

Albaraka Banking Group 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
ALBARAKA BANKING GROUP B.S.C.**

Introduction

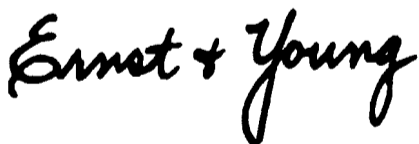
We have reviewed the accompanying interim condensed consolidated financial statements of Albaraka Banking Group B.S.C. ('the Bank') and its subsidiaries ('the Group') as at 30 September 2008, comprising of the interim consolidated balance sheet as at 30 September 2008 and the related interim consolidated statements of income, cash flows, changes in equity, and changes in restricted investment accounts for the nine month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies in note 2. 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 the 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 the accounting policies in note 2.



10 November 2008
Manama, Kingdom of Bahrain

Albaraka Banking Group B.S.C.
INTERIM CONSOLIDATED BALANCE SHEET
 At 30 September 2008 (Unaudited)

		<i>Audited</i>
	30 September	31 December
	2008	2007
	<i>Notes</i>	<i>US\$ '000</i>
	US\$ '000	US\$ '000
ASSETS		
Cash and balances with banks	2,083,027	2,281,127
Receivables	3 6,559,915	5,621,480
Mudaraba and Musharaka financing	4 878,851	707,458
Investments	5 764,421	711,049
Ijarah Muntahia Bittamleek	324,412	348,637
Property and equipment	162,697	163,825
Other assets	359,960	270,403
TOTAL ASSETS	11,133,283	10,103,979
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		
LIABILITIES		
Customer current and other accounts	2,139,134	1,792,590
Due to banks	232,314	69,027
Other liabilities	465,691	449,883
Total liabilities	2,837,139	2,311,500
UNRESTRICTED INVESTMENT ACCOUNTS	6,696,204	6,222,821
EQUITY		
Share capital	697,500	651,000
Share premium	192,390	192,390
Reserves	86,319	85,630
Retained earnings	185,165	109,153
Proposed appropriations	-	105,590
Equity attributable to the shareholders of the parent	1,161,374	1,143,763
Minority interest	438,566	425,895
Total equity	1,599,940	1,569,658
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	11,133,283	10,103,979



Saleh Abdullah Kamel
Chairman



Adnan Ahmed Yousif
Member of the Board and
President and Chief Executive

The attached explanatory notes 1 to 9 form part of these interim condensed consolidated financial statements.

Albaraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the nine months ended 30 September 2008 (Unaudited)

	<i>Nine months ended</i>		<i>Three months ended</i>	
	30 September 2008	30 September 2007	30 September 2008	30 September 2007
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Income				
Net income from jointly financed contracts and investments	545,903	403,021	185,921	141,282
Gross return on unrestricted investment accounts	(473,508)	(355,143)	(164,837)	(126,130)
Group's share as a Mudarib	145,281	94,851	56,724	32,287
Return on unrestricted investment accounts	(328,227)	(260,292)	(108,113)	(93,843)
Group's share of income from joint financing and investment accounts	217,676	142,729	77,808	47,439
Mudarib share for managing restricted investment accounts	13,122	4,717	3,491	445
Net income from self financed contracts and investments	103,193	61,053	46,022	28,200
Other fees and commission income	81,428	79,609	4,638	28,736
Other operating income	43,497	22,429	19,246	8,605
TOTAL OPERATING INCOME	458,916	310,537	151,205	113,425
Staff expenses	116,534	86,898	39,725	31,718
Depreciation and amortisation	13,223	12,092	4,149	3,896
Other operating expenses	66,346	55,517	19,475	18,358
TOTAL OPERATING EXPENSES	196,103	154,507	63,349	53,972
NET INCOME FOR THE PERIOD BEFORE PROVISIONS AND TAXATION	262,813	156,030	87,856	59,453
Provisions	(55,286)	(18,388)	(19,616)	(9,097)
Profit on deemed disposal of a subsidiary	-	54,179	-	-
NET INCOME FOR THE PERIOD BEFORE TAXATION	207,527	191,821	68,240	50,356
Taxation	(47,373)	(30,734)	(16,063)	(10,235)
NET INCOME FOR THE PERIOD	160,154	161,087	52,177	40,121
Attributable to:				
Equity shareholders of the parent	93,249	122,447	31,059	24,367
Minority interest	66,905	38,640	21,118	15,754
	160,154	161,087	52,177	40,121
Basic and diluted earnings	13	18	4	3

The attached explanatory notes 1 to 9 form part of these interim condensed consolidated financial statements.

Albaraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2008 (Unaudited)

	<i>Nine months ended</i>	
	30 September 2008 US\$ '000	30 September 2007 US\$ '000
OPERATING ACTIVITIES		
Net income for the period before taxation	207,527	191,821
Adjustments for non-cash items:		
Depreciation and amortisation	13,223	12,092
Depreciation on Ijarah Muntahia Bittamleek	88,290	86,501
(Gain) Loss on sale of property and equipment	(658)	19
Provisions	55,286	18,388
Operating profit before changes in operating assets and liabilities	363,668	308,821
Net changes in operating assets and liabilities		
Reserves with central banks	(112,901)	(517,579)
Receivables	(965,408)	(1,392,202)
Mudaraba and Musharaka financing	(171,822)	30,669
Ijarah Muntahia Bitamleek	(64,065)	(196,815)
Other assets	(84,063)	(50,451)
Customer current and other accounts	346,544	332,259
Due to banks	163,287	198,380
Other liabilities	(523)	50,402
Taxation paid	(45,043)	(22,114)
Directors remuneration paid	(500)	(430)
Net cash used in operating activities	(570,826)	(1,259,060)
INVESTING ACTIVITIES		
Net (purchase) disposal of investments	(57,351)	315,614
Net (purchase) disposal of investment properties	(31,822)	331
Net purchase of property and equipment	(10,606)	(27,467)
Dividend received from associates	501	1,779
Purchase of investment in associates	(5,323)	(3,236)
Net cash (used in) from investing activities	(104,601)	287,021
FINANCING ACTIVITIES		
Increase in unrestricted investment accounts	511,792	1,039,445
Dividend Paid	(58,590)	(12,000)
Net changes in minority interest	(33,762)	(12,326)
Net cash from financing activities	419,440	1,015,119
Foreign currency translation adjustments	(55,021)	163,790
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(311,008)	206,870
Cash and cash equivalents at beginning of the period	1,737,048	1,374,107
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	1,426,040	1,580,977
For the purpose of the interim consolidated cash flow statement, cash and cash equivalents are comprised of the following:		
Balances with central banks	342,330	454,424
Balances with other banks	877,280	975,109
Cash and cash in transit	206,430	151,444
	1,426,040	1,580,977

The attached explanatory notes 1 to 9 form part of these interim condensed consolidated financial statements.

Albaraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2008 (Unaudited)

	<i>Attributable to equity shareholders of the parent</i>										
	<i>Reserves</i>										<i>Total equity</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Cumulative changes in fair values reserve</i>	<i>Foreign currency reserve</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Proposed appropriations</i>	<i>Total</i>	<i>Minority interest</i>	
<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	
At 1 January 2008	651,000	192,390	22,440	5,883	55,787	1,520	109,153	105,590	1,143,763	425,895	1,569,658
Dividends paid	-	-	-	-	-	-	-	(58,590)	(58,590)	-	(58,590)
Bonus shares issued	46,500	-	-	-	-	-	-	(46,500)	-	-	-
Directors' remuneration paid	-	-	-	-	-	-	-	(500)	(500)	-	(500)
Net movement in cumulative change in fair value	-	-	-	(2,407)	-	-	-	-	(2,407)	16	(2,391)
Net movement in other reserves	-	-	-	-	-	28,929	(17,237)	-	11,692	8,700	20,392
Foreign currency translation	-	-	-	-	(25,833)	-	-	-	(25,833)	(29,188)	(55,021)
Total income and expense for the period recognised directly in equity	-	-	-	(2,407)	(25,833)	28,929	(17,237)	-	(16,548)	(20,472)	(37,020)
Net income for the period	-	-	-	-	-	-	93,249	-	93,249	66,905	160,154
Total income and expense for the period	-	-	-	(2,407)	(25,833)	28,929	76,012	-	76,701	46,433	123,134
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(21,241)	(21,241)
Net movement in minority interest	-	-	-	-	-	-	-	-	-	(12,521)	(12,521)
At 30 September 2008	697,500	192,390	22,440	3,476	29,954	30,449	185,165	-	1,161,374	438,566	1,599,940

The attached explanatory notes 1 to 9 form part of these interim condensed consolidated financial statements.

Albaraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2008 (Unaudited)

