

Bahrain Islamic Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 September 2011 (UNAUDITED)

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

We have reviewed the accompanying interim condensed consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiary (the "Group") as at 30 September 2011, comprising of the interim consolidated statement of financial position as at 30 September 2011 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 nine 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.

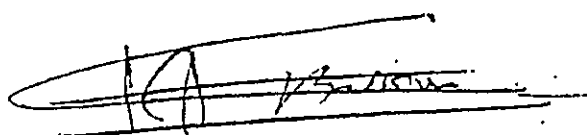
13 November 2011
Manama, Kingdom of Bahrain

Bahrain Islamic Bank B.S.C.

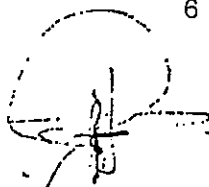
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2011 (Unaudited)

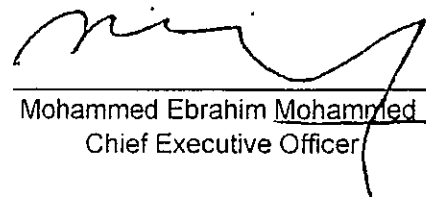
		30 September 2011 BD'000	Audited 31 December 2010 BD'000
ASSETS			
Cash and balances with Central Bank of Bahrain and other banks		41,149	45,831
Murabaha receivables		359,874	431,692
Mudaraba investments		34,438	37,360
Musharaka investments		92,492	80,246
Investments		62,239	94,667
Investment in associates		7,126	6,778
Investment in Ijarah assets		9,529	9,635
Ijarah Muntahia Bittamleek		101,624	105,386
Investment in properties		105,218	105,192
Ijarah rental receivables		7,569	7,569
Other assets	3	7,050	11,318
TOTAL ASSETS		828,308	935,674
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Customers' current accounts		82,609	81,660
Other liabilities	4	13,387	12,571
Total Liabilities		95,996	94,231
Equity of Investment Accountholders			
Financial institutions' investment accounts		99,429	141,358
Customers' investment accounts		511,666	600,024
Total Equity of Investment Accountholders		611,095	741,382
Owners' Equity			
Share capital		93,967	72,859
Treasury shares	5	(563)	(307)
Share premium		43,936	43,936
Reserves		(16,123)	(16,594)
Proposed appropriations		-	167
Total Owners' Equity		121,217	100,061
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		828,308	935,674
COMMITMENTS AND CONTINGENT LIABILITIES	6	9,807	13,230



Khalid Abdulla Al Bassam
Chairman



Nabil Ahmed Amin
Board Member



Mohammed Ebrahim Mohammed
Chief Executive Officer

The attached notes 1 to 9 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 September 2011 (Unaudited)

	Note	Three months ended		Nine months ended	
		30 September		30 September	
		2011	2010	2011	2010
		BD'000	BD'000	BD'000	BD'000
INCOME					
Income from Islamic finances		6,827	6,761	22,440	22,096
Income from sukuk and commodities		924	1,488	2,943	3,902
		7,751	8,249	25,383	25,998
Gross return to equity of investment accountholders		6,183	6,666	20,551	21,776
Group's share as a Mudarib		(2,823)	(2,295)	(9,246)	(7,959)
Return on equity of investment accountholders		3,360	4,371	11,305	13,817
Group's share of income from joint financing and investment accounts		4,391	3,878	14,078	12,181
Net income from investments		194	50	703	977
Gain (loss) on sale of investments		591	(79)	1,491	(1,399)
Share of results of associates		81	(196)	107	(45)
Fee and commission income		756	729	3,326	2,016
Other income		89	155	1,386	487
Total income	8	6,102	4,537	21,091	14,217
EXPENSES					
Staff costs		2,365	2,290	7,136	6,944
Depreciation		421	403	1,265	1,161
Other expenses		2,112	1,803	5,875	5,327
Total expenses		4,898	4,496	14,276	13,432
Net income before provisions		1,204	41	6,815	785
Provision for impairment - net		(878)	(4,282)	(3,299)	(10,703)
NET INCOME (LOSS) FOR THE PERIOD		326	(4,241)	3,516	(9,918)
BASIC AND DILUTED EARNINGS PER SHARE (fils)		0.35	(4.53)	3.76	(10.60)

