Al Salam Bank-Bahrain B.S.C.

INTERIM CONDENSED FINANCIAL STATEMENTS

31 MARCH 2008 (UNAUDITED)

ERNST & YOUNG

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REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF AL SALAM BANK-BAHRAIN B.S.C.

Introduction

We have reviewed the accompanying interim condensed financial statements of Al Salam Bank-Bahrain B.S.C. (the "Bank") as at 31 March 2008, comprising of the interim balance sheet as at 31 March 2008 and the related interim statements of income, changes in equity and cash flows for the three-month period then ended and explanatory notes. These interim condensed 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 issue a report on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material aspects, in accordance with note 2.

Ernst & Young

5 May 2008
Manama, Kingdom of Bahrain

Al Salam Bank-Bahrain B.S.C.

BALANCE SHEET

31 March 2008 (Unaudited)

	Reviewed 31 March 2008 BD	*Audited 31 December 2007 BD*
ASSETS		
Cash and balances with Central Bank of Bahrain	**14,525,925**	15,173,663
Central Bank of Bahrain Sukuk	**24,460,000**	20,380,000
Murabaha with banks	**219,525,214**	224,450,893
Murabaha financing	**58,636,315**	32,641,599
Ijarah Muntahia Bittamleek	**11,284,829**	10,435,863
Non-trading investments	**91,097,592**	62,735,696
Investment in an associate	**8,272,000**	8,272,000
Investment properties	**1,177,528**	1,177,528
Receivables and prepayments	**21,305,305**	10,505,046
Premises and equipment	**2,814,204**	2,979,252
Investments held-for-sale	**36,886,486**	9,024,000
TOTAL ASSETS	**489,985,398**	397,775,540
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		
Liabilities		
Murabaha from banks	**77,837,051**	96,983,041
Murabaha from non-banks	**186,217,256**	106,908,709
Customers' current accounts	**8,408,740**	5,688,686
Other liabilities	**14,525,070**	8,954,642
Total liabilities	**286,988,117**	218,535,078
UNRESTRICTED INVESTMENT ACCOUNTS	**48,633,457**	19,769,585
Equity		
Share capital	**120,000,000**	120,000,000
Reserves and retained earnings	**34,363,824**	38,941,790
Proposed appropriations	**-**	529,087
Total equity	**154,363,824**	159,470,877
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	**489,985,398**	397,775,540

Mohamed Ali Rashid Alabbar
Chairman

Hussein Mohammed Al Meeza
Vice Chairman

Yousif Taqi
Chief Executive Officer

The attached notes 1 to 5 form part of these interim condensed financial statements.

Al Salam Bank-Bahrain B.S.C.

STATEMENT OF INCOME

Three month period ended 31 March 2008 (Unaudited)

	Three months ended 31 March 2008 BD	*Three months ended 31 March 2007 BD*
OPERATING INCOME		
Income from Murabaha	**1,540,054**	976,583
Income from other Islamic financing contracts	**1,381,428**	1,023,190
	2,921,482	1,999,773
Profit paid on Murabaha from banks	**(510,024)**	(331,045)
Profit paid on Murabaha from non-banks	**(1,625,943)**	(204,342)
Share of profit to unrestricted investment account holders	**(70,297)**	-
	715,218	1,464,386
Fees and commission income	**210,371**	1,772,832
Gain on sale of investments designated as held-for-sale	**8,521,488**	1,959,250
Unrealised gains on investments designated as fair value through profit or loss	**221,112**	2,085,015
Foreign exchange gains	**457,992**	55,535
Other operating income	**32,850**	32,041
TOTAL OPERATING INCOME	**10,159,031**	7,369,059
OPERATING EXPENSES		
Staff costs	**1,751,310**	1,216,466
Premises and equipment cost	**94,021**	122,926
Depreciation	**216,608**	143,968
Depreciation on Ijarah Muntahia Bittamleek	**197,961**	120,452
Other operating expenses	**477,097**	602,643
TOTAL OPERATING EXPENSES	**2,736,997**	2,206,455
NET INCOME FOR THE PERIOD	**7,422,034**	5,162,604
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**1,200,000,000**	1,199,827,970
BASIC EARNINGS PER SHARE (FILS)	**6.2**	4.3

The attached notes 1 to 5 form part of these interim condensed financial statements.

Al Salam Bank-Bahrain B.S.C.

