

Bahrain Islamic Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 September 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 30 September 2012, comprising of the interim consolidated statement of financial position as at 30 September 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 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.

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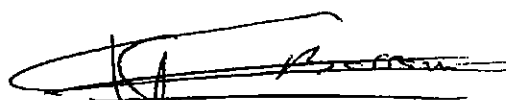
11 November 2012
Manama, Kingdom of Bahrain

Bahrain Islamic Bank B.S.C.

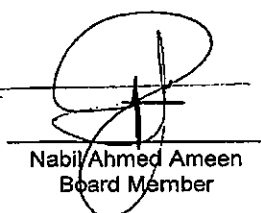
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2012 (Unaudited)

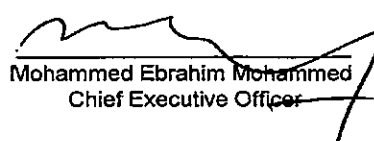
		<i>Audited</i>
		<i>30 September</i>
		<i>2012</i>
		<i>BD'000</i>
		<i>31 December</i>
		<i>2011</i>
		<i>BD'000</i>
ASSETS		
Cash and balances with banks and Central Bank		56,783
Due from banks and financial institutions		94,310
Murabaha receivables		227,293
Musharaka investments		93,656
Investments	3	111,462
Investment in associates		6,976
Investment in Ijarah assets		10,632
Ijarah muntahia bittamleek		100,284
Investment properties		108,913
Ijarah rental receivables		7,873
Other assets	4	7,335
TOTAL ASSETS		825,517
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		
Liabilities		
Customers' current accounts		88,030
Other liabilities	5	17,790
Total Liabilities		105,820
EQUITY OF INVESTMENT ACCOUNTHOLDERS		
Financial institutions' investment accounts		70,227
Customers' investment accounts		568,858
Total Equity of Investment Accountholders		639,085
Owners' Equity		
Share capital	6	93,967
Treasury shares		(563)
Share premium		-
Reserves		(12,792)
Total Owners' Equity		80,612
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		825,517
COMMITMENTS AND CONTINGENT LIABILITIES	7	11,501



Khalid Abdulla Al Bassam
Chairman



Nabil Ahmed Ameen
Board Member



Mohammed Ebrahim Mohammed
Chief Executive Officer

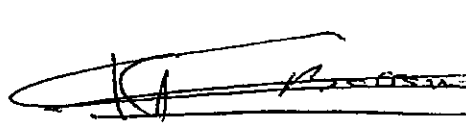
The attached notes 1 to 10 form part of these interim condensed consolidated financial statements.


Bahrain Islamic Bank B.S.C.

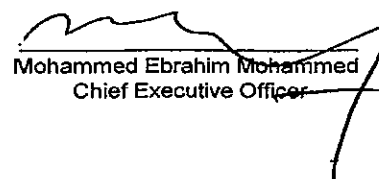
INTERIM CONSOLIDATED STATEMENT OF INCOME

For the period ended 30 September 2012 (Unaudited)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2012 BD'000	2011 BD'000	2012 BD'000	2011 BD'000
INCOME					
Income from Islamic finances		6,858	6,827	19,775	22,440
Income from investment in sukuk	8	718	924	2,578	2,943
		7,576	7,751	22,353	25,383
Gross return to equity of investment					
acountholders		7,946	6,183	21,616	20,551
Group's share as a Mudarib		(4,469)	(2,823)	(10,929)	(9,246)
Return on equity of investment acountholders		3,477	3,360	10,687	11,305
Group's share of income from joint financing					
and investment accounts		4,099	4,391	11,666	14,078
Net income from investments		608	194	2,001	703
(Loss) gain on sale of equity type instruments		(134)	591	669	1,491
Share of results of associates		81	81	62	107
Fee and commission income		998	756	3,496	3,326
Net (loss) gain from foreign currencies		(291)	89	265	1,386
Total income		5,361	6,102	18,159	21,091
EXPENSES					
Staff costs		2,435	2,365	7,219	7,136
Depreciation		434	421	1,323	1,265
Other expenses		2,056	2,112	5,619	5,875
Total expenses		4,925	4,898	14,161	14,276
Net income before fair value adjustment for investment properties and net provision for impairment		436	1,204	3,998	6,815
Fair value adjustment for investment properties		-	-	(7,219)	-
Net provision for impairment		(5,396)	(878)	(17,637)	(3,299)
NET (LOSS) INCOME FOR THE PERIOD		(4,960)	326	(20,858)	3,516
BASIC AND DILUTED EARNINGS PER SHARE (fils)		(5.30)	0.35	(22.28)	3.76


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 CASH FLOWS

For the period ended 30 September 2012 (Unaudited)

