

Arab Banking Corporation (B.S.C.)
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 SEPTEMBER 2008 (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 [the Group] as at 30 September 2008 comprising of the interim condensed consolidated balance sheet as at 30 September 2008 and the related interim condensed consolidated statements of 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.



29 October 2008
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)
 INTERIM CONSOLIDATED BALANCE SHEET
 30 September 2008 (Unaudited)

All figures in US\$ Million

	Note	<i>Unaudited</i> 30 September 2008	<i>Audited</i> 31 December 2007
ASSETS			
Liquid funds		625	335
Trading securities		128	747
Placements with banks and other financial institutions		4,575	5,268
Non-trading securities		10,769	12,890
Loans and advances		13,197	12,329
Investments in associates	6	5	32
Interest receivable		298	392
Other assets		702	621
Premises and equipment		134	130
TOTAL ASSETS		30,433	32,744
LIABILITIES			
Deposits from customers		11,559	10,791
Deposits from banks and other financial institutions		13,172	15,013
Certificates of deposit		51	1,063
Interest payable		235	341
Taxation		53	73
Other liabilities		741	727
TERM NOTES, BONDS AND OTHER TERM FINANCING		2,511	2,579
TOTAL LIABILITIES		28,322	30,587
EQUITY			
Share capital	7	2,000	1,000
Reserves		18	218
Retained earnings		(244)	649
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		1,774	1,867
Minority interests		337	290
TOTAL EQUITY		2,111	2,157
TOTAL LIABILITIES AND EQUITY		30,433	32,744



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

Nine months ended 30 September 2008 (Unaudited)

All figures in US\$ Million

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>	<i>2007</i>	<i>30 September</i>	<i>2007</i>
	2008		2008	
OPERATING INCOME				
Interest income	474	460	1,397	1,206
Interest expense	(356)	(378)	(1,081)	(990)
Net interest income	118	82	316	216
Other operating income	30	132	151	303
Total operating income	148	214	467	519
Impairment provisions - net	(234)	(56)	(974)	(46)
OPERATING (LOSS) INCOME AFTER PROVISIONS	(86)	158	(507)	473
OPERATING EXPENSES				
Staff	58	45	183	149
Premises and equipment	8	6	22	17
Other	23	15	63	48
Total operating expenses	89	66	268	214
(LOSS) PROFIT BEFORE TAXATION	(175)	92	(775)	259
Taxation on foreign operations	(7)	(14)	(40)	(33)
(LOSS) PROFIT FOR THE PERIOD	(182)	78	(815)	226
Income attributable to minority interests	(12)	(5)	(37)	(10)
(LOSS) PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	(194)	73	(852)	216
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)	(0.10)	0.07	(0.62)	0.22

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 months ended 30 September 2008 (Unaudited)

All figures in US\$ Million

	<i>Nine months ended</i>	
	<i>30 September</i>	
	<i>2008</i>	<i>2007</i>
OPERATING ACTIVITIES		
(Loss) profit attributable to the shareholders of the parent	(852)	216
Items not involving cash flow:		
Impairment provisions - net	974	46
Depreciation	9	7
Item considered separately:		
Gains less losses on non-trading securities	9	(6)
Loss on sale of premises and equipment	-	(2)
Changes in operating assets and liabilities:		
Trading securities	613	(20)
Placements with banks and other financial institutions	599	879
Loans and advances	(1,383)	(1,981)
Other assets	(41)	(263)
Deposits from customers	951	2,424
Deposits from banks and other financial institutions	(1,497)	2,410
Other liabilities	(12)	393
Other non-cash movements	67	(80)
Net cash (used in) from operating activities	(563)	4,023
INVESTING ACTIVITIES		
Purchase of non-trading securities	(774)	(6,070)
Sale and redemption of non-trading securities	1,648	1,509
Purchase of premises and equipment	(33)	(11)
Sale of premises and equipment	6	8
Controlling interest in an associate (note 6)	(6)	-
Net cash from (used in) investing activities	841	(4,564)
FINANCING ACTIVITIES		
Increase in share capital - Rights issue (note 7)	1,110	-
Repayment of certificates of deposit - net	(1,030)	(27)
(Repayment) Issue of term notes, bonds and other term financing - net	(58)	156
Issue of subordinated debt	-	500
Cash dividend paid	-	(100)
Net cash from financing activities	22	529
Increase (decrease) in liquid funds	300	(11)
Effect of exchange rate changes on liquid funds	(10)	7
Liquid funds at beginning of the period	335	274
Liquid funds at end of the period*	625	270

