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Albaraka Banking Group (B.S.C.)

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Albaraka Banking Group (B.S.C.)

Major Rating Factors

Counterparty Credit Rating
BBB-/Stable/A-3

Strengths:

- Comparative advantage as a fully fledged Islamic banking group
- Good geographic diversification
- Good liquidity profile
- Satisfactory capitalization

Weaknesses:

- Fragmented business model, with weak market positions in most of the countries in which the group operates
- Only adequate asset quality
- Challenging funding mix
- Below regional average profitability

Rationale

The ratings on Albaraka Banking Group (B.S.C.) (ABG) reflect the group's geographic diversification, as a fully fledged Islamic banking group, good liquidity profile, and satisfactory capitalization. The current ratings are assigned to ABG--the bank holding company incorporated in Bahrain consolidating subsidiaries spanning 12 countries. They reflect ABG's stand-alone creditworthiness and do not factor in potential external support from shareholders or authorities. The group's fragmented business model, only adequate asset quality, challenging funding mix, and below regional average profitability offset these positive factors. ABG's main challenges are to develop its customer franchise, enhance profitability, and control risks, with the parent bank and its units becoming a more cohesive group.

With total assets of $10.1 billion at year-end 2007, ABG is a large banking group operating in the Middle East and North Africa, primarily engaged in retail and corporate banking. Despite its good geographic coverage, ABG lacks a strong home core market. Its main subsidiaries are based in Turkey, Jordan, and Algeria. Other ABG subsidiaries are small niche players in their respective markets. Future plans include further foray into new markets in the Middle East and the Muslim region of Asia.

ABG's main shareholders, Saudi-based conglomerate Dallah Albaraka Group (Dallah; not rated) and its founder, Sheikh Saleh Abdullah Kamel, owned a combined 54.8% stake at Dec. 31, 2007, a neutral factor for the ratings. Standard & Poor's Ratings Services, however, acknowledges that majority shareholders have been supportive to ABG in the past. The corporate governance framework is adequate and is continuously enhanced, although the group's structure makes it challenging to effectively control risks and reach economies of scale.

ABG finances the bulk of its loan portfolio with Sharia-compliant funding instruments, called profit-sharing investment accounts (PSIAs). Although a positive factor in theory, as customers should share in the group's profits or losses, this funding mix could prove detrimental in case of a major stress, triggering pressure on liquidity. ABG's liquidity profile is satisfactory, however, as about 29% of assets was considered liquid at year-end 2007.

ABG's asset quality is only adequate, although improving. The ratio of nonperforming assets (NPAs) to total financing stood at 6.3% at Dec. 31, 2007. Loan loss reserve (LLR) coverage is also only adequate, at 50.6% at the same date. About 45% of total NPAs come from its subsidiary in Egypt. Given existing collateral and recovery prospects in Egypt, high growth in assets, and a cautious lending policy, we expect the group's NPA ratio to trend downward in the short term, however.

ABG's profitability, with return on assets (ROA) and return on equity (ROE) in 2007 reaching 1.8% and 12.5%, respectively, is only adequate compared with that of banks operating in the Gulf. ABG's revenues are still dependent on its main subsidiaries, with limited ability to extract large economies of scale. Capitalization is satisfactory, although we expect it to decline along with ABG's planned growth.

Outlook

The stable outlook factors in ABG's endeavor to implement common risk management practices, address its asset-quality problems in Egypt, and extract larger economies of scale. The ratings could be raised if ABG's sources of profitability further diversify, efficiency improves, funding profile strengthens, and asset quality shows a longer track record of improvement. On the contrary, the ratings could be lowered if capitalization or liquidity comes under significant pressure; if asset quality materially deteriorates; or if ABG fails to effectively implement common practices among its various units.

Profile: A Widespread Fully Fledged Islamic Banking Group Focusing On Corporate And Retail Banking

ABG is a fully fledged Sharia-compliant banking group, established in June 2002 by the Saudi conglomerate Dallah Albaraka Group. ABG, incorporated in Bahrain, consolidates, under a single parent, various former commercial and investment banking subsidiaries of Dallah.

ABG is primarily engaged in retail and corporate banking--with limited investment-banking activities in Bahrain--through a network of 10 banking subsidiaries and one representative office, operating in 12 countries, and a total headcount of over 6,100 at year-end 2007 (see table 1).