	<i>Nine months ended</i>	
	<i>30 September</i>	
	2012	2011
	BD'000	BD'000
OPERATING ACTIVITIES		
Net (loss) income for the period	(20,858)	3,516
Adjustments for non-cash items:		
Depreciation	1,323	1,265
Net provision for impairment	17,637	3,299
Fair value adjustment for investment properties	7,219	-
Gain on sale of investment in sukuk	(851)	(638)
Gain on sale of equity type instruments	(669)	(1,900)
Share of results of associates	(62)	(107)
Unrealised (gain) loss on equity type instruments carried at fair value through statement of income	(206)	305
Operating profit before changes in operating assets and liabilities	3,533	5,740
Working capital adjustments:		
Mandatory reserve with Central Bank of Bahrain	(1,595)	1,295
Due from banks and financial institutions	1,186	-
Murabaha receivables	(31,361)	(1,888)
Musharaka investments	(2,898)	(8,346)
Investment in Ijarah assets	(1,136)	1
Other assets	(1,700)	3,108
Customers' current accounts	2,934	949
Other liabilities	6,113	1,198
Net cash (used in) from operating activities	(24,924)	2,057
INVESTING ACTIVITIES		
Purchase of investment properties	(1,124)	(26)
Ijarah Muntahia Bittamleek investment in associates	(5,018)	2,157
Purchase of investments	(119)	-
Proceeds from disposal of investments	(40,244)	(15,230)
	33,575	46,072
Net cash (used in) from investing activities	(12,930)	32,973
FINANCING ACTIVITIES		
Funds received towards capital increase	-	21,108
Purchase of treasury shares	-	(256)
Financial institutions' investment accounts	(38,652)	(41,929)
Customers' investment accounts	39,526	(88,358)
Dividends paid	(2,651)	(8)
Zakah paid	(179)	(374)
Net cash used in financing activities	(1,956)	(109,817)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(39,810)	(74,787)
Cash and cash equivalents at 1 January	163,063	226,967
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	123,253	152,180
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash on hand	6,398	6,020
Balances with CBB, excluding mandatory reserve deposits	1,147	2,961
Balances with banks and other financial institutions	21,398	6,593
Due from banks and financial institutions with original maturities less than 90 days	94,310	136,606
	123,253	152,180

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 30 September 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		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 loss for the period	-	-	-	-	-	-	-	(20,858)	-	(20,858)
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	141	-	-	141
Transfer of accumulated losses to share premium (note 6)	-	-	(43,936)	-	-	-	-	43,936	-	-
Balance at 30 September 2012	93,967	(563)	-	10,268	1,000	-	(3,202)	(20,858)	-	80,612
Balance at 1 January 2011	72,859	(307)	43,936	10,268	1,000	42	(1,278)	(26,626)	167	100,061
Rights issue	21,108	-	-	-	-	-	-	-	-	21,108
Purchase of treasury shares (note 6)	-	(256)	-	-	-	-	-	-	-	(256)
Zakah paid	-	-	-	-	-	-	-	-	(167)	(167)
Net Income for the period	-	-	-	-	-	-	-	3,516	-	3,516
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	(3,045)	-	-	(3,045)
Balance at 30 September 2011	93,967	(563)	43,936	10,268	1,000	42	(4,323)	(23,110)	-	121,217

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 30 September 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	2	126	128
Uses of qard fund			
Marriage	7	(7)	-
Refurbishment	-	-	-
Medical treatment	-	-	-
Others	-	-	-
Total uses during the period	<u>7</u>	<u>(7)</u>	<u>-</u>
Repayments	(2)	2	-
Balance at 30 September 2012	<u>7</u>	<u>121</u>	<u>128</u>
Balance at 1 January 2011	4	124	128
Uses of qard fund			
Marriage	-	-	-
Refurbishment	-	-	-
Medical treatment	-	-	-
Others	-	-	-
Total uses during the period	<u>-</u>	<u>-</u>	<u>-</u>
Repayments	(1)	1	-
Balance at 30 September 2011	<u>3</u>	<u>125</u>	<u>128</u>
		<i>30 September 2012 BD'000</i>	<i>30 September 2011 BD'000</i>
Sources of Qard fund			
Contribution by the Bank		121	125
Donation		7	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 30 September 2012 (Unaudited)

	30 September 2012 BD'000	30 September 2011 BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the period	209	541
Non-Islamic income / late fee	477	23
Total sources of zakah and charity funds during the period	<u>686</u>	<u>564</u>
Uses of zakah and charity funds		
Philanthropic societies	383	271
Aid to needy families	272	257
Total uses of funds during the period	<u>655</u>	<u>528</u>
Undistributed zakah and charity funds at the end of the period	<u>31</u>	<u>36</u>

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 11 November 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 nine month period ended 30 September 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 nine month period ended 30 September 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.

