

Bahrain Islamic Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

31 March 2012 (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 31 March 2012, comprising of the interim consolidated statement of financial position as at 31 March 2012 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 three 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.

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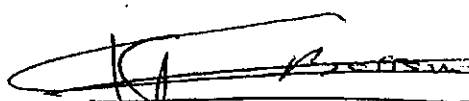
25 April 2012
Manama, Kingdom of Bahrain

Bahrain Islamic Bank B.S.C.

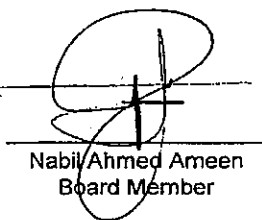
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2012 (Unaudited)

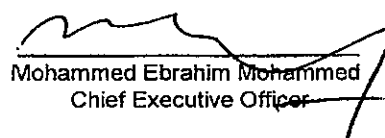
		31 March	<i>Audited</i> 31 December
	<i>Notes</i>	2012	2011
		BD'000	BD'000
ASSETS			
Cash and balances with banks and Central Bank		48,649	41,681
Due from banks and financial institutions		154,555	148,813
Murabaha receivables		210,999	201,972
Musharaka investments		97,186	92,853
Investments	3	94,022	109,922
Investment in associates		7,090	7,151
Investment in Ijarah assets		10,697	9,496
Ijarah muntahia bittamleek		99,153	97,416
Investment properties		115,561	115,008
Ijarah rental receivables		7,873	7,873
Other assets	4	6,707	6,958
TOTAL ASSETS		852,492	839,143
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Customers' current accounts		88,417	85,096
Other liabilities	5	16,026	14,507
Total Liabilities		104,443	99,603
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Financial institutions' investment accounts		89,160	108,879
Customers' investment accounts		556,489	529,332
Total Equity of Investment Accountholders		645,649	638,211
Owners' Equity			
Share capital	6	93,967	93,967
Treasury shares		(563)	(563)
Share premium		-	43,936
Reserves		8,996	(36,011)
Total Owners' Equity		102,400	101,329
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		852,492	839,143
COMMITMENTS AND CONTINGENT LIABILITIES	7	10,977	10,099



Khalid Abdulla Al Bassam
Chairman



Nabil Ahmed Ameen
Board Member



Mohammed Ebrahim Mohammed
Chief Executive Officer

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the period ended 31 March 2012 (Unaudited)

	Note	Three months ended 31 March	
		2012 BD'000	2011 BD'000
INCOME			
Income from Islamic finances		6,227	6,832
Income from investment in sukuk	8	1,315	806
		<u>7,542</u>	<u>7,638</u>
Gross return to equity of investment accountholders		6,858	6,352
Group's share as a Mudarib		(3,174)	(2,447)
		<u>3,684</u>	<u>3,905</u>
Return on equity of investment accountholders			
Group's share of income from joint financing and investment accounts		3,858	3,733
Net income (loss) from investments		647	(48)
Gain on sale of equity type instruments carried at fair value through equity		711	939
Share of results of associates		(52)	(47)
Fee and commission income		1,368	1,483
Net (loss) gain from foreign currencies		(2)	1,166
Total income		<u>6,530</u>	<u>7,226</u>
EXPENSES			
Staff costs		2,364	2,379
Depreciation		465	427
Other expenses		1,604	1,836
Total expenses		<u>4,433</u>	<u>4,642</u>
Net income before net provision for impairment		<u>2,097</u>	<u>2,584</u>
Net provision for impairment		(1,554)	(1,076)
NET INCOME FOR THE PERIOD		<u>543</u>	<u>1,508</u>
BASIC AND DILUTED EARNINGS PER SHARE (fils)		<u>0.58</u>	<u>1.61</u>

The attached notes 1 to 10 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 31 March 2012 (Unaudited)

