

Bahrain Islamic Bank B.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 JUNE 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 of 30 June 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 six month period then ended. 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 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of Bank personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, 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 presented fairly, in all material respects, in accordance with the accounting policies in note 2.



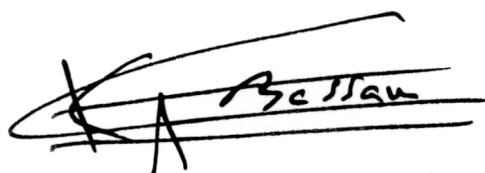
6 July 2006
Manama, Kingdom of Bahrain

Bahrain Islamic Bank B.S.C.

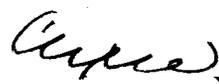
CONSOLIDATED BALANCE SHEET

30 June 2006 (Unaudited)

	<i>30 June</i>	<i>Audited</i>
	<i>2006</i>	<i>31 December</i>
	<i>BD'000</i>	<i>2005</i>
		<i>BD'000</i>
ASSETS		
Cash and balances with the BMA and other banks	12,288	10,448
Murabaha receivables	297,533	156,421
Mudaraba investments	15,526	29,459
Musharaka investments	10,814	9,889
Non-trading investments	92,537	80,748
Investments in associates	3,261	3,382
Investments in Ijarah assets	5,086	5,174
Ijarah Muntahia Bittamleek	20,423	12,752
Investments in properties	12,386	10,341
Other assets	3,062	2,082
	<hr/>	<hr/>
TOTAL ASSETS		320,696
		<hr/> <hr/>
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		
LIABILITIES		
Customers' current accounts	50,675	47,345
Other liabilities	7,869	3,562
	<hr/>	<hr/>
TOTAL LIABILITIES	58,544	50,907
	<hr/>	<hr/>
UNRESTRICTED INVESTMENT ACCOUNTS	342,978	197,881
	<hr/>	<hr/>
EQUITY		
Share capital	28,336	25,300
Share premium	2,726	2,726
Reserves	40,332	43,882
	<hr/>	<hr/>
TOTAL EQUITY	71,394	71,908
	<hr/>	<hr/>
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	472,916	320,696
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CONTINGENCIES (Note 3)	8,550	7,090



Khalid Abdulla Al Bassam
Chairman



Yousif Saleh Khalaf
Chief Executive Officer

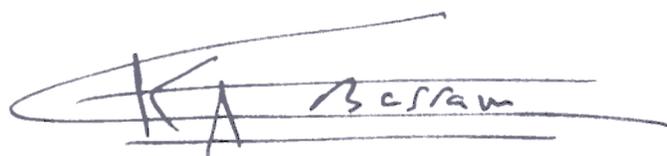
The attached notes 1 to 4 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF INCOME

30 June 2006 (Unaudited)

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</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	5,866	2,745	10,141	5,320
Return on unrestricted investment accounts before Bank's share as a Mudarib	5,360	1,196	8,839	2,375
Bank's share as a Mudarib	(2,106)	(100)	(3,618)	(243)
Return to unrestricted investment accounts	3,254	1,096	5,221	2,132
Bank's share of income from unrestricted investment accounts (as a Mudarib and Rabalmaal)	2,612	,649	4,920	3,188
Income from investments	330	167	2,491	,422
Gain on fair value adjustment for investments in properties	2,437	,435	2,676	,682
Bank's share in the profit of associates	-		46	43
Other income	185	13	644	254
Total income	5,564	3,364	10,777	6,589
EXPENSES				
Staff costs	918	758	,822	,476
Depreciation	133	123	264	245
Other expenses	384	352	742	693
Total Expenses	1,435	1,233	2,828	2,414
Net income before Zakah	4,129	2,131	7,949	4,175
Zakah		(35)		(69)
NET INCOME FOR THE PERIOD	4,129	2,096	7,949	4,106
BASIC EARNINGS PER SHARE (fils)	14.97	8.48	28.82	16.61



Khalid Abdulla Al Bassam
Chairman



Yousif Saleh Khalaf
Chief Executive Officer

The attached notes to 4 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2006 (Unaudited)

	<i>Six months ended 30 June</i>	
	<i>2006</i>	<i>2005</i>
	<i>BD'000</i>	<i>BD'000</i>
OPERATING ACTIVITIES		
Net profit for the period	7,949	4,106
Adjustments for non-cash items:		
Depreciation	264	245
Gain on fair value adjustment for investments in properties	(2,676)	(1,682)
Gain on sale of investments in properties and Ijarah assets	(114)	(357)
Bank's share in the profit of an associate	(46)	(43)
Operating profit before changes in operating assets and liabilities	5,377	2,269
Changes in:		
Mandatory reserve with BMA	(1,965)	(57)
Murabaha receivables	(141,112)	10,534
Mudaraba investments	13,933	(2,277)
Musharaka investments	(925)	(2,816)
Other assets	(1,155)	(772)
Customers' current accounts	3,330	10,190
Other liabilities	4,307	1,866
Net cash (used in) from operating activities	<u>18,937</u>	<u>18,937</u>
INVESTING ACTIVITIES		
Purchase of Ijara Muntahia Bittamleek	(7,671)	(7,341)
Disposal (Purchase) of investment in properties and Ijara assets	835	(3,093)
Purchase of non-trading investments and associates	(16,048)	(6,780)
Net cash used in investing activities	<u>(22,884)</u>	<u>(17,214)</u>
FINANCING ACTIVITIES		
Increase in unrestricted investment accounts	145,097	3,674
Dividends paid	(3,795)	(2,715)
Directors' remuneration paid	(120)	
Zakah paid	(138)	
Charitable contributions paid	(75)	
Net cash from financing activities	<u>959</u>	<u>959</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(125)	2,682
Cash and cash equivalents at beginning of the period	4,483	3,269
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	4,358	5,951
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and balances with BMA, excluding mandatory reserve deposits	2,866	2,099
Balances with other banks	1,492	3,852
	<u>4,358</u>	<u>5,951</u>

The attached notes 1 to 4 form part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2006 (Unaudited)

	<i>Reserves</i>								
	<i>Share capital</i> <i>BD'000</i>	<i>Share premium</i> <i>BD'000</i>	<i>Statutory reserve</i> <i>BD'000</i>	<i>General reserve</i> <i>BD'000</i>	<i>Cumulative changes in fair value</i> <i>BD'000</i>		<i>Retained earnings</i> <i>BD'000</i>	<i>Proposed appropriations</i> <i>BD'000</i>	<i>Total equity</i> <i>BD'000</i>
Balance at 1 January 2005	23,000	5,762	3,489	,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	-	-	-	-	,682	-	(1,682)	-	-
Net movement in cumulative changes in fair values	-	-	-	-	-	9,754	-	-	-
Transferred to unrestricted investment account	-	-	-	-	-	(2,641)	-	-	(2,641)
Profit for the period from 1 January 2005 to 30 June 2005	-	-	-	-	-	-	4,106	-	-
Balance at 30 June 2005	25,300	5,762	3,489	1,000	1,974	20,355	3,329	-	61,209
Balance at 1 January 2006	25,300	2,726	4,229	,000	2,360	27,769	,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 June 2006	-	-	-	-	-	-	7,949	-	-
Unrealized gain on investments in properties	-	-	-	-	2,676	-	(2,676)	-	-
Realized gain on investments in properties	-	-	-	-	(232)	-	232	-	-
Net movement in cumulative changes in fair values	-	-	-	-	-	(4,335)	-	-	-
Balance at 30 June 2006	28,336	2,726	4,229	1,000	4,804	23,434	6,865	-	71,394

The attached notes 1 to 4 form part of these interim condensed consolidated financial statements

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH

QARD FUND

30 June 2006 (Unaudited)

	<i>30 June</i> <i>2006</i> <i>BD'000</i>	<i>Audited</i> <i>31 December</i> <i>2005</i> <i>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	1	12
	<u>124</u>	<u>121</u>
Uses of qard fund		
Marriage	2	
Refurbishment	3	
Medical treatment	5	
Others	1	
Total uses	<u>11</u>	
Cash balance at the end of the period	123	123
Qard Hasan installments outstanding as at end of the period	5	5
	<u>128</u>	<u>128</u>

The attached notes to 4 form part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

30 June 2006 (Unaudited)

	<i>30 June</i> <i>2006</i> <i>BD'000</i>	<i>Audited</i> <i>31 December</i> <i>2005</i> <i>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	90	138
Total sources of funds during the period	229	285
Uses of zakah and charity funds		
University and school students		10
Philanthropic societies		19
Aid to needy families	32	17
Total uses of funds during the period	32	146
Undistributed zakah and charity funds at end of the period	197	139

Bahrain Islamic Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2006 (Unaudited)

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 Bahrain Monetary Agency. 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 (AAOIFI) for Islamic Financial Institutions. For matters for which no AAOIFI standards exist, the Bank uses the relevant International Accounting Standard issued by International Accounting Standards Board.

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 June</i>	<i>Audited</i>
	<i>2006</i>	<i>31 December</i>
	<i>BD'000</i>	<i>2005</i>
		<i>BD'000</i>
Letters of credit	7,950	5,494
Guarantees	600	1,596
	<u>8,550</u>	<u>7,090</u>

4 INCOME FROM INVESTMENTS IN SECURITIES

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