Annual Report 2008

alBaraka

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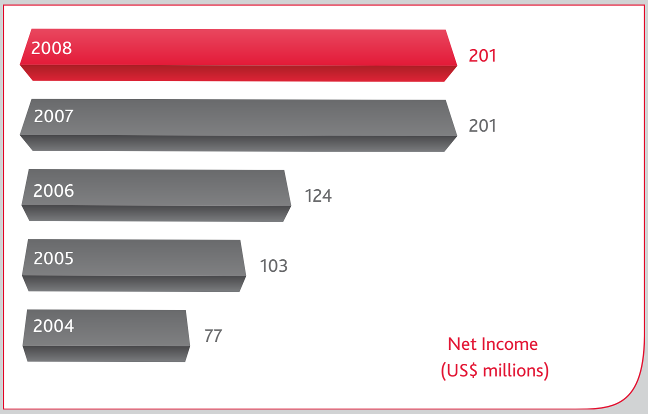
Financial Highlights

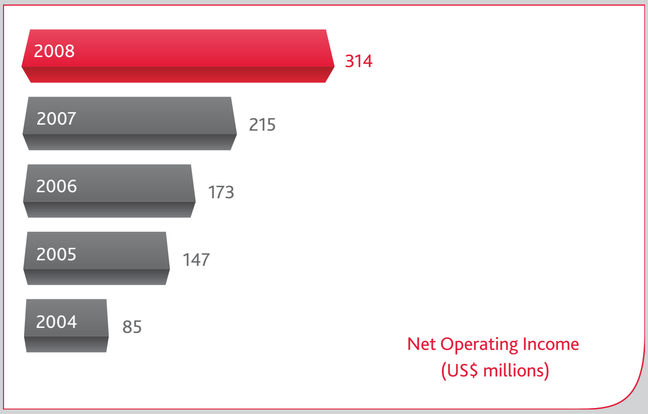
	2008	2007	2006	2005	2004
EARNINGS (US$ Millions)					
Total Operating Income	586	444	340	298	192
Net Operating Income	314	215	173	147	85
Net Income	201	201*	124	103	77
Net Income Attributable to Equity Shareholders of the Parent	114	144*	80	79	37
*BASIC AND DILUTED EARNINGS PER SHARE (US$) ***	0.16	0.21*	0.13	0.15	0.07
FINANCIAL POSITION (US$ Millions)					
Total Assets	10,920	10,104	7,626	6,307	5,084
Total Financing and Investments	8,088	7,389	5,466	4,179	3,193
Total Customer Deposits	8,872	8,084	6,147	5,330	4,308
Total Equity	1,550	1,570	1,211	767	566
Equity Attributable to Shareholders of the Parent	1,131	1,144	979	566	422
CAPITALISATION (US$ Millions)					
Authorised	1,500	1,500	1,500	1,500	1,500
Subscribed and Fully Paid-up	697.5	651	630	388	325
PROFITABILITY					
Return on Average Equity	13%	14%*	13%	15%	15%
Return on Average Shareholders Equity	10%	14%*	10%	16%	9%
Return on Average Assets	1.9%	2.3%*	1.8%	1.8%	1.7%
Operating Expenses to Operating Income	46%	52%	49%	51%	56%
FINANCIAL POSITION					
Equity to Assets Ratio	14%	16%	16%	12%	11%
Total Financing and Investments as a multiple of Equity (times)	5.2	4.7	4.5	5.4	5.6
Net Book Value per Share (US$) **	1.62	1.64	1.40	0.98	0.82
OTHER INFORMATION					
Total Number of Employees	6,746	6,128	5,435	4,846	3,844
Total Number of Branches	283	243	216	185	149

* Net income for 2007 includes exceptional profit from deemed disposal of a subsidiary amounting to US$ 54 million
** Adjusted for subsequent bonus shares

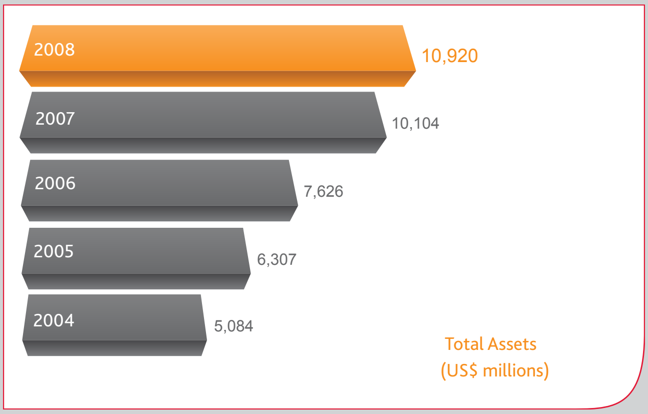
Financial Highlights



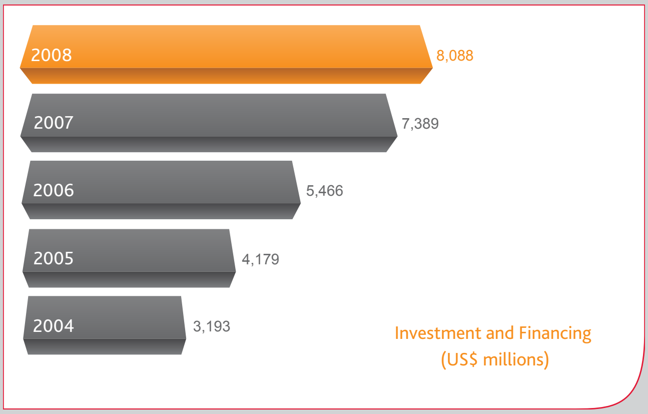
Net Income
(US$ millions)



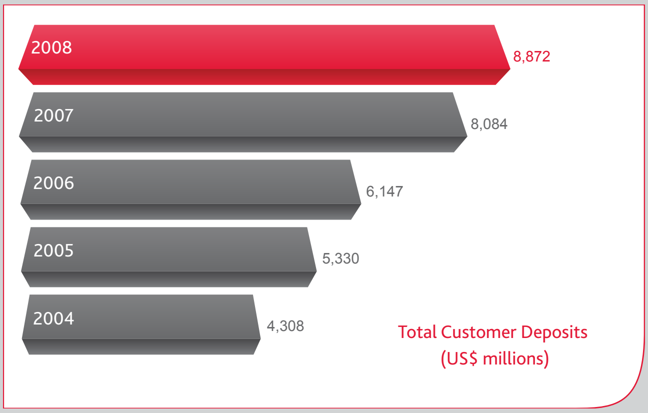
Net Operating Income
(US$ millions)



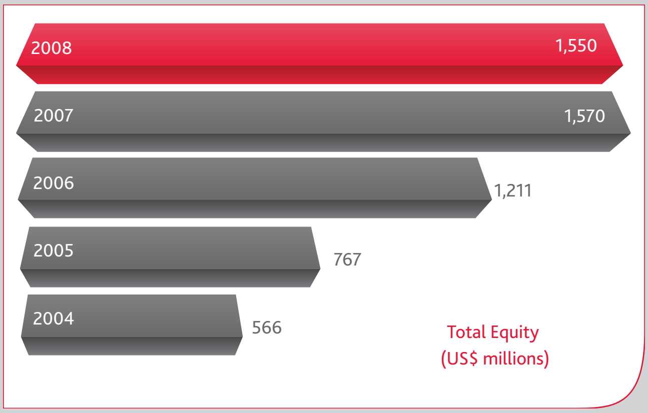
Total Assets
(US$ millions)



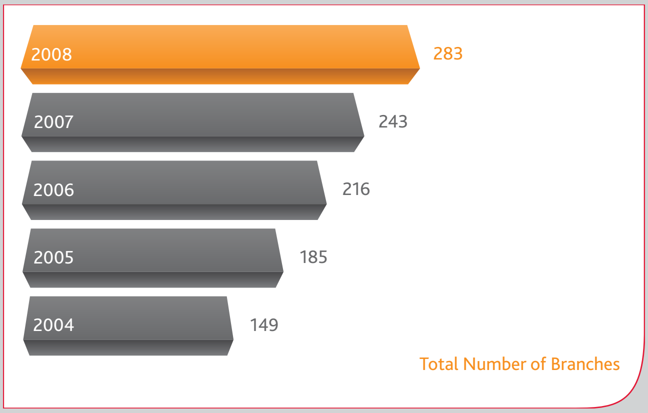
Investment and Financing
(US$ millions)



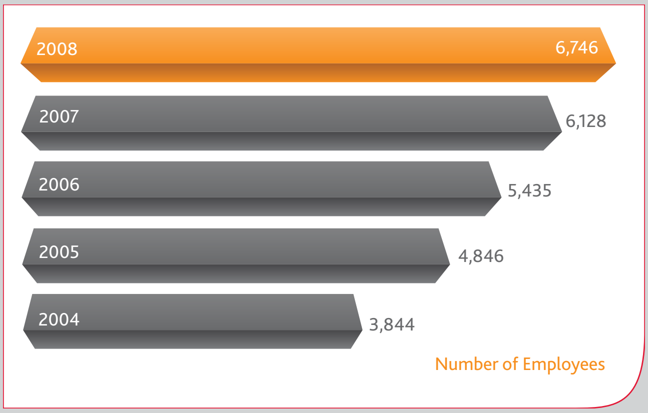
Total Customer Deposits
(US$ millions)



Total Equity
(US$ millions)



Total Number of Branches



Number of Employees

Our Vision

'We believe society needs a fair and equitable financial system: one which rewards effort and contributes to the development of the community'

Our Mission

'To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success'

Unified Corporate Identity

Your Partner Bank

Beyond Banking – Our Philosophy is our Mission

The concept behind the Group's new Unified Corporate Identity is well explained in the Directors' Report. it is the result of revisiting the values that lay behind our original Vision statement - and not just the horizon end-result as we saw it – an exercise that was to convince us that those values ought to be represented as an integral part of our Vision.

The outcome therefore is that our Vision has now been restated as a corporate ethos:

'We believe society needs a fair and equitable financial system: one which rewards effort and contributes to the development of the community'

Flowing from this restatement of our values and as a natural consequence of it, our Mission is restated thus:

'To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success'

This does not mean that our original Vision, of becoming the leading worldwide Islamic banking group offering the full range of banking products in accordance with the Shari'a, no longer applies. It means that in prioritising our values and raising them above the mere attainment of corporate size and product range and delivery, we believe that we will expand naturally and as a matter of course, as we build the kind of relationships with our customers which are based on true partnership with them.

We believe that banking has, or ought to have, a crucial role to play in society, one in which as bankers we have an incredible responsibility of stewardship for the resources placed in our hands. To meet this responsibility and use the resources wisely, we rely on Shari'a principles to guide us as we participate in our customers' successes, sharing in the social development of families, businesses and society at large.

By 'partnership', therefore, we mean that our success and that of each of our customers are as intertwined as our jointly held beliefs. Taking part in the joint effort is therefore our reward. We see money as a means to capitalise on opportunities and create a better society for all of us. Money becomes the conduit by which we enter into new opportunities together and take part in common effort for mutual reward; as steward of the resources entrusted to us, our efforts contribute to building the community, at home and in the wider world.

We call this concept:

'Beyond Banking'

Our Core Values

Our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff.

We have the energy and perseverance necessary to make an impact on our customers' lives for the greater good of society.

Partnership

Our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff.

We value and respect the communities we serve, our doors are always open, our customers always experience a warm-hearted, hospitable welcome and accommodating service.

Our customers can rest assured that their financial interests are being managed by us to the highest ethical standards.

By banking with us our customers make a positive contribution to a better society – their growth and our growth will benefit the world around us.

Building on our Strengths

Our basic strengths, which go back to the earliest days of our foundation 30 years ago, and on which we have depended for moral sustenance throughout that time, may be summarised as follows:

Adherence to Shari'a principles

Close customer relationships – a partnership of equals

Financial probity

A local bank first and foremost - but with international reach

The Transformation Roadmap

Right now, the Unified Corporate Identity project is underway. The Head Office Task Force and Work Groups have been holding internal workshops for management and employees, completing their local due diligence, registering the new unified Group trademark in local centres and synchronising the launch of the new brand and revitalised concept across the Group.

The complete process is anticipated to take a full 24 months.

It is essential in such a major undertaking that:

- Staff across the Group be fully engaged with the Group Vision and the rollout process;
- All components of the new corporate identity be fully and properly integrated into the strategies, policies, procedures and business methodologies of the Group;
- All aspects of the Group's operations be standardised:
- Delivery channels and systems be harmonised across the Group;
- Products on offer from one business unit be assessed for suitability and, if acceptable, adapted and prepared for inclusion in the stable of Groupwide product offerings;
- Branch outlets be remodelled and refurbished;
- Group and ABG subsidiaries' Websites be redesigned and re-launched; and
- Stationery, brochures, local ad campaigns be homogenised.

We look forward eagerly to the challenge ahead and to the adoption of a new, open, Group ethos, one which we believe can be best embodied in the phrase:

'Your Partner Bank'

Board of Directors & Shari'a Supervisory Board

Board of Directors

- Shaikh Saleh Abdullah Kamel
  Chairman
- Mr. Abdulla A. Saudi
  Vice Chairman
- Mr. Abdullah Saleh Kamel
  Board Member
- Mr. Saleh Al Yousef
  Board Member
- Mr. Adnan Ahmed Yousif
  President & Chief Executive and Board Member
- Dr. Anwar Ibrahim
  Board Member
- Mr. Abdul Elah Sabbahi
  Board Member
- Mr. Ibrahim Fayez Al Shamsi
  Board Member
- Mr. Jamal bin Ghalaita
  Board Member
- Mr. Yousif Ali Fadil Bin Fadil
  Board Member
- Mr. Samer Mohammed Farhoud
  Board Member

- Mr. Salah Othman Abuzaid
  Secretary to the Board

Shari'a Supervisory Board

- Shaikh Dr. Abdul Sattar AbuGuddah
  Chairman
- Shaikh Abdulla bin Sulieman Al Mannea
  Member
- Shaikh Dr. Abdullatif Al Mahmood
  Member
- Shaikh Dr. Abdulaziz Bin Fowzan Al Fowzan
  Member
- Dr. Ahmed Mohiyeldin Ahmed
  Member

Board of Directors

Shaikh Saleh Abdullah Kamel

Chairman

is a reputed international businessman from Saudi Arabia. He is the founder and the President of Dallah Al Baraka Group and the founder of the Al Baraka Group of banks. He is director in many companies and institutions across the world. His involvement with several associations includes his position as Chairman of the General Council for Islamic Banks and Financial Institutions and President of Islamic Chamber of Commerce in Saudi Arabia. Shaikh Saleh Kamel holds a Bachelor of Commerce degree from the University of Riyadh and has been honoured with PhD from many universities in Saudi Arabia and overseas.

Mr. Abdulla A. Saudi

Vice Chairman and Board Member

is a reputed Banker and is currently the Executive Chairman of ASA Consultants W.L.L. Bahrain. He was the Founder and Chairman of Arab Banking Corporation (B.S.C) Bahrain from 1980 – 94. He was also the Founder of Arab Financial Services (E.C.), Bahrain in 1982 as well as the Founder and Chairman of Libyan Arab Foreign Bank during 1972-1980, where he also established branches of the Bank worldwide. He worked with the Central Bank of Libya in nationalising branches of foreign banks in Libya. He has also served as a Lecturer at the Institute of Trade, Tripoli. He was voted as one of the "Most Innovative Bankers" by the World Bank and the International Monetary Fund (recognised by George Town University in 1980). In 1991, Mr. Saudi received the "Banker of the Year" Award and he was the first to receive the "Arab Banker of the Year" award in 1993 from the Union of Arab Banks. He also received the award for Best Banker from the Association of Arab American Banks in New York in 1991. In recognition of his role in the development of banking relationships between Arab and European states, he has received several gold medals and awards. Noted amongst these are the awards he received from the King of Spain and the President of Italy in1977 and the President of Tunis in 1996. He holds a Certificate in Management and Accounting and also an English Language Certificate (London).

Mr. Abdullah Saleh Kamel

Board Member & Chairman of the Board Executive Committee

is a businessman of repute and is the Chief Executive Officer of Dallah Al Baraka Group since 1995. Mr. Kamel is also the Chairman of Halawani Bros. and Aseer Company, and Vice-Chairman of Bank Al-Jazira in Saudi Arabia. He is a Member of the Board of Saudi Research & Marketing Group, Jeddah Chamber of Commerce, Young Presidents' Organization and Kamel Provident Fund. Mr. Kamel's experience covers real estate investment and property management, and trading. He has held various executive positions in the Dallah Al Baraka Group since the past 15 years. He is educated in Economics Studies at University of California, USA.

Mr. Saleh Al Yousef

Board Member

is a businessman with extensive experience in the Banking industry. He served as the Chairman and Managing Director of The Industrial Bank of Kuwait from 1988 to 2005. Prior to that, Mr. Al-Yousef held a number of executive positions with Industrial Bank of Kuwait and the Central Bank of Kuwait. He was the Chairman of ABC Islamic Bank (E.C.), Bahrain and has also served as a Director of Gulf Invest. He has also served as a member in the Board of a large number of financial institutions, including Gulf Bank, Kuwait, Arab Banking Corporation (B.S.C.) and Ahli United Bank B.S.C., in Bahrain. Mr. Al-Yousef holds a Bachelor's Degree in Commerce from Kuwait University.

Board of Directors

Mr. Adnan Ahmed Yousif
President & Chief Executive and Board Member

has been a director since inception and the President and Chief Executive since August 2004. He is the chairman of Jordan Islamic Bank; Banque Albaraka D'Algérie; Albaraka Turk Participation Bank; Albaraka Bank Ltd., South Africa, Egyptian Saudi Finance Bank and Al Baraka Bank, Lebanon. He also holds directorships in several ABG subsidiaries. He has more than 32 years' international banking experience and was the recipient of the Islamic Banker of the Year Award at the World Islamic Banking Conference in December 2004. He was appointed Chairman of the Union of Arab Banks in May 2007. He holds an MBA from University of Hull, UK.

Dr. Anwar Ibrahim
Board Member

A reputable international figure from Malaysia. Dr. Ibrahim has been an independent non-executive director of Albaraka Banking Group since March 2006. He has served his country in many ministerial capacities including the Education Minister, Finance Minister and deputy Prime Minister of Malaysia. He is currently the visiting professor at the Centre for Muslim-Christian Understanding at Georgetown University in Washington D.C.

Mr. Abdul Elah Sabbahi
Board Member

has over 25 years experience in international banking, the last 15 years of which, with the Dallah Al Baraka Group in Saudi Arabia. He is currently Vice President, Dallah Al Baraka Group. He also holds positions as Chairman of Bank Et-Tamweel Al-Saudi Al-Tunisi (B.E.S.T.), Tunisia and Arab Leasing International Finance, Saudi Arabia. Mr. Sabbahi is also a Member of the Boards of Dallah Albaraka Holding Co. E.C., Bahrain; Algerian Saudi Leasing Ltd.; Dallah Albaraka (UK) Ltd., London; Al Amin Investment Co., Jordan; United Albanian Bank, Albania and Albaraka Bank Ltd.,South Africa. Mr. Sabbahi holds a Bachelor of Science degree in Economics & Management from King Abdulaziz University, Saudi Arabia.

Mr. Ibrahim Fayez Al Shamsi
Board Member

has been a director of ABG since August 2006 and is Chief Executive Officer of Emirates Islamic Bank. He has over 37 years of varied experience in the financial services industry and the government. He has been a director of Arab Fund for Economic & Social Development, Kuwait since 1983. Mr. Al Shamsi holds a bachelor degree in commerce.

Board of Directors

Mr. Jamal bin Ghalaita
Board Member

is a Banker and is currently General Manager – Consumer Banking and Wealth Management at Emirates NBD, with a banking career spanning 20 years with the Emirates Bank and a string of specialisations in Corporate, Retail, Trade Finance and Human Resources. He is also a director of Emirates Islamic Bank. He holds a Bachelor of Science in Business Administration from the University of Arizona.

Mr. Yousif Ali Fadil Bin Fadil
Board Member

is a Banker with a Bachelor's Degree in Mathematics & Computer Science, Gonzaga University Spokane-Washington State, USA. During the period from 1985 – 1998, Mr. Yousif has held leading positions in Umm Al Quwain Bank. He served Dubai Islamic Bank as executive manager for investment during the period from 2000-2002. In 2003 he became the general manager for the Emirates Financial Company. During the period from 2004-2006 he served Abu Dhabi Islamic Bank as deputy chief executive officer. Mr. Yousif has also served as a member of the board of directors of several financial institutions including but not limited to, Union Insurance company, Bahrain Islamic Bank, Bosnia International Bank. Currently he is the General Manager of Al Sahil Equity Center.

Mr. Samer Mohammed Farhoud
Board Member

is a Banker. He has held various senior positions in his career and is presently the Deputy Treasurer in Al-Rajhi Bank in Riyadh. Prior to that he held various positions as Head of Treasury Sales and Marketing Unit in Arab National Bank – Riyadh; Manager of Treasury Sales & Services Unit in United Saudi Bank in Riyadh; Senior Relationship Manager in Saudi American Bank – Riyadh; Senior Dealer in Saudi American Bank in Riyadh and Computer Engineer for SAMBA data center in Saudi American Bank. Mr. Farhoud holds a Bachelor's Degree in Computer Science and an Engineering Degree from the University of Petroleum and Minerals, Dhahran, Saudi Arabia.

Board Committees

Executive Committee

- Mr. Abdullah Saleh Kamel
  Chairman
- Mr. Abdul Elah Sabbahi
  Member
- Mr. Yousif Ali Fadil Bin Fadil
  Member
- Mr. Adnan Ahmed Yousif
  Member

Audit & Governance Committee

- Mr. Saleh Al Yousef
  Chairman
- Dr. Anwar Ibrahim
  Member
- Mr. Ibrahim Fayez Al Shamsi
  Member

Remuneration & Board Affairs Committee

- Mr. Ibrahim Fayez Al Shamsi
  Chairman
- Mr. Jamal bin Ghalaita
  Member
- Mr. Adnan Ahmed Yousif
  Member
- Mr. Yousif Ali Fadil Bin Fadil
  Member

Risk Committee

- Mr. Abdul Elah Sabbahi
  Chairman
- Mr. Jamal bin Ghalaita
  Member
- Mr. Adnan Ahmed Yousif
  Member
- Mr. Samer Mohammed Farhoud
  Member

Executive Management

Mr. Adnan Ahmed Yousif
President & Chief Executive and Board Member
M.B.A. in Business Administration, University of Hull, U.K.

has been a director since inception and the President and Chief Executive since August 2004. He is the chairman of Jordan Islamic Bank; Banque Albaraka D'Algérie; Albaraka Turk Participation Bank; Albaraka Bank Ltd., South Africa, Egyptian Saudi Finance Bank and Al Baraka Bank, Lebanon. He also holds directorships in several ABG subsidiaries. He has more than 32 years' international banking experience and was the recipient of the Islamic Banker of the Year Award at the World Islamic Banking Conference in December 2004. He was appointed Chairman of the Union of Arab Banks in May 2007.

Mr. Othman Ahmed Sulieman
Deputy Chief Executive
B.Sc. (Honours) in Economics, University of Khartoum, Sudan.

has been in the role since inception with the change in title to Deputy Chief Executive effective January 2007. He is the Chairman of Albaraka Bank Sudan; member of the boards of Al Wafaa Muritanien Islamic Bank, Mauritania; Jordan Islamic Bank, Jordan; Albaraka Bank Limited, South Africa; Egyptian Saudi Finance Bank, Egypt, Albaraka Turk Participation Bank,Turky, Albaraka Bank Lebanon and Albaraka Islamic Bank, Bahrain.

His career with ABG began in 1988 following more than 24 years in banking in Sudan, leading to his appointment as Chairman of the Board and General Manager of El Nilein Bank. Since 1988 he has served the Dallah Al Baraka Group, based in Jeddah, representing its interests worldwide. In the final 7 years prior to his appointment to ABG in 2002 he was responsible for all the Group's banking interests in Africa, in addition to lending his considerable experience on the boards of Group banks in Asia and Europe and of the parent company. Mr. Sulieman is responsible particularly for Coordination & Planning in ABG, in addition to his overall executive responsibilities.

Mr. Majeed H. Alawi
Senior Vice President - Head of Internal Audit
FCCA – Fellow of The Chartered Association of Certified Accountants, U.K.

began his career at Banque Nationale de Paris, Bahrain branch, in 1981 and moved to Arab Banking Corporation (B.S.C.)'s Internal Audit Department in 1988, where he carried out audits of the Head Office, its branches as well as most of the bank's overseas subsidiaries. During his 12-year tenure with ABC he was also involved in several due diligence pre-acquisition special assignments for the bank. He joined ABG in 2000, when it was still under formation.

Mr. K. Krishnamoorthy
Senior Vice President - Head of Strategic Planning
ACA – Associate of the Institute of Chartered Accountants of India;
B.Com., Osmania University, India.

has over 30 years of experience in financial and management reporting, corporate and structured finance, credit, strategic planning, project management, equity research and fund management and administration. He has worked in the Middle East as well as in North America. After spending several years in the accountancy field in India and Bahrain, he joined Arab Banking Corporation (B.S.C.)'s investment banking subsidiary, where he served for 11 years before moving to the parent bank's Treasury Department to manage its mutual fund investment portfolio. He was later promoted to head the Treasury Mid-Office and play an instrumental role in implementing new front office and management information systems. After 2 years as a partner in a regional investment bank in the Gulf, and a further period heading the worldwide banking solutions business of a major Canadian IT solutions company in Toronto, in 2004 he took up his position at ABG initially as Head of Financial Control and in mid-2006 as Senior Vice President - Head of Strategic Planning.

