

**Arab Banking Corporation (B.S.C.)**  
**INTERIM CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**30 SEPTEMBER 2007 (UNAUDITED)**

## REVIEW REPORT TO THE BOARD OF DIRECTORS OF ARAB BANKING CORPORATION (B.S.C.)

### *Introduction*

We have reviewed the accompanying interim condensed financial statements of Arab Banking Corporation (B.S.C.) [the Bank] and its subsidiaries [the Group] as at 30 September 2007, comprising of the interim consolidated balance sheet as at 30 September 2007 and the related interim 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.



24 October 07  
Manama, Kingdom of Bahrain

Arab Banking Corporation (B.S.C.)

CONSOLIDATED BALANCE SHEET

30 September 2007 (Unaudited)

All figures in US\$ million

	<i>Unaudited</i> 30 September 2007	<i>Audited</i> 31 December 2006
<b>ASSETS</b>		
Liquid funds	270	274
Trading securities	783	757
Placements with banks and other financial institutions	3,355	4,160
Non-trading securities	12,277	7,828
Loans and advances	10,907	8,622
Investments in associates	31	32
Interest receivable	350	264
Other assets	539	338
Premises and equipment	128	127
<b>TOTAL ASSETS</b>	<b>28,640</b>	<b>22,402</b>
<b>LIABILITIES AND SUBORDINATED DEBT</b>		
Deposits from customers	10,125	7,508
Deposits from banks and other financial institutions	11,635	9,070
Certificates of deposit	1,063	1,074
Interest payable	296	210
Taxation	68	47
Other liabilities	564	448
TERM NOTES, BONDS AND OTHER TERM FINANCING	2,082	1,927
	<b>25,833</b>	<b>20,284</b>
Subordinated debt	500	-
<b>TOTAL LIABILITIES AND SUBORDINATED DEBT</b>	<b>26,333</b>	<b>20,284</b>
<b>EQUITY</b>		
Share capital	1,000	1,000
Reserves	291	456
Retained earnings	747	612
<b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT</b>	<b>2,038</b>	<b>2,068</b>
Minority interests	269	50
<b>TOTAL EQUITY</b>	<b>2,307</b>	<b>2,118</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>28,640</b>	<b>22,402</b>



Mohammed Layas  
Chairman



Ghazi Abdul-Jawad  
President & Chief Executive

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.

# Arab Banking Corporation (B.S.C.)

## CONSOLIDATED STATEMENT OF INCOME

Nine months ended 30 September 2007 (Unaudited)

*All figures in US\$ million*

	<i>Three month period</i>		<i>Nine month period</i>	
	<i>1 July to 30 September</i>		<i>1 January to 30 September</i>	
	<b>2007</b>	2006	<b>2007</b>	2006
<b>OPERATING INCOME</b>				
Interest income	<b>460</b>	330	<b>1,206</b>	883
Interest expense	<b>(378)</b>	(265)	<b>(990)</b>	(697)
Net interest income	<b>82</b>	65	<b>216</b>	186
Other operating income (note 7)	<b>132</b>	45	<b>303</b>	153
Total operating income	<b>214</b>	110	<b>519</b>	339
(Provision) writeback of provision for impairment - net	<b>(56)</b>	(2)	<b>(46)</b>	25
<b>NET OPERATING INCOME AFTER PROVISIONS</b>	<b>158</b>	108	<b>473</b>	364
<b>OPERATING EXPENSES</b>				
Staff	<b>45</b>	39	<b>149</b>	129
Premises and equipment	<b>6</b>	5	<b>17</b>	17
Other	<b>15</b>	16	<b>48</b>	43
Total operating expenses	<b>66</b>	60	<b>214</b>	189
<b>PROFIT BEFORE TAXATION</b>	<b>92</b>	48	<b>259</b>	175
Taxation on foreign operations	<b>(14)</b>	(6)	<b>(33)</b>	(18)
<b>PROFIT FOR THE PERIOD</b>	<b>78</b>	42	<b>226</b>	157
Income attributable to minority interests	<b>(5)</b>	(2)	<b>(10)</b>	(6)
<b>INCOME ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT</b>	<b>73</b>	40	<b>216</b>	151
Basic and diluted earnings per share (expressed in US dollars)	<b>0.07</b>	0.04	<b>0.22</b>	0.15

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.

