

Albaraka Banking Group B.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 JUNE 2008 (UNAUDITED)

ERNST & YOUNG

 **ERNST & YOUNG**

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF
ALBARAKA BANKING GROUP B.S.C.**

Introduction

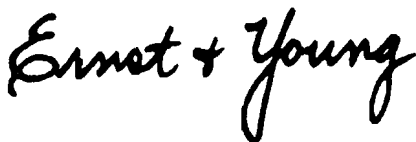
We have reviewed the accompanying interim condensed consolidated financial statements of Albaraka Banking Group B.S.C. ('the Bank') and its subsidiaries ('the Group') as at 30 June 2008, comprising of the interim consolidated balance sheet as at 30 June 2008 and the related interim consolidated statements of income, cash flows, changes in equity, and changes in restricted investment accounts for the six 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 August 2008
Manama, Kingdom of Bahrain

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

		<i>Audited</i>
	30 June	31 December
	2008	2007
	US\$ '000	US\$ '000
ASSETS	<i>Notes</i>	
Cash and balances with banks		2,281,127
Receivables	3	5,621,480
Mudaraba and Musharaka financing	4	707,458
Investments	5	711,049
Ijarah Muntahia Bittamleek		348,637
Property and equipment		163,825
Other assets		270,403
TOTAL ASSETS		11,167,468
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		10,103,979
LIABILITIES		
Customer current and other accounts		1,792,590
Due to banks		69,027
Other liabilities		449,883
Total liabilities		2,311,500
UNRESTRICTED INVESTMENT ACCOUNTS		6,222,821
EQUITY		
Share capital		651,000
Share premium		192,390
Reserves		85,630
Retained earnings		109,153
Proposed appropriations		105,590
Equity attributable to the shareholders of the parent		1,143,763
Minority interest		425,895
Total equity		1,569,658
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		11,167,468



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 six months ended 30 June 2008 (Unaudited)

	<i>Six months ended</i>		<i>Three months ended</i>	
	30 June 2008 US\$ '000	<i>30 June 2007 US\$ '000</i>	30 June 2008 US\$ '000	<i>30 June 2007 US\$ '000</i>
Income				
Net income from jointly financed contracts and investments	359,982	261,739	182,552	138,084
Gross return on unrestricted investment accounts Group's share as a Mudarib	(308,671)	(229,013)	(156,752)	(122,891)
Return on unrestricted investment accounts	(220,114)	(166,449)	(110,230)	(89,357)
Group's share of income from joint financing and investment accounts	139,868	95,290	72,322	48,727
Mudarib share for managing restricted investment accounts	9,631	4,272	9,168	3,852
Net income from self financed contracts and investments	57,171	32,853	32,264	16,887
Other fees and commission income	76,790	50,873	40,283	27,403
Other operating income	24,251	13,824	13,066	7,230
TOTAL OPERATING INCOME	307,711	197,112	167,103	104,099
Staff expenses	76,809	55,180	38,000	28,247
Depreciation and amortisation	9,074	8,196	4,697	4,087
Other operating expenses	46,871	37,159	25,994	20,763
TOTAL OPERATING EXPENSES	132,754	100,535	68,691	53,097
NET INCOME FOR THE PERIOD BEFORE PROVISIONS AND TAXATION	174,957	96,577	98,412	51,002
Provisions	(35,670)	(9,291)	(21,308)	(4,207)
Profit on deemed disposal of a subsidiary	-	54,179	-	54,179
NET INCOME FOR THE PERIOD BEFORE TAXATION	139,287	141,465	77,104	100,974
Taxation	(31,310)	(20,499)	(18,332)	(11,015)
NET INCOME FOR THE PERIOD	107,977	120,966	58,772	89,959
Attributable to:				
Equity shareholders of the parent	62,190	98,080	33,948	77,850
Minority interest	45,787	22,886	24,824	12,109
	107,977	120,966	58,772	89,959
Basic and diluted earnings per share - US cents (note 8)	9	14	5	11

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 six months ended 30 June 2008 (Unaudited)