Executive Management

Mr. Abdulrahman Shehab
Senior Vice President - Head of Operations and Administration
Master of Business Administration, University of Hull, U.K.

has over 30 years of banking experience gained in positions with various financial institutions, both Islamic and conventional. He commenced his career with Habib Bank in 1973, later working with (then) Chase Manhattan Bank, Bank of America, Bahrain, American Express Bank, Bahrain and Bahrain Middle East Bank. After a successful career with Shamil Bank of Bahrain he was appointed as Assistant Chief Executive Officer – Operations of Bahrain Islamic Bank in 2002 and thereafter joined ABG in June 2006. Mr. Shehab is a board member of Banque AlBaraka D'Algérie.

Mr. Hamad Abdulla Ali Eqab
Senior Vice President - Head of Financial Control
Certified Public Accountant (CPA)

has over 15 years experience in financial control and auditing. Prior to joining ABG in February 2005, he worked at Shamil Bank as Senior Manager Internal Audit. Prior to this role, he was a member of the Assurance and Business Advisory team at Arthur Andersen. He is currently a director of the International Islamic Rating Agency (IIRA) and has been appointed a representative of ABG to the Waqf Fund Committee. He is the deputy chairman of the Accounting and Auditing Standards Board of the Accounting and Auditing Organization For Islamic Financial Institutions (AAOIFI). He is also a Board and Audit & Governance Committee member of AlBaraka Turk Participation Bank, Jordan Islamic Bank and Banque AlBaraka D'Algérie.

Mr. Jozsef Peter Szalay
Senior Vice President - Head of Credit and Risk Management
M.A. (Econ.) University of Budapest; Banking Certificate –
The Institute of Canadian Bankers; AdvancedManagement Programme – INSEAD France.

has over 30 years of international banking experience involving credit, risk management, commercial banking and trade finance. He commenced his banking career in 1969 with Bank of Montreal, Canada in international banking and was later its Middle East Representative, initially in Beirut, Lebanon and thereafter in London. He joined Gulf International Bank B.S.C. (GIB) in 1979 as Regional Marketing and Credit Officer for Central Europe based in London. He worked in various capacities in GIB within Credit and Business Development. In 2001, he was appointed Chief Credit Officer covering the areas of credit administration, economics, legal and credit review. He was also member of the Group Risk Committee. His most recent position with GIB was as Executive Vice-President, Head of International Banking with the responsibility for commercial banking business outside the GCC and thereafter joined ABG in September 2006.

Mr. Salah Othman Abuzaid
First Vice President, Head of Legal Affairs& Compliance
LLB, Faculty of Law, University of Khartoum

has over 27 years of professional experience as a practicing advocate, judge, legal consultant or professional serving a wide spectrum of local and international clientele. After 20 years of practice in the various capacities in Sudan, he moved to Oman in 2001 to work for an associated firm of an International Law Firm and was admitted to practice by Omani Advocates Admission Committee before all Omani courts. In 2004, he moved to Bahrain to join Albaraka Islamic Bank (AIB) as Manager, legal affairs and was appointed Head of Legal Affairs & Compliance in September 2007. He is also serving as Secretary to the Board of Directors of both ABG and AIB.

Dr. Ahmed Mohiyeldin Ahmed
Head of Development and Research
Ph.D. in Islamic Economics, University of Um Al Qorah, Kingdom of Saudi Arabia.

is a prominent International Islamic Economics Scholar. Throughout his career he has written widely for publications, in Islamic Banking, and Islamic Economics. He has lectured extensively at regional specialized conferences and overseas and is a regular participant in the Jeddah-based Fiqh Academy.

Dr. Ahmed served in several capacities including the post of Banking Research and Studies Head, and Head of Shari'a research, and Studies, Dallah Al Baraka Group, KSA, Manager of Research and Development, AlBaraka Banking Group, Advisor, Dallah Al Baraka Group President's office. Dr. Ahmed is currently holding the position of the Secretary General for Economic Affairs at the Islamic Chamber of Commerce and Industry, Pakistan. He is a member of several Shari'a boards and boards of directors including, Shari'a Unified panel, AlBaraka Banking Group, Executive Committee of the Shari'a unified Panel of AlBaraka Banking Group, Saudi Egyptian Shari'a supervisory board, Shari'a Board of RHB, Shari'a Advisor, Al Tawfeeq Company for Leasing Finance, Egypt, Dr. Ahmed is an expert at the Jeddah-based Fiqh Academy.

He has overseen and edited many research activities including the publications of Dallah Al Baraka Group, Al Baraka Annual Islamic Economic symposium, Iqra annual Fiqh & media symposium, the development of the first comprehensive electronic Figh encyclopaedia with Sakhr computers, and Saleh Kamel's program for publishing university theses in Islamic economics.

Dr. Ahmed has written several books on Islamic economics and Islamic banking including such subjects as the activities of Islamic investment companies in the international markets, securities markets and their developmental impact on Islamic economics.

Mr. Adel Abd Allah Al-Balushi
First Vice President – Head of Financial Institutions
MBA - University of Hull, U.K.

has over 27 years of banking experience in Credit and Marketing. He began his banking career in 1981 at Bank of Bahrain and Kuwait (BBK) in the Credit and Marketing Departments and made his way to a managerial level. He joined Albaraka Islamic Bank in 1994 as Department Head in charge of Credit Analysis and Administration. From 2000 to 2007, he was Assistant General Manager of Credit and Marketing. In November 2007, he joined Albaraka Banking Group as First Vice President- Head of Financial Institutions.

Mr. Khalid Al Qattan
First Vice President – Head of Treasury and Investments
MBA - University of Hull, UK

has over 25 years of banking experience in Treasury and Operations. He commenced his banking experience at United Gulf Bank as an Operations Clerk in 1983. In 1988, he joined Shamil Bank (formely Faysal Islamic Bank of Bahrain) as Operations clerk and was promoted to Manager in charge of the Treasury operations of the bank. He was later Treasury Manager in Eskan Bank from April 2006 to May 2007 where he handled the overall liquidity management of the bank and was involved in several committees. In June 2007, he joined Albaraka Banking Group as First Vice President – Head of Treasury and Investments.

Directors' Report

Shaikh Saleh Abdullah Kamel
Chairman

Global and Regional Economies

Last year, in the midst of great uncertainty regarding the future for the global economy, world trade and the financial services industry, we sought to draw comfort from the fact that some economies had still performed relatively well in 2007. Today, we look back on a year of unprecedented negative growth or, at best, much reduced performance in developed and emerging economies alike, the collapse or near-collapse of some world-renowned financial institutions, forcing their recapitalisation at the hands of their shareholders or in extreme cases by their governments, combined with plummeting values of world stock, commodity and real estate markets. In short, a major fall in people's investments and savings and the collective wealth of nations.

In a traumatic time, as the reality of the spread of the recessionary virus from one economy to another began to reach epidemic proportions, investors and investment managers sought safe havens for their assets or those over which they had stewardship. As one economy after another reeled from, firstly, the impact of the news of the heavy over-exposure by some banks to the US sub-prime mortgage and related derivatives markets - which had grown geometrically seemingly out of nowhere - and then by the dawning realisation that this represented merely one facet of the unparalleled growth in bank lending in recent years and the collective failure of seemingly robust risk assessment systems, the markets reacted to the new paradigm and marked values down universally.

• *(All figures in US dollars unless otherwise stated)*

Although the latest estimates indicate that the global economy still managed to grow by some 3% or so in 2008, fuelled by stuttering world trade growth of about 5%, most of this took place in the first half of the year and growth was in fact largely negative in the second half in many important countries. As a consequence, projections for 2009 indicate that the world economy is likely to contract by 2% - as will world trade – mirroring negative growth of a similar order in the US and the Euro zone, even more so in Japan and the UK, while in the Asian emerging economies the great engines of trade of China and India will experience growth rates of about 6% - so far below recent historical norms as to amount to a downturn – and Taiwan will manage about 3%, while South Korea and Singapore may even contract a little. In short, the worst performance for the global economy for more than 60 years.

Regionally, the MENA countries experienced the see-saw effect of dramatically rising hydrocarbon prices in the first half of the year followed by equally dramatic market readjustment in the second half. In the case of those economies reliant on hydrocarbon exports, the dawning realisation that their treasuries were not guaranteed a continuation of the vast revenue flows seen of late has led to reassessment of infrastructure and other projects, particularly those reliant to some extent on private sector investment or international bank lending, and to their being de-prioritised, sometimes even in cases where the project economics remained essentially viable. Projections for the GCC economies anticipate an overall contraction of nearly 25%, a retrenchment of a high order indeed. However, assuming no further fall in average oil prices over 2009, those countries which have built up sufficient reserves may continue to finance infrastructure projects and maintain employment rates even at the expense of running budget deficits – while those that are not so fortunate may yet struggle to do so.

On the banking front, while of course Islamic banks adhering closely to Shari'a Law were not directly affected by the sub-prime crisis, nevertheless they were not immune to the global recessionary development, as trade flows and investment began to falter. Reduced liquidity impacted on Islamic banks the same as with conventional ones and clearly there has been an overall reduction in liquidity, affecting in its turn the ability of banks to lend.

Now - as has been the case of all earlier financial bubbles, where the gradual onset of a mood of optimistic fervour finally reaches irrational over-optimism and blind faith in markets' ability to continue to soar - the new, black, mood has pervaded every part of the complex matrix of business society, such that for the present there are deemed to be no new enterprises worth risking investing in.

Nevertheless, ABG continues to view the future with great optimism. We know that these troubles will pass once the errors of the past have been learned and rectified and their effects absorbed. We hope and expect that the actions of governments and monetary authorities in those economies most affected will lead to a shortening of the recession in those countries, so that the world engine may begin once again – albeit hesitatingly at first - the task of moving into sustainable growth. Some rays of light already begin to penetrate the gloom: amongst the OECD countries (other than the UK where recovery may take a little longer) some slight recovery is projected in 2010, building gradually into 2011, with a pick-up in world trade following on; in the US the property overhang is forecast to reach equilibrium by end-2009, as outstanding demand soaks up surplus real estate, suggesting that new house building may recommence in 2010; China's economy – now the third largest in the world – will continue to grow as private consumption growth offsets lower export orders, and thus may begin to suck in imports from the rest of the world; India's economy is similarly expected to grow by a little over 6% in 2009, even though that is the lowest in 7 years, but rising from that base in 2010. These are little signs, but they may represent the first stirring of the breeze before the arrival of the shamal.

Al Baraka Banking Group's total operating income in year 2008:

$585.9 million

Directors' Report

2008 Review

Given the conditions that prevailed in the region during much of 2008, we were immensely gratified that every single subsidiary in the Group was able to report a gross operating income exceeding that for 2007. Only two of the operating units reported a lower net income for the period.

The Group's income from jointly financed accounts and investments, together with its share as Mudarib, amounted to $263.9 million. Income from self-financed contracts and investments, plus Mudarib share from managing restricted investment accounts, was $150.5 million and, after including revenue from other banking services and other operating income, the Group's total operating income was $585.9 million, higher than that for 2007 by 31.8%. Following operating expenses of $272.3 million the net income before provisions and taxation was $313.5 million, an appreciable increase of 45.5% over 2007 excluding the extraordinary gain made that year in respect of the IPO of the subsidiary in Turkey. Even under the present global recessionary conditions, liquidity remained high and customer deposits (including URIA) grew by 9.7%, to reach $8.9 billion – testimony to the confidence in which the Group is held by existing and new customers alike and to the mettle of its management, having steered the Group through yet another successful year.

In light of the Group's performance in 2008, the Board of Directors has recommended a cash dividend distribution to the shareholders of 4% of the paid up capital, amounting to $27.9 million, and a bonus dividend of one share for every fifteen shares held. The Board has also recommended a remuneration distribution of $0.5 million and a transfer of $11.4 million to legal reserves, with $73.9 million being allocated to retained earnings.

Looking Ahead...

In the wake of the global slowdown, banks have been compelled to re-examine their strategies, not least to ensure that they are aligned to the new market realities. Having a sound retail deposit base has emerged as an important strength and retail banks are now actively guarding theirs, skewing their strategies more towards maintenance and protection and away from growth, at least in the short term. In the MENA region, and especially in the GCC area, however, the institutions that have suffered the least have been the Islamic banks, partly on account of their non-involvement in interest bearing products but also due to the credibility they have acquired by their conservative resource management on behalf of their customers.

Notwithstanding that ABG, by its nature an Islamic banking group focused on retail banking, has shared these inherent strengths, in the conditions now applying, both in the region and in the wider world, it was felt to be important that the Group should likewise review its strategies, if only to validate them and re-confirm that its chosen path continues to be the right one.

It will be recalled that for several years now the main strategic objectives of the Group have been identified as having four value drivers: increased profitability; product innovation; technology and process enhancement; improvement in customer service and staff satisfaction. While the Group has re-endorsed these, given the present scenario it has decided that it would be prudent for it to adopt conservative strategies. Preservation of liquidity is, of course, of primary importance. All ABG subsidiaries are operating strictly in accordance with ABG's policies with regard to liquidity management and especially as regards the maintenance of cash and liquid assets. They are maintaining a cautious stance to new financings, until conditions render these conducive and placing client relationships and relationships with other banks at the core of their considerations. Sustainable growth is another of our key axioms, whilst at the same time we are targeting to increase productivity and returns via renewed emphasis on rationalisation of operations, restructuring and cost containment.

In the context of the competitive economic environment that prevailed in the MENA region over the past 5 years, ABG's performance – particularly in terms of its growth and profitability - has been more than satisfactory. The Group met its early targets – the consolidation of its 10 subsidiaries in its first financial period; the launch of its own highly successful IPO and achieving listing on two of the most important regional stock exchanges; the equally successful launch of its Turkish subsidiary's IPO; recapitalisation of its subsidiaries; the Groupwide introduction of best international practice credit and risk management policies and procedures and early compliance with local regulations, Shari'a Board requirements and Islamic and international financial reporting standards.

From these early successes arose the next stage of ABG's development: - articulation of its medium term goals and associated value drivers, internal growth with planned geographical expansion and the introduction of advanced IT systems and processes to meet the Group's demands and its quest for efficient management and customer satisfaction. All these efforts were duly recognised when, in 2007, ABG was awarded an investment grade BBB-/A3 rating with stable outlook by S&P, which was reaffirmed in 2008.

The process of rationalisation of the Group's operations continues. Enhanced IT systems continue to be implemented, automating routine operations to deliver products and services to the Group's customers, decreasing transaction costs and improving its efficiency ratios.

An important milestone in the Group's evolution occurred in 2008 when ABG's subsidiary, Jordan Islamic Bank, one of the first Islamic banks in the world, celebrated 30 years of successful operations. Most of the other banks in the Group have each now accumulated 25 or more years of successful operations, representing a priceless repository and depth of Islamic banking experience which is unique in the world.

The 2007 merger of Al Amin Bank with Albaraka Islamic Bank, both headquartered in Bahrain, has produced an institution offering retail and investment banking capabilities under a single roof. The new Albaraka Islamic Bank intends, over the near term, to spin off its sizeable operations in Pakistan as a separate operating subsidiary. The approval of a banking licence in Syria also provides the Group with an opportunity for further expansion, one which it intends to take up in 2009. In the Far East, although the developing worldwide slowdown compelled the Group to take a cautious attitude towards expansion, we confidently anticipate revisiting this option once economic conditions have returned to equilibrium.

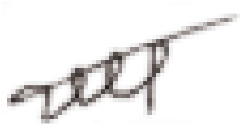
The Albaraka Group is currently undergoing a re-branding exercise, involving the launch of a new brand that will unify all subsidiaries under a single banner, propel the Albaraka brand to the forefront of Islamic banking and emphasise our commitment to becoming the natural global leader in Islamic banking. This re-launch of our brand is the first step on a journey, as we work towards the creation of a unified banking group, whose many subsidiaries are focused together on a single unifying vision. As can be seen in this publication, we have restated our Vision and Mission to better reflect the values that have always lain behind the success of the Albaraka brand:

Our Vision:
'We believe society needs a fair and equitable financial system: one which rewards effort and contributes to the development of the community'

Our Mission:
'To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success'

Over the next 2 years, you will be hearing much more of this concept as it is rolled out across our Group, communicating a new concept – a partnership based on common heritage and beliefs and fostering new, stronger and long-lasting bonds with customers and staff alike.

To conclude, we believe that the present economic conditions are but an unpleasant – and hopefully short – interregnum in the onward march of global progress and advancement for all mankind. Therefore, while naturally preparing ourselves to meet the challenges inherent in the current downturn and liquidity crunch, we must also position ourselves to be ready for the return of better times and to take on future challenges. With the continuing goodwill and energetic participation of our management and staff, I know we will get there. I should like, as always, to express appreciation on behalf of the Board and management to our Shari'a Supervisory Board, the Central Bank of Bahrain, the Ministry of Commerce and Industry and all of our subsidiaries' regulatory authorities, for their support, wisdom and guidance during 2008.



For and on behalf of the Board of Directors
Shaikh Saleh Abdullah Kamel
Chairman

President & Chief Executive's Report

Mr. Adnan Ahmed Yousif
President & Chief Executive
and Board Member

Introduction

For Albaraka Banking Group the year could be characterised as one of overall cautious growth. Bearing in mind that some of the countries where the Group is represented were already experiencing the drain of high import costs – especially for food, fuel and basic commodities – on their resources right from the beginning of the year, and that sooner or later every economy began to feel the effects of the global slowdown, it is not surprising that caution tinged every unit's activities.

The Group's total assets rose by 8% over the period, reaching $10.92 billion. The largest increase in absolute terms was in murabaha financings, which grew by $551 million, followed by the mudaraba portfolio, which expanded by $111 million, and non-trading investments which grew by $61 million. Group assets in the musharaka and Ijarah Muntahia Bittamleek portfolios, as also other Ijarah assets, declined somewhat as demand fell in line with regional business turnover. Some growth was seen in other assets and investments such as in property, affiliates and associates, as well as Salam.

The Group's aggregate funding sources expanded, as customer current and other accounts grew by 16% to $2.08 billion, while total unrestricted investment accounts rose by 8% to $6.73 billion. Total liabilities therefore grew by 14%. Off balance sheet, total restricted investment accounts fell by 9% to $570 million and commitments increased by 58% to $2.6 billion.

In spite of this modest increase in assets, some units were nevertheless very successful in achieving healthy revenue expansion. Growth was largely the product of a 28% expansion in income from jointly financed accounts and investments, which reached $726 million and which, after distribution to the unrestricted investment account holders of their share – which itself was up by 25% on the previous year – produced a 34% increase in the Group's share, at $264 million. After including Mudarib share from restricted investment accounts (up by

• *(All figures in US dollars unless otherwise stated)*

an excellent 48%), revenues from banking services and other operating income up 14%, the total operating income of the Group was $586 million, a 32% increase on 2007 and setting a new record.

Operating expenses totalled $272 million, the 19% increase being due largely to increased staff and infrastructure costs and reflecting the expansion of the total branch network from 243 to 283 and the substantial investment in IT systems and hardware infrastructure as the Group works to create a modern organisation structure capable of delivering superior, efficient service to its customers in a cost-effective and consistent manner. Net operating profit was 46% up on 2007 at $314 million, yet another record result. However, prudential provisions taken at Group level and at some of the larger subsidiaries, which rose in aggregate to $48 million, together with an increased taxation charge, reduced the net profit of the Group to $201 million, 37% higher than 2007's result from normal operations, excluding the extraordinary gain made that year in respect of the IPO of the subsidiary in Turkey.

In 2007 our application to open a banking subsidiary in Syria was approved in principle by the authorities and we are happy to report that, in early 2009, the final approval was received. To date an establishing steering committee and a General Manager have been appointed and we are actively engaged in identifying suitable headquarter premises and preparing policies, procedures and systems for the new entity. We anticipate the new bank opening for business towards the end of 2009. Meanwhile, as mentioned by the Chairman in the Directors' Report, the decision was taken last year in the light of the worldwide economic and financial situation to put on hold for the time being any plans for expansion in the Far East. This proposal will be reconsidered at a more appropriate time.

We were gratified that, following the initial BBB-/A3 investment grade rating, with stable outlook, awarded to us by Standard & Poor's in 2007, the rating was reaffirmed in 2008. We consider this reaffirmation to be a validation of the strong leadership and control introduced by the executive management team right from the foundation of the Group in 2002, as ABG assumed control over 10 separate banking operations in 11 different countries, and an endorsement of the robust risk management and corporate governance policies, procedures and systems that have been introduced.

As outlined by the Chairman, and covered in greater detail elsewhere, we have restated our Vision to better reflect our core values. The conscious decision to adopt a 'partnership with our customers' stance is intended to focus our minds and efforts on our duty to provide the best possible service to our customers, working with them to satisfy their needs and helping them satisfy their aspirations. The self-examination exercise that resulted in the restatement of our vision also led to a decision to re-examine our brand. A Branding Committee was formed to take charge of reviewing and assessing the Group's image and current brand equity and to recommend a Unified Corporate Identity for ABG and its subsidiaries.

This vision will come to pass through the Group constantly developing and delivering sound products, services and innovations to our customers, changing with the times and targeted to meet their evolving requirements. This explains the effort and expense being devoted to so many areas of our activities, from high technology applications to sound risk management and corporate governance policies, to good human resource management and development.

Upgrading of the credit and risk management processes therefore continues at the business units, with emphasis on implementation of technologies intended to impact positively on their ability to deliver products to customers in the most efficient manner. Existing processes and methodologies are also being studied to determine where improvements may be introduced to enhance customer service and deliver a wide variety of products and services more efficiently.

Effective June, 2007 the Group started reporting to the Central Bank of Bahrain its Solo and Consolidated capital adequacy calculations under Basel II framework. Also, the Group completed a review of its risk management policies and processes under Pillar 2 of Basel II and is in process of implementing recommendations identified in this review. Finally, ABG is fully compliant with the Pillar 3 requirements of Basel II.

The Group's determination to be the employer of choice, through the offering of ample career advancement opportunities and a productive working atmosphere, is expected to pay dividends by delivering to customers a courteous, willing service. Both asset and liability product innovation is meanwhile being pursued, with existing products and services being reviewed to ensure that they both meet the demanding requirements of our customers and simultaneously deliver a high level of profitability to the Group, phasing out of those products not meeting these exacting standards.

Review of Units

Here now follows a brief review of the activities and achievements of each of our subsidiaries over the past year and of their plans for the future. All figures are stated in the US dollar equivalents of the audited local currency-based balance sheets and income statements, prepared in accordance with the Islamic Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and without adjustment for consolidation purposes.

Each unit is managed by its respective Board of Directors, whose reporting lines are ultimately to the Parent, ABG, but whose decision-making is decentralised within an overall strategic direction.

Albaraka Türk Participation Bank — Turkey

The Turkish economy is estimated to have grown by only 1.4% in 2008, compared with 2007's 4.6% and an average 6.9% over the 5-year period 2003/07. Predicated on assumptions on continuing foreign capital inflows, GDP growth forecasts for the next 2 years seem to have settled on a negative 2.0% in 2009, rising to a positive 1.5%+ in 2010 and beyond. The budget deficit in 2008 was an estimated 1.8% of GDP, but is expected to rise to 4.2% of GDP over 2009-10 before falling back. The current account deficit was expected to have fallen to 5.6% in 2008 from over 7.0% in 2007 due to weakening import demand. The inflation rate was estimated at 10.2%, reversing the short-term trend. In recognition of the danger, the Central Bank tweaked the bank rate up to 16.25%. Medium term, it should fall back to 8.5% over 2009-10. Exchange rate volatility, however, especially towards the end of the year, forced major structural changes on the currency composition of the Turkish banks.

Although Albaraka Turkey's assets grew significantly in local currency terms, the 31% fall in the value of the Turkish Lira over the period, with the most significant depreciation in the last quarter, impacted on their US dollar equivalents. In US dollar terms, therefore, its total assets declined slightly, by 1% (although in local currency terms they rose by 30%) to $3.13 billion, reflecting mainly a 52% fall (in local currency: -37%) in Ijarah Muntahia Bittamleek assets to $65 million and a 46% fall (in local currency: -30%) in the balances on the musharaka portfolio - introduced for the first time in 2007 - to $20 million, offset by a 4% expansion (in local currency: +37%) in the murabaha sales receivables to $2.36 billion. Funds collected similarly appeared to experience little change when translated into US dollars, customer current and deposit accounts thus growing by only 4% (in local currency: +36%) to $382 million and unrestricted investment accounts remaining unchanged (in local currency: +31%) at $2.18 billion.

