

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

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**30 SEPTEMBER 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 (together the "Group") as at 30 September 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 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.



28 October 2013  
Manama, Kingdom of Bahrain

# Bahrain Islamic Bank B.S.C.

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2013 (Unaudited)

		<b>30 September</b>	<i>Restated</i>
	<i>Notes</i>	<b>2013</b>	<i>(Audited)</i>
		<b>BD'000</b>	<b>31 December</b>
			<b>2012</b>
			<b>BD'000</b>
<b>ASSETS</b>			
Cash and balances with banks and Central Bank		<b>57,100</b>	43,893
Due from banks and financial institutions		<b>167,654</b>	132,424
Murabaha receivables		<b>255,080</b>	227,757
Musharaka investments		<b>89,743</b>	90,220
Investments	3	<b>99,464</b>	110,371
Investment in associates		<b>36,142</b>	35,215
Ijarah muntahia bittamleek		<b>91,056</b>	96,846
Investment in real estate	4	<b>64,877</b>	64,888
Ijarah rental receivables		<b>13,766</b>	13,766
Property and equipment		<b>16,905</b>	15,530
Other assets	5	<b>2,145</b>	1,894
<b>TOTAL ASSETS</b>		<b>893,932</b>	<b>832,804</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Customers' current accounts		<b>113,981</b>	87,132
Other liabilities	6	<b>14,763</b>	14,649
<b>Total Liabilities</b>		<b>128,744</b>	<b>101,781</b>
<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>			
Financial institutions' investment accounts		<b>68,864</b>	87,690
Customers' investment accounts		<b>621,441</b>	573,570
<b>Total Equity of Investment Accountholders</b>		<b>690,305</b>	<b>661,260</b>
<b>Owners' Equity</b>			
Share capital	7	<b>93,967</b>	93,967
Treasury shares		<b>(563)</b>	(563)
Reserves		<b>(18,521)</b>	(23,641)
<b>Total Owners' Equity</b>		<b>74,883</b>	<b>69,763</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>		<b>893,932</b>	<b>832,804</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>	8	<b>14,693</b>	<b>10,285</b>

  
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.

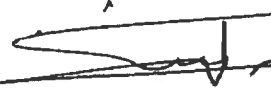
# Bahrain Islamic Bank B.S.C.

## INTERIM CONSOLIDATED STATEMENT OF INCOME

For the period ended 30 September 2013 (Unaudited)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2013 BD'000	2012 BD'000	2013 BD'000	2012 BD'000
<b>INCOME</b>					
Income from Islamic finances		<b>9,075</b>	6,858	<b>24,129</b>	19,775
Income from investment in Sukuk	9	<b>392</b>	718	<b>4,385</b>	2,578
		<b>9,467</b>	7,576	<b>28,514</b>	22,353
Gross return to equity of investment accountholders		<b>7,797</b>	7,946	<b>25,284</b>	21,616
Group's share as a Mudarib		<b>(5,292)</b>	(4,469)	<b>(16,658)</b>	(10,929)
Return on equity of investment accountholders		<b>2,506</b>	3,477	<b>8,626</b>	10,687
Group's share of income from joint financing and investment accounts		<b>6,962</b>	4,099	<b>19,888</b>	11,666
Net income from investments		<b>504</b>	608	<b>1,802</b>	2,001
Gain (loss) on sale of equity type instruments		<b>234</b>	(134)	<b>962</b>	669
Share of results of associates		<b>945</b>	81	<b>1,151</b>	62
Fee and commission income		<b>1,374</b>	998	<b>3,735</b>	3,496
Net (loss) gain from foreign currencies		<b>(6)</b>	(291)	<b>203</b>	265
<b>Total income</b>		<b>10,013</b>	5,361	<b>27,741</b>	18,159
<b>EXPENSES</b>					
Staff costs		<b>2,440</b>	2,435	<b>7,643</b>	7,219
Depreciation		<b>501</b>	434	<b>1,202</b>	1,323
Other expenses		<b>2,305</b>	2,056	<b>5,941</b>	5,619
<b>Total expenses</b>		<b>5,246</b>	4,925	<b>14,786</b>	14,161
<b>Net income before fair value loss on investment in real estate and net provision for impairment</b>		<b>4,767</b>	436	<b>12,955</b>	3,998
Fair value loss on investment in real estate		-	-	<b>(41)</b>	(3,519)
Net provision for impairment		<b>(3,363)</b>	(5,396)	<b>(9,109)</b>	(21,335)
<b>NET INCOME (LOSS) FOR THE PERIOD</b>		<b>1,404</b>	(4,960)	<b>3,805</b>	(20,856)
<b>BASIC AND DILUTED EARNINGS PER SHARE (fils)</b>		<b>1.50</b>	(5.30)	<b>4.06</b>	(22.28)