STATEMENT OF CASH FLOWS

Three month period ended 31 March 2008 (Unaudited)

	Three months ended 31 March 2008 BD	*Three months ended 31 March 2007 BD*
OPERATING ACTIVITIES		
Net income for the period	**7,422,034**	5,162,604
Adjustment:		
Depreciation	**216,608**	143,968
Depreciation on Ijarah Muntahia Bittamleek	**197,961**	120,452
Gain on sale of investments held-for-sale	**(8,521,488)**	(1,959,250)
Changes in fair value of investments carried at fair value through profit or loss	**(221,112)**	(2,085,015)
Operating income before changes in operating assets and liabilities	**(905,997)**	1,382,759
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank of Bahrain	**(6,386,000)**	375,000
Central Bank of Bahrain Sukuk	**(4,080,000)**	-
Murabaha contracts with banks with original maturities of 90 days or more	**(6,000,212)**	(1,584,052)
Murabaha financing	**(25,994,716)**	(15,415,671)
Ijarah Muntahia Bittamleek	**(1,046,927)**	(435,665)
Receivables and prepayments	**(10,800,259)**	(4,906,316)
Customers' current accounts	**2,720,054**	(4,896,267)
Murabaha from banks	**(19,145,990)**	22,035,729
Murabaha from non-banks	**79,308,547**	5,468,202
Other liabilities	**5,041,341**	3,508,360
Net cash from operating activities	**12,709,841**	5,532,079
INVESTING ACTIVITIES		
Purchase of investments held-for-sale	**(66,995,426)**	(63,384,708)
Proceeds from sale of investments held-for-sale	**38,574,921**	12,847,541
Other liabilities relating to investments held-for-sale	**-**	20,358,000
Investment in an associate	**-**	(9,538,480)
Purchase of premises and equipment	**(51,560)**	(830,811)
Purchase of non-trading investments,net	**(19,061,277)**	-
Net cash used in investing activities	**(47,533,342)**	(40,548,458)
FINANCING ACTIVITIES		
Unrestricted investment accounts	**28,863,872**	7,861,954
Dividends	**(12,000,000)**	-
Net cash from financing activities	**16,863,872**	7,861,954
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(17,959,629)**	(27,154,425)
Cash and cash equivalents at 1 January	**233,608,190**	92,285,728
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**215,648,561**	65,131,303
Cash and cash equivalents comprise of:		
Cash and other balances with Central Bank of Bahrain	**1,049,815**	204,204
Balances with other banks	**1,450,110**	2,822,700
Murabaha with banks with original maturities of less than 90 days	**213,148,636**	62,104,399
	215,648,561	65,131,303

The attached notes 1 to 5 form part of these interim condensed financial statements.

Al-Salam Bank-Bahrain B.S.C.

STATEMENT OF CHANGES IN EQUITY

Three month period ended 31 March 2008 (Unaudited)

	Share capital BD	*Treasury stock BD*	*Statutory reserve BD*	*Retained earnings BD*	*Investment reserve BD*	*Proposed appropriations BD*	*Total equity BD*
Balance at 1 January 2008	120,000,000		3,959,869	12,458,881	22,523,040	529,087	159,470,877
Dividends	-	-	-	(12,000,000)	-	-	(12,000,000)
Zakah	-	-	-	-	-	(529,087)	(529,087)
Net income for the period	-	-	-	7,422,034	-	-	7,422,034
Transfers	-	-	-	(221,112)	221,112	-	-
Balance at 31 March 2008	**120,000,000**	**-**	**3,959,869**	**7,659,803**	**22,744,152**	**-**	**154,363,824**
Balance as of 1 January 2007	120,000,000	(17,203)	1,641,879	3,333,225	11,443,688	-	136,401,589
Net income for the year	-	-	-	5,162,604	-	-	5,162,604
Transfers	-	-	-	(2,085,015)	2,085,015	-	-
Balance at 31 March 2007	120,000,000	(17,203)	1,641,879	6,410,814	13,528,703	-	141,564,193

The attached notes 1 to 5 form part of these interim condensed financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

a) Incorporation

Al-Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and was registered with Ministry of Industry and Commerce under Commercial Registration Number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain (CBB) and has a retail Islamic banking licence and is operating under Islamic principles, and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Building 22, Avenue 58, Block 436, Al Seef District, Kingdom of Bahrain.

b) Principal activities

The Bank offers a full range of Shari'a-compliant banking services and products. The activities of the Bank include accepting money placements/deposits, managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial instruments as principal/agent, managing Shari'a-compliant financial instruments and other activities permitted for under the CBB's Regulated Banking Services as defined in the licensing framework.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These interim condensed financial statements have been prepared on the principles in International Accounting Standard 34 - "Interim Financial Reporting". The accounting policies used in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2007, except for the accounting policies which were adopted for the first time by the Bank during the period, if any. The financial statements are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institution Law. For matters for which no AAOIFI standards exist, the Bank uses the relevant International Financial Reporting Standard.

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with AAOIFI. In addition, results for the three months ended 31 March 2008 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2008.

3 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Bank, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directorships with that of the Bank. The transactions with these parties were made on commercial terms.

