

بنك البحرين الإسلامي



A New Outlook

**Bahrain Islamic Bank (BisB)**  
Annual Report 2007

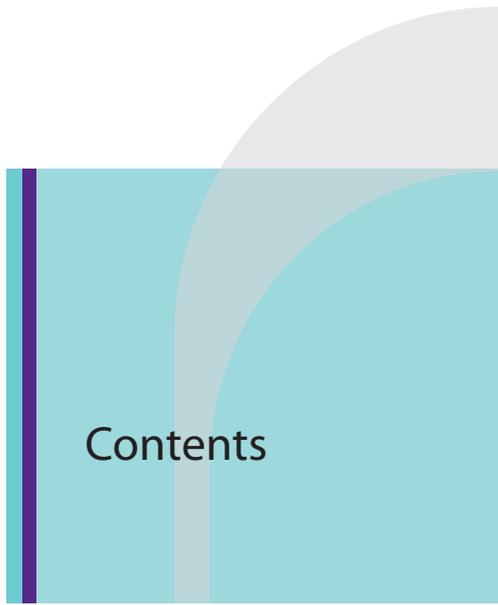


Understanding the pulse of a changing world whilst embracing the possibilities of the future, Bahrain Islamic Bank (BisB) unveils its vision and new look, bringing a fresh perspective to its journey ahead. Evolving with the times, our new identity is a simple beginning of a extensive change scripted to address tomorrow's demands of the market and our customers.

Our new logo is a reflection of the journey ahead. The two solid arches coming together to form a doorway represents our core brand values of openness, Islamic hospitality, transparency, trustworthiness and efficiency. These fuse together to represent a confident symbol of a pioneering bank progressing to provide the best financial services, compliant with Sharia'a laws, for a better tomorrow.

Evolving

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**H. H. Shaikh Khalifa  
Bin Salman Al Khalifa**  
The Prime Minister

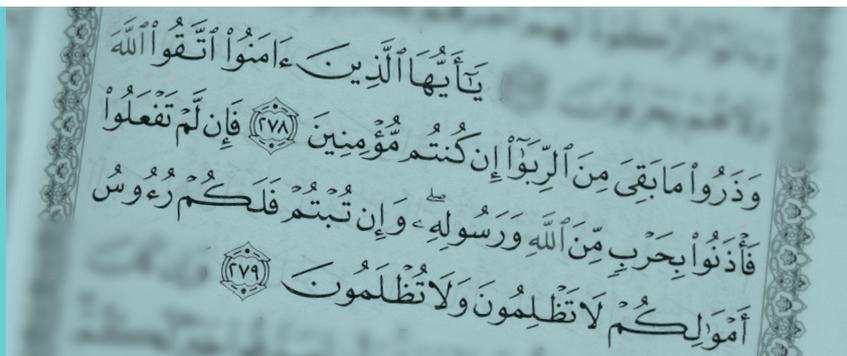


**His Majesty King Hamad  
Bin Isa Al Khalifa**  
The King of Bahrain



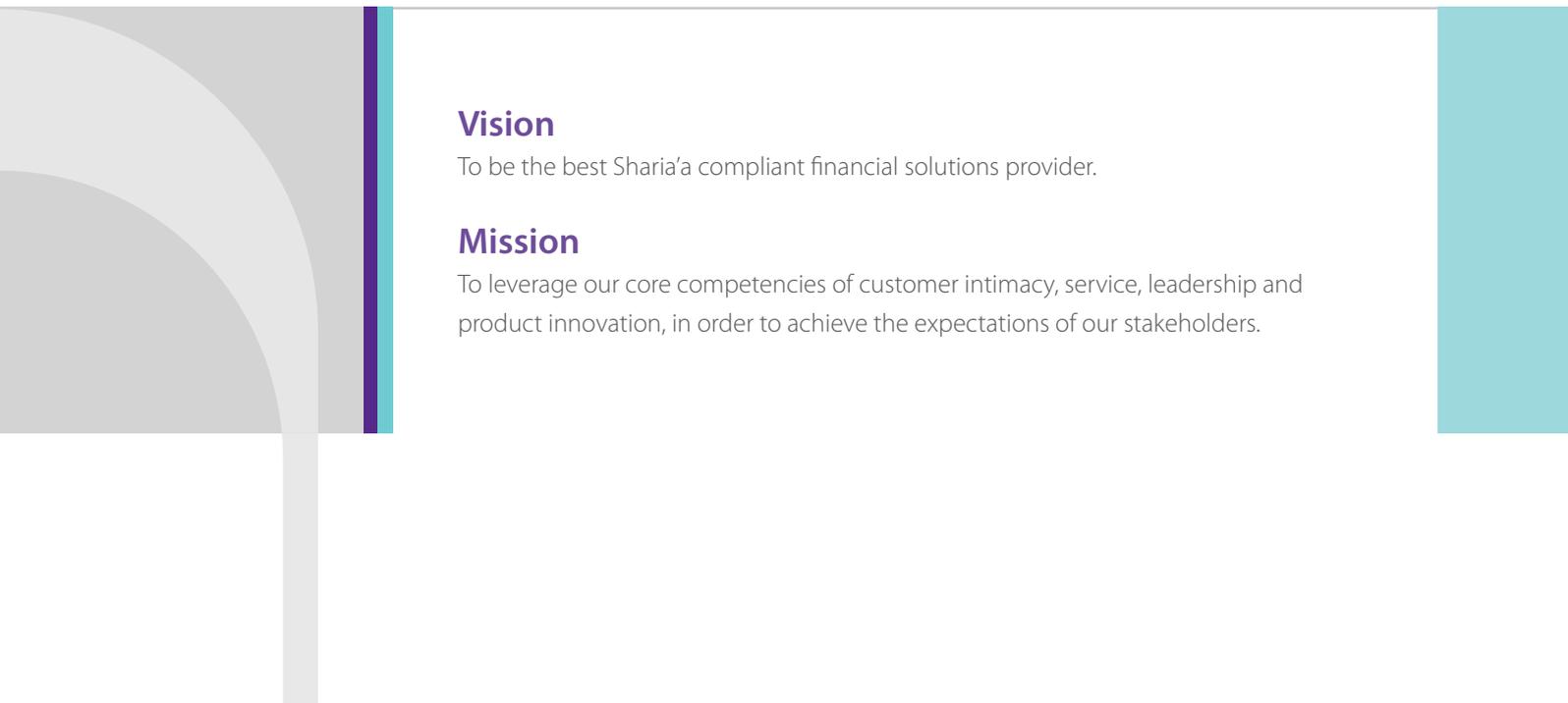
**H. H. Shaikh Salman  
Bin Hamad Al Khalifa**  
The Crown Prince and  
Deputy Supreme Commander

In the name of  
Allah the Most  
Gracious, the  
Most Merciful



- O ye who believe fear Allah and give up what remain of your demand for usury if ye are indeed believers.
- If ye do it not take notice of war from Allah and His Messenger: but if ye repent ye shall have your capital sums deal not unjustly and ye shall not be dealt with justly.

*Holy Quraan - Al-Baqara Chapter - Verses 278+279*



### **Vision**

To be the best Sharia'a compliant financial solutions provider.

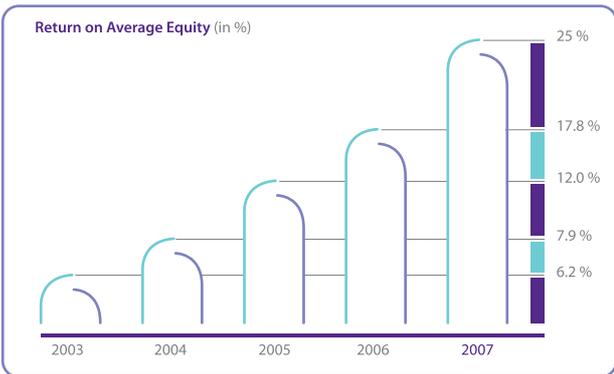
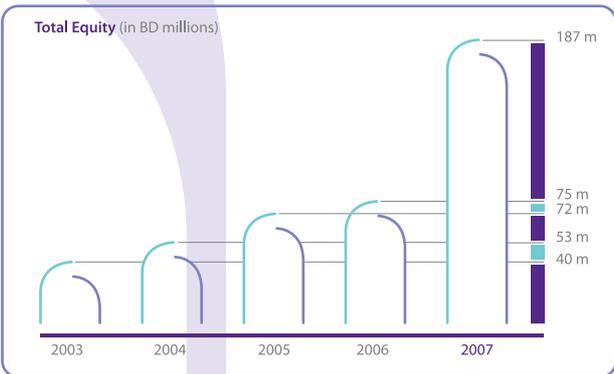
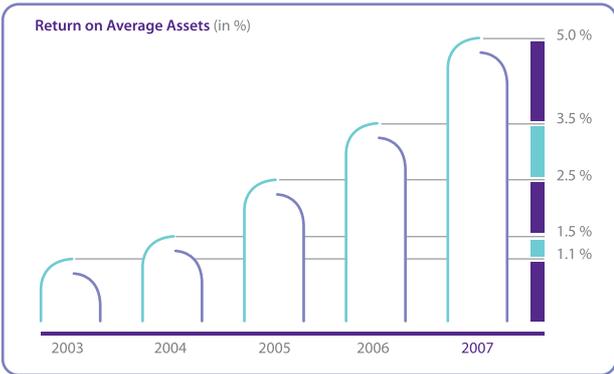
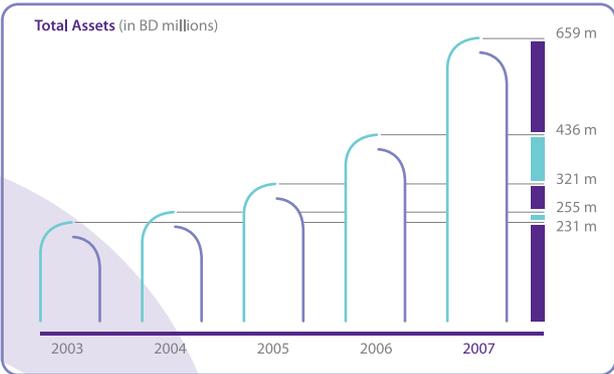
### **Mission**

To leverage our core competencies of customer intimacy, service, leadership and product innovation, in order to achieve the expectations of our stakeholders.