	<i>Three months ended</i>	
	<i>31 March</i>	
	2012	2011
	BD'000	BD'000
OPERATING ACTIVITIES		
Net income for the period	543	1,508
Adjustments for non-cash items:		
Depreciation	465	427
Net provision for impairment	1,554	1,076
Gain on sale of investment in sukuk	(851)	-
Gain on sale of equity type instruments carried at fair value through equity	(711)	(939)
Share of results of associates	52	47
Unrealised (gain) loss on equity type instruments carried at fair value through statement of income	(162)	122
Operating profit before changes in operating assets and liabilities	890	2,241
Working capital adjustments:		
Mandatory reserve with Central Bank of Bahrain	(615)	(2,910)
Due from banks and financial institutions	1,186	-
Murabaha receivables	(8,735)	(8,097)
Musharaka investments	(4,433)	(1,243)
Investment in Ijarah assets	(1,340)	-
Other assets	(75)	6,066
Customers' current accounts	3,321	(1,679)
Other liabilities	1,520	1,061
Net cash used in operating activities	(8,281)	(4,561)
INVESTING ACTIVITIES		
(Purchase) sale of investment properties	(553)	41
Ijarah Muntahia Bittamleek	(1,226)	(1,031)
Purchase of investments	(12,895)	(5,571)
Proceeds from disposal of investments	28,800	11,072
Net cash from investing activities	14,126	4,511
FINANCING ACTIVITIES		
Purchase of treasury shares	-	(199)
Financial institutions' investment accounts	(19,719)	(13,774)
Customers' investment accounts	27,157	(38,341)
Dividends paid	-	(2)
Zakah paid	(1)	(65)
Net cash from (used in) financing activities	7,437	(52,381)
NET CHANGE IN CASH AND CASH EQUIVALENTS	13,282	(52,431)
Cash and cash equivalents at 1 January	163,063	226,596
CASH AND CASH EQUIVALENTS AT 31 MARCH	176,345	174,165
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash on hand	6,025	7,967
Balances with CBB, excluding mandatory reserve deposits	1,446	7,125
Balances with banks and other financial institutions	14,319	12,364
Due from banks and financial institutions with original maturities less than 90 days	154,555	146,709
	176,345	174,165

The attached notes 1 to 10 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 31 March 2012 (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	Fair value reserve on investment properties BD'000	Cumulative changes in fair value of investments BD'000		Retained earnings/accumulated losses BD'000	Proposed appropriations BD'000
Balance at 1 January 2012	93,967	(563)	43,936	10,268	1,000	-	(3,343)	(43,936)	-	101,329
Net income for the period	-	-	-	-	-	-	-	543	-	543
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	528	-	-	528
Transfer of accumulated losses to share premium (note 6)	-	-	(43,936)	-	-	-	-	43,936	-	-
Balance at 31 March 2012	93,967	(563)	-	10,268	1,000	-	(2,815)	543	-	102,400
Balance at 1 January 2011	72,859	(307)	43,936	10,268	1,000	42	(1,278)	(26,626)	167	100,061
Purchase of treasury shares (note 6)	-	(199)	-	-	-	-	-	-	-	(199)
Zakah paid	-	-	-	-	-	-	-	-	(167)	(167)
Net income for the period	-	-	-	-	-	-	-	1,508	-	1,508
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	(2,232)	-	-	(2,232)
Balance at 31 March 2011	72,859	(506)	43,936	10,268	1,000	42	(3,510)	(25,118)	-	98,971

The attached notes 1 to 10 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 31 March 2012 (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 2012	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	(71)	71	-
Balance at 31 March 2012	<u>1</u>	<u>127</u>	<u>128</u>
Balance at 1 January 2011	4	124	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	(69)	69	-
Balance at 31 March 2011	<u>4</u>	<u>124</u>	<u>128</u>
		<i>31 March 2012 BD'000</i>	<i>31 March 2011 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 10 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 31 March 2012 (Unaudited)

	31 March 2012 BD'000	31 March 2011 BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the period	209	541
Zakah due from the Bank for the period	-	-
Non-Islamic income / late fee	32	-
Total sources of Zakah and Charity funds during the period	241	541
Uses of zakah and charity funds		
Philanthropic societies	67	14
Aid to needy families	40	82
Total uses of funds during the period	107	96
Undistributed zakah and charity funds at the end of the period	134	445

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements.

