

Arab Banking Corporation (B.S.C.)
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 SEPTEMBER 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 September 2011 and the related interim consolidated statements of income, comprehensive income, cash flows and changes in equity for the nine-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.



18 October 2011
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2011 (Unaudited)

All figures in US\$ million

	<i>Unaudited</i> 30 September 2011	<i>Audited</i> 31 December 2010
ASSETS		
Liquid funds	1,598	485
Trading securities	79	65
Placements with banks and other financial institutions	4,863	6,573
Non-trading securities	6,805	8,057
Loans and advances	11,367	12,186
Interest receivable	338	243
Other assets	591	374
Premises and equipment	120	122
TOTAL ASSETS	25,761	28,105
LIABILITIES		
Deposits from customers	11,463	11,175
Deposits from banks and other financial institutions	4,560	6,283
Certificates of deposit	29	41
Securities sold under repurchase agreements	3,261	3,719
Interest payable	214	182
Taxation	116	87
Other liabilities	567	575
TERM NOTES, BONDS AND OTHER TERM FINANCING	1,574	2,183
Total liabilities	21,784	24,245
EQUITY		
Share capital	3,110	3,110
Reserves	454	318
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	3,564	3,428
Non-controlling interests	413	432
Total equity	3,977	3,860
TOTAL LIABILITIES AND EQUITY	25,761	28,105

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 18 October 2011 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

Nine-month period ended 30 September 2011 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	2011	2010	2011	2010
OPERATING INCOME				
Interest and similar income	284	250	838	718
Interest and similar expense	(159)	(136)	(466)	(394)
Net interest income	125	114	372	324
Other operating income	75	67	232	204
Total operating income	200	181	604	528
Impairment (provisions) writeback- net	(20)	(20)	(19)	(54)
NET OPERATING INCOME AFTER PROVISIONS	180	161	585	474
OPERATING EXPENSES				
Staff	67	61	209	184
Premises and equipment	9	8	27	24
Other	21	19	62	58
Total operating expenses	97	88	298	266
PROFIT BEFORE TAXATION	83	73	287	208
Taxation on foreign operations	(24)	(22)	(80)	(56)
PROFIT FOR THE PERIOD	59	51	207	152
Income attributable to non-controlling interests	(18)	(14)	(50)	(40)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	41	37	157	112
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	0.01	0.02	0.05	0.05

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

Nine-month period ended 30 September 2011 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	2011	2010	2011	2010
PROFIT FOR THE PERIOD	59	51	207	152
Other comprehensive income:				
Net fair value movements during the period after impairment effect	(3)	7	4	84
Amortisation of fair value shortfall on reclassified securities	4	10	21	17
Unrealised (loss) gain on exchange translation in foreign subsidiaries	(145)	49	(83)	(5)
Total other comprehensive income for the period	(144)	66	(58)	96
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(85)	117	149	248
Total comprehensive income attributable to non-controlling interests	50	(36)	(7)	(47)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	(35)	81	142	201

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

Nine-month period ended 30 September 2011 (Unaudited)

All figures in US\$ million

	<i>Nine months ended</i>	
	<i>30 September</i>	
	2011	2010
OPERATING ACTIVITIES		
Profit attributable to shareholders of the parent	157	112
Items not involving cash flow:		
Impairment provisions - net	19	54
Depreciation	10	11
Gain on repurchase of term notes, bonds and other term financing	(13)	(2)
Changes in operating assets and liabilities:		
Trading securities	(22)	(85)
Placements with banks and other financial institutions	1,655	(766)
Loans and advances	305	(544)
Interest receivable and other assets	(368)	(15)
Deposits from customers	564	(1,019)
Deposits from banks and other financial institutions	(1,532)	697
Securities sold under repurchase agreements	(449)	(312)
Interest payable and other liabilities	111	20
Other non-cash movements	94	41
Net cash from (used in) operating activities	531	(1,808)
INVESTING ACTIVITIES		
Purchase of non-trading securities	(496)	(756)
Sale and redemption of non-trading securities	1,744	2,029
Purchase of premises and equipment	(9)	(7)
Sale of premises and equipment	1	1
Additional investment in a subsidiary	(16)	-
Net cash from investing activities	1,224	1,267
FINANCING ACTIVITIES		
Increase in share capital - rights issue	-	1,110
Underwriting fees	-	(110)
Redemption of certificates of deposit - net	(12)	-
(Repayment) issue of term notes, bonds and other term financing - net	(517)	289
Repurchase of term notes, bonds and other term financing	(89)	(45)
Net cash (used in) from financing activities	(618)	1,244
Net change in liquid funds	1,137	703
Effect of exchange rate changes on liquid funds	(24)	(15)
Liquid funds at beginning of the period	485	646
LIQUID FUNDS AT END OF THE PERIOD	1,598	1,334