Table 1

List of Albaraka Banking Group (B.S.C.)'s Subsidiaries And Representative Offices At Year-End 2007

Subsidiaries	Year of inception	Country	Rating on country (FC)	Rating on country (LC)	(% held)	Branches
AlBaraka Turk Participation Bank*	1984	Turkey	BB-/Negative/B	BB/Negative/B	54.1	80
Jordan Islamic Bank	1978	Jordan	BB/Stable/B	BBB/Stable/A-3	57.4	64
Albaraka Bank Sudan	1984	Sudan	NR	NR	86.2	23
Albaraka Islamic Bank Bahrain¶	1984	Bahrain	A/Stable/A-1	A/Stable/A-1	91.1	22
Banque Albaraka d'Algérie	1991	Algeria	NR	NR	55.9	17
Egyptian Saudi Finance Bank	1980	Egypt	BB+/Stable/B	BBB-/Stable/A-3	73.7	16
Bank Et-Tamweel Al Tunisia Al-Saudi	1983	Tunisia	BBB/Stable/A-3	A/Stable/A-1	78.4	8
Albaraka Bank Lebanon	1992	Lebanon	CCC+/Stable/C	CCC+/Stable/C	96.3	6

Table 1

List of Albaraka Banking Group (B.S.C.)'s Subsidiaries And Representative Offices At Year-End 2007(cont.)

Albaraka Bank Ltd. South Africa	1989	South Africa	BBB+/Stable A-2	A+/Stable/A-1	51.8	6
Albaraka Banking Group Syria§	In the process of incorporation					
Albaraka Banking Group Indonesia	2007	Indonesia	BB-/Stable/B	BB+/Stable/B	Rep. office	

*Albaraka Banking Group (B.S.C.) was diluted from 67.8% after a partial IPO in June 2007. ¶Al Amin Bank merged with Albaraka Islamic Bank Bahrain in 2007. The new combined entity also owns Albaraka Bank Pakistan, created in 1984, which holds a network of 18 branches, and which is currently under the process of becoming a fully incorporated entity. §As for any foreign bank in Syria, ABG ownership is capped at 49% by law. Ratings are Standard & Poor's at May 22, 2008. Data as of Dec. 31, 2007. FC--Foreign currency. LC--Local currency. NR: Not rated. Source: Albaraka Banking Group (B.S.C.) and Standard & Poor's Ratings Services.

With total assets of $10.1 billion at Dec. 31, 2007, ABG is among the largest Islamic banks in the Middle East, after Al Rajhi Bank (A/Stable/A-1), Kuwait Finance House (A-/Positive/A-2), and Dubai Islamic Bank (A/Stable/A-1), none of which have a comparable geographic reach. Altogether, ABG serves a depositor base of about 1.2 million through a network of about 250 branches. The head office in Bahrain plans to kick start wholesale banking in 2008, currently acting as a pure bank holding, with 93.8% of the group's consolidated assets being held outside Bahrain. ABG features a good geographic coverage. Although it operates mainly through small units in countries in which Sharia-compliant banking is generally a niche segment, the scarcity or virtual nonexistence of competition gives ABG a strong competitive edge. Its main subsidiaries are based in Turkey, Jordan, and Algeria, none of these providing ABG with a strong and sizable home market, however.

ABG has shown continuous and strong commitment to all its subsidiaries, notably through capital support, and ranks them as equally important.

Support And Ownership: Ownership May Change In the Coming Months, But Possible Terms Are Unclear

Subsequent to an IPO in 2006, the two owners--Bahrain-based Dallah Albaraka Holding Co. E.C. (not rated), wholly owned by Saudi-based Dallah Albaraka Group and its founder Sheikh Saleh Abdullah Kamel--were diluted from 45.0% and 55.0%, to 30.1% and 24.6%, respectively. This combined majority ownership is a neutral rating factor, although we acknowledge that these shareholders have consistently been supportive to the various subsidiaries.

During 2007, Dallah and Saudi-based Saudi Investment Bank (SAIB; A-/Stable/A-2) entered into a share swap agreement whereby SAIB would become ABG's largest shareholder. We expect a decision to be reached around mid-year 2008, should both parties agree on all terms of this transaction. Any reassessment of ownership and support factored into the ratings on ABG would depend on the level of influence gained by SAIB, as well as the level and forms of help SAIB would be willing to commit to ABG in case of need.

Table 2

List Of Albaraka Banking Group (B.S.C.)'s Main Shareholders At Year-End 2007

Shareholder's name	Type	Standard & Poor's rating	Country	(% owned)
Sheikh Saleh Abdullah Kamel	Individual	N.A.	Saudi Arabia	30.1
Dallah Albaraka Holding Company*	Holding	N.R.	Bahrain	24.6
Altawfeek Company For Investment Funds¶	Investment Fund	N.R.	Saudi Arabia	20.7

Table 2

List Of Albaraka Banking Group (B.S.C.)'s Main Shareholders At Year-End 2007(cont.)				
Sheikh Abdullah Al Rajhi	Individual	N.A.	Saudi Arabia	6.8
Public (> 1,800 investors)§	Diversified	N.A.	Miscellaneous	7.7

*Owned by Saudi-based Dallah Albaraka conglomerate. ¶The stake held by AlAmin Bank (<15%) has been transferred to Albaraka Islamic Bank after their merger in 2007. Albaraka Banking Group (B.S.C.) deems it has lost significant influence in Altawfeek in 2006. All data as of Dec. 31, 2007. §Shares are publicly traded both on the Bahrain Stock Exchange and Dubai International Financial Exchange. N.R.--Not rated. N.A.--Not applicable. Source: Albaraka Banking Group (B.S.C.).