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 (2011: 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 25 April 2012.

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 three month period ended 31 March 2012 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 Group's annual consolidated financial statements as at 31 December 2011. In addition, results for the three month period ended 31 March 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

2.2 Accounting convention

The consolidated financial statements have been prepared on a historical cost basis, except for "investment properties", "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.

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 2011, 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 requirement 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 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

31 March 2012 (Unaudited)

3 INVESTMENTS

	31 March 2012			Audited 31 December 2011		
	Self financed BD'000	Jointly financed BD'000	Total BD'000	Self financed BD'000	Jointly financed BD'000	Total BD'000
i) Debt type instruments carried at amortised cost						
<i>Unquoted investments</i>						
<i>Sukuk</i>						
At 1 January	-	56,851	56,851	-	65,075	65,075
Acquisitions	-	2,093	2,093	-	22,794	22,794
Disposals and redemptions	-	(20,812)	(20,812)	-	(31,018)	(31,018)
	-	38,132	38,132	-	56,851	56,851
ii) Equity type instruments carried at fair value through equity						
<i>Quoted investments</i>						
<i>Equity shares</i>						
At 1 January	18,793	-	18,793	20,309	-	20,309
Acquisitions	7,728	-	7,728	3,983	-	3,983
Movement in fair market value	384	-	384	(983)	-	(983)
Disposals	(3,850)	-	(3,850)	(4,516)	-	(4,516)
	23,055	-	23,055	18,793	-	18,793
<i>Unquoted investments</i>						
<i>Equity shares</i>						
At 1 January	14,129	-	14,129	14,320	-	14,320
Movement in fair market value	-	-	-	(191)	-	(191)
	14,129	-	14,129	14,129	-	14,129
<i>Managed funds</i>						
At 1 January	37,760	-	37,760	40,025	-	40,025
Acquisitions	50	-	50	95	-	95
Movement in fair market value	164	-	164	-	-	-
Disposals	-	-	-	(2,360)	-	(2,360)
	37,974	-	37,974	37,760	-	37,760
iii) Equity type instruments carried at fair value through statement of income						
<i>Quoted investments</i>						
<i>Equity shares</i>						
At 1 January	1,163	-	1,163	1,191	-	1,191
Acquisitions	3,025	-	3,025	1,976	-	1,976
Movement in fair market va	161	-	161	(262)	-	(262)
Disposals	(2,576)	-	(2,576)	(1,742)	-	(1,742)
	1,773	-	1,773	1,163	-	1,163
Total investment before provision for impairment	76,931	38,132	115,063	71,845	56,851	128,696
Net provision for impairment on						
Debt type instruments	-	(2,251)	(2,251)	-	(153)	(153)
Equity type instruments	(18,790)	-	(18,790)	(18,621)	-	(18,621)
	(18,790)	(2,251)	(21,041)	(18,621)	(153)	(18,774)
	58,141	35,881	94,022	53,224	56,698	109,922

31 March 2012 (Unaudited)

4 OTHER ASSETS

	<i>Audited</i>	
	<i>31 March</i>	<i>31 December</i>
	<i>2012</i>	<i>2011</i>
	<i>BD'000</i>	<i>BD'000</i>
Equipment	4,511	4,590
Receivables from related parties	2,129	2,130
Staff advances	1,019	1,123
Other Receivables	756	756
Income receivable	364	355
Prepaid expenses	326	407
Receivables under letter of credit	196	196
Others	655	650
	<u>9,956</u>	<u>10,207</u>
Net provision for impairment	<u>(3,249)</u>	<u>(3,249)</u>
	<u>6,707</u>	<u>6,958</u>

