

Albaraka Banking Group B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

31 MARCH 2010 (UNAUDITED)

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS TO THE SHAREHOLDERS 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 31 March 2010, comprising of the interim consolidated statement of financial position as at 31 March 2010 and the related interim consolidated statements of income, cash flows, changes in equity and changes in restricted investment accounts for the three 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.



11 May 2010
Manama, Kingdom of Bahrain


Albaraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2010 (Unaudited)

		<i>Audited</i>
		31 March
		2010
	<i>Notes</i>	31 December
		2009
		US\$ '000
		US\$ '000
ASSETS		
Cash and balances with banks		3,473,728
Receivables	3	7,044,816
Mudaraba and Musharaka financing	4	1,036,193
Investments	5	1,234,598
Ijarah Muntahia Bittamleek		353,654
Property and equipment		228,762
Other assets	6	352,350
TOTAL ASSETS		13,724,101
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		
LIABILITIES		
Customer current and other accounts		2,590,726
Due to banks		140,986
Other liabilities	7	562,536
Total liabilities		3,294,248
UNRESTRICTED INVESTMENT ACCOUNTS		8,716,706
EQUITY		
EQUITY ATTRIBUTABLE TO PARENT'S SHAREHOLDERS		
Share capital		790,500
Treasury shares		(5,354)
Share premium		95,642
Reserves		83,941
Cumulative changes in fair values		17,973
Foreign currency translations		(14,108)
Retained earnings		216,342
Proposed appropriations		-
Equity attributable to parent's shareholders		1,184,936
Non-controlling interest		528,211
Total equity		1,713,147
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		13,724,101


 Saleh Abdullah Kamel
 Chairman


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

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

Albaraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three months ended 31 March 2010 (Unaudited)

	<i>Three months ended</i>	
	31 March 2010 US\$ '000	31 March 2009 US\$ '000
Income		
Net income from jointly financed contracts and investments	196,242	185,183
Gross return on unrestricted investment accounts	(177,199)	(165,545)
Group's share as a Mudarib	59,284	52,572
Return on unrestricted investment accounts	(117,915)	(112,973)
Group's share of income from joint financing and investment accounts	78,327	72,210
Mudarib share for managing restricted investment accounts	444	355
Net income from self financed contracts and investments	35,813	20,985
Other fees and commission income	30,739	28,917
Other operating income	11,659	16,767
TOTAL OPERATING INCOME	156,982	139,234
Staff expenses	44,238	39,815
Depreciation and amortisation	5,526	6,487
Other operating expenses	29,555	22,483
TOTAL OPERATING EXPENSES	79,319	68,785
NET INCOME FOR THE PERIOD BEFORE PROVISIONS AND TAXATION	77,663	70,449
Provisions	(13,247)	(16,390)
NET INCOME FOR THE PERIOD BEFORE TAXATION	64,416	54,059
Taxation	(16,074)	(11,096)
NET INCOME FOR THE PERIOD	48,342	42,963
Attributable to:		
Equity shareholders of the parent	27,691	23,840
Non-controlling interest	20,651	19,123
	48,342	42,963
Basic and diluted earnings per share - US cents (note 10)	3.50	3.02

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

Albaraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31 March 2010 (Unaudited)

	31 March 2010 US\$ '000	31 March 2009 US\$ '000
OPERATING ACTIVITIES		
Net income for the period before taxation	64,416	54,059
Adjustments for:		
Depreciation and amortisation	5,526	6,487
Depreciation on Ijarah Muntahia Bittamleek	14,399	14,066
Unrealised gain on trading securities	(247)	(261)
Gain on sale of property and equipment	(893)	(672)
Gain on sale of available for sale investments	(13)	-
Gain on sale of trading securities	(24)	-
Provisions	13,247	16,390
Income from associates	(1,624)	(1,966)
Operating profit before changes in operating assets and liabilities	<u>94,787</u>	<u>88,103</u>
Net changes in operating assets and liabilities		
Reserves with Central Banks	(69,420)	21,806
Receivables	(26,123)	76,071
Mudaraba and Musharaka financing	(55,166)	101,450
Ijarah Muntahia Bittamleek	(32,720)	(20,214)
Other assets	(7,995)	9,870
Customer current and other accounts	(17,118)	(122,972)
Due to banks	(11,676)	(36,239)
Other liabilities	151,896	(15,756)
Taxation paid	(34,573)	(11,096)
Net cash (used in) from operating activities	<u>(8,108)</u>	<u>91,023</u>
INVESTING ACTIVITIES		
Net purchase of investments	(149,270)	(82,043)
Net purchase of property and equipment	(5,823)	(524)
Net disposal of investment in associates	2,181	-
Net cash used in investing activities	<u>(152,912)</u>	<u>(82,567)</u>
FINANCING ACTIVITIES		
Dividends paid to equity holders of parent (note 11)	(44,640)	-
Increase in unrestricted investment accounts	481,199	204,133
Purchase of treasury shares	(9,102)	-
Net changes in non-controlling interest	(11,673)	(10,357)
Net cash from financing activities	<u>415,784</u>	<u>193,776</u>
Foreign currency translation adjustments	(8,729)	(52,862)
INCREASE IN CASH AND CASH EQUIVALENTS	<u>246,035</u>	<u>149,370</u>
Cash and cash equivalents at 1 January	<u>2,550,251</u>	<u>1,735,650</u>
CASH AND CASH EQUIVALENTS AT 31 MARCH	<u><u>2,796,286</u></u>	<u><u>1,885,020</u></u>
For the purpose of the interim consolidated statement of cash flows, cash and cash equivalents comprised of the following:		
Balances with Central Banks (excluding mandatory reserves)	1,898,684	886,534
Balances with other banks	669,863	805,383
Cash and cash in transit	227,739	193,103
	<u><u>2,796,286</u></u>	<u><u>1,885,020</u></u>