	Attributable to equity shareholders of the parent										
	Reserves										Total equity
	Share capital	Share premium	Statutory reserve	Cumulative changes in fair values reserve	Foreign currency reserve	Other reserves	Retained earnings	Proposed appropriations	Total	Minority interest	
US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
At 1 January 2007	630,000	238,890	8,025	5,851	18,943	786	43,102	33,000	978,597	232,527	1,211,124
Dividends declared	-	-	-	-	-	-	-	(12,000)	(12,000)	-	(12,000)
Bonus shares issued/Capitalisation	21,000	-	-	-	-	-	-	(21,000)	-	-	-
Directors' remuneration paid	-	-	-	-	-	-	(430)	-	(430)	-	(430)
Net movement in cumulative change in fair value	-	-	-	(180)	-	-	-	-	(180)	(360)	(540)
Net movement in other reserves	-	-	-	-	-	317	-	-	317	236	553
Foreign currency translation	-	-	-	-	40,639	-	-	-	40,639	26,150	66,789
Total income and expense for the period recognised directly in equity	-	-	-	(180)	40,639	317	-	-	40,776	26,026	66,802
Net income for the period	-	-	-	-	-	-	122,447	-	122,447	38,640	161,087
Total income and expense for the period	-	-	-	(180)	40,639	317	122,447	-	163,223	64,666	227,889
Adjustment on merger of subsidiary	-	-	-	-	-	-	(4,162)	-	(4,162)	4,162	-
Net movement in minority interest	-	-	-	-	-	-	-	-	-	(12,326)	(12,326)
At 30 September 2007	651,000	238,890	8,025	5,671	59,582	1,103	*160,957	-	1,125,228	289,029	1,414,257

* Total retained earnings include undistributable income of US\$ 54,179 thousand representing profit on deemed disposal of a subsidiary.

The attached explanatory notes 1 to 9 form part of these interim condensed consolidated financial statements.

Albaraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the nine months ended 30 September 2008 (Unaudited)

	Cash US\$ '000	Sales receivables US\$ '000	Mudaraba financing US\$ '000	Musharaka financing US\$ '000	Investment properties US\$ '000	Investments US\$ '000	Others US\$ '000	Total US\$ '000
At 1 January 2008	65,217	373,273	71,892	-	15,186	77,953	25,642	629,163
Deposits	26,488	1,128,287	116,628	-	4,798	221,506	4,744	1,502,451
Withdrawals	(43,762)	(1,178,187)	(36,655)	-	(314)	(241,329)	(4,464)	(1,504,711)
Income, net of expenses	-	13,536	1,305	-	1,431	89,442	616	106,330
Mudarib's share	-	(2,516)	(261)	-	(154)	(10,092)	(99)	(13,122)
Foreign exchange translation	-	-	-	-	-	(722)	-	(722)
At 30 September 2008	47,943	334,393	152,909	-	20,947	136,758	26,439	719,389
	Cash US\$ '000	Sales receivables US\$ '000	Mudaraba financing US\$ '000	Musharaka financing US\$ '000	Investment properties US\$ '000	Investments US\$ '000	Others US\$ '000	Total US\$ '000
At 1 January 2007	26,386	337,251	83,637	1,140	14,378	48,065	26,877	537,734
Deposits	89,294	85,740	-	-	-	33,393	77,510	285,937
Withdrawals	(27,563)	(69,501)	(31,943)	(1,154)	(1,683)	(35,033)	(55,987)	(222,864)
Income, net of expenses	-	13,868	-	14	1,631	4,463	777	20,753
Mudarib's share	-	(1,722)	-	-	(489)	(1,200)	(1,306)	(4,717)
At 30 September 2007	88,117	365,636	51,694	-	13,837	49,688	47,871	616,843

The attached explanatory notes 1 to 9 form part of these interim condensed consolidated financial statements.

Albaraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 30 September 2008

1 INCORPORATION AND PRINCIPAL ACTIVITY

Albaraka Banking Group B.S.C. ('the Bank') is a joint stock company incorporated in the Kingdom of Bahrain on 27 June 2002, under Commercial Registration (CR) number 48915. The Bank is engaged in banking activities in the Middle East, Europe, North African and South African region. The address of the Bank's registered office is P.O. Box 1882, Diplomatic Area, Manama, Kingdom of Bahrain. The Bank is listed on Bahrain Stock Exchange and Dubai International Financial Exchange.

The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain ('the CBB').

The principal activities of the Bank and its subsidiaries ('the Group') comprise of international and commercial banking, financing, treasury and investment activities. The Bank is supervised and regulated by the CBB.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of Preparation

The interim condensed consolidated financial statements for the nine months ended 30 September 2008 have been prepared in accordance with the guidance given by the International Accounting Standard 34 - "Interim Financial Reporting". The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as at 31 December 2007. 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 financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2007, which were prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('the AAOIFI'), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, Central Bank of Bahrain and Financial Institutions Law. For matters which are not covered by the AAOIFI standards including "Interim Financial Reporting", the Group uses the relevant International Financial Reporting Standards.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the period ended 30 September 2008. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

3 RECEIVABLES

	30 September 2008	<i>Audited</i> 31 December 2007
	US\$ '000	US\$ '000
Sales receivables	6,383,120	5,482,299
Ijarah receivables	33,400	22,484
Salam receivables	126,095	101,043
Istisna'a receivables	17,300	15,654
	<u>6,559,915</u>	<u>5,621,480</u>

Albaraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 30 September 2008

4 MUDARABA AND MUSHARAKA FINANCING

	30 September 2008 US\$ '000	<i>Audited</i> 31 December 2007 US\$ '000
Mudaraba financing	699,702	527,880
Musharaka financing	179,149	179,578
	<u>878,851</u>	<u>707,458</u>

