

Arab Banking Corporation (B.S.C.)
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
31 MARCH 2007 (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 balance sheet of Arab Banking Corporation B.S.C. [the Bank] and its subsidiaries [the Group] as at 31 March 2007 and the related interim consolidated statements of 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.



30 April 2007
Manama, Kingdom of Bahrain

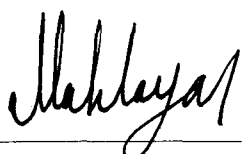
Arab Banking Corporation (B.S.C.)

CONSOLIDATED BALANCE SHEET

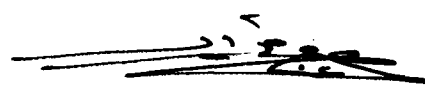
31 March 2007 (Unaudited)

All figures in US\$ million

	<i>31 March</i> <i>2007</i>	<i>Audited</i> <i>31 December</i> <i>2006</i>
ASSETS		
Liquid funds	332	274
Trading securities	870	757
Placements with banks and other financial institutions	4,104	4,160
Non-trading securities	8,352	7,828
Loans and advances	8,793	8,622
Investments in associates	32	32
Interest receivable	274	264
Other assets	347	338
Premises and equipment	125	127
TOTAL ASSETS	23,229	22,402
LIABILITIES		
Deposits from customers	8,743	7,508
Deposits from banks and other financial institutions	8,542	9,070
Certificates of deposit	1,104	1,074
Interest payable	215	210
Taxation	46	47
Other liabilities	579	448
TERM NOTES, BONDS AND OTHER TERM FINANCING	1,902	1,927
TOTAL LIABILITIES	21,131	20,284
EQUITY		
Share capital	1,000	1,000
Reserves	470	456
Retained earnings	575	612
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	2,045	2,068
Minority interests	53	50
TOTAL EQUITY	2,098	2,118
TOTAL LIABILITIES AND EQUITY	23,229	22,402



Mohammed Layas
Chairman



Ghazi Abdul-Jawad
President & Chief Executive

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements.

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF INCOME

Three months ended 31 March 2007 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>	
	<i>31 March</i>	
	2007	2006
OPERATING INCOME		
Interest income	353	244
Interest expense	(288)	(185)
Net interest income	65	59
Other operating income	73	74
Total operating income	138	133
Writeback (provision for impairment) - net	6	(1)
NET OPERATING INCOME AFTER PROVISIONS	144	132
OPERATING EXPENSES		
Staff	44	39
Premises and equipment	5	6
Other	14	12
Total operating expenses	63	57
PROFIT BEFORE TAXATION	81	75
Taxation on foreign operations	(9)	(7)
NET PROFIT FOR THE PERIOD	72	68
Income attributable to minority interests	(2)	(2)
INCOME ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	70	66
Basic and diluted earnings per share (expressed in US dollars)	0.07	0.07

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements.

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended 31 March 2007 (Unaudited)

All figures in US\$ million

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2007</i>	<i>2006</i>
OPERATING ACTIVITIES		
Income attributable to the shareholders of the parent	70	66
Items not involving cash flow:		
(Writeback) provision for impairment - net	(6)	1
Depreciation	2	3
Item considered separately:		
Gains less losses on non-trading securities	(3)	(1)
Profit on sale of premises and equipment	-	(9)
Changes in operating assets and liabilities:		
Trading securities	(110)	(132)
Placements with banks and other financial institutions	59	(528)
Loans and advances	(118)	(1,051)
Other assets	(13)	(82)
Deposits from customers	1,162	(134)
Deposits from banks and other financial institutions	(509)	1,803
Other liabilities	31	398
Other non-cash movements	(1)	(28)
Net cash from operating activities	564	306
INVESTING ACTIVITIES		
Purchase of non-trading securities	(1,161)	(889)
Sale and redemption of non-trading securities	649	335
Purchase of premises and equipment	(2)	(5)
Sale of premises and equipment	1	18
Net cash used in investing activities	(513)	(541)
FINANCING ACTIVITIES		
Issue of certificates of deposit – net	28	47
(Repayment) issue of term notes, bonds and other term financing - net	(22)	195
Net cash from financing activities	6	242
Increase in liquid funds	57	7
Effect of exchange rate changes on liquid funds	1	-
Liquid funds at beginning of the year	274	309
Liquid funds at end of the period*	332	316