Despite the moderate adjustment in total assets, Albaraka Turkey enjoyed significant revenue and income growth over the year. Total income from jointly financed accounts and investments rose by 41% to $291 million. After distribution to the unrestricted investment account holders of their share of the income, the bank's share of $73 million was 62% higher than that for the previous year. Including income from its own sales and investments – which rose by 88% to $118 million – income from banking services and other operating income, the bank's total operating income was 43% higher at $247 million. After operating expenses, which increased by 13% to $94 million, net operating income was $152 million or 71% above the previous year. Following higher provisions and taxation charges, the net profit was $97 million, 55% above that for 2007.

Over the course of the year Albaraka Turkey expanded rapidly, adding 20 new branches to its network to reach 100 in all, while the ATM network was also enlarged. Meanwhile its efforts to market its alternative distribution channels met with great success, so much so that the number of Internet, SMS and Call Centre users increased substantially and the total of all Internet banking customers rose by one-third over 2007. It also launched its own MasterCard credit cards in 2008.

Albaraka Turkey is in process of implementing a new collateral database system which will automatically track actual collateral held by the bank against advance facilities and check that it accords with the original arrangement, helping to reduce the amount of manual labour normally required.

One of the Largest Albaraka subsidiaries

Jordan Islamic Bank for Finance & Investment — *Jordan*

The Jordanian economy performed relatively well in 2008, as real GDP grew by an estimated 5.8%, compared with the 2007 growth rate of 6.6%. Jordan's structural trade deficit, due mainly to its need to import all its oil requirements, has led in recent years to an increasing budget deficit, which in 2008 rose to an estimated 9.3% of GDP. The current account deficit, as a consequence, expanded sharply, from 17.0% of GDP in 2007 to 24% of GDP in 2008. Inflation also climbed steeply, reaching 14.9% as oil and other commodity prices peaked. Nonetheless, Jordan was able to increase its foreign currency reserves during the period, despite a $2.1 billion debt buy back under its agreement with the Paris Club, with reserves at the end of the year standing at $7.55 billion, equivalent to some 5 months' import cover of goods and services.

For Albaraka Jordan, one of only two Islamic banks in Jordan but the 3rd largest by total assets and total deposits held and 4th by financings and investments, it was altogether a good year. Despite intense competition in the market, and the constraints imposed on it, along with all Jordanian banks, by the requirement under Central Bank directives to increase its statutory cash reserves, Albaraka Jordan was able to expand its balance sheet by 17% to $2.61 billion. The increase in assets arose mainly out of higher murabaha sales receivables, which ended the year 23% up at $1.14 billion, an expanded Ijarah Muntahia Bittamleek portfolio, which more than doubled to $156 million, as well as the aforesaid increase in deposits with the Central Bank. This growth was funded by a 15% increase in unrestricted investment accounts and a 24% increase in customer accounts and other deposits, which rose to $1.53 billion and $783 million respectively.

Growth in earning assets was in turn reflected, firstly, in a 36% increase to $144 million in the total income from joint financings and investments which, after accounting to the unrestricted investment account holders for their share, produced a return to the bank - including its share as Mudarib - of $81 million, 50% above 2007's performance. Combined with revenue from its share as Mudarib from restricted investment services, which rose by 39% to $12 million, and banking services and other operating income, Albaraka Jordan's total operating income rose 47% to reach $118 million. After accounting for operating expenses, which at $46 million was also 47% up on 2007, its net operating income was $72 million, again a 47% increase over the previous year. However, judging that more than normal prudential provisions were necessary in 2008, Albaraka Jordan put aside $0.9 million which, together with increased taxation of $21 million, left a net profit of $50 million, a worthy result in the prevailing conditions and 53% above 2007's net profit.

Albaraka Jordan's product range includes murabaha, diminishing musharaka, mudaraba, Ijara Muntahia Bittamleek, instalment sale and Istisna'a contracts. In addition it invests in Islamic sukuks and in property development for on-sale or lease to its customers. The bank owed its growth in part to the expansion of its network, which at the end of the year totalled 56 branches and 8 cash offices, along with 69 ATMs linked to the Jordan national payment and Visa International networks. The bank now serves all main residential and commercial areas in Jordan.

Looking ahead, Albaraka Jordan will continue to maintain its rate of growth in order to deliver balanced returns for its shareholders, depositors and employees. It will work to increase its market share through progressive expansion of its network and customer reach footprint and its range of investment and securities related portfolios, together with the introduction of new, competitive products. In this regard it intends to expand its Ijara Muntahia Bittamleek product range, while it also has plans for the issue of a sukuk to assist the government with its financing requirements, and to introduce the concept of a tradable sukuk to the Amman Stock Exchange. It is meanwhile launching an SMS mobile telephone banking service for its customers, while continuing to work on introducing an Internet banking service.

More than
30 years
Track record

The Egyptian Saudi Finance Bank — *Egypt*

The Egyptian economy grew by 7.2% in the fiscal year to June 2008, virtually unchanged from 2007's 7.1%. GDP growth is likely to be lower in fiscal year 2008/09, perhaps falling to 3.9%, a rate that it is unlikely to exceed in 2009/10. However, per capita income made significant strides in 2007/08, increasing by some 20% to $2,184, as the government's fiscal stimulus package continued to have effect. Inflation, though, was a worry throughout the latter part of the fiscal year, reaching 18.3% in fiscal 2007/08. The Central Bank was compelled to increase overnight lending and borrowing rates four times over the year, peaking at 11.5% and 13.5% respectively. By November 2008 headline inflation had however declined to 20.3% from a peak of 23.6% in August and is reckoned to have declined further as at end-2008, to average no more than 7.8% for the fiscal year 2008/09. The new fiscal stimulus package is likely to lead to some strain on public finances but that, together with falling commodity prices, should cause the trade deficit to narrow and the current account surplus to widen to around 1.1% of GDP in the period up to 2009/10. In the meantime, Central Bank foreign exchange reserves ended the calendar year at a healthy $34.1 billion.

Due to competitive pressures, the private banks were unable to increase their lending rates to their better quality customers in response to the Central Bank's overnight rate increases. Consequently they had great difficulty matching the public sector banks' deposit rate increases, made under instruction of the Central Bank, which led in turn to a movement of deposits away from them to the public sector banks. This situation, the government's new 20% tax on treasury bond income and the drop in the value of their direct investments on the Stock Exchange - which suffered the worst fall in its history at the beginning of October – thus severely impacted the private banks' profitability in 2008.

In spite of this environment, Albaraka Egypt managed to achieve growth in all areas of its operations. Funded by a 33% surge in customer current and other deposits to $189 million and a 13% increase in unrestricted investment accounts to $1.44 billion, the bank's total assets rose by 16% to $1.90 billion. The main contributors to this rise in assets were the sales receivables from murabaha financings, which rose by 20% to $757 million, the mudaraba financing portfolio, which grew by 8% to $579 million, and non-trading investments, which expanded by 39% to reach $303 million. The increased activity fed through to a 31% rise in total income from joint financings and investments which, after distribution to unrestricted investment account holders of their share, yielded an income to the bank from this source of $42 million, 82% over that for 2007. With other revenues from banking services – up 39% at $11 million - total operating income reached $44 million, 28% over the previous year. Operating expenses were 38% higher at $21 million, mainly due to increased staff and infrastructure costs, leaving a nevertheless increased net operating profit of $23 million. After deducting provisions, Albaraka Egypt's net profit was $4 million, lower by $1 million than that of the previous year.

During the year Albaraka Egypt once again expanded its branch network in accordance with its strategic plan, opening new offices in Dekki and Sharm El Shaikh to bring the total network to 18. It launched two new retail products on the market, Laylat Al Omr and Shabkat el Arousah for facilitating engagement and marriage expenses, adding to its existing range of similar products, including facilities for providing finance for young people's education at foreign schools and universities, subscriptions to sports clubs and surgical operations. The bank also introduced Ijara financing and commercial franchise financing facilities to the Egyptian market. Once again it increased its participations in large syndicated projects financings, this time by some 70%. It also launched a series of new products on the liabilities side of the balance sheet, including 5-year gold certificates, Umrah sukuks, euro certificates and US dollar certificates.

In 2009 Albaraka Egypt will again expand its delivery channels by opening a further 4 branches, on track to achieving its aim of a total network of 37 branches by 2014, some targeted at major corporate customers and others specialising in the provision of sophisticated retail finance and related services. In addition it intends to grow its network of money changing bureaux based in tourist areas and will be launching a series of new liability and retail finance products. It will continue to increase its syndicated loans participations and also intends to widen its correspondent banking network so as to cover all important regions of the world. It will press on with full implementation of its computer systems upgrade programme, having already upgraded much of the hardware and awarded the contract for a new Misys integrated system, the Islamic Equation system.

Innovative retail products

• *(All figures in US dollars unless otherwise stated)*

Albaraka Islamic Bank B.S.C. — *Bahrain*

Albaraka Bahrain operates under a single retail banking licence, following the completion of the acquisition by Albaraka Islamic Bank of its sister bank in Bahrain, Al Amin Bank, in 2007. Albaraka Bahrain was among the pioneers of Islamic banking in Bahrain and also in Pakistan, where it commenced operations in 1991 as a foreign bank under a commercial banking licence from the State Bank of Pakistan. Following the opening of a further 11 new branches in 2008, the bank now has a network of branches located in Bahrain and all major cities in Pakistan offering a complete range of Shari'a-compliant banking products and services, including Ijarah, trade and working capital finance, customer deposits, on-line banking and ATM cards.

In 2008 Bahrain's GDP grew by 6.1%, compared with 8.1% in 2007 which was however above the 7.1% average over the 5-year period 2002/07. Inflation also grew significantly, by 7.0%, again a higher rate than the norm - as represented by the average 2.4% annual growth over the previous 5 years – but this anomaly was not regarded with deep concern in light of the international financial situation and the rate is projected to fall back towards the norm from 2009 onwards. The Central Bank reduced the bank rate over the year from 4.9% to 1.75% in an effort to support demand. Given the spending targets in the draft 2009 budget (which anticipates a strong rise in current spending to offset lower Capital expenditure) it is likely that the budget will go into deficit for the first time in 7 years, however the budget deficit will be contained until oil prices regain their strength as recession recedes. The current account balance will probably just avoid going into deficit and remain in surplus unless oil prices weaken considerably. Although Bahrain's economy is clearly dominated by oil and gas, the government is seeking to lower unemployment by promoting private-sector growth and is hence trying to develop a range of diversified industries which could attract foreign investment, targeting in particular tourism, financial services, information technology, education, healthcare and (downstream) aluminium manufacturing, whilst also considering limited privatisations of selected public services.

Due to structural reforms and a comprehensive and respected regulatory environment, the banking sector has been growing rapidly and Bahrain is now home to 412 financial institutions. These include 26 Islamic banks providing Shari'a-compliant banking products and services, whose growth in recent years has been swift and steady – as at December 2008 the Islamic banks' segment of the consolidated balance sheet of the banking sector ($252.4 billion) in Bahrain stood at $24.8 billion, a 57% increase over 2007's level. The share of Islamic banks' total assets of the total banking sector assets accelerated to 9.8% in 2008, from 6.7% in 2007.

Impacted by the global financial downturn as well as by domestic events, Pakistan's economic growth fell to 6.0% over fiscal 2007/08 from the 6.8% enjoyed in 2006/07. Growth was again driven principally by the services sector, to which the Islamic banking system contributed positively, posting a collective 42% year-on-year growth in after-tax profits. Inflation spiralled upward, to an estimated 20.8% compared with the previous year's 7.8%, due principally to the surging prices of food, fuel and other commodities on the international markets, only alleviated in the new fiscal year by the fall in international crude oil prices. The State Bank of Pakistan tightened monetary policy aggressively, increasing interest rates by 3% over the year to July 2008 to 13% and introducing a series of measures to counter the liquidity problems in the financial system, ensure prudent liquidity management by banks and encourage savings in the economy. The Central Bank also revised the minimum capital requirement of all banks operating in Pakistan, according to which capital must be increased in stages to a minimum Rs 23 billion by 2013, a step that is likely to initiate another phase of consolidation in the banking sector. The Pakistan Rupee's value against the US dollar fell to PKR74 from PKR61. The Stock Exchange also fell back, as the KSE 100 Index slumped 41% from the high attained in April 2008. Real GDP growth is forecast to slow to 1.2% in 2008/09 but should increase from 2009/10. The current account which reached 5.7%

of GDP in 2007/08 will remain in the 4-5% range for the foreseeable future. Since the start of the new fiscal year Pakistan has accepted a $7.6 billion IMF emergency financing package, which will lead to considerable loss of autonomy in setting economic policy.

The 22% fall in the value of the Pakistan Rupee against the US dollar, which occurred mainly during the second and third quarters of 2008, affected Albaraka Bahrain's Pakistan assets when translated into US dollars, in a similar way to Albaraka Turkey. All things considered, therefore, the bank did well in 2008 to experience a decline of only 5%, to $1.00 billion, in its total assets (with the Pakistan operations' total assets growing by 9% in local currency). On the liabilities side of the balance sheet, customer current and other accounts rose by 10% to $67 million, although the balance of unrestricted investment accounts fell marginally by 4% to $707 million (with Pakistan recording a growth of 13% in local currency). Total income from jointly financed accounts and investments fell 6% to $55 million and, after accounting to the investors for their share, Albaraka Bahrain's income from this source including its share as Mudarib was $18 million, an increase of 3% over 2007. Including other income from banking services and Mudarib fees from managing restricted investment accounts, total operating income was $29 million, 1% up on the previous year. Operating expenses were higher than the previous year by 7%, leaving net operating income at $6 million, 17% below the result for 2007. After allowing for provisions and accrued taxation, the net profit for the period was $3 million, 40% below 2007's result.

A dedicated Consumer Banking Department was set up during the year by Albaraka Bahrain's Pakistan arm, tasked with expanding the bank's presence in the consumer finance sector of the market. Due in part to the efforts of the department the consumer portfolio expanded by 13% over the year. A number of new products were also developed, including commodity murabaha, sale and leaseback under Diminishing Musharaka and Mahana Amadni Account.

Albaraka Bahrain has now reached an advanced stage in converting its Pakistan operations into a locally incorporated bank, which is expected to improve substantially both the market share and profitability of operations there. As part of the first phase of the transition, it has been incorporated as a public limited company registered with the Securities and Exchange Commission of Pakistan. The new bank's business plan and financial model have been finalised and valuations completed preparatory to its launch of an IPO together with a private placement, in a similar operation to that which ABG successfully conducted in 2006 and Albaraka Turkey achieved in 2007.

For 2009, Albaraka Bahrain intends to open a further 15 branches in Pakistan to take its Pakistan network to 44, with a long term plan to add a further 58 branches within the next 5 years. It also intends to open a further 6 branches in Bahrain. Efforts are also underway to identify and recruit appropriate resources for the new Investment Banking Division which is to be established to offer consultancy and advisory services and to enter into structured finance transactions such as sukuk. Several new products are meanwhile in the pipeline, scheduled for launch in 2009.

During the year the bank also successfully implemented in Bahrain the new Misys Islamic Equation core banking system, which will address its need for modern technology-based banking for the foreseeable future, while a similar contract in respect of the Pakistan operations has been signed, with full implementation planned for 2009. Looking also to the year ahead, Albaraka Bahrain intends to utilise the system to make online services available to its customers, including Islamic profit distribution and Internet banking, whilst in Pakistan it will commence installation of a comprehensive ATM network once the new core banking system is up and running. At the same time, the Pakistan operation will introduce strengthened oversight functions covering risk management, compliance and internal audit so as to better ensure prudent business operations and good governance.

Implementation of the new Mysis Islamic equation

Banque Albaraka D'Algérie S.P.A. — Algeria

In 2008 the Algerian economy grew by an estimated 3.2%, about the same as 2007 but less than the 4.8% average growth rate over the 2003/07 period. Per capita income however grew by 20% to reach around $4,800. Inflation fell slightly, to 3.9% from 4.4% in 2007, enabling the Central Bank to leave the bank rate unchanged at 4%. Export revenues once again set new records, reaching an estimated $80 billion, with the proportion that was non-hydrocarbon related exceeding $2 billion for the first time. Foreign exchange reserves ended the year at $146 billion, equivalent to 4 years' import cover. The Algerian government continued to pursue its policies of economic reform, aimed at boosting economic activity and bringing down the level of unemployment through investment in the country's infrastructure, particularly in road and railway construction, and utilities development.

Albaraka Algeria experienced a very good year, with its total assets rising by 21% to $1.02 billion, funded by a 24% rise in its unrestricted investment accounts, which reached $425 million, and an 8% increase in its customer current and other accounts, to $356 million. The main contributors to the increase in assets were once again the murabaha sales receivables, which expanded by 32% to $548 million, the Salam portfolio which grew by 11% to $112 million and the Ijarah Muntahia Bittamleek assets which grew 27% to reach $42 million. This growth was in turn reflected in the bank's total income from jointly financed accounts and investments which grew by 25% to $42 million and which generated for the bank, after accounting for the unrestricted investment account holders' share, $31 million including its share as Mudarib – 29% more than the equivalent for 2007. Other operating income brought total operating income up to $83 million, 63% up on the previous year. After deduction of operating expenses, the net operating profit was $60 million, a 70% increase over 2007. Provisions and taxation brought the net profit to $39 million, another record result.

Construction of Albaraka Algeria's new head office building is expected to commence in 2009. It is also currently in the process of selecting and implementing a new IT system, and plans are advanced for the installation of a 50-strong ATM network and the opening of 6 new branches in 2009 as part of an overall aim to expand the network over the next 5 years by 30 branches to bring the total to 50. The bank will also be introducing a number of new products, including home furnishing consumer loans and a variety of deposit schemes, for instance youth and property savings accounts and Hajj and Umrah savings deposits.

Net profit increases to
$39 million

Albaraka Bank Sudan

Sudan

In 2008 the Sudanese economy is estimated to have grown by a healthy 8.5%, although this was less than the 10.5% recorded for 2007. A slight fall in oil output was more than made up by higher average oil prices over the year and expansion of the non-oil sector, particularly in the services sector which has become the main engine of growth in the economy. Following implementation of the government's development programme the agricultural sector also made progress. The rate of inflation rose from 9% to 16%, however, largely as a result of increases in world food prices. Higher oil prices in the first half of the year and slower imports growth contributed to the overall current account deficit falling to about 5% of GDP from 11% the year before and to a rise in foreign exchange reserves at the Central Bank. Important structural reforms were introduced in 2007/08, when significant steps were taken to remove tax exemptions and widen the tax base.

Albaraka Sudan currently maintains a network of 25 branches, having opened 2 new branches in 2008. Over the course of the year its total assets grew by 5% to $302 million, fed by 7% growth in its customer current and other accounts. Most of the increase in total assets was in the Istisna'a finance portfolio, liquid assets, non-trading investments and other balances as at the end-year, however, the bank's total income from jointly financed sales and investments rose 27% to $23 million which, after accounting to the unrestricted investment account holders for their share less the bank's share as Mudarib, yielded it an increased income from this source of $21 million. Including income from Mudarib fees for managing the restricted investment account, banking and other services, total operating income was 24% up on 2007 at $32 million. Operating expenses of $18 million were 5% higher than the previous year, resulting in a net operating profit of $13 million. After accounting for provisions, Albaraka Sudan reported a net profit for the year of $9 million, 4.5 times 2007's $2 million.

In 2009 a new core banking IT system is to be installed and implemented, following which Albaraka Sudan will be able to commence rollout of a number of new services for its customers, beginning with telephone and SMS banking services. New products to be introduced include financial leasing and real estate investment services. The bank also plans to open one new branch during the year as part of its network expansion strategy which aims to have 34 branches in place by 2013. It will also complete the implementation of systems to meet the requirements of Basel II and the standards of the Islamic Financial Services Board.

Net profit

$9 million

4.5 *times* 2007

Bank Et-Tamweel Al-Tunisi Al-Saudi

Tunisia

Tunisia's GDP growth in 2008 is estimated to have been 4.7%, compared with 6.3% in 2007, while the rate of inflation was 5.1%, a little high compared with the 2003/07 average of 3.2%. The country runs a structural trade deficit, which has widened in recent years despite strong export growth due to the high international oil prices pushing up import costs. The surplus on services and transfer account was insufficient to avoid a current account deficit, which in 2008 was around 3.3% of GDP. The balance is set to improve to a certain extent with currently lower oil prices, but this advantage will be largely cancelled out by reduced demand from the European Union as a consequence of recessionary conditions there. The government is committed to a growth target of 6.0% per annum, which it is trying to achieve by increasing investment in manufacturing and knowledge-based industries, modernising agriculture and infrastructure, restructuring education and reforming the bureaucracy. It is also trying to encourage private sector and foreign direct investment through fiscal incentives. However, it is unlikely to be able to meet its growth target over the next few years, at least until its major trading partners and tourism markets in Europe begin to emerge from recession.

As an OBU – an Offshore Banking Unit - Albaraka Tunisia is permitted to accept deposits from residents only up to a maximum of 1% of the total Tunisian Dinar deposits of all the commercial banks. As the only Islamic bank operating in the country, its unique services range from the taking of Shari'a-compliant deposits to providing Shari'a-compliant financial facilities and investments, operating mainly in the agricultural, industrial, tourism, and export industries. It also invests in Tunisian companies, both directly and indirectly through investment funds. The bank currently has 8 branches, having expanded the network gradually from 4 in 2003. In 2008 it installed new systems which have enabled it to introduce e-banking services to its customers for the first time.

Albaraka Tunisia made good progress in 2008. In a highly competitive market, its total assets grew by 6% to $329 million, mainly due to growth in its murabaha sales receivables (up 25% to $258 million), liquid funds and investments, offset by moderate reductions in its mudaraba financing portfolio and other assets. Gross income from joint financing and investment accounts rose by 28% to $16 million. After setting aside the return due to the unrestricted investment account holders, the bank's share, including its share as Mudarib, increased by 33% to $11 million. Mudarib fees from managing the restricted investment accounts and banking and other income were all higher, bringing the total operating income for the year up to $17 million, an 8% increase over 2007. With operating expenses unchanged, the net profit was $12 million, 40% higher than that for 2007.

Albaraka Tunisia's medium-term strategy is to expand its branch network to 11 by 2013 with no commensurate increase in staffing levels and to improve earnings from commissions and services whilst maintaining its ongoing efforts to reduce non-performing loans through workouts and renegotiations. It will also be introducing new Islamic products such as Al Wakala bil Istithmar, while continuing to modernise its technological hardware and systems in order to provide its customers with an enhanced level of service.

40% growth in net profit

Albaraka Bank Limited — *South Africa*

2008 was not a good year for the South African economy. While real GDP growth dropped from 5.1% in 2007 to 3.1% in 2008, at the same time the rate of inflation continued to rise, reaching 11.3% year-on-year as food, electricity and oil prices escalated. This was in spite of the South African Reserve Bank's actions to bring inflation back within its 3-6% target range, under which policy it has steadily increased interest rates over the last 2½ years, driving the prime commercial banks' lending rate up to 15.0% by the end of 2008. The trade deficit rose to $5.3 billion as the value of imports expanded faster than that of exports, leading to a worsening current account deficit which is estimated to have reached 7.6% of GDP by end-year.

The combination of high borrowing rates and the lasting impact of the National Credit Act of June 2007, which effectively curtailed the granting of easy credit, has significantly limited credit demand. At the same time, the Rand has deteriorated on the foreign exchange markets, from R7.80/$1 to R9.93 at time of writing, which has had the effect of dampening, not only imports, but foreign direct investment as well. Insolvencies and compulsory corporate liquidations have risen as a consequence.

Albaraka Bank Limited was established as South Africa's first Islamic bank in 1989 and remains the only bank in South Africa to conduct all of its business entirely according to the principles of the Shari'a. Apart from its head office and its Corporate Division, both located in Durban, the bank maintains 8 retail branches covering Durban, Johannesburg, Pretoria and Cape Town. Albaraka South Africa provides finance for commercial and residential property acquisition and also for the purchase of motor vehicles and equipment, largely through the murabaha and musharaka modes of finance. It also extends trade finance facilities to commercial customers and has recently launched a new Ijara product which it hopes will prove attractive to the market.

South Africa's weakened economic performance took its toll on Albaraka South Africa in 2008. Although it expanded its activities and demonstrated sound growth over the year, the 37% devaluation of the Rand against the US dollar impacted on translation values for consolidation purposes. Thus, the bank's total assets in US dollar terms fell by 19% (in local currency terms, total assets grew by 11%) over the year to $201 million as, on the liabilities side, the dollar value of the unrestricted investment accounts (in local currency: +13%) and customer current accounts balances likewise declined. This movement was reflected in a reduced musharaka financing portfolio and lower murabaha sales receivables balances at end-year. However, the bank was able to grow its total income from jointly financed accounts and investments by 12% (in local currency: +30%) to $24 million. After allocation of the unrestricted investment account holders' share – which itself was 14% higher at $13 million – and including its share as Mudarib, it earned $11 million from this area of its activities, 9% up on 2007. Total operating income rose 3% (in local currency: +20%) to $12 million and, net of operating expenses, Albaraka South Africa was able to report an operating profit of $4 million. Net profit after provisions and accrued taxation was $3 million, just 1% under that of 2007.

