

Bahrain Islamic Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

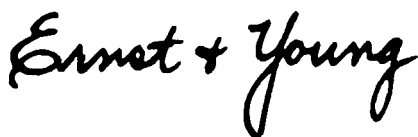
30 SEPTEMBER 2006 (UNAUDITED)

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

We have reviewed the accompanying interim consolidated balance sheet of Bahrain Islamic Bank B.S.C. ("the Bank") and its subsidiary ("the Group") as at 30 September 2006, 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. These interim condensed consolidated financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Bank's Board of Directors. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with 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.

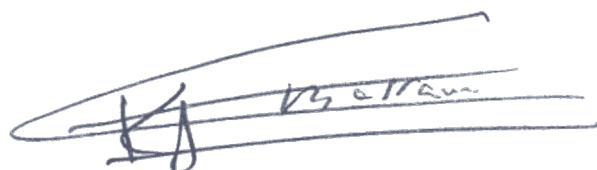
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared fairly, in all material respects, in accordance with the accounting policies in note 2.



9 October 2006
Manama, Kingdom of Bahrain

Bahrain Islamic Bank B.S.C.
CONSOLIDATED BALANCE SHEET
30 September 2006 (Unaudited)

	<i>30 September</i> <i>2006</i> <i>BD'000</i>	<i>Audited</i> <i>31 December</i> <i>2005</i> <i>BD'000</i>
ASSETS		
Cash and balances with the CBB and other banks	14,865	10,448
Murabaha receivables	256,492	156,421
Mudaraba investments	14,783	29,459
Musharaka investments	10,548	9,889
Non-trading investments	101,993	80,748
Investments in associates	6,088	3,382
Investments in Ijarah assets	5,042	5,174
Ijarah Muntahia Bittamleek	20,279	12,752
Investments in properties	12,110	10,341
Other assets	3,727	2,082
TOTAL ASSETS	445,927	320,696
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		
LIABILITIES		
Customers' current accounts	43,674	47,345
Other liabilities	7,748	3,562
TOTAL LIABILITIES	51,422	50,907
UNRESTRICTED INVESTMENT ACCOUNTS	317,538	197,881
EQUITY		
Share capital	28,336	25,300
Share premium	2,726	2,726
Reserves	45,905	43,882
TOTAL EQUITY	76,967	71,908
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	445,927	320,696
CONTINGENCIES (Note 3)	9,748	7,090



Khalid Abdulla Al Bassam
Chairman



Yousif Saleh Khalaf
Chief Executive Officer

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF INCOME

30 September 2006 (Unaudited)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
INCOME				
Income from Islamic finances	6,446	3,350	16,587	8,670
Return on unrestricted investment accounts before Bank's share as a Mudarib	5,891	1,591	14,730	3,966
Bank's share as a Mudarib	(2,104)	(158)	(5,722)	(401)
Return to unrestricted investment accounts	3,787	1,433	9,008	3,565
Bank's share of income from unrestricted investment accounts (as a Mudarib and Rabalmaal)	2,659	,917	7,579	5,105
Income from investments	157	134	2,534	1,199
Gain on investments in properties	157	-	2,947	2,039
Share of results of associates	-	152	46	195
Other income	274	170	918	424
Total income	3,247	2,373	14,024	8,962
EXPENSES				
Staff costs	956	835	2,778	2,311
Depreciation	135	127	399	372
Other expenses	453	345	1,195	1,038
Total Expenses	1,544	1,307	4,372	3,721
Net income before Zakah	1,703	,066	9,652	5,241
Zakah		(34)		(103)
NET INCOME FOR THE PERIOD	1,703	1,032	9,652	5,138
BASIC EARNINGS PER SHARE (fils)	6.18	4.17	35.00	20.78



Khalid Abdulla Al Bassam
Chairman



Yousif Saleh Khalaf
Chief Executive Officer

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

30 September 2006 (Unaudited)

	<i>Nine months ended 30 September</i>	
	<i>2006</i>	<i>2005</i>
	<i>BD'000</i>	<i>BD'000</i>
OPERATING ACTIVITIES		
Net profit for the period	9,652	5,138
Adjustments for non-cash items:		
Depreciation	399	372
Gain on fair value adjustment for investments in properties	(2,609)	(1,682)
Gain on sale of investments in properties and Ijarah assets	(338)	(357)
Share of results of associates	(46)	(195)
Operating profit before changes in operating assets and liabilities		
Changes in:		
Mandatory reserve with CBB	(1,770)	(177)
Murabaha receivables	(100,071)	(9,204)
Mudaraba investments	14,676	(5,287)
Musharaka investments	(659)	(2,778)
Other assets	(2,044)	100
Customers' current accounts	(3,671)	818
Other liabilities	4,186	2,045
Net cash used in operating activities	(82,295)	(11,207)
INVESTING ACTIVITIES		
Purchase of Ijara Muntahia Bittamleek	(7,527)	(7,626)
Disposal (Purchase) of investment in properties and Ijara assets - net	1,310	(3,127)
Purchase of non-trading investments and associates	(24,370)	(11,576)
Net cash used in investing activities	(30,587)	(22,329)
FINANCING ACTIVITIES		
Increase in unrestricted investment accounts	119,657	36,368
Dividends paid	(3,795)	(2,743)
Directors' remuneration paid	(120)	-
Zakah paid	(138)	-
Charitable contributions paid	(75)	-
Net cash from financing activities	115,529	33,625
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,647	90
Cash and cash equivalents at beginning of the period	4,483	3,269
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	7,130	3,359
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and balances with CBB, excluding mandatory reserve deposits	3,735	370
Balances with other banks	3,395	2,989
	7,130	3,359

