

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

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**30 SEPTEMBER 2009 (UNAUDITED)**

Ernst & Young

## 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 2009, comprising of the interim consolidated balance sheet as at 30 September 2009 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.



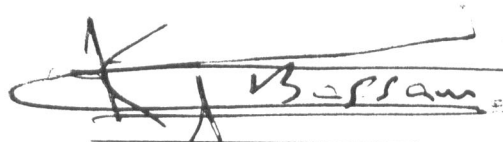
20 October 2009  
Manama, Kingdom of Bahrain

# Bahrain Islamic Bank B.S.C.

## INTERIM CONSOLIDATED BALANCE SHEET

At 30 September 2009 (Unaudited)

		30 September 2009 BD'000	Audited 31 December 2008 BD'000
	Notes		
<b>ASSETS</b>			
Cash and balances with Central Bank of Bahrain and other banks		50,312	49,579
Murabaha receivables		357,328	368,563
Mudaraba investments		69,356	55,436
Musharaka investments		85,411	80,526
Investments		106,586	127,193
Investment in associates		7,224	7,423
Investments in Ijarah assets		9,805	9,901
Ijarah Muntahia Bittamleek		128,067	67,960
Investments in properties		103,411	97,829
Ijarah rental receivables		1,469	1,469
Other assets	3	13,468	8,088
<b>TOTAL ASSETS</b>		<b>932,437</b>	<b>873,967</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>			
<b>LIABILITIES</b>			
Customers' current accounts		79,342	69,466
Other liabilities	4	13,091	13,935
<b>TOTAL LIABILITIES</b>		<b>92,433</b>	<b>83,401</b>
<b>UNRESTRICTED INVESTMENT ACCOUNTS</b>		<b>680,292</b>	<b>624,119</b>
<b>EQUITY</b>			
Share capital		72,859	66,235
Share premium		43,936	43,936
Treasury shares		(173)	-
Reserves		43,090	42,387
Proposed appropriations		-	13,889
<b>TOTAL EQUITY</b>		<b>159,712</b>	<b>166,447</b>
<b>TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>		<b>932,437</b>	<b>873,967</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>	7	<b>19,783</b>	<b>37,434</b>



Khalid Abdulla Al Bassam  
Chairman



Nabil Ahmed Amin  
Board Member



Mohammed Ebrahim Mohammed  
Chief Executive Officer

The attached notes 1 to 11 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 2009 (Unaudited)

	Three months ended 30 September		Nine months ended 30 September	
	2009	2008	2009	2008
	BD'000	BD'000	BD'000	BD'000
<b>INCOME</b>				
Income from Islamic finances	8,132	7,923	21,861	19,959
Income from Sukuk and Commodities	1,896	1,820	4,434	6,001
	<b>10,028</b>	<b>9,743</b>	<b>26,295</b>	<b>25,960</b>
Return on unrestricted investment accounts before Bank's share as a Mudarib	8,096	8,295	21,309	22,113
Bank's share as a Mudarib	(3,293)	(3,819)	(8,344)	(10,134)
Return on unrestricted investment accounts	<b>4,803</b>	<b>4,476</b>	<b>12,965</b>	<b>11,979</b>
Bank's share of income from unrestricted investment accounts (as a Mudarib and Rabalmal)	5,225	5,267	13,330	13,981
(Loss) income from investments	(1,933)	(1,897)	1,635	16,253
Fair value gain on investments in properties	-	6,044	2,345	9,519
Share of results of associates	195	87	(346)	601
Other income	1,321	1,921	3,647	5,314
<b>Total income</b>	<b>4,808</b>	<b>11,422</b>	<b>20,611</b>	<b>45,668</b>
<b>EXPENSES</b>				
Staff costs	2,312	2,768	6,942	7,752
Depreciation	357	241	953	677
Other expenses	1,499	1,553	4,292	3,949
<b>Total expenses</b>	<b>4,168</b>	<b>4,562</b>	<b>12,187</b>	<b>12,378</b>
Net income before provision for impairment	640	6,860	8,424	33,290
Provision for impairment	(2,000)	(600)	(7,607)	(1,200)
<b>NET (LOSS) INCOME FOR THE PERIOD</b>	<b>(1,360)</b>	<b>6,260</b>	<b>817</b>	<b>32,090</b>
<b>BASIC EARNINGS PER SHARE (fils)</b>	<b>(1.87)</b>	<b>8.59</b>	<b>1.12</b>	<b>44.04</b>

The attached notes 1 to 11 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 2009 (Unaudited)

	<i>Nine months ended 30 September</i>	
	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>OPERATING ACTIVITIES</b>		
Net income for the period	817	32,090
Adjustments for non-cash items:		
Depreciation	953	677
Provision for impairment	7,607	1,200
Loss (Gain) on sale of investments	2,065	(10,645)
Fair value gain on investment in properties	(2,345)	(9,519)
Share of results of associates	346	(601)
Operating profit before changes in operating assets and liabilities	9,443	13,202
Working capital adjustments:		
Mandatory reserve with CBB	6,953	(11,438)
Murabaha receivables	2,818	(77,366)
Mudaraba investments	(13,920)	(27,612)
Musharaka investments	(4,885)	(41,094)
Ijarah Muntahia Bittamleek	(60,107)	(49,991)
Other assets	(6,206)	(266)
Customers' current accounts	9,876	7,605
Other liabilities	(3,696)	6,518
Net cash used in operating activities	(59,724)	(180,442)
<b>INVESTING ACTIVITIES</b>		
Purchase of investment in properties	(3,237)	(59,548)
Investments in Ijarah assets	(31)	(3,881)
Purchase of investments	(20,067)	(29,972)
Proceeds from disposal of investments	39,158	31,855
Net cash from (used) in investing activities	15,823	(61,546)
<b>FINANCING ACTIVITIES</b>		
Purchase of treasury shares	(173)	-
Increase in unrestricted investment accounts	56,173	252,769
Dividends paid	(3,793)	(7,615)
Zakah paid	(620)	(306)
Net cash from financing activities	51,587	244,848
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>7,686</b>	<b>2,860</b>
Cash and cash equivalents at beginning of the period	18,331	6,064
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>26,017</b>	<b>8,924</b>
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>		
Cash and balances with CBB, excluding mandatory reserve deposits	12,012	1,240
Balances with other banks	14,005	7,684
	<b>26,017</b>	<b>8,924</b>

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2009 (Unaudited)

	Reserves							Total equity BD'000
	Share capital BD'000	Share premium BD'000	Treasury shares BD'000	Statutory reserve BD'000	General reserve BD'000	Investments in properties fair value reserve BD'000	Cumulative changes in fair value of investments BD'000	
Balance at 1 January 2009	66,235	43,936	-	10,268	1,000	18,093	(4,688)	166,447
Bonus shares issued (note 6)	6,624	-	-	-	-	-	-	-
Purchase of treasury shares (note 5)	-	-	(173)	-	-	-	-	(173)
Dividends paid (note 6)	-	-	-	-	-	-	-	(6,624)
Zakah for the year - 2008	-	-	-	-	-	-	-	(641)
Income for the period from 1 January 2009 to 30 September 2009	-	-	-	-	-	-	-	817
Unrealized gain on investments in properties	-	-	-	-	-	2,345	-	(2,345)
Net movement in cumulative changes in fair values investments	-	-	-	-	-	-	(114)	-
Transfer of changes in fair value reserve	-	-	-	-	-	-	2,368	(114)
<b>Balance at 30 September 2009</b>	<b>72,859</b>	<b>43,936</b>	<b>(173)</b>	<b>10,268</b>	<b>1,000</b>	<b>20,438</b>	<b>(2,434)</b>	<b>159,712</b>
Balance at 1 January 2008	60,214	50,869	-	8,037	1,000	7,133	30,217	187,176
Bonus shares issued (note 6)	6,021	(309)	-	-	-	-	-	-
Dividends paid (note 6)	-	-	-	-	-	-	-	(7,831)
Zakah for the year - 2007	-	-	-	-	-	-	-	(306)
Income for the period from 1 January 2008 to 30 September 2008	-	-	-	-	-	-	-	32,090
Unrealized gain on investments in properties	-	-	-	-	-	9,519	-	(9,519)
Net movement in cumulative changes in fair values investments	-	-	-	-	-	-	(9,329)	-
<b>Balance at 30 September 2008</b>	<b>66,235</b>	<b>50,560</b>	<b>-</b>	<b>8,037</b>	<b>1,000</b>	<b>16,652</b>	<b>20,888</b>	<b>201,800</b>

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

## For the period ended 30 September 2009 (Unaudited)

The attached notes 1 to 11 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 2009 (Unaudited)

	<b>30 September 2009 BD'000</b>	<b>30 September 2008 BD'000</b>
<b>Sources of zakah and charity funds</b>		
Undistributed zakah and charity funds at the beginning of the period	<b>1,049</b>	487
Zakah due from the Bank for the period	-	-
Non-Islamic income	-	-
Donations	-	-
Total sources of funds during the period	<b>1,049</b>	487
<b>Uses of zakah and charity funds</b>		
Philanthropic societies	<b>571</b>	33
Aid to needy families	<b>162</b>	256
Total uses of funds during the period	<b>733</b>	289
Undistributed zakah and charity funds at end of the period	<b>316</b>	198



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

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

At 30 September 2009 (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 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 twelve branches (2008: twelve), all operating in the Kingdom of Bahrain.

The interim condensed consolidated financial statements of the Group for the nine month period ended 30 September 2009 were authorised for issue in accordance with a resolution of the directors on 20 October 2009.

### **2 ACCOUNTING POLICIES**

#### **Basis of preparation**

The interim condensed consolidated financial statements for the nine months ended 30 September 2009 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 2008. In addition, results for the nine months ended 30 September 2009 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2009.

#### **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 2008, 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.

# Bahrain Islamic Bank B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2009 (Unaudited)

### 3 OTHER ASSETS

	30 September 2009 BD'000	Audited 31 December 2008 BD'000
Equipment	4,498	3,635
Receivables under letter of credit	239	1,339
Staff advances	1,364	751
Income receivable	662	576
Receivable from a related party	1,392	-
Credit card holders receivable	1,893	660
Others	3,420	1,127
	<b>13,468</b>	<b>8,088</b>

### 4 OTHER LIABILITIES

	30 September 2009 BD'000	Audited 31 December 2008 BD'000
Payable to vendors	1,380	3,684
Accrued expenses	192	3,149
Clearance cheques	23	1,426
Murabaha bills payable	966	1,249
Managers' cheques	3,100	1,189
Dividends payable	3,544	713
Zakah and charity fund	530	408
Margin on letters of credit	214	216
Provision for employees' end of service benefits and leave	307	280
Others	2,835	1,621
	<b>13,091</b>	<b>13,935</b>

### 5 TREASURY SHARES

	30 September 2009
Number of treasury shares	546,665
Bonus shares (10%)	54,667
Treasury shares as a percentage of total shares in issue	0.075%
Cost of treasury shares in BD'000	173
Market value of treasury shares in BD'000	127

Own 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.

### 6 DIVIDENDS PAID

At the annual general meeting of the shareholders held on 17 March 2009, a cash dividend and bonus shares of 10% each based on the outstanding number of shares during the year 2008 was approved. This resulted in an increase in the number of the issued shares by 66,235 thousand and share capital by BD 6,624 thousand. Last year excess payments of BD 216 thousand for cash dividend and BD 309 thousand for bonus shares was ratified by the Annual General Meeting held on 17 March 2009.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2009 (Unaudited)

## 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 2009 BD'000	Audited 31 December 2008 BD'000
Letters of credit	9,739	27,578
Guarantees	9,597	9,564
Operating lease commitments *	447	292
	<b>19,783</b>	<b>37,434</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.

## 8 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:

Name of related party	Transaction	Income (expense) Nine months ended		Balances at	
		30 September		30 September	31 December
		2009 BD'000	2008 BD'000	2009 BD'000	2008 BD'000
Shareholders	* Sukuk	-	164	4,197	4,009
Shareholders	Tawaroq	869	620	24,161	23,628
Shareholders	Receivable	1,553	-	1,392	-
Shareholders	Investments in properties	-	-	18,850	18,850
Associate	Ijarah Muntahia Bittamleek	-	43	-	-
Associate	Sukuk	82	127	-	9,427
Associate	Mudaraba	85	-	13,136	2,770
Board of Directors	Ijarah Muntahia Bittamleek	9	29	-	356
Board of Directors	Musharaka	20	61	-	941
		<b>2,618</b>	<b>1,044</b>	<b>61,736</b>	<b>59,981</b>

\* As of 30 September 2009, this includes a balance of BD 4,197 thousand (31 December 2008: BD 4,009 thousand) which is past due.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2009 (Unaudited)

**8 RELATED PARTY TRANSACTIONS (continued)**

Compensation of the key management personnel is as follows:

	<i>Nine months ended 30 September</i>	
	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
Short term employee benefits	<b>95</b>	<b>774</b>
Other long term benefits	<b>363</b>	<b>105</b>
	<b>458</b>	<b>879</b>

**9 INCOME FROM INVESTMENTS**

This income includes dividend of BD 1.636 million (2008: BD 4.166 million) which is cyclical in nature.

**10 CONCENTRATION OF RISK**

As at 30 September 2009, the Bank had significant exposure to several third parties amounting to BD 29 million (i.e. 18% of the total equity).

**11 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.