



Bahrain Islamic Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 2009 (UNAUDITED)

Ernst & Young

 **ERNST & YOUNG**

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

Introduction

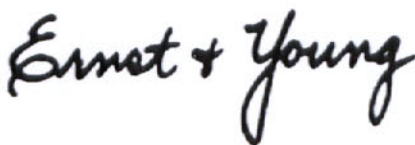
We have reviewed the accompanying interim condensed consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiary (the "Group") as at 30 June 2009, comprising of the interim consolidated balance sheet as at 30 June 2009 and the related interim consolidated statements 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 six 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 July 2009
Manama, Kingdom of Bahrain

Bahrain Islamic Bank B.S.C.
INTERIM CONSOLIDATED BALANCE SHEET
 At 30 June 2009 (Unaudited)


		30 June 2009 BD'000	Audited 31 December 2008 BD'000
	Notes		
ASSETS			
Cash and balances with Central Bank of Bahrain and other banks		50,449	49,579
Murabaha receivables		385,003	368,563
Mudaraba investments		51,280	55,436
Musharaka investments		80,574	80,526
Investments		127,510	127,193
Investment in associates		6,668	7,423
Investments in Ijarah assets		9,839	9,901
Ijarah Muntahia Bittamleek		92,253	67,960
Investments in properties		102,925	97,829
Ijarah rental receivables		1,469	1,469
Other assets	3	10,711	8,088
TOTAL ASSETS		918,681	873,967
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Customers' current accounts		78,333	69,466
Other liabilities	4	13,464	13,935
TOTAL LIABILITIES		91,797	83,401
UNRESTRICTED INVESTMENT ACCOUNTS		664,961	624,119
EQUITY			
Share capital		72,859	66,235
Share premium		43,936	43,936
Treasury shares		(173)	-
Reserves		45,301	42,387
Proposed appropriations		-	13,889
TOTAL EQUITY		161,923	166,447
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		918,681	873,967
COMMITMENTS AND CONTINGENT LIABILITIES	7	22,820	37,434



Khalid Abdulla Al Bassam
Chairman



Nabil Ahmed Amin
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 June 2009 (Unaudited)

	Three months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008
	BD'000	BD'000	BD'000	BD'000
INCOME				
Income from Islamic finances	6,629	6,388	13,729	12,036
Income from Sukuk and Commodities	1,301	1,534	2,538	4,181
Return on unrestricted investment accounts before Bank's share as a Mudarib	6,328	6,734	13,213	13,818
Bank's share as a Mudarib	(1,048)	(3,047)	(5,051)	(6,315)
Return on unrestricted investment accounts	5,280	3,687	8,162	7,503
Bank's share of income from unrestricted investment accounts (as a Mudarib and Rabalmaal)	2,650	4,235	8,105	8,714
Income from investments	614	11,981	3,568	18,150
Fair value gain on investments in properties	-	2,079	2,345	3,475
Share of results of associates	61	25	(541)	514
Other income	828	1,887	2,326	3,393
Total income	4,153	20,207	15,803	34,246
EXPENSES				
Staff costs	2,026	2,574	4,630	4,984
Depreciation	313	221	596	436
Other expenses	1,588	1,343	2,793	2,396
Total expenses	3,927	4,138	8,019	7,816
Net income before provision for impairment	226	16,069	7,784	26,430
Provision for impairment	(4,054)	(300)	(5,607)	(600)
NET (LOSS) INCOME FOR THE PERIOD	(3,828)	15,769	2,177	25,830
BASIC EARNINGS PER SHARE (fils)	(5.26)	21.64	2.99	35.45

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 June 2009 (Unaudited)

	Six months ended 30 June	
	2009 BD'000	2008 BD'000
OPERATING ACTIVITIES		
Net income for the period	2,177	25,830
Adjustments for non-cash items:		
Depreciation	596	436
Provision for impairment	5,607	600
Gain on sale of investments	(420)	(10,507)
Fair value gain on investment in properties	(2,345)	(3,475)
Share of results of associates	541	(514)
Operating profit before changes in operating assets and liabilities	6,156	12,370
Working capital adjustments:		
Mandatory reserve with CBB	7,098	(10,423)
Murabaha receivables	(22,857)	(26,524)
Mudaraba investments	4,156	(50,392)
Musharaka investments	(48)	(37,738)
Ijarah Muntahia Bittamleek	(24,293)	(36,325)
Other assets	(3,134)	(1,018)
Customers' current accounts	8,867	12,008
Other liabilities	(3,699)	9,641
Net cash used in operating activities	(27,754)	(128,401)
INVESTING ACTIVITIES		
Purchase of investment in properties	(2,751)	(45,113)
Investments in Ijarah assets	(23)	(2,230)
Purchase of investments	(5,549)	(22,488)
Proceeds from disposal of investments	7,413	24,380
Net cash used in investing activities	(910)	(45,451)
FINANCING ACTIVITIES		
Purchase of treasury shares	(173)	-
Increase in unrestricted investment accounts	40,842	176,916
Dividends paid	(3,735)	(7,615)
Zakah paid	(302)	(306)
Net cash from financing activities	36,632	168,995
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,968	(4,857)
Cash and cash equivalents at beginning of the period	18,331	6,064
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	26,299	1,207
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and balances with CBB, excluding mandatory reserve deposits	5,336	367
Balances with other banks	20,963	840
	26,299	1,207