Looking to the future, erection of Albaraka South Africa's new head office building, sited on the outskirts of Durban's Central Business District and also housing its flagship branch, has progressed well and the building is expected to be ready for occupancy in early/mid-2009. Migration towards its new Islamic Equation core banking system commenced in 2008, and full implementation is anticipated during the first half of 2009. Albaraka South Africa is also finalising the network communications and hardware for the second phase of the project, which will enhance its branch processing speeds and client service, and has meanwhile fully implemented its Basel II software, incorporating live, automated, regulatory submissions. Comprehensive MIS and reporting capabilities are now in place, which will be further enhanced upon completion of the Islamic Equation implementation. It intends to leverage on its modern core banking systems to enable it to extend superior services to its customers whilst achieving greater operational efficiencies. It also plans to launch an electronic banking/debit card. A foreign exchange licence has recently been obtained, which will allow it to trade on the local inter-bank markets and expand its foreign exchange activities. Over the next 5 years Albaraka South Africa will open 3 additional corporate offices and expand its network to 12 branches.

Plan to expand the network to 12 branches

Albaraka Bank Lebanon S.A.L. — *Lebanon*

Contrary to early 2008 indications, Lebanon's economy managed quite a healthy 4.0% rate of growth in 2007 (well above the expected 2.5%) despite the events of that year that threatened the political stability and security of the country. In 2008 its GDP rebounded even further, expanding by around 6%. Its balance of payments surplus for the 11-month period to November 2008 was $2.7 billion, compared with $1.17 billion for the same period of 2007. Foreign currency reserves also rose, from $12.8 billion to $19.6 billion at end-November 2008, with gold and foreign exchange reserves together valued at $27.1 billion. By the end of 2007 the rate of inflation had increased to 9.3% and by the end of 2008 it was estimated to have reached around 10%.

The government's policies over the last few years have been praised by the IMF for contributing to reducing the debt burden relative to GDP. The Central Bank is expected to continue to implement conservative monetary policies, limiting its interference in the foreign exchange markets and in interest rates, while continuing closely to monitor and supervise the Lebanese banking operations, such that the capital adequacy ratio (CAR) of the Lebanese banking system as a whole now stands at a very healthy 25%. For these reasons, the banking system is expected to maintain its customary resilience and is not expected to be unduly affected by the global financial crisis, continuing to offer a safe financial haven for Lebanese expatriates and GCC nationals. Subject to maintaining the current stable environment, it is confidently expected that customer deposits as well as investment activities - mainly in the real estate and tourism sectors – will register significant growth in the years to come.

Albaraka Bank Lebanon, the first to be established of only 4 Islamic banks in Lebanon, maintains 6 branches with 7 ATMs and is the smallest of the Group's subsidiaries. Its products include finance for housing, vehicles, household goods, construction and medical equipment and working capital, to which it has recently added musharaka and Ijara, targeting universities, schools, SMEs, Hajj and Umrah companies and large charities among others. In 2008 Albaraka Lebanon expanded moderately, increasing its total assets by 14% to $164 million, funded by its unrestricted investment accounts which remained at $93 million, and a 24% increase in customer current and deposit accounts which rose to $30 million. Business activities expanded in two directions: there was a substantial increase in current business transacted and at the same time a variety of new products was successfully introduced to the market. The existing murabaha staple product proved again to be highly popular, so much so that by the end of the year the balance of sales receivables on the books had soared by 65% to $45 million. Albaraka Lebanon's new products, musharaka financing and investment in properties, enjoyed an extremely good start, amassing a total of $11 million in new assets over the course of the year. The success of these products was due particularly to their attraction to the consumer and personal banking sectors, including car and housing loans. The bank also introduced a new commodity murabaha investment product. Also popular were Albaraka Lebanon's three new 'Baraka' credit card offerings, which were immediately successful and which have maintained vibrant growth rates ever since their introduction, and its prepaid cards, where the numbers issued continue to grow.

Due to the exchange rate effect, Albaraka Lebanon's total income from jointly financed accounts and investments fell in US dollar terms by 15% to $3 million. Following distribution to the unrestricted investment account holders of their share, and even including its share as Mudarib the bank incurred a loss of $0.2 million on this area of activities. However, revenues from banking services and other income brought the total operating income up to $5 million, representing an increase over the previous year of 23%. A 35% increase in operating expenses to $7 million, reflecting mainly ongoing IT hardware and software development and implementation costs and infrastructure upgrading expense, however resulted in Albaraka Lebanon's net operating loss increasing to $3 million. After including a net provisions write-back, the bank ended the year with a net loss of $3 million as compared with 2007's $2 million loss.

In 2009 Albaraka Lebanon aims to expand its 'Baraka' credit card customer base by 2,500 and its real estate project financings by at least 60%. Implementation of the new Misys Islamic Equation core banking system will be completed during the year, as will the planned hardware upgrade, which together should greatly improve processing speed and efficiency. A number of e-banking services will then be rolled out to the bank's customers, including Internet and SMS banking. Albaraka Lebanon has a longer term aim of expanding its branch network to 12 branches, along with its ATM network. It also plans to develop its corporate banking services, including trade finance operations.

Ijara & Musharaka
added to retail products

Information Technology

Since its inception in 2002, ABG has recognised the importance of Information Technology (IT) as a vital partner in developing a competitive edge. Subsequently, ABG has encouraged all its subsidiaries to upgrade their IT platforms, introduce technology-based delivery channels like e-banking, IVR systems and SMS banking and ultimately achieve full IT-enabled product delivery.

ABG has announced that its aim is to be at the top of the list of banks that are leveraging advanced technologies including the implementation of the Strategy Management module and an in-house application for ABG Treasury besides taking strides in communications and progressing towards a totally paperless environment. ABG's IT Project Department, in pursuance of the Group's intention, is moving towards the acquisition of a document management system that may be utilised in addressing this ambition.

In May 2007 a new agreement was signed with Misys for delivery and installation of its Islamic Equation core banking system at the three subsidiaries currently using the MIDAS core banking system: Albaraka Bahrain, Albaraka Bank South Africa (Albaraka South Africa) and Albaraka Bank Lebanon (Albaraka Lebanon). Subsequently, Albaraka Islamic Bank Pakistan (Albaraka Pakistan) joined the agreement on its own behalf, followed by Egyptian Saudi Finance Bank (Albaraka Egypt).

In September 2008 Albaraka Bahrain went live with the first phase of the project. Albaraka South Africa is expected to go live with the core modules in May 2009. Meanwhile, Albaraka Lebanon will go live as early as possible with the Islamic Equation core banking system. Both Albaraka Pakistan and Albaraka Egypt are due to go live with the Islamic Equation core banking system by the end of 2009.

Banque Albaraka D'Algérie (Albaraka Algeria) has chosen iMAL from Path Solutions. Jordan Islamic Bank (Albaraka Jordan) is currently in the process of completing the implementation of its new core banking system, NIBRAS Banking System. Implementation is being handled by Future Applied Computer Technology (FACT), which is fully owned by Albaraka Jordan. Through FACT, Albaraka Jordan is offering IT products and support to all financial institutions, with competitive pricing in initial licensing, implementation and maintenance.

Albaraka Bank Sudan has selected iMAL as its new core banking system. Full implementation is expected to be achieved by the fourth quarter of 2009. Bank El-Tamweel Al-Tunisi Al-Saudi (Albaraka Tunisia) is currently in the process of upgrading its existing core banking system (TEMENOS-T24).

Finally, Albaraka Türk Participation Bank (Albaraka Turkey) is employing an in-house solution and is currently in the process of improving its collateral database (which tracks collateral taken on advances against the approval security) and enhancing its Business Continuity Plan to bring it in line with regulatory guidelines.

Corporate Social Responsibility

The success of the contemporary Islamic banking and finance movement owes much to the contribution and patronage of Sheikh Saleh Kamel, the founder of Albaraka Banking Group. Although the Group is young as a single legal entity, its antecedents go back to the late 1960s, when Sheikh Kamel directed the devising of Islamic contracts for use in his business operations when dealing with conventional banks (there being no Islamic banks in existence at that time), which was his preferred route for doing business with them. This early insistence on strict adherence to fundamental Islamic principles was then quickly overtaken by the next stage of development when, in the early 1970s, Sheikh Kamel oversaw the establishment across the Arab world of a series of Islamic financial institutions bearing the Al-Baraka name. Today, Albaraka Banking Group brings together under one unified grouping the accumulated experience of 10 banks delivering Islamic products and services over three decades. We at ABG are proud to look back on this heritage, whilst at the same time we keenly look forward to the next stage in our development, as we gradually expand into new regions and new markets and build a wider customer base.

As members of a banking group founded on Islamic principles and values, we at ABG believe that we have a particular obligation to society, through patronage and sponsorship of educational and social projects, to enhance the living conditions and quality of life of needful individuals in the local communities of which we are part. In meeting this commitment to society we make all possible effort to apply one of the important philosophical pillars of Islamic banking: the concept of "construction of land", which means adding tangible value to assets. This concept has a direct relevance to the development of society and its social and economic progress and we seek to apply it through active investment mediation, which complements real and value-added production, and through the exchange of commodities and services, which enables us to offer practical alternatives to those financial intermediaries that provide no benefit to society at large.

We consider the role of CSR in our organisation to be essential to the application of the principles derived from divine power and on which our business activities in all the countries in which we operate are based. All our subsidiaries embrace Islamic ethical principles and apply them to their banking operations and services. These principles may be summarised as:

First:

Investments may only be made in sectors and industries that meet ethical standards. The moral values of Islam dictate that Muslims must invest in the production of, and trade in, useful and beneficial goods only. They therefore forbid investment in such activities as, for example, contribute to the production of alcoholic beverages, tobacco or weapons, or are associated in any way with gambling, pornography or the abuse of children, women and minorities, or any other morally questionable practices.

Second:

All Islamic banks and financial institutions eschew the payment of interest in their relations with depositors, consumers and businesses, as Islam prohibits the paying or charging of interest. Instead ABG's banking subsidiaries, like all Islamic banks, accept deposits on an investment basis whereby depositors share with the bank in the actual results of the realisation of their investments. Financing is provided to businesses in turn mainly on the basis of instalment sale, leasing or equity participation. In this way, they and their depositors share the financial risk with the entrepreneurs and together they reap the benefits of the investments.

The prohibition of interest is to be found in the Qur'an and is fundamental to the ethical standards and core values laid out therein. ABG's subsidiaries, as Islamic banks, firmly adhere to these core values by disallowing the charging or paying of interest, an essential difference between Islamic and conventional banks. Yet, customers of Islamic banks and other financial institutions generally share a similar experience to that of customers of conventional banks - who share profit with their depositors. The essential difference in Islam is that the practice of profit sharing is such that wealth creation is the result of a partnership between investors and entrepreneurs in which both the risks and the rewards are shared: returns on invested capital are based on profits actually generated rather than predetermined interest rates.

Third:

All contracts entered into by ABG's banking subsidiaries, and all their relations with businesses and depositors, must comply with the ethical standards of the Shari'a.

Unified Shari'a Supervisory Board Report

In the name of Allah, The Beneficent, The Merciful, Ever Merciful

Praise be to Allah and peace be upon our Prophet Mohamed, His Apostles and Companions

To: Albaraka Banking Group Shareholders

May peace and God's Mercy and Blessings Be upon You

In accordance with Article (58) of the Articles of Association of AlBaraka Banking Group, we are required to submit the following report:

We have reviewed the principles applied by the Group and reviewed the 2008 Shari'a reports issued by the Group Units' Shari'a Supervisory Boards or Shari'a Advisors. We have also reviewed their financial statements when needed. In addition, we examined the Group's financial position as of 31 December 2008 and Statement of Income and their notes. We have queried from some of the Technical's on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Sharia and Accounting Standards issued by an Accounting and Audit of the Islamic financial Institutions.

The Group and Units' managements are responsible for the execution and implementation of the Unified Shari'a Supervisory Board resolutions and to bring to the attention of the Unified Shari'a Supervisory Board any transactions or issues that require Shari'a approval. The Unified Shari'a Supervisory Board is responsible for supervising the implementation of the resolutions from a Shari'a point of view and issue opinion based on the Group and Unit's Shari'a reports and financial statements.

The Unit's Shari'a Supervisory Boards and Shari'a advisors, as is clear from their report, have supervised the Units' business activities including examining on test basis documentations and procedures applied by the Group and its Units.

The Units' Shari'a Supervisory Boards and Shari'a advisors, as is clear from their reports, planned and performed reviews so as to obtain all the information and explanations they considered necessary in order to provide them with sufficient evidence to provide reasonable assurance that the Group and its Units have not violated Shari'a Rules and Principles.

In our opinion:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31st December 2008 are made in compliance with Shari'a Rules and Principles.

2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved in accordance with Shari'a Rules and Principles.

3. All earnings realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been committed by the Management to dispose it off to Charitable Causes.

4. The attached Zakah calculation was prepared in accordance with the provisions and principles of Islamic Sharia according to the Net Invested Fund Method in the Financial Accounting Standard No. (9) issued by an Accounting and Audit of Islamic financial Institutions and on the basis set out in the resolution of the International Islamic Fiqh Academy that if a company calculate Zakah, the shareholders is committed to pay his Zakah according to that calculation, whatever his intention was. Since the Group and the Units are not empowered to pay Zakah, shareholders should pay their share of Zakah. The Zakah per share is 2.49 US cents. In case of unavailability of liquidity, it is allowed to postpone the Zakah and become a debt until the liquidity becomes available.

Praise be to God

Issued on 24 Safar 1430 H, corresponding to 19 February 2009 AD.

Executive Committee of the Unified Shari'a Supervisory Board

Chairman Shari'a Supervisory Board
Dr. Abdul Sattar Abu Ghudah

Shari'a Supervisory Board Member
Dr. Ahmed Mohiyeldin Ahmed

Statement of Calculating Zakah for the year ended 31 December 2008 AD

	US Dollar ('000)
Equity Attributable to Shareholders	1,130,682
Less: Investment of the Parent on the shareholding of Egyptian Saudi Finance Bank and Albaraka Bank Sudan	(157,167)
	973,515
Less:	
Uninvested Mandatory Reserve financed by Shareholders	(98,610)
Musharakah underlined by unzakatable assets financed by Shareholders	(32,495)
Ijarah Munthaia Bittamleek financed by Shareholders	(70,740)
Investment in Sukook underlined by unzakatable assets financed by Shareholders	(38,711)
Long-term investment in properties financed by Shareholders	(27,261)
Investment in Associates financed by Shareholders	(8,086)
Properties and equipment financed by Shareholders	(88,693)
Intangible assets financed by Shareholders	(51,200)
Add:	
Shareholders shares on Zakatable assets by Associate	7,395
Murabaha deferred profits financed by Shareholders	107,412
Zakatable amount	672,526
Zakah Percentage	2.5775%
Total Zakah due	17,334
Number of shares (thousands)	697,500
Zakah per share (US Cent)	2.49

Independent Auditors' Report to the Shareholders of Albaraka Banking Group B.S.C.

We have audited the accompanying consolidated balance sheet of Albaraka Banking Group B.S.C. ("the Bank") and its subsidiaries ("the Group") as of 31 December 2008, and the related consolidated statements of income, cash flows, changes in equity and restricted investment accounts for the year then ended. These consolidated financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Shari'a. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

We conducted our audit in accordance with both International Standards on Auditing and Auditing Standards for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, the results of its operations, its cash flows, changes in equity and changes in restricted investment accounts for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2008 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking license.

Ernst + Young

25 February 2009
Manama, Kingdom of Bahrain

Consolidated Balance Sheet

31 December 2008

	Notes	2008 US$ '000	2007 US$ '000
ASSETS			
Cash and balances with banks	3	2,353,852	2,281,127
Receivables	4	6,188,219	5,621,480
Mudaraba and Musharaka financing	5	797,958	707,458
Investments	6	797,366	711,049
Ijarah Muntahia Bittamleek	7	304,824	348,637
Property and equipment	8	160,350	163,825
Other assets	9	317,719	270,403
TOTAL ASSETS		10,920,288	10,103,979
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Customer current and other accounts		2,078,755	1,792,590
Due to banks		60,860	69,027
Other liabilities	10	497,771	449,883
Total liabilities		2,637,386	2,311,500
UNRESTRICTED INVESTMENT ACCOUNTS	11	6,732,741	6,222,821
EQUITY	12		
Share capital		697,500	651,000
Share premium		145,890	192,390
Reserves		63,460	23,960
Cumulative changes in fair values		9,435	5,883
Foreign currency translations		(18,118)	55,787
Retained earnings		157,615	109,153
Proposed appropriations		74,900	105,590
Equity attributable to the shareholders of the parent		1,130,682	1,143,763
Non-controlling interest		419,479	425,895
Total equity		1,550,161	1,569,658
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		10,920,288	10,103,979

Shaikh Saleh Abdulla Kamel
Chairman

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

Consolidated Statement of Income

Year Ended 31 December 2008

	Notes	2008 US$ '000	2007 US$ '000
Income			
Net income from jointly financed contracts and investments	14	725,866	567,533
Gross return to unrestricted investment accounts	15	(652,499)	(497,800)
Group's share as a Mudarib	15	190,580	127,671
Return on unrestricted investment accounts		(461,919)	(370,129)
Group's share of income from joint financing and investment accounts		263,947	197,404
Mudarib share for managing restricted investment accounts		13,449	9,090
Net income from self financed contracts and investments	14	137,016	87,413
Other fees and commission income	16	115,933	112,235
Other operating income	17	55,526	38,312
TOTAL OPERATING INCOME		585,871	444,454
Staff expenses		155,196	126,340
Depreciation and amortisation	18	17,618	18,109
Other operating expenses	19	99,526	84,559
TOTAL OPERATING EXPENSES		272,340	229,008
NET INCOME FOR THE YEAR BEFORE PROVISIONS, PROFIT ON DEEMED DISPOSAL OF A SUBSIDIARY AND TAXATION		313,531	215,446
Provisions	20	(48,443)	(24,117)
Profit on deemed disposal of a subsidiary	21	-	54,179
NET INCOME BEFORE TAXATION		265,088	245,508
Taxation		(64,075)	(44,666)
NET INCOME FOR THE YEAR		201,013	200,842
Attributable to:			
Equity shareholders of the parent		113,698	144,148
Non-controlling interest		87,315	56,694
		201,013	200,842
Basic and diluted earnings per share - US cents	22	16	21

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year Ended 31 December 2008

	Notes	2008 US$ '000	2007 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		265,088	245,508
Adjustments for:			
Depreciation and amortisation	18	17,618	18,109
Depreciation on Ijarah Muntahia Bittamleek	14.4	97,939	106,865
Unrealised loss (gain) on trading securities	14.3	17,700	(407)
Gain on sale of property and equipment	17	(1,243)	(133)
Provisions	20	48,443	24,117
Income from associates	14.3	(7,598)	(1,200)
Profit on deemed disposal of a subsidiary	21	-	(54,179)
Operating profit before changes in operating assets and liabilities		437,947	338,680
Net changes in operating assets and liabilities:			
Reserves with central banks		(74,123)	(96,045)
Receivables		(606,342)	(1,549,180)
Mudaraba and Musharaka financing		(91,374)	(468,446)
Ijarah Muntahia Bittamleek		(54,126)	(244,177)
Other assets		(49,612)	(59,997)
Customer current and other accounts		286,168	458,636
Due to banks		(8,167)	(46,249)
Other liabilities		18,011	139,961
Taxation paid		(36,222)	(18,859)
Directors' remuneration paid		(500)	(430)
Net cash used in operating activities		(178,340)	(1,546,106)
INVESTING ACTIVITIES			
Net disposal (purchase) of investments		(102,264)	216,763
Net purchase of property and equipment		(11,449)	(39,879)
Dividend received from associates		501	841
Net cash (used in) from investing activities		(113,212)	177,725
FINANCING ACTIVITIES			
Dividends paid to equity holders of parent		(58,590)	(12,000)
Increase in unrestricted investment accounts		523,642	1,525,455
Net changes in non-controlling interest		(37,247)	145,944
Net cash from financing activities		427,805	1,659,399
Foreign currency translation adjustments		(137,651)	77,286
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,398)	368,304
Cash and cash equivalents at 1 January		1,737,048	1,368,744
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	23	1,735,650	1,737,048

Consolidated Statement of Changes in Equity

Year Ended 31 December 2008

	Attributable to equity				
			Reserves		
	Share capital US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Other reserves US$ '000	Cumulative changes in fair values US$ '000
Balance at 1 January 2008	651,000	192,390	22,440	1,520	5,883
Bonus shares issued (note 12)	46,500	-	-	-	-
Directors' remuneration paid	-	-	-	-	-
Net movement in cumulative change in fair value	-	-	-	-	3,552
Net movement in other reserves	-	-	-	28,130	-
Foreign currency translation	-	-	-	-	-
Total income and expense for the year recognised directly in equity	-	-	-	28,130	3,552
Net income for the year	-	-	-	-	-
Total income and expense for the year	**-**	**-**	**-**	**28,130**	**3,552**
Transfer to statutory reserve	-	-	11,370	-	-
Dividends paid	-	-	-	-	-
Proposed dividends	-	-	-	-	-
Proposed bonus shares	-	(46,500)	-	-	-
Proposed directors' remuneration	-	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-
Net movement in non-controlling interest	-	-	-	-	-
Balance at 31 December 2008	**697,500**	**145,890**	**33,810**	**29,650**	**9,435**

holders of the parent					
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
55,787	109,153	105,590	1,143,763	425,895	**1,569,658**
-	-	(46,500)	-	-	-
-	-	(500)	(500)	-	**(500)**
-	-	-	3,552	5,311	**8,863**
-	(25,466)	-	2,664	1,950	**4,614**
(73,905)	-	-	(73,905)	(63,745)	**(137,650)**
(73,905)	(25,466)	-	(67,689)	(56,484)	**(124,173)**
-	113,698	-	113,698	87,315	**201,013**
(73,905)	**88,232**	**-**	**46,009**	**30,831**	**76,840**
-	(11,370)	-	-	-	-
-	-	(58,590)	(58,590)	-	**(58,590)**
-	(27,900)	27,900	-	-	-
-	-	46,500	-	-	-
-	(500)	500	-	-	-
-	-	-	-	(21,947)	**(21,947)**
-	-	-	-	(15,300)	**(15,300)**
(18,118)	**157,615**	**74,900**	**1,130,682**	**419,479**	**1,550,161**

Consolidated Statement of Changes in Equity

Year Ended 31 December 2008

Attributable to equity

	Share capital US$ '000	Share premium US$ '000	Reserves Statutory reserve US$ '000	Reserves Other reserves US$ '000	Cumulative changes in fair values US$ '000
Balance at 1 January 2007	630,000	238,890	8,025	786	5,851
Bonus shares issued (note 12)	21,000	-	-	-	-
Directors' remuneration paid	-	-	-	-	-
Net movement in cumulative change in fair value	-	-	-	-	32
Net movement in other reserves	-	-	-	734	-
Foreign currency translation	-	-	-	-	-
Total income and expense for the year recognised directly in equity	-	-	-	734	32
Net income for the year	-	-	-	-	-
Total income and expense for the year	**-**	**-**	**-**	**734**	**32**
Transfer to statutory reserve	-	-	14,415	-	-
Dividends paid	-	-	-	-	-
Proposed dividends	-	-	-	-	-
Proposed bonus shares	-	(46,500)	-	-	-
Proposed directors' remuneration	-	-	-	-	-
Net proceeds from initial public offering of a subsidiary (Note 21)	-	-	-	-	-
Adjustment on deemed disposal of a subsidiary (note 21)	-	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-
Adjustment on combination of Operations	-	-	-	-	-
Net movement in non-controlling interest	-	-	-	-	-
Balance at 31 December 2007	651,000	192,390	22,440	1,520	5,883

holders of the parent

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
18,943	42,672	33,430	978,597	232,527	**1,211,124**
-	-	(21,000)	-	-	**-**
-	-	(430)	(430)	-	**(430)**
-	-	-	32	(57)	**(25)**
-	-	-	734	362	**1,096**
43,295		-	43,295	33,991	**77,286**
43,295	-	-	44,061	34,296	**78,357**
-	144,148	-	144,148	56,694	**200,842**
43,295	**144,148**	**-**	**188,209**	**90,990**	**279,199**
-	(14,415)	-	-	-	**-**
-	-	(12,000)	(12,000)	-	**(12,000)**
-	(58,590)	58,590	-	-	**-**
-	-	46,500	-	-	**-**
-	(500)	500	-	-	**-**
-	-	-	-	103,452	**103,452**
(6,451)	-	-	(6,451)	6,451	**-**
-	-	-	-	(10,877)	**(10,877)**
-	(4,162)	-	(4,162)	4,162	**-**
-	-	-	-	(810)	**(810)**
55,787	109,153	105,590	1,143,763	425,895	**1,569,658**

Consolidated Statement of Changes in Restricted Investment Accounts

Year Ended 31 December 2008

	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
Balance at 1 January 2008	65,217	373,273	71,846	-	15,186	77,953	25,642	629,117
Deposits	43,535	140,066	-	-	5,963	254,884	13,335	457,783
Withdrawals	(55,937)	(154,850)	(24,545)	-	(10,698)	(291,942)	(12,472)	(550,444)
Income net of expenses	-	19,598	2,922	-	9,326	82,714	848	115,408
Mudarib's share	-	(2,126)	(221)	-	(463)	(10,555)	(84)	(13,449)
Transferred to URIA	-	(50,427)	(16,493)	-	-	-	-	(66,920)
Foreign exchange translations	-	-	-	-	-	(981)	-	(981)
Balance at 31 December 2008	52,815	325,534	33,509	-	19,314	112,073	27,269	570,514
Balance at 1 January 2007	26,388	337,251	83,637	1,140	14,378	48,065	26,875	537,734
Deposits	110,960	110,924	10,717	-	2,664	74,449	32,147	341,861
Withdrawals	(72,131)	(92,593)	(22,540)	(1,140)	(4,141)	(57,742)	(33,983)	(284,270)
Income net of expenses	-	21,870	46	14	3,046	16,557	817	42,350
Mudarib's share	-	(4,179)	(14)	(14)	(761)	(3,908)	(214)	(9,090)
Foreign exchange translations	-	-	-	-	-	532	-	532
Balance at 31 December 2007	65,217	373,273	71,846	-	15,186	77,953	25,642	629,117

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 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. As of 31 December 2008, the total number of employees employed by the Group was 6,746 (2007: 6,128).