The attached notes 1 to 9 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 September 2011 (Unaudited)

	<i>Nine months ended</i>	
	<i>30 September</i>	
	2011	2010
	BD'000	BD'000
OPERATING ACTIVITIES		
Net income (loss) for the period	3,516	(9,918)
Adjustments for:		
Depreciation	1,265	1,161
Provision for impairment - net	3,299	10,703
(Gain) loss on sale of investments	(1,491)	1,399
Share of results of associates	(107)	45
Unrealized loss on investment at fair value through statement of income	305	-
Operating profit before changes in operating assets and liabilities	6,787	3,390
Working capital adjustments:		
Mandatory reserve with Central Bank of Bahrain	1,295	(3,510)
Murabaha receivables	69,852	(53,557)
Mudaraba investments	897	9,668
Musharaka investments	(8,346)	(365)
Investment in Ijarah assets	1	-
Other assets	3,108	(3,903)
Customers' current accounts	949	12,013
Other liabilities	829	391
Net cash from (used in) operating activities	75,372	(35,873)
INVESTING ACTIVITIES		
Purchase of investments in properties	(26)	(168)
Ijarah Muntahia Bittamleek	2,157	8,325
Purchase of investments	(9,328)	(11,474)
Proceeds from disposal of investments	38,053	52,168
Net cash from investing activities	30,856	48,851
FINANCING ACTIVITIES		
Rights Issue	21,108	-
Purchase of treasury shares	(256)	(134)
Financial institutions' investment accounts	(41,929)	(1,363)
Customers' investment accounts	(88,358)	(8,149)
Dividends paid	(8)	(44)
Zakah paid	(172)	(706)
Net cash used in financing activities	(109,615)	(10,396)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,387)	2,582
Cash and cash equivalents at 1 January	18,961	12,683
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	15,574	15,265
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash in hand	6,020	7,416
Balances with CBB, excluding mandatory reserve deposits	2,961	1,782
Balances with banks and other financial institutions	6,593	6,067
	15,574	15,265

The attached notes 1 to 9 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 September 2011 (Unaudited)

	Share capital BD'000	Treasury shares BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Reserves		Proposed appropriations BD'000	Total owners' equity BD'000
						Investment in properties fair value reserve BD'000	Cumulative changes in fair value of investments BD'000		
Balance at 1 January 2011	72,859	(307)	43,936	10,268	1,000	42	(1,278)	(26,626)	100,061
Rights Issue (note 5)	21,108	-	-	-	-	-	-	-	21,108
Purchase of treasury shares (note 5)	-	(256)	-	-	-	-	-	-	(256)
Zakah paid	-	-	-	-	-	-	-	(167)	(167)
Net income for the period	-	-	-	-	-	-	-	3,516	3,516
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	(3,045)	-	(3,045)
Balance at 30 September 2011	93,967	(563)	43,936	10,268	1,000	42	(4,323)	(23,110)	121,217
Balance at 1 January 2010	72,859	(173)	43,936	10,268	1,000	18,093	(1,431)	(4,798)	140,501
Purchase of treasury shares (note 5)	-	(134)	-	-	-	-	-	-	(134)
Zakah paid	-	-	-	-	-	-	-	(747)	(747)
Net loss for the period	-	-	-	-	-	-	-	(9,918)	(9,918)
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	(976)	-	(976)
Balance at 30 September 2010	72,859	(307)	43,936	10,268	1,000	18,093	(2,407)	(14,716)	128,726