  
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 CASH FLOWS

For the period ended 30 September 2013 (Unaudited)

	<i>Nine months ended</i>	
	<i>30 September</i>	
	<b>2013</b>	<b>2012</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the period	<b>3,805</b>	(20,858)
Adjustments for non-cash items:		
Depreciation	<b>1,202</b>	1,323
Fair value loss on investment in real estate	<b>41</b>	7,219
Net provision for impairment	<b>9,109</b>	17,637
Gain on sale of investment in Sukuk	<b>(3,448)</b>	(851)
Gain on sale of equity type instruments	<b>(962)</b>	(669)
Share of results of associates	<b>(1,151)</b>	(62)
Unrealised gain on equity type instruments carried at fair value through statement of income	<b>(66)</b>	(206)
Operating profit before changes in operating assets and liabilities	<b>8,530</b>	3,533
Working capital adjustments:		
Mandatory reserve with Central Bank of Bahrain	<b>(1,635)</b>	(1,595)
Due from banks and financial institutions	<b>(15,576)</b>	1,186
Murabaha receivables	<b>(27,602)</b>	(31,361)
Musharaka investments	<b>463</b>	(2,898)
Other assets	<b>(251)</b>	(1,700)
Customers' current accounts	<b>26,849</b>	2,934
Other liabilities	<b>114</b>	6,113
Net cash used in operating activities	<b>(9,108)</b>	(23,788)
<b>INVESTING ACTIVITIES</b>		
Purchase of investment in real estate	<b>(30)</b>	(1,124)
Disposal (purchase) of Ijarah Muntahia Bittamleek assets	<b>1,878</b>	(5,018)
Investment in associates	<b>80</b>	(119)
Purchase of property and equipment	<b>(2,577)</b>	(1,136)
Purchase of investments	<b>(26,298)</b>	(40,244)
Proceeds from disposal of investments	<b>35,555</b>	33,575
Net cash from (used in) investing activities	<b>8,608</b>	(14,066)
<b>FINANCING ACTIVITIES</b>		
Financial institutions' investment accounts	<b>(18,826)</b>	(38,652)
Customers' investment accounts	<b>47,871</b>	39,526
Dividends paid	<b>-</b>	(2,651)
Zakah paid	<b>-</b>	(179)
Net cash from (used in) financing activities	<b>29,045</b>	(1,956)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>28,545</b>	(39,810)
Cash and cash equivalents at 1 January	<b>119,893</b>	163,063
<b>CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER</b>	<b>148,438</b>	123,253
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>		
Cash on hand	<b>6,671</b>	6,398
Balances with CBB, excluding mandatory reserve deposits	<b>9,774</b>	1,147
Balances with banks and other financial institutions	<b>10,764</b>	21,398
Due from banks and financial institutions with original maturities less than 90 days	<b>121,229</b>	94,310
	<b>148,438</b>	123,253

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 September 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	-	-	-	-	-	-	-	3,805	3,805
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	1,315	-	1,315
<b>Balance at 30 September 2013</b>	<b>93,967</b>	<b>(563)</b>	<b>-</b>	<b>10,268</b>	<b>1,000</b>	<b>13,259</b>	<b>2,601</b>	<b>(45,649)</b>	<b>74,883</b>
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	-	-	-	-	-	-	-	(20,856)	(20,856)
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	141	-	141
Transfer of accumulated losses to share premium (note 7)	-	-	(43,936)	-	-	-	-	43,936	-
Balance at 30 September 2012	93,967	(563)	-	10,268	1,000	9,185	(3,202)	(30,041)	80,614