The group is under the supervisory umbrella of the Central Bank of Bahrain, which ABG keeps regularly updated about its operations abroad. In addition, each subsidiary has to comply with its local regulator's requirements.

Strategy: A Decentralized Group With A Niche Market Strategy, But No Sizable Core Home Market

ABG's business model aims at implementing a decentralized group whose subsidiaries will have to balance the group's guidelines and their own challenges on their respective domestic market. ABG aims to become a leading Islamic-banking group with a worldwide presence, complementing its current business model with investment-banking and treasury services. Given its niche strategy in most of the markets where it operates, ABG is still far from its claimed objective.

ABG expects to leverage on its status as a fully-fledged Islamic bank with 30 years of experience. The Albaraka franchise, well known in Muslim regions, is clearly a competitive advantage. A committee in charge of reviewing the group's strategy twice a year has been set up in 2007. The strategy is inherently linked to Muslim-populated markets--focusing on partnerships with local investors and retaining majority whenever possible--incidentally covering countries we deem as risky. Overall, we deem ABG's strategy to be cautious, gradual, and potentially rewarding in the long term due to a niche segment approach in markets where Islamic banking has not yet shown its potential.

Having been incepted after its subsidiaries, ABG has not yet managed to fully transfer the experience and know-how from a subsidiary to another, and is currently tackling the need for a unique franchise. Henceforth, ABG's key challenge will be to prove it is able to act as a cohesive group.

Risk Profile And Management: Work In Progress, Supported By An Experienced Management

Credit risk and challenges related to the need of unified risk procedures and measures dominate ABG's risk profile. The group's conservative approach to lending, and the management's strong commitment, somewhat mitigate these risks, however. ABG's funding remains challenged by it reliance on PSIAs and the maturity mismatches they incur. The group's liquidity and market risk profile is satisfactory.

Enterprise risk management: sound and gradual headway in unifying policies and systems

ABG's enterprise risk management is adequate and supported by:

- Limited risk appetite, conservative risk culture, and ongoing implementation of a standardized group's risk management framework;
- Strong managerial commitment to achieving higher operating efficiency and better cooperation between the

subsidiaries to share know-how and experience under a unified and cohesive structure; and
- An adequate corporate governance framework continuously enhanced.

Implementing stronger group's risk controls is challenging, however, given ABG's widespread activities, and considering the nature of Islamic finance, characterized by the commingled nature of risk categories embedded in Sharia'a-compliant financing transactions. The head office inception, back in 2002, signposted the intention to create a single group with common strategy and tools out of a wide array of small banks. Efforts to centralize monitoring and develop across the group a common philosophy, upgraded IT platforms, and standardized procedures and policies are still in progress, but managed soundly.

Credit risk: asset quality and strong lending growth in Turkey remain key challenges

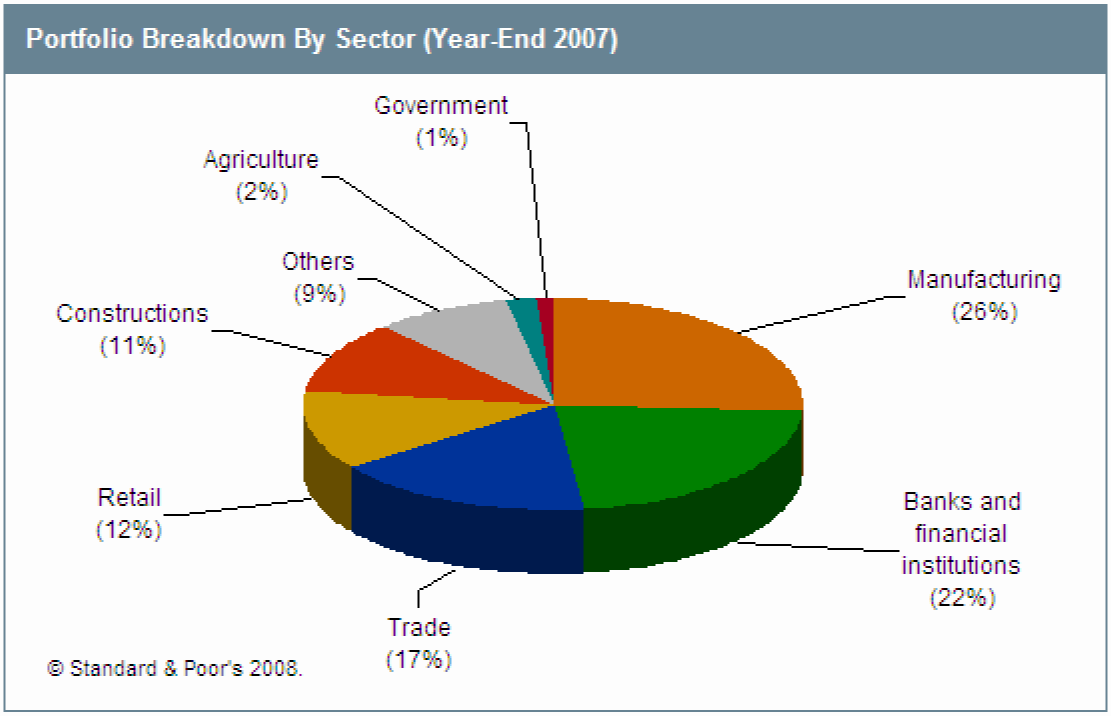
Asset quality indicators have improved in 2007, with NPAs standing at 6.3% of total loans at year-end 2007 (7.9% in 2006), but remain only adequate and higher than regional standards. About 45% of ABG's NPAs are lodged in its Egyptian unit, which has inherited a backlog of bad loans, a common feature among Egyptian banks. ABG should clean up this legacy portfolio gradually over the next three years. Short term, we expect the NPA ratio to trend downward to a range of 4%-5%, primarily due to strong growth in assets and not a reduction in the stock of NPAs. Coverage by LLR (excluding collateral) stood at a lower-than-regional average 50.5% at year-end 2007.