	30 June 2008 US\$ '000	30 June 2007 US\$ '000
OPERATING ACTIVITIES		
Net income for the period before taxation	139,287	141,465
Adjustments for non-cash items:		
Depreciation and amortisation	9,074	8,196
Depreciation on Ijarah Muntahia Bittamleek	60,585	56,102
Gain on sale of property and equipment	(9,571)	-
Provisions	35,670	9,291
Operating profit before changes in operating assets and liabilities	<u>235,045</u>	<u>215,054</u>
Net changes in operating assets and liabilities		
Reserves with central banks	(140,712)	(442,671)
Receivables	(898,727)	(593,573)
Mudaraba and Musharaka financing	(218,373)	12,806
Investment properties	(31,076)	421
Ijarah Muntahia Bittamleek	(52,005)	(103,001)
Other assets	(24,996)	(10,892)
Customer current and other accounts	274,876	228,876
Due to banks	107,207	(46,687)
Other liabilities	55,968	43,301
Taxation paid	(40,047)	(19,094)
Directors remuneration paid	(500)	(430)
Net cash used in operating activities	<u>(733,340)</u>	<u>(715,890)</u>
INVESTING ACTIVITIES		
Net (purchase) disposal of investments	(121,793)	274,848
Net disposal (purchase) of property and equipment	722	(16,776)
Dividend received from associates	501	1,233
Purchase of investment in associates	(4,315)	(1,920)
Net cash (used in) from investing activities	<u>(124,885)</u>	<u>257,385</u>
FINANCING ACTIVITIES		
Increase in unrestricted investment accounts	631,486	570,819
Dividend Paid	(58,590)	(12,000)
Net changes in minority interest	(28,337)	86,950
Net cash from financing activities	<u>544,559</u>	<u>645,769</u>
Foreign currency translation adjustments	(19,837)	20,439
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(333,503)</u>	<u>207,703</u>
Cash and cash equivalents at beginning of the period	<u>1,737,048</u>	<u>1,389,144</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>1,403,545</u></u>	<u><u>1,596,847</u></u>
For the purpose of the interim consolidated cash flow statement, cash and cash equivalents comprised of the following:		
Balances with central banks	591,205	729,657
Balances with other banks	641,930	655,628
Cash and cash in transit	170,410	211,562
	<u><u>1,403,545</u></u>	<u><u>1,596,847</u></u>

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 six months ended 30 June 2008 (Unaudited)

	<i>Attributable to equity shareholders of the parent</i>										
	<i>Reserves</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>Total equity</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	-	-	-	5,554	-	-	-	-	5,554	6,125	11,679
Net movement in other reserves	-	-	-	-	-	21,986	(17,237)	-	4,749	3,490	8,239
Foreign currency translation	-	-	-	-	(4,257)	-	-	-	(4,257)	(15,580)	(19,837)
Total income and expense for the period recognised directly in equity	-	-	-	5,554	(4,257)	21,986	(17,237)	-	6,046	(5,965)	81
Net income for the period	-	-	-	-	-	-	62,190	-	62,190	45,787	107,977
Total income and expense for the period	-	-	-	5,554	(4,257)	21,986	44,953	-	68,236	39,822	108,058
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(22,218)	(22,218)
Net movement in minority interest	-	-	-	-	-	-	-	-	-	(6,119)	(6,119)
At 30 June 2008	697,500	192,390	22,440	11,437	51,530	23,506	154,106	-	1,152,909	437,380	1,590,289

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 six months ended 30 June 2008 (Unaudited)