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 September 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	39	(39)	-
Others (Sunni Waqf)	60	(60)	-
Total uses during the period	99	(99)	-
Repayments	17	(17)	-
<b>Balance at 30 September 2013</b>	<b>131</b>	<b>(3)</b>	<b>128</b>
Balance at 1 January 2012	2	126	128
Uses of Qard fund			
Marriage	7	(7)	-
Total uses during the period	7	(7)	-
Repayments	(2)	2	-
Balance at 30 September 2012	7	121	128
		<b>30 September 2013 BD'000</b>	<b>30 September 2012 BD'000</b>
<b>Sources of Qard fund</b>			
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 September 2013 (Unaudited)

	<b>30 September 2013 BD'000</b>	<b>30 September 2012 BD'000</b>
<b>Sources of Zakah and charity funds</b>		
Undistributed Zakah and charity funds at the beginning of the period	<b>154</b>	209
Non-Islamic income / late fee	<b>539</b>	477
Total sources of Zakah and charity funds during the period	<b>693</b>	686
<b>Uses of Zakah and charity funds</b>		
Philanthropic societies	<b>338</b>	383
Aid to needy families	<b>263</b>	272
Total uses of funds during the period	<b>601</b>	655
Undistributed Zakah and charity funds at the end of the period	<b>92</b>	31

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 September 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'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.

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 registered address of the Subsidiary is Building 722, Road 1708, Block 317, Diplomatic Area, Kingdom of Bahrain. The purpose of the Subsidiary is limited to establishing investment funds (in accordance with the Islamic Shari'a rules and principles).

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 28 October 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 nine month period ended 30 September 2013 have been prepared in accordance with guidance given by 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 nine month period ended 30 September 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 September 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, FAS 26, 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 investment 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 periods 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 September 2013 (Unaudited)

**3 INVESTMENTS**

	30 September 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
<b>i) Debt type instruments carried at amortised cost</b>						
Sukuk						
At 1 January	-	41,049	41,049	-	56,698	56,698
Acquisitions	-	18,234	18,234	-	25,462	25,462
Impairment	-	-	-	-	(3,204)	(3,204)
Disposals and redemptions	-	(21,368)	(21,368)	-	(37,907)	(37,907)
	-	37,915	37,915	-	41,049	41,049
<b>ii) Equity type instruments carried at fair value through equity</b>						
<i>Quoted investments</i>						
Equity shares						
At 1 January	19,805	-	19,805	13,331	-	13,331
Acquisitions	4,586	-	4,586	10,495	-	10,495
Impairment	(1,076)	-	(1,076)	(720)	-	(720)
Movement in fair market value	905	-	905	2,332	-	2,332
Disposals	(5,138)	-	(5,138)	(5,633)	-	(5,633)
	19,082	-	19,082	19,805	-	19,805
<i>Unquoted investments</i>						
Equity shares						
At 1 January	22,630	-	22,630	25,167	-	25,167
Acquisition	-	-	-	-	-	-
Impairment	(500)	-	(500)	(2,537)	-	(2,537)
Disposals	-	-	-	-	-	-
	22,130	-	22,130	22,630	-	22,630
<i>Managed funds</i>						
At 1 January	26,461	-	26,461	27,645	-	27,645
Acquisitions	391	-	391	2,746	-	2,746
Impairment	(1,045)	-	(1,045)	(5,511)	-	(5,511)
Movement in fair market value	-	-	-	1,851	-	1,851
Disposals	(6,570)	-	(6,570)	(270)	-	(270)
	19,237	-	19,237	26,461	-	26,461
<b>iii) Equity type instruments carried at fair value through statement of income</b>						
<i>Quoted investments</i>						
Equity shares						
At 1 January	426	-	426	1,163	-	1,163
Acquisitions	3,087	-	3,087	5,553	-	5,553
Movement in fair market value	66	-	66	269	-	269
Disposals	(2,479)	-	(2,479)	(6,559)	-	(6,559)
	1,100	-	1,100	426	-	426
<b>TOTAL</b>	<b>61,549</b>	<b>37,915</b>	<b>99,464</b>	<b>69,322</b>	<b>41,049</b>	<b>110,371</b>