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

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

All figures in US\$ million

Three months ended 31 March 2007 (Unaudited)

	Attributable to shareholders of the parent					Total	Minority interests	Total equity
	Share capital	Statutory reserve	General reserve	Retained earnings ¹	Cumulative changes in fair value			
Movements in 2007								
Balance at 31 December 2006	1,000	296	150	612	10	2,068	50	2,118
Foreign exchange translation adjustments	-	-	-	1	-	1	1	2
Cumulative changes in fair values and other	-	-	-	-	6	6	-	6
Net income recognised directly in equity	-	-	-	1	6	7	1	8
Net profit for the three month period ended 31 March 2007	-	-	-	70	-	70	2	72
Total recognised income and expense for the period	-	-	-	71	6	77	3	80
Dividend ²	-	-	-	(100)	-	(100)	-	(100)
Balance at 31 March 2007	1,000	296	150	583	16	2,045	53	2,098
Movements in 2006								
Balance at 31 December 2005	1,000	276	150	496	4	1,926	47	1,973
Foreign exchange translation adjustments	-	-	-	-	-	-	-	-
Other	-	-	-	-	(4)	(4)	-	(4)
Net income recognised directly in equity	-	-	-	-	(4)	(4)	-	(4)
Net profit for the three month period ended 31 March 2006	-	-	-	66	-	66	2	68
Total recognised income and expense for the period	-	-	-	66	(4)	62	2	64
Dividend	-	-	-	(70)	-	(70)	-	(70)
Balance at 31 March 2006	1,000	276	150	492	-	1,918	49	1,967

1) Retained earnings include US\$ 7 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\$ 151 million (31 December 2006: US\$ 148 million).

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

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 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 ACCOUNTING POLICIES

The interim condensed consolidated financial statements of the bank and its subsidiaries [the Group] are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The significant accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2006.

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 three months ended 31 March 2007 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2007.

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

31 March 2007 (Unaudited)

All figures in US\$ million

4 SEGMENTAL INFORMATION (continued)

	1 January to 31 March 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	42	7	24	19	6	9	31	138
Segment result	34	4	15	17	3	2	28	103
Unallocated operating expenses								(22)
Net Profit before taxation and minority interests								81
Segment assets employed	13,045	1,459	4,470	1,937	1,079	339	900	23,229
Segment liabilities, minority interests and equity	20,506	-	-	-	-	-	2,723	23,229
	1 January to 31 March 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	45	6	22	16	5	7	32	133
Segment result	36	4	13	9	3	1	32	98
Unallocated operating expenses								(23)
Net Profit before taxation and minority interests								75
Segment assets employed	11,032	1,339	4,638	1,463	663	211	709	20,055
Segment liabilities, minority interests and equity	17,531	-	-	-	-	-	2,524	20,055

Arab Banking Corporation (B.S.C.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2007 (Unaudited)

All figures in US\$ million

5 COMMITMENTS, CONTINGENT LIABILITIES AND OTHER OFF BALANCE SHEET ITEMS

a) Commitments and contingent liabilities

	<i>31 March 2007</i>	<i>Audited 31 December 2006</i>
Short-term self-liquidating trade and transaction-related contingent items	3,907	3,889
Direct credit substitutes, guarantees and acceptances	754	654
Forward asset purchase commitments	55	6
Undrawn loans and other commitments	1,858	1,540
	6,574	6,089
Risk weighted equivalents	2,296	2,152

b) Other off balance sheet items

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

	<i>31 March 2007</i>	<i>Audited 31 December 2006</i>
Options	6,527	5,520
Interest rate, currency swaps	4,527	4,971
Foreign exchange contracts	3,677	3,227
Futures	897	736
	15,628	14,454
Risk weighted equivalents (Credit and market risk)	626	479

6 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the date of the balance sheet, the Bank has raised US\$ 500 million of subordinated debt under its US\$ 2,500,000,000 Euro Medium Term Deposit Note Programme.