5 INVESTMENTS

	30 September 2008 US\$ '000	<i>Audited</i> 31 December 2007 US\$ '000
Investment properties	75,400	71,720
Investment in associates	22,464	17,642
Trading securities	30,963	27,251
Available for sale investments	273,477	296,028
Held to maturity investments	362,117	298,408
	<u>764,421</u>	<u>711,049</u>

6 CREDIT RELATED COMMITMENTS

	30 September 2008 US\$ '000	<i>Audited</i> 31 December 2007 US\$ '000
Letters of credit	519,250	435,121
Guarantees	1,719,017	995,531
Acceptances	47,881	122,931
Others	5,176	75,089
	<u>2,291,324</u>	<u>1,628,672</u>

7 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, close members of their families, entities owned or controlled by them and companies affiliated by virtue of shareholding in common with that of the Group.

Albaraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 30 September 2008

7 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related parties are as follows:

	30 September 2008 US\$ '000	<i>30 September 2007 US\$ '000</i>
Net income from jointly financed contracts and investments	1,247	3,778
Return on unrestricted investment accounts	51	943
Net income from self financed contracts and investments	-	324
Other operating income	21	-
Other operating expenses	-	21

The significant balances with related parties were as follows:

	30 September 2008 US\$ '000	<i>Audited 31 December 2007 US\$ '000</i>
Assets:		
Receivables	36,910	1,856
Mudaraba and Musharaka financing	15,890	27,708
Investments	87,086	84,508
Other assets	8,720	9,828
Liabilities:		
Customer current and other accounts	1,973	3,205
Unrestricted investment accounts	3,024	10,956
Restricted investment accounts	15,343	11,081

8 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income attributable to the equity shareholders of the parent for the period by the weighted average number of shares outstanding during the period as follows:

	<u>Nine months ended</u>		<u>Three months ended</u>	
	<u>30 September 2008 US\$ '000</u>	<u>30 September 2007 US\$ '000</u>	<u>30 September 2008 US\$ '000</u>	<u>30 September 2007 US\$ '000</u>
Net income attributable to the equity shareholders of the parent for the period	<u>93,249</u>	<u>122,447</u>	<u>31,059</u>	<u>24,367</u>
Weighted average number of shares outstanding during the period - in thousands	<u>697,500</u>	<u>697,500</u>	<u>697,500</u>	<u>697,500</u>
Basic and diluted earnings per share - US cents	<u>13</u>	<u>18</u>	<u>4</u>	<u>3</u>

The basic earnings per share of the previous period has been adjusted for bonus shares issued in 2008 and 2007.

Albaraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 30 September 2008

9 SEGMENTAL INFORMATION

For management purposes the Bank is organised into six major geographical segments:

- Domestic (Bahrain)
- Other Middle East
- Europe
- Asia
- Africa
- Others

These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at estimated market rates.

Segmental information for the period was as follows:

The distribution of assets, liabilities and unrestricted investment account items by geographic region was as follows:

	September 2008			<i>Audited</i> December 2007		
	Assets US\$ '000	Liabilities US\$ '000	Unrestricted investment accounts US\$ '000	Assets US\$ '000	Liabilities US\$ '000	Unrestricted investment accounts US\$ '000
Geographic region:						
Domestic (Bahrain)	701,655	44,433	265,056	625,773	55,118	236,311
Other Middle East	4,468,876	1,337,468	3,017,927	4,085,369	1,078,770	2,935,426
Europe	3,743,592	529,652	2,381,750	3,496,986	500,791	2,181,984
Asia	337,705	58,196	197,681	409,649	41,114	274,321
Africa	1,799,744	858,906	823,740	1,372,846	629,407	584,938
Others	81,711	8,484	10,050	113,356	6,300	9,841
	11,133,283	2,837,139	6,696,204	10,103,979	2,311,500	6,222,821

Segment information relating to distribution of total operating income, net operating income and net income by geographic region was as follows:

	September 2008			<i>September 2007</i>		
	Total operating income US\$ '000	Net operating income US\$ '000	Net income US\$ '000	Total operating income US\$ '000	Net operating income US\$ '000	Net income US\$ '000
Geographic region:						
Domestic (Bahrain)	22,839	(7,550)	(7,826)	22,362	(5,928)	(5,928)
Middle East	130,916	88,981	47,949	93,261	58,498	42,004
Europe	192,166	113,404	73,532	121,204	62,008	43,403
Asia	18,780	4,579	3,062	856	842	842
Africa	93,887	63,236	43,274	76,547	38,760	24,736
Others	328	163	163	(3,693)	1,850	56,029
	458,916	262,813	160,154	310,537	156,030	161,087