Al Salam Bank-Bahrain B.S.C.

INTERIM CONDENSED FINANCIAL STATEMENTS

30 SEPTEMBER 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 30 September 2008, comprising of the interim balance sheet as at 30 September 2008 and the related interim statements of income, changes in equity and cash flows for the nine-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

13 October 2008
Manama, Kingdom of Bahrain

Al Salam Bank-Bahrain B.S.C.

BALANCE SHEET

30 September 2008 (Unaudited)

	Reviewed 30 September 2008 BD	Audited 31 December 2007 BD
ASSETS		
Cash and balances with Central Bank of Bahrain	**38,239,762**	15,173,663
Central Bank of Bahrain Sukuk	**24,475,000**	20,380,000
Murabaha with banks	**188,194,457**	224,450,893
Murabaha financing	**84,116,336**	32,641,599
Ijarah Muntahia Bittamleek	**29,223,013**	10,435,863
Non-trading investments	**85,505,935**	62,735,696
Investment in an associate	**8,294,000**	8,272,000
Investment properties	**1,177,528**	1,177,528
Receivables and prepayments	**11,477,314**	10,505,046
Premises and equipment	**2,669,605**	2,979,252
Assets held-for-sale	**122,257,309**	9,024,000
TOTAL ASSETS	**595,630,259**	397,775,540
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		
Liabilities		
Murabaha from banks	**86,992,360**	96,983,041
Murabaha from non-banks	**264,963,989**	106,908,709
Customers' current accounts	**4,777,299**	5,688,686
Other liabilities	**9,973,719**	8,954,642
Total liabilities	**366,707,367**	218,535,078
UNRESTRICTED INVESTMENT ACCOUNTS	**59,401,433**	19,769,585
Equity		
Share capital	**120,000,000**	120,000,000
Reserves and retained earnings	**49,521,459**	38,941,790
Proposed appropriations	**-**	529,087
Total equity	**169,521,459**	159,470,877
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	**595,630,259**	397,775,540

Mohamed Alabbar
Chairman

Yousif Taqi
Director & 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

Nine month period ended 30 September 2008 (Unaudited)

	Three months ended 30 September 2008 BD	*Three months ended 30 September 2007 BD*	***Nine months ended 30 September 2008 BD***	*Nine months ended 30 September 2007 BD*
OPERATING INCOME				
Income from Murabaha	**1,610,448**	3,079,627	**4,587,419**	5,582,505
Income from other Islamic financing contracts	**2,344,137**	632,195	**5,508,959**	2,918,337
	3,954,585	3,711,822	**10,096,378**	8,500,842
Profit paid on Murabaha from banks	**(917,414)**	(937,813)	**(2,063,513)**	(1,851,314)
Profit paid on Murabaha from non-banks	**(2,635,943)**	(857,620)	**(6,321,618)**	(1,437,714)
Share of profit to unrestricted investment account holders	**(122,708)**	(3,310)	**(242,107)**	(3,677)
	278,520	1,913,079	**1,469,140**	5,208,137
Fees and commission income	**373,680**	691,456	**1,061,235**	3,513,779
Gain on disposal of assets held-for-sale	**6,163,749**	617,132	**23,543,358**	10,213,408
Gains on investments designated as fair value through profit or loss	**4,970,312**	2,128,224	**6,095,900**	5,280,496
Foreign exchange (losses) gains	**(493,309)**	151,737	**328,907**	224,957
Other operating income	**113,752**	223,562	**245,092**	278,658
TOTAL OPERATING INCOME	**11,406,704**	5,725,190	**32,743,632**	24,719,435
OPERATING EXPENSES				
Staff costs	**1,892,935**	1,336,368	**5,511,835**	3,892,238
Premises and equipment cost	**137,558**	98,439	**391,478**	325,054
Depreciation	**227,375**	201,817	**664,613**	523,076
Depreciation on Ijarah Muntahia Bittamleek	**515,617**	265,147	**1,043,651**	772,578
Other operating expenses	**1,258,287**	500,474	**2,474,386**	1,851,484
TOTAL OPERATING EXPENSES	**4,031,772**	2,402,245	**10,085,963**	7,364,430
NET INCOME FOR THE PERIOD	**7,374,932**	3,322,945	**22,657,669**	17,355,005
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**1,200,000,000**	1,200,000,000	**1,200,000,000**	1,199,914,300
BASIC EARNINGS PER SHARE (FILS)	**6.1**	2.8	**18.9**	14.5

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

Nine month period ended 30 September 2008 (Unaudited)

	Nine months ended 30 September 2008 BD	*Nine months ended 30 September 2007 BD*
OPERATING ACTIVITIES		
Net income for the period	**22,657,669**	17,355,005
Adjustment:		
Depreciation	**664,613**	523,076
Depreciation on Ijarah Muntahia Bittamleek	**1,043,651**	772,578
Gain on sale of non-trading investment	**(9,741,106)**	
Unrealised losses (gains) on investments designated as fair value through profit or loss	**1,214,100**	(5,280,496)
Operating income before changes in operating assets and liabilities	**15,838,927**	13,370,163
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank of Bahrain	**(9,397,000)**	(2,670,000)
Central Bank of Bahrain Sukuk	**(4,095,000)**	(13,890,000)
Murabaha contracts with banks with original maturities of 90 days or more	**(19,128,312)**	1,509,400
Murabaha financing	**(51,474,737)**	(33,644,786)
Ijarah Muntahia Bittamleek	**(19,830,801)**	(1,611,666)
Receivables and prepayments	**(972,268)**	(22,563,395)
Customers' current accounts	**(911,387)**	17,567,014
Murabaha from banks	**(9,990,681)**	63,235,624
Murabaha from non-banks	**158,055,280**	60,617,661
Other liabilities	**389,990**	1,892,484
Net cash from operating activities	**58,484,011**	83,812,499
INVESTING ACTIVITIES		
Purchase of assets held-for-sale	**(113,233,309)**	(15,004,798)
Investment in an associate	**-**	(7,461,817)
Purchase of premises and equipment	**(354,966)**	(1,518,453)
Purchase of non-trading investments, net	**(14,243,232)**	(724,192)
Net cash used in investing activities	**(127,831,507)**	(24,709,260)
FINANCING ACTIVITIES		
Proceeds from sale of treasury stock	**-**	20,294
Unrestricted investment accounts	**39,631,848**	26,562,529
Dividends	**(12,000,000)**	-
Net cash from financing activities	**27,631,848**	26,582,823
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(41,715,648)**	85,686,062
Cash and cash equivalents at 1 January	**233,608,190**	92,285,728
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**191,892,542**	177,971,790
Cash and cash equivalents comprise of:		
Cash and other balances with Central Bank of Bahrain	**20,425,894**	297,616
Balances with other banks	**2,776,868**	1,063,683
Murabaha with banks with original maturities of less than 90 days	**168,689,780**	176,610,491
	191,892,542	177,971,790

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

Nine month period ended 30 September 2008 (Unaudited)

	Share capital BD	*Treasury stock BD*	*Statutory reserve BD*	*Retained earnings BD*	*Foreign exchange translation reserve 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)
Charitable donations	-	-	-	(100,000)	-	-	-	(100,000)
Zakah	-	-	-	-	-	-	(529,087)	(529,087)
Net income for the period	-	-	-	22,657,669	-	-	-	22,657,669
Adjustments during the period	-	-	-	-	22,000	-	-	22,000
Transfers	-	-	-	1,214,100	-	(1,214,100)	-	-
Balance at 30 September 2008	**120,000,000**	**-**	**3,959,869**	**24,230,650**	**22,000**	**21,308,940**	**-**	**169,521,459**
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 period	-	-	-	17,355,005	-	-	-	17,355,005
Sale of treasury stock	-	17,203	3,091	-	-	-	-	20,294
Transfers	-	-	-	(5,280,496)	-	5,280,496	-	-
Balance at 30 September 2007	120,000,000	-	1,644,970	15,407,734	-	16,724,184	-	153,776,888

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 nine months ended 30 September 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 30 September 2008 were as follows:

	30 September 2008			
	Associates and joint ventures BD	*Directors and related entities BD*	*Senior management BD*	*Total BD*
Assets:				
Murabaha financing	**7,040,472**	**3,693,308**	**64,181**	**10,797,961**
Ijarah Muntahia Bittamleek	**-**	**6,718,421**	**233,149**	**6,951,570**
Receivables and prepayments	**1,242,105**	**51,119**	**2,988**	**1,296,212**
Liabilities:				
Murabaha from non-banks	**29,214,533**	**13,658**	**1,022,894**	**30,251,085**
Customer current accounts	**-**	**384,977**	**39,664**	**424,641**
Other liabilities	**23,924**	**10**	**1,078**	**25,012**
Unrestricted investment accounts	**5,439,772**	**63,710**	**54,412**	**5,557,894**

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

	30 September 2008			
	Associates and joint ventures BD	*Directors and related entities BD*	*Senior management BD*	*Total BD*
Income:				
Income from other Islamic financing contracts	**338,810**	**337,121**	**8,971**	**684,902**
Fees and commission income	**40,405**	**-**	**-**	**40,405**
Expenses:				
Profit paid on Murabaha from banks	**-**	**15,902**	**-**	**15,902**
Profit paid on Murabaha from non-banks	**728,427**	**3,067**	**22,554**	**754,048**
Share of profit to unrestricted investment account holders	**-**	**87**	**2,960**	**3,047**

3 RELATED PARTY TRANSACTIONS (continued)

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

	31 December 2007			
	Associates and 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 30 September 2007 are as follows:

	30 September 2007			
	Associates and joint ventures BD	*Directors and related entities BD*	*Senior management BD*	*Total BD*
Income:				
Income from Murabaha with banks	-	705,217	-	705,217
Income from other Islamic financing contracts	-	813,418	6,213	819,631
Expenses:				
Profit paid on Murabaha from non-banks	177,543	34,462	12,209	224,214

4 COMMITMENTS

Undrawn commitments

The Bank has a contracted commitment to the extent of BD4,132,318 (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 BD26,198,645 as of 30 September 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:

	30 September 2008 BD	*31 December 2007 BD*
Within 1 year	**409,734**	366,373
After one year but not more than five years	**530,742**	821,980
	940,476	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 **period ended 30 September 2008** was as follows:

	Banking BD	*Treasury BD*	*Investments BD*	*Capital BD*	*Total BD*
Operating income	**11,152,191**	**928,123**	**7,161,714**	**13,501,604**	**32,743,632**
Segment result	**6,727,836**	**(34,230)**	**4,688,865**	**11,275,198**	**22,657,669**
Other information					
Segment assets	**107,606,773**	**258,574,783**	**154,170,674**	**75,278,029**	**595,630,259**
Segment liabilities, URIA and equity	**321,226,762**	**97,513,270**	**293,592**	**176,596,635**	**595,630,259**

	30 September 2007				
	Banking BD	*Treasury BD*	*Investments BD*	*Capital BD*	*Total BD*
Operating income	7,288,190	742,285	7,551,962	9,136,998	24,719,435
Segment result	3,859,815	36,495	5,883,003	7,575,692	17,355,005
	31 December 2007				
Other information					
Segment assets	42,574,473	175,158,216	30,876,319	149,166,532	397,775,540
Segment liabilities, URIA and equity	126,635,534	104,044,820	718,263	166,376,923	397,775,540