* Liquid funds comprise cash, nostro balances and balances with central banks.

Arab Banking Corporation (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Nine months ended 30 September 2008 (Unaudited)

All figures in US\$ Million

	Attributable to shareholders of the parent						Total	Minority interests	Total equity
	Share capital	Share premium	Statutory reserve	General reserve	Retained earnings*	Cumulative changes in fair value			
Movements in 2008									
Balance at 31 December 2007	1,000	-	309	150	649	(241)	1,867	290	2,157
Foreign exchange translation adjustments	-	-	-	-	(41)	-	(41)	(17)	(58)
Cumulative changes in fair values and other	-	-	-	-	-	(310)	(310)	-	(310)
Net income recognised directly in equity	-	-	-	-	(41)	(310)	(351)	(17)	(368)
Loss for the nine month period ended 30 September 2008	-	-	-	-	(852)	-	(852)	37	(815)
Total recognised income and expense for the period	-	-	-	-	(893)	(310)	(1,203)	20	(1,183)
Issue of share capital (note 7)	1,000	110	-	-	-	-	1,110	-	1,110
Controlling interest in an associate (note 6)	-	-	-	-	-	-	-	27	27
Balance at 30 September 2008	2,000	110	309	150	(244)	(551)	1,774	337	2,111
Movements in 2007									
Balance at 31 December 2006	1,000	-	296	150	612	10	2,068	50	2,118
Foreign exchange translation adjustments	-	-	-	-	19	-	19	4	23
Cumulative changes in fair values and other	-	-	-	-	-	(165)	(165)	-	(165)
Net income recognised directly in equity	-	-	-	-	19	(165)	(146)	4	(142)
Profit for the nine month period ended 30 September 2007	-	-	-	-	216	-	216	10	226
Total recognised income and expense for the period	-	-	-	-	235	(165)	70	14	84
Dividend	-	-	-	-	(100)	-	(100)	-	(100)
Dilution in a subsidiary	-	-	-	-	-	-	-	205	205
Balance at 30 September 2007	1,000	-	296	150	747	(155)	2,038	269	2,307

* Retained earnings include loss of US\$ \$11 million (31 December 2007: US\$ 30 million) representing net unrealised gains / losses on translation of investments in foreign subsidiaries into US dollars and non-distributable reserves amounting to US\$ 396 million (31 December 2007: US\$ 275 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2008 (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.

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 nine months ended 30 September 2008, 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. In addition, results for the nine months ended 30 September 2008 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2008.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2007.

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.

4 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business and geographical segments. The primary reporting format business segments, is based on the products and services provided or the type of customer serviced and reflects the manner in which financial information is evaluated by management and the Board of Directors.