3 INVESTMENTS

	30 September 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>						
Sukuk						
At 1 January	-	56,851	56,851	-	65,075	65,075
Acquisitions	-	23,217	23,217	-	22,794	22,794
Disposals and redemptions	-	(22,729)	(22,729)	-	(31,018)	(31,018)
	-	57,339	57,339	-	56,851	56,851
ii) Equity type instruments carried at fair value through equity						
<i>Quoted investments</i>						
Equity shares						
At 1 January	18,793	-	18,793	20,309	-	20,309
Acquisitions	10,495	-	10,495	3,983	-	3,983
Movement in fair market value	40	-	40	(983)	-	(983)
Disposals	(3,887)	-	(3,887)	(4,516)	-	(4,516)
	25,441	-	25,441	18,793	-	18,793
<i>Unquoted investments</i>						
Equity shares						
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	1,496	-	1,496	95	-	95
Movement in fair market value	-	-	-	-	-	-
Disposals	(285)	-	(285)	(2,360)	-	(2,360)
	38,971	-	38,971	37,760	-	37,760
iii) Equity type instruments carried at fair value through statement of income						
<i>Quoted investments</i>						
Equity shares						
At 1 January	1,163	-	1,163	1,191	-	1,191
Acquisitions	5,036	-	5,036	1,976	-	1,976
Movement in fair market value	204	-	204	(262)	-	(262)
Disposals	(5,154)	-	(5,154)	(1,742)	-	(1,742)
	1,249	-	1,249	1,163	-	1,163
Total investment before provision for impairment	79,790	57,339	137,129	71,845	56,851	128,696
Net provision for impairment on						
Debt type instruments	-	(2,251)	(2,251)	-	(153)	(153)
Equity type instruments	(23,416)	-	(23,416)	(18,621)	-	(18,621)
	(23,416)	(2,251)	(25,667)	(18,621)	(153)	(18,774)
	56,374	55,088	111,462	53,224	56,698	109,922

30 September 2012 (Unaudited)

4 OTHER ASSETS

	<i>Audited</i>
	<i>30 September 2012</i>
	<i>31 December 2011</i>
	<i>BD'000</i>
	<i>BD'000</i>
Equipment	5,109
Receivables from related parties	1,889
Staff advances	945
Other Receivables	756
Prepaid expenses	602
Income receivable	374
Receivables under letter of credit	234
Others	675
	10,584
	10,207
Net provision for impairment	(3,249)
	(3,249)
	7,335
	6,958

5 OTHER LIABILITIES

	<i>Audited</i>
	<i>30 September 2012</i>
	<i>31 December 2011</i>
	<i>BD'000</i>
	<i>BD'000</i>
Payable to vendors	8,200
Managers' cheques	2,369
Accrued expenses	1,960
Life insurance fees payable	1,893
Unearned income	895
Dividends payable	818
Provision for employees' end of service benefits and leave	658
Margin on letters of credit	43
Zakah and charity fund	31
Others	923
	17,790
	14,507

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 30 September 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.

30 September 2012 (Unaudited)

6 EQUITY (continued)*d) Treasury shares*

	2012		<i>2011</i>
	<i>Number of Shares</i>	<i>BD'000</i>	<i>BD'000</i>
At 1 January 2012	3,620,609	(563)	1,300,495
Purchase of treasury shares	-	-	2,320,114
At 30 September 2012	3,620,609	(563)	3,620,609
			2012
			BD'000
Cost of treasury shares in BD'000			563
Market value of treasury shares in BD'000			319

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:

	30 September	<i>Audited</i>
	2012	<i>31 December</i>
	BD'000	<i>2011</i>
		<i>BD'000</i>
Letters of credit	3,235	1,650
Guarantees	7,574	7,934
Operating lease commitments *	692	515
	11,501	10,099

* 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.

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 (September 2011: BD 638 thousand).

30 September 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	Statement of income nine months ended		Balances at	
		30 September		30 September	31 December
		2012 BD'000	2011 BD'000	2012 BD'000	2011 BD'000
Shareholders*	Sukuk	-	-	4,147	4,197
Shareholders**	Tawarooq	-	509	7,817	7,817
Shareholders	Investment properties	-	-	14,200	15,693
Shareholders***	Receivable	-	-	1,889	2,130
Associate	Wakala	41	42	4,315	3,533
Associate	Investment	62	107	6,976	7,151
Associate	Liabilities	-	-	1,893	1,635
Associate	Customers' investment accounts	(2)	-	125	246
Associate	Current accounts	-	-	1,144	1,164
Board of Directors	Musharaka	-	-	70	79
Board of Directors	Expenses	(158)	(438)	-	-
Board of Directors	Credit Cards	-	-	11	195
Board of Directors	Current accounts	-	-	14	2
Shari'a Supervisory Board	Expenses	(59)	(54)	-	-
Shari'a Supervisory Board	Murabaha	39	46	717	594
Shari'a Supervisory Board	Musharaka	7	10	113	148
Shari'a Supervisory Board	Tawarooq	50	27	629	675
Shari'a Supervisory Board	Credit Cards	-	-	13	9
Shari'a Supervisory Board	Customers' investment accounts	-	-	36	44
Shari'a Supervisory Board	Current accounts	-	-	234	181
Key management personnel	Advances	-	-	316	332
Key Management personnel	Credit Cards	-	-	56	38

* 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) 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 3,428 thousand (31 December 2011: BD 2,052 thousand) 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:

	Nine months ended	
	30 September	
	2012 BD'000	2011 BD'000
Short term employee benefits	710	726
Other long term benefits	112	88
	822	814

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.