	<i>Attributable to equity shareholders of the parent</i>											
	<i>Reserves</i>										<i>Minority interest</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>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>	<i>US\$ '000</i>	<i>US\$ '000</i>	
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	-	(14,351)	-	-	-	-	(21,000)	(14,351)	-	(14,351)	
Directors' remuneration paid	-	-	-	-	-	-	(430)	-	(430)	-	(430)	
Net movement in cumulative change in fair value	-	-	-	(298)	-	-	-	-	(298)	(329)	(627)	
Net movement in other reserves	-	-	-	-	-	929	-	-	929	734	1,663	
Foreign currency translation	-	-	-	-	18,476	-	-	-	18,476	8,414	26,890	
Total income and expense for the period recognised directly in equity	-	-	-	(298)	18,476	929	-	-	19,107	8,819	27,926	
Net income for the period	-	-	-	-	-	-	98,080	-	98,080	22,886	120,966	
Total income and expense for the period	-	-	-	(298)	18,476	929	98,080	-	117,187	31,705	148,892	
Adjustment on deemed disposal of subsidiary	-	-	-	-	(6,451)	-	-	-	(6,451)	-	(6,451)	
Net movement in minority interest	-	-	-	-	-	-	-	-	-	86,950	86,950	
At 30 June 2007	651,000	238,890	(6,326)	5,553	30,968	1,715	140,752	-	1,062,552	351,182	1,413,734	

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 six months ended 30 June 2008 (Unaudited)

	<i>Cash</i> <i>US\$ '000</i>	<i>Sales</i> <i>receivables</i> <i>US\$ '000</i>	<i>Mudaraba</i> <i>financing</i> <i>US\$ '000</i>	<i>Musharaka</i> <i>financing</i> <i>US\$ '000</i>	<i>Investment</i> <i>properties</i> <i>US\$ '000</i>	<i>Investments</i> <i>US\$ '000</i>	<i>Others</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
At 1 January 2008	65,217	373,273	71,892	-	15,186	77,953	25,642	629,163
Deposits	25,447	830,780	-	-	5,260	162,765	20,154	1,044,406
Withdrawals	(43,148)	(828,225)	(35,806)	-	(1,028)	(150,201)	(4,100)	(1,062,508)
Income, net of expenses	-	11,409	-	-	876	85,029	459	97,773
Mudarib's share	-	(3,185)	-	-	(335)	(5,970)	(141)	(9,631)
Foreign exchange translation	-	-	-	-	-	(124)	-	(124)
At 30 June 2008	47,516	384,052	36,086	-	19,959	169,452	42,014	699,079
	<i>Cash</i> <i>US\$ '000</i>	<i>Sales</i> <i>receivables</i> <i>US\$ '000</i>	<i>Mudaraba</i> <i>financing</i> <i>US\$ '000</i>	<i>Musharaka</i> <i>financing</i> <i>US\$ '000</i>	<i>Investment</i> <i>properties</i> <i>US\$ '000</i>	<i>Investments</i> <i>US\$ '000</i>	<i>Others</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
At 1 January 2007	26,386	337,251	83,637	1,140	14,378	48,065	26,877	537,734
Deposits	81,043	85,585	-	-	489	29,334	6,973	203,424
Withdrawals	(32,635)	(63,929)	(31,410)	(812)	(1,905)	(28,940)	(5,956)	(165,587)
Income, net of expenses	-	10,372	153	8	1,631	4,364	428	16,956
Mudarib's share	-	(2,332)	(76)	(8)	(490)	(1,275)	(91)	(4,272)
Foreign exchange translation	-	-	-	-	-	199	-	199
At 30 June 2007	74,794	366,947	52,304	328	14,103	51,747	28,231	588,454

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 30 June 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 six months ended 30 June 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 six months ended 30 June 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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the period ended 30 June 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 June 2008 US\$ '000	<i>Audited</i> 31 December 2007 US\$ '000
Sales receivables	6,357,462	5,482,299
Ijarah receivables	27,593	22,484
Salam receivables	101,925	101,043
Istisna'a receivables	17,387	15,654
	6,504,367	5,621,480

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 30 June 2008

4 MUDARABA AND MUSHARAKA FINANCING

	<i>Audited</i>
	<i>30 June 31 December</i>
	<i>2008 2007</i>
	<i>US\$ '000 US\$ '000</i>
Mudaraba financing	746,557 527,880
Musharaka financing	178,765 179,578
	<u>925,322 707,458</u>

