

Bahrain Islamic Bank B.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
31 MARCH 2006 (UNAUDITED)

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

We have reviewed the accompanying consolidated balance sheet of Bahrain Islamic Bank B.S.C. ("the Bank") and its subsidiary ("the Group") as of 31 March 2006, and the related 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 three month period then ended. These interim condensed consolidated financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Bank's Board of Directors. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of Bank personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

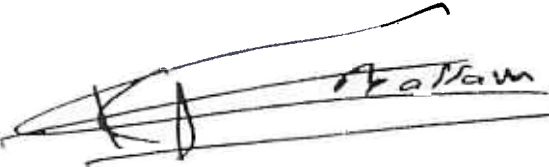
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with note 2.




5 April 2006
Manama, Kingdom of Bahrain

Bahrain Islamic Bank B.S.C.
CONSOLIDATED BALANCE SHEET
31 March 2006 (Unaudited)

	<i>31 March</i> <i>2006</i> <i>BD'000</i>	<i>Audited</i> <i>31 December</i> <i>2005</i> <i>BD'000</i>
ASSETS		
Cash and balances with the BMA and other banks	11,454	10,448
Murabaha receivables	174,254	156,421
Mudaraba investments	16,096	29,459
Musharaka investments	10,623	9,889
Non-trading investments	87,305	80,748
Investment in associates	3,261	3,382
Investments in Ijarah assets	5,130	5,174
Ijarah Muntahia Bittamleek	21,043	12,752
Investments in properties	10,211	10,341
Other assets	2,399	2,082
TOTAL ASSETS	341,776	320,696
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		
LIABILITIES		
Customers' current accounts	71,107	47,345
Other liabilities	7,570	3,562
TOTAL LIABILITIES	78,677	50,907
UNRESTRICTED INVESTMENT ACCOUNTS	194,159	197,881
EQUITY		
Share capital	28,336	25,300
Share premium	2,726	2,726
Reserves	37,878	43,882
TOTAL EQUITY	68,940	71,908
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	341,776	320,696
CONTINGENCIES (Note 3)	6,460	7,090


Khalid Abdulla Al Bassam
Chairman


Yousif Saleh Khalaf
Chief Executive Officer

Bahrain Islamic Bank B.S.C.

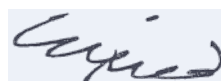
CONSOLIDATED STATEMENT OF INCOME

31 March 2006 (Unaudited)

	<i>Three months ended 31 March</i>	
	<i>2006</i>	<i>2005</i>
	<i>BD'000</i>	<i>BD'000</i>
INCOME		
Income from Islamic finances	4,275	2,575
Return on unrestricted investment accounts before Bank's share as a Mudarib	3,479	1,179
Bank's share as a Mudarib	(1,512)	(143)
Return to unrestricted investment accounts	1,967	1,036
Bank's share of income from unrestricted investment accounts (as a Mudarib and Rabalmal)	2,308	1,539
Income from investments	2,161	1,255
Gain on fair value adjustment for investments in properties	239	247
Bank's share in the profit of associates	46	43
Other income	459	140
Total income	5,213	3,224
EXPENSES		
Staff costs	904	718
Depreciation	131	122
Other expenses	358	341
Total Expenses	1,393	1,181
Net income before Zakah	3,820	2,043
Zakah		(34)
NET INCOME FOR THE PERIOD	3,820	2,009
BASIC EARNINGS PER SHARE (fils)	13.85	8.13



Khalid Abdulla Al Bassam
Chairman



Yousif Saleh Khalaf
Chief Executive Officer

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

31 March 2006 (Unaudited)

	<i>Three months ended 31 March</i>	
	<i>2006</i>	<i>2005</i>
	<i>BD'000</i>	<i>BD'000</i>
OPERATING ACTIVITIES		
Net profit for the period	3,820	2,009
Adjustments for non-cash items:		
Depreciation	131	122
Gain on fair value adjustment for investments in properties	(239)	(247)
Gain on sale of investments in properties and Ijarah assets	(19)	(357)
Bank's share in the profit of an associate	(46)	(43)
Operating profit before changes in operating assets and liabilities		
Changes in:		
Mandatory reserve with BMA	(1,485)	518
Murabaha receivables	(17,833)	2,359
Mudaraba investments	13,363	(572)
Musharaka investments	(734)	(1,266)
Other assets	(404)	(421)
Customers' current accounts	23,762	2,232
Other liabilities	4,008	7,843
Net cash from operating activities	24,324	12,176
INVESTING ACTIVITIES		
Purchase of Ijara Muntahia Bittamleek	(8,291)	(4,055)
Disposal (Purchase) of investment in properties and Ijara assets	388	(1,106)
Purchase of non-trading investments and associates	(9,050)	(3,653)
Net cash used in investing activities	(16,953)	(8,814)
FINANCING ACTIVITIES		
Decrease in unrestricted investment accounts	(3,722)	(1,855)
Dividends paid	(3,795)	(701)
Directors' remuneration paid	(120)	-
Zakah paid	(138)	-
Charitable contributions paid	(75)	-
Net cash used in financing activities	(7,850)	(2,556)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(479)	806
Cash and cash equivalents at beginning of the period	4,483	3,269
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	4,004	4,075
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and balances with BMA, excluding mandatory reserve deposits	2,261	2,535
Balances with other banks	1,743	1,540