The attached notes 1 to 9 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 September 2011 (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 2011	4	124	128
Uses of qard fund			
Marriage	27	(27)	-
Refurbishment	16	(16)	-
Medical treatment	14	(14)	-
Others	11	(11)	-
Total uses during the period	<u>68</u>	<u>(68)</u>	<u>-</u>
Repayments	(69)	69	-
Balance at 30 September 2011	<u>3</u>	<u>125</u>	<u>128</u>
Balance at 1 January 2010	2	126	128
Uses of qard fund			
Marriage	27	(27)	-
Refurbishment	16	(16)	-
Medical treatment	14	(14)	-
Others	12	(12)	-
Total uses during the period	<u>69</u>	<u>(69)</u>	<u>-</u>
Repayments	(62)	62	-
Balance at 30 September 2010	<u>9</u>	<u>119</u>	<u>128</u>
		<i>30 September 2011 BD'000</i>	<i>30 September 2010 BD'000</i>
Sources of Qard fund			
Contribution by the Bank		125	125
Donation		3	3
Total of sources during the period		<u>128</u>	<u>128</u>

The attached notes 1 to 9 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 September 2011 (Unaudited)

	<i>30 September 2011 BD'000</i>	<i>30 September 2010 BD'000</i>
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the period	541	1,092
Non-Islamic income / late fee	23	62
Total sources of Zakah and Charity funds during the period	564	1,154
Uses of zakah and charity funds		
Philanthropic societies	271	648
Aid to needy families	257	284
Total uses of funds during the period	528	932
Undistributed zakah and charity funds at the end of the period	36	222

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2011 (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 licence 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 holds 100% of the share capital of Abaad Real Estate Company B.S.C. (c) ("Subsidiary"). The Subsidiary was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorized and fully paid-up share capital of BD 25 million. The Subsidiary has 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.

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

The Bank has thirteen branches (2010: 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 13 November 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the nine month period ended 30 September 2011 have been prepared in accordance with the guidance given by the International Accounting Standard 34 - "Interim Financial Reporting". The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as at 31 December 2010. In addition, results for the nine month period ended 30 September 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

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 2010, which were prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (the "AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law and Central Bank of Bahrain and Financial Institutions Law, CBB and Financial Institutions Law, and the CBB regulations (as contained in Volume II of CBB rulebook) and directives. For matters which are not covered by AAOIFI standards, including "Interim Financial Reporting", the Group uses the International Financial Reporting Standards (the "IFRSs").

Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and its Subsidiary. 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. The subsidiary is consolidated from the date it was incorporated and was included in the interim condensed consolidated financial statements using the purchase method of accounting. All intercompany balances, transactions and income are eliminated on consolidation.

New and amended accounting standard and framework

During 2010, AAOIFI amended its conceptual framework and issued new Financial Accounting Standard (FAS 25) "Investment in sukuk, shares and similar instruments", which are effective as of 1 January 2011.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2011 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of financial accounting No.1: Conceptual framework for the financial reporting by Islamic financial institutions

The amended conceptual framework provides the basis for the financial accounting standards issued by AAOIFI. The amended framework introduces the concept of substance and form compared to the concept of form over substance. The framework state that it is necessary that information, transaction and other events are accounted for and presented in accordance with its substance and economic reality as well as the legal form.

Financial accounting standard (FAS 25) "Investment in sukuk, shares and similar instruments"

The Group has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by the Islamic financial institutions.

The adoption of this standard did not have any impact on the accounting policies, financial position or performance of the Group.

3 OTHER ASSETS

	<i>Audited</i>	
	<i>30 September 2011</i>	<i>31 December 2010</i>
	<i>BD'000</i>	<i>BD'000</i>
Equipment	4,470	4,723
Receivables from related parties	2,338	2,526
Staff advances	1,004	1,271
Others Receivables	756	756
Income receivable	343	311
Receivables under letter of credit	196	188
Prepaid expenses	502	160
Others	690	4,632
	10,299	14,567
Provision for impairment	(3,249)	(3,249)
	7,050	11,318

4 OTHER LIABILITIES

	<i>Audited</i>	
	<i>30 September 2011</i>	<i>31 December 2010</i>
	<i>BD'000</i>	<i>BD'000</i>
Dividends payable	3,469	3,477
Payable to vendors	2,552	2,178
Unearned income	1,130	1,281
Managers' cheques	1,460	1,273
Accrued expenses	1,610	1,215
Provision for employees' end of service benefits and leave	512	424
Zakah and charity fund	34	374
Margin on letters of credit	47	48
Others	2,573	2,301
	13,387	12,571

