

Bahrain Islamic Bank B.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 JUNE 2007 (UNAUDITED)

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

Introduction

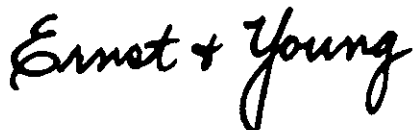
We have reviewed the accompanying interim condensed consolidated financial statements of Bahrain Islamic Bank B.S.C. ("the Bank") and its subsidiary ("the Group") as at 30 June 2007, comprising of the interim consolidated balance sheet as at 30 June 2007 and the related interim consolidated statements 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

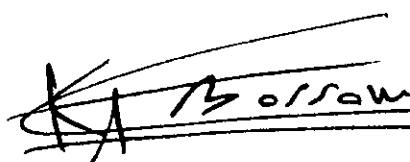
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the accounting policies disclosed in note 2.



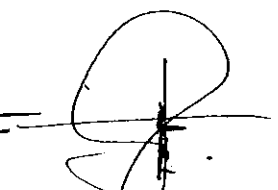
5 July 2007
Manama, Kingdom of Bahrain

Bahrain Islamic Bank B.S.C.
CONSOLIDATED BALANCE SHEET
 30 June 2007 (Unaudited)

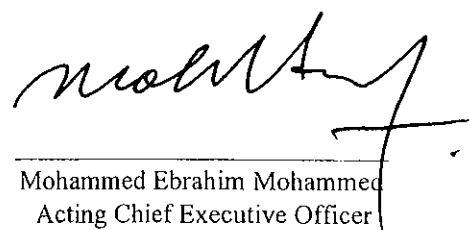
	<i>30 June</i> 2007 BD'000	<i>Audited</i> 31 December 2006 BD'000
ASSETS		
Cash and balances with CBB and other banks	17,989	15,469
Murabaha receivables	224,352	241,710
Mudaraba investments	55,256	22,180
Musharaka investments	15,100	13,954
Non-trading investments	126,034	97,418
Investment in associates	6,653	6,652
Investments in Ijarah assets	4,910	4,998
Ijarah Muntahia Bittamleek	15,929	15,486
Investments in properties	11,940	9,985
Ijarah rental receivables	2,551	2,315
Other assets	6,701	6,309
TOTAL ASSETS	487,415	436,476
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		
LIABILITIES		
Customers' current accounts	61,110	51,393
Other liabilities	6,052	6,041
TOTAL LIABILITIES	67,162	57,434
UNRESTRICTED INVESTMENT ACCOUNTS	339,699	304,118
EQUITY		
Share capital	31,878	28,336
Reserves	48,676	36,999
Proposed appropriations	-	9,589
TOTAL EQUITY	80,554	74,924
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	487,415	436,476
CONTINGENCIES (Note 3)	15,185	9,432



Khalid Abdulla Al Bassam
Chairman



Nabil Ahmed Amin
Managing Director



Mohammed Ebrahim Mohammed
Acting Chief Executive Officer

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF INCOME

30 June 2007 (Unaudited)

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
INCOME				
Income from Islamic finances	7,033	5,866	14,350	10,141
Return on unrestricted investment accounts before Bank's share as a Mudarib	6,123	5,360	12,085	8,839
Bank's share as a Mudarib	(2,158)	(2,106)	(4,130)	(3,618)
Return to unrestricted investment accounts	3,965	3,254	7,955	5,221
Bank's share of income from unrestricted investment accounts (as a Mudarib and Rabalmaal)	3,068	2,612	6,395	4,920
Income from investments	2,636	330	5,582	2,377
Gain on investments in properties	437	2,437	702	2,790
Share of results of associates	129	-	170	46
Other income	1,127	185	1,643	644
Total Income	7,397	5,564	14,492	10,777
EXPENSES				
Staff costs	1,312	918	2,504	1,822
Depreciation	152	133	296	264
Other expenses	566	384	1,094	742
Total Expenses	2,030	1,435	3,894	2,828
NET INCOME FOR THE PERIOD	5,367	4,129	10,598	7,949
BASIC EARNINGS PER SHARE (fils)	16.66	14.97	33.95	28.82

