	7
Other	18	19
Total operating expenses	88	79
PROFIT BEFORE TAXATION	70	45
Taxation on foreign operations	(16)	(6)
PROFIT FOR THE PERIOD	54	39
Income attributable to non-controlling interests	(13)	(7)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	41	32
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	0.02	0.02

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

Three-month period ended 31 March 2010 (Unaudited)

All figures in US\$ million

	2010	2009
PROFIT FOR THE PERIOD	54	39
Other comprehensive income:		
Net fair value movements during the period after impairment effect	31	104
Amortisation of fair value shortfall on reclassified securities	5	12
Unrealised (loss) gain on exchange translation in foreign subsidiaries	(33)	5
Total other comprehensive income for the period	3	121
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	57	160
Comprehensive income attributable to non-controlling interests	(5)	(14)
COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	52	146

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

Three-month period ended 31 March 2010 (Unaudited)

All figures in US\$ million

	2010	2009
OPERATING ACTIVITIES		
Profit attributable to shareholders of the parent	41	32
Items not involving cash flow:		
Impairment provisions - net	12	15
Depreciation	3	3
Changes in operating assets and liabilities:		
Trading securities	(36)	10
Placements with banks and other financial institutions	856	502
Loans and advances	(162)	626
Other assets	50	69
Deposits from customers	(1,072)	(1,105)
Deposits from banks and other financial institutions	256	6
Securities sold under repurchase agreements	(404)	(393)
Other liabilities	(67)	(223)
Other non-cash movements	117	136
Net cash used in operating activities	<u>(406)</u>	<u>(322)</u>
INVESTING ACTIVITIES		
Purchase of non-trading securities	(381)	(212)
Sale and redemption of non-trading securities	909	568
Purchase of premises and equipment	(23)	(25)
Sale of premises and equipment	1	-
Net cash from investing activities	<u>506</u>	<u>331</u>
FINANCING ACTIVITIES		
Increase in share capital - rights issue (note 7)	1,110	-
Underwriting fees (note 7)	(110)	-
Issue (redemption) of certificates of deposit - net	1	(5)
Net cash from (used in) financing activities	<u>1,001</u>	<u>(5)</u>
INCREASE IN LIQUID FUNDS	1,101	4
Effect of exchange rate changes on liquid funds	(9)	(19)
Liquid funds at beginning of the period	646	823
LIQUID FUNDS AT END OF THE PERIOD	<u>1,738</u>	<u>808</u>

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

Three-month period ended 31 March 2010 (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	Cumulative changes in fair value			
						exchange translation adjustments				
Total										
Balance at 31 December 2009	2,000	110	321	150	(151)	(16)	(223)	2,191	390	2,581
Profit for the period	-	-	-	-	41	-	-	41	13	54
Other comprehensive (loss) income for the period	-	-	-	-	-	(25)	36	11	(8)	3
Total comprehensive income for the period	-	-	-	-	41	(25)	36	52	5	57
Issue of share capital (note 7)	1,110	(110)	-	-	-	-	-	1,000	-	1,000
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	(11)	(11)
Balance at 31 March 2010	3,110	-	321	150	(110)	(41)	(187)	3,243	384	3,627
Balance at 31 December 2008	2,000	110	309	150	(261)	(81)	(434)	1,793	295	2,088
Profit for the period	-	-	-	-	32	-	-	32	7	39
Other comprehensive (loss) income for the period	-	-	-	-	-	(2)	116	114	7	121
Total comprehensive income for the period	-	-	-	-	32	(2)	116	146	14	160
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	(7)	(7)
Balance at 31 March 2009	2,000	110	309	150	(229)	(83)	(318)	1,939	302	2,241

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 420 million (31 December 2009: US\$ 418 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 31 March 2010 (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.

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 2010, 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 2009. In addition, results for the three-month period ended 31 March 2010 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2010.

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 2009.

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 2010 (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>2010</i>	<i>Audited</i> <i>31 December</i> <i>2009</i>
Carrying value	3,645	3,903
Fair value	3,579	3,751

Fair value gains that would have been recognised in the other comprehensive income for the period ended 31 March 2010 had the other non-trading securities not been reclassified amount to US\$ 86 million (31 March 2009: Fair value losses of US\$ 226 million).

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2010 (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:

- **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; and
- **Other** includes activities of Banco ABC Brasil S.A. and Arab Financial Services B.S.C. (c).

	1 January to 31 March 2010 (unaudited)				
	<i>International</i>				
	<i>MENA subsidiaries</i>	<i>wholesale banking</i>	<i>Group treasury</i>	<i>Other</i>	<i>Total</i>
Net interest income	20	15	14	53	102
Other operating income	12	25	8	23	68
Total operating income	32	40	22	76	170
Profit before impairment provisions	15	27	18	39	99
Impairment provisions - net	(2)	(15)	5	-	(12)
Profit before taxation and unallocated operating expenses	13	12	23	39	87
Taxation on foreign operations	(3)	-	-	(13)	(16)
Unallocated operating expenses					(17)
Profit for the period					54
Segment assets employed	2,461	7,066	10,191	5,741	25,459

	1 January to 31 March 2009 (unaudited)				
	<i>International</i>				
	<i>MENA subsidiaries</i>	<i>wholesale banking</i>	<i>Group treasury</i>	<i>Other</i>	<i>Total</i>
Net interest income	18	17	20	35	90
Other operating income	11	22	3	13	49
Total operating income	29	39	23	48	139
Profit before impairment provisions	12	26	19	22	79
Impairment provisions - net	(1)	(1)	(1)	(12)	(15)
Profit before taxation and unallocated operating expenses	11	25	18	10	64
Taxation on foreign operations	(2)	(1)	-	(3)	(6)
Unallocated operating expenses					(19)
Profit for the period					39
Segment assets employed *	2,460	7,506	10,413	5,586	25,965

* At 31 December 2009

During the period ended 31 March 2010, the Group restructured the internal reporting lines for some of its segments. Previous period's figures have been reclassified accordingly.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2010 (Unaudited)

All figures in US\$ million

6 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

	<i>Unaudited</i> 31 March 2010	<i>Audited</i> 31 December 2009
Short-term self-liquidating trade and transaction-related contingent items	5,921	5,987
Direct credit substitutes, guarantees and acceptances	2,044	1,913
Undrawn loans and other commitments	1,118	894
	9,083	8,794
Risk weighted equivalents	2,833	2,725

b) Derivatives

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

	<i>Unaudited</i> 31 March 2010	<i>Audited</i> 31 December 2009
Interest rate swaps	1,957	1,989
Currency swaps	59	40
Forward foreign exchange contracts	3,763	3,188
Options	3,176	3,053
Futures	1,281	1,714
	10,236	9,984
Risk weighted equivalents (credit and market risk)	1,431	1,596

7 EQUITY

At an Extraordinary General Meeting (EGM) held on 28 January 2010, the shareholders resolved to increase the authorised share capital of the Bank from US\$ 2,500 million to US\$ 3,500 million and the issued and paid up capital from US\$ 2,000 million to US\$ 3,110 million by way of a priority rights to existing shareholders.

The priority rights share issue, amounting to US\$ 1,110 million, was closed on 24 March 2010 and legal formalities relating to the issue have been completed.

The rights issue was fully underwritten by the Central Bank of Libya. The underwriting fee of US\$ 110 million has been adjusted against the share premium outstanding as at 31 December 2009.