## Financial Summary

<b>Net Income Summary</b> (in BD. Millions)	<b>2007</b>	2006	2005	2004	2003
Total operating income	<b>52.8</b>	34.3	17.7	10.8	8.9
Investors' share in income	<b>15.7</b>	12.7	5.1	2.1	1.6
Bank's share in income	<b>37.1</b>	21.6	12.6	8.7	7.3
Expenses and other charges	<b>12</b>	8.5	5.2	5.0	4.9
Net income for the year	<b>25.1</b>	13.1	7.4	3.7	2.5
<b>Balance Sheet Summary</b> (in BD. Millions)	<b>2007</b>	2006	2005	2004	2003
Short term murabaha	<b>180</b>	179	105	111	97
Murabaha receivables	<b>210</b>	101	75	52	51
Investments	<b>154</b>	77	85	43	39
Sukuk and other assets	<b>115</b>	79	57	48	45
Total Assets	<b>659</b>	436	321	255	231
Current accounts	<b>61</b>	51	47	30	29
Investment by non banks	<b>237</b>	153	142	129	122
Banks and other liabilities	<b>174</b>	157	60	43	41
Total liabilities	<b>472</b>	361	249	202	191
Shareholders' Equity	<b>187</b>	75	72	53	40
Total liabilities and equity	<b>659</b>	436	321	255	231

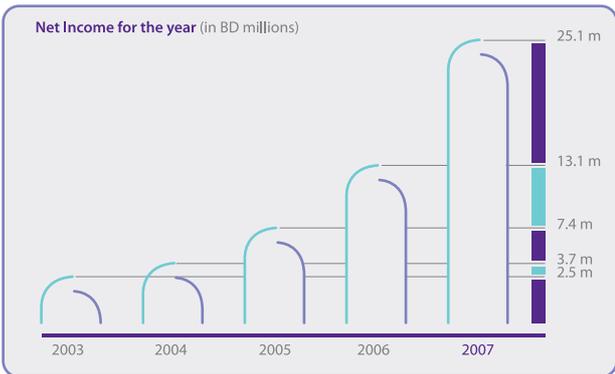
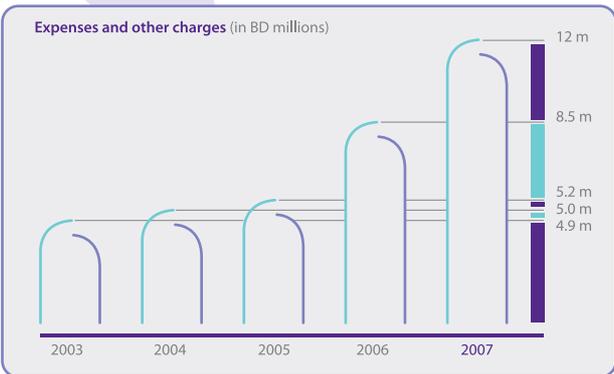
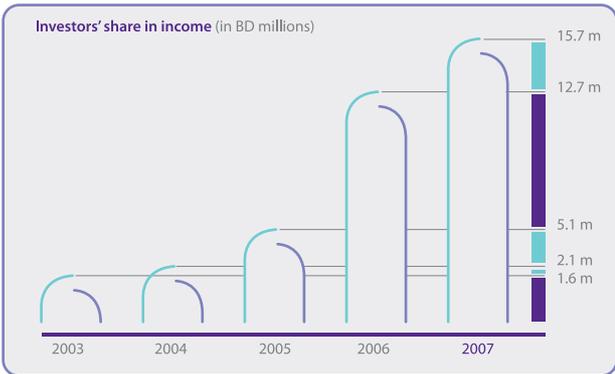
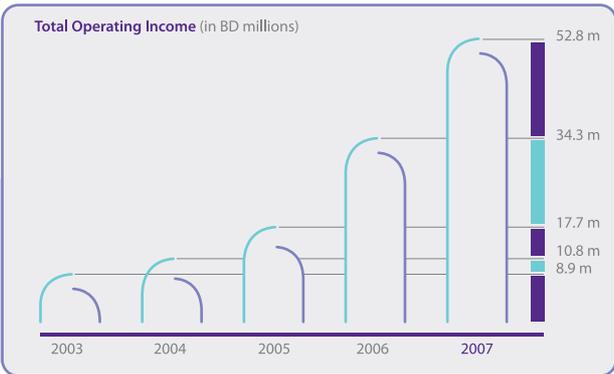
# Composition of Assets

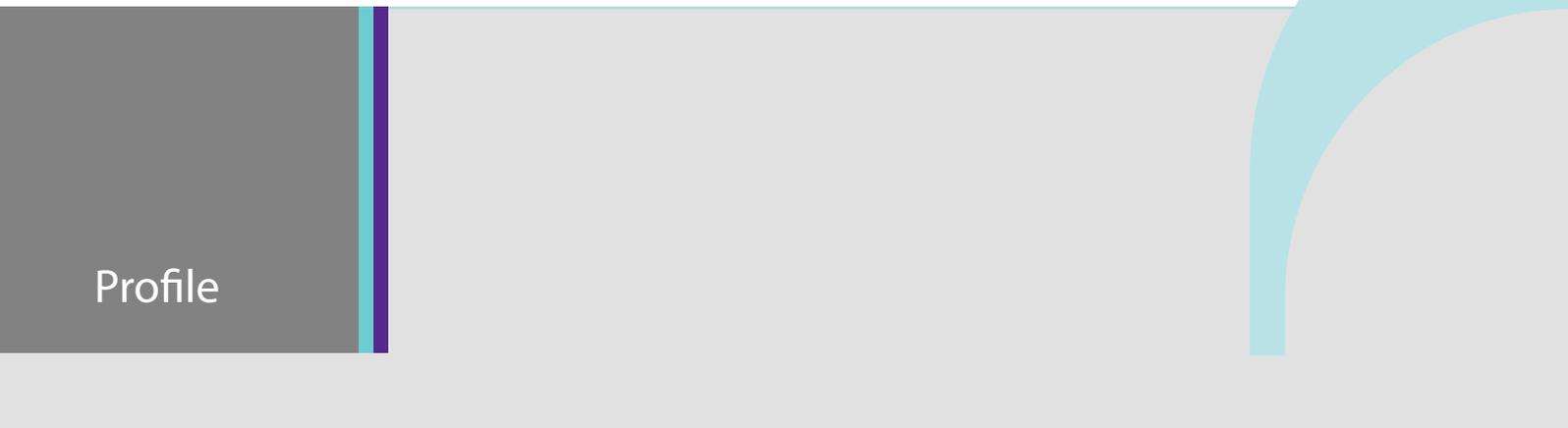


## Financial Highlights

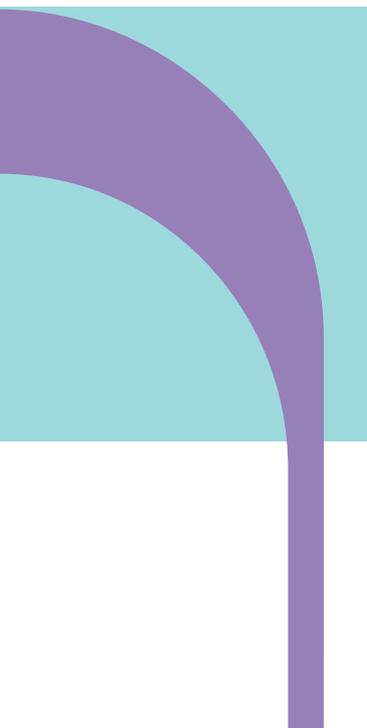
	2007	2006	2005	2004	2003
Net Income (BD millions)	25.1	13.1	7.4	3.7	2.5
Total Assets (BD millions)	659	436	321	255	231
Total Equity (BD millions)	187	75	72	53	40
Return on average equity	25%	17.8%	12.0%	7.9%	6.2%
Return on average assets	5%	3.5%	2.5%	1.5%	1.1%
Book value per share (fils)	311	264	284	229	174
Earnings per share (fils)	65	47	30	15	11
Share price (fils)	514	615	522	354	270
Distribution - Cash dividend	20%	20%	15%	12%	10%
Bonus shares	15%	12.5%	12%	10%	-

# Composition of Net Income





Profile



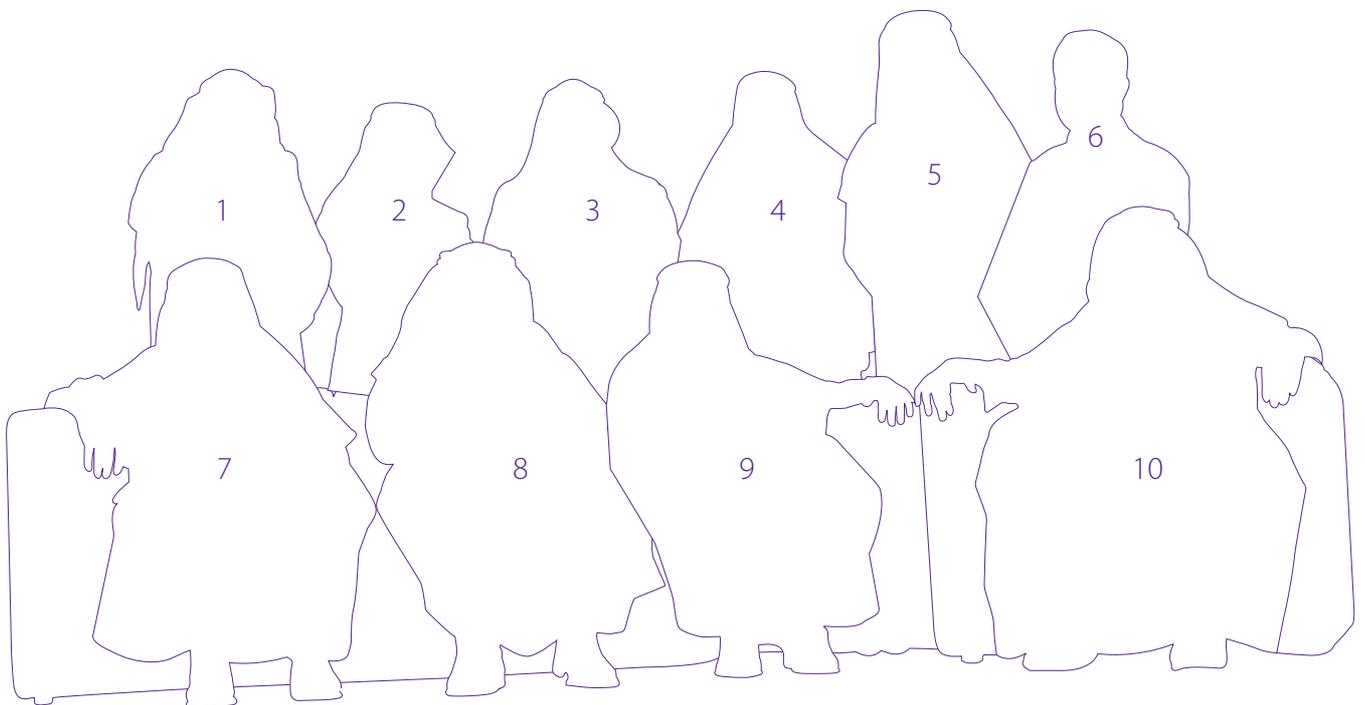
Bahrain Islamic Bank (BisB) was established in 1979 as the first Islamic commercial bank in the Kingdom of Bahrain. The authorized capital is BD 100 million and paid up capital is BD 60.214 million. Since its inception, BisB has recorded a steady growth. At the end of 2007, the shareholders' funds reached nearly BD 187 million Bahraini Dinars, with assets in excess of BD 659 million.