5 INVESTMENTS

	<i>Audited</i>
	<i>30 June 31 December</i>
	<i>2008 2007</i>
	<i>US\$ '000 US\$ '000</i>
Investment properties	71,471 71,720
Investment in associates	21,456 17,642
Trading securities	84,878 27,251
Available for sale investments	257,874 296,028
Held to maturity investments	419,465 298,408
	<u>855,144 711,049</u>

6 CREDIT RELATED COMMITMENTS

	<i>Audited</i>
	<i>30 June 31 December</i>
	<i>2008 2007</i>
	<i>US\$ '000 US\$ '000</i>
Letters of credit	562,303 435,121
Guarantees	1,579,705 995,531
Acceptances	50,390 122,931
Others	70,733 75,089
	<u>2,263,131 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.

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

	<i>30 June</i>	<i>30 June</i>
	<i>2008</i>	<i>2007</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Net income from jointly financed contracts and investments	1,307	2,058
Return on unrestricted investment accounts	35	25
Net income from self financed contracts and investments	348	-
Other operating income	-	24
Other operating expenses	-	215
	<u>2,090</u>	<u>2,322</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (Unaudited)

At 30 June 2008

7 RELATED PARTY TRANSACTIONS (continued)

The significant balances with related parties were as follows:

	30 June	<i>Audited</i>
	2008	<i>31 December</i>
	US\$ '000	<i>2007</i>
		<i>US\$ '000</i>
Assets:		
Receivables	12,257	1,856
Mudaraba and Musharaka financing	16,365	27,708
Investments	84,038	84,508
Other assets	8,995	9,828
	26,475	3,205
Liabilities:		
Customer current and other accounts	26,475	3,205
Unrestricted investment accounts	4,404	10,956
Restricted investment accounts	8,130	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:

	<i>Six months ended</i>		<i>Three months ended</i>	
	30 June	<i>30 June</i>	30 June	<i>30 June</i>
	2008	<i>2007</i>	2008	<i>2007</i>
	US\$ '000	<i>US\$ '000</i>	US\$ '000	<i>US\$ '000</i>
Net income attributable to the equity shareholders of the parent for the period	62,190	98,080	33,948	77,850
Weighted average number of shares outstanding during the period - in thousands	697,500	697,500	697,500	697,500
Basic and diluted earnings per share - US cents	9	14	5	11

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 30 June 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:

	<i>June 2008</i>			<i>Audited December 2007</i>		
	<i>Assets US\$ '000</i>	<i>Liabilities US\$ '000</i>	<i>Unrestricted investment accounts US\$ '000</i>	<i>Assets US\$ '000</i>	<i>Liabilities US\$ '000</i>	<i>Unrestricted investment accounts US\$ '000</i>
Geographic region:						
Domestic (Bahrain)	710,885	63,738	268,321	625,773	55,118	236,311
Other Middle East	4,673,273	1,388,554	3,240,734	4,085,369	1,078,770	2,935,426
Europe	3,779,828	528,587	2,425,302	3,496,986	500,791	2,181,984
Asia	381,568	46,321	246,904	409,649	41,114	274,321
Africa	1,489,222	708,878	638,512	1,372,846	629,407	584,938
Others	132,692	11,215	10,113	113,356	6,300	9,841
	11,167,468	2,747,293	6,829,886	10,103,979	2,311,500	6,222,821

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

	<i>June 2008</i>			<i>June 2007</i>		
	<i>Total operating income US\$ '000</i>	<i>Net operating income US\$ '000</i>	<i>Net income US\$ '000</i>	<i>Total operating income US\$ '000</i>	<i>Net operating income US\$ '000</i>	<i>Net income US\$ '000</i>
Geographic region:						
Domestic (Bahrain)	15,385	(7,817)	(8,079)	14,412	(5,604)	(6,806)
Middle East	92,069	70,157	40,123	68,720	47,874	36,854
Europe	132,310	75,217	49,983	70,787	33,051	77,384
Asia	11,234	2,383	1,933	524	524	524
Africa	56,607	34,911	23,911	41,391	19,454	11,732
Others	106	106	106	1,278	1,278	1,278
	307,711	174,957	107,977	197,112	96,577	120,966