



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

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**30 SEPTEMBER 2008 (UNAUDITED)**

Ernst & Young

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

**INTERIM CONDENSED CONSOLIDATED  
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**30 SEPTEMBER 2008 (UNAUDITED)**

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

### *Introduction*

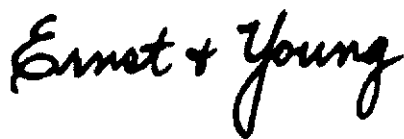
We have reviewed the accompanying interim condensed consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiary (the "Group") as at 30 September 2008, comprising of the interim consolidated balance sheet as at 30 September 2008 and the related interim consolidated statements of income, cash flows, changes in equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the 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*

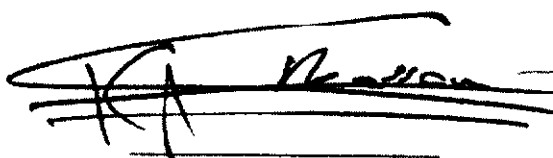
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the accounting policies disclosed in note 2.



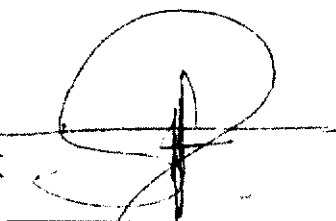
14 October 2008  
Manama, Kingdom of Bahrain

**Bahrain Islamic Bank B.S.C.**  
**INTERIM CONSOLIDATED BALANCE SHEET**  
 At 30 September 2008 (Unaudited)

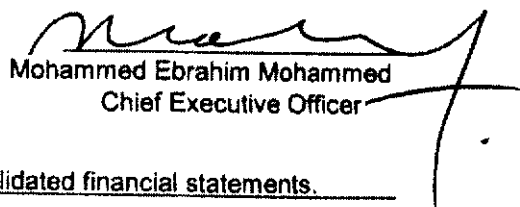
	Notes	30 September 2008 BD'000	Audited 31 December 2007 BD'000
<b>ASSETS</b>			
Cash and balances with Central Bank of Bahrain and other banks		32,647	18,349
Murabaha receivables		413,221	337,055
Mudaraba investments		71,221	43,609
Musharaka investments		80,520	39,426
Investments		155,671	156,161
Investment in associates		7,569	7,045
Investments in Ijarah assets		9,774	5,893
Ijarah Muntahia Bittamleek		62,888	13,574
Investments in properties		96,972	27,905
Ijarah rental receivables		2,963	2,963
Other assets		7,255	6,989
<b>TOTAL ASSETS</b>		<b>940,701</b>	<b>658,969</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>			
<b>LIABILITIES</b>			
Customers' current accounts		68,568	60,963
Other liabilities		14,133	7,615
<b>TOTAL LIABILITIES</b>		<b>82,701</b>	<b>68,578</b>
<b>UNRESTRICTED INVESTMENT ACCOUNTS</b>		<b>655,984</b>	<b>403,215</b>
<b>EQUITY</b>			
Share capital	3	65,926	60,214
Share premium		50,869	50,869
Reserves		85,221	62,460
Proposed appropriations		-	13,633
<b>TOTAL EQUITY</b>		<b>202,016</b>	<b>187,176</b>
<b>TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>		<b>940,701</b>	<b>658,969</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>	4	<b>40,720</b>	<b>15,199</b>



Khalid Abdulla Al Bassam  
Chairman



Nabil Ahmed Amin  
Managing Director &  
Board Member



Mohammed Ebrahim Mohammed  
Chief Executive Officer

The attached notes 1 to 7 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 2008 (Unaudited)

	Note	Three months ended		Nine months ended	
		30 September		30 September	
		2008	2007	2008	2007
		BD'000	BD'000	BD'000	BD'000
<b>INCOME</b>					
Income from Islamic finances		9,991	7,444	26,816	21,794
Return on unrestricted investment accounts before Bank's share as a Mudarib		8,190	6,309	22,008	18,394
Bank's share as a Mudarib		(3,714)	(2,615)	(10,029)	(6,745)
Return on unrestricted investment accounts		4,476	3,694	11,979	11,649
Bank's share of income from unrestricted investment accounts (as a Mudarib and Rabalmal)		5,515	3,750	14,837	10,145
Income from investments	6	536	4,834	15,397	10,416
Fair value gain on investments in properties		3,363	-	9,519	702
Share of results of associates		87	118	601	288
Other income		1,921	497	5,314	2,140
<b>Total income</b>		<b>11,422</b>	<b>9,199</b>	<b>45,668</b>	<b>23,691</b>
<b>EXPENSES</b>					
Staff costs		2,768	1,511	7,752	4,015
Depreciation		241	157	677	453
Other expenses		1,553	651	3,949	1,745
<b>Total expenses</b>		<b>4,562</b>	<b>2,319</b>	<b>12,378</b>	<b>6,213</b>
Net income before provision for impairment		6,860	6,880	33,290	17,478
Provision for impairment		(600)	-	(1,200)	-
<b>NET INCOME FOR THE PERIOD</b>		<b>6,260</b>	<b>6,880</b>	<b>32,090</b>	<b>17,478</b>
<b>BASIC EARNINGS PER SHARE (file)</b>		<b>9.50</b>	<b>22.20</b>	<b>48.68</b>	<b>56.40</b>