The Bank had recently launched its new identity with the core objective of radiating its new and fresh mandate of exceeding expectations, both from an aspirational and a functional perspective.

The Bank has been maintaining its leading position in the Islamic banking sector through adopting innovative Islamic investment and financing products, supported by superior retail and corporate banking services. The Bank is listed on the Bahrain Stock Exchange. The major shareholders are leading local and regional financial institutions. The Bank operates under supervision and the regulatory framework of the Central Bank of Bahrain.

The Bank, with 12 local branches, has established the largest network of branches among Islamic banks in the Kingdom. These branches offer quality banking services, financing and investment opportunities compliant with Sharia'a requirement for individual and corporate customers.

## The Board of Directors



1. **Adnan A. Qader Al Musalam**  
*Board Member & Member  
of the Executive Committee*
2. **Khalid Mohamed Najibi**  
*Board Member & Head  
of the Executive Committee*
3. **Nabil Ahmed Mohammed Amin**  
*Board Member &  
Managing Director*
4. **Razam Mohamed Yousif Al Roumi**  
*Board Member & Member  
of the Executive Committee*
5. **Yousif Mohammed Al Awadhi**  
*Board Member & Member  
of the Executive Committee*
6. **Mohammed Al Zarooq Rajab**  
*Board Member & Member  
of the Audit Committee*
7. **Ali Mohamed Al Olimi**  
*Board Member & Member  
of the Audit Committee*
8. **Khalid Abdulla Al Bassam**  
*Chairman*
9. **Aref Ahmed Al Kooheji**  
*Board Member & Member  
of the Executive Committee*
10. **Sh. Hisham Bin A. Rahman Al Khalifa**  
*Vice Chairman &  
Head of Audit Committee*

Board of  
Directors  
Report



**Khalid Abdulla Al Bassam**  
Chairman

## Board of Directors Report

***IN THE NAME OF ALLAH, MOST GRACIOUS, MOST MERCIFUL,  
PEACE AND BLESSINGS BE UPON HIS MESSENGER.***

### **Dear Distinguished Shareholders,**

On behalf of all members of the Board of Directors, Bahrain Islamic Bank (BisB), I am pleased to provide the annual report of the Bank for the financial year ended December 31, 2007, a year of many important achievements and positive progress for the Bank, thanks be to Allah.

The Bank has reaped the benefits of change and growth and enjoyed considerable success. In addition to achieving record profits, we continued our process of development from being the first Islamic Bank in Bahrain to becoming one of the key players in the Islamic financial sector regionally. Our customers responded strongly and positively to the extensive change we are going through, including the introduction of a new corporate identity for the Bank. This is the first phase of a continuing process of change and development, which is being carried out in full accordance with Islamic values and beliefs.

### **Financial Performance**

The year 2007 saw severely disrupted global financial markets due to a credit crisis in USA. This affected the financial results of a large number of Banks and financial institutions, but our diverse credit portfolio and investment distribution resulted in Bahrain Islamic Bank avoiding any such losses.

Despite the global financial problems, 2007 was an exceptional year for the Bank by any standards, as a result of great demand for its products and services.

Bahrain Islamic Bank achieved record profitability, the highest in its almost thirty-year history, recording a net profit of BD 25 million, which is an increase of 92% on profits of BD 13 million in 2006. These results indicate the success of the new policies pursued by the Bank in the development of its assets and services in its bid to achieve better profitability for shareholders and depositors alike.

The Bank's operating income also increased during 2007 to BD 52.6 million, an increase of 53.4% compared with BD 34.3 million in 2006. This was due to continued growth in Islamic finance transactions and investment activities carried out by the Bank, along with profitable investments in private equities and real estate assets. Also contributing to the increase in total income was an increase in returns on investment accounts to BD 15.6 million compared to BD 12.7 million last year, an increase of 23%.

The Bank's total assets rose in 2007 to BD 659 million, an increase of 51% on 2006. The increase was mainly concentrated in Murabaha transactions and due to continued growth in the Bank's investments in Sukuk, Ijara and other investment portfolios.

## Board of Directors Report (continued)

The earning per share price of the Bank rose considerably to 65 fils per share from 47 fils at the end of 2006, an increase of 38%. This led to a 39% increase in the return on shareholders rights to 24.8% compared with the previous year, one of the highest rates among Bahrain Banks.

In the light of these excellent results, the Board recommended to the General Assembly of shareholders to distribute dividends of 35% of the nominal value to shareholders compared with 32.5% in 2006, in the form of 13% cash dividend and 10% in bonus shares on weighted average capital. This is the fourth year in a row in which the Bank has paid cash dividends and bonus shares to shareholders.

### Strategic development

All indicators point clearly to strong growth in the Islamic Banking market, both locally and regionally, and in this sense the Board felt that the Bank's strategy should involve enhancing its services and products.

With this in mind, Bahrain Islamic Bank launched a new corporate identity in November, almost three decades after the Bank was established. We are confident that it illustrates the hopes and aspirations of the Board of Directors, executive management and all employees of the Bank to continue to grow and provide the best possible service to customers. Most importantly the new corporate identity represents the key characteristics and attributes of the Bank, including our personality, our energy and our hard work.

Furthermore, to support our strategic expansion

plan locally and regionally, we have successfully increased the Bank's capital by 100% of the capital issued through a priority rights issue. This allows the Bank to implement its plan to expand and take advantage of market opportunities. The subscription rate for the issue was 110%, which confirms the confidence of shareholders in the competitive capabilities of the Bank.

### Operational Achievements

In 2007, Bahrain Islamic Bank focused on strengthening the fundamental pillars of the Bank's infrastructure – the human resources necessary for the Bank to maintain the highest levels in its achievements, policies and systems. We also strengthened our framework for risk management in order to meet the challenges involved in the application of Basel II, which is expected to be implemented by Central Bank of Bahrain in 2008.

This has also enabled the Bank to obtain a credit rating of BBB this year from agency Capital Intelligence for the Bank's strong and sustained performance and high rates of liquidity.

The International Islamic Rating Agency (IIRA) has granted credit ratings to Bahrain Islamic Bank as follows: the national level for the medium to long term: BBB; the national level for the short term: A2; the international level for the medium to long term: BBB; the international level for the short term A3, with outlook positive.

In the middle of last year, the Bank also inaugurated a new state of the art core IT system, which has positively impacted and significantly improved the level of services and products

## Board of Directors Report (continued)

provided. These improvements can be seen in all the internal and external dealings of the Bank and in the technical aspects of deposits, financing, credit cards, ATMs and other Banking services.

Bahrain Islamic Bank enjoyed operational achievements at all levels in 2007 with the launch of many new products and distribution channels, particularly in the areas of Banking services to individuals and businesses.

### Organisational Developments

In order to help the Bank implement its strategic plan, it underwent organisational restructuring, with all of the Bank's operations and activities, covering all commercial Banking services and investment, in one integrated system. As a result, the Bank established Ab'aad, a wholly owned real estate company, in order to benefit from the growth in real estate activities in Bahrain and the region.

The Bank also established a private banking unit, which aims to provide attractive investment products compatible with Sharia'a principles, including real estate, investment and private equity funds and other products tailored to the needs of each investor.

### Corporate Social Responsibility

The Bank is keenly aware that Islamic Banks are social symbols in the Kingdom of Bahrain and it is committed to carrying out its social duties and obligations to the fullest possible extent, now and in the future.

Due to this profound belief in corporate social

duty, the Board of Directors of Bahrain Islamic Bank has allocated a certain percentage of its annual profits to social causes since its inception in 1979. The Bank plays a significant role in the development and improvement of Bahraini society at all levels today and will continue to do so to the best of its ability.

### In conclusion

I am pleased to extend my thanks and gratitude to the wise leadership of the Kingdom of Bahrain and to all ministries for supporting Bahrain Islamic Bank and the Banking sector in the Kingdom of Bahrain. I would also like to thank the Central Bank of Bahrain for its continued support of the Bank and for upgrading Banking services in general and the Islamic Banking industry in particular.

I would also like to extend my thanks to our shareholders and honoured customers for their continued support of Bahrain Islamic Bank, and the executive management and all staff of the Bank for their large contribution to an exceptional year by any standards.

At Bahrain Islamic Bank (BisB) we continue to have an optimistic and positive view of the future, in keeping with our goal of becoming the leader in Islamic Banking services in Bahrain and the region.

Allah the Almighty is the Purveyor of all success.



Khalid Abdulla Al Bassam  
Chairman



Executive  
Management

## Executive Management

**Mohammed Ebrahim Mohammed**

*Chief Executive*

**Nader Mohammed Ebrahim**

*General Manager  
Corporate & Institutional Banking Group*

**Dr. Salahudin Saeed A. Qader**

*General Manager  
Credit & Risk Management*

**Mohammed Ahmed Hasan**

*General Manager  
Support Services*

**Abdul-Rahman Mohammed Turki**

*General Manager  
Retail*

**Khalid Mohammed Al Dossari**

*Chief Financial Officer*

**Khalid Mahmoud Abdulla**

*Assistant General Manager  
Internal Audit*

**Mohammed Elgioshy Mohammed**

*Senior Manager  
Treasury*

Executive  
Management  
Report



**Mohammed Ebrahim Mohammed**  
Chief Executive



## Executive Management Report

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace Be Upon the last apostle and Messenger, our Prophet Mohammed.

2007 was the year of numerous achievements for Bahrain Islamic Bank, and it ended being the most successful year in the history of the Bank. We accelerated the execution of our organic growth strategy, creating value for shareholders by building and expanding our customer and client relationships across the country and regionally, which greatly increased our opportunities for value creation and future growth in the local and regional markets.

In our banking operations, we made more improvements to products, services and the banking centre experience to drive both customer satisfaction and revenue to all-time highs. Our team worked hard to bring a range of innovative products and services to more of our clients than ever before, and introduced an innovative Sharia'a compliant products.

While our staff members are working within their lines of business to build customer relationships, they are also reaching out to work together as a one team throughout the Bank to create new opportunities to deliver superior results for the shareholders, investors and customers alike.

In 2007, the Bank achieved a net profit of BD 25 million and was one of the most profitable Banks in Bahrain compared to its peers. Our results exceeded our expectations in the most important financial categories, including earnings per share,

net income, revenue and credit quality. I hope you will review our financial results in more detail in the financial summary in this report. We are proud that we have achieved steady growth in our financial performance since our inception.

