

Bahrain Islamic Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

31 March 2011 (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 31 March 2011, comprising of the interim consolidated statement of financial position as at 31 March 2011 and the related interim consolidated statements of income, cash flows, changes in owners' equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the three 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.



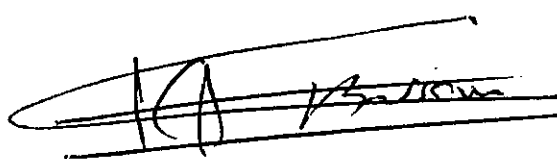
12 April 2011
Manama, Kingdom of Bahrain

Bahrain Islamic Bank B.S.C.

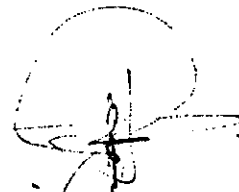
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2011 (Unaudited)

	Note	31 March 2011 BD'000	31 December 2010 (Audited) BD'000
ASSETS			
Cash and balances with Central Bank of Bahrain and other banks		57,236	45,831
Murabaha receivables		375,313	431,692
Mudaraba investments		36,875	37,360
Musharaka investments		82,568	80,246
Investments		90,314	94,667
Investment in associates		6,856	6,778
Investment in Ijarah assets		9,591	9,635
Ijarah Muntahia Bittamleek		102,452	105,386
Investment in properties		105,151	105,192
Ijarah rental receivables		7,569	7,569
Other assets	3	8,026	11,318
TOTAL ASSETS		881,951	935,674
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Customers' current accounts		79,981	81,660
Other liabilities	4	13,732	12,571
Total Liabilities		93,713	94,231
Equity of Investment Accountholders			
Financial institutions' investment accounts		127,584	141,358
Customers' investment accounts		561,683	600,024
Total Equity of Investment Accountholders		689,267	741,382
Owners' Equity			
Share capital		72,859	72,859
Treasury shares	5	(506)	(307)
Share premium		43,936	43,936
Reserves		(17,318)	(16,594)
Proposed appropriations		-	167
Total Owners' Equity		98,971	100,061
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		881,951	935,674
COMMITMENTS AND CONTINGENT LIABILITIES	6	10,544	13,230



Khalid Abdulla Al Bassam
Chairman



Nabil Ahmed Amin
Board Member



Mohammed Ebrahim Mohammed
Chief Executive Officer

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.**INTERIM CONSOLIDATED STATEMENT OF INCOME**

For the period ended 31 March 2011

		<i>Three months ended</i>	
		<i>31 March</i>	
	<i>Note</i>	2011	2010
		BD'000	BD'000
INCOME			
Income from Islamic finances		6,543	7,587
Income from sukuk and commodities		1,098	1,158
		7,641	8,745
Gross return to equity of investment accountholders		6,352	7,617
Group's share as a Mudarib		(2,447)	(2,959)
Return on equity of investment accountholders		3,905	4,658
Group's share of income from joint financing and investment accounts		3,736	4,087
Net (loss) income from investments		(51)	886
Gain on sale of available for sale investments		939	946
Share of results of associates		(47)	(6)
Fee and commission income		1,488	639
Other income		1,166	114
Total income	8	7,231	6,666
EXPENSES			
Staff costs		2,379	2,252
Depreciation		427	371
Other expenses		1,841	1,779
Total expenses		4,647	4,402
Net income before provisions		2,584	2,264
Provision for impairment - net		(1,076)	(1,062)
NET INCOME FOR THE PERIOD		1,508	1,202
BASIC AND DILUTED EARNINGS PER SHARE (fils)		2.08	1.66