# Arab Banking Corporation (B.S.C.)

## CONSOLIDATED STATEMENT OF CASH FLOWS

Nine months ended 30 September 2007 (Unaudited)

*All figures in US\$ million*

	<i>Nine month period</i>	
	<i>1 January to 30 September</i>	
	<b>2007</b>	<b>2006</b>
<b>OPERATING ACTIVITIES</b>		
Income attributable to the shareholders of the parent	<b>216</b>	151
Items not involving cash flow:		
Provision (writeback) of provision for impairment - net	<b>46</b>	(25)
Depreciation	<b>7</b>	8
Item considered separately:		
Net Gains/ losses on non-trading securities	<b>(6)</b>	2
Profit on sale of premises and equipment	<b>(2)</b>	(9)
Changes in operating assets and liabilities:		
Trading securities	<b>(20)</b>	(242)
Placements with banks and other financial institutions	<b>879</b>	(804)
Loans and advances	<b>(1,981)</b>	(1,379)
Other assets	<b>(263)</b>	(175)
Deposits from customers	<b>2,424</b>	1,309
Deposits from banks and other financial institutions	<b>2,410</b>	1,138
Other liabilities	<b>393</b>	103
Other non-cash movements	<b>(80)</b>	(3)
Net cash from operating activities	<b>4,023</b>	74
<b>INVESTING ACTIVITIES</b>		
Purchase of non-trading securities	<b>(6,070)</b>	(2,642)
Sale and redemption of non-trading securities	<b>1,509</b>	1,118
Purchase of premises and equipment	<b>(11)</b>	(11)
Sale of premises and equipment	<b>8</b>	22
Net cash used in investing activities	<b>(4,564)</b>	(1,513)
<b>FINANCING ACTIVITIES</b>		
(Repayment) Issue of certificates of deposit - net	<b>(27)</b>	1,024
Issue of term notes, bonds and other term financing	<b>1,072</b>	508
Repayment of term notes, bonds and other term financing	<b>(916)</b>	(57)
Issue of subordinated debt	<b>500</b>	-
Cash dividend paid	<b>(100)</b>	(70)
Net cash from financing activities	<b>529</b>	1,405
(Decrease) in liquid funds	<b>(11)</b>	(34)
Effect of exchange rate changes on liquid funds	<b>7</b>	4
Liquid funds at beginning of the period	<b>274</b>	309
Liquid funds at end of the period*	<b>270</b>	279

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

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

All figures in US\$ million

Nine months ended 30 September 2007 (Unaudited)

	Equity attributable to the shareholders of the parent					Minority interests	Total equity	
	Share capital	Statutory reserve	General reserve	Retained earnings <sup>1</sup>	Cumulative changes in fair value			
<b>Movements in 2007</b>								
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 and expense recognised directly in equity	-	-	-	19	(165)	(146)	4	(142)
Net profit for the period	-	-	-	216	-	216	10	226
Total recognised income and expense for the period	-	-	-	235	(165)	70	14	84
Dividend <sup>2</sup>	-	-	-	(100)	-	(100)	-	(100)
Dilution in a subsidiary	-	-	-	-	-	-	205	205
<b>Balance at 30 September 2007</b>	<b>1,000</b>	<b>296</b>	<b>150</b>	<b>747</b>	<b>(155)</b>	<b>2,038</b>	<b>269</b>	<b>2,307</b>
<b>Movements in 2006</b>								
Balance at 31 December 2005	1,000	276	150	496	4	1,926	47	1,973
Foreign exchange translation adjustments	-	-	-	2	-	2	-	2
Cumulative changes in fair values and other	-	-	-	-	(3)	(3)	-	(3)
Net income and expense recognised directly in equity	-	-	-	2	(3)	(1)	-	(1)
Net profit for the period	-	-	-	151	-	151	6	157
Total recognised income and expense for the period	-	-	-	153	(3)	150	6	156
Dividend	-	-	-	(70)	-	(70)	-	(70)
<b>Balance at 30 September 2006</b>	<b>1,000</b>	<b>276</b>	<b>150</b>	<b>579</b>	<b>1</b>	<b>2,006</b>	<b>53</b>	<b>2,059</b>