Despite rapid loan growth, ABG's financing leverage is not excessive and remains in line with regional peers, with total gross loans to assets reaching 63.0% at Dec. 31, 2007, which suggests that ABG still has leeway to develop its financing book. We expect financing leverage to maintain its upward trend as ABG strengthens its retail banking capacities and growth group wise, although not to the point where liquidity could be at risk. Total financing to customer deposits reached 85.9% at year-end 2007.

ABG's key challenge is to control credit risk, especially given its fast-growth strategy and expansion in a wide array of high-risk countries such as Turkey. Asset-backing practices inherent to Islamic banking, as well as conservative lending policies, and highly centralized credit approval procedures somewhat mitigate credit risk, however.

On a groupwide basis, the financing portfolio remains granular by name as the top 20 performing exposures (nonbanks) accounted for a mere 8.5% of gross customer loans and about 41% of shareholders' equity at year-end 2007. However, the group's largest exposures, as well as the whole financing portfolio is now materially located in Turkey. It indeed benefited from the funds available through the IPO in 2007, combined with the thriving opportunities of a Turkish economic environment that still has to cope with political and external uncertainties. Despite the absolute limited size of the Turkish operations relative to other players in the local market, we expect this unit to clearly drive ABG's growth over the medium term. Concentration by sector is satisfactory at the group level, although concentrations may be found at the various units according to national specificities, such as trade financing in Jordan, or manufacturing financing in Turkey.

Chart 1



Funding and liquidity risk: imbalanced funding structure, but a high proportion of liquid assets

ABG's funding needs were fully met by customers' deposits in 2007, which were split between current accounts (22%) and unrestricted PSIAs (78%) at year end. This reliance on PSIAs puts potential pressure on liquidity as:

- Their returns are dependent on profitability, and should they become significantly lower than market rates, could trigger displaced commercial risk,
- About one-half of these have duration that does not exceed one month and are recycled into asset classes with longer maturities since they are considered stable enough, a common feature in the Gulf.

ABG intended to diversify its funding mix, issuing a sukuk for an estimated $200 million, which has been delayed due to current market conditions and effects on pricing. At year-end 2007, the top-20 depositors (nonbanks) stood at a mere 8.7% of total customers' deposits. ABG's liquidity profile is good with assets in liquid forms making up about 29% of total assets at year-end 2007.

ABG intends to build profit equalization reserves at the head office level to help subsidiaries in case of need, since they cannot transfer their own reserves due to legal local constraints.

Market risk: sensitivity to margin volatility is not yet measured

At year-end 2007, the size of the securities portfolio stood at $711.0 million--or 7.1% of assets--of which one-third are debt instruments related to the Egyptian Government. Stocks represented an immaterial portion of the securities portfolio, which accounted for 68.5% of reported shareholders' equity. Although ABG is not running any meaningful open foreign-currency position, it remains exposed to fluctuations in exchange rates because of potential pressure on debtors' repayment ability in case of adverse currency changes.

Murabaha contracts--which are at fixed rates--made up almost 90% of ABG's financing book in 2007. This portfolio is potentially sensitive to margin volatility, as PSIAs naturally carry variable yields, being regularly adjusted to track market rates on conventional returns. This risk is currently not assessed internally.

Accounting

ABG financial statements for 2007 fully consolidate nine subsidiaries (from 10 in 2006 after completion of the merger between Bahrain-based AlAmin Bank and Albaraka Islamic Bank), and excludes ABG Syria (49%-owned), which is in the process of incorporation and should effectively kick start operations during 2008. They are prepared in accordance with Auditing Standards for Islamic Financial Institutions issued by the Bahrain-based Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI), and International Financial Reporting Standards (IFRS).