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

Nine-month period ended 30 September 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	Cumulative changes in fair value			
						exchange translation adjustments				
Total										
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 income for the period	-	-	-	-	-	(40)	25	(15)	(43)	(58)
Total comprehensive income 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
Balance at 31 December 2009	2,000	110	321	150	(151)	(16)	(223)	2,191	390	2,581
Profit for the period	-	-	-	-	112	-	-	112	40	152
Other comprehensive income for the period	-	-	-	-	-	(12)	101	89	7	96
Total comprehensive income for the period	-	-	-	-	112	(12)	101	201	47	248
Issue of share capital - rights issue	1,110	(110)	-	-	-	-	-	1,000	-	1,000
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	(24)	(24)
Balance at 30 September 2010	3,110	-	321	150	(39)	(28)	(122)	3,392	413	3,805

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 401 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 September 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 Bourse.

Approval of financial statements

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 18 October 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 nine-month period ended 30 September 2011; while the level of unrest and consequent political uncertainty has abated, 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 will continue to 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 September 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. The position will be reviewed when the situation in Libya stabilizes.

At the time of approval of these interim condensed financial statements, the Board of Directors was satisfied that the liquidity position of the Group remained satisfactory, and that the Group had liquid 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 September 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 nine-month period ended 30 September 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 nine-month period ended 30 September 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 September 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 September</i>	<i>31 December</i>
	<i>2011</i>	<i>2010</i>
Carrying value	2,390	3,082
Fair value	2,284	3,009

Fair value losses that would have been recognised in the other comprehensive income for the period ended 30 September 2011 had the other non-trading securities not been reclassified amount to US\$ 33 million (30 September 2010: Fair value gains of US\$ 81 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 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 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	<u>103</u>	<u>114</u>	<u>74</u>	<u>293</u>	<u>20</u>	<u>604</u>
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						<u><u>207</u></u>
Segment assets employed as at (30 September 2011)	<u><u>2,609</u></u>	<u><u>6,906</u></u>	<u><u>10,327</u></u>	<u><u>5,821</u></u>	<u><u>98</u></u>	<u><u>25,761</u></u>

1 January to 30 September 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	63	43	43	168	7	324
Other operating income	32	73	29	56	14	204
Total operating income	<u>95</u>	<u>116</u>	<u>72</u>	<u>224</u>	<u>21</u>	<u>528</u>
Profit before impairment provisions	40	80	60	140	(11)	309
Impairment (provisions) writeback - net	(6)	(37)	8	(17)	(2)	(54)
Profit before taxation and unallocated operating expenses	34	43	68	123	(13)	255
Taxation on foreign operations	(9)	(2)	(1)	(44)	-	(56)
Unallocated operating expenses	-	-	-	-	-	(47)
Profit for the period						<u><u>152</u></u>
Segment assets employed as at (31 December 2010)	<u><u>2,420</u></u>	<u><u>7,256</u></u>	<u><u>12,494</u></u>	<u><u>5,817</u></u>	<u><u>118</u></u>	<u><u>28,105</u></u>

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2011 (Unaudited)

All figures in US\$ million

6 CREDIT COMMITMENTS AND CONTINGENT ITEMS

a) Credit commitments and contingencies

	<i>Unaudited</i> 30 September 2011	<i>Audited</i> 31 December 2010
Short-term self-liquidating trade and transaction-related contingent items	4,460	6,037
Direct credit substitutes, guarantees and acceptances	2,915	2,762
Undrawn loans and other commitments	962	1,049
	8,337	9,848
Risk weighted equivalents	3,234	3,275

b) Derivatives

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

	<i>Unaudited</i> 30 September 2011	<i>Audited</i> 31 December 2010
Interest rate swaps	3,019	2,939
Currency swaps	351	373
Forward foreign exchange contracts	5,175	3,244
Options	1,330	2,105
Futures	1,262	2,175
	11,137	10,836
Risk weighted equivalents (credit and market risk)	1,578	1,567

7 OTHER OPERATING INCOME

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

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