

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

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**30 JUNE 2010 (UNAUDITED)**

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

*Introduction*

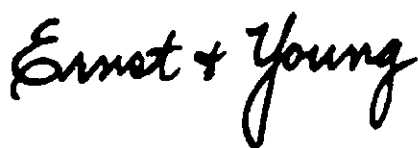
We have reviewed the accompanying interim condensed consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiary (the "Group") as at 30 June 2010, comprising of the interim consolidated statement of financial position as at 30 June 2010 and the related interim consolidated statements of income, cash flows, changes in 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.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

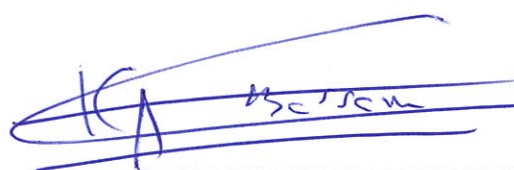
8 July 2010  
Manama, Kingdom of Bahrain

# Bahrain Islamic Bank B.S.C.

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010 (Unaudited)

	Notes	30 June 2010 BD'000	31 December 2009 (Audited) BD'000
<b>ASSETS</b>			
Cash and balances with Central Bank of Bahrain and other banks		69,758	36,093
Murabaha receivables		393,959	332,519
Mudaraba investments		51,373	53,370
Musharaka investments		74,120	80,919
Investments		107,197	134,195
Investment in associates		7,573	7,448
Investment in Ijarah assets		9,703	9,771
Ijarah Muntahia Bittamleek		103,493	119,244
Investment in properties		123,183	123,030
Ijarah rental receivables		3,603	3,603
Other assets	3	13,707	11,758
<b>TOTAL ASSETS</b>		<b>957,669</b>	<b>911,950</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>			
<b>LIABILITIES</b>			
Customers' current accounts		91,214	79,724
Other liabilities	4	12,710	11,432
<b>Total Liabilities</b>		<b>103,924</b>	<b>91,156</b>
<b>UNRESTRICTED INVESTMENT ACCOUNTS</b>			
Financial institutions' investment accounts		173,476	157,914
Customers' investment accounts		547,040	522,379
<b>Total Unrestricted Investment Accounts</b>		<b>720,516</b>	<b>680,293</b>
<b>EQUITY</b>			
Share capital		72,859	72,859
Treasury shares	5	(307)	(173)
Share premium		43,936	43,936
Reserves		16,741	23,132
Proposed appropriations		-	747
<b>Total Equity</b>		<b>133,229</b>	<b>140,501</b>
<b>TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>		<b>957,669</b>	<b>911,950</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>	6	<b>13,833</b>	<b>18,765</b>



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 June 2010

	Note	Three months ended		Six months ended	
		30 June		30 June	
		2010	2009	2010	2009
		BD'000	BD'000	BD'000	BD'000
<b>INCOME</b>					
Income from Islamic finances		7,748	6,786	15,335	14,084
Income from Sukuk and Commodities		1,256	1,301	2,414	2,538
		<b>9,004</b>	<b>8,087</b>	<b>17,749</b>	<b>16,622</b>
Gross return to unrestricted investment accounts		7,493	6,328	15,110	13,213
Group's share as a Mudarib		(2,705)	(1,048)	(5,664)	(5,051)
Return on unrestricted investment accounts		<b>4,788</b>	<b>5,280</b>	<b>9,446</b>	<b>8,162</b>
Group's share of income from joint financing and investment accounts		4,216	2,807	8,303	8,460
Net income from investments	8	41	371	927	2,793
Net loss on sale of available for sale investments - net		(2,266)	86	(1,320)	420
Gain on fair value adjustment for investment in properties		-	-	-	2,345
Share of results of associates		157	61	151	(541)
Fee and commission income		648	664	1,287	2,210
Other income		218	164	332	116
<b>Total income</b>		<b>3,014</b>	<b>4,153</b>	<b>9,680</b>	<b>15,803</b>
<b>EXPENSES</b>					
Staff costs		2,371	2,026	4,623	4,630
Depreciation		387	313	758	596
Other expenses		1,776	1,588	3,555	2,793
<b>Total expenses</b>		<b>4,534</b>	<b>3,927</b>	<b>8,936</b>	<b>8,019</b>
<b>Net (loss) income before provisions</b>		<b>(1,520)</b>	<b>226</b>	<b>744</b>	<b>7,784</b>
Net provision for impairment		(5,359)	(4,054)	(6,421)	(5,607)
<b>NET (LOSS) INCOME FOR THE PERIOD</b>		<b>(6,879)</b>	<b>(3,828)</b>	<b>(5,677)</b>	<b>2,177</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (fils)</b>					
		<b>(9.46)</b>	<b>(5.26)</b>	<b>(7.81)</b>	<b>2.99</b>