The attached notes 1 to 7 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 2008 (Unaudited)

	<i>Nine months ended</i>	
	<i>30 September</i>	
	<b>2008</b>	<b>2007</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>OPERATING ACTIVITIES</b>		
Net income for the period	32,090	17,478
Adjustments for non-cash items:		
Depreciation	677	453
Fair value gain on investments in properties	(9,519)	(574)
Gain on sale of investments in properties and Ijarah assets	-	(128)
Share of results of associates	(601)	(288)
Provision for impairment	1,200	-
Operating profit before changes in operating assets and liabilities	<u>23,847</u>	<u>16,941</u>
Working capital adjustments:		
Mandatory reserve with CBB	(11,438)	(1,565)
Murabaha receivables	(77,366)	(105,627)
Mudaraba investments	(27,612)	(20,399)
Musharaka investments	(41,094)	(16,130)
Other assets	(266)	(2,707)
Customers' current accounts	7,605	71,143
Other liabilities	6,518	1,635
Net cash used in operating activities	<u>(119,806)</u>	<u>(56,709)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of Ijara Muntahia Bittamleek	(49,991)	(1,226)
Purchase of investment in properties and Ijarah assets	(63,429)	(3,715)
Purchase of investments and associates	(8,762)	(27,490)
Net cash used in investing activities	<u>(122,182)</u>	<u>(32,431)</u>
<b>FINANCING ACTIVITIES</b>		
Increase in unrestricted investment accounts	252,769	97,913
Dividends paid	(7,615)	(5,667)
Directors' remuneration paid	-	(210)
Zakah paid	(306)	(170)
Net cash from financing activities	<u>244,848</u>	<u>91,866</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,860</b>	<b>2,726</b>
Cash and cash equivalents at beginning of the period	<u>6,064</u>	<u>7,954</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b><u>8,924</u></b>	<b><u>10,680</u></b>
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>		
Cash and balances with CBB, excluding mandatory reserve deposits	1,240	2,811
Balances with other banks	7,684	7,869
	<u>8,924</u>	<u>10,680</u>

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2008 (Unaudited)

	Share capital BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Reserves			Total equity BD'000
					Investment fair value reserve BD'000	Cumulative changes in fair value BD'000	Retained earnings BD'000	
Balance at 1 January 2008	60,214	50,869	8,037	1,000	7,133	30,217	16,073	187,176
Bonus shares issued	5,712	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	(7,615)
Zakah paid	-	-	-	-	-	-	-	(306)
Income for the period from 1 January 2008 to 30 September 2008	-	-	-	-	-	-	32,090	32,090
Unrealized gain on investments in properties	-	-	-	-	9,519	-	(9,519)	-
Net movement in cumulative changes in fair values	-	-	-	-	-	(9,329)	-	(9,329)
<b>Balance at 30 September 2008</b>	<b>65,926</b>	<b>50,869</b>	<b>8,037</b>	<b>1,000</b>	<b>16,652</b>	<b>20,888</b>	<b>38,644</b>	<b>202,016</b>
Balance at 1 January 2007	28,336	-	5,534	1,000	3,255	21,860	5,350	74,924
Bonus shares issued	3,542	-	-	-	-	-	-	(3,542)
Dividends paid	-	-	-	-	-	-	-	(5,667)
Directors' remuneration paid	-	-	-	-	-	-	-	(210)
Zakah paid	-	-	-	-	-	-	-	(170)
Income for the period from 1 January 2007 to 30 September 2007	-	-	-	-	-	-	17,478	17,478
Unrealized gain on investments in properties	-	-	-	-	574	-	(574)	-
Realised gain on investments in properties	-	-	-	-	(80)	-	80	-
Net movement in cumulative changes in fair values	-	-	-	-	-	(2,914)	-	(2,914)
<b>Balance at 30 September 2007</b>	<b>31,878</b>	<b>-</b>	<b>5,534</b>	<b>1,000</b>	<b>3,749</b>	<b>18,946</b>	<b>22,334</b>	<b>83,441</b>

The attached notes 1 to 7 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 2008 (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 2008	27	101	128
Uses of qard fund			
Marriage	18	(18)	-
Refurbishment	16	(16)	-
Medical treatment	14	(14)	-
Others	11	(11)	-
Total uses during the period	59	(59)	-
Repayments	(70)	70	-
<b>Balance at 30 September 2008</b>	<b>16</b>	<b>112</b>	<b>128</b>
Balance at 1 January 2007	35	93	128
Uses of qard fund			
Marriage	15	(15)	-
Refurbishment	16	(16)	-
Medical treatment	14	(14)	-
Others	10	(10)	-
Total uses during the period	55	(55)	-
Repayments	(58)	58	-
Balance at 30 September 2007	32	96	128
		<i>30 September 2008 BD'000</i>	<i>30 September 2007 BD'000</i>
<b>Sources of Qard fund</b>			
Contribution by the Bank		125	125
Donation		3	3
Total of sources during the period		<b>128</b>	<b>128</b>

The attached notes 1 to 7 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 2008 (Unaudited)

	<b>30 September 2008 BD'000</b>	<b>30 September 2007 BD'000</b>
<b>Sources of zakah and charity funds</b>		
Undistributed zakah and charity funds at the beginning of the period	487	365
Zakah due from the Bank for the period	-	-
Non-Islamic income	-	14
Donations	-	25
Total sources of funds during the period	<u>487</u>	<u>404</u>
<b>Uses of zakah and charity funds</b>		
Philanthropic societies	33	18
Aid to needy families	256	119
Total uses of funds during the period	<u>289</u>	<u>137</u>
Undistributed zakah and charity funds at end of the period	<u>198</u>	<u>267</u>

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.

# Bahrain Islamic Bank B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2008 (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 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 Abaa'd Real-Estate Company B.S.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 10 million which increased to BD 25 million during the period ended 30 June 2008. 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 rules and principles.

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

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

### 2 ACCOUNTING POLICIES

#### Basis of preparation

The interim condensed consolidated financial statements for the nine months ended 30 September 2008 have been prepared in accordance with the guidance given by the International Accounting Standard 34 "Interim Financial Reporting". The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as at 31 December 2007. In addition, results for the nine months ended 30 September 2008 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2008.

#### Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual consolidated financial statements, for the year ended 31 December 2007, which were prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (the "AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law and Central Bank of Bahrain and Financial Institutions Law. For matters which are not covered by AAOIFI standards, including "Interim Financial Reporting", the Group uses the International Financial Reporting Standards (the "IFRSs").

#### Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and its Subsidiary. A subsidiary is an entity over which the Bank has control to govern its financial and operating policies in order to obtain benefits from its activities. The subsidiary is consolidated from the date it was incorporated and was included in the interim condensed consolidated financial statements using the purchase method of accounting. All intercompany balances, transactions and income are eliminated on consolidation.

### 3 SHARE CAPITAL

The increase of share capital of BD 5,712 million is due to bonus shares that were approved in the Annual General Meeting held on 10 March 2008.

# Bahrain Islamic Bank B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2008 (Unaudited)

### 4 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 2008 BD'000</b>	<i>Audited</i> <b>31 December 2007 BD'000</b>
Letters of credit	30,029	9,125
Guarantees	10,318	5,850
Operating lease commitments *	373	224
	<b>40,720</b>	<b>15,199</b>

\* The Group has entered into commercial leases for certain branches. These leases have an average life of between 5 and 10 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

### 5 RELATED PARTY TRANSACTIONS

Related parties represents associated companies, major shareholders, directors and key management personnel of the Group.

The balances and values of major transactions with the related parties are as follows:

<i>Name of related party</i>	<i>Transaction</i>	<i>Income</i>		<i>Asset balances at</i>	
		<i>30 September</i>		<i>30 September</i>	<i>31 December</i>
		<b>2008 BD'000</b>	<b>2007 BD'000</b>	<b>2008 BD'000</b>	<b>2007 BD'000</b>
Shareholders	Sukuk	481	584	12,039	12,316
Shareholders	Tawaroq	620	412	15,352	18,003
Shareholders	Musharaka	-	-	41	-
Associate	Ijarah Muntahia Bittamleek	43	38	518	848
Associate	Sukuk	127	269	9,425	2,266
Associate	Tawaroq	58	-	1,060	8,294
Associate	Murabaha	-	-	-	7,540
Board of Directors	Ijarah Muntahia Bittamleek	29	37	396	660
Board of Directors	Musharaka	61	20	974	1,054
		<b>1,419</b>	<b>1,360</b>	<b>39,805</b>	<b>50,981</b>

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

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

At 30 September 2008 (Unaudited)

**5 RELATED PARTY TRANSACTIONS (continued)**

Compensation of the key management personnel is as follows:

	<i>Nine months ended 30 September</i>	
	<i>2008</i>	<i>2007</i>
	<i>BD'000</i>	<i>BD'000</i>
Short term employee benefits	<b>774</b>	356
Other long term benefits	<b>105</b>	47
	<b>879</b>	403

**6 INCOME FROM INVESTMENTS**

This income includes dividend of BD 4.166 million (2007: BD 2.8 million) which is cyclical in nature.

**7 CONCENTRATION OF RISK**

As at 30 September 2008, the Bank had significant exposure to a third party amounting 21.74% of the total equity.