The significant balances with related parties at 31 March 2008 were as follows:

	31 March 2008			
	Joint ventures BD	*Directors and related entities BD*	*Senior management BD*	*Total BD*
Assets:				
Murabaha financing	4,040,472	4,603,987	44,621	8,689,080
Ijarah Muntahia Bittamleek	-	6,566,932	246,469	6,813,401
Receivables and prepayments	70,708	87,184	1,844	159,736
Liabilities:				
Murabaha from non-banks	17,564,935	376,000	692,991	18,633,926
Customer current accounts	-	551,436	27,953	579,389
Other liabilities	41,916	1,269	2,243	45,428
Unrestricted investment accounts	15,083,905	-	324,894	15,408,799

The income and expenses in respect of related parties included in the financial statements are as follows:

	31 March 2008			
	Joint ventures BD	*Directors and related entities BD*	*Senior management BD*	*Total BD*
Income:				
Income from Murabaha financing	70,708	-	883	71,591
Income from Ijarah Muntahia Bittamleek	-	124,874	3,061	127,935
Fees and commission income	40,405	-	-	40,405
Expenses:				
Profit paid on Murabaha from non-banks	127,714	2,594	7,772	138,080
Share of profit to unrestricted investment account holders	-	-	213	213

3 RELATED PARTY TRANSACTIONS (continued)

The significant balances with related parties at 31 December 2007 were as follows:

	31 December 2007			
	Joint ventures BD	*Directors and related entities BD*	*Senior management BD*	*Total BD*
Assets:				
Murabaha financing	-	4,603,987	45,896	4,649,883
Ijarah Muntahia Bittamleek	-	6,807,337	253,129	7,060,466
Receivables and prepayments	600	196,325	1,275	198,200
Liabilities:				
Murabaha from non-banks	1,453,500	568,410	576,490	2,598,400
Customer current accounts	-	164,027	21,767	185,794
Other liabilities	2,985	1,291	62,583	66,859
Unrestricted investment accounts	-	50,315	608,454	658,769

The income and expenses in respect of related parties included in the financial statements at 31 March 2007 are as follows:

	31 March 2007			
	Joint ventures BD	*Directors and related entities BD*	*Senior management BD*	*Total BD*
Income:				
Income from Murabaha financing	-	362,874	-	362,874
Income from Ijarah Muntahia Bittamleek	-	30,274	-	30,274
Fees and commission income	-	-	-	-
Expenses:				
Profit paid on Murabaha from banks	-	15,902	-	15,902
Profit paid on Murabaha from non-banks	52,128	47,818	-	99,946
Share of profit to unrestricted investment account holders	-	-	-	-

4 COMMITMENTS

Undrawn commitments

The Bank has a contracted commitment to the extent of BD2,650,000 (31 December 2007: BD6,409,746) which remained undrawn as at the end of the period. In addition, the Bank had an undrawn capital commitment of BD8,364,258 as of 31 March 2008 (31 December 2007: BD32,601,265) on account of investments. Commitments generally have fixed expiration dates, or other termination clauses. Since commitment may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Operating lease commitment - Bank as lessee

The Bank has entered into a five-year operating lease for its headquarters premises. Future minimal rentals payable under the non-cancellable lease as at the period ended are as follows:

	31 March 2008 BD	*31 December 2007 BD*
Within 1 year	**380,460**	366,373
After one year but not more than five years	**725,868**	821,980
	1,106,328	1,188,353

5 SEGMENT INFORMATION

Primary segment information

For management purposes, the Bank is organised into four major business segments:

Banking	- principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking and private banking and wealth management.
Treasury	- principally handling Shari'a-compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	- principally the Banks' proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.
Capital	- manages the undeployed capital of the bank by investing it in high quality financial instruments, incurs all expenses in managing such investments and accounts for the corporate governance related expenses.

These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information for the **year ended 31 March 2008** was as follows:

	Banking BD	*Treasury* BD	*Investments* BD	*Capital* BD	*Total* BD
Operating income	**1,921,410**	**137,118**	**3,250,085**	**4,850,418**	**10,159,031**
Segment result	**666,948**	**(152,287)**	**2,548,617**	**4,358,756**	**7,422,034**
Other information					
Segment assets	**65,715,638**	**264,797,610**	**99,359,629**	**60,112,521**	**489,985,398**
Segment liabilities, URIA and equity	**241,704,979**	**80,310,397**	**25,960**	**167,944,062**	**489,985,398**

5 SEGMENT INFORMATION (continued)

	31 March 2007				
	Banking *BD*	*Treasury* *BD*	*Investments* *BD*	*Capital* *BD*	*Total* *BD*
Operating income	2,597,962	989,956	2,085,015	1,696,126	7,369,059
Segment result	1,582,704	118,309	1,501,453	1,960,138	5,162,604
	31 December 2007				
Other information					
Segment assets	42,574,473	175,158,216	84,587,099	95,455,752	397,775,540
Segment liabilities, URIA and equity	126,635,534	104,044,820	23,241,303	143,853,883	397,775,540