ABG's consolidated accounts have been audited by Ernst & Young (E&Y), and have been unqualified since inception. Interim statements are also consolidated, but not fully audited, and no notes are provided. E&Y currently audits six out of the nine units ABG consolidates, a total that should reach eight by year-end 2008.

Profitability: Dependent on Main Units, While High Minority Interests Materially Scale Down Available Net Profits

ABG's profitability is only adequate compared with that of top-Tier regional banks, with ROA and ROE reaching 1.8% and 12.5%, respectively, in 2007. ABG targets a ROE ratio of 15% over the medium term. ABG's bottom line result has improved in 2007 to reach $156 million, although this includes a $54.2 million gain related to the IPO of its Turkish unit, which we classified as nonrecurring income. It remains, furthermore, very dependent on its units in Turkey, Jordan, and Algeria, respectively, accounting for 47%, 24%, and 14%, of total net income in 2007. Going forward, we expect Turkey to consistently account for about one-half of ABG's net income, while the other half should gain higher granularity.

ABG's efficiency is only average, with a cost-to-income ratio of 51.5% in 2007, notably due to the current limited ability to extract economies of scale from its different operations. We expect this ratio to remain relatively stable owing to the expansion strategy, while continuing to erode overall revenues as was the case in 2007. The group's quality of earnings is satisfactory with fees and commissions contributing to 56.0% of revenues in 2007, up from 40.3% in 2003.

About one-third of the group's net income leaks into minority interests, which should remain unchanged in the long term.

Capital: Satisfactory, But We Expect It To Decline With Planned Growth In Risk Assets

ABG's capitalization is satisfactory given its risk profile and compares well with regional peers; although we expect it to decline along with the planned growth strategy. Adjusted total equity stood at 13.3% of total assets at year-end 2007, notably having benefited from the IPO in 2006. ABG uses part of the IPO proceeds to increase its stake and capital in its subsidiaries, and to expand its geographical coverage. The quality of ABG's equity base is strong, as it exclusively consists of Tier-1 capital. Now a listed company, ABG targets a dividend payout ratio between 40%-60% (40.7% in 2007). Although in line with regional practices, this should limit the group's ability to build capital internally, which already has to cope with high minority interests payments.

Table 3

Albaraka Banking Group (B.S.C.) Balance Sheet Statistics

	--Year ended Dec. 31--						Breakdown as a % of assets (adj.)				
(Mil. $)	**2008***	**2007**	**2006**	**2005**	**2004**	-	**2008***	**2007**	**2006**	**2005**	**2004**
Assets											
Cash and money market instruments	2,206	2,281	1,817	1,845	1,627		20.78	22.68	23.97	29.43	32.42
Securities	713	622	842	585	402		6.72	6.18	11.11	9.33	8.01
Trading securities (marked to market)	50	27	4	3	1		0.48	0.27	0.05	0.04	0.02
Nontrading securities	663	594	838	582	401		6.25	5.91	11.06	9.29	7.99
Loans to banks (net)	0	528	156	168	157		0.00	5.25	2.05	2.68	3.14
Customer loans (gross)	7,176	6,335	4,541	3,405	2,578		67.61	62.97	59.92	54.33	51.40
All other loans	7,176	6,335	4,541	3,405	2,578		67.61	62.97	59.92	54.33	51.40
Loan loss reserves	0	196	168	151	135		0.00	1.94	2.22	2.42	2.69
Customer loans (net)	7,176	6,139	4,373	3,254	2,444		67.61	61.03	57.70	51.91	48.71
Earning assets	7,889	8,420	6,166	4,846	3,666		74.34	83.70	81.37	77.32	73.08
Inv. in unconsolidated subsidiaries (financial co.)	21	18	18	125	115		0.20	0.18	0.24	2.00	2.30
Intangibles (nonservicing)	44	44	47	40	40		0.42	0.44	0.62	0.64	0.80
Fixed assets	165	164	131	115	112		1.55	1.63	1.73	1.84	2.23
Accrued receivables	0	151	118	82	77		0.00	1.50	1.56	1.31	1.54
All other assets	331	157	124	93	83		3.12	1.56	1.64	1.49	1.65
Total reported assets	10,613	10,104	7,626	6,307	5,057		100.00	100.44	100.62	100.64	100.80
Less nonservicing intangibles+ I/O strips	0	(44)	(47)	(40)	(40)		0.00	(0.44)	(0.62)	(0.64)	(0.80)
Adjusted assets	10,613	10,060	7,579	6,267	5,017		100.00	100.00	100.00	100.00	100.00
							Breakdown as a % of liabilities + equity				
	2008*	**2007**	**2006**	**2005**	**2004**		**2008***	**2007**	**2006**	**2005**	**2004**
Liabilities											
Total deposits	8,582	8,061	6,122	5,323	4,278		80.87	79.78	80.28	84.39	84.61
Noncore deposits	214	69	115	111	38		2.02	0.68	1.51	1.77	0.74
Core/customer deposits	8,368	7,992	6,007	5,211	4,241		78.85	79.10	78.77	82.63	83.87
Other liabilities	501	579	325	234	212		4.72	5.73	4.27	3.71	4.20
Total liabilities	9,083	8,640	6,448	5,557	4,491		85.59	85.51	84.55	88.11	88.81
Total shareholders' equity	1,530	1,464	1,178	750	566		14.41	14.49	15.45	11.89	11.19
Minority interest-equity	415	426	233	201	144		3.91	4.22	3.05	3.18	2.85
Common shareholders' equity (reported)	1,114	1,038	946	549	422		10.50	10.27	12.40	8.71	8.35
Share capital and surplus	890	843	869	388	325		8.39	8.35	11.39	6.15	6.43
Revaluation reserve	17	6	6	9	8		0.16	0.06	0.08	0.15	0.16