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

Albaraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2010 (Unaudited)

Attributable to equity shareholders of the parent

	Reserves										Non-controlling interest US\$ '000	Total equity US\$ '000
	Share capital US\$ '000	Treasury shares US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000	Other reserves US\$ '000	Cumulative changes in fair values US\$ '000	Foreign currency translations US\$ '000	Retained earnings US\$ '000	Proposed appropriations US\$ '000	Total US\$ '000		
At 1 January 2010	744,000	-	99,390	42,986	39,307	17,301	(9,165)	189,401	91,140	1,214,360	522,485	1,736,845
Dividends paid (note 11)	-	-	-	-	-	-	-	-	(44,640)	(44,640)	-	(44,640)
Bonus shares issued (note 11)	46,500	-	-	-	-	-	-	-	(46,500)	-	-	-
Purchase of treasury shares	-	(5,354)	(3,748)	-	-	-	-	-	-	(9,102)	-	(9,102)
and bonus shares received	-	-	-	-	-	-	-	-	-	-	-	-
Net movement in cumulative change in fair value	-	-	-	-	-	672	-	-	-	672	13	685
Net movement in other reserves	-	-	-	-	1,648	-	-	(750)	-	898	521	1,419
Foreign currency translation	-	-	-	-	-	-	(4,943)	-	-	(4,943)	(3,786)	(8,729)
Net income for the period	-	-	-	-	-	-	-	27,691	-	27,691	20,651	48,342
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(15,035)	(15,035)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	3,362	3,362
At 31 March 2010	790,500	(5,354)	95,642	42,986	40,955	17,973	(14,108)	216,342	-	1,184,936	528,211	1,713,147

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

Albaraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2010 (Unaudited)

	Attributable to equity shareholders of the parent										
	Reserves										
	Share capital US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000	Other reserves US\$ '000	Cumulative changes in fair values US\$ '000	Foreign currency translations US\$ '000	Retained earnings US\$ '000	Proposed appropriations US\$ '000	Total US\$ '000	Non-controlling interest US\$ '000	Total equity US\$ '000
At 1 January 2009	697,500	145,890	33,810	29,651	9,434	(18,118)	157,614	74,900	1,130,681	419,478	1,550,159
Proposed dividends (note 11)	-	-	-	-	-	-	-	(27,900)	(27,900)	-	(27,900)
Bonus shares issued (note 11)	46,500	-	-	-	-	-	-	(46,500)	-	-	-
Directors' remuneration	-	-	-	-	-	-	-	(500)	(500)	-	(500)
Net movement in cumulative change in fair value	-	-	-	-	10,138	-	-	-	10,138	4,013	14,151
Net movement in other reserves	-	-	-	3,802	-	-	(431)	-	3,371	2,356	5,727
Foreign currency translation	-	-	-	-	-	(32,265)	-	-	(32,265)	(20,597)	(52,862)
Net income for the period	-	-	-	-	-	-	23,840	-	23,840	19,123	42,963
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(5,573)	(5,573)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	(4,784)	(4,784)
At 31 March 2009	744,000	145,890	33,810	33,453	19,572	(50,383)	181,023	-	1,107,365	414,016	1,521,381

The attached notes 1 to 12 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 three months ended 31 March 2010 (Unaudited)