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 March 2011

	<i>Three months ended</i>	
	<i>31 March</i>	
	2011	2010
	BD'000	BD'000
OPERATING ACTIVITIES		
Net income for the period	1,508	1,202
Adjustments for:		
Depreciation	427	371
Provision for impairment - net	1,076	1,062
Gain on sale of available for sale investments	(939)	(946)
Share of results of associates	47	6
Operating profit before changes in operating assets and liabilities	2,119	1,695
Working capital adjustments:		
Mandatory reserve with Central Bank of Bahrain	(2,910)	(1,735)
Murabaha receivables	53,386	(53,475)
Mudaraba investments	(556)	(21)
Musharaka investments	(1,243)	5,168
Other assets	6,066	(2,259)
Customers' current accounts	(1,679)	10,760
Other liabilities	1,061	203
Net cash from (used in) operating activities	56,244	(39,664)
INVESTING ACTIVITIES		
Sale (purchase) of investments in properties	41	(146)
Ijarah Muntahia Bittamleek	(1,031)	(3,205)
Purchase of investments	(4,570)	(7,371)
Proceeds from disposal of investments	10,192	18,817
Net cash from investing activities	4,632	8,095
FINANCING ACTIVITIES		
Purchase of treasury shares	(199)	(134)
Financial institutions' investment accounts	(13,774)	4,560
Customers' investment accounts	(38,341)	28,330
Dividends paid	(2)	(18)
Zakah paid	(65)	(74)
Net cash (used in) from financing activities	(52,381)	32,664
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,495	1,095
Cash and cash equivalents at 1 January	18,961	12,683
CASH AND CASH EQUIVALENTS AT 31 MARCH	27,456	13,778
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash in hand	7,967	6,375
Balances with CBB, excluding mandatory reserve deposits	7,125	3,827
Balances with banks and other financial institutions	12,364	3,576
	27,456	13,778

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

Bahrain Islamic Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the period ended 31 March 2011

	Share capital BD'000	Treasury shares BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Reserves			Proposed appropriations BD'000	Total owners' equity BD'000
						Investment in properties fair value BD'000	Cumulative changes in fair value of investments BD'000	Accumulated loss BD'000		
Balance at 1 January 2011	72,859	(307)	43,936	10,268	1,000	42	(1,278)	(26,626)	167	100,061
Purchase of treasury shares (note 5)	-	(199)	-	-	-	-	-	-	-	(199)
Zakah paid	-	-	-	-	-	-	-	-	(167)	(167)
Net income for the period	-	-	-	-	-	-	-	1,508	-	1,508
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	(2,232)	-	-	(2,232)
Balance at 31 March 2011	72,859	(506)	43,936	10,268	1,000	42	(3,510)	(25,118)	-	98,971
Balance at 1 January 2010	72,859	(173)	43,936	10,268	1,000	18,093	(1,431)	(4,798)	747	140,501
Purchase of treasury shares (note 5)	-	(134)	-	-	-	-	-	-	-	(134)
Zakah paid	-	-	-	-	-	-	-	-	(747)	(747)
Net income for the period	-	-	-	-	-	-	-	1,202	-	1,202
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	(92)	-	-	(92)
Balance at 31 March 2010	72,859	(307)	43,936	10,268	1,000	18,093	(1,523)	(3,596)	-	140,730

The attached notes 1 to 9 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 31 March 2011

	<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 2011	4	124	128
Uses of qard fund			
Marriage	27	(27)	-
Refurbishment	16	(16)	-
Medical treatment	14	(14)	-
Others	12	(12)	-
Total uses during the period	69	(69)	-
Repayments	(69)	69	-
Balance at 31 March 2011	4	124	128
Balance at 1 January 2010	2	126	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	(60)	60	-
Balance at 31 March 2010	1	127	128
		31 March 2011 BD'000	31 March 2010 BD'000
Sources of Qard fund			
Contribution by the Bank		125	125
Donation		3	3
Total of sources during the period		128	128

The attached notes 1 to 9 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 31 March 2011

	31 March 2011 BD'000	31 March 2010 BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the period	541	1,092
Zakah due from the Bank for the period	-	-
Non-Islamic income / late fee	-	-
Total sources of Zakah and Charity funds during the period	<u>541</u>	<u>1,092</u>
Uses of zakah and charity funds		
Philanthropic societies	14	2
Aid to needy families	82	74
Total uses of funds during the period	<u>96</u>	<u>76</u>
Undistributed zakah and charity funds at the end of the period	<u>445</u>	<u>1,016</u>

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2011 (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 thirteen branches (2010: thirteen), all operating in the Kingdom of Bahrain.

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 12 April 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the three month period ended 31 March 2011 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 2010. In addition, results for the three month period ended 31 March 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

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 2010, 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.

New and amended accounting standard and framework

During 2010, AAOIFI amended its conceptual framework and issued new Financial Accounting Standard (FAS 25) "Investment in sukuk, shares and similar instruments", which are effective as of 1 January 2011.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2011 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**Statement of financial accounting No.1: Conceptual framework for the financial reporting by Islamic financial institutions**

The amended conceptual framework provides the basis for the financial accounting standards issued by AAOFI. The amended framework introduces the concept of substance and form compared to the concept of form over substance. The framework states that it is necessary that information, transaction and other events are accounted for and presented in accordance with its substance and economic reality as well as the legal form.