Table 3

Albaraka Banking Group (B.S.C.) Balance Sheet Statistics(cont.)

Reserves (incl. inflation revaluations)	70	80	28	40	32	0.66	0.79	0.36	0.64	0.62
Retained profits	137	109	43	112	57	1.29	1.08	0.57	1.77	1.13
Memo: Dividends (not yet distributed)	0	(59)	N.A.	N.A.	N.A.			N.A.	N.A.	N.A.
Total liabilities and equity	10,613	10,104	7,626	6,307	5,057	100.00	100.00	100.00	100.00	100.00
Equity Reconciliation Table										
Common shareholders' equity (reported)	1,114	1,038	946	549	422					
+ Minority Interest (equity)	415	426	233	201	144					
- Dividends (not yet distributed)	0	(59)	0	0	0					
- Revaluation reserves	(17)	(6)	(6)	(9)	(8)					
- Nonservicing Intangibles	(44)	(44)	(47)	(40)	(40)					
Adjusted common equity	1,468	1,355	1,125	701	518					
- Equity in Unconsolidated Subsidiaries	(21)	(18)	(18)	(125)	(115)					
Adjusted total equity	1,447	1,338	1,107	576	402					

Data are as of fiscal year end. *Data at March 31, 2008. Year-end financial statements are consolidated, audited, and compliant with Accounting and Auditing Organization For Islamic Financial Institutions (AAOIFI) and International Financial Reporting Standards (IFRS). Interim financial statements are consolidated, AAOIFI and IFRS compliant, reviewed, but are not audited. Data for 2003 include the period starting June 22, 2002, and ending Dec. 31, 2003. Risk assets and capital adequacy ratios for 2006 and 2007 have been restated, and are computed in accordance with capital adequacy guidelines approved by the Central Bank of Bahrain (Basel I). N.A.--Not available. N.M.--Not meaningful.

Table 4

Albaraka Banking Group (B.S.C.) Profit And Loss Statement Statistics

	--Year ended Dec. 31--						Adj. avg. assets (%)				
(Mil. $)	**2008***	**2007**	**2006**	**2005**	**2004**	**-**	**2008***	**2007**	**2006**	**2005**	**2004**
Profitability											
intermediation income	202	599	423	312	183		7.83	6.79	6.12	5.53	4.02
intermediation expense	152	498	374	306	200		5.88	5.64	5.40	5.42	4.39
Net intermediation income	50	101	50	6	(17)		1.95	1.15	0.72	0.11	(0.37)
Operating nonintermediation income	90	343	290	283	200		3.49	3.89	4.18	5.01	4.39
Fees and commissions	79	249	195	170	90		3.06	2.82	2.82	3.02	1.99
Equity in earnings of unconsolidated subsidiaries	0	1	5	38	16		0.00	0.01	0.07	0.68	0.35
Trading gains	0	18	7	6	16		0.00	0.20	0.11	0.11	0.35
Gains/ (losses) on liquidity portfolio securities	N.A.	53	61	54	62		N.A.	0.60	0.88	0.96	1.35
Other nonintermediation income	11	22	21	13	16		0.43	0.25	0.31	0.24	0.35
Operating revenues	141	444	339	288	183		5.44	5.04	4.90	5.11	4.03
Nonintermediation expenses	64	229	167	151	107		2.48	2.60	2.41	2.68	2.34
Personnel expenses	39	126	91	74	53		1.50	1.43	1.32	1.32	1.16
Other general and administrative expense	21	85	62	62	41		0.81	0.96	0.90	1.10	0.91
Depreciation	4	18	13	15	12		0.17	0.21	0.19	0.26	0.27