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2007 (Unaudited)

	<i>Six months ended 30 June</i>	
	<i>2007</i>	<i>2006</i>
	<i>BD'000</i>	<i>BD'000</i>
OPERATING ACTIVITIES		
Net profit for the period	10,598	7,949
Adjustments for non-cash items:		
Depreciation	296	264
Gain on fair value adjustment for investments in properties	(574)	(2,676)
Gain on sale of investments in properties and Ijarah assets	(128)	(114)
Share of results of associates	(170)	(46)
Operating profit before changes in operating assets and liabilities	10,022	5,377
Changes in:		
Mandatory reserve with CBB	(1,725)	(1,965)
Murabaha receivables	17,358	(141,112)
Mudaraba investments	(33,076)	13,933
Musharaka investments	(1,146)	(925)
Other assets	(114)	(1,155)
Customers' current accounts	9,717	3,330
Other liabilities	11	4,307
Net cash from (used in) operating activities	1,047	(118,210)
INVESTING ACTIVITIES		
Purchase of Ijara Muntahia Bittamleek	(443)	(7,671)
(Purchase) disposal of investment in properties and Ijara assets	(1,975)	835
Purchase of non-trading investments and associates	(27,368)	(16,048)
Net cash used in investing activities	(29,786)	(22,884)
FINANCING ACTIVITIES		
Increase in unrestricted investment accounts	35,581	145,097
Dividends paid	(5,667)	(3,795)
Directors' remuneration paid	(210)	(120)
Zakah paid	(170)	(138)
Charitable contributions paid	-	(75)
Net cash from financing activities	29,534	140,969
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	795	(125)
Cash and cash equivalents at beginning of the period	7,954	4,483
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	8,749	4,358
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and balances with CBB, excluding mandatory reserve deposits	3,405	2,866
Balances with other banks	5,344	1,492
	8,749	4,358

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2007 (Unaudited)

	Reserves							Total equity BD'000	
	Share capital BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Investment fair value reserve BD'000	Cumulative changes in fair value BD'000	Retained earnings BD'000		Proposed appropriations BD'000
Balance at 1 January 2006	25,300	2,726	4,229	1,000	2,360	27,769	1,360	7,164	71,908
Bonus shares issued	3,036	-	-	-	-	-	-	(3,036)	-
Dividends paid	-	-	-	-	-	-	-	(3,795)	(3,795)
Directors' remuneration paid	-	-	-	-	-	-	-	(120)	(120)
Zakah paid	-	-	-	-	-	-	-	(138)	(138)
Charitable contributions paid	-	-	-	-	-	-	-	(75)	(75)
Profit for the period from 1 January 2006 to 30 June 2006	-	-	-	-	-	-	7,949	-	7,949
Unrealized gain on investments in properties	-	-	-	-	2,676	-	(2,676)	-	-
Realised gain on investments in properties	-	-	-	-	(232)	-	232	-	-
Net movement in cumulative changes in fair values	-	-	-	-	-	(4,335)	-	-	(4,335)
Balance at 30 June 2006	28,336	2,726	4,229	1,000	4,804	23,434	6,865	-	71,394
Balance at 1 January 2007	28,336	-	5,534	1,000	3,255	21,860	5,350	9,589	74,924
Bonus shares issued	3,542	-	-	-	-	-	-	(3,542)	-
Dividends paid	-	-	-	-	-	-	-	(5,667)	(5,667)
Directors' remuneration paid	-	-	-	-	-	-	-	(210)	(210)
Zakah paid	-	-	-	-	-	-	-	(170)	(170)
Profit for the period from 1 January 2007 to 30 June 2007	-	-	-	-	-	-	10,598	-	10,598
Unrealized gain on investments in properties	-	-	-	-	574	-	(574)	-	-
Realised gain on investments in properties	-	-	-	-	(80)	-	80	-	-
Net movement in cumulative changes in fair values	-	-	-	-	-	1,079	-	-	1,079
Balance at 30 June 2007	31,878	-	5,534	1,000	3,749	22,939	15,454	-	80,554