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

a. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, trading and available for sale investments that have been measured at fair value. The consolidated financial statements are presented in United States Dollars, and all values are rounded to the nearest US Dollar thousands.

b. Statement of Compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('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 AAOIFI standards, the Group uses the International Financial Reporting Standards ('the IFRSs').

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year 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.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate item in the Group's entity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Sale of participations to non-controlling interests result in a gain or loss that is recognised in the consolidated statement of income. Acquisition of non-controlling interest can result in goodwill if the cost exceeds the carrying amount of the acquired net assets. Acquisitions/disposals of non-controlling interests are accounted for using the parent entity extension method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Basis of consolidation (continued)

The following are the principal subsidiaries of the Bank, which are consolidated in these consolidated financial statements:

Bank Held directly by the Bank	Ownership for 2008	Ownership for 2007	Year of incorporation	Country of incorporation
Banque Albaraka D'Algérie (BAA)	55.9%	55.9%	1991	Algeria
Albaraka Islamic Bank - Bahrain (AIB)	91.1%	91.1%	1984	Bahrain
Bank Et-Tamweel Al-Tunisi Al-Saudi (BEST)	78.4%	78.4%	1983	Tunisia
Egyptian Saudi Finance Bank (ESFB)	73.7%	73.7%	1980	Egypt
Albaraka Bank Lebanon (ABBL)	98.0%	96.3%	1991	Lebanon
Jordan Islamic Bank (JIB)	58.7%	57.4%	1978	Jordan
Albaraka Turk Participation Bank (ATPB)	55.6%	54.1%	1985	Turkey
Albaraka Bank Limited (ABL)	53.6%	51.8%	1989	South Africa
Albaraka Bank Sudan (ABS)	82.3%	86.2%	1984	Sudan

Company	Subsidiary held through	Effective Ownership for 2008	Effective Ownership for 2007	Year of incorporation	Country of incorporation
Al- Rizq Trading Company	JIB	52.8%	51.7%	1994	Jordan
Al-Omariya School Company	JIB	55.4%	54.2%	1987	Jordan
Al-Samaha Real Estate Company	JIB	55.8%	54.5%	1998	Jordan
Future Applied Computer Technology Company	JIB	58.7%	57.3%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	58.7%	57.4%	2006	Jordan
Dar AlBaraka	BAA	55.9%	55.9%	2003	Algeria
AlBaraka Properties (Pty) Ltd.	ABL	53.5%	51.7%	1991	South Africa
Best Lease (note 6.2)	BEST	N/A	33.1%	1995	Tunisia

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, balance with central banks and amounts due from banks on demand or with an original maturity of three months or less.

e. Receivables

Receivables comprise Sales (Murabaha) receivables, Ijarah receivables, Salam receivables and Istisna'a receivables.

Sales (Murabaha) receivables

Sales (Murabaha) receivables consist mainly of murabaha and international commodities stated net of deferred profits and provisions for impairment.

Ijarah receivables

Ijarah receivables is the outstanding rental at the end of the year less any provision for doubtful amount.

Salam receivables

Salam receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

Istisna'a receivables

Istisna'a receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

f. Mudaraba and Musharaka financing

Mudaraba and Musharaka financing are partnerships in which the Bank contributes capital. These are stated at the fair value of consideration given less impairment.

g. Investments

Investments comprise investment properties, investment in associates, trading securities, available for sale investments and held to maturity investments.

Investment properties

Properties held for rental or for capital appreciation purposes, or both, are classified as investment properties. These are initially recognised at cost including transaction cost and subsequently re-measured at fair value with the resulting unrealised gains/losses being recognised in the consolidated statement of changes in equity under investment properties fair value reserves to the extent of the portion of the fair value reserve relating to equity and under unrestricted investment accounts in the consolidated balance sheet to the extent of the portion of the fair value relating to unrestricted investment accounts until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity or in unrestricted investment account is recognised in the consolidated statement of income.

Investment in associates

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Group are identical and the associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Investments (continued)

Trading securities

These are initially recognised at cost, being the fair value of the consideration given excluding acqusition costs. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

All other investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Available for sale investments

Subsequent to acquisition, available for sale investments are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and unrestricted investment accounts until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity or unrestricted investments accounts is recognised in consolidated statement of income.

Held to maturity investments

Investments which have fixed or determinable payments and where the Group has both the intent and ability to hold to maturity are classified as held to maturity. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

h. Ijarah Muntahia Bittamleek

Assets acquired for leasing (Ijarah) are stated at cost, less accumulated depreciation.

Depreciation is provided on the straight line method over the useful life of the asset or the period of the lease, whichever is lower.

i. Property and equipment

Property and equipment are initially recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets other than freehold land, which is deemed to have an indefinite life.

The calculation of depreciation is on the following basis:

Buildings	*30 years*
Office furniture and equipment	*4 - 10 years*
Vehicles	*3 years*
Others	*4 - 5 years*

j. Fair values

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Fair values (continued)

For Sales (Murabaha) receivables the fair value is determined at Bank or subsidiary level at the end of the financial period at their cash equivalent value.

k. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

l. Intangible assets

Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

m. Collateral pending sale

Collateral acquired in settlement of certain financing facilities is stated at the lower of the net realisable value of the related financing facilities and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

n. Employees' end of service benefits

The Group provides for end of service benefits to its employees. Entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued for over the period of employment.

o. Provisions

Provisions are recognised when there is a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

p. Dividends

Dividends to shareholders are recognised as liabilities in the year in which they are declared.

q. Unrestricted investment accounts

All unrestricted investment accounts are carried at cost plus accrued profit and related reserves. Investment risk reserves and profit equalisation reserves are made at the Bank or subsidiary level.

r. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of unrestricted investment account holders, after allocating the mudarib share, in order to cater against future losses for unrestricted investment account holders.

s. Profit equalisation reserve

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for unrestricted investment account holders.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Restricted investment accounts

Restricted investment accounts represent funds received by the Group from third parties for investment in specified products as directed by the investment account holders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Restricted investments are not included in the consolidated balance sheet since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and holders of restricted investment accounts.

u. Revenue recognition

Sales (Murabaha) receivables

Profit from Sales (Murabaha) receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Salam and Istisna'a financing

Income on Salam and Istisna'a is recognised on time-apportioned basis when the income from a contract is contractually determinable or quantifiable.

Mudaraba and Musharaka financing

Income on Mudaraba and Musharaka financing is recognised when the right to receive payment is established or on distribution by the Mudarib. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

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Income net of depreciation is recognised on a time-apportioned basis over the lease term.

Fee income

Fee and commission income is recognised when earned.

Other income

Other income on investments is recognised when the right to receive payment is established.

Group's share as a Mudarib

The Group's share of profit as a Mudarib for managing unrestricted investment accounts is based on the terms and conditions of the related mudarib agreements.

Mudarib's share of restricted investment accounts

The Group shares profit for managing restricted investment accounts based on the terms and conditions of related contracts.

v. Return on unrestricted investment accounts

Unrestricted investment accounts holders' share of income is calculated based on the applicable local laws and based on the underlining individual mudaraba contract. It represents the income generated from joint investment accounts and after deducting other expenses. Other expenses include all expenses incurred by the Group including specific provisions. The Group's share is deducted before distributing such income.

w. Joint and self financed

Investments, financing and receivables that are jointly owned by the Group and the unrestricted investment accounts holders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivables that are financed solely by the Group are classified under "self financed".

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

x. Taxation
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate. The Group accounts for its share of associates profit after accounting for corporate taxation. Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

y. Shari'a supervisory board
The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of five members appointed by the general assembly.

z. Zakah
The responsibility of payment of zakah is on individual shareholders of the Group, its unrestricted investment account holders and other account holders except for few subsidiaries where the responsibility of payment of zakah is on the individual subsidiary as a single entity.

aa. Earnings prohibited by Shari'a
The Group is committed to avoid recognising any income generated from non-Islamic source. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for various social welfare activities.

bb. Impairment of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income.

In addition, the Group maintains a provision to reflect a potential loss that may occur as a result of currently unidentifiable risks in relation to receivables, financings or investment assets. The amount reflects estimated losses affecting these assets attributable to events that have already occurred at the date of the financial statements, and not estimated losses attributable to future events.

cc. Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a religious or legal right to offset the recognised amounts and there is actual expectation of the Group to settle on a net basis.

dd. Foreign currencies

Foreign currency transactions at the entity level

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. The monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to income statement at the entity level.

Foreign currency translations

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollars) at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
Foreign currency translations (continued)

dd. Foreign currencies (continued)

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign entity is recognised in the consolidated statement of income.

ee. Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which effects the amounts recognised in the financial statements:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as trading, held to maturity or available for sale.

ff. Use of estimates in preparation of the consolidated financial statements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities at the date of the consolidated financial statements. The use of estimates is used primarily to the determination of provisions for sales (murabaha) receivable, mudaraba financing, musharaka financing, available for sale investments, ijarah receivable and other assets.

gg. Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognised when:

(i) the right to receive cash flows from the asset have expired;

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

3 CASH AND BALANCES WITH BANKS

	2008 US$ '000	2007 US$ '000
Balances with central banks*	1,386,843	1,346,375
Balances with other banks	756,295	770,060
Cash and cash in transit	210,714	164,692
	2,353,852	2,281,127

* Balances with the central banks include mandatory reserves amounting to US$ 618,202 thousand (2007: US$ 544,079 thousand). These amounts are not available for use in the Group's day-to-day operations.

4 RECEIVABLES

	2008 US$ '000	2007 US$ '000
Sales (Murabaha) receivables (4.1)	6,033,232	5,482,299
Ijarah receivables (4.2)	23,456	22,484
Salam receivables (4.3)	112,576	101,043
Istisna'a receivables (4.4)	18,955	15,654
	6,188,219	5,621,480

4 RECEIVABLES (continued)

4.1 Sales (Murabaha) receivables

	2008			2007		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
International commodity murabaha	199,194	434,881	634,075	276,288	311,512	587,800
Other murabaha	366,256	5,548,118	5,914,374	447,943	4,861,212	5,309,155
Gross Sales (Murabaha) receivables	565,450	5,982,999	6,548,449	724,231	5,172,724	5,896,955
Provisions (note 20)	(10,044)	(186,499)	(196,543)	(7,925)	(163,917)	(171,842)
	555,406	5,796,500	6,351,906	716,306	5,008,807	5,725,113
Deferred profits	(3,140)	(315,534)	(318,674)	(3,536)	(239,278)	(242,814)
Net Sales (Murabaha) receivables	552,266	5,480,966	6,033,232	712,770	4,769,529	5,482,299

	2008 US$ '000	2007 US$ '000
Non-performing	**389,968**	374,804

The Group considers the promise made in Sales (Murabaha) receivables to the purchase orderer as obligatory.

4.2 Ijarah receivables

	2008			2007		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross amount	4,085	22,573	26,658	3,509	22,457	25,966
Provisions (note 20)	(1,892)	(1,310)	(3,202)	(1,892)	(1,590)	(3,482)
	2,193	21,263	23,456	1,617	20,867	22,484

	2008 US$ '000	2007 US$ '000
Non-performing	**9,376**	3,604

4 RECEIVABLES (continued)

4.3 Salam receivables

	2008			2007		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross amount	-	117,042	117,042	-	108,643	108,643
Provisions (note 20)	-	(4,466)	(4,466)	-	(7,600)	(7,600)
	-	112,576	112,576	-	101,043	101,043

	2008 US$ '000	2007 US$ '000
Non-performing	**5,669**	12,219

4.4 Istisna'a receivables

	2008			2007		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross amount	-	19,191	19,191	-	15,840	15,840
Provisions (note 20)	-	(236)	(236)	-	(186)	(186)
	-	18,955	18,955	-	15,654	15,654

	2008 US$ '000	2007 US$ '000
Non-performing	**98**	123

5 MUDARABA AND MUSHARAKA FINANCING

	2008 US$ '000	2007 US$ '000
Mudaraba financing (5.1)	638,858	527,880
Musharaka financing (5.2)	159,100	179,578
	797,958	707,458

5.1 Mudaraba financing

	2008			2007		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross amount	60,025	579,394	639,419	52,309	476,132	528,441
Provisions (note 20)	-	(561)	(561)	-	(561)	(561)
	60,025	578,833	638,858	52,309	475,571	527,880

	2008 US$ '000	2007 US$ '000
Non-performing	**561**	600

5.2 Musharaka financing

	2008			2007		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross amount	24,784	136,712	161,496	41,622	140,038	181,660
Provisions (note 20)	-	**(2,396)**	**(2,396)**	(115)	(1,967)	(2,082)
	24,784	134,316	159,100	41,507	138,071	179,578

	2008 US$ '000	2007 US$ '000
Non-performing	**3,403**	3,335

6 INVESTMENTS

	2008 US$ '000	2007 US$ '000
Investment properties (6.1)	**92,618**	71,720
Investment in associates (6.2)	**24,100**	17,642
Trading securities (6.3)	**25,200**	27,251
Available for sale investments (6.4)	**294,403**	296,028
Held to maturity investments (6.5)	**361,045**	298,408
	797,366	711,049

6.1 Investment properties

	2008			2007		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Cost	6,610	54,751	61,361	5,753	49,015	54,768
Accumulated fair value adjustments	-	31,257	31,257	-	16,952	16,952
	6,610	86,008	92,618	5,753	65,967	71,720

Investment properties at fair value at 31 December consist of the following:

	2008			2007		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land	4,577	27,847	32,424	-	27,528	27,528
Buildings	2,033	58,161	60,194	5,753	38,439	44,192
	6,610	86,008	92,618	5,753	65,967	71,720

6 INVESTMENTS (continued)

6.2 Investment in associates

Investments in associates comprise the following:

	Ownership % 2008	Country of incorporation	2008 Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Market value US$ '000
Quoted						
Investment Banking						
Al Amin for Investment	32.2	Jordan	-	8,931	8,931	9,451
Insurance						
The Islamic Insurance Company	35.3	Jordan	-	7,793	7,793	11,451
Others						
Jordan International Trading Centre	28.4	Jordan	-	1,678	1,678	4,446
			-	18,402	18,402	25,348
Unquoted						
Real Estate						
Baraka Development Immobile	20.0	Algeria	428	-	428	
Egyptian Saudi Finance Real Estate	40.0	Egypt	-	1,239	1,239	
Insurance						
Aman Takaful Insurance	38.7	Lebanon	758	-	758	
BEST Lease	28.0	Tunisia	3,273	-	3,273	
			4,459	1,239	5,698	
			4,459	19,641	24,100	

During 2008, BEST Bank entered into an agreement with AlTawfeek Investment Company for selling off shares in BEST Lease. This sale was approved by the Board of Directors of BEST Bank on 28 May 2008. The reduction in ownership percentage of the Group has resulted in a loss of control over BEST Lease. Consequently, BEST Lease is an associate of the Group.

6 INVESTMENTS (continued)

6.2 Investment in associates

	Ownership % 2007	Country of incorporation	2007 Self financed US$ '000	2007 Jointly financed US$ '000	2007 Total US$ '000	2007 Market value US$ '000
Quoted						
Investment Banking Al Amin for Investment	32.2	Jordan	-	7,001	7,001	8,774
Insurance The Islamic Insurance Company	35.3	Jordan	-	5,977	5,977	6,130
Others Jordan International Trading Centre	28.4	Jordan	-	2,408	2,408	5,357
			-	15,386	15,386	20,261
Unquoted						
Real Estate Baraka Development Immobile	20.0	Algeria	1,019	-	1,019	
Egyptian Saudi Finance Real Estate	40.0	Egypt	-	412	412	
Insurance Aman Takaful Insurance	38.7	Lebanon	825	-	825	
			1,844	412	2,256	
			1,844	15,798	17,642	

6.3 Trading securities

	2008 Self financed US$ '000	2008 Jointly financed US$ '000	2008 Total US$ '000	2007 Self financed US$ '000	2007 Jointly financed US$ '000	2007 Total US$ '000
Quoted equities	7,975	17,225	25,200	3,568	23,683	27,251

6 INVESTMENTS (continued)

6.4 Available for sale investments

	2008			2007		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Managed funds	5,860	23,611	29,471	7,475	36,164	43,639
Equities and sukook	1,775	80,234	82,009	8,968	126,655	135,623
	7,635	103,845	111,480	16,443	162,819	179,262
Unquoted investments at cost						
Managed funds	401	23,574	23,975	-	4,434	4,434
Equities and sukook	99,862	64,112	163,974	94,617	22,849	117,466
	100,263	87,686	187,949	94,617	27,283	121,900
Provisions (note 20)	(4,532)	(494)	(5,026)	(4,850)	(284)	(5,134)
	103,366	191,037	294,403	106,210	189,818	296,028

6.5 Held to maturity investments

	2008			2007		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Unquoted investments at cost						
Sukook and similar items	26,640	334,405	361,045	6,619	291,789	298,408

7 IJARAH MUNTAHIA BITTAMLEEK

	2008			2007		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Cost	43,958	501,333	545,291	87,549	487,311	574,860
Accumulated depreciation:	(26,861)	(213,606)	(240,467)	(18,833)	(207,390)	(226,223)
Net book value	17,097	287,727	304,824	68,716	279,921	348,637

8 PROPERTY AND EQUIPMENT

	Land and buildings US$ '000	Office furniture and equipment US$ '000	Vehicles US$ '000	Others US$ '000	Total US$ '000
Cost:					
At 1 January 2008	149,030	103,904	11,791	16,551	281,276
Additions	23,863	13,155	2,182	6,553	45,753
Disposals	(21,847)	(5,700)	(3,613)	(120)	(31,280)
Foreign exchange translations	(9,536)	(9,348)	(1,115)	(3,378)	(23,377)
At 31 December 2008	141,510	102,011	9,245	19,606	272,372
Depreciation:					
At 1 January 2008	34,814	68,460	6,371	7,806	117,451
Provided during the year (note 18)	3,671	8,343	1,473	2,681	16,168
Disposals	(4,168)	(3,645)	(2,668)	(32)	(10,513)
Foreign exchange translations	(3,323)	(5,658)	(562)	(1,541)	(11,084)
At 31 December 2008	30,994	67,500	4,614	8,914	112,022
Net book values:					
At 31 December 2008	**110,516**	**34,511**	**4,631**	**10,692**	**160,350**
At 31 December 2007	114,216	35,444	5,420	8,745	163,825

9 OTHER ASSETS

	2008 US$ '000	**2007 US$ '000**
Bills receivables	143,415	132,188
Goodwill 9(a)	46,906	44,344
Collateral pending sale	34,960	18,704
Prepayments	9,792	7,857
Deferred taxation	18,800	11,831
Good Faith Qard Fund	23,903	13,605
Intangible assets	5,770	4,038
Others	50,422	47,619
Total	333,968	280,186
Provisions (note 20)	(16,249)	(9,783)
	317,719	270,403

9 OTHER ASSETS (continued)

9 (a) GOODWILL

	2008 US$ '000	2007 US$ '000
Cost:		
At 1 January	44,344	47,227
Additions	8,699	5,206
Disposal made during the year (note 21)	-	(8,089)
Impairment	(2,631)	-
Foreign exchange translations	(3,506)	-
	46,906	44,344

Goodwill acquired through business combinations with indefinite lives have been allocated to three individual cash-generating units. The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2008 US$ '000	2007 US$ '000
Albaraka Turk Participation Bank	32,578	31,911
Egyptian Saudi Finance Bank	2,522	5,044
Jordan Islamic Bank	11,806	7,389
	46,906	44,344

10 OTHER LIABILITIES

	2008 US$ '000	2007 US$ '000
Payables	183,046	150,155
Cash margins	84,266	117,173
Other provisions (note 20)	7,151	10,448
Current taxation *	56,298	32,214
Deferred taxation *	20,328	16,277
Accrued expenses	35,024	30,579
Charity fund	10,961	10,026
Others	100,697	83,011
	497,771	449,883

* In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates.

11 UNRESTRICTED INVESTMENT ACCOUNTS (URIA)

	2008 US$ '000	2007 US$ '000
Unrestricted investment accounts	6,662,657	6,144,231
Profit equalisation reserve (note 11.1)	2,271	2,236
Investment risk reserve (note 11.2)	58,371	53,190
Cumulative changes in fair value attributable to unrestricted investment accounts (11.3)	9,442	23,164
	6,732,741	6,222,821

11.1 Movement in profit equalisation reserve

	2008 US$ '000	2007 US$ '000
Balance at 1 January	2,236	207
Amount apportioned from income allocable to unrestricted investment account holders	279	1,942
Amount used during the period	(130)	-
Foreign exchange translations	(114)	87
Balance at 31 December	2,271	2,236

11.2 Movement in investment risk reserve

	2008 US$ '000	2007 US$ '000
Balance at 1 January	53,190	43,453
Amount appropriated to provision (note 20)	(12,721)	(2,949)
Amount apportioned from income allocable to unrestricted investment account holders	23,915	9,727
Foreign exchange translations	(6,013)	2,959
Balance at 31 December	58,371	53,190

11.3 Movement in accumulated fair value adjustments

	2008 US$ '000	2007 US$ '000
Balance at 1 January	23,164	24,284
Change in fair values attributable to unrestricted investment accounts	15,126	1,578
Disposals - net	(28,848)	(2,698)
	9,442	23,164
Attributable to investment properties	15,359	16,952
Attributable to available for sale	(5,917)	6,212
	9,442	23,164

12 EQUITY

The Bank issued bonus shares at one bonus share for each 14 (2007: 30) shares held following shareholders' approval and the Board of Directors' resolution in its meeting held in March 21, 2008. This was also approved by the Ministry of Industry and Commerce and the CBB.

	2008 US$ '000	2007 US$ '000
Share capital		
Authorised 1,500,000,000 shares of US$ 1 each	1,500,000	1,500,000

	2008 US$ '000	2007 US$ '000
Issued and fully paid up		
At beginning of the year		
651,000,000 (2007: 630,000,000) shares of US$1 each	651,000	630,000
Issued during the year		
46,500,000 Bonus shares (2007: 21,000,000) of US$1 each	46,500	21,000
At end of the year		
697,500,000 (2007: 651,000,000) shares of US$1 each	697,500	651,000

Additional information on shareholding pattern

i) Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

Names	Nationality	No. of shares	% Holding
Saleh Abdulla Kamel	Saudi	**210,020,551**	30.11%
Dallah AlBaraka Holding Company E.C.	Bahraini	**171,835,448**	24.64%
Altawfeek Company For Investment Funds	Cayman Island	**144,057,934**	20.65%
Abdulla AbdulAziz AlRajihi	Saudi	**47,490,223**	6.81%

At 31 December 2007

Names	Nationality	No. of shares	% Holding
Saleh Abdulla Kamel	Saudi	196,019,181	30.11%
Dallah AlBaraka Holding Company E.C.	Bahraini	160,379,752	24.64%
Altawfeek Company For Investment Funds	Cayman Island	134,828,537	20.71%
Abdulla AbdulAziz AlRajihi	Saudi	44,324,209	6.81%

ii) The Bank has only one class of shares and the holders of these shares have equal voting rights.

12 EQUITY (continued)

Additional information on shareholding pattern (continued)

iii) Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

At 31 December 2008

Categories:	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	37,688,446	1,141	5.40%
1% up to less than 5%	86,407,398	8	12.39%
5% up to less than 10%	47,490,223	1	6.81%
20% up to less than 50%	525,913,933	3	75.40%
	697,500,000	1,153	100.00%

At 31 December 2007

Categories:	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	34,281,897	1,348	5.26%
1% up to less than 5%	81,166,424	8	12.47%
5% up to less than 10%	44,324,209	1	6.81%
20% up to less than 50%	491,227,470	3	75.46%
	651,000,000	1,360	100.00%

a. Share premium/Equity transaction cost

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue costs, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law.

Equity transaction cost, represent costs incurred by the Bank that are directly related to raising capital and have been incurred in cash.

The Bank proposed issuance of bonus shares from the share premium at one bonus share for each 15 shares held. This will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

b. Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital.

c. Cumulative changes in fair values

This represents the net unrealised fair value gains relating to the equity of the parent on available-for-sale investments and investment properties.

d. Foreign currency translations

The foreign currency translations are used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

12 EQUITY (continued)

e. Other reserves

Other reserves mainly consist of general banking risk reserves maintained by the subsidiaries in accordance with local regulations.

f. Proposed Appropriations

	2008 US$ '000	2007 US$ '000
Cash dividend 4% (2007: 9%)	27,900	58,590
Bonus shares	46,500	46,500
Directors' remuneration	500	500
	74,900	105,590

The above proposed appropriations will be submitted for formal approval at the Annual General Meeting subject to regulatories approval.