The results reported for the business segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's annual consolidated financial statements. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2008 (Unaudited)

All figures in US\$ Million

4 SEGMENTAL INFORMATION (continued)

	<i>1 January to 30 September 2008</i>								
	<i>Treasury</i>	<i>Project and structured finance</i>	<i>Trade finance</i>	<i>Commercial banking and corporate</i>	<i>Islamic banking services</i>	<i>Retail</i>	<i>Investment banking</i>	<i>Equity and Other</i>	<i>Total</i>
Net interest and other income	81	30	69	110	13	57	2	105	467
Segment result before provision	55	21	35	63	5	19	(4)	104	298
Impairment provisions - net	(913)	(2)	-	(2)	-	(6)	-	(51)	(974)
Segment result	(858)	19	35	61	5	13	(4)	53	(676)
Unallocated operating expenses									(99)
Loss before taxation									(775)
Segment assets employed	15,912	2,720	2,517	5,631	1,706	834	29	1,084	30,433
Segment liabilities and equity	27,528	-	-	-	-	-	-	2,905	30,433
	<i>1 January to 30 September 2007</i>								
	<i>Treasury</i>	<i>Project and structured finance</i>	<i>Trade finance</i>	<i>Commercial banking and corporate</i>	<i>Islamic banking services</i>	<i>Retail</i>	<i>Investment banking</i>	<i>Equity and Other</i>	<i>Total</i>
Net interest and other income	96	26	57	78	24	30	-	208	519
Segment result before provision	72	17	31	50	17	7	-	207	401
(Write back of) impairment provisions - net	(61)	-	-	11	(1)	(2)	-	7	(46)
Segment result	11	17	31	61	16	5	-	214	355
Unallocated operating expenses									(96)
Profit before taxation									259
Segment assets employed *	18,765	2,521	2,472	5,554	1,620	568	178	1,066	32,744
Segment liabilities and equity*	29,787	-	-	-	-	-	-	2,957	32,744

* At 31 December 2007

The Group restructured the internal reporting lines for some of its segments. Previous year's figures have been reclassified accordingly.

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2008 (Unaudited)

All figures in US\$ Million

5 CREDIT COMMITMENTS, CONTINGENCIES AND OTHER OFF BALANCE SHEET ITEMS

a) Credit commitments and contingencies

	<i>Unaudited</i> <i>30 September</i> <i>2008</i>	<i>Audited</i> <i>31 December</i> <i>2007</i>
Short-term self-liquidating trade and transaction-related contingent items	6,251	4,078
Direct credit substitutes, guarantees and acceptances	1,145	1,125
Forward asset purchase commitments	42	200
Undrawn loans and other commitments	1,775	2,822
	<u>9,213</u>	<u>8,225</u>
Risk weighted equivalents	<u>3,427</u>	<u>2,891</u>

b) Other off balance sheet items

The outstanding notional amounts at the balance sheet date were as follows:

	<i>Unaudited</i> <i>30 September</i> <i>2008</i>	<i>Audited</i> <i>31 December</i> <i>2007</i>
Interest rate swaps	3,989	7,943
Currency swaps	396	223
Forward foreign exchange contracts	3,726	5,463
Options	5,072	6,988
Futures	1,475	1,107
	<u>14,658</u>	<u>21,724</u>
Risk weighted equivalents (credit and market risk)	<u>1,146</u>	<u>975</u>

6 CONTROLLING INTEREST ACQUIRED IN AN ASSOCIATE

In May 2008, the Group increased its shareholding in Arab Financial Services Company B.S.C. (c) [AFS] to 54.6% from 45.7% held previously, resulting in the Group acquiring a controlling interest in AFS.

The financial statements of AFS have been consolidated in the financial statements of the Group from the date control was transferred to the Group.

The details of assets, liabilities, income and expenses of AFS have not been disclosed as these are not material to the interim condensed consolidated financial statements.

7 RIGHTS ISSUE

The Board of Directors at its meeting held on 25 March 2008 resolved to increase the authorised, issued and paid up capital of the Bank.

The authorised share capital of the Bank was increased from US\$ 1.5 billion to US\$ 2.5 billion and the issued share capital from US\$ 1 billion to US\$ 2 billion through a priority rights offering of 1 billion shares (nominal value US\$ 1 per share) to existing shareholders. These shares were issued at a premium of US\$ 0.11 per share and the allotment was completed on 18 June 2008.