1) Retained earnings include US\$ 24 million (31 December 2006: US\$ 5 million) representing net unrealised gains / losses on translation of investments in foreign subsidiaries into US dollars and non-distributable reserves amounting to US\$ 271 million (31 December 2006: US\$ 148 million).

2) A dividend of US\$ 0.10 per share was approved for payment at the Annual Ordinary General Meeting held on 27 March 2007.

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2007 (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 for the nine month period ended 30 September 2007 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2006.

**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 2006.

**3 CONSOLIDATION**

These interim condensed consolidated financial statements include the financial statements of the parent company [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 segment information 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 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 2007 (Unaudited)

4 SEGMENTAL INFORMATION (continued)

All figures in US\$ million

	1 January to 30 September 2007							
	Treasury	Project and structured finance	Trade finance	Commercial banking and corporate	Islamic banking services	Retail	Equity and other	Total
Net interest and other income	96	26	72	63	24	30	208	519
Segment result	11	17	44	48	16	4	181	321
Unallocated operating expenses								(62)
Net profit before taxation and minority interests								259
Segment assets employed	16,071	2,223	4,624	2,550	1,643	487	1,042	28,640
Segment liabilities, minority interests and equity	25,701	-	-	-	-	-	2,939	28,640
	1 January to 30 September 2006							
	Treasury	Project and structured finance	Trade finance	Commercial banking and corporate	Islamic banking services	Retail	Equity and other	Total
Net interest and other income	81	22	73	48	13	20	82	339
Segment result	59	14	47	31	5	-	104	260
Unallocated operating expenses								(85)
Net profit before taxation and minority interests								175
Segment assets employed*	12,438	1,539	4,672	1,496	881	264	669	21,959
Segment liabilities, minority interests and equity*	19,789	-	-	-	-	-	2,613	22,402

\* As at 31 December 2006

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2007 (Unaudited)

All figures in US\$ million

**5 COMMITMENTS, CONTINGENT LIABILITIES AND OTHER OFF BALANCE SHEET ITEMS**

a) **Commitments and contingent liabilities**

	<i>Unaudited</i> <i>30 September</i> <i>2007</i>	<i>Audited</i> <i>31 December</i> <i>2006</i>
Short-term self-liquidating trade and transaction-related contingent items	4,032	3,889
Direct credit substitutes, guarantees and acceptances	913	654
Forward asset purchase commitments	42	6
Undrawn loans and other commitments	3,163	1,540
	<u>8,150</u>	<u>6,089</u>
Risk weighted equivalents	<u>3,107</u>	<u>2,152</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>2007</i>	<i>Audited</i> <i>31 December</i> <i>2006</i>
Options	7,039	5,520
Interest rate and currency swaps	5,877	4,971
Foreign exchange contracts	3,979	3,227
Futures	985	736
	<u>17,880</u>	<u>14,454</u>
Risk weighted equivalents (credit and market risk)	<u>1,142</u>	<u>479</u>

**6 SUBORDINATED DEBT**

During the period ended 30 September 2007, the Bank has raised US\$ 500 million of subordinated debt under its US\$ 2,500,000,000 Euro Medium Term Deposit Note Programme.

**7 OTHER OPERATING INCOME**

	<i>30 September</i> <i>2007</i>	<i>30 September</i> <i>2006</i>
Fee and commission income	125	91
Fee and commission expense	(38)	(21)
Gains less losses on non-trading securities	6	(2)
Gains less losses on dealing in foreign currencies	7	14
Gains less losses on dealing in derivatives	11	7
Gains less losses on trading securities	42	31
Gain from dilution in ownership of a subsidiary	90	-
Other – net	60	33
	<u>303</u>	<u>153</u>