	Cash US\$ '000	Sales receivables US\$ '000	Mudaraba financing US\$ '000	Investment properties US\$ '000	Investments US\$ '000	Others US\$ '000	Total US\$ '000
At 1 January 2010	48,482	276,277	17,786	27,156	110,624	29,726	510,051
Deposits	36,470	13,223	990	29	7,257	831	58,800
Withdrawals	(15,537)	(57,519)	(688)	(849)	(14,135)	(1,413)	(90,141)
Income net of expenses	-	519	-	-	285	13	817
Mudarib's share	-	(416)	-	-	(19)	(9)	(444)
Foreign exchange translation	-	-	-	-	(3)	-	(3)
At 31 March 2010	69,415	232,084	18,088	26,336	104,009	29,148	479,080
	Cash US\$ '000	Sales receivables US\$ '000	Mudaraba financing US\$ '000	Investment properties US\$ '000	Investments US\$ '000	Others US\$ '000	Total US\$ '000
Balance at 1 January 2009	52,815	325,534	33,509	19,314	112,073	27,269	570,514
Deposits	9,724	19,357	1,657	8,959	16,866	2,136	58,699
Withdrawals	(3,874)	(133,075)	(10,972)	(4,251)	(19,669)	(898)	(172,739)
Income net of expenses	-	490	173	-	206	53	922
Mudarib's share	-	(190)	(108)	-	(46)	(11)	(355)
Foreign exchange translations	-	-	-	-	(959)	-	(959)
At 31 March 2009	58,665	212,116	24,259	24,022	108,471	28,549	456,082

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 31 March 2010

1 ACTIVITIES

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 NASDAQ Dubai.

The Bank operates under an Islamic 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 three months ended 31 March 2010 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 2009. In addition, results for the three months ended 31 March 2010 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2010.

The annual consolidated financial statements for the year ended 31 December 2009 were prepared in accordance with the Financial Accounting Standards [FAS] 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, CBB and Financial Institutions Law. For matters which are not covered by the AAOIFI standards including "Interim Financial Reporting," the Group uses the International Financial Reporting Standards.

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the period ended 31 March 2010. 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.

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 annual consolidated financial statements for the year ended 31 December 2009, except for the following:

Adoption of new Standards as of 1 January 2010

FAS No. 23 Consolidation

This standard sets out the principles for determining entities that are subject to be included in the consolidated financial statements of a parent and prescribes the accounting for investment in subsidiaries by parent. The adoption of this standard did not have any material impact on the financial position or performance of the Group.

FAS No. 24 Investments in Associates

This standard sets out the principles for determining entities that are deemed to be associates and prescribes the accounting treatment for investments in associates by the parent. The adoption of this standard did not have any material impact on the financial position or performance of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 31 March 2010

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**Significant accounting policies (continued)****Accounting policy***Treasury shares*

Own equity instruments which are reacquired (treasury shares) are deducted from equity of the parent and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

3 RECEIVABLES

	<i>Audited</i>
	<i>31 March 2010</i>
	<i>31 December 2009</i>
	<i>US\$ '000</i>
Sales (Murabaha) receivables	6,946,089
Ijarah receivables	10,908
Salam receivables	71,532
Istisna'a receivables	16,287
	<u>7,044,816</u>
	<u>7,027,064</u>

4 MUDARABA AND MUSHARAKA FINANCING

	<i>Audited</i>
	<i>31 March 2010</i>
	<i>31 December 2009</i>
	<i>US\$ '000</i>
Mudaraba financing	781,578
Musharaka financing	254,615
	<u>1,036,193</u>
	<u>981,112</u>

5 INVESTMENTS

	<i>Audited</i>
	<i>31 March 2010</i>
	<i>31 December 2009</i>
	<i>US\$ '000</i>
Investment in real estate	98,482
Investment in associates	37,532
Trading securities	8,803
Available for sale investments	329,969
Held to maturity investments	759,812
	<u>1,234,598</u>
	<u>1,088,036</u>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (Unaudited)**

At 31 March 2010

6 OTHER ASSETS

	<i>Audited</i>
	<i>31 March 31 December</i>
	<i>2010 2009</i>
	<i>US\$ '000 US\$ '000</i>
Bills receivables	132,400 153,403
Goodwill and intangible assets	70,361 69,911
Collateral pending sale	53,206 49,625
Prepayments	28,884 17,948
Deferred taxation	24,459 26,998
Good Faith Qard Fund	17,774 18,120
Others	41,001 29,683
	368,085 365,688
Provisions	(15,735) (16,330)
	352,350 349,358