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH
QARD FUND

30 June 2007 (Unaudited)

	30 June 2007 BD'000	<i>Audited</i> 31 December 2006 BD'000
Opening balances		
Qard hasan receivables	35	5
Funds available for qard hasan	93	123
	<u>128</u>	<u>128</u>
Sources of Qard fund		
Contribution by the Bank (note 4)	125	125
Donation	3	3
	<u>128</u>	<u>128</u>
Uses of qard fund		
Marriage	15	6
Refurbishment	16	12
Medical treatment	14	11
Others	10	10
Total uses during the period	<u>55</u>	<u>39</u>
End of period balance		
Qard hasan receivables	38	35
Funds available for qard hasan	90	93
	<u>128</u>	<u>128</u>

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

30 June 2007 (Unaudited)

	<i>30 June</i> <i>2007</i> <i>BD'000</i>	<i>Audited</i> <i>31 December</i> <i>2006</i> <i>BD'000</i>
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the period	365	139
Zakah due from the Bank for the period	-	170
Non-Islamic income	13	150
Donations	25	91
Total sources of funds during the period	<u>403</u>	<u>550</u>
Uses of zakah and charity funds		
Philanthropic societies	5	97
Aid to needy families	57	88
Total uses of funds during the period	<u>62</u>	<u>185</u>
Undistributed zakah and charity funds at end of the period	<u>341</u>	<u>365</u>

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007 (Unaudited)

1 INCORPORATION AND ACTIVITIES

Bahrain Islamic Bank B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain by Amiri Decree No.2 of 1979, under Commercial Registration No.9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under a commercial 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 participated in 100% of the share capital in Abaa'd Real-Estate Company B.S.C. ("subsidiary"). Abaa'd was incorporated on 8 April 2003 in the Kingdom of Bahrain and has an authorized and paid-up share capital of BD 10,000,000. The Company start operation in 2007.

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

The Bank has twelve branches, all operating in the Kingdom of Bahrain.

2 ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2007 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 2006. In addition, results for the six months ended 30 June 2007 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2007.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual consolidated financial statements, for the year ended 31 December 2006, 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, 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 have been eliminated on consolidation.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007 (Unaudited)

3 CONTINGENCIES**Credit related commitments**

	<i>30 June</i> <i>2007</i> <i>BD'000</i>	<i>Audited</i> <i>31 December</i> <i>2006</i> <i>BD'000</i>
Letters of credit	12,539	8,565
Guarantees	2,376	613
Operating lease commitments *	270	254
	<u>15,185</u>	<u>9,432</u>

* The Group has entered into commercial leases for certain branches. These leases have an average life of between 5 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.

Credit lines commitments

The Group has provided credit line to its associate, Liquidity Management Center B.S.C. (c), of BD 3,770 thousand for liquidity purposes.

4 RELATED PARTY TRANSACTIONS

The balances and values of major transactions with related parties included under various balance sheet and statement of income heads are as follows:

Balances with related parties included in the consolidated balance sheet are as follows:

	<i>30 June</i> <i>2007</i> <i>BD'000</i>	<i>Audited</i> <i>31 December</i> <i>2006</i> <i>BD'000</i>
Murabaha receivables	18,144	1,516
Musharaka investments	735	891
Non-trading investments	22,040	6,634
Ijarah Muntahia Bittamleek	1,338	2,689
Assets with related parties	<u>42,257</u>	<u>11,730</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007 (Unaudited)

4 RELATED PARTY TRANSACTIONS (continued)

The transactions with related parties included in the consolidated income statement are as follows:

	<i>1 January to 30 June 2007 BD'000</i>	<i>1 January to 30 June 2006 BD'000</i>
Income from Murabaha receivables	164	-
Income from Musharaka investments	14	20
Income from non-trading investments	545	192
Income from Ijarah Muntahia Bittamleek	66	-
Other income	243	-
Income from related parties	<u>1,032</u>	<u>212</u>

5 INCOME FROM INVESTMENTS IN SECURITIES

This income includes dividend of BD 2,829 thousand (2006: BD 1,654 thousand) which is cyclical in nature.

6 CONCENTRATION RISK

As at 30 June 2007, the Bank had significant exposure to a third party amounting 18.5% of the total equity.