Table 4

Albaraka Banking Group (B.S.C.) Profit And Loss Statement Statistics(cont.)										
Net operating income before loss provisions	77	215	172	137	76	2.96	2.44	2.49	2.43	1.68
Credit loss provisions (net new)	14	24	33	32	21	0.56	0.27	0.48	0.57	0.46
Net operating income after loss provisions	62	191	139	105	56	2.41	2.17	2.01	1.86	1.22
Nonrecurring/special income	0	54	0	4	5	0.00	0.62	0.01	0.08	0.10
Nonrecurring/special expense	0	0	0	0	0	0.00	0.00	0.00	0.00	0.00
Pretax profit	62	246	140	109	60	2.41	2.78	2.02	1.94	1.32
Tax expense/credit	13	45	16	6	6	0.50	0.51	0.23	0.11	0.13
Net income before minority intermediation	49	201	124	103	54	1.90	2.28	1.79	1.82	1.19
Minority intermediation in consolidated subsidiaries	21	57	43	24	17	0.81	0.64	0.63	0.42	0.38
Net income before extraordinaries	28	144	80	79	37	1.09	1.63	1.16	1.41	0.81
Net income after extraordinaries	28	144	80	79	37	1.09	1.63	1.16	1.41	0.81
Core Earnings Reconciliation										
Net Income (before Minority intermediation)	49	201	124	103	54					
- Nonrecurring/Special Income	0	(54)	(0)	(4)	(5)					
+ Nonrecurring/Special Expense	0	0	0	0	0					
+/- Tax Impact of Adjustments	0	10	0	0	0					
Core earnings	49	156	123	99	50	1.90	1.77	1.78	1.75	1.10
	2008*	**2007**	**2006**	**2005**	**2004**					
Asset Quality										
Nonperforming assets	0	397	362	314	247					
Nonaccrual loans	N.A.	397	362	314	247	N.A.				
Average balance sheet										
Average customer loans	6,658	5,256	3,813	2,849	2,240					
Average earning assets	8,154	7,293	5,506	4,256	3,329					
Average assets	10,358	8,865	6,966	5,682	4,587					
Average total deposits	8,322	7,092	5,723	4,801	3,868					
Average intermediation-bearing liabilities	8,322	7,092	5,723	4,801	3,868					
Average common equity	1,076	992	747	486	398					
Average adjusted assets	10,336	8,819	6,923	5,642	4,547					
Other data										
Number of employees (end of period, actual)	N.A.	6,128	5,435	4,846	3,844	N.A.				
Number of branches	N.A.	243	216	185	150	N.A.				
Off-balance-sheet credit equivalents	1,840	1,629	983	558	498					

*Data as of March 31, 2008. Year-end financial statements are consolidated, audited, and compliant with Accounting and Auditing Organization For Islamic Financial Institutions (AAOIFI) and International Financial Reporting Standards (IFRS). Interim financial statements are consolidated, AAOIFI and IFRS compliant, reviewed, but are not audited. Data for 2003 include the period starting June 22, 2002, and ending Dec. 31, 2003. Risk assets and capital adequacy ratios for 2006 and 2007 have been restated, and are computed in accordance with capital adequacy guidelines approved by the Central Bank of Bahrain (Basel I). Ratios annualized where appropriate. N.A.--Not available. N.M.--Not meaningful.

Table 5

Albaraka Banking Group (B.S.C.) Ratio Analysis

	--Year ended Dec. 31--				
	2008*	**2007**	**2006**	**2005**	**2004**
ANNUAL GROWTH (%)					
Customer loans (gross)	53.09	39.51	33.37	32.05	18.51
Loss reserves	(400.00)	16.41	10.96	12.36	(3.53)
Adjusted assets	21.99	32.74	20.93	24.92	23.07
Customer deposits	18.80	33.05	15.27	22.88	24.16
Total equity	17.90	24.27	57.05	32.55	15.37
Operating revenues	26.58	30.98	17.58	57.64	(4.53)
Nonintermediation expense	11.90	37.21	10.34	42.00	10.92
Net operating income before provisions	42.20	24.95	25.57	79.42	(20.05)
Loan loss provisions	138.21	(26.95)	2.44	53.65	(60.39)
Net operating income after provisions	30.09	37.25	32.67	89.16	29.99
Pretax profit	1.31	75.80	27.81	81.84	46.35
Net income	(2.00)	62.34	20.25	90.29	26.02
	2008*	**2007**	**2006**	**2005**	**2004**
PROFITABILITY (%)					
Intermediation Margin Analysis					
Net intermediation income (taxable equiv.)/avg. earning assets	2.47	1.39	0.90	0.14	(0.50)
Net intermediation spread	2.62	1.20	1.16	0.96	0.34
Intermediation income (taxable equiv.)/avg. earning assets	9.93	8.22	7.69	7.33	5.49
Intermediation expense/avg. intermediation-bearing liabilities	7.30	7.02	6.53	6.37	5.16
Intermediation expense on deposits/avg. deposits	7.30	7.02	6.53	6.37	5.16
Revenue Analysis					
Net intermediation income/revenues	35.86	22.82	14.61	2.06	(9.10)
Fee income/revenues	56.19	56.04	57.45	59.03	49.42
Market-sensitive income/revenues	0.00	15.95	20.15	20.96	42.40
Nonintermediation income/revenues	64.14	77.18	85.39	97.94	109.10
Personnel expense/revenues	27.60	28.43	26.92	25.78	28.81
Nonintermediation expense/revenues	45.56	51.54	49.20	52.43	58.21
Nonintermediation expense/revenues less investment gains	45.56	58.56	59.98	64.52	87.71
Net operating income before provision/revenues	54.44	48.46	50.80	47.57	41.79
Net operating income after provisions/revenues	44.22	43.03	41.07	36.39	30.33
New loan loss provisions/revenues	10.21	5.43	9.73	11.17	11.46
Net nonrecurring/abnormal income/revenues	0.00	12.22	0.10	1.48	2.50
Pretax profit/revenues	44.22	55.25	41.17	37.87	32.83
Tax/pretax profit	20.87	18.19	11.41	5.84	10.02
Core Earnings/Revenues	34.99	35.20	36.38	34.27	27.29
	2008*	**2007**	**2006**	**2005**	**2004**
Other Returns					
Pretax profit/avg. risk assets (%)	0.00	5.82	3.26	2.65	1.88