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2011 (Unaudited)

5 EQUITY

a) **Authorised Share Capital**

The Board of Directors in their extra-ordinary general meeting held on 8 February 2011 resolved to increase the Bank's authorised share capital from 1,000,000,000 shares of BD 0.100 each to 2,000,000,000 shares of BD 0.100 each. The legal process for changing the authorised share capital is still in progress.

b) **Share Capital**

The Board of Directors in their extra-ordinary general meeting held on 8 February 2011 resolved to increase the Bank's paid up capital by BD 54.64 million through rights issue to existing shareholders at a price of BD 0.100 per share. The Bank collected subscriptions of BD 21.11 million up to 22 June 2011, and the Board of Directors has decided to close the capital increase at this amount. The total number of shares issued and fully paid as of 30 September 2011 is 939,673,499 (31 December 2010: 728,589,400).

c) **Treasury shares**

	<i>Number of Shares</i>	<i>BD'000</i>
At 1 January 2011	1,300,495	(307)
Purchase of treasury shares	2,320,114	(256)
At 30 September 2011	3,620,609	(563)
		2011 BD'000
Cost of treasury shares in BD'000		563
Market value of treasury shares in BD'000		351

The treasury shares as a percentage of total shares in issue is 0.39% only.

Own equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

6 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2011 (Unaudited)

6 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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

	<i>Audited</i>	
	<i>30 September 2011</i>	<i>31 December 2010</i>
	<i>BD'000</i>	<i>BD'000</i>
Letters of credit	1,932	4,971
Guarantees	7,310	7,735
Operating lease commitments *	565	524
	9,807	13,230

* The Group has entered into commercial leases for certain branches. These leases have an average life of between 1 year and 6 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.

7 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:

<i>Name of Related party</i>	<i>Transaction</i>	<i>Income (expense)</i>		<i>Balances at</i>	
		<i>Nine months ended</i>		<i>30 September</i>	<i>31 December</i>
		<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
		<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Shareholders*	Sukuk	-	-	4,197	4,197
Shareholders**	Tawarooq	509	399	7,817	20,359
Shareholders	Investment in properties	-	-	15,693	15,693
Shareholders***	Receivable	-	-	2,338	2,526
Associate	Mudaraba	42	142	4,285	3,691
Associate	Investment in associates	107	(46)	7,126	6,778
Board of Directors	Tawarooq	53	87	985	1,115
Board of Directors	Musharaka	-	8	86	129
Board of Directors	Expenses	(438)	(396)	-	-
Shari'a Supervisory Board	Expenses	(54)	(54)	-	-
Shari'a Supervisory Board	Murabaha	46	65	517	1,081
Shari'a Supervisory Board	Musharaka	10	13	160	192
Shari'a Supervisory Board	Tawarooq	27	5	682	-
Key management personnel	Staff advances	-	-	303	366
		302	223	44,189	56,127

* An amount of BD 4,197 thousand (2010: BD 4,197 thousand) is past due and considered as non-performing.

** An amount of BD 7,817 thousand (2010: BD 7,817 thousand) is in process of restructuring.

*** An amount of BD 1,553 thousand (2010: BD 1,553 thousand) is considered as impaired for which provision of BD 1,553 thousand (2010: BD 1,553 thousand) has been made.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2011 (Unaudited)

7 RELATED PARTY TRANSACTIONS (continued)

Compensation of the key management personnel is as follows:

	<i>Nine months ended</i>	
	<i>30 September</i>	
	2011	2010
	BD'000	BD'000
Short term employee benefits	726	702
Other long term benefits	88	90
	814	792

8 TOTAL INCOME

The total income for the period ended 30 September 2011 includes BD 986 thousand (30 September 2010: nil) under other income, BD 967 thousand (30 September 2010: nil) under income from Islamic finances, and BD 877 thousand (30 September 2010: nil) under fees and commission which are incidental in nature.

9 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.