7 OTHER LIABILITIES

	<i>Audited</i>
	<i>31 March 31 December</i>
	<i>2010 2009</i>
	<i>US\$ '000 US\$ '000</i>
Payables	304,441 169,855
Cash margins	104,058 90,245
Other provisions	8,986 6,180
Current taxation	19,351 32,279
Deferred taxation	10,189 18,298
Accrued expenses	24,506 28,729
Charity fund	9,401 10,486
Others	81,604 74,230
	562,536 430,302

8 CREDIT RELATED COMMITMENTS

	<i>Audited</i>
	<i>31 March 31 December</i>
	<i>2010 2009</i>
	<i>US\$ '000 US\$ '000</i>
Letters of credit	1,116,417 945,241
Guarantees	2,664,948 2,486,035
Acceptances	83,159 49,251
Undrawn Commitments - maturing in less than one year	315,578 296,392
Others	41,236 48,674
	4,221,338 3,825,593

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (Unaudited)**

At 31 March 2010

9 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Group.

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

	<i>Three months ended</i>	
	<i>31 March 2010 US\$ '000</i>	<i>31 March 2009 US\$ '000</i>
Net income from jointly financed contracts and investments	667	978
Net income from self financed contracts and investments	361	89
Return on unrestricted investment accounts	133	16
Other fees and commission income	15	-
Other operating income	-	8

The significant balances with related parties were as follows:

	<i>Audited</i>	
	<i>31 March 2010 US\$ '000</i>	<i>31 December 2009 US\$ '000</i>
Assets:		
Cash and balances with banks	52	255
Receivables	60,909	26,816
Mudaraba and Musharaka financing	16,903	32,822
Investments	84,349	89,323
Ijarah Muntahia Bittamleek	160	174
Other assets	1,116	1,324
Liabilities:		
Customer current and other accounts	1,422	12,617
Other liabilities	129	2,382
Unrestricted investment accounts	6,937	7,056
Restricted investment accounts	11,118	8,130

All related party exposures are performing and are free of any provision for possible credit losses.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 31 March 2010

10 BASIC AND DILUTED EARNINGS PER SHARE

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

	<i>Three months ended</i>	
	31 March 2010	31 March 2009
Net income attributable to the equity shareholders of the parent for the period - US\$ '000	<u>27,691</u>	<u>23,840</u>
Weighted average number of shares outstanding during the period - (in thousands)	<u>790,500</u>	<u>790,500</u>
Earnings per share - US cents	<u>3.50</u>	<u>3.02</u>

The weighted average number of shares of the previous year has been adjusted on account of the bonus issue made in 2010 and 2009.

11 APPROPRIATIONS

At the Annual General Meeting held on 24 March 2010 (2009: 28 March 2009), the shareholders of the Group resolved to distribute US\$ 44,640 thousand (2009: US\$ 27,900 thousand) as cash dividends and US\$ 46,500 thousand (2009: US\$ 46,500 thousand) as bonus shares.

12 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors.

For financial reporting purposes, the Group is divided into the following geographic segments:

- Middle East
- North Africa
- Europe
- Others

The results reported for the geographic 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 interim condensed consolidated financial statements as set out in note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

No business segments are presented as that is not applicable to the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 31 March 2010

12 SEGMENTAL INFORMATION (continued)

Segment assets, liabilities and unrestricted investment accounts were as follows:

	31 March 2010			Audited 31 December 2009		
	Assets US\$ '000	Liabilities US\$ '000	Unrestricted investment accounts US\$ '000	Assets US\$ '000	Liabilities US\$ '000	Unrestricted investment accounts US\$ '000
Segment						
Middle East	6,235,856	1,290,694	4,132,991	6,051,048	1,219,473	4,030,776
North Africa	1,997,491	916,815	792,564	1,855,912	780,986	770,778
Europe	4,487,331	670,103	3,326,911	4,273,508	769,257	3,026,560
Others	1,003,423	416,636	464,240	985,809	421,092	410,510
	13,724,101	3,294,248	8,716,706	13,166,277	3,190,808	8,238,624

Segment operating income, net operating income and net income was as follows:

	31 March 2010			31 March 2009		
	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
Segment						
Middle East	48,683	17,749	9,070	42,434	13,337	6,158
North Africa	27,441	16,919	12,790	26,662	16,028	13,371
Europe	68,671	40,255	24,900	60,098	36,326	19,108
Others	12,187	2,740	1,582	10,040	4,758	4,326
	156,982	77,663	48,342	139,234	70,449	42,963