Today Bahrain Islamic Bank is developing the skills and tools that enable us to grow by taking the right risks and by being paid appropriately for the risks we take. We are continuing to build a risk and reward management structure and a culture of shared responsibility, in which every member of staff – from front-line bankers to risk managers and auditors – is accountable for managing risks to help the Bank grow.

We provide the financial capital to create economic opportunity that is consistent and sustainable in financial returns for our shareholders and participate in the development of Bahrain economic and social welfare.

In closing, I'd like to thank all our valuable staff for their guidance during what has been a year of great progress and success. As we continue our work to deliver ever-higher standards of service and performance for our customers, our shareholders and our communities, I look forward to all we will accomplish together.



Mohammed Ebrahim Mohammed  
Chief Executive Officer

Credit  
and Risk  
Management



## Credit and Risk Management

The Board of Directors has overall responsibility for establishing the overall risk management culture and ensuring that an effective risk management framework exists. As an Islamic Bank operating in the Kingdom of Bahrain, the Bank operates in accordance with the regulatory framework of the Central Bank of Bahrain (CBB), with the full commitment to Islamic Sharia'a Laws.

The Bank is witnessing an accelerating growth, that with the scope of its long-term strategy to expand in local markets and increase out boarder transactions to serve new segments of clients who have specialized needs, and in this framework the Bank is working to enhance the credit culture, through expanding the scope of the credit and risk management department and enhance the capabilities of the various sections within this department which include risk management, credit management and legal affairs. The Bank also hired bankers who have extensive and long experience in Islamic Banking to assume these functions.

This department takes the responsibility for managing the risks involved in the work of the Bank, including monitoring and control of risk factors associated with various financing and investment operations. Work is under way to reduce the credit risk through comprehensive and accurate review of all client requests from traders and companies, and assess the risk of exposure to ensure diversification of credit risk and concentration of products and sectors.

Risk management is the process of identifying the principal business risks facing the Bank, establishing appropriate controls to manage those risks, and ensuring that appropriate monitoring

and reporting processes are in place. The Bank's process is consistent with prudent management required of a large financial organisation, but also balances cost against risk within the constraints of the Bank's risk appetite.

The Bank is exposed to a wide variety of risks such as reputation, market, credit, operational, legal and regulatory risks. The Board considers reputation risk as the most significant risk for a business operating in the financial services sector.

Awareness of the importance of the Bank's reputation underpins our control culture. This risk could emanate as a result of a failure of financial, operational or compliance controls.

Risk management is currently managed in BisB, through seamless coordination of several departments in the Bank. An independent risk management unit to be setup to provide leadership, direction and coordination of the effort in managing the risks. It will provide a holistic, integrated, future-focused, and process-oriented approach to enable the Bank to balance its key business risks and opportunities with the intent of maximising returns and shareholder value.

The implementation of the core Banking application and the establishment of risk management framework received further impetus and the Bank is now fully positioned to meet the challenges of Basel II which is expected to be implemented by the CBB during 2008.

The Bank manages legal risk through the effective use of legal advisors. The risk management section monitors regulatory compliance and is also responsible to monitor other risk factors such as market and liquidity risks.

## Sharia'a Supervisory Board



**Shaikh Dr. Abdul Latif Mahmood  
Al Mahmood**  
Board's Chairman and  
Executive Committee Chairman



**Shaikh  
Mohammed Jaffar Al Juffairi**  
Board Member and  
Executive Committee Vice  
Chairman



**Shaikh  
Adnan Abdulla Al Qattan**  
Board Member



**Shaikh  
Nedham Mohamed Saleh Yacoubi**  
Board Member



**Shaikh  
Dr. Essam Khalaf Al Onazi**  
Board Member

## Sharia'a Supervisory Committee Report

To the shareholders of  
**Bahrain Islamic Bank B.S.C.**

***In The Name of Allah, most Gracious, most Merciful Peace and Blessings Be Upon His Messenger***

*Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh*

Pursuant to the powers entitled to the Sharia'a Supervisory Board to supervise over the Bank's activities and investments, we hereby submit the following report:

The Sharia'a Supervisory Board monitored the operations and transactions and contracts related to transactions carried out by the Bank throughout the year ended 31 December 2007, to express opinion on the Bank's commitment to the provisions and principles of Islamic Sharia'a in its activities and investments in accordance to the guidelines and decisions issued by the Supervisory Board. The Sharia'a Supervisory Board believes that ensuring the conformity of the Banks activities and investments with provisions of Islamic Sharia'a is the sole responsibility of the Bank's Management, while the Sharia'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report thereabout.

The Sharia'a Supervisory Board's monitoring functions included the checking of the Bank's documents and procedures to scrutinize each single operation carried out by the Bank, whether directly or through Sharia'a Internal Audit. We planned with Sharia'a Internal Audit Department to carry out monitoring functions through the acquisition of all information and clarifications that are deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a. The Sharia'a Internal Audit Department carried out its functions of auditing the Bank's transactions and submitting a report to the Sharia'a Supervisory Board, which indicated the Bank's commitment and conformity to the Sharia'a Supervisory Board's opinions.

The Sharia'a Supervisory Board obtained data and clarifications that it deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a. The Sharia'a Supervisory Board held several meetings throughout the year ended 31 December 2007 and replied to inquiries, in addition to approving a number of new products presented by the Management. The Sharia'a Supervisory Board discussed with the Bank's officials all transactions and applications carried out by the Management throughout the year ending 31 December 2007, and reviewed the Bank's conformity with the provisions and principles of Islamic Sharia'a, as well as

## Sharia'a Supervisory Committee Report

the resolutions and guidelines of the Sharia'a Supervisory Committee.

### The Sharia'a Supervisory Committee believes that:

- 1- Contracts, operations, and transactions conducted by the Bank throughout the year, ending 31 December 2007 were made in accordance to the standard contracts preapproved by the Supervisory Board.
- 2- Distribution of profits and losses on investment accounts was in line with the basis approved by the Supervisory Board in accordance with the principles preapproved by the Supervisory Board.
- 3- No gains resulted from sources or by means prohibited by the provisions and principles of Islamic Sharia'a.
- 4- Zakat was calculated according to the provisions and principles of Islamic Sharia'a. The Bank distributed Zakat on the statutory reserve, general reserve and retained earnings. The Shareholder should pay his proportion of Zakat on his/her shares as stated in the financial report.
- 5- The Bank was committed to the Sharia'a standards issued by the Accounting & Auditing Organisation for Islamic Financial Institutions

We pray that Allah may grant all of us further success and prosperity.

**Dr. Shaikh A. Latif Mahmood Al Mahmood**  
Chairman

**Shaikh Mohammed Jaffar Al Juffairi**  
Vice Chairman

**Shaikh Adnan Abdullah Al Qattan**  
Member

**Shaikh Nedham M. Saleh Yacoubi**  
Member

**Shaikh Dr. Essam Khalaf Al Onazi**  
Member



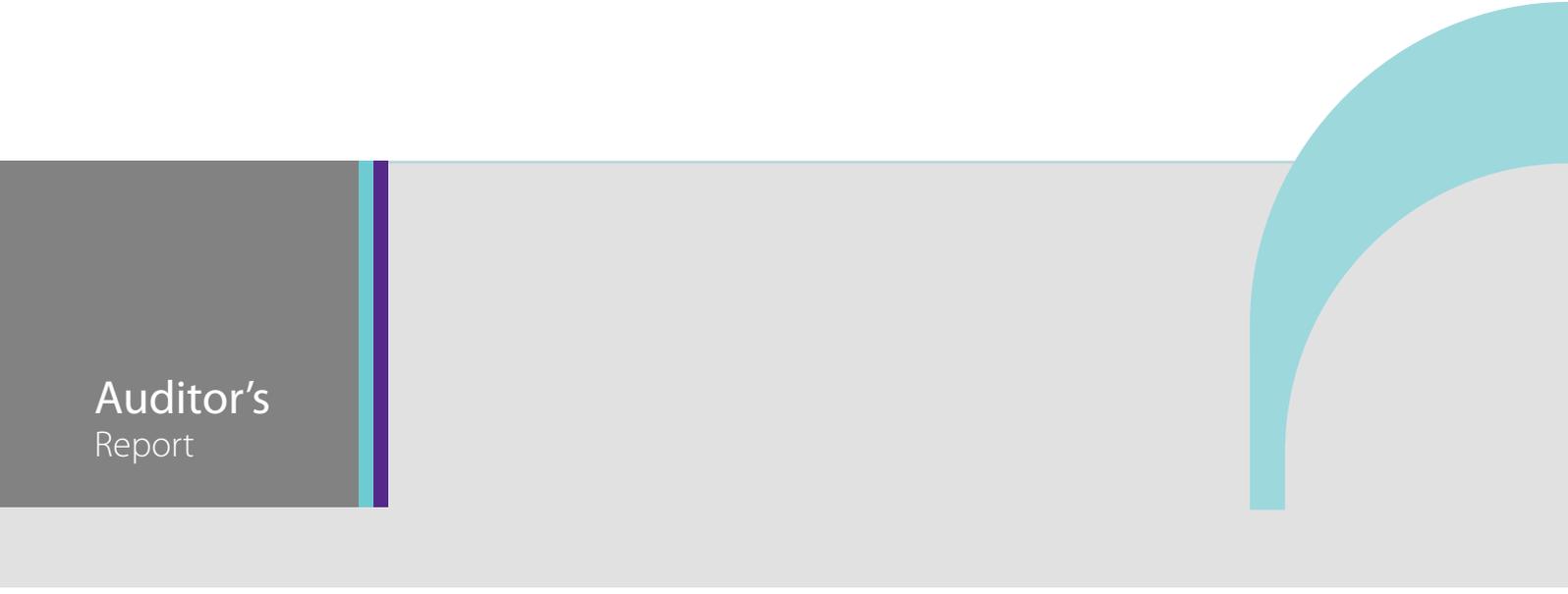
Financial



**FINANCIAL**  
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Auditor's  
Report

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BAHRAIN ISLAMIC BANK B.S.C.

We have audited the accompanying consolidated balance sheet of Bahrain Islamic Bank B.S.C. ("the Bank") and its subsidiary ("the Group") as of 31 December 2007, and the related 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 year then ended. These consolidated financial statements and the Bank's undertaking to operate in accordance with Islamic Sharia'a rules and principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, the results of its operations, its cash flows, sources and

uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Sharia'a Rules and Principles as determined by the Sharia'a Supervisory Board of the Group.

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2007 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking licence. We obtained all the information and explanations which we required for the purpose of our audit.