The attached notes 1 to 4 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 March 2006 (Unaudited)

	Share capital BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Reserves		Retained earnings BD'000	Proposed appropriations BD'000	Total equity BD'000
						Cumulative changes in fair value BD'000			
Balance at 1 January 2005	23,000	5,762	3,489	1,000	369	13,242	828	5,060	52,750
Bonus shares issued	2,300	-	-	-	-	-	-	(2,300)	-
Dividends declared	-	-	-	-	-	-	-	(2,760)	(2,760)
Disposal of investments in properties	-	-	-	-	(77)	-	77	-	-
Unrealized gain on investments in properties	-	-	-	-	247	-	(247)	-	-
Net movement in cumulative changes in fair values	-	-	-	-	-	6,194	-	-	6,194
Transferred to unrestricted investment account (note 5)	-	-	-	-	-	(2,641)	-	-	(2,641)
Profit for the period from 1 January 2005 to 31 March 2005	-	-	-	-	-	-	2,009	-	2,009
Balance at 31 March 2005	25,300	5,762	3,489	1,000	539	16,794	2,667	-	55,552
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)
Unrealized gain on investments in properties	-	-	-	-	239	-	(239)	-	-
Realized gain on investments in properties	-	-	-	-	(119)	-	119	-	-
Net movement in cumulative changes in fair values	-	-	-	-	-	(2,660)	-	-	(2,660)
Profit for the period from 1 January 2006 to 31 March 2006	-	-	-	-	-	-	3,820	-	3,820
Balance at 31 March 2006	28,336	2,726	4,229	1,000	2,480	25,109	5,060	-	68,940

The attached notes 1 to 4 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**

31 March 2006 (Unaudited)

	31 March 2006 BD'000	<i>Audited</i> 31 December 2005 BD'000
Original sources of qard fund		
Contribution by the Bank	125	125
Donations	3	3
	128	128
Movement of funds		
Cash balance at the beginning of the period	123	109
Installments received	1	14
	124	123
Cash balance at the end of the period	123	123
Qard Hasan installments outstanding as at end of the period	5	5
	128	128

The attached notes 1 to 4 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

31 March 2006 (Unaudited)

	31 March 2006 BD'000	<i>Audited</i> 31 December 2005 BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the period	139	147
Zakah due from the Bank for the period	90	138
Total sources of funds during the period	<u>229</u>	<u>285</u>
Uses of zakah and charity funds		
University and school students		10
Philanthropic societies	3	119
Aid to needy families	7	17
Total uses of funds during the period	10	146
Undistributed zakah and charity funds at end of the period	219	139

The attached notes 1 to 4 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2006 (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 licence issued by the Bahrain Monetary Agency. 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 Al Emar Real-Estate Company B.S.C. ("subsidiary"). Al Emar was incorporated on 8 April 2003 and has an authorized and paid-up share capital of BD 10,000,000.

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**

These interim condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting". The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2005, which financial statements were prepared in accordance with Financial Auditing Standards issued by the Accounting and Auditing Organisation (AAOIFI) for Islamic Financial Institutions. For matters for which no AAOIFI standards exist, the Bank uses the relevant International Accounting Standard issued by International Accounting Standards Board.

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.

3 CONTINGENCIES**Credit related commitments**

	<i>31 March 2006 BD'000</i>	<i>Audited 31 December 2005 BD'000</i>
Letters of credit	5,862	5,494
Guarantees	598	1,596
	<u>6,460</u>	<u>7,090</u>

4 INCOME FROM INVESTMENTS IN SECURITIES

This income includes dividend of BD 1,654 thousand (2005: BD 764 thousand) which is cyclical in nature.