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

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

**CONSOLIDATED STATEMENT OF CASH FLOW**

For the period ended 30 June 2010

	<i>Six months ended</i>	
	<i>30 June</i>	
	<b>2010</b>	<b>2009</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>OPERATING ACTIVITIES</b>		
Net (loss) income for the period	(5,677)	2,177
Adjustments for:		
Depreciation	758	596
Net provision for impairment	6,421	5,607
Loss/(gain) on sale of available for sale investments	1,320	(420)
Gain on fair value adjustment for investment in properties	-	(2,345)
Share of results of associates	(151)	541
Operating profit before changes in operating assets and liabilities	<b>2,671</b>	<b>6,156</b>
Working capital adjustments:		
Mandatory reserve with Central Bank of Bahrain	(3,590)	7,098
Murabaha receivables	(59,972)	(22,857)
Mudaraba investments	204	4,156
Musharaka investments	5,729	(48)
Other assets	(3,716)	(3,134)
Customers' current accounts	11,490	8,867
Other liabilities	1,026	(3,699)
Net cash used in operating activities	<b>(46,158)</b>	<b>(3,461)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments in properties	(153)	(2,751)
Ijarah Muntahia Bittamleek	15,751	(24,293)
Investment in Ijarah assets	-	(23)
Purchase of investments	(10,565)	(5,549)
Proceeds from disposal of investments	31,606	7,413
Net cash from/(used in) investing activities	<b>36,639</b>	<b>(25,203)</b>
<b>FINANCING ACTIVITIES</b>		
Purchase of treasury shares	(134)	(173)
Financial institutions' investment accounts	15,562	(29,658)
Customers' investment accounts	24,661	70,500
Dividends paid	(38)	(3,735)
Zakah paid	(457)	(302)
Net cash from financing activities	<b>39,594</b>	<b>36,632</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>30,075</b>	<b>7,968</b>
Cash and cash equivalents at 1 January	<b>12,683</b>	<b>18,331</b>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>42,758</b>	<b>26,299</b>
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>		
Cash and balances with CBB, excluding mandatory reserve deposits	<b>23,198</b>	<b>5,336</b>
Balances with other banks	<b>19,560</b>	<b>20,963</b>
	<b>42,758</b>	<b>26,299</b>