*Ernst & Young*

15 January 2008  
Manama, Kingdom of Bahrain

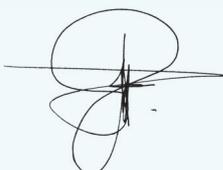
# Consolidated Balance Sheet

at 31 December 2007

	Notes	2007 BD'000	2006 BD'000
<b>ASSETS</b>			
Cash and balances with Central Bank of Bahrain and other banks	3	18,349	15,469
Murabaha receivables	4	337,055	241,710
Mudaraba investments	5	43,609	22,180
Musharaka investments	6	39,426	13,954
Investments	7	156,161	97,418
Investments in associates	8	7,045	6,652
Investments in Ijarah assets	9	5,893	4,998
Ijarah Muntahia Bittamleek	10	13,574	15,486
Investments in properties	11	27,905	9,985
Ijarah rental receivables		2,963	2,315
Other assets	12	6,989	6,309
<b>TOTAL ASSETS</b>		<b>658,969</b>	<b>436,476</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>			
<b>LIABILITIES</b>			
Customers' current accounts		60,963	51,393
Other liabilities	13	7,615	6,041
<b>TOTAL LIABILITIES</b>		<b>68,578</b>	<b>57,434</b>
<b>UNRESTRICTED INVESTMENT ACCOUNTS</b>	14	<b>403,215</b>	<b>304,118</b>
<b>EQUITY</b>			
Share capital	15	60,214	28,336
Share premium		50,869	-
Reserves		62,460	36,999
Proposed appropriations		13,633	9,589
<b>TOTAL EQUITY</b>		<b>187,176</b>	<b>74,924</b>
<b>TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>		<b>658,969</b>	<b>436,476</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>	23	<b>15,199</b>	<b>9,432</b>



Khalid Abdulla Al Bassam  
Chairman



Nabil Ahmed Amin  
Managing Director &  
Board Member



Mohammed Ebrahim Mohammed  
Chief Executive Officer

for the year ended 31 December 2007

## Consolidated Statement of Income

	Notes	2007 BD'000	2006 BD'000
<b>INCOME</b>			
Income from Islamic finances	16	31,463	24,705
Return on unrestricted investment accounts before Bank's share as a Mudarib		25,433	20,049
Bank's share as a Mudarib		(9,824)	(7,389)
Return on unrestricted investment accounts		15,609	12,660
Bank's share of income from unrestricted investment accounts (as a Mudarib and Rabalmal)		15,854	12,045
Income from investments	17	11,698	5,518
Gain on fair value adjustment for investments in properties		5,328	2,098
Share of results of associates	8	558	609
Other income	18	3,586	1,288
<b>Total income</b>		<b>37,024</b>	<b>21,558</b>
<b>EXPENSES</b>			
Staff costs		7,082	3,855
Depreciation		1,079	2,854
Other expenses	19	3,838	1,646
<b>Total expenses</b>		<b>11,999</b>	<b>8,355</b>
Net income before provisions		25,025	13,203
Provisions	20	-	(150)
<b>NET INCOME FOR THE YEAR</b>		<b>25,025</b>	<b>13,053</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (fils)</b>	22	<b>64.23</b>	<b>40.95</b>

The attached notes 1 to 36 form part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

for the year ended 31 December 2007

	Notes	2007 BD'000	2006 BD'000
<b>OPERATING ACTIVITIES</b>			
Net profit for the year		25,025	13,053
Adjustments for non-cash items:			
Depreciation		1,079	2,854
Provisions	20	-	150
Gain on sale of investments in properties	17	(190)	(948)
Gain on fair value adjustment for investments in properties		(5,328)	(2,098)
Share of results of associates	8	(558)	(609)
Operating profit before changes in operating assets and liabilities		20,028	12,402
<b>WORKING CAPITAL ADJUSTMENTS:</b>			
Mandatory reserve with Central Bank of Bahrain		(4,770)	(1,550)
Murabaha receivables		(95,345)	(85,439)
Mudaraba investments		(21,429)	7,279
Musharaka investments		(25,472)	(4,065)
Ijarah Muntahia Bittamleek		2,324	(5,049)
Ijarah rental receivables		(648)	(1,377)
Other assets		(377)	(3,430)
Customers' current accounts		9,570	4,048
Other liabilities		1,574	2,479
Net cash used in operating activities		(114,545)	(74,702)
<b>INVESTING ACTIVITIES</b>			
(Purchase) Proceeds of investments in properties		(14,042)	1,305
Purchase of investments in Ijarah assets		(719)	-
Purchase of investments		(50,551)	(22,527)
Proceeds from (Purchase of) associates		-	(2,714)
Net cash used in investing activities		(65,312)	(23,936)
<b>FINANCING ACTIVITIES</b>			
Increase in capital		28,336	-
Share premium		56,581	-
Increase in unrestricted investment accounts		99,097	106,237
Dividends paid		(5,667)	(3,795)
Directors' remuneration paid		(210)	(120)
Zakah paid		(170)	(138)
Charitable contributions paid		-	(75)
Net cash from financing activities		177,967	102,109
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,890)</b>	<b>3,471</b>
Cash and cash equivalents at 1 January		7,954	4,483
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	3	<b>6,064</b>	<b>7,954</b>

The attached notes 1 to 36 form part of these consolidated financial statements.

for the year ended 31 December 2007

## Consolidated Statement of Changes in Equity

	Reserves								
	Share capital	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Cumulative changes in fair value	Retained earnings	Proposed appropriations	Total equity
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Balance at 1 January 2007	28,336	-	5,534	1,000	3,255	21,860	5,350	9,589	74,924
Right shares issued (note 15)	28,336	56,581	-	-	-	-	-	-	84,917
Bonus shares issued (note 15)	3,542	-	-	-	-	-	-	(3,542)	-
Dividends paid	-	-	-	-	-	-	-	(5,667)	(5,667)
Directors' remuneration paid	-	-	-	-	-	-	-	(210)	(210)
Zakah paid	-	-	-	-	-	-	-	(170)	(170)
Net income for the year	-	-	-	-	-	-	25,025	-	25,025
Transfer to statutory reserve	-	-	2,503	-	-	-	(2,503)	-	-
Unrealized gain on investments in properties	-	-	-	-	5,328	-	(5,328)	-	-
Realized gain on investments in properties	-	-	-	-	(1,450)	-	1,450	-	-
Net movement in cumulative changes in fair values	-	-	-	-	-	8,357	-	-	8,357
Appropriations (note 15)	-	(5,712)	-	-	-	-	(7,921)	13,633	-
<b>Balance at 31 December 2007</b>	<b>60,214</b>	<b>50,869</b>	<b>8,037</b>	<b>1,000</b>	<b>7,133</b>	<b>30,217</b>	<b>16,073</b>	<b>13,633</b>	<b>187,176</b>
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 (note 15)	3,036	-	-	-	-	-	-	(3,036)	-
Dividends paid	-	-	-	-	-	-	-	(3,795)	(3,795)
Directors remuneration paid	-	-	-	-	-	-	-	(120)	(120)
Zakah paid	-	-	-	-	-	-	-	(138)	(138)
Charitable contribution paid	-	-	-	-	-	-	-	(75)	(75)
Net income for the year	-	-	-	-	-	-	13,053	-	13,053
Transfer to statutory reserve	-	-	1,305	-	-	-	(1,305)	-	-
Unrealized gain on investments in properties	-	-	-	-	2,709	-	(2,709)	-	-
Realized gain on investments in properties	-	-	-	-	(1,814)	-	1,814	-	-
Net movement in cumulative changes in fair values	-	-	-	-	-	(5,909)	-	-	(5,909)
Appropriations (note 15)	-	(2,726)	-	-	-	-	(6,863)	9,589	-
<b>Balance at 31 December 2006</b>	<b>28,336</b>	<b>-</b>	<b>5,534</b>	<b>1,000</b>	<b>3,255</b>	<b>21,860</b>	<b>5,350</b>	<b>9,589</b>	<b>74,924</b>

The attached notes 1 to 36 form part of these consolidated financial statements.

# Consolidated Statement of Sources and Uses of Good Faith Qard Fund

for the year ended 31 December 2007

	31 December 2007 BD'000	31 December 2006 BD'000
<b>Opening balances</b>		
Qard hasan receivables	35	5
Funds available for qard hasan	93	123
	<b>128</b>	<b>128</b>
<b>Sources of Qard Fund</b>		
Contribution by the Bank (note 4)	125	125
Donation	3	3
Total of sources during the year	<b>128</b>	<b>128</b>
<b>Uses of Qard Fund</b>		
Marriage	20	6
Refurbishment	16	12
Medical treatment	17	11
Others	12	10
Total uses during the year	<b>65</b>	<b>39</b>
<b>End of year balance</b>		
Qard hasan receivables	27	35
Funds available for qard hasan*	101	93
	<b>128</b>	<b>128</b>
*Movement in funds available for qard hasan		
Opening balance	93	123
Uses of qard fund	(65)	(39)
Repayment during the year	73	9
<b>End of year balance</b>	<b>101</b>	<b>93</b>

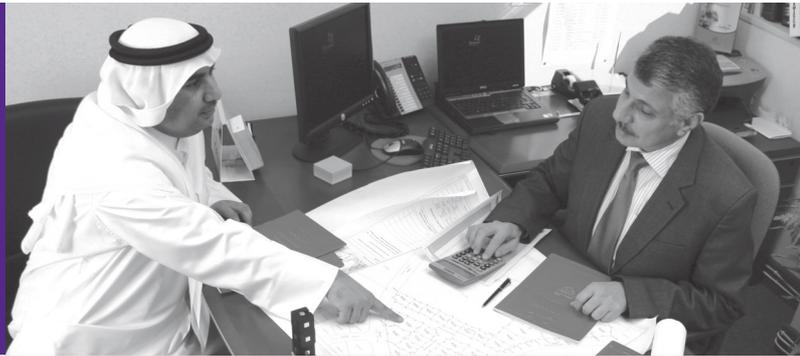
for the year ended 31 December 2007

## Consolidated

STATEMENT OF SOURCES  
AND USES OF ZAKAH  
AND CHARITY FUND

	31 December 2007 BD'000	31 December 2006 BD'000
<b>Sources of Zakah and Charity Funds</b>		
Undistributed zakah and charity funds at the beginning of the year	365	139
Zakah due from the Bank for the year	306	170
Non-Islamic income	25	150
Donations	14	91
<b>Total sources of funds during the year</b>	<b>710</b>	<b>550</b>
<b>Uses of zakah and charity funds</b>		
Philanthropic societies	76	97
Aid to needy families	148	88
<b>Total uses of funds during the year</b>	<b>224</b>	<b>185</b>
Undistributed zakah and charity funds at end of the year	486	365

Notes to the  
Consolidated  
Financial  
Statements



## Notes to the Consolidated Financial Statements

31 December 2007

### 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 (Sharia'a). The Bank operates under a retail banking licence issued by the Central Bank of Bahrain (CBB). The Bank's Sharia'a Supervisory Board is entrusted to ensure the Bank's adherence to Sharia'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. ("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 10 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 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 (2006: twelve), all operating in the Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 15 January 2008.