Table 5

Albaraka Banking Group (B.S.C.) Ratio Analysis (cont.)					
Revenues/avg. risk assets (%)	N.A.	10.53	7.92	7.01	5.73
Net operating income before LLP/LLP	532.97	892.79	521.94	425.77	364.63
Net operating income before loss provisions/avg. risk assets (%)	N.A.	5.10	4.02	3.33	2.40
Net operating income after loss provisions/avg. risk assets (%)	N.A.	4.53	3.25	2.55	1.74
Net income before minority intermediation/avg. adjusted assets	1.90	2.28	1.79	1.82	1.19
Nonintermediation expenses/average adjusted assets	2.48	2.60	2.41	2.68	2.34
Personnel expense/branch (mil. $)	N.A.	0.55	0.46	0.44	0.37
Nonintermediation expense/branch (mil. $)	N.A.	1.00	0.83	0.90	0.75
Cash earnings/avg. tang. common equity (ROE) (%)	14.87	17.25	14.99	19.32	13.75
Core earnings/average risk-weighted assets	N.A.	3.71	2.88	2.40	1.56
Core earnings/average adjusted assets	1.90	1.77	1.78	1.75	1.10
	2008*	**2007**	**2006**	**2005**	**2004**
FUNDING AND LIQUIDITY (%)					
Customer deposits/funding base	97.51	99.14	98.12	97.91	99.12
Total loans/customer deposits	85.75	85.87	78.19	68.56	64.51
Total loans/customer deposits + long-term funds	72.50	72.58	65.37	59.93	56.91
Customer loans (net)/assets (adj.)	67.61	61.03	57.70	51.91	48.71
	2008*	**2007**	**2006**	**2005**	**2004**
CAPITALIZATION (%)					
Adjusted common equity/risk assets	N.A.	29.50	29.27	14.85	14.73
Internal capital generation/prior year's equity	10.88	9.05	12.42	14.78	9.87
Tier 1 capital ratio	N.A.	31.69	29.30	12.00	N.A.
Regulatory total capital ratio	N.A.	33.59	31.13	12.00	12.00
Adjusted total equity/adjusted assets	13.63	13.30	14.61	9.18	8.02
Adjusted total equity/adjusted assets + securitizations	13.63	13.30	14.61	9.18	8.02
Adjusted total equity/risk assets	N.A.	29.12	28.80	12.20	11.44
Adjusted total equity plus LLR (specific)/customer loans (gross)	20.16	24.20	28.08	21.35	20.83
Common dividend payout ratio	0.00	40.65	14.95	21.42	0.00
	2008*	**2007**	**2006**	**2005**	**2004**
ASSET QUALITY (%)					
New loan loss provisions/avg. customer loans (net)	0.86	0.46	0.87	1.13	0.94
Loan loss reserves/customer loans (gross)	0.00	3.09	3.70	4.45	5.23
Credit-loss reserves/risk assets	N.A.	4.26	4.37	3.21	3.83
Nonperforming assets (NPA)/customer loans + ORE	0.00	6.27	7.98	9.22	9.59
NPA (excl. delinquencies)/customer loans + ORE	0.00	6.27	7.98	9.22	9.59
Net NPA/customer loans (net) + ORE	0.00	3.29	4.44	5.00	4.61
NPA (net specifics)/customer loans (net specifics)	0.00	3.29	4.44	5.00	4.61
Loan loss reserves/NPA (gross)	N.M.	49.21	46.38	48.23	54.46

Table 5

Albaraka Banking Group (B.S.C.) Ratio Analysis (cont.)
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Ratings Detail (As Of May 28, 2008)*	
Albaraka Banking Group (B.S.C.)	
Counterparty Credit Rating	BBB-/Stable/A-3
Certificate Of Deposit	BBB-/A-3
Counterparty Credit Ratings History	
21-Mar-2007	BBB-/Stable/A-3
Sovereign Rating	
Bahrain (Kingdom of)	A/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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