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 EQUITY

For the period ended 30 June 2010

	Reserves							Total equity BD'000		
	Share capital BD'000	Treasury shares BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Investments in properties fair value reserve BD'000	Cumulative changes in fair value of investments BD'000		Accumulated loss/retained earnings BD'000	Proposed appropriations BD'000
Balance at 1 January 2010	72,859	(173)	43,936	10,268	1,000	18,093	(1,431)	(4,798)	747	140,501
Purchase of treasury shares (note 5)	-	(134)	-	-	-	-	-	-	-	(134)
Zakah paid	-	-	-	-	-	-	-	-	(747)	(747)
Net loss for the period	-	-	-	-	-	-	-	(5,677)	-	(5,677)
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	(714)	-	-	(714)
<b>Balance at 30 June 2010</b>	<b>72,859</b>	<b>(307)</b>	<b>43,936</b>	<b>10,268</b>	<b>1,000</b>	<b>18,093</b>	<b>(2,145)</b>	<b>(10,475)</b>	<b>-</b>	<b>133,229</b>
Balance at 1 January 2009	66,235	-	43,936	10,268	1,000	18,093	(4,688)	17,714	13,889	166,447
Bonus shares issued	6,624	-	-	-	-	-	-	-	(6,624)	-
Purchase of treasury shares	-	(173)	-	-	-	-	-	-	-	(173)
Dividends paid	-	-	-	-	-	-	-	-	(6,624)	(6,624)
Zakah paid	-	-	-	-	-	-	-	-	(641)	(641)
Net income for the period	-	-	-	-	-	-	-	2,177	-	2,177
Unrealized gain on investments in properties	-	-	-	-	-	2,345	-	(2,345)	-	-
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	737	-	-	737
Transfer of changes in fair value reserve	-	-	-	-	-	-	2,368	(2,368)	-	-
<b>Balance at 30 June 2009</b>	<b>72,859</b>	<b>(173)</b>	<b>43,936</b>	<b>10,268</b>	<b>1,000</b>	<b>20,438</b>	<b>(1,583)</b>	<b>15,178</b>	<b>-</b>	<b>161,923</b>

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 June 2010

	<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 2010	2	126	128
Uses of qard fund			
Marriage	24	(24)	-
Refurbishment	16	(16)	-
Medical treatment	14	(14)	-
Others	12	(12)	-
Total uses during the period	66	(66)	-
Repayments	(61)	61	-
<b>Balance at 30 June 2010</b>	<b>7</b>	<b>121</b>	<b>128</b>
Balance at 1 January 2009	10	118	128
Uses of qard fund			
Marriage	18	(18)	-
Refurbishment	16	(16)	-
Medical treatment	14	(14)	-
Others	11	(11)	-
Total uses during the period	59	(59)	-
Repayments	(66)	66	-
Balance at 30 June 2009	3	125	128
		<b>30 June 2010 BD'000</b>	<b>30 June 2009 BD'000</b>
<b>Sources of Qard fund</b>			
Contribution by the Bank		125	125
Donation		3	3
Total of sources during the period		<b>128</b>	<b>128</b>

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 June 2010

	<b>30 June 2010 BD'000</b>	<b>30 June 2009 BD'000</b>
<b>Sources of zakah and charity funds</b>		
Undistributed zakah and charity funds at the beginning of the year	<b>1,092</b>	1,049
Zakah due from the Bank for the period	-	-
Non-Islamic income / late fee	<b>62</b>	-
Total sources of Zakah and Charity funds during the period	<b>1,154</b>	1,049
<b>Uses of zakah and charity funds</b>		
Philanthropic societies	<b>471</b>	282
Aid to needy families	<b>181</b>	114
Total uses of funds during the period	<b>652</b>	396
Undistributed zakah and charity funds at the end of the period	<b>502</b>	653

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



---

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 June 2010 (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 (2009: twelve), all operating in the Kingdom of Bahrain.

**2 SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

The interim condensed consolidated financial statements for the six month period ended 30 June 2010 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 2009. In addition, results for the six month period ended 30 June 2010 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2010.

**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 2009, 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. 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.