### 2. SIGNIFICANT ACCOUNTING POLICIES

Following is a summary of the significant accounting policies adopted in preparing the consolidated financial statements. These accounting policies are consistent with those used in the previous year.

#### Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment in properties and certain investments "available for sale" that have been measured at fair value.

The consolidated financial statements have been presented in Bahraini Dinars, being the principal currency of the Group's operations.

The consolidated financial statements of the Bank and its Subsidiary have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Sharia'a rules and principles as determined by the Sharia'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, CBB and the Financial Institutional Law. In accordance with the requirement of AAOIFI, for matters for which no AAOIFI standards exist, the Bank uses the relevant International Financial Reporting Standard.

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its Subsidiary. A subsidiary is an entity over which the Bank has power to control which is other than fiduciary in nature. The Subsidiary has been consolidated from the date it was incorporated. All intercompany balances and income have been eliminated on consolidation.

## Notes to the Consolidated Financial Statements

31 December 2007

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Murabaha receivables

Murabaha receivables consist mainly of murabaha and international commodities stated net of deferred profits and provisions for impairment.

#### Mudaraba and Musharaka investments

Mudaraba and Musharaka financing are partnerships in which the Bank contributes capital. These are stated at the fair value of consideration given less impairment.

#### Investments

These are classified as either held-to-maturity or available-for-sale.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. Premiums and discounts are amortised on a systematic basis to maturity.

#### *Held-to-maturity*

Investments that have fixed or determinable payments, which are intended to be held-to-maturity, are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium and acquisition charges on acquisition. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired.

#### *Available-for-sale*

After initial recognition, investments that are classified as "available-for-sale" are re-measured at fair value. The fair value changes of investments available for sale are reported as a separate component of equity until such time as the investments are sold, realised or deemed to be impaired, at which time the realised gain or loss is reported in the consolidated income statement.

#### Investments in associates

The Group's investments in associates are accounted for under the equity method of accounting. Associates are entities over which the Group exercises significant influence but not control and which are neither subsidiaries nor joint ventures. Under the equity method, the investments in associates are carried in the balance sheet at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Group's share of the results of its associates. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognises the amount in the consolidated income statement.

## Notes to the Consolidated Financial Statements

31 December 2007

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate.

#### Ijarah assets, Ijarah Muntahia Bittamleek

These are initially recorded at cost. Ijarah assets and Ijarah Muntahia Bittamleek comprises of land and buildings.

Depreciation is calculated using the straight-line method on all Ijarah Muntahia Bittamleek other than land (which is deemed to have indefinite life), at rates calculated to write off the cost of each asset over the period of the lease or useful life whichever is lower.

For Ijarah assets, the depreciation is calculated using the straight-line method, at rates calculated to write off the cost of the assets over its estimated useful life. The estimated useful lives of the assets for calculation of depreciation ranges between 10 to 35 years.

#### Investments in properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in properties. Investments in properties are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in properties are measured at fair value and changes in fair value are recognised in the consolidated income statement.

In accordance with AAOIFI, such gains or losses are appropriated to an investment fair value reserve at year end. Upon realization of these gains/losses, these are transferred to retained earnings from investment fair value reserve.

#### Unrestricted investment account holders

All unrestricted investment accounts are carried at cost plus profit and related reserves less amounts repaid.

Unrestricted investment account holders share of income is calculated based on the income generated from investment accounts after deducting mudarib share. Operating expenses are charged to shareholders funds and not included in the calculation.

The basis applied by the Group in arriving at the unrestricted investment account holders' share of income is (total investment income less shareholders' "Bank" income). Portion of the income generated from unrestricted investment account holders will be deducted as mudarib share and the remaining will be distributed to the unrestricted investment account holders.

#### Profit equalisation reserve

This is the amount appropriated by the Bank out of the mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investment for investment account holders and increase owners' equity. The basis of this calculation is to provide the investor an income according to the market, the Bank can use this reserve to compensate investor for low income.

## Notes to the Consolidated Financial Statements

31 December 2007

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Zakah

Zakah is calculated on the Zakah base of the Group in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions using the net invested funds method. Zakah is paid by the Group based on statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on unrestricted investment and other accounts is the responsibility of investment account holders.

#### Fair value

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on an assessment of the value of future cash flows.

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

#### Derecognition of financial assets and liabilities

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the right to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

##### *Financial liabilities*

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

## Notes to the Consolidated Financial Statements

31 December 2007

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Offsetting

Financial assets and financial liabilities are only offsetted and the net amount is reported in the consolidated balance sheet when there is a legal or religious enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### Revenue recognition

##### *Murabaha receivables*

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable, it is recognised when realised. Income that is 90 days or more, overdue is excluded from income.

##### *Musharaka investments*

Income is recognised on the due dates of the installments or when received in case of sale Musharaka. Income that is 90 days or more, overdue is excluded from income.

##### *Mudaraba investments*

Income is recognised when it is quantifiable or on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

##### *Dividends*

Dividends revenue is recognised when the right to receive the dividend is established.

##### *Ijarah and Ijarah Muntahia Bittamleek*

Ijarah income and income from Ijarah Muntahia Bittamleek are recognised on a time-apportioned basis over the lease term.

##### *Group's share as a Mudarib*

The Group's share as a Mudarib for managing unrestricted investment accounts is accrued based on the terms and conditions of the related management agreements.

##### *Fee and commission income*

Fee and commission income is recognised when earned.

##### *Income allocation*

Income is allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year.

## Notes to the Consolidated Financial Statements

31 December 2007

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on securities available-for-sale.

#### Cash and cash equivalents

For the purpose of consolidated cash flow statement, "cash and cash equivalents" consist of cash in hand, bank balances, balances with the Central Bank of Bahrain with original maturities of 90 days or less.

#### Taxation

There is no tax on corporate income in the Kingdom of Bahrain.

#### Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

For available for sale equity investments, reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

#### Judgments and estimates

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

##### **Impairment**

An assessment is made at each balance sheet date to determine whether there is an objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the value to it of anticipated future cash flows, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their expected realisable value.

## Notes to the Consolidated Financial Statements

31 December 2007

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Fair valuation of investments*

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of financial statements. The valuation of such investments is based on the fair value criteria explained above.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

#### Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

#### Employees' end of service benefits

Provision is made for amounts payable under the Bahrain Labour law applicable to non-Bahraini employees' accumulated periods of service at the date of the balance sheet. Bahraini employees are covered under the General Organisation for Social Insurance Scheme.

#### Sharia'a Supervisory Board

The Group's business activities are subject to the supervision of a Sharia'a Supervisory Board consisting of five members appointed by the general assembly.

### 3. CASH AND BALANCES WITH THE CENTRAL BANK OF BAHRAIN AND OTHER BANKS

	2007 BD'000	2006 BD'000
Cash and balances with CBB, excluding mandatory reserve deposits	2,216	2,962
Balances with other banks	3,848	4,992
Cash and cash equivalents	6,064	7,954
Mandatory reserve with CBB	12,285	7,515
	18,349	15,469

The mandatory reserve with CBB is not available for use in the day-to-day operations.

## Notes to the Consolidated Financial Statements

31 December 2007

### 4. MURABAHA RECEIVABLES

	2007 BD'000	2006 BD'000
<b>Murabaha with banks:</b>		
International commodities	146,521	179,463
<b>Other murabaha:</b>		
Tawarooq	83,188	9,517
Letters of credit	30,537	23,343
Commodities murabaha with non-banks	34,846	575
Tasheel	17,129	6,228
Land	13,820	14,418
Building	8,440	4,720
Motor vehicles	8,418	4,792
Building materials	4,991	7,068
Furniture	94	217
Others	2,488	1,436
	<b>203,951</b>	72,314
Qard fund	125	125
Gross receivables	<b>204,076</b>	72,439
	<b>350,597</b>	251,902
Deferred profits	(11,627)	(8,277)
Provisions (note 20)	(1,915)	(1,915)
Net receivables	<b>337,055</b>	241,710

Non-performing murabaha receivables outstanding as of 31 December 2007 amounted to BD 5,304 thousand (2006: BD 2,744 thousand). The Group considers the promise made in the Murabaha to the purchase order as obligatory.

The composition of the Murabaha receivables portfolio geographically and by sector is as follows:

	Europe BD'000	Arab World BD'000	2007 Total BD'000	2006 Total BD'000
Commercial	-	30,537	30,537	23,343
Financial institutions	10,673	166,102	176,775	179,463
Secured by real estate	-	18,716	18,716	26,206
Others	-	123,577	123,577	22,890
<b>At 31 December 2007</b>	<b>10,673</b>	<b>338,932</b>	<b>349,605</b>	
At 31 December 2006	8,720	243,182		251,902

## Notes to the Consolidated Financial Statements

31 December 2007

### 5. MUDARABA INVESTMENTS

	2007 BD'000	2006 BD'000
Mudaraba investments	43,609	22,180

The Group's Mudaraba investments transactions consist of investment in funds operated by other banks and financial institutions, unquoted equities and participation in the financing transactions through other banks and financial institutions.

### 6. MUSHARAKA INVESTMENTS

	2007 BD'000	2006 BD'000
Real estate financing	39,476	14,004
Provisions (note 20)	(50)	(50)
	39,426	13,954

Non-performing Musharaka investments outstanding as of 31 December 2007 amounted to BD 921 thousand (2006: BD 263 thousand).

### 7. INVESTMENTS

	Available for sale BD'000	Held to maturity BD'000	Cumulative Changes in fair values BD'000	2007 Total BD'000	2006 Total BD'000
<b>Quoted investments</b>					
Equity shares	11,401	-	32,554	43,955	32,070
<b>Unquoted investments</b>					
Sukuk	-	87,165	-	87,165	60,866
Equity shares	25,356	-	-	25,356	4,797
	25,356	87,165	-	112,521	65,663
<b>Total</b>	36,757	87,165	32,554	156,476	97,733
Provisions (note 20)	(315)	-	-	(315)	(315)
<b>At 31 December 2007</b>	36,442	87,165	32,554	156,161	-
At 31 December 2006	12,008	60,866	24,544	-	97,418

## Notes to the Consolidated Financial Statements

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### 8. INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates:

	Country of incorporation	Ownership	
		2007	2006
Takaful International Company B.S.C.	Kingdom of Bahrain	22.75%	22.75%
Liquidity Management Centre B.S.C. (c)	Kingdom of Bahrain	25.00%	25.00%

Takaful International Company B.S.C. (incorporated in 1989) carries out takaful and retakaful activities in accordance with the teachings of Islamic Sharia'a.