The proposed appropriations for the year 2007 was approved at the Annual General Meeting on March 26, 2008 and was effected in 2008 following that approval.

g. Net movement in non-controlling interest

This mainly includes the effect of changes in capital of subsidiaries, buying (selling) by the non-controling interest from (to) the Bank, and effects of deconsolidation of BEST Lease (see note 6.2).

13 CAPITAL ADEQUACY

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Bank's capital structure is primarily made of its paid-up capital, including the share premium and reserves, and the unrestricted investment account. From regulation's perspective, the significant amount of the Bank's capital are in tier I form as defined by the CBB, i.e., most of the consolidated capital are in permanent form of nature.

13 CAPITAL ADEQUACY (continued)

The classification of the Bank's capital in accordance to the regulatory requirements is as follows:

	2008 US$ '000	2007 US$ '000
Tier 1 Capital Components		
Paid up share capital	697,500	651,000
Share premium	192,390	238,890
Statutory reserve	33,810	22,440
General (disclosed) reserve	29,650	1,520
Non-controlling interest in consolidated subsidiaries	419,479	425,895
Retained earning brought forward *	54,199	79,882
Current year's retained profit	113,698	144,148
Less: goodwill	(46,906)	(44,344)
Total Tier 1 Capital component	1,493,820	1,519,431
Tier 2 Capital Components		
Profit equalization reserve	2,271	2,236
Unrealized gains arising from fair valuing equities (45% only)	4,246	2,647
Investment risk reserve	58,371	53,190
Total Tier 2 Capital Component	64,888	58,073
Total Eligible Capital	1,558,708	1,577,504

* This includes net movement in other reserves, transfer to statutory reserve and foreign currency translations.

To assess its capital adequacy requirements in accordance to the CBB requirements, the Group adopts the standardized approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardized Measurement Approach for its Market Risk. To calculate its capital adequacy, the Group follows the accepted approaches approved by the CBB Rulebook in this respect. The Group aggregates the total risk weighted assets of its subsidiaires in Jordan and Turkey and consolidates the other subsidairies. The Group strives to sustain reasonably higher capital cushion that strikes the balance between its business conduct and the regulatory requirements stipulated in the CBB capital adequacy requirements as a minimum accepted level of capital adequacy. The capital requirements for these risks are as follows:

	2008 US$ '000	2007 US$ '000
Total Credit Risk Weighted Assets	5,370,040	4,051,904
Total Market Risk Weighted Assets	611,870	921,858
Total Operational Risk Weighted Assets	856,183	810,232
Total Regulatory Risk Weighted Assets (RWA)	6,838,093	5,783,994

13 CAPITAL ADEQUACY (continued)

The Credit Risk Weighted Assets (RWA) by type of Islamic financing are as follows:

	2008 US$ '000	2007 US$ '000
Receivables	3,730,912	3,238,856
Mudaraba and Musharaka financing	662,444	576,038
Investments	466,921	411,384
Ijarah Muntahia Bittamleek	200,637	178,162
Other assets	309,126	201,600
Capital Adequacy Ratio (CAR)	22.79%	27.27%

The Group's Subsidiaries CAR

The following Capital Adequacy Ratios were prepared based on Central Bank of Bahrain requirements, which may differ form the local requirements of the countries in which the subsidiaries operate:

	2008	2007
Head Office	102%	173%
Banque Albaraka D'Algérie	22%	19%
Albaraka Islamic Bank - Bahrain	26%	20%
Bank Et-Tamweel Al-Tunisi Al-Saudi	23%	32%
Egyptian Saudi Finance Bank	12%	37%
Albaraka Bank Lebanon	54%	12%
Jordan Islamic Bank	30%	27%
Albaraka Turk Participation Bank	19%	19%
Albaraka Bank Limited	29%	30%
Albaraka Bank Sudan	18%	15%

Legal Restrictions on capital and income mobility

There are no major restrictions in distributing profits by the subsidiaries to the Bank. Such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure, a prior written approval has to be obtained from the CBB for increasing investments in the subsidiaries.

14 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2008 US$ '000	2007 US$ '000
Receivables (note 14.1)	718,624	521,468
Mudaraba and Musharaka financing (note 14.2)	38,282	26,932
Investments (note 14.3)	66,059	59,575
Ijarah Muntahia Bittamleek (note 14.4)	24,758	28,842
Others	15,159	18,129
	862,882	654,946
Net income from jointly financed contracts and investments	725,866	567,533
Net income from self financed contracts and investments	137,016	87,413
	862,882	654,946

14 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS (continued)

14.1 Receivables

	2008 US$ '000	2007 US$ '000
Sales (Murabaha) receivables	709,519	514,071
Salam receivables	7,811	6,146
Istisna'a receivables	1,294	1,251
	718,624	521,468

14.2 Mudaraba and Musharaka financing

	2008 US$ '000	2007 US$ '000
Mudaraba financing	13,899	15,903
Musharaka financing	24,383	11,029
	38,282	26,932

14.3 Investments

	2008 US$ '000	2007 US$ '000
Available for sale investments	44,540	33,538
Held to maturity investments	27,130	19,697
Unrealised (loss) gain on trading securities	(17,700)	407
Gain on sale of trading securities	986	924
Investment properties	3,505	3,809
Investment in associates	7,598	1,200
	66,059	59,575

14.4 Ijarah Muntahia Bittamleek

	2008 US$ '000	2007 US$ '000
Income from Ijarah Muntahia Bittamleek	122,697	135,707
Less: Depreciation on Ijarah Muntahia Bittamleek (note 7)	(97,939)	(106,865)
	24,758	28,842

15 RETURN ON UNRESTRICTED INVESTMENT ACCOUNTS

Group's share as a Mudarib is determined at the level of each subsidiary and is based on the terms and conditions of the related agreements.

16 OTHER FEES AND COMMISSION INCOME

	2008 US$ '000	2007 US$ '000
Fees and commissions	63,553	68,268
Letters of credit	24,818	29,226
Guarantees	23,372	12,956
Acceptances	4,190	1,785
	115,933	112,235

17 OTHER OPERATING INCOME

	2008 US$ '000	2007 US$ '000
Foreign exchange gain	34,454	16,321
Gain on sale of property and equipment	1,243	133
Others	19,829	21,858
	55,526	38,312

18 DEPRECIATION AND AMORTISATION

	2008 US$ '000	2007 US$ '000
Property and equipment (note 8)	16,168	15,841
Amortisation of intangible assets	1,450	2,268
	17,618	18,109

19 OTHER OPERATING EXPENSES

	2008 US$ '000	2007 US$ '000
General and administration	68,690	49,529
Business	11,056	14,445
Premises	19,780	20,585
	99,526	84,559

20 PROVISIONS

	Sales (Murabaha) receivables US$ '000	Ijarah receivables US$ '000	Salam receivables US$ '000
2008			
Provisions at 1 January	171,842	3,482	7,600
Charged during the year	61,510	1,227	1,282
Written back during the year	(20,363)	(72)	(4,045)
	41,147	1,155	(2,763)
	212,989	4,637	4,837
Written off during the year	(11,149)	(1,397)	-
Amount appropriated from investment risk reserve (note 11.2)	6,134	-	-
Foreign exchange translations	(11,431)	(38)	(371)
Provisions at 31 December	196,543	3,202	4,466
Notes	4.1	4.2	4.3
2007			
Provisions at 1 January	147,648	3,328	6,093
Charged during the year	24,564	139	833
Written back during the year	(10,925)	-	-
	13,639	139	833
	161,287	3,467	6,926
Written off during the year	(2,375)	-	-
Amount appropiated from investment risk reserve Foreign	2,949	-	-
exchange translations	9,981	15	674
Provisions at 31 December	171,842	3,482	7,600
Notes	4.1	4.2	4.3

20 PROVISIONS (continued)

Istisna'a receivables US$ '000	Mudaraba financing US$ '000	Musharaka financing US$ '000	Investments US$ '000	Other assets US$ '000	Other provisions US$ '000	Total US$ '000
186	561	2,082	5,134	9,783	10,448	211,118
111	-	994	1,486	6,936	3,137	76,683
(48)	-	(122)	(116)	(3,176)	(298)	(28,240)
63	-	872	1,370	3,760	2,839	48,443
249	561	2,954	6,504	13,543	13,287	259,561
-	-	(183)	(1,272)	(3,336)	(6,152)	(23,489)
-	-	(45)	-	6,632	-	12,721
(13)	-	(330)	(206)	(590)	16	(12,963)
236	561	2,396	5,026	16,249	7,151	235,830
4.4	5.1	5.2	6.4	9	10	
272	561	1,260	4,589	8,813	10,600	183,164
9	-	503	832	302	8,073	35,255
-	-	-	-	(211)	(2)	(11,138)
9	-	503	832	91	8,071	24,117
281	561	1,763	5,421	8,904	18,671	207,281
-	-	-	-	-	(8,365)	(10,740)
-	-	-	-	-	-	2,949
(95)	-	319	(287)	879	142	11,628
186	561	2,082	5,134	9,783	10,448	211,118
4.4	5.1	5.2	6.4	9	10	

20 PROVISIONS (continued)

These provisions relate to the following geographical areas:

	Sales (Murabaha) receivables US$ '000	Ijarah receivables US$ '000	Salam receivables US$ '000	Istisna'a receivables US$ '000	Mudaraba financing US$ '000	Musharaka financing US$ '000	Investments US$ '000	Other assets US$ '000	Other provisions US$ '000	Total US$ '000
2008										
Middle East	114,101	2,046	-	-	-	879	1,732	8,162	6,965	133,885
North Africa	31,003	1,156	4,443	33	561	-	2,686	4,324	186	44,392
Europe	42,477	-	-	-	-	-	608	344	-	43,429
Others	8,962	-	23	203	-	1,517	-	3,419	-	14,124
Total	**196,543**	**3,202**	**4,466**	**236**	**561**	**2,396**	**5,026**	**16,249**	**7,151**	**235,830**
2007										
Middle East	101,640	3,482	-	-	-	439	1,584	1,828	9,962	118,935
North Africa	34,335	-	7,578	61	561	-	2,627	5,081	486	50,729
Europe	28,311	-	-	-	-	-	923	370	-	29,604
Others	7,556	-	22	125	-	1,643	-	2,504	-	11,850
Total	171,842	3,482	7,600	186	561	2,082	5,134	9,783	10,448	211,118

21 PROFIT ON DEEMED DISPOSAL OF A SUBSIDIARY

This relates to the reduction of the Bank's shareholding in Albaraka Turk Participation Bank due to an initial public offering (IPO) in which the Bank did not participate. As a result of this, the Bank's shareholding reduced from 67.8% to 54.1% and a gain of US$ 54,179 thousand was recognised after adjusting for goodwill and foreign currency reserve as follows:

	2007 US$ '000
Gross gain	55,817
Share of foreign exchange reserve	6,451
Reduction of goodwill	(8,089)
	54,179

22 BASIC AND DILUTED EARNINGS PER SHARE

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

	2008	2007
Net income attributable to the equity shareholders of the parent for the year - US$ '000	113,698	144,148
Weighted average number of shares outstanding during the year (in thousands)	697,500	697,500
Earnings per share - US cents	16	21

The weighted average number of shares of the previous year has been adjusted on account of the bonus issue made in 2008 and 2007.

23 CASH AND CASH EQUIVALENTS

	2008 US$ '000	2007 US$ '000
Balances with central banks excluding mandatory reserve	768,641	802,296
Balances with other banks	756,295	770,060
Cash and cash in transit	210,714	164,692
	1,735,650	1,737,048

24 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 are as follows:

	2008 US$ '000	2007 US$ '000
Net income from jointly financed contracts and investments	4,618	1,350
Net income from self financed financing and investments	1,137	2,012
Return on unrestricted investment accounts	210	135
Other operating income	157	-

The significant balances with related parties at 31 December were as follows:

	2008 US$ '000	2007 US$ '000
Assets:		
Cash and balances with banks	1,612	581
Receivables	34,608	1,856
Mudaraba and Musharaka financing	9,724	27,708
Ijarah Muntahia Bittamleek	262	-
Investments	85,668	84,508
Other assets	9,020	9,828
Liabilities:		
Customer current and other accounts	1,992	3,205
Other Liabilities	1,825	1,850
Unrestricted investment accounts	4,673	10,956
Restricted investment accounts	14,226	11,081

All related party exposures are performing and are free of any provision for possible credit losses.
Details of Directors' interests in the Bank's shares as at the end of the year were:

	2008		2007	
	No. of shares	No. of directors	No. of shares	No. of directors
Categories:				
Less than 1%	317,002	3	379,584	3
20% up to less than 50%	210,020,551	1	196,019,181	1
	210,337,553	4	196,398,765	4

24 RELATED PARTY TRANSACTIONS (continued)

Intragroup Transactions as of 31 December 2008

	Head Office US$ '000	Bank Albaraka D'Algérie US$ '000	Albaraka Bank Sudan US$ '000	Albaraka Islamic Bank Bahrain US$ '000
Intragroup Account				
Assets				
Cash and balances with banks	1,000	-	-	19,107
Receivables	1,000	-	-	19,107
Mudaraba and Musharaka financing	-	-	13,000	15,111
Investments	-	-	13,000	15,111
Ijarah Muntahia Bittamleek	-	19,651	19,306	144,024
Property and equipment	-	-	-	-
Other Assets	-	-	-	-
Liabilities				
Customer current and other accounts	-	-	-	-
Due to banks	-	-	-	-
Other liabilities	5,324	-	3,090	654
Unrestricted Investment Accounts	34,090	-	3,530	-
Restricted Investment Accounts	15,166	-	5,217	-

24 RELATED PARTY TRANSACTIONS (continued)

Egyptian Saudi Finance Bank US$ '000	Jordan Islamic Bank US$ '000	Albaraka Bank Lebanon US$ '000	Albaraka Bank ltd US$ '000	Albaraka Turk US$ '000	Bank Et-Tamweel Al-Tunisi Al-Saudi US$ '000	Total US$ '000
5,026	390	-	-	12,007	1,661	39,191
5,026	390	-	-	12,007	1,661	39,191
20,000	-	-	71,170	10,000	-	129,281
20,000	-	-	71,170	10,000	-	129,281
56,201	87,775	35,526	11,732	123,273	47,661	545,149
-	-	-	-	-	1,888	1,888
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	500	-	-	-	500
3,194	5,713	-	-	32	1	18,008
3,000	14,653	-	-	-	61,023	116,296
5,055	7,055	-	-	-	15,283	47,776

25 COMMITMENTS

	2008 US$ '000	2007 US$ '000
Letters of credit	511,961	435,121
Guarantees	1,898,406	1,070,987
Acceptances	43,910	47,475
Undrawn Commitments	132,988	73,277
Others	59,331	50,714
	2,646,596	1,677,574

26 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The management committee and executive committees guide and assist with overall management of the Group's balance sheet risks. The Group manages exposures by setting limits approved by the Board of Directors. These risks and the processes to mitigate these risks have not significantly altered from the previous year.

The Group's Risk Management has the following objectives:

a. Unified Groupwide risk management to enable the Group to produce risk adjusted return on capital.
b. Creation of professional risk management culture throughout the Group with prudent, disciplined approach to risk taking based on comprehensive Groupwide policies, processes and limits.
c. Professionally qualified staff and ongoing credit training.
d. Investing in technology and systems for best practice risk management.
e. Throughout the Group, strict segregation of duties and reporting lines between personnel transacting business and personnel processing that business.
f. Strict compliance with all Shari'a and legal requirements and regulatory directives.
g. Maintaining clear, well documented policies via Group Risk Management Manual and also Risk Management Manuals by each of the Group's subsidiaries which incorporate the uniform policies and procedures of the Group in addition to the local requirements.

a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. Each of the Group's subsidiaries has a documented and implemented domestic and foreign currency liquidity policies and procedures appropriate to the nature and complexity of its business. The policy addresses the subsidiaries' goal of protecting financial strength even for stressful events. The liquidity management policy at a minimum includes the following:

a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.
b. Establish approval processes to ensure adherence to liquidity risk management processes.
c. Require periodic calculations to determine the extent to which the subsidiary is funding long-term assets with short-term liabilities.
d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.
e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

26 RISK MANAGEMENT (continued)

i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the Group's subsidiaries manage their assets and liquidity profile to mitigate the risk; and

ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the Group's subsidiaries conduct an impact analysis on its dependency on any such concentrations.

f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.
g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.
h. Establish a framework for the composition of assets.
i. Assess the acceptable mismatch in combination with currency commitments. The Group's subsidiaries undertake separate analyses of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

The table next page summarises the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its investment account holders and the availability of bank lines.

26 RISK MANAGEMENT (continued)

The consolidated maturity profile at 31 December 2008 was as follows:

	Up to 1 Month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000	6 months to 1 year US$ '000
ASSETS				
Cash and balances with banks	1,486,481	249,169	-	-
Receivables	1,077,760	841,476	654,684	733,030
Musharaka and Mudaraba financing	152,710	187,926	96,454	50,911
Investments	348,970	34,955	113,655	84,219
Ijarah Muntahia Bittamleek	9,929	7,934	11,552	21,222
Property and equipment	-	-	-	537
Other assets	116,023	6,825	5,433	1,383
Total assets	3,191,873	1,328,285	881,778	891,302
LIABILITIES				
Customer current and other accounts	1,003,862	140,332	95,587	72,588
Due to banks	40,852	5,006	15,002	-
Other liabilities	224,271	41,531	1,901	52,386
Total Liabilities	1,268,985	186,869	112,490	124,974
Unrestricted investment accounts	2,080,678	1,167,308	836,467	1,361,141
Total liabilities and unrestricted investment accounts	3,349,663	1,354,177	948,957	1,486,115
Net liquidity gap	(157,790)	(25,892)	(67,179)	(594,813)
Cumulative net liquidity gap	(157,790)	(183,682)	(250,861)	(845,674)

The consolidated maturity profile at 31 December 2007 was as follows:

	Up to 1 Month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000	6 months to 1 year US$ '000
ASSETS				
Cash and balances with banks	1,497,837	239,211		-
Receivables	1,230,220	893,860	860,922	930,704
Musharaka and Mudaraba financing	189,955	121,440	77,577	86,380
Investments	236,798	51,816	51,067	35,714
Ijarah Muntahia Bittamleek	24,760	14,890	25,518	57,262
Property and equipment	-	-	-	-
Other assets	128,870	10,030	14,221	6,816
Total assets	3,308,440	1,331,247	1,029,305	1,116,876
LIABILITIES				
Customer current and other accounts	1,507,365	30,852	103,691	63,931
Due to banks	34,636	6,921	24,468	-
Other liabilities	227,771	18,486	16,238	23,629
Total Liabilities	1,769,772	56,259	144,397	87,560
Unrestricted investment accounts	2,922,450	865,644	568,759	924,025
Total liabilities and unrestricted investment accounts	4,692,222	921,903	713,156	1,011,585
Net liquidity gap	(1,383,782)	409,344	316,149	105,291
Cumulative net liquidity gap	(1,383,782)	(974,438)	(658,289)	(552,998)

26 RISK MANAGEMENT (continued)

1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	Over 10 years US$ '000	Undated US$ '000	Total US$ '000
-	-	-	-	618,202	2,353,852
1,615,332	1,215,360	40,260	10,317	-	6,188,219
44,772	218,969	7,289	38,927	-	797,958
29,862	64,459	4,098	100,065	17,083	797,366
72,969	25,615	44,862	110,741	-	304,824
567	14,848	21,635	4,596	118,167	160,350
20,118	149,401	18,517	19	-	317,719
1,783,620	1,688,652	136,661	264,665	753,452	10,920,288
291,583	62,507	412,296	-	-	2,078,755
-	-	-	-	-	60,860
15,415	22,501	139,766	-	-	497,771
306,998	85,008	552,062	-	-	2,637,386
780,587	497,947	8,613	-	-	6,732,741
1,087,585	582,955	560,675	-	-	9,370,127
696,035	1,105,697	(424,014)	264,665	753,452	1,550,161
(149,639)	956,058	532,044	796,709	1,550,161	

1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	Over 10 years US$ '000	Undated US$ '000	Total US$ '000
-	-	-	-	544,079	2,281,127
1,072,269	624,157	7,148	2,200	-	5,621,480
102,193	127,820	1,906	187	-	707,458
48,884	-	-	4,968	281,802	711,049
138,595	87,612	-	-	-	348,637
-	-	-	-	163,825	163,825
3,872	106,594	-	-	-	270,403
1,365,813	946,183	9,054	7,355	989,706	10,103,979
43,376	43,375	-	-	-	1,792,590
-	-	3,002	-	-	69,027
98,151	5,758	59,850	-	-	449,883
141,527	49,133	62,852	-	-	2,311,500
574,606	365,400	1,937	-	-	6,222,821
716,133	414,533	64,789	-	-	8,534,321
649,680	531,650	(55,735)	7,355	989,706	1,569,658
96,682	628,332	572,597	579,952	1,569,658	

26 RISK MANAGEMENT (continued)

b) Credit risk
Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

Type of credit risk
Financing contracts mainly comprise Sales (Murabaha) receivables, Salam receivables, Istisna'a receivables, Mudaraba financing, Musharaka financing and Ijarah Muntahia Bittamleek.

Sales (Murabaha) receivables
The Group finances these transactions through buying a commodity which represents the object of the murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in instalments by the murabeh over the agreed period. The transactions are secured at times by the object of the murabaha (in case of real estate finance) and other times by a total collateral package securing the facilities given to the client.

Salam receivables
Salam is a contract whereby the Group makes an immediate payment to a seller for the future delivery of a commodity. To protect itself from risk associated with the commodity the Group simultaneously enters into Parallel Salam contract whereby it sells the commodity for deferred delivery for immediate payment.

Istisna'a receivables
Istisna'a is a sale agreement between the Group as the seller and the customer as the ultimate purchaser whereby the Group undertakes to have manufactured or acquire a commodity and sell it to the customer for an agreed upon price on completion at future date.

Mudaraba financing
The Group enters into mudaraba contracts by investing in funds operated primarily by other banks and financial institutions for a definite period of time.

Musharaka financing
An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

Ijarah Muntahia Bittamleek
This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease) term, provided that all Ijarah instalments are settled.

General credit policies and guiding principles
The following principles summarise the Group's financing and investing policies and form the framework of all financing decisions:

1) Financing will be extended when the Group can confidently expect that it will be repaid by the customer as agreed. This necessitates a thorough knowledge of the customer and clear understanding of the risks underlying the credit requests.
2) Financing should be extended where there are at least two clear sources of repayments.

26 RISK MANAGEMENT (continued)

b) Credit risk (continued)

3) It is generally preferred that the repayments are from cash generated by the customers' productive and ongoing income or activities.
4) Amounts, profits/other charges and terms under the prevailing market conditions for any proposed financing are to be consistent with the perceived quality of the risk being undertaken.
5) Financing should generally be extended where the Group's seniority as creditors is pari passu or better than any other financing.
6) Financing should be structured appropriately considering the purpose of the credit and the source of repayment.
7) Financing needs to be assessed on a stand alone basis as well as on portfolio basis to assess its impact on the total financing portfolio.
8) Compliance with all applicable local statutory and regulatory directives guidelines should be ensured in all cases.
9) Propriety and ethical standards should be taken into account in all financing decisions.

The gross funded exposures at 31 December 2008 were as follows:

	Gross FundedExposures (before Credit Risk Mitigation) US$'000
Islamic Products	
Receivables	6,392,666
Mudaraba and Musharaka financing	800,915
Investments	802,392
Ijarah Muntahia Bitamleek	304,824

The year end position of the above exposures and the related risks are representative of the risk positions of the Group throughout the year. No average exposures are presented.