---

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 June 2010 (Unaudited)

**3 OTHER ASSETS**

	<i>Audited</i>	
	<i>30 June 2010</i>	<i>31 December 2009</i>
	<i>BD'000</i>	<i>BD'000</i>
Equipment	4,612	4,534
Receivables under letter of credit	196	188
Staff advances	1,338	1,340
Income receivable	11	297
Receivables from related parties	2,945	2,945
Prepaid expenses	480	126
Others	6,434	3,881
	<u>16,016</u>	<u>13,311</u>
Provision for impairment	(2,309)	(1,553)
	<u>13,707</u>	<u>11,758</u>

**4 OTHER LIABILITIES**

	<i>Audited</i>	
	<i>30 June 2010</i>	<i>31 December 2009</i>
	<i>BD'000</i>	<i>BD'000</i>
Payable to vendors	1,151	1,380
Murabaha bills payable	233	963
Managers' cheques	2,961	1,326
Dividends payable	3,498	3,536
Zakah and charity fund	502	345
Margin on letters of credit	48	201
Provision for employees' end of service benefits and leave	391	333
Others	3,926	3,348
	<u>12,710</u>	<u>11,432</u>

**5 TREASURY SHARES**

	<i>Audited</i>	
	<i>30 June 2010</i>	<i>31 December 2009</i>
Number of treasury shares	546,665	546,665
Bonus shares	54,667	54,667
Purchase of treasury shares	699,163	-
<b>TOTAL</b>	<u>1,300,495</u>	<u>601,332</u>
Treasury shares as a percentage of total shares in issue	0.18%	0.075%
Cost of treasury shares in BD'000	307	173
Market value of treasury shares in BD'000	205	118

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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2010 (Unaudited)

### 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 Group's customers.

Letters of credit and guarantees commit the Group 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>	
	<b>30 June 2010</b>	<b>31 December 2009</b>
	<b>BD'000</b>	<b>BD'000</b>
Letters of credit	5,618	9,096
Guarantees	7,608	9,255
Operating lease commitments *	607	414
	<b>13,833</b>	<b>18,765</b>

\* The Group has entered into commercial leases for certain branches. These leases have an average life of between 1 year and 10 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 and key management personnel of the Group.

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

<i>Name of related party</i>	<i>Transaction</i>	<i>Income</i>		<i>Asset balances at</i>	
		<i>Six months ended</i>	<i>30 June</i>	<i>30 June</i>	<i>31 December</i>
		<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
		<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>
Shareholders*	Sukuk	-	-	4,197	4,197
Shareholders**	Tawarooq	246	899	19,797	19,665
Shareholders	Investment in properties	-	-	18,850	18,850
Shareholders*	Receivable	-	1,553	2,945	2,945
Associate	Sukuk	-	82	-	-
Associate	Mudaraba	98	39	13,133	13,136
Board member	Ijarah Muntahia Bittamleek	-	60	-	-
Board member	Musharaka	-	243	-	-
Board member***	Tawarooq	59	18	1,189	1,259
Board member	Expenses	(264)	(243)	-	-
Shari'a Supervisory Board	Expenses	(36)	(36)	-	-
Shari'a Supervisory Board	Murabaha	13	17	423	623
Shari'a Supervisory Board	Musharaka	9	11	212	-
Key management personnel	Staff advances	-	-	421	454
		<b>125</b>	<b>2,643</b>	<b>61,167</b>	<b>61,129</b>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 June 2010 (Unaudited)

**7 RELATED PARTY TRANSACTIONS (continued)**

\* An amount of BD 5,750 thousand (2009: BD 5,750 thousand) is considered as impaired for which provision of BD 3,652 thousand (2009: BD 3,652 thousand) has been made.

\*\* An amount of BD 8,527 thousand (2009: BD 7,817 thousand) is restructured or in process of restructuring.

\*\*\* An amount of BD 1,189 thousand (2009: 1,259 thousand) is restructured.

**Compensation of the key management personnel is as follows:**

	<i>Six months ended</i>	
	<i>30 June</i>	
	<b>2010</b>	<b>2009</b>
	<b>BD'000</b>	<b>BD'000</b>
Short term employee benefits	<b>253</b>	282
Other long term benefits	<b>33</b>	62
	<b>286</b>	<b>344</b>

**8 INCOME FROM INVESTMENTS**

This income includes dividend of BD 852 thousand (2009: BD 1,360 thousand) which is cyclical 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 profit.