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 EQUITY

For the period ended 30 June 2009 (Unaudited)

	Reserves							Total equity BD'000
	Share capital BD'000	Share premium BD'000	Treasury share 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 paid	-	-	-	-	-	-	-	(641)
Income for the period from 1 January 2009 to 30 June 2009	-	-	-	-	-	-	-	2,177
Unrealized gain on investments in properties	-	-	-	-	-	2,345	-	-
Net movement in cumulative changes in fair values investments	-	-	-	-	-	-	737	737
Transfer of changes in fair value reserve	-	-	-	-	-	-	2,368	-
Balance at 30 June 2009	72,859	43,936	(173)	10,268	1,000	20,438	(1,583)	161,923
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 paid	-	-	-	-	-	-	-	(306)
Income for the period from 1 January 2008 to 30 June 2008	-	-	-	-	-	-	-	25,830
Unrealized gain on investments in properties	-	-	-	-	-	6,156	-	-
Net movement in cumulative changes in fair values investments	-	-	-	-	-	-	7,288	7,288
Balance at 30 June 2008	66,235	50,560	-	8,037	1,000	13,289	37,505	212,157

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 June 2009 (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 2009	10	118	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	(66)	66	-
Balance at 30 June 2009	3	125	128
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	(66)	66	-
Balance at 30 June 2008	20	108	128
		30 June 2009 BD'000	30 June 2008 BD'000
Sources of Qard fund			
Contribution by the Bank		125	108
Donation		3	20
Total of sources during the period		128	128

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 June 2009 (Unaudited)

	30 June 2009 BD'000	30 June 2008 BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the period	1,049	486
Zakah due from the Bank for the period	-	-
Non-Islamic income	-	-
Donations	-	-
Total sources of funds during the period	1,049	486
Uses of zakah and charity funds		
Philanthropic societies	282	35
Aid to needy families	114	248
Total uses of funds during the period	396	283
Undistributed zakah and charity funds at end of the period	653	203

Bahrain Islamic Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 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 six month period ended 30 June 2009 were authorised for issue in accordance with a resolution of the directors on 14 July 2009.

2 ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 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 six months ended 30 June 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

3 OTHER ASSETS

	30 June 2009 BD'000	<i>Audited</i> 31 December 2008 BD'000
Equipment	4,283	3,635
Receivables under letter of credit	198	1,339
Staff advances	1,180	751
Income receivable	525	576
Receivable from a related party	1,392	-
Credit card holders receivable	1,364	660
Others	1,769	1,127
	10,711	8,088

4 OTHER LIABILITIES

	30 June 2009 BD'000	<i>Audited</i> 31 December 2008 BD'000
Payable to vendors	2,760	3,684
Accrued expenses	418	3,149
Clearance cheques	204	1,426
Murabaha bills payable	1,228	1,249
Managers' cheques	3,595	1,189
Dividends payable	3,602	713
Zakah and charity fund	803	408
Margin on letters of credit	213	216
Provision for employees' end of service benefits and leave	341	280
Others	300	1,621
	13,464	13,935

5 TREASURY SHARES

	30 June 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	169

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 June 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 June	<i>Audited</i> 31 December
	2009	2008
	BD'000	BD'000
Letters of credit	13,387	27,578
Guarantees	9,106	9,564
Operating lease commitments *	327	292
	22,820	37,434

* 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:

<i>Name of related party</i>	<i>Transaction</i>	<i>Income (expense)</i> <i>Six months ended</i>		<i>Balances at</i>	
		<i>30 June</i>		<i>30 June</i>	<i>31 December</i>
		2009	2008	2009	2008
		BD'000	BD'000	BD'000	BD'000
Shareholders	* Sukuk	-	348	4,197	4,009
Shareholders	Tawaroq	917	209	23,997	22,573
Shareholders	Receivable	1,553	-	2,910	-
Shareholders	Investments in properties	-	-	18,850	18,850
Associate	Ijarah Muntahia Bittamleek	-	34	-	-
Associate	Sukuk	82	59	9,440	9,427
Associate	Tawaroq	-	-	-	-
Associate	Mudaraba	39	-	3,699	2,770
Board of Directors	Ijarah Muntahia Bittamleek	60	22	-	356
Board of Directors	Musharaka	243	37	-	941
		2,894	709	63,093	58,926

* As of 30 June 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 June 2009 (Unaudited)

8 RELATED PARTY TRANSACTIONS (continued)

Compensation of the key management personnel is as follows:

	<i>Six months ended</i>	
	<i>30 June</i>	
	2009	2008
	BD'000	BD'000
Short term employee benefits	62	699
Other long term benefits	282	46
	344	745

9 INCOME FROM INVESTMENTS

This income includes dividend of BD 1.36 million (2008: BD 4.08 million) which is cyclical in nature.

10 CONCENTRATION OF RISK

As at 30 June 2009, the Bank had significant exposure to third party amounting to BD 62.603 million (i.e. 16.48% of the total equity).