The above credit exposures relate to the following geographical areas:

	Receivables US$ '000	**Mudaraba and Musharaka financing US$ '000**	**Investments US$ '000**	**Ijarah Muntahia Bittamleek US$ '000**	**Total US$ '000**
Middle East	2,783,483	627,625	679,432	197,903	4,288,443
North Africa	1,014,017	62,843	11,875	41,593	1,130,328
Europe	2,404,744	19,538	9,866	65,328	2,499,476
Others	190,422	90,909	101,219	-	382,550
Total	6,392,666	800,915	802,392	304,824	8,300,797

	Net Credit Exposures			
Islamic Products	**Outstanding Amount US$'000**	**Provision US$'000**	**Collateral US$'000**	**Net Exposure US$'000**
Receivables	6,392,666	204,447	1,111,562	5,076,657
Mudaraba and Musharaka Financing	800,915	2,957	19,670	778,288
Investments	802,392	5,026	-	797,366
Ijarah Muntahia Bitamleek	304,824	-	220,911	83,913
Total	8,300,797	212,430	1,352,143	6,736,224

26 RISK MANAGEMENT (continued)

b) Credit risk (continued)

The exposures by counterparty type at 31 December 2008 were as follows:

	Exposures by Counterparty Type Funded			
	Receivables US$'000	Mudaraba and Musharaka financing US$'000	Investments US$'000	Ijarah Muntahia Bittamleek US$'000
Counterparty type				
Claims on multi-lateral development banks	-	-	565,155	137
Claims on investment firms	7,713	-	-	-
Claims on banks	180,835	-	758	-
Claims on corporates	295,387	676,381	-	42,324
Claims on retails	4,078,037	11,404	13,930	127,983
Past dues receivables	1,514,106	-	-	134,380
Equity investment	316,588	-	-	-
Sukuk	-	113,130	104,664	-
Investment in Funds	-	-	68,670	-
Other assets	-	-	49,215	-
Total	6,392,666	800,915	802,392	304,824

Large Credit Exposures

The Group follows the CBB's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

		Largest Exposure (Banks) US$ '000	% of Exposures to Eligible Capital		Largest Exposure (Non-Banks) US$ '000	% of Exposures to Eligible Capital
1	Bank A	146,202	9.1%	Customer A	88,987	5.5%
2	Bank B	54,834	3.4%	Customer B	58,932	3.6%
3	Bank C	53,325	3.3%	Customer C	51,317	3.2%
4	Bank D	32,419	2%	Customer D	42,909	2.6%
5	Bank E	29,619	1.8%	Customer E	42,331	2.6%
6	Bank F	29,460	1.8%	Customer F	34,074	2.1%
7	Bank G	29,219	1.8%	Customer G	30,528	1.9%
8	Bank H	25,390	1.6%	Customer H	28,981	1.8%
9	Bank I	23,842	1.5%	Customer I	24,958	1.5%
10	Bank J	23,014	1.4%	Customer J	23,047	1.4%
11	Bank K	22,179	1.4%	Customer K	22,826	1.4%
12	Bank L	22,087	1.4%	Customer L	21,775	1.3%
13	Bank M	20,943	1.3%	Customer M	20,750	1.3%
14	Bank N	17,321	1.1%	Customer N	20,550	1.3%
15	Bank O	14,993	0.9%	Customer O	19,762	1.2%
16	Bank P	14,762	0.9%	Customer P	19,538	1.2%
17	Bank Q	14,001	0.9%	Customer Q	19,170	1.2%
18	Bank R	13,921	0.9%	Customer R	19,168	1.2%
19	Bank S	12,463	0.8%	Customer S	19,074	1.2%
20	Bank T	12,271	0.8%	Customer T	19,007	1.2%
21	Bank U	11,021	0.7%	Customer U	18,100	1.1%
22	Bank V	10,973	0.7%	Customer V	17,723	1.1%
23	Bank W	10,171	0.6%	Customer W	17,633	1.1%
24	Bank X	9,858	0.6%	Customer X	17,265	1.1%
25	Bank Y	9,619	0.6%	Customer Y	17,251	1.1%
Total		663,907		Total	715,656	

26 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Largest Non-performing Credit Facilities

The Group defines non-performing facilities as the facilities that are overdue for period of 90 or more days. These exposures are placed on a non-accrual status with income being recognized to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 or more days, the whole financing facility extended is considered as past due, not only the overdue instalments/payments.

				2008		
Customer		Country	Sector US$ '000	Outstanding balance US$ '000	Collateral US$ '000	Provision US$ '000
1	A	Egypt	Trade	9,785	-	-
2	B	Saudi Arabia	Trade	9,469	-	3,212
3	C	Egypt	Trade	8,788	-	4,393
4	D	Egypt	Trade	8,014	-	-
5	E	Egypt	Trade	6,491	-	-
6	F	Egypt	Trade	6,056	-	-
7	G	Saudi Arabia	Trade	4,482	1,300	741
8	H	Saudi Arabia	Trade	4,379	6,515	189
9	I	Pakistan	Manufacturing	3,540	-	712
10	J	Syria	Manufacturing	3,313	8,700	4,358
				64,317	16,515	13,605

Aging of Non-Performing Facilities

Aging of non-performing facilities as of 31 December 2008 was as follows:

Country	Less than 6 Months US$ '000	6-12 Months US$ '000	1-3 Years US$ '000	More than 3 Years US$ '000	Total US$ '000
Bahrain	-	-	-	172	**172**
Jordan	25,855	5,868	12,311	3,588	**47,622**
Lebanon	14,220	30	157	96	**14,503**
Saudi Arabia	11,212	1,696	4,129	13,041	**30,078**
Other GCC	-	-	-	26	**26**
Egypt	-	-	-	148,751	**148,751**
Other M.East	860	1,242	1,211	561	**3,874**
Turkey	31,031	18,296	10,270	9,318	**68,915**
Sudan	2,368	1,063	6,591	1,035	**11,057**
Tunisia	7,163	1,404	-	-	**8,567**
Algeria	15,081	11,119	17,108	19,205	**62,513**
South Africa	787	184	174	-	**1,145**
Pakistan	4,029	4,606	86	2,377	**11,098**
Europe	20	-	-	734	**754**
Total	112,626	45,508	52,037	198,904	409,075

26 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Aging of Non-Performing Facilities (continued)

Counterparty	Less than 6 Months US$ '000	6-12 Months US$ '000	1-3 Years US$ '000	More than 3 Years US$ '000	Total US$ '000
Bank	-	-	-	1,319	**1,319**
Sovereign	-	25	-	-	**25**
Corporates	84,700	30,413	29,810	183,135	**328,058**
Retail	27,645	14,841	22,012	14,450	**78,948**
Investment firms	325	230	170	-	**725**
Total	**112,670**	**45,509**	**51,992**	**198,904**	**409,075**

Assets Type	Less than 6 Months US$ '000	6-12 Months US$ '000	1-3 Years US$ '000	More than 3 Years US$ '000	Total US$ '000
Receivables	110,145	45,370	51,410	198,186	**405,111**
Mudaraba and Musharaka financing	2,481	138	627	718	**3,964**
Total	**112,626**	**45,508**	**52,037**	**198,904**	**409,075**

Collateral Pending Sales
At 31 December 2008

Collateral	Market Value of the collateral US$ '000	Outstanding amount of the exposures US$ '000
Residential Real Estate	10,481	9,168
Commercial Real Estate	21,891	3,761
Others - Collateral	22,031	22,031
	54,403	34,960

Credit Risk Mitigation

All the Group's subsidiaries, with exposures secured by real estate or other collateral carry out regular and periodic collateral verification and evaluation. This collateral verification is conducted by an independent qualified assessor or Collateral Analyst at the subsidiary. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group's subsidiaries allow cars, ships, aircraft, satellites, railcars, and fleets as collateral for a credit and investment product but do not accept perishable assets or any other assets with depreciable life of less than five years. Subsidiaries do not accept any assets as collateral if the assets are susceptible for obsolescence in case they are moved (e.g. furniture). Subsidiaries also ensure that these assets are insured in order to be accepted as collateral.

26 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Third party cheques are accepted as collateral by the Group's subsidiaries. However, they are not eligible collateral for capital adequacy calculation. The Group's subsidiaries accept commercial papers as qualifying collateral if they are issued by banks or corporations of good credit standing. Since the maturity tenor of the commercial papers are generally short in nature (maximum of 270 days), they are not accepted as collateral for long–term facilities (i.e. the financing tenor should not exceed the commercial papers maturity tenor). The subsidiaries do not accept vehicle or equipments, if new, as qualifying collateral for more than 80% of its market value. No vehicle or equipments, if used, are accepted as qualifying collateral for more than 50% of its insured value.

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

1) Hamish Jiddiyyah (HJ) (Good faith deposit): Subsidiaries take this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the subsidiary has recourse to the HJ. HJ is taken by the subsidiary at the inception of the transaction but before signing the contracts. HJ constitutes partial guarantee to the subsidiary for the performance of the contract by the customer. Subsidiaries will still have recourse to the customers for the unsecured position in case of default.
2) Third party guarantee: The subsidiary should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, should provide the subsidiary with signed audited financial statements.
3) Urbon: This is the amount that should be taken from a purchaser or lessee when a contract is established and it is the first line of defence for the subsidiary if the purchaser or lessee breaches the contract.
4) Underlying assets of the lease contract: The underlying asset must be of monetary value and the subsidiary must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any kind of encumbrance. In the same lease contract a customer can pledge other assets that customers own other than the underlying assets in the contract. In order for the subsidiary to consider these assets as pledged assets, it must meet all the conditions for the underlying assets under the lease contract. It must be legally enforceable, accessible, saleable and free of any kind of encumbrance. The value of the pledged asset must be used only to offset the amount against the customers.
   Any excess amount resulting from the closure of the pledge by the subsidiary should be returned to the customer (pledgor). The subsidiary should conduct at least annual evaluation of the pledged assets and keep adequate documentation of this evaluation.
5) Cash deposit free from any legal encumbrance with the subsidiary either in the form of restricted or unrestricted investment accounts.
6) Rated and unrated senior Sukuk issued by financial institutions or sovereigns.

Credit Quality

Credit Risk Management at the Group will be based upon the creation and maintenance of a Credit Rating System (CRS) for the non-retail business i.e. obligors or counterparties with more than US$500,000 in total credit facilities. All the Group's units are to incorporate into their respective credit policies the CRS as the framework for credit management. The methodology for obligor (issuer) rating will reflect the specifics of the Group's main business and the geographical diversity of its operations. Ratings of countries, governments and financial institutions will be carried out in centralised fashion at the Bank in Bahrain whereas rating of corporates will be done at the subsidiaries level, unless the exposure to the corporate involves cross-border risk, in which case, that rating will also be at the Bank as part of the credit limit approval. The CRS has also been designed to be comparable to the rating system of major international rating agencies (Moody's, Standard & Poor's, Fitch) in respect of their foreign currency rating of countries, governments and financial institutions.

Accordingly, countries, governments and financial Institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial Institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial

26 RISK MANAGEMENT (continued)

b) Credit risk (continued)

institution's rating. Corporates will be rated on their senior unsecured medium term local currency obligations, unless the credit granted is across border or in foreign currency. In the latter case, the obligor's country's rating will be the ceiling on corporates' rating. Where all credit to a government is in local currency, the rating for that government is the best i.e. 1 on the rating scale, however, if the exposure to the government includes foreign currency, the rating for that government will be the same as the country's rating. A rating is a forward looking indication of creditworthiness. It is based on an evaluation of past performance, present conditions and outlook for the future.

The basic approach of the major credit rating agencies to rating is the same as what the Group credit policies require i.e. a comprehensive fundamental analysis of all relevant quantitative and non quantitative factors aimed at identifying actual and potential vulnerability. Credit rating will be applied to countries and single obligors. Single obligors, in turn are categorised as financial institutions, corporates and governments. CRS therefore rates obligors (issuers) and not facilities. The obligor rating of countries and single obligors will identify the relative probability of default but will not take into account the impact of collateral security and other mitigants in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiaries internally to also rate facilities if they so wish.)

c) Concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group policies and procedures include specific guidelines to focus on country and counter party limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

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

	2008		
	Assets US$ '000	Liabilities US$ '000	URIA US$ '000
Manufacturing	1,458,752	19,891	72,857
Mining and quarrying	229,034	6	4,636
Agriculture, fishing and forestry	89,266	289	732
Construction and real estate	1,142,891	13,562	6,832
Financial	1,897,430	194,164	459,450
Trade	837,056	66,296	275,956
Personal	542,166	602,667	2,342,462
Consumer finance	846,924	628,793	1,664,610
Government	2,100,436	44,118	174,638
Other Services	1,776,333	1,067,600	1,730,568
	10,920,288	2,637,386	6,732,741

26 RISK MANAGEMENT (continued)

d) Segmental analysis

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 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 segment are presented as that is not applicable to the Group.

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

	2008			2007		
	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	5,855,240	1,326,330	3,652,678	5,244,710	1,093,132	3,272,065
North Africa	1,424,057	570,233	655,249	1,161,795	498,909	491,809
Europe	3,134,536	521,917	2,205,894	3,160,303	504,285	2,207,384
Others	506,455	218,906	218,920	537,171	215,174	251,563
	10,920,288	2,637,386	6,732,741	10,103,979	2,311,500	6,222,821

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

	2008			2007		
	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	207,996	91,230	43,162	168,301	74,789	107,520
North Africa	100,471	65,455	53,232	66,938	41,144	27,434
Europe	237,787	143,479	97,407	171,774	89,226	62,503
Others	39,617	13,367	7,212	37,441	10,287	3,385
	585,871	313,531	201,013	444,454	215,446	200,842

26 RISK MANAGEMENT (continued)

e) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates. The management of the Group have set limits on the level of risk that may be accepted. This is monitored by the local management at the subsidiary level.

Profit rate risk

Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and URIA. The profit distribution to URIA is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The Group has total equity portfolio of US$ 319,603 thousand comprising of available for sale investments amounting to US$ 294,403 thousand and trading securities amounting to US$ 25,200 thousand. Variation of 10% increase or decrease in the portfolio value will not have a significant impact on the Group's net income or equity.

If financial instruments qualify to be included in the trading book, these must not exceed 25% of the total subsidiary's assets portfolio. For equity securities, the subsidiaries are required to observe the sectoral concentration limits outlined by the Group and/or their local requirement in this respect. Since trading securities in the trading book would be under marked-to market requirement, the Risk Manager at the subsidiary level should immediately bring to the Credit and Risk Management at the Group as well as the subsidiary's asset/liability committee any volatility of position's value that is 15% or higher than the subsidiary's eligible capital to decide upon the appropriate course of action.

Foreign exchange risk

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

	Market Risk Weighted Assets			
	31 March 2008	**30 June 2008**	**30 September 2008**	**31 December 2008**
Foreign Exchange Risk	627,912	693,534	618,417	611,869

26 RISK MANAGEMENT (continued)

e) Market risk (continued)

Following is the Group's exposure to different currencies in equivalent US dollars:

	2008		
Currency	Operational equivalent Long (short)	Strategic equivalent Long (short)	Total equivalent Long (short)
Turkish Lira	(73,512)	226,099	152,587
Jordanian Dinar	59,520	150,321	209,841
Egyptian Pound	(23,606)	82,638	59,032
Sudanese Pound	(192)	37,020	36,828
Algerian Dinar	(200)	64,057	63,857
Lebanese Pound	5,459	13,391	18,850
Saudi Riyal	8,349	-	8,349
Pound Sterling	(1,583)	-	(1,583)
Tunisia Dinar	6,815	-	6,815
Euro	211	-	211
South African Rand	-	12,437	12,437
Pakistani Rupees	9,907	31,318	41,225
Others	3,421	-	3,421

	2007		
Currency	Operational equivalent Long (short)	Strategic equivalent Long (short)	Total equivalent Long (short)
Turkish Lira	(3,759)	242,523	238,764
Jordanian Dinar	55,390	114,836	170,226
Egyptian Pound	(3,078)	79,552	76,474
Sudanese Pound	-	34,589	34,589
Algerian Dinar	(2,331)	49,903	47,572
Lebanese Pound	(7,895)	7,841	(54)
Saudi Riyal	(546)	-	(546)
Pound Sterling	(69)	-	(69)
Tunisia Dinar	7,447	-	7,447
Euro	2,122	-	2,122
South African Rand	-	15,348	15,348
Pakistani Rupees	(36,340)	40,580	4,240
Others	9,518	-	9,518

The strategic currency risk represents the amount of equity of the subsidiaries.

Foreign currency risk sensitivity analysis

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks adopted by Derivatives Policy Group in this respect which calculates the effect on assets and income of the Group as a result of appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is done using various percentages based upon the judgement of the management of the Group.

26 RISK MANAGEMENT (continued)

e) Market risk (continued)

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US$ with all other variables held constant on the consolidated statement of income and the consolidated statement of equity. The impact of a similar increase in exchange rates will be approximately opposite to the impact disclosed below.

At 31 December 2008

Currency	Particular	Exposures in US$ '000	Variance %	Change in net income and equity
Algerian Dinar	Net Income	41,320	-5%	(2,025)
	Total Equity	50,535	-5%	(10,417)
Egyptian Pound	Net Income	3,875	-5%	(184)
	Total Equity	29,518	-5%	(10,196)
Turkish Lira	Net Income	97,407	-15%	(5,232)
	Total Equity	180,627	-15%	(36,975)
Sudanese Pound	Net Income	4,595	-5%	(226)
	Total Equity	7,990	-5%	(4,092)
S.African Rand	Net Income	2,617	-15%	(143)
	Total Equity	10,771	-15%	(2,110)

At 31 December 2007

Currency	Particular	Exposures in US$ '000	Variance %	Change in net income and equity
Algerian Dinar	Net Income	22,180	-5%	(515)
	Total Equity	39,370	-5%	(4,251)
Egyptian Pound	Net Income	15,889	-5%	(380)
	Total Equity	28,416	-5%	(5,141)
Turkish Lira	Net Income	62,503	-15%	(1,378)
	Total Equity	206,111	-15%	(21,364)
Sudanese Pound	Net Income	818	-5%	(42)
	Total Equity	5,525	-5%	(1,910)
S.African Rand	Net Income	2,566	-15%	(61)
	Total Equity	14,264	-15%	(1,410)

26 RISK MANAGEMENT (continued)

f) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. The Group measures and allocates capital to its operational risk using the Basic Indicator Approach as illustrated below:

	Gross income		
	2008 US$ '000	2007 US$ '000	2006 US$ '000
Total Gross Income	585,871	444,454	339,567
Average Gross Income	456,631		
Operational risk Weighted Assets	856,183		

Operational Risk Management Framework

The Group guidelines have the following sections: (1) Operational Risk Appetite, (2) Operational Risk Management – Structure and Rules (3) Risk and Control Assessment (4) Internal Audit (5) Operational Risk and Basel II (6) Operational Risk Capital Requirement.

The Group's Operational Risk Appetite is defined as the level of risk which the Group chooses to accept in its identified risk categories. Operational risk appetite is expressed in terms of both impact (direct loss) and the probability of occurrence.

The Group's policy also lays out the Operational Risk Management structure and the roles of all staff associated with operational risk. The major functional roles are defined for:

– Risk Management Committee
– Head of Credit and Risk Management
– Head of Operational, Liquidity and Market Risk
– Various departments

The Risk Control Self Assessment Exercise is viewed as an important part of the Group's Operational Risk Framework. It is proposed to be conducted every year by the Risk Management Department in coordination with the Internal Audit Department. In addition, the assessment shall also be based on the severity of the residual risks identified through Internal Audit reviews.

The Key processes identified in a Risk Control Self Assessment are:

– Risk & Control Identification Process
– Measurement of Operational Risk Exposures
– Identifying Unacceptable Risk Exposures
– Risk Action Plans.

The Operational Risk framework will be subject to periodic Internal Audit.

The Group categorizes operational risk loss events into the following categories:

Infrastructure Risks

Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group and the subsidiaries might be disrupted and severe operational risks could occur and one tail of this occurrence is the threat of a subsidiary's existence.

26 RISK MANAGEMENT (continued)

f) Operational Risk (continued)

In order to hedge the subsidiaries from the infrastructure risk as outlined above, every subsidiary must take all the necessary measures indicated in the Business Continuity Plan and/or Disaster Recovery Plan to cater for these risks.

Information Technology Risks

The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorized access, by third parties or employees, etc.

Staff risk

The main risks that might arises from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order prevent these risks from occurring, the Group has established a corporate culture at the Group and within subsidiaries which entails constructive ways in dealing with mistakes. The Group has also established an approval control steps in business processes as well as creating separate control processes. Further, the Group has already established measures of organizational structure in terms of segregation of duties as well as diverse training measures to reduce human error mistakes.

Business risk

This problem may take on the following forms:

1. Processes without clear definitions, for example, when insufficient time was spent on documenting or updating the already documented processes.
2. Outdated process descriptions in cases where "reality" already strongly differs from the guidelines laid down in the past.
3. The extreme case of a completely missing documentation to hedge the risk, the Group adopts sound documentation policies of business processes as it is a basic requirement for a well functioning process organization. The process description are up to date and clear; furthermore. it is made accessible to the employees in as simple way as possible.

g) Unrestricted investment account risk

Unrestricted Investment Account by Counterparty Type and Islamic Product

31 December 2008	Receivables			
Counterparty	Total exposures	Funded by URIA	Funded by Self	% of URIA to Total
Bank	295,387	115,473	179,914	39%
Investment Firms	116,640	55,066	61,574	47%
Corporates	3,424,469	2,553,023	871,446	75%
Retail	2,556,170	1,873,395	682,775	73%
Total	6,392,666	4,596,957	1,795,709	

31 December 2008	Mudaraba and Musharaka Financing			
Counterparty	Total exposures	Funded by URIA	Funded by Self	% of URIA to Total
Bank	80,338	42,178	38,160	53%
Corporates	720,577	675,377	45,200	94%
Total	800,915	717,555	83,360	

26 RISK MANAGEMENT (continued)

g) Unrestricted investment account risk

31 December 2008	Ijarah Muntahia Bittamleek			
Counterparty	Total exposures	Funded by URIA	Funded by Self	% of URIA to Total
Corporates	148,829	89,559	59,270	60%
Retail	155,995	97,785	58,210	63%
Total	304,824	187,344	117,480	

Analysis of Profit Equalisation Reserve, Investment Risk Reserve and Return on URIA

	US$ '000
Profit Equalisation Reserve	2,271
Investment risk reserve	58,371
URIA	6,732,741
URIA return before Mudarib share	652,499
URIA return after Mudarib share	461,919
Mudarib share	190,580
Profit Equalisation Reserve to URIA	0.03%
Investment risk reserve to URIA	0.87%
URIA return after Mudarib share to URIA	6.86%

h) Corporate governance

Board of Directors

The Board of Directors is responsible for the Group's overall management. In particular, the Board is responsible for approving the Group's overall business strategy, monitoring its operations and taking critical business decisions. In line with international best practice, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of three independent non-executive directors as defined in the Rule Book of the CBB.

The Bank is administered by a Board of Directors consisting of not less than five and not more than eleven members. However, subject to the provisions of the law, the shareholders at an Ordinary General Meeting may determine that the number of directors shall exceed eleven in certain circumstances. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months by resolution of the Bahrain Ministry of Industry and Commerce.

There are currently eleven Directors on the Board, who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgement. Other than the President and Chief Executive, all Directors are non-executive. The posts of Chairman and President and Chief Executive are held by different Directors and each has separate, clearly defined responsibilities.

The Board of Directors meets regularly (usually four times a year) and has a formal schedule of matters reserved to it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure

26 RISK MANAGEMENT (continued)

h) Corporate governance (continued)

Board of Directors (continued)

and organisation, reports provided to it on the operations of the Group (with emphasis on organisational development, risk management and information technology development) and the performance of executive management. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. All Directors have access to the advice and services of the secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group, which are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations, is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

The Bank's Board of Directors comprises of eleven members, ten of which are non-executive:

1) Shaikh Saleh Abdulla Kamel (Chairman)
2) Mr. Abdulla A. Saudi (Vice Chairman)
3) Mr. Abdullah Saleh Kamel
4) Mr. Saleh Al Yousef
5) Mr. Adnan Ahmed Yousif
6) Dr. Anwar Ibrahim
7) Mr. Abdul Elah Sabbahi
8) Mr. Ibrahim Fayez Al Shamsi
9) Mr. Jamal bin Ghalaita
10) Mr. Yousif Ali Fadil Bin Fadil
11) Mr. Samer Mohammed Farhoud

Board's Committees

The Board has put in place a number of Board Risk Committees, membership of which is drawn from the Board membership and to which it has delegated specific responsibilities. The principal Board Risk Committees are:

Board Executive Committee

The Executive Committee is chaired by Mr. Abdullah Saleh Kamel and the other members are Mr. Adnan Ahmed Yousif, President and Chief Executive, Mr. Abdul Elah A. Sabbahi and Mr. Yousef Ali Fadil Bin Fadil. The Board has delegated certain of its day-to-day functions to the Executive Committee, including certain financial, administrative and credit matters.

Board Affairs and Remuneration Committee

The Board Affairs and Remuneration Committee is chaired by Mr. Ibrahim Fayez Al Shamsi and its other members are Mr. Jamal Bin Ghalaita, Mr. Yousef Ali Fadil Bin Fadil and Mr. Adnan Ahmed Yousif, President and Chief Executive. The Board Affairs and Remuneration Committee meets at least once a year and considers all material elements of remuneration policy and the remuneration and incentives of the Board, the Executive Management Team and all other employees, and makes recommendations to the Board on the framework for executive.

Audit & Governance Committee

The Audit & Governance Committee is chaired by Mr. Saleh Mohammed Al-Yousef. Other members are Dr. Anwar Ibrahim and Mr. Ibrahim Fayez Al Shamsi. Audit & Governance Committee meets formally at least four times a year and external auditors attend at least one meeting annually. The external auditors, moreover, have unrestricted access to the Audit & Governance Committee and its chairman throughout the year.

26 RISK MANAGEMENT (continued)

h) Corporate governance (continued)

Board's Committees (continued)

The Board of Directors has delegated to the Audit & Governance Committee the responsibility for ensuring that there is in place an effective system of accounting and financial control. The Committee achieves this through regular review of the adequacy and effectiveness of the internal control procedures. The Committee considers all matters relating to financial control and reporting, internal and external audits and their scope and results, regulatory compliance and risk management. It also considers the annual audit plans, monitors the independence of the external auditors and their remuneration and makes recommendations to the Board regarding the appointment and retirement of the external auditors.