Liquidity Management Centre B.S.C. (c) was set up in 2002 to facilitate the creation of an Islamic inter-bank market that will allow Islamic financial services institutions to effectively manage their assets and liabilities.

The following tables illustrate summarised financial information relating to the Group's associates:

	2007 BD'000	2006 BD'000
Carrying amount of investments in associates		
At 1 January	6,652	3,382
Capital increase	-	2,827
Share of results	558	609
Dividends paid	(361)	(113)
Cumulative change in fair value	196	(53)
At 31 December	7,045	6,652

### 9. INVESTMENTS IN IJARAH ASSETS

	Land BD'000	Buildings BD'000	2007 BD'000	2006 BD'000
<b>Cost:</b>				
At 1 January	1,380	5,640	7,020	7,020
Additions	1,073	-	1,073	-
At 31 December	2,453	5,640	8,093	7,020
<b>Depreciation:</b>				
At 1 January	-	2,022	2,022	1,846
Provided during the year	-	178	178	176
At 31 December	-	2,200	2,200	2,022
<b>Net book value:</b>				
At 31 December	2,453	3,440	5,893	4,998

## Notes to the Consolidated Financial Statements

31 December 2007

### 10. IJARAH MUNTAHIA BITTAMLEEK

	Land BD'000	Buildings BD'000	2007 BD'000	2006 BD'000
<b>Cost:</b>				
At 1 January	9,733	8,304	18,037	12,988
Additions	1,678	15,593	17,271	11,511
Disposals	(9,130)	(7,885)	(17,015)	(1,627)
Repayments	(612)	(1,144)	(1,756)	(4,835)
At 31 December	1,669	14,868	16,537	18,037
<b>Depreciation:</b>				
At 1 January	-	2,551	2,551	236
Provided during the year	-	412	412	2,319
Relating to disposed assets	-	-	-	(4)
At 31 December	-	2,963	2,963	2,551
<b>Net book value:</b>				
As at 31 December	1,669	11,905	13,574	15,486

Non-performing Ijarah Muntahia Bittamleek as of 31 December 2007 amounted to BD 140 thousand (2006: BD 3,082 thousand).

### 11. INVESTMENTS IN PROPERTIES

	2007 BD'000	2006 BD'000
<b>Cost:</b>		
At 1 January	6,730	8,035
Additions	15,167	984
Disposals	(1,125)	(2,289)
Cost at 31 December	20,772	6,730
Cumulative fair value adjustment	7,133	3,255
<b>Fair value at 31 December</b>	<b>27,905</b>	<b>9,985</b>

### 12. OTHER ASSETS

	2007 BD'000	2006 BD'000
Equipment	2,567	1,737
Receivables under letter of credit	3,989	1,656
Receivables from sales of investments	-	1,696
Staff advances	427	344
Others	6	876
	<b>6,989</b>	<b>6,309</b>

## Notes to the Consolidated Financial Statements

31 December 2007

### 13. OTHER LIABILITIES

	2007 BD'000	2006 BD'000
Margin on letters of credit	423	810
Managers' cheques	1,417	814
Accrued expenses	2,642	829
Murabaha bills payable	837	465
Dividends payable	417	307
Clearance cheques	-	657
Amounts due to musharaka partner	276	670
Amount due for credit card usage	244	289
Advance payment for Murabaha	-	208
Provision for employees' end of service benefits and leave	131	131
Amount due for ATM usage	87	227
Others	1,141	634
	<b>7,615</b>	<b>6,041</b>

### 14. UNRESTRICTED INVESTMENT ACCOUNTS

	2007 BD'000	2006 BD'000
Investment accounts:		
Customers	237,506	152,740
Banks and other financial institutions	163,218	148,887
Profit equalisation reserve	2,491	2,491
	<b>403,215</b>	<b>304,118</b>

The profit equalisation reserve will revert to URIA as per terms and conditions of the Mudaraba contract.

As unrestricted investment account holder's funds are commingled with the Bank's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of unrestricted investment accounts is up to a maximum of 65% (2006: 65%).

The following table represents the distribution of profit to unrestricted investment account holders.

	2007		2006		2005	
	Percentage of funds invested	Percentage distribution	Percentage of funds invested	Percentage distribution	Percentage of funds invested	Percentage distribution
Defined deposits	85	4.49	85	4.41	85	3.70
Specific investment deposits	100	4.50 - 5.00	100	4.80 - 5.05	100	3.50 - 3.90
Continuous deposits *	-	-	-	-	80	3.90
Investment certificates	90	5.00	90	4.76	90	4.20
Savings accounts	45	0.80	50	0.80	50	0.80
Education and shifa	90	4.50	90	4.38	90	4.20

\* In 2005, the Bank ceased offering continuous deposits to customers.

## Notes to the Consolidated Financial Statements

31 December 2007

### 15. EQUITY

	2007 BD'000	2006 BD'000
<b>(i) Share capital</b>		
a) Authorised		
1000,000,000 shares of BD 0.100 each	100,000	50,000
b) Issued and fully paid up		
602,140,000 shares (2006: 283,360,000 shares) of BD 0.100 each	60,214	28,336

During the year, the Group has issued bonus shares of 35,420 thousand at one share for every eight shares held amounting to BD 3,542 thousand. In addition, the Bank issued 283,360 thousand rights shares of BD 0.100 each at a premium of BD 0.200 fils per share. Share premium amounts to BD 56,672 thousand netted off by the issue expenses of BD 91 thousand.

#### (ii) Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated by the Bahrain Commercial Companies Law.

#### (iii) Reserves

##### **Statutory reserve**

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the annual net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

##### **General reserve**

The general reserve is established in accordance to the articles of association of the Bank and is distributable following a resolution of shareholders at a general meeting and the approval of the Central Bank of Bahrain.

##### **Investments fair value reserve**

This represents cumulative unrealised revaluation gains on investments in properties. This reserve is transferred to the consolidated statement of income upon sale of the investment properties.

##### **Cumulative changes in fair value**

This represents the net unrealised gains on available-for-sale investments relating to shareholders and share of net unrealised gains from associates.

## Notes to the Consolidated Financial Statements

31 December 2007

### 15. EQUITY (continued)

#### (iv) Appropriations

	2007 BD'000	2006 BD'000
Proposed dividend	7,615	5,667
Bonus shares	5,712	3,542
Directors' remuneration	-	210
Zakah (note 21)	306	170
	<b>13,633</b>	<b>9,589</b>

The directors have proposed a cash dividend of 20% based on the weighted average number of shares during the year 2007 (2006: 20%). This will be submitted for formal approval at the Annual General Meeting.

In addition, in the Board of Directors' meeting held on 15 January 2008, it was decided to issue 15% bonus shares out of the weighted average paid-up capital during the year 2007. This is subject to relevant approval from the Ministry of Industry and Commerce, the Central Bank of Bahrain and Annual General Meeting.

The dividend of BD 5,667 thousand proposed for the year 2006 was approved at the Annual General Meeting on 6 March 2007 and was paid in 2007 following that approval.

The Bank issued bonus shares 12% following shareholders' approval and the Board Directors' resolution in its meeting held on 16 January 2007. This was also approved by the Ministry of Industry and Commerce and the Central Bank of Bahrain.

### 16. INCOME FROM ISLAMIC FINANCES

	2007 BD'000	2006 BD'000
Income from Murabaha receivables	18,999	15,779
Income from Mudaraba financing	3,181	1,126
Income from Musharaka investments	2,290	974
Income from investments in Sukuk	4,973	3,058
Ijarah Muntahia Bittamleek income	2,020	3,768
	<b>31,463</b>	<b>24,705</b>

### 17. INCOME FROM INVESTMENTS

	2007 BD'000	2006 BD'000
Gain on sales of investment in equities	8,141	2,361
Dividend income	2,829	1,672
Income from Ijarah assets	538	537
Gain on sales of investment in properties	190	948
	<b>11,698</b>	<b>5,518</b>

## Notes to the Consolidated Financial Statements

31 December 2007

### 18. OTHER INCOME

	2007 BD'000	2006 BD'000
Commission income	2,465	545
Gains from foreign currency transactions	785	522
Fees and others	336	221
	<b>3,586</b>	<b>1,288</b>

### 19. OTHER EXPENSES

	2007 BD'000	2006 BD'000
Re-branding expenses	920	-
Consultancy fees	631	47
Computer maintenance	275	203
Advertisements and subscriptions	304	194
Expenses on Ijarah assets	294	221
Expenses on premises and equipment	268	248
Communication expenses	230	162
Stationary expenses	129	70
Board expenses	333	54
Registration fees	108	66
Professional fees	46	67
Sharia'a committee remuneration	42	30
Insurance expenses	37	37
Miscellaneous	221	247
	<b>3,838</b>	<b>1,646</b>

### 20. PROVISIONS

	Murabaha receivables 2007 BD'000	Musharaka investments 2007 BD'000	Investments 2007 BD'000	Total 2007 BD'000	Total 2006 BD'000
Provision at beginning of the year	1,915	50	315	2,280	2,164
Written off during the year	-	-	-	-	(34)
	1,915	50	315	2,280	2,130
Provided during the year	-	-	-	-	150
Provision at end of the year	1,915	50	315	2,280	2,280

Note 4

Note 6

Note 7

## Notes to the Consolidated Financial Statements

31 December 2007

### 21. ZAKAH

The total Zakah payable as of 31 December 2007 amounted to BD 1,373 thousand of which BD 306 thousand represent the Zakah on the statutory reserve, general reserve and retained earnings, as at 1 January 2007, is payable by the Bank. The remaining Zakah balance amounting to BD 1,067 thousand or 3.3 fils per share is due and payable by the shareholders.

The Bank has changed the treatment of Zakah from the year 2005. Instead of charging it to the statement of income as an expense, it is now treated as a payment on behalf of shareholders and therefore as an appropriation from the retained earnings.

### 22. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net income for the year by the weighted average number of shares during the year as follows:

	2007 BD'000	2006 BD'000
Net income for the year	25,025	13,053
Weighted average number of shares	389,620	318,780
Basic and diluted earnings per share (fils)	64.23	40.95

There has been no transactions during the year which caused dilution of the earning per share.

### 23. 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:

	2007 BD'000	2006 BD'000
Letters of credit and acceptances	9,125	8,565
Guarantees	5,850	613
Operating lease commitments *	224	254
	15,199	9,432

\* 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.

## Notes to the Consolidated Financial Statements

31 December 2007

### 23. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2007 BD'000	2006 BD'000
Within one year	132	107
After one year but not more than five years	84	136
More than five years	8	11
	224	254

#### **Credit Lines Commitment**

The Group has provided credit line to its associate Liquidity Management Centre B.S.C. (c) of BD 5,655 thousand (2006:BD 3,770 ) for liquidity purposes.