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

At 30 September 2013 (Unaudited)

**4 INVESTMENT IN REAL ESTATE**

	<i>Self financed</i>	
	<i>(Audited)</i>	
	<b>30 September</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	<b>BD'000</b>	<b>BD'000</b>
Lands	<b>61,990</b>	62,001
Buildings	<b>2,887</b>	2,887
	<b>64,877</b>	64,888

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>	
	<b>30 September</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	<b>BD'000</b>	<b>BD'000</b>
At 1 January	<b>64,888</b>	68,192
Acquisition	<b>30</b>	770
Net loss from fair value adjustments	<b>(41)</b>	(4,074)
	<b>64,877</b>	64,888

**5 OTHER ASSETS**

	<i>(Audited)</i>	
	<b>30 September</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	<b>BD'000</b>	<b>BD'000</b>
Receivables	<b>166</b>	2,689
Staff advances	<b>1,312</b>	864
Income receivable	<b>14</b>	388
Prepaid expenses	<b>497</b>	400
Others	<b>156</b>	242
	<b>2,145</b>	4,583
Net provision for impairment	<b>-</b>	(2,689)
	<b>2,145</b>	1,894

**6 OTHER LIABILITIES**

	<i>(Audited)</i>	
	<b>30 September</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	<b>BD'000</b>	<b>BD'000</b>
Payable to vendors	<b>2,646</b>	4,566
Managers' cheques	<b>2,790</b>	2,582
Accrued expenses	<b>2,523</b>	1,829
Life insurance fees payable	<b>1,795</b>	1,722
Dividends payable	<b>807</b>	817
Unearned income	<b>761</b>	1,644
Provision for employees' end of service benefits and leave	<b>651</b>	564
Zakah and charity fund	<b>92</b>	44
Others	<b>2,698</b>	881
	<b>14,763</b>	14,649

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

At 30 September 2013 (Unaudited)

**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 have 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 another 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:

	<b>30 September 2013 BD'000</b>	<i>(Audited)</i> <b>31 December 2012 BD'000</b>
Letters of credit	<b>4,529</b>	2,239
Guarantees	<b>9,834</b>	7,522
Operating lease commitments *	<b>330</b>	524
	<b>14,693</b>	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.

**9 INCOME FROM INVESTMENT IN SUKUK**

During the period the income from investment in Sukuk includes gain on sale of sukuk of BD 3,448 thousand (September 2012: BD 851 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013 (Unaudited)

10 RELATED PARTY TRANSACTIONS

Related parties represents associated companies, major shareholders, directors, key management personnel of the Group and Shari'a Supervisory Board Members and entities controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Board of Directors.

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 nine months ended		Balances at	
		30 September		30 September	31 December
		2013 BD'000	2012 BD'000	2013 BD'000	2012 BD'000
Shareholders	Customers' investment accounts	(93)	-	48,962	-
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	130	41	9,493	9,592
Associate	Investment	290	62	7,441	7,143
Board of Directors	Expenses	(51)	(158)	-	-
Board of Directors	Tawarooq	N/a*	-	N/a*	24
Board of Directors	Musharaka	30	N/a*	624	N/a*
Shari'a Supervisory Board	Expenses	(8)	(59)	-	-
Shari'a Supervisory Board	Murabaha	2	40	29	39
Shari'a Supervisory Board	Musharaka	15	7	268	293
Shari'a Supervisory Board	Tawarooq	2	-	570	596
Shari'a Supervisory Board	Letter of credit	44	-	650	668
Key management personnel	Staff advances	-	-	223	275
Key Management personnel	Staff - Credit Cards	-	-	47	47
Board of Directors	Credit Cards	-	N/a*	15	N/a*
Board of Directors	Credit Cards	N/a*	-	N/a*	26
Shari'a Supervisory Board	Credit Cards	-	-	8	12
Associate	Customers' investment accounts	(5)	(2)	681	2,373
Associate	Customers' current accounts	-	-	619	581
Associate	Life Insurance - Liabilities	-	-	1,795	1,644
Board of Directors	Customers' current accounts	-	N/a*	68	N/a*
Board of Directors	Customers' investment accounts	(3)	N/a*	513	N/a*
Board of Directors	Customers' current accounts	N/a*	-	N/a*	38
Board of Directors	Customers' investment accounts	N/a*	-	N/a*	363
Shari'a Supervisory Board	Customers' investment accounts	(3)	-	418	80
Shari'a Supervisory Board	Customers' current accounts	-	-	243	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.