The various internal and financial controls and processes are subject to independent review by the Group's Internal Audit Department and external auditors and regulators as appropriate. The reports of all these review bodies are forwarded to the Audit & Governance Committee, who, acting on behalf of the Board, ensures that appropriate corrective action is taken where required. The Committee is informed directly by Internal Audit's reports submitted to it, and by its discussions with external auditors, of the work undertaken by them and the conclusions they have reached, respectively.

The Committee reviews the Group's annual and interim financial statements, the adequacy of loss provisions and reports by external consultants on specific investigative or advisory engagements.

Risk Committee

The Risk Committee is chaired by Mr. Abdul Elah Sabbahi. Other members are Mr. Jamal Bin Ghalaita, Mr. Samer Mohammed Adnan Farhoud and Mr. Adnan Ahmed Yousif, President and Chief Executive. The Risk Committee meets formally at least four times a year and can call for the attendance of the Head of Credit and Risk Management and other Senior Executives of the Group. The Group's risk appetite is determined by the Board, as recommended by the Risk Committee, which is responsible for setting acceptable levels of risks to which the Group may be exposed, for approving senior management's strategy for the managing of risk and for ensuring that all necessary steps are taken by senior management to identify, measure, monitor and control risk. Management has the prime responsibility for identifying and evaluating significant risks to the business of the Group and for the design and operation of appropriate internal controls.

Executive Management

In effecting full control over the Group, the Group's Executive Management Team has developed a system for filtering down to Group units the centralised strategic decisions taken at the parent level, thus ensuring the implementation of Groupwide policies and common operational processes and procedures.

As at the end of 2008, the team consisted of the President and Chief Executive, the Deputy Chief Executive and the Heads of Financial Control, Internal Audit, Strategic Planning, Credit and Risk Management, Treasury and Investment, Operations and Administration, Legal Affairs and Compliance and Corporate Governance. The Head of Commercial Banking is expected to join the team in due course.

Executive Management also exercises control via the following Committees, which have the following specific responsibilities:

Executive Management Committee

The Executive Management Committee's role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures. The Committee is chaired by the President and Chief Executive with the remaining membership comprising the Deputy Chief Executive and the Heads of Strategic Planning, Operations & Administration, Credit & Risk Management and Treasury and Investment, with the Heads of Financial Control and Internal Audit as observer members.

Asset & Liability Committee ("ALCO")

The ALCO's mandate is to monitor the liquidity and capital adequacy of the Group and review the Group's long

26 RISK MANAGEMENT (continued)

h) Corporate governance (continued)

Executive Management (continued)

term equity investments and its penetration into the different markets. The Committee reviews liquidity and cash flow of the Group and sets balance sheet growth targets, besides monitoring the distribution of profits to investors. The Committee is chaired by the President and Chief Executive and its remaining members are the Heads of Treasury and Investment, Credit and Risk Management, Strategic Planning, Financial Control and Operations and Administration, together with a senior member from the Bahrain based subsidiary, Albaraka Islamic Bank (AIB).

Head Office Credit Committee

The Head Office Credit Committee is the authority that approves credits and considers issues of Group credit policy and Group credit exposures, problem credits and provisioning levels. The Head Office Credit Committee is chaired by the President and Chief Executive, with the remaining membership being drawn from among the Executive Management.

Management Risk Committee

The Management Risk Committee's role is to assist the Board Risk Committee in managing and controlling risks and introduce and support such measures which enhance the efficiency of risk management policies, procedures, practices and controls within the Group. It is chaired by the President and Chief Executive with remaining membership comprising the Heads of Operations and Administration, Financial Control and Credit and Risk Management and the Manager of Credit Review and Analysis.

Head Office IT Steering Committee

The Head Office IT Steering Committee's role is to draw up the Group's short and long term IT strategy and oversee and monitor its implementation throughout the Group with a view to effecting standardisation in information and operation management. The Committee is chaired by the Deputy Chief Executive with remaining membership comprising the Heads of Financial Control, Strategic Planning and Operations and Administration, together with senior support nominees from the Group.

Human Resources and Compensation Committee

The role of the Human Resources and Compensation Committee is to review the Human Resources policies, management and planning at the Group's head office. The Committee is chaired by the Deputy Chief Executive with the remaining membership comprising the Heads of Operations and Administration, Strategic Planning and Financial Control.

Head Office Insiders Committee

The Insiders Committee has been formed in accordance with the guidelines issued by the CBB and the Bahrain Stock Exchange. The rationale behind the guidelines is to ensure the maintenance of a fair, orderly and transparent securities market and to enhance and develop the practices relating to the risk management systems and internal controls within listed companies and other similar institutions. The objectives of the Insiders Committee are to monitor and supervise issues relating to insiders and to regulate their dealings in the Group's securities and to ensure that the Group's insiders are acquainted with and aware of the legal and administrative requirements regarding their holdings and dealings in the Group's securities, in addition to preventing the abuse of inside information by such insiders. The Committee is chaired by the President and Chief Executive and the other members are the Deputy Chief Executive and the Heads of Internal Audit, Legal and Compliance, Operations and Administration and Investors' Relations (who is also the Registrar and Committee Secretary).

Other Committees

The Management forms ad hoc committees as and when required to address specific initiatives in which the Group may be engaged from time to time.

26 RISK MANAGEMENT (continued)

The Group Disclosure Policy

The Group communication strategy aims to help achieve the Group's aim of keeping the market informed of material information. The Group's communications with the market ensures compliance with the CBB's directives with regards to its Public Disclosure Module of its Rulebook, Volume 2, Part A and its requirements stipulated in the Capital Market.

Material information is any information, financial or non-financial, relating to the business and affairs of the Group and its units that results in, or would reasonably be expected to result in, a significant change in the market price of the Group's share or in the decision of a prudent investor to either sell, buy or hold the Group's share or cause to change a prudent investor's decision to transact or refrain from transacting with the Group or its units. Material information consists of, but is not limited to, both material facts and material changes relating to the business and affairs of the Group and its units.

Despite the fact that the Group does not keep a checklist according to which the Group determines which information is material or immaterial, the Group recognizes the importance of all relevant factors in each situation. The Group is directed in general by the following developments that constitute material information, this list is not inclusive:

- Changes in share ownership of the Group;
- Changes in corporate structure of the Group, such as reorganizations, mergers, etc.;
- Public or private sale of additional securities (such as Sukuk), or planned acquisition;
- Changes in the Group's dividend policy, or other material modifications to the rights of shareholders;
- Take-over bids;
- Changes in capital structure of the Group;
- Borrowing or lending of a significant amount of funds;
- Changes in rating agency decisions (downgrade or upgrade);
- Development of new products that might consequently affect the Group's existing products or markets;
- Changes in financial results, including significant increases or decreases in near-term earnings prospects; this includes all the important financial indicators that affect the Group's earning, balance sheet position, cash flow position and liquidity position;
- Material changes in accounting policies;
- Significant changes in capital investment plans or Group's corporate objectives and priorities;
- Significant changes in the Group's capital adequacy;
- Changes in the Group's Board of Directors or members of executive management;
- Commencement of, or developments in, material legal proceedings or regulatory matters;
- Major labour disputes;
- Significant changes in the existing business models of the units;
- Material negative changes of subsidiaries' capital adequacy ratios;
- Material positive as well as negative earning or earnings indicators generated by the subsidiaries; and
- Major economic or political events in the subsidiaries' countries that the Group reasonably and prudently believes would cause material impact on the financial position.

The Group is committed to comply with the CBB's rules and regulations with regards to the dissemination of the Group's financial information/statements on quarterly, semi annual and annual basis plus any ad hoc information requirement requested by the CBB. Since it is a listed company on Bahrain Stock Exchange (BSE) and NASDAQ Dubai, the Group is committed to adhere to all the periodic information dissemination required by BSE and NASDAQ Dubai as stipulated in their directives/rulebooks in this respect at a timely basis.

In addition to that, the Group will publicly disclose and broadly disseminate material information either:

- Immediately upon becoming aware of circumstances or events that underlie the material information; or
- When a decision to implement a change is made by the Board of Directors or executive management of the Group.

26 RISK MANAGEMENT (continued)

h) Corporate governance (continued)

The Group Disclosure Policy (continued)

As a listed company, the Group follows strict policy of who should make press releases or announce to the public information, financial or non-financial, about the Group. Only the following persons are authorized to make public information via media:

1 Chairman of the Board
2 Vice chairman of the Board
3 President and Chief Executive

In case any one of the above is asked to make statements relating to the financial statements, indicators or to general financial performance of the Group, the person consults and/or confirms with the Head of Financial Control with regards to the accuracy, timeliness and reliability of the information before any public announcement.

The Group mails its Financial Statements and Prudential Returns to the CBB, BSE, and NASDAQ Dubai on quarterly, and annual basis. The Group makes all this information also available on its Website.

Press release are posted on the Group's Website and published at least in one of the local newspapers either in Arabic or English. The Group's authorized persons for public disclosure should not make any announcement on a one-on-one basis before disseminating the information on its website or via local newspapers.

The Group is committed to adhere to all the requirements outlined in the CBB's Rulebook, volume 2 – Part A, Public Disclosure Requirements Section.

In order for the Group to be in full compliance to the CBB disclosure requirements in the abovementioned Rulebook, the Group will disclose all the required information in its published quarterly reviewed financial statements and Annual audited financial statements which are the responsibility of the Financial Control Department. However, some information is not peculiar to the Financial Control Department. Therefore, all the concerned departments under the CBB disclosure requirements (e.g. Administration and Operation, Credit and Risk Management, Compliance and Internal Audit department) must provide the Financial Control Department with the required information on a timely basis in order for the later to prepare the Group Financial Statements as stipulated by the CBB.

Compliance

Regulation

The Group complies with all the regulatory requirements governing Islamic Banks issued by the CBB, which include, inter alia, regulations governing the Group's capital adequacy, asset quality and risk management, liquidity and fund management.

The CBB as the home supervisor sets and monitors the Bank's capital requirements on both a consolidated and an unconsolidated basis, while the Group's individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements.

The CBB currently requires each Bahrain-based bank or banking group to maintain a minimum ratio of total capital to on and off balance sheet risk-weighted assets of 12%, which requirement exceeds the 8% minimum ratio guideline of the Basel Committee on Banking Supervision under its 1988 Capital Accord. However, the new Capital Accord (Basel II) announced by the Basel Committee to replace the 1988 Accord is designed to achieve a more sophisticated degree of risk differentiation in establishing the amount of capital that banks should allocate to different categories of their credit risk exposure, in addition to including a capital charge for operational risk and incorporating an earlier guideline in relation to capital charges for market risk. Regulators will have wider discretion to increase or decrease capital requirements for banks according to their individual circumstances.

26 RISK MANAGEMENT (continued)

h) Corporate governance (continued)

Compliance (continued)

The new rules will also require greater transparency of published information relating to bank risk management The Group has taken the necessary steps to achieve in time the required degree of sophistication in risk assessment which will enable it to comply with the requirements of Basel II as stipulated by the CBB.

Anti-Money Laundering

The Group has implemented the CBB's anti-money laundering regulations, including the appointment of a Group Money Laundering Reporting Officer (MLRO) - which position is held by the Head of Operations & Administration, who also oversees the individual MLROs in each of the constituent banks. The intention is to implement a Groupwide overall policy for antimoney laundering at the the Bank level, taking into account the practice existing at the various Group units and complying with the CBB's anti-money laundering regulations.

Financial Performance Monitoring

The Group's management has in place various measures that help monitor and control the activities of the Group worldwide. A comprehensive financial consolidating procedure exists and is working effectively, whereunder all units submit their financial data in a format that is compatible with Islamic Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and International Financial Reporting Standards (IFRS). These are consolidated quarterly and a consolidated set of financial results is produced. Additionally, units submit a monthly return to Group headquarters providing details of their financial performance, measured against approved budgets.

Information Technology

Upon the formation of the Group, one of the earliest challenges identified was the need to move as swiftly as possible towards integration of the banking subsidiaries' diverse databases into a Group environment, in order to facilitate the creation of a common information platform. It was decided that, with the complex problems involved in bringing 10 different banking operations under one central organisational umbrella, it would be necessary to move in stages.

The first stage entailed the creation of an integrated financial management information structure, whereby each unit's financial data could be recorded unto a Web-based environment which would allow for the data to be combined with those of the other units and, after consolidation adjustments, used to produce consolidated statutory financial statements and MIS reports.

These original aims were accomplished in an impressively short time, such that the Bank is now consolidated into a fully synergised operation and, following its extremely successful IPO in 2006, poised for further expansion into the global market. With technology being such a vital prerequisite to this expansion, especially in the highly-competitive Islamic banking market, the Bank IT Steering Committee commenced its activities in 2007 by drawing up both a short and long term IT strategy. The implementation of this strategy is continuously overseen and monitored by the Committee, with a view to effective standardisation of information and operation management throughout the Group.

The Group developed a Business Intelligence Roadmap for implementing its Web-based financial consolidation application, and a Corporate Performance Measurement methodology using Key Performance Indicators to set performance benchmarks for each subsidiary and to monitor them on a continuous basis. The Roadmap will be further enhanced to include elements of exposure management across the Group, including elements of risk management reporting and setting the stage for Basel II compliance. With regards to new products, the Group introduces all related information via its we-site and press releases issued by the Group's President and Chief Executive.

Remuneration

The Group incentivise its Board members, executives and senior management and its Shari'a Board members in accordance to the remuneration policies and procedures approved by the Board. This policy links the incentives to the performance appraisal. The Group's corporate governance policy details the performance appraisal for the Board members.

Complaints

The Group has adopted a special media approach to ensure that all the Group's stakeholders are well channelled through to the management. The contracted special media watch detect any news or complaints related to the Group and bring them to the attention of the Group's top management.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

Included under investments are unquoted available for sale investments amounting to US$ 187.9 million (2007: US$ 121.9 million) which are carried at cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the financial statement.

28 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisations.

السيد / أشرف الغمراوي
عضو مجلس الإدارة والرئيس التنفيذي

Mr. Ashraf Al Ghamrawi
Board Member
& Chief Executive Officer

بنك التمويل المصري السعودي
تأسس بنك التمويل المصري السعودي في عام ١٩٨٠، وتتمثل أنشطة البنك الرئيسية في تقديم الخدمات المصرفية للأفراد والخدمات المصرفية التجارية. يقوم البنك بتشغيل ١٨ فرعاً، بيانات الاتصال للبنك هي كالتالي:

٦٠ شارع محي الدين أبوالعز،
ص.ب. ٤٥٥ الدقي، القاهرة، مصر
هاتف: ‎+٢٠٢٣ ٧٤٨ ١٢٢٢
فاكس: ‎+٢٠٢٣ ٧٦١ ١٤٣٦/٧
الموقع الإلكتروني:
www.al-baraka.com

The Egyptian Finance Bank
The Egyptian Saudi Finance Bank was incorporated in 1980 and its activities consist of retail and commercial banking. The bank operates 18 branches and several offices.

The contact details of the bank are:

The Egyptian Saudi Finance Bank, 60, Mohie Elddin Abu ElEzz Street, P.O. Box 455 Dokki, Cairo, Egypt
Tel: +2023 748 1222
Fax: +2023 761 1436/7
Website: www.esf-bank.com

السيد / معتصم محمصاني
عضو مجلس الإدارة والمدير العام

Mr. Mutasim Mahmassani
Board Member & General Manager

بنك البركة لبنان
تأسس بنك البركة لبنان في ١٩٩٢ ويزاول أنشطته بموجب الترخيص المصرفي التجاري، وتتمثل أنشطة البنك الرئيسية في تقديم الخدمات المصرفية للأفراد والخدمات المصرفية التجارية. يقوم البنك بتشغيل ٦ فروع، بيانات الاتصال للبنك هي كالتالي:

شارع رشيد كرامي، سنتر فردان ٢٠٠٠،
بيروت لبنان
هاتف: ‎+٩٦١١ ٨٠٨٠٠٨
فاكس: ‎+٩٦١١ ٨٠٦٤٩٩
الموقع الإلكتروني:
www.al-baraka.com

AlBaraka Bank Lebanon
AlBaraka Bank Lebanon was established in 1992 and operates under a commercial banking license. Its activities comprise retail and commercial banking. The bank operates 6 branches.
The contact details of the bank are:

AlBaraka Bank Lebanon, Rashid Karameh Street, Verdun 2000 Centre, Beirut, Lebanon
Tel: +9611 808008
Fax: +9611 806499
Website: www.al-baraka.com

السيد / مأمون دركزللي
المدير العام

Mr.Mamoun Darkazally
General Manager

بنك البركة – سورية
(تحت التأسيس)

بنك البركة سورية
ساحة عدنان المالكي، شارع طليطلة
بناء رقم ٩
ص.ب. ١٠٠ مركز بريد الحجاز- دمشق
سورية
هاتف: ‎+٩٦٣١١ ٣٣٢-١٩٨٠
فاكس: ‎+٩٦٣١١ ٣٣١-٠٠٨١

Albaraka Bank Syria
(Under Formation)

The contact details of the bank are:

Al Baraka Bank - Syria
9 Tulaytulah Street, Al Malki Square, Damascus, Syria, P. O. Box: 100, Hijaz Post Center. Damascus, Syria
Tel: +96311 332-1980
Fax: +96311 331-0081

AlBaraka Global Network

السيد / عبدالله خيري
المدير العام

Mr.Abdullah Khairy
General Manager

بنك البركة السوداني
تأسس بنك البركة السوداني عام ١٩٨٤ وتتمثل انشطة البنك الرئيسية في تقديم الخدمات المصرفية للأفراد والخدمات المصرفية التجارية والاستثمارية. يقوم البنك بتشغيل ٢٥ فرعاً، بيانات الاتصال للبنك هي كالتالي:

برج البركة، ص.ب. ٣٥٨٣، الخرطوم،
السودان
هاتف: ٦٨٨ ٧٨٠ ٢٤٩١٨٣+
فاكس: ٧٨٨٥٨٥ ٢٤٩١٨٣+
الموقع الإلكتروني:
www.albarakasudan.com

AlBaraka Bank Sudan
AlBaraka Bank Sudan was established in 1984 and its activities comprise retail, commercial and investment banking. The bank operates 25 branches.

The contact details of the bank are:

AlBaraka Bank Sudan, AlBaraka Tower,
P.O. Box 3583,
Khartoum, Sudan
Tel: +249183 780 688
Fax: +249183 788 585
Website: www.albarakasudan.com

السيد / شبير شوهان
عضو مجلس الإدارة والرئيس التنفيذي

Mr.Shaber Chochan
Board Member
& Chief Executive Officer

بنك البركة المحدود
تأسس بنك البركة المحدود في يونيو عام ١٩٨٩ ويزاول أنشطة تقديم الخدمات المصرفية التجارية الإسلامية. يقوم البنك بتشغيل ٨ فروع، بيانات الاتصال للبنك هي كالتالي:

الطابق الأول، ١٣٤ الشارع التجاري،
دوربان ٤٠٠١
جنوب أفريقيا
هاتف: ٢٧٣١٣٦٦٢٨٠٠+
فاكس: ٢٧٣١٣٠٥٢٦٣١+
الموقع الإلكتروني:
www.albaraka.co.za

AlBaraka Bank Ltd
AlBaraka Bank Ltd was established in 1989 and operates as a commercial Islamic bank. The bank has 8 branches.

The contact details of the bank are:

AlBaraka Bank Ltd., 1st Floor, 134,
Commercial Road,
Durban 4001, South Africa
Tel: +2731 366 2800
Fax: +2731 305 2631
Website: www.albaraka.co.za

السيد / محمد صديق حفيظ
عضو مجلس الإدارة والمدير العام

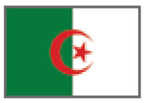
Mr.Mohammed Seddik Hafid
Board Member & General Manager

بنك البركة الجزائري
تأسس بنك البركة الجزائري في مايو ١٩٩١ كمصرف إسلامي ويزاول أنشطته بموجب الترخيص المصرفي التجاري الصادر من بنك الجزائر، تتمثل أنشطة البنك الرئيسية في تقديم الخدمات المصرفية للأفراد والخدمات المصرفية التجارية. يقوم البنك بتشغيل ٢٠ فرعاً، بيانات الاتصال للبنك هي كالتالي:

حي بوثلجة هويدف، طريق الجنوب،
بن عكنون، الجزائر
هاتف: ٤٥٤ ٩١٦ ٢١٣٢١+
فاكس: ٤٥٨ ٩١٦ ٢١٣٢١+
الموقع الإلكتروني:
www.albaraka-bank.com

Banque AlBaraka D'Algerie
Banque AlBaraka D'Algerie was incorporated in May 1991 as an Islamic Bank and operates under a commercial banking licence issued by the Bank of Algeria. The main activities of the bank are retail and commercial banking. The Bank operates 20 branches.
The contact details of the bank are:

Hai Bouteldja Houidef, Villa No.1
Rocade Sud, Ben
Aknoun, Algiers, Algeria
Tel: +21321916 454
Fax: +21321 916 458
Website: www.albaraka-bank.com



السيد / محمد المطاوعة
عضو مجلس الإدارة الرئيس التنفيذي

Mr. Mohammed Al Mutaweh
Board Member
& Chief executive Officer

بنك البركة الإسلامي
تأسس بنك البركة الإسلامي في البحرين في فبراير ١٩٨٤ ، ويزاول أنشطته كمصرف إسلامي للتجزئة ولديه ايضا ترخيص للعمل المصرفي الاسلامي الاستثماري . وقد حصل البنك على الترخيص المصرفي التجاري في باكستان في عام ١٩٩١ . تتمثل أنشطة البنك الرئيسية في تقديم الخدمات المصرفية للأفراد والخدمات المصرفية التجارية والإستثمارية. يقوم البنك بإدارة ٣٣ فرعاً في البحرين وباكستان، بيانات الاتصال للبنك هي كالتالي:

برج البركة ص.ب. ١٨٨٢
المنامة، مملكة البحرين
هاتف: +٩٧٣ ١٧ ٥٣٥ ٣٠٠
فاكس: +٩٧٣ ١٧ ٥٣٠ ٦٩٥
الموقع الإلكتروني:
www.barakaonline.com

AlBaraka Islamic Bank
AlBaraka Islamic Bank was incorporated in Bahrain in February 1984 and operates as an Retail and Investment Islamic bank. It obtained a commercial banking licence in Pakistan in 1991. The activities of the bank are retail, commercial and investment banking. The bank operates 33 branches in Bahrain and Pakistan. The contact details of the bank are:

AlBaraka Islamic Bank, AlBaraka Tower,
P.O. Box 1882,
Manama, Kingdom of Bahrain
Tel: +973 17 535 300
Fax: +973 17 530 695
Website: www.barakaonline.com

الدكتور / عدنان بوكودنيز
عضو مجلس الإدارة والمدير العام

Dr. Adnan Buyukdeniz
Board Member
& General Manager

بنك البركة التركي للمشاركات
تأسس بنك البركة التركي في عام ١٩٨٤. تتمثل أنشطة البنك الرئيسية في تقديم الخدمات المصرفية للأفراد والخدمات المصرفية التجارية. يقوم البنك بإدارة ١٠٠ فرع منتشرة في تركيا. بيانات الاتصال للبنك هي كالتالي:

بوبو كدير ٧٨ ، ميسيديكوي ٨٠٢٩٠،
أسطنبول، تركيا
هاتف: +٩٠ ٢١٢ ٢٧٤ ٩٩٠٠
فاكس: +٩٠ ٢١٢ ٢٧٢ ٤٤٧٠
الموقع الإلكتروني:
www.albarakaturk.com.tr

AlBaraka Turk Participation Bank
AlBaraka Turk Participation Bank was established in 1984. The bank's activities consist of retail and commercial banking. The bank operates 100 branches.

The contact details of the bank are:

AlBaraka Turk Participation Bank,
Buyukdere Cad
No.78, 80290 Mecidiyekoy, Istanbul,
Turkey
Tel: +90 212 274 9900
Fax: +90 212 272 4470
Website: www.albarakaturk.com.tr

السيد العروسي بيوض
نائب الرئيس و المدير العام

Mr Laroussi BAYOUDH
Vice Chairman
& General Manager

بنك التمويل التونسي السعودي
تأسس بنك التمويل التونسي السعودي في عام ١٩٨٣ ويزاول البنك كل من أنشطة الأوفشور وأنشطة الخدمات المصرفية للأفراد. يقوم البنك بتشغيل ٨ فروع، بيانات الاتصال للبنك هي كالتالي:

٨٨ شارع هادي شاكر ١٠٠٢، تونس،
تونس
هاتف: +٢١٦٧١ ٧٩٠٠٠٠
فاكس: +٢١٦٧١ ٧٨٠٢٣٥
الموقع الإلكتروني:
www.bestbank.com.tn

Bank Et-Tamweel Al-Tunisi Al-Saudi
Bank Et-Tamweel Al-Tunisi Al-Saudi was established in 1983. The bank has both offshore and local retail activities The bank operates 8 branches.

The contact details of the bank are:

Bank Et-Tamweel Al-Tunisi Al-Saudi,
88, Avenue Hedi
Chaker 1002, Tunis, Tunisia
Tel: +21671 790000
Fax: +21671 780235
Website: www.bestbank.com.tn