5 OTHER LIABILITIES

	<i>Audited</i>	
	<i>31 March</i>	<i>31 December</i>
	<i>2012</i>	<i>2011</i>
	<i>BD'000</i>	<i>BD'000</i>
Payable to vendors	3,843	2,328
Dividends payable	3,468	3,468
Managers' cheques	2,443	1,580
Accrued expenses	1,543	2,318
Life insurance fees payable	1,434	1,635
Unearned income	1,035	1,050
Provision for employees' end of service benefits and leave	600	546
Zakah and charity fund	134	209
Margin on letters of credit	47	47
Others	1,479	1,326
	<u>16,026</u>	<u>14,507</u>

6 EQUITY*a) Authorised Share Capital*

The shareholders 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 shareholders 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 31 March 2012 is 939,673,499 (31 December 2011: 939,673,499).

c) Share Premium

During the period 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

31 March 2012 (Unaudited)

6 EQUITY (continued)

d) Treasury shares

	2012		2011
	Number of Shares	BD'000	BD'000
At 1 January 2012	3,620,609	(563)	(307)
Purchase of treasury shares	-	-	(256)
At 31 March 2012	3,620,609	(563)	(563)

	2012
	BD'000
Cost of treasury shares in BD'000	563
Market value of treasury shares in BD'000	326

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

Owner's 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.

7 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:

	Audited	
	31 March 2012	31 December 2011
	BD'000	BD'000
Letters of credit	2,781	1,650
Guarantees	7,611	7,934
Operating lease commitments *	585	515
	10,977	10,099

* The Group has entered into commercial leases for certain branches. These leases have an average life of between 1 month and 5 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.

8 INCOME FROM INVESTMENT IN SUKUK

During the period the income from investment in Sukuk includes gain on sale of sukuk of BD 851 thousand (March 2011: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

31 March 2012 (Unaudited)

9 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:

Name of Related party	Transaction	Income (expense)		Balances at	
		Three months ended		31 March	31 December
		2012	2011	2012	2011
		BD'000	BD'000	BD'000	BD'000
Shareholders*	Sukuk	-	-	4,197	4,197
Shareholders**	Tawarooq	-	118	7,817	7,817
Shareholders	Investment properties	-	-	15,693	15,693
Shareholders***	Receivable	-	-	2,130	2,130
Associate	Wakala	17	14	3,546	3,533
Associate	Investment	(52)	(47)	7,090	7,151
Associate	Liabilities	-	-	1,434	1,635
Associate	Customers' investment accounts	-	-	879	246
Associate	Current accounts	-	-	1,035	1,164
Board of Directors	Musharaka	-	5	76	79
Board of Directors	Expenses	(53)	(141)	-	-
Board of Directors	Credit Cards	-	-	18	195
Board of Directors	Customers' current accounts	-	-	4	2
Shari'a Supervisory Board	Expenses	(20)	(18)	-	-
Shari'a Supervisory Board	Murabaha	12	16	556	594
Shari'a Supervisory Board	Musharaka	3	4	137	148
Shari'a Supervisory Board	Tawarooq	18	4	651	675
Shari'a Supervisory Board	Credit Cards	-	-	7	9
Shari'a Supervisory Board	Customers' investment accounts	-	-	37	44
Shari'a Supervisory Board	Customers' current accounts	-	-	266	181
Key management personnel	Staff advances	-	-	307	332
Key Management personnel	Staff - Credit Cards	-	-	44	38
		(75)	(45)	45,924	45,863

* An amount of BD 4,197 thousand (31 December 2011: BD 4,197 thousand) is considered as impaired for which provision of BD 2,098 (31 December 2011: BD nil thousand) has been made.

** An amount of BD 7,817 thousand (31 December 2011: BD 7,817 thousand) is considered as impaired for which provision of BD 2,803 thousand (31 December 2011: BD 2,052) has been made.

*** An amount of BD1,553 thousand (31 December 2011: BD 1,553 thousand) is considered as impaired for which provision of BD1,553 thousand (31 December 2011: BD 1,553 thousand) has been made.

Compensation of the key management personnel is as follows:

	Three months ended	
	31 March	
	2012	2011
	BD'000	BD'000
Short term employee benefits	237	244
Other long term benefits	35	30
	272	274

10 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.