\*\* For balances at 31 December 2012, an amount of BD 4,197 thousand was considered impaired and it was partially provided for.

\*\*\* For balances at 31 December 2012, an amount of BD 7,817 thousand was considered impaired and it was partially provided for.

\*\*\*\* For balances at 31 December 2012, an amount of BD 1,553 thousand is considered as impaired and it was fully provided for.

Compensation of the key management personnel is as follows:

	Nine months ended	
	30 September	
	2013 BD'000	2012 BD'000
Short term employee benefits	574	710
Other long term benefits	106	112
	<b>680</b>	<b>822</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 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/Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities/Sukuk, 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 September 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>
<b>Investments carried at fair value through statement of income</b>				
<i>Quoted securities</i>				
Equities	1,100	-	-	1,100
	<b>1,100</b>	<b>-</b>	<b>-</b>	<b>1,100</b>
<b>Investments carried at fair value through equity</b>				
<i>Quoted securities</i>				
Equities	19,082	-	-	19,082
<i>Unquoted securities</i>				
Managed funds	-	19,237	-	19,237
Equities	-	22,130	-	22,130
	<b>19,082</b>	<b>41,367</b>	<b>-</b>	<b>60,449</b>
	<b>20,182</b>	<b>41,367</b>	<b>-</b>	<b>61,549</b>

#### **Transfers between Level 1, Level 2 and Level 3**

During the nine-month period ended 30 September 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 September 2013, except for the Group's investments in Sukuk held at amortised cost amounting to BD 37,915 thousand (2012: BD 41,049 thousand) and fair values amounting to BD 39,514 thousand (2012: BD 45,066 thousand).

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

At 30 September 2013 (Unaudited)

**12 SEGMENTAL INFORMATION**

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

Corporate	Principally handling equity of corporate investment accountholders', current accounts, and providing them Islamic financing facilities.
Retail	Principally handling equity of individual customers investment accountholders', current accounts, and providing Islamic financing facilities.
Investment	Principally handling equity of banks and financial institutions 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:

	<b>30 September 2013</b>			
	<i>Corporate</i>	<i>Retail</i>	<i>Investment</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Total income	8,469	13,454	5,818	27,741
Total expenses	(2,321)	(10,290)	(2,175)	(14,786)
Fair value loss on investment in real estate	-	-	(41)	(41)
Net provision for impairment	(3,593)	(1,656)	(3,860)	(9,109)
<b>Net income for the period</b>	<b>2,555</b>	<b>1,508</b>	<b>(258)</b>	<b>3,805</b>
<b>Other information</b>				
Segment assets	<b>208,343</b>	<b>279,278</b>	<b>406,311</b>	<b>893,932</b>
Segment liabilities, and equity	<b>307,627</b>	<b>435,498</b>	<b>150,807</b>	<b>893,932</b>
	<b>30 September 2012</b>			
	<i>Corporate</i>	<i>Retail</i>	<i>Investment</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Total income	4,080	11,740	2,339	18,159
Total expenses	(2,093)	(9,985)	(2,083)	(14,161)
Fair value loss on investment in real estate	-	-	(7,217)	(7,217)
Net provision for impairment	(8,687)	(1,645)	(7,305)	(17,637)
<b>Net (loss) income for the period</b>	<b>(6,700)</b>	<b>110</b>	<b>(14,266)</b>	<b>(20,856)</b>
<b>Other information</b>				
	<b>31 December 2012</b>			
	<i>Corporate</i>	<i>Retail</i>	<i>Investment</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
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.



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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS

At 30 September 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.