### 24. RELATED PARTY TRANSACTIONS

Related parties represents associated companies , major shareholder, 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 BD'000	Income (expense)		Balance at 31 December	
		2007 BD'000	2006 BD'000	2007 BD'000	2006 BD'000
Shareholders	Sukuk	819	176	12,316	6,634
Shareholders	Tawaroq	460	-	18,003	-
Associate	Ijarah Muntahia Bittamleek	63	-	848	2,048
Associate	Sukuk	362	-	2,266	-
Associate	Murabaha	92	-	8,294	-
Associate	Murabaha	89	-	7,540	-
Board of Directors	Ijarah Muntahia Bittamleek	16	5	660	641
Board of Directors	Musharaka	137	73	1,054	891
Board of Directors	Tawaroq	-	1	-	1,516
Sharia'a Supervisory Board	Remuneration	24	19	-	-
		2,062	274	50,981	11,730

Compensation of the key management personnel is as follows:

	2007 BD'000	2006 BD'000
Short term employee benefits	581	133
Other long term benefits	59	3
	640	136

## Notes to the Consolidated Financial Statements

31 December 2007

### 25. CREDIT RISK

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss.

#### Type of credit risk

##### *Murabaha receivables*

The Group finances these transactions through buying the commodity which represents the object of the murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabaha over the agreed period. The transactions are secured at times by the object of the murabaha (in case of real estate finance) and other times by a total collateral package securing the facilities given to the client.

##### *Ijarah Muntahia Bittamleek*

The legal title of the assets under Ijarah Muntahia Bittamleek only passes to the lessee at the end of the Ijarah term, through gift, consideration or gradual sale, provided that all Ijara instalments are settled.

##### *Mudaraba investments*

The Bank enters into mudaraba contracts by investing in funds operated by other banks and financial institutions for a definite period of time.

##### *Musharaka investments*

Musharaka is a form of partnership between the Bank and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed.

#### Risk management

The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty and in certain cases a mortgage of the object.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

**Notes to the Consolidated Financial Statements**

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**26. CONCENTRATIONS OF ASSETS, LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND COMMITMENTS AND CONTINGENT LIABILITIES**

The distribution by geographical region and industrial sector was as follows:

	Assets BD'000		Liabilities and unrestricted investment accounts BD'000		Commitments and contingent liabilities BD'000	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006	31 December 2007	31 December 2006
<b>Geographical region</b>						
North America	6,660	6,487	-	-	46	29
Europe	20,044	18,470	-	-	2,807	1,742
Middle East	631,930	411,488	471,793	361,552	8,757	5,434
Asia	335	31	-	-	3,589	2,227
	658,969	436,476	471,793	361,552	15,199	9,432
<b>Industrial sector</b>						
Trading and manufacturing	45,393	34,586	64,486	51,445	14,790	9,178
Banks and financial institutions	414,222	317,763	171,685	167,225	-	-
Others	199,354	84,127	235,622	142,882	409	254
	658,969	436,476	471,793	361,552	15,199	9,432

**27. CURRENCY RISK**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank views the Bahraini Dinar as its functional currency. The Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure they are maintained within established limits.

The Bank had the following significant net exposures denominated in foreign currencies as of 31 December:

	2007 BD'000	2006 BD'000
Pound Sterling	(14,633)	(52)
US Dollar	49,034	53,586
	34,401	53,534

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant currency risk.

## Notes to the Consolidated Financial Statements

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### 28. PROFIT SHARE RISK

The Group is not exposed to interest rate risk on its financial assets as no interest is charged.

However, the fair value of financial assets may be affected by current market forces including interest rates. The Group recognises income on certain financial assets on a time-apportioned basis. The following table indicates the profit rates on these at the consolidated balance sheet date based on the annualised income to be recognised, expressed as a percentage of the principal outstanding.

	2007 %	2006 %
Murabaha with banks	5.3	5.2
Other Murabaha	9.8	9.4
Mudaraba investments	5.5	5.4
Musharaka investments	9.5	9.1
Ijara Muntahia Bittamleek	8.0-9.0	8.5 - 9.5

### 29. LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, international commodity Murabaha, credit lines and quoted investments.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history.

## Notes to the Consolidated Financial Statements

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### 29. LIQUIDITY RISK (continued)

The maturity profile of assets, liabilities, unrestricted investment accounts and equity at 31 December 2007 was as follows:

<b>ASSETS</b>	<b>Up to 1 month BD '000</b>	<b>1 to 3 months BD '000</b>	<b>3 to 6 months BD '000</b>	<b>6 months to 1 year BD '000</b>	<b>1 to 3 years BD '000</b>	<b>Over 3 years BD '000</b>	<b>No fixed maturity BD '000</b>	<b>Total BD '000</b>
Cash and balances with CBB and other banks	6,064	-	-	-	-	12,285	-	18,349
Murabaha receivables	128,432	92,504	31,440	47,421	12,696	24,562	-	337,055
Mudaraba investments	5,121	5,331	4,373	-	-	28,784	-	43,609
Musharaka investments	1,135	480	1,118	4,969	18,877	12,847	-	39,426
Investments	-	2,308	10,803	4,662	2,329	67,063	68,996	156,161
Investments in associates	-	-	-	-	-	-	7,045	7,045
Investments in Ijarah assets	-	-	-	-	-	-	5,893	5,893
Ijarah Muntahia Bittamleek	869	4,077	3,585	867	183	3,993	-	13,574
Investments in properties	-	-	-	-	-	-	27,905	27,905
Ijarah rental receivables	-	-	2,963	-	-	-	-	2,963
Other assets	-	-	4,422	-	-	-	2,567	6,989
<b>Total assets</b>	<b>141,621</b>	<b>104,700</b>	<b>58,704</b>	<b>57,919</b>	<b>34,085</b>	<b>149,534</b>	<b>112,406</b>	<b>658,969</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>								
Customers' current accounts	2,439	2,439	9,144	46,941	-	-	-	60,963
Other liabilities	7,615	-	-	-	-	-	-	7,615
Unrestricted investment accounts	219,408	54,229	55,810	67,218	4,059	-	2,491	403,215
Equity	-	-	-	-	-	-	187,176	187,176
<b>Total liabilities, unrestricted investment accounts and equity</b>	<b>229,462</b>	<b>56,668</b>	<b>64,954</b>	<b>114,159</b>	<b>4,059</b>	<b>-</b>	<b>189,667</b>	<b>658,969</b>
Liquidity gap	(87,841)	48,032	(6,250)	(56,240)	30,026	149,534	(77,261)	-
Cumulative liquidity gap	(87,841)	(39,809)	(46,059)	(102,299)	(72,273)	77,261	-	-

## Notes to the Consolidated Financial Statements

31 December 2007

### 29. LIQUIDITY RISK (continued)

The maturity profile of assets, liabilities, unrestricted investment accounts and equity at 31 December 2006 was as follows:

<b>ASSETS</b>	<b>Up to 1 month BD '000</b>	<b>1 to 3 months BD '000</b>	<b>3 to 6 months BD '000</b>	<b>6 months to 1 year BD '000</b>	<b>1 to 3 years BD '000</b>	<b>Over 3 years BD '000</b>	<b>No fixed maturity BD '000</b>	<b>Total BD'000</b>
Cash and balances with the CBB and other banks	7,954	-	-	-	-	7,515	-	15,469
Murabaha receivables	102,022	73,115	10,487	5,827	21,516	28,743	-	241,710
Mudaraba investments	641	2,329	4,087	979	1,077	13,067	-	22,180
Musharaka investments	212	709	559	1,552	6,065	4,857	-	13,954
Investments	11,060	1,544	780	1,819	29,902	15,761	36,552	97,418
Investments in associates	-	-	-	-	-	-	6,652	6,652
Investments in Ijarah assets	-	-	-	-	-	-	4,998	4,998
Ijarah Muntahia Bittamleek	1,176	597	147	269	4,093	9,204	-	15,486
Investments in properties	-	-	-	-	-	-	9,985	9,985
Ijarah rental receivables	-	-	-	-	-	2,315	-	2,315
Other assets	-	4,857	-	-	-	-	1,452	6,309
<b>Total assets</b>	<b>123,065</b>	<b>83,151</b>	<b>16,060</b>	<b>10,446</b>	<b>62,653</b>	<b>81,462</b>	<b>59,639</b>	<b>436,476</b>

#### LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY

Customers' current accounts	51,393	-	-	-	-	-	-	51,393
Other liabilities	6,041	-	-	-	-	-	-	6,041
Unrestricted investment accounts	170,234	97,062	13,509	17,901	2,921	-	2,491	304,118
Equity	-	-	-	-	-	-	74,924	74,924
<b>Total liabilities, unrestricted investment accounts and equity</b>	<b>227,668</b>	<b>97,062</b>	<b>13,509</b>	<b>17,901</b>	<b>2,921</b>	<b>-</b>	<b>77,415</b>	<b>436,476</b>
Liquidity gap	(104,603)	(13,911)	2,551	(7,455)	59,732	81,462	(17,776)	-
Cumulative liquidity gap	(104,603)	(118,514)	(115,963)	(123,418)	(63,686)	17,776	-	-

## Notes to the Consolidated Financial Statements

31 December 2007

### 30. SEGMENTAL INFORMATION

The activities of the Group are performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. As such, operating income, expenses, assets and liabilities are not segmented.

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

### 31. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Group's financial instruments are not significantly different from their book values as at the consolidated balance sheet.

### 32. EARNINGS AND EXPENSES PROHIBITED BY SHARIA'A

The Group is committed to avoid recognising any income generated from non-Islamic source. Accordingly, all non-Islamic income is credited to a qard fund account where the Group uses these funds for various social welfare activities. The movements in these funds is shown in statement of sources and uses of good faith qard fund. The non-islamic income includes the penalties charged on late repayments for Islamic facilities.

### 33. SHARIA'A SUPERVISORY BOARD

The Bank's Sharia'a Supervisory Board consists of three Islamic scholars who review the Bank's compliance with general Sharia'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Bank to ensure that its activities are conducted in accordance with Islamic Sharia'a principles.

### 34. CAPITAL ADEQUACY

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

### 34. CAPITAL ADEQUACY (continued)

The risk asset ratio, calculated in accordance with the capital adequacy guidelines approved by the CBB (Basel II), for the Group is as follows:

	2007 BD'000	2006 BD'000
Capital base:		
Tier 1 capital	128,679	37,651
Tier 2 capital	58,497	37,273
Total capital base	187,176	74,924
Risk weighted assets	460,245	242,378
Capital adequacy	41%	31%
Minimum requirement	12%	12%

The higher capital Adequacy for the year 2007 compared to the year 2006 was mainly due to the right issues in September 2007.

Capital adequacy guidