

Bahrain Islamic Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 2013 (UNAUDITED)

REVIEW REPORT TO THE BOARD OF DIRECTORS OF BAHRAIN ISLAMIC BANK B.S.C.

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") as at 30 June 2013, and the related interim consolidated statements of income, cash flows, changes in owners' equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the six month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

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16 July 2013
Manama, Kingdom of Bahrain

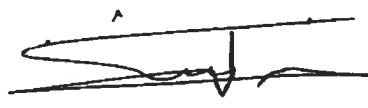
Bahrain Islamic Bank B.S.C.

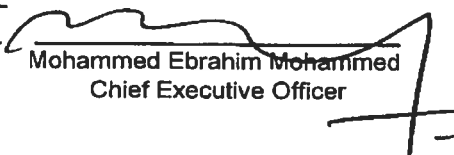
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013 (Unaudited)

		30 June	<i>Restated</i>
		2013	<i>(Audited)</i>
	<i>Notes</i>	BD'000	<i>31 December</i>
			<i>2012</i>
			<i>BD'000</i>
ASSETS			
Cash and balances with banks and Central Bank		48,386	43,893
Due from banks and financial institutions		96,149	132,424
Murabaha receivables		241,621	227,757
Musharaka investments		88,939	90,220
Investments	3	119,823	138,443
Investment in associates		7,354	7,143
Ijarah muntahia bittamleek		93,180	96,846
Investment in real estate	4	64,185	64,196
Ijarah rental receivables		13,766	13,766
Property, plant and equipment		17,160	16,222
Other assets	5	1,951	1,894
TOTAL ASSETS		792,514	832,804
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Customers' current accounts		104,692	87,132
Other liabilities	6	17,579	14,649
Total Liabilities		122,271	101,781
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Financial institutions' investment accounts		56,757	87,690
Customers' investment accounts		540,685	573,570
Total Equity of Investment Accountholders		597,442	661,260
Owners' Equity			
Share capital	7	93,967	93,967
Treasury shares		(563)	(563)
Reserves		(20,603)	(23,641)
Total Owners' Equity		72,801	69,763
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		792,514	832,804
COMMITMENTS AND CONTINGENT LIABILITIES	8	13,568	10,285


 Abdulrazzaq Al Qassim
 Chairman


 Khalid Al Mannai
 Vice Chairman


 Mohammed Ebrahim Mohammed
 Chief Executive Officer

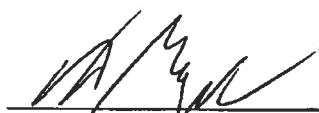
The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

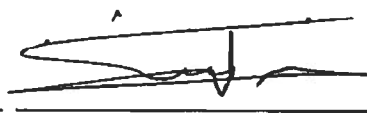
Bahrain Islamic Bank B.S.C.

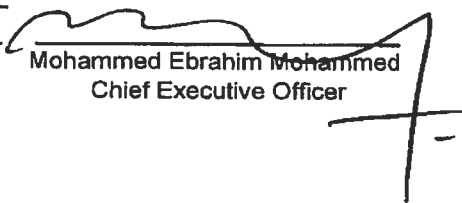
INTERIM CONSOLIDATED STATEMENT OF INCOME

For the period ended 30 June 2013 (Unaudited)

	Note	Three months ended		Six months ended	
		30 June		30 June	
		2013	2012	2013	2012
		BD'000	BD'000	BD'000	BD'000
INCOME					
Income from Islamic finances		8,054	6,690	15,054	12,917
Income from investment in sukuk	9	297	545	3,993	1,860
		8,351	7,235	19,047	14,777
Gross return to equity of investment accountholders		7,509	6,812	17,487	13,670
Group's share as a Mudarib		(4,480)	(3,286)	(11,367)	(6,460)
Return on equity of investment accountholders		3,029	3,526	6,120	7,210
Group's share of income from joint financing and investment accounts		5,322	3,709	12,927	7,567
Net income from investments		1,121	746	1,298	1,393
Gain on sale of equity type instruments		83	92	728	803
Share of results of associates		146	33	206	(19)
Fee and commission income		1,303	1,130	2,361	2,498
Net (loss) gain from foreign currencies		(122)	558	209	556
Total income		7,853	6,268	17,729	12,798
EXPENSES					
Staff costs		2,667	2,420	5,204	4,784
Depreciation		348	424	701	889
Other expenses		1,827	1,959	3,636	3,563
Total expenses		4,842	4,803	9,541	9,236
Net income before fair value loss on investment in real estate and net provision for impairment		3,011	1,465	8,188	3,562
Fair value loss on investment in real estate		-	(3,519)	(41)	(3,519)
Net provision for impairment		(1,711)	(14,387)	(5,746)	(15,941)
NET INCOME (LOSS) FOR THE PERIOD		1,300	(16,441)	2,401	(15,898)
BASIC AND DILUTED EARNINGS PER SHARE (fils)		1.39	(17.56)	2.57	(16.98)


 Abdulrazzaq Al Qassim
 Chairman


 Khalid Al Mannai
 Vice Chairman


 Mohammed Ebrahim Mohammed
 Chief Executive Officer

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the period ended 30 June 2013 (Unaudited)

	Reserves							Total owners' equity BD'000	
	Share capital BD'000	Treasury shares BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Property fair value reserve BD'000	Cumulative changes in fair value of investments BD'000		Accumulated losses BD'000
Balance at 1 January 2013	93,967	(563)	-	10,268	1,000	-	1,286	(36,195)	69,763
Changes due to adoption of FAS 26 (note 2.5)	-	-	-	-	-	13,259	-	(13,259)	-
As at 1 January 2013 (restated)	93,967	(563)	-	10,268	1,000	13,259	1,286	(49,454)	69,763
Net income for the period	-	-	-	-	-	-	-	2,401	2,401
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	637	-	637
Balance at 30 June 2013	93,967	(563)	-	10,268	1,000	13,259	1,923	(47,053)	72,801
Balance at 1 January 2012	93,967	(563)	43,936	10,268	1,000	-	(3,343)	(43,936)	101,329
Changes due to adoption of FAS 26 (note 2.5)	-	-	-	-	-	9,185	-	(9,185)	-
As at 1 January 2012 (restated)	93,967	(563)	43,936	10,268	1,000	9,185	(3,343)	(53,121)	101,329
Net loss for the period	-	-	-	-	-	-	-	(15,898)	(15,898)
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	(771)	-	(771)
Transfer of accumulated losses to share premium (note 7)	-	-	(43,936)	-	-	-	-	43,936	-
Balance at 30 June 2012	93,967	(563)	-	10,268	1,000	9,185	(4,114)	(25,083)	84,660

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2013 (Unaudited)

	<i>Six months ended</i>	
	<i>30 June</i>	
	2013	2012
	BD'000	BD'000
OPERATING ACTIVITIES		
Net income (loss) for the period	2,401	(15,898)
Adjustments for non-cash items:		
Depreciation	701	889
Fair value loss on investment in real estate	41	3,519
Net provision for impairment	5,746	15,941
Gain on sale of investment in sukuk	(3,420)	(851)
Gain on sale of equity type instruments	(728)	(803)
Share of results of associates	(206)	19
Unrealised loss (gain) on equity type instruments carried at fair value through statement of income	3	(58)
Operating profit before changes in operating assets and liabilities	4,538	2,758
Working capital adjustments:		
Mandatory reserve with Central Bank of Bahrain	30	(1,020)
Due from banks and financial institutions	(18,924)	1,186
Murabaha receivables	(13,413)	(24,456)
Musharaka investments	1,013	(397)
Other assets	(57)	(793)
Customers' current accounts	17,560	7,798
Other liabilities	2,930	14
Net cash used in operating activities	(6,323)	(14,910)
INVESTING ACTIVITIES		
Disposal of investment in real estate	(30)	(590)
Disposal (purchase) of Ijarah Muntahia Bittamleek assets	1,676	(3,990)
Investment in associates	-	(245)
Purchase of property, plant and equipment	(1,639)	(1,234)
Purchase of investments	(12,191)	(36,681)
Proceeds from disposal of investments	29,441	32,790
Net cash from (used in) investing activities	17,257	(9,950)
FINANCING ACTIVITIES		
Financial institutions' investment accounts	(30,933)	(41,888)
Customers' investment accounts	(32,885)	29,514
Dividends paid	-	(2,649)
Zakah paid	-	(16)
Net cash used in financing activities	(63,818)	(15,039)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(52,884)	(39,899)
Cash and cash equivalents at 1 January	119,893	163,063
CASH AND CASH EQUIVALENTS AT 30 JUNE	67,009	123,164
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash on hand	6,593	6,544
Balances with CBB, excluding mandatory reserve deposits	3,309	5,437
Balances with banks and other financial institutions	10,258	13,460
Due from banks and financial institutions with original maturities less than 90 days	46,849	97,723
	67,009	123,164

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the period ended 30 June 2013 (Unaudited)

	<i>Qard hasan receivables BD'000</i>	<i>Funds available for qard hasan BD'000</i>	<i>Total BD'000</i>
Balance at 1 January 2013	15	113	128
Uses of qard fund			
Marriage	28	(28)	-
Others	60	(60)	-
Total uses during the period	88	(88)	-
Repayments	(15)	15	-
Balance at 30 June 2013	88	40	128
Balance at 1 January 2012	2	126	128
Uses of qard fund			
Marriage	3	(3)	-
Total uses during the period	3	(3)	-
Repayments	(1)	1	-
Balance at 30 June 2012	4	124	128
		30 June 2013 BD'000	30 June 2012 BD'000
Sources of Qard fund			
Contribution by the Bank		125	125
Donation		3	3
Total of sources during the period		128	128

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

**INTERIM CONSOLIDATED STATEMENT OF SOURCES AND USES OF
ZAKAH AND CHARITY FUND**

For the period ended 30 June 2013 (Unaudited)

	30 June 2013 BD'000	30 June 2012 BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the period	154	209
Non-Islamic income / late fee	536	445
Total sources of zakah and charity funds during the period	690	654
Uses of zakah and charity funds		
Philanthropic societies	277	289
Aid to needy families	184	172
Total uses of funds during the period	461	461
Undistributed zakah and charity funds at the end of the period	229	193

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

1 INCORPORATION AND ACTIVITIES

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in the year 1979 by Amiri Decree No.2 of 1979, under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under a retail banking license issued by the Central Bank of Bahrain (CBB). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on Bahrain Bourse.

The Bank holds 100% of the share capital of both Abaad Real Estate Company B.S.C. (c) and BisB MMF Company B.S.C. (c) ("Subsidiaries");

Abaad Real Estate Company B.S.C. (c) ("Subsidiary")

The Subsidiary was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorised and fully paid-up share capital of BD 25 million. The Subsidiary started operations during the year 2007. The main activities of the Subsidiary are the management and development of real estate (in accordance with the Islamic Shari'a rules and principles).

BisB MMF Company B.S.C. (c) ("Subsidiary")

The Subsidiary was incorporated in the Kingdom of Bahrain as a closed joint stock company and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 81322-1. The postal address of the Subsidiary is registered at, Building 722, Road 1708, Block 317, Diplomatic Area, Kingdom of Bahrain. The purpose of the Subsidiary is limited to establishing funds (in accordance with the Islamic Shari'a rules and principles).

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has thirteen branches (2012: thirteen), all operating in the Kingdom of Bahrain.

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 16 July 2013.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Bank and its subsidiaries (together "the Group") for the six month period ended 30 June 2013 have been prepared in accordance with guidance given by the International Accounting Standard 34 - "Interim Financial Reporting". The interim condensed consolidated financial statements do not contain all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2012. In addition, results for the six month period ended 30 June 2013 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

2.2 Accounting convention

The consolidated financial statements have been prepared on a historical cost basis, except for "investment in real estate", "equity type instruments carried at fair value through equity" and "equity type instruments carried at fair value through statement of income" that have been measured at fair value.

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), being the functional currency of the Group's operations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2012, except for the adoption of a new accounting standard as of 1 January 2013, which were prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, Central Bank of Bahrain ("CBB") and the Financial Institutions Law and the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards ("the IFRS").

2.4 Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and its Subsidiaries. A subsidiary is an entity over which the Bank has control to govern its financial and operating policies in order to obtain benefits from its activities. A subsidiary is consolidated from the date it was incorporated and is included in the interim condensed consolidated financial statements using the purchase method of accounting. All intercompany balances, transactions and income are eliminated on consolidation.

2.5 Adoption of new and amended standard

During 2012, AAOIFI issued a new Financial Accounting Standard (FAS 26) "Investment in real estate", which is effective as of 1 January 2013.

FINANCIAL ACCOUNTING STANDARD (FAS 26) "INVESTMENT IN REAL ESTATE"

The Group has adopted FAS 26 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both.

The adoption of FAS 26 had an effect on the classification and measurement of the Group's direct investment in real estate rather than investment in shares and other financial instruments providing indirect exposure to investment in real estate. The Group has accounted for such other investments under other standards issued by AAOIFI. As a result of the application of this new standard, the Group revisited the classification of the investment portfolio and changes if any, were made in these classifications in line with FAS 26. The effect of the adoption of FAS 26 has an impact on the opening accumulated losses for 2013 of BD 13,259 thousand (2012 : BD 9,185 thousand).

Before the adoption of FAS 26, the Bank was following FAS 17 'Investments' and measured its investments in real estate at fair value and this measurement continues to be followed under FAS 26.

2.6 Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as Investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, Investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

3 INVESTMENTS

	30 June 2013			(Audited) 31 December 2012		
	Self financed BD'000	Jointly financed BD'000	Total BD'000	Self financed BD'000	Jointly financed BD'000	Total BD'000
i) Debt type instruments carried at amortised cost						
Sukuk						
At 1 January	-	41,049	41,049	-	56,698	56,698
Acquisitions	-	5,078	5,078	-	25,462	25,462
Impairment	-	-	-	-	(3,204)	(3,204)
Disposals and redemptions	-	(20,369)	(20,369)	-	(37,907)	(37,907)
	-	25,758	25,758	-	41,049	41,049
ii) Equity type instruments carried at fair value through equity						
Quoted investments						
Equity shares						
At 1 January	19,805	-	19,805	13,331	-	13,331
Acquisitions	4,307	-	4,307	10,495	-	10,495
Impairment	(1,384)	-	(1,384)	(720)	-	(720)
Movement in fair market value	517	-	517	2,332	-	2,332
Disposals	(4,320)	-	(4,320)	(5,633)	-	(5,633)
	18,925	-	18,925	19,805	-	19,805
Unquoted investments						
Equity shares						
At 1 January	39,877	-	39,877	42,414	-	42,414
Acquisition	-	-	-	-	-	-
Impairment	(500)	-	(500)	(2,537)	-	(2,537)
Disposals	(139)	-	(139)	-	-	-
	39,238	-	39,238	39,877	-	39,877
Managed funds						
At 1 January	37,286	-	37,286	38,470	-	38,470
Acquisitions	27	-	27	2,746	-	2,746
Impairment	-	-	-	(5,511)	-	(5,511)
Movement in fair market value	-	-	-	1,851	-	1,851
Disposals	(2,945)	-	(2,945)	(270)	-	(270)
	34,368	-	34,368	37,286	-	37,286
iii) Equity type instruments carried at fair value through statement of income						
Quoted investments						
Equity shares						
At 1 January	426	-	426	1,163	-	1,163
Acquisitions	2,779	-	2,779	5,553	-	5,553
Movement in fair market value	(3)	-	(3)	269	-	269
Disposals	(1,668)	-	(1,668)	(6,559)	-	(6,559)
	1,534	-	1,534	426	-	426
TOTAL	94,065	25,758	119,823	97,394	41,049	138,443

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

4 INVESTMENT IN REAL ESTATE

	<i>Self financed</i>	
	<i>(Audited)</i>	
	<i>30 June</i>	<i>31 December</i>
	<i>2013</i>	<i>2012</i>
	<i>BD'000</i>	<i>BD'000</i>
Lands	61,298	61,309
Buildings	2,887	2,887
	64,185	64,196

The following is a reconciliation between the carrying amounts of investment in real estate at the beginning and end of the period:

	<i>(Audited)</i>	
	<i>30 June</i>	<i>31 December</i>
	<i>2013</i>	<i>2012</i>
	<i>BD'000</i>	<i>BD'000</i>
At 1 January	64,196	67,500
Acquisition	30	770
Net loss from fair value adjustments	(41)	(4,074)
	64,185	64,196

5 OTHER ASSETS

	<i>(Audited)</i>	
	<i>30 June</i>	<i>31 December</i>
	<i>2013</i>	<i>2012</i>
	<i>BD'000</i>	<i>BD'000</i>
Receivables	3,600	3,609
Staff advances	1,296	864
Income receivable	294	388
Prepaid expenses	229	400
Others	132	242
	5,551	5,503
Net provision for impairment	(3,600)	(3,609)
	1,951	1,894

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

6 OTHER LIABILITIES

	<i>(Audited)</i>	
	30 June	31 December
	2013	2012
	BD'000	BD'000
Payable to vendors	5,039	4,566
Managers' cheques	2,895	2,582
Accrued expenses	1,887	1,829
Life insurance fees payable	1,734	1,722
Dividends payable	808	817
Unearned income	807	1,644
Provision for employees' end of service benefits and leave	634	564
Zakah and charity fund	235	44
Others	3,540	881
	17,579	14,649

7 EQUITY*a) Share Premium*

During the period ended 31 March 2012 the Bank has proposed netting accumulated losses amounting to BD 43,936 thousand against the share premium. This proposed netting was approved by the shareholders in their annual general meeting held on 21 March 2012.

b) Shares acquisition

On 20 May 2013 National Bank of Bahrain ("NBB") and Social Insurance Organisation - Military Pension Fund and Social Insurance Organisation has acquired The Investment Dar Company ("TID"), Kuwait Investment Company ("KIC"), and other board members shares in the Group amounting to 372,632,690 shares, 110,962,471 shares, and 481,250 shares respectively, representing ownership of 39.66%, 11.81%, and 0.05% respectively. As of the period ended 30 June 2013, NBB, Social Insurance Organisation – Military Pension Fund and Social Insurance Organisation own 242,038,206, 121,113,559 and 121,147,267 shares respectively, representing 25.76%, 12.89% and 12.89% ownership of the Group respectively.

Subsequent to the share acquisition, four new board members were appointed and during an Annual General Meeting ("AGM") held on 7 July 2013 other four board members were elected and appointed.

8 COMMITMENTS AND CONTINGENT LIABILITIES***Credit related commitments***

These include commitments to enter into financing contracts which are designed to meet the requirements of the Bank's customers.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	<i>(Audited)</i>	
	30 June	31 December
	2013	2012
	BD'000	BD'000
Letters of credit	3,430	2,239
Guarantees	9,773	7,522
Operating lease commitments *	365	524
	13,568	10,285

* The Group has entered into commercial leases for certain branches. These leases have an average life of between 1 month and 4 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

9 INCOME FROM INVESTMENT IN SUKUK

During the period the income from investment in Sukuk includes gain on sale of sukuk of BD 3,420 thousand (June 2012: BD 851 thousand).

10 RELATED PARTY TRANSACTIONS

Related parties represents associated companies, major shareholders, directors, key management personnel of the Group and Shari'a Supervisory Board Members.

The balances and values of major transactions with the related parties are as follows, gross of provision:

Name of related party*	Transaction	Statement of income six months ended		Balances at	
		30 June		30 June	31 December
		2013 BD'000	2012 BD'000	2013 BD'000	2012 BD'000
Shareholders	Customers' investment accounts	(67)	N/a*	8,086	N/a*
Shareholders**	Sukuk	N/a*	-	N/a*	4,197
Shareholders***	Tawarooq	N/a*	-	N/a*	7,817
Shareholders	Investment properties	N/a*	-	N/a*	14,200
Shareholders****	Receivable	N/a*	-	N/a*	1,855
Associate	Wakala	86	29	9,433	9,592
Associate	Investment	206	(19)	7,354	7,143
Board of Directors	Expenses	(9)	(105)	-	-
Board of Directors	Tawarooq	1	-	25	24
Board of Directors	Musharaka	20	N/a	632	N/a*
Shari'a Supervisory Board	Expenses	(5)	(39)	-	-
Shari'a Supervisory Board	Murabaha	10	25	32	39
Shari'a Supervisory Board	Musharaka	-	5	276	293
Shari'a Supervisory Board	Tawarooq	-	35	576	596
Shari'a Supervisory Board	Letter of credit	30	-	678	668
Key management personnel	Staff advances	-	-	235	275
Key Management personnel	Staff - Credit Cards	-	-	42	47
Board of Directors	Credit Cards	-	-	11	26
Shari'a Supervisory Board	Credit Cards	-	-	7	12
Associate	Customers' investment accounts	(5)	(4)	125	2,373
Associate	Customers' current accounts	-	-	637	581
Associate	Life Insurance - Liabilities	-	-	1,734	1,644
Board of Directors	Customers' current accounts	-	-	111	N/a*
Board of Directors	Customers' current accounts	-	-	6	38
Board of Directors	Customers' investment accounts	N/a*	-	N/a*	363
Shari'a Supervisory Board	Customers' investment accounts	(1)	-	100	80
Shari'a Supervisory Board	Customers' current accounts	-	-	223	421

* With reference to note 7 (b), during the period the major shareholders of the Bank and certain board of directors members have changed and are no longer considered as related parties.

** An amount of BD 4,197 thousand is considered as impaired which was partially provided for.

*** An amount of BD 7,817 thousand is considered as impaired which was partially provided for.

**** An amount of BD 1,553 thousand is considered as impaired which was fully provided for.

Compensation of the key management personnel is as follows:

	Six months ended 30 June	
	2013 BD'000	2012 BD'000
Short term employee benefits	388	473
Other long term benefits	71	74
	459	547

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

11 FINANCIAL INSTRUMENTS

Fair value hierarchy

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Fair values of quoted securities/sukuks are derived from quoted market prices in active markets, if available. For unquoted securities/sukuks, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 30 June 2013:

	<i>Level 1</i> <i>BD'000</i>	<i>Level 2</i> <i>BD'000</i>	<i>Level 3</i> <i>BD'000</i>	<i>Total</i> <i>BD'000</i>
Investments carried at fair value through statement of income				
<i>Quoted securities</i>				
Equities	1,534	-	-	1,534
	<u>1,534</u>	<u>-</u>	<u>-</u>	<u>1,534</u>
Investments carried at fair value through equity				
<i>Quoted securities</i>				
Equities	18,925	-	-	18,925
<i>Unquoted securities</i>				
Managed funds	-	34,368	-	34,368
Equities	-	39,238	-	39,238
	<u>18,925</u>	<u>73,606</u>	<u>-</u>	<u>92,531</u>
	<u>20,459</u>	<u>73,606</u>	<u>-</u>	<u>94,065</u>

Transfers between Level 1, Level 2 and Level 3

During the six-month period ended 30 June 2013 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

The carrying values of financial assets and liabilities are not significantly different from their fair values at 30 June 2013, except for the Group's investments in sukuk held at amortised cost amounting to BD 25,758 thousand (2012: BD 41,049 thousand) and fair values amounting to BD 25,539 thousand (2012: BD 85,448 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

12 SEGMENTAL INFORMATION

For management purposes, the Group is organised into three major business segments;

Corporate	Principally handling corporates' equity of investment accountholders', current accounts, and providing islamic financing facilities.
Retail	Principally handling individual customers' equity of investment accountholders', current accounts, and providing islamic financing facilities.
Investment	Principally handling banks' and financial institutions' equity of investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling investments in local and international markets and investment in real estate.

These segments are the basis on which the Group 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 is disclosed as follows:

	30 June 2013			
	Corporate	Retail	Investment	Total
	BD'000	BD'000	BD'000	BD'000
Total income	4,539	8,500	4,690	17,729
Total expenses	(1,498)	(6,702)	(1,341)	(9,541)
Fair value loss on investment in real estate	-	-	(41)	(41)
Net provision for impairment	(4,444)	(494)	(808)	(5,746)
Net (loss) income for the period	(1,403)	1,304	2,500	2,401
Other information				
Segment assets	199,854	269,053	323,607	792,514
Segment liabilities, and equity	218,331	438,275	135,908	792,514
	30 June 2012			
	Corporate	Retail	Investment	Total
	BD'000	BD'000	BD'000	BD'000
Total income	2,513	7,838	2,447	12,798
Total expenses	(1,366)	(6,504)	(1,366)	(9,236)
Fair value loss on investment in real estate	-	-	(3,519)	(3,519)
Net provision for impairment	(6,544)	(1,823)	(7,574)	(15,941)
Net loss for the period	(5,397)	(489)	(10,012)	(15,898)
Other information				
	31 December 2012			
	Corporate	Retail	Investment	Total
	BD'000	BD'000	BD'000	BD'000
Segment assets	213,284	249,645	369,875	832,804
Segment liabilities, and equity	243,967	427,159	161,678	832,804

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS

At 30 June 2013 (Unaudited)

13 COMPARATIVE FIGURES

Certain of the prior period's figures have been reclassified to conform to the presentation adopted in the current period. Such reclassifications did not affect previously reported net loss.