The attached notes 1 to 5 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 September 2006 (Unaudited)

	Share capital BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Reserves		Retained earnings BD'000	Proposed appropriations BD'000	Total equity BD'000
						Cumulative changes in fair value BD'000			
Balance at 1 January 2006	25,300	2,726	4,229	1,000	2,360	27,769	1,360	7,164	71,908
Bonus shares issued	3,036	-	-	-	-	-	-	(3,036)	-
Dividends paid	-	-	-	-	-	-	-	(3,795)	(3,795)
Directors' remuneration paid	-	-	-	-	-	-	-	(120)	(120)
Zakah paid	-	-	-	-	-	-	-	(138)	(138)
Charitable contributions paid	-	-	-	-	-	-	-	(75)	(75)
Profit for the period from 1 January 2006 to 30 September 2006							9,652		9,652
Unrealized gain on investments in properties					2,609		(2,609)		-
Realized gain on investments in properties					(338)		338		-
Net movement in cumulative changes in fair values						(465)			(465)
Balance at 30 September 2006	28,336	2,726	4,229	1,000	4,631	27,304	8,741	-	76,967
Balance at 1 January 2005	23,000	5,762	3,489	1,000	369	13,242	828	5,060	52,750
Bonus shares issued	2,300	-	-	-	-	-	-	(2,300)	-
Dividends declared	-	-	-	-	-	-	-	(2,760)	(2,760)
Disposal of investments in properties	-	-	-	-	(77)	-	77	-	-
Unrealized gain on investments in properties					1,682		(1,682)		-
Net movement in cumulative changes in fair values						11,460			11,460
Transferred to unrestricted investment account						(2,641)			(2,641)
Profit for the period from 1 January 2005 to 30 September 2005							5,138		5,138
Balance at 30 September 2005	25,300	5,762	3,489	1,000	1,974	22,061	4,361	-	63,947

The attached notes 1 to 5 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH
QARD FUND

30 September 2006 (Unaudited)

	<i>30 September 2006 BD'000</i>	<i>Audited 31 December 2005 BD'000</i>
Original sources of qard fund		
Contribution by the Bank	125	125
Donations	3	3
	<u>128</u>	<u>128</u>
Movement of funds		
Cash balance at the beginning of the period	123	109
Installments received	4	14
	<u>127</u>	<u>123</u>
Uses of qard fund		
Marriage	8	
Refurbishment	9	
Medical treatment	11	
Others	4	
Total uses	32	
Cash balance at the end of the period	96	123
Qard Hasan installments outstanding as at end of the period	32	5
	<u>128</u>	<u>128</u>

Bahrain Islamic Bank B.S.C.**CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND**

30 September 2006 (Unaudited)

	<i>30 September 2006 BD'000</i>	<i>Audited 31 December 2005 BD'000</i>
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the period	139	147
Zakah due from the Bank for the period	91	138
Total sources of funds during the period	230	285
Uses of zakah and charity funds		
University and school students		10
Philanthropic societies	17	119
Aid to needy families	51	17
Total uses of funds during the period	68	146
Undistributed zakah and charity funds at end of the period	162	139

Bahrain Islamic Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2006 (Unaudited)

1 INCORPORATION AND ACTIVITIES

Bahrain Islamic Bank B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain by Amiri Decree No.2 of 1979, under Commercial Registration No.9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under a commercial 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 participated in 100% of the share capital in Al Emar Real-Estate Company B.S.C. ("subsidiary"). Al Emar was incorporated on 8 April 2003 and has an authorized and paid-up share capital of BD 10,000,000.

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

These interim condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting". The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2005, which financial statements were prepared in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). For matters for which no AAOIFI standards exist, the Bank uses the relevant International Accounting Standard issued by International Accounting Standards Board.

The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with AAOIFI. In addition, results for the nine months ended 30 September 2006 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2006.

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 have been eliminated on consolidation.

3 CONTINGENCIES

Credit related commitments

	<i>30 September 2006 BD'000</i>	<i>Audited 31 December 2005 BD'000</i>
Letters of credit	9,135	5,494
Guarantees	613	1,596
	9,748	7,090

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS

30 September 2006 (Unaudited)

4 RELATED PARTY TRANSACTIONS

The balances and values of major transactions with related parties included under various balance sheet and statement of income heads are as follows:

Balances with related parties included in the balance sheet are as follows:

	<i>30 September 2006 BD'000</i>	<i>Audited 31 December 2005 BD'000</i>
Non-trading investments	4,652	953
Mudaraba investments	773	773
Assets with related parties	5,425	1,726

The transactions with related parties included in the income statement are as follows:

	<i>1 January to 30 September 2006 BD'000</i>	<i>1 January to 30 September 2005 BD'000</i>
Income from non-trading investments	57	
Income from Mudaraba investments	43	32
Income from related parties	100	32

5 INCOME FROM INVESTMENTS

This income includes dividend of BD 1,672 thousand (2005: BD 791 thousand) which is cyclical in nature.