The adoption of this standard did not have any impact on the accounting policies, financial position or performance of the Group.

3 OTHER ASSETS

	<i>Audited</i>	<i>Audited</i>
	<i>31 March 2011</i>	<i>31 December 2010</i>
	<i>BD'000</i>	<i>BD'000</i>
Equipment	5,004	4,723
Receivables from related parties	2,538	2,526
Staff advances	1,193	1,271
Others Receivables	756	756
Income receivable	331	311
Receivables under letter of credit	227	188
Prepaid expenses	492	160
Others	734	4,632
	<u>11,275</u>	<u>14,567</u>
Provision for impairment	(3,249)	(3,249)
	<u>8,026</u>	<u>11,318</u>

4 OTHER LIABILITIES

	<i>Audited</i>	<i>Audited</i>
	<i>31 March 2011</i>	<i>31 December 2010</i>
	<i>BD'000</i>	<i>BD'000</i>
Dividends payable	3,475	3,477
Payable to vendors	2,921	2,178
Unearned income	1,186	1,281
Managers' cheques	1,609	1,273
Accrued expenses	1,390	1,215
Provision for employees' end of service benefits and leave	457	424
Zakah and charity fund	445	374
Margin on letters of credit	48	48
Others	2,201	2,301
	<u>13,732</u>	<u>12,571</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2011 (Unaudited)

5 TREASURY SHARES

	<i>Audited</i>	
	31 March	31 December
	2011	2010
Number of treasury shares	1,300,495	546,665
Bonus shares	-	54,667
Purchase of treasury shares	1,768,417	699,163
TOTAL	<u>3,068,912</u>	<u>1,300,495</u>
Treasury shares as a percentage of total shares in issue	0.42%	0.18%
Cost of treasury shares in BD'000	506	307
Market value of treasury shares in BD'000	359	168

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 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:

	<i>Audited</i>	
	31 March	31 December
	2011	2010
	BD'000	BD'000
Letters of credit	2,129	4,971
Guarantees	7,866	7,735
Operating lease commitments *	549	524
	<u>10,544</u>	<u>13,230</u>

* The Group has entered into commercial leases for certain branches. These leases have an average life of between 1 year and 6 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2011 (Unaudited)

7 RELATED PARTY TRANSACTIONS

Related parties represents associated companies, major shareholders, directors, key management personnel of the Group and Shari'a Supervisory Board Members.

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

Name of related party	Transaction	Income (expense) Three months ended		Asset balances at	
		31 March		31 March	31 December
		2011 BD'000	2010 BD'000	2011 BD'000	2010 BD'000
Shareholders*	Sukuk	-	-	4,197	4,197
Shareholders**	Tawarooq	118	110	19,888	20,359
Shareholders	Investment in properties	-	-	15,693	15,693
Shareholders*	Receivable	-	-	2,538	2,526
Associate	Mudaraba	14	49	3,552	3,691
Board of Directors	Tawarooq	21	30	1,073	1,115
Board of Directors	Expenses	(141)	(132)	-	-
Shari'a Supervisory Board	Expenses	(18)	(18)	-	-
Shari'a Supervisory Board	Murabaha	16	23	476	1,081
Shari'a Supervisory Board	Musharaka	4	5	184	192
Shari'a Supervisory Board	Tawarooq	4	3	200	-
Key management personnel	Staff advances	-	-	351	366
		18	70	48,152	49,220

* An amount of BD 1,553 thousand (2010: BD 5,750 thousand) is considered as impaired for which provision of BD 1,553 thousand (2010: BD 3,652 thousand) has been made.

** An amount of BD 7,817 thousand (2010: BD 7,817 thousand) is restructured or in process of restructuring.

Compensation of the key management personnel is as follows:

	Three months ended	
	31 March	
	2011 BD'000	2010 BD'000
Short term employee benefits	244	253
Other long term benefits	30	34
	274	287

8 TOTAL INCOME

The total income for the period ended 31 March 2011 includes BD 986 thousand (31 March 2010: nil) under other income and BD 632 thousand (31 March 2010: nil) under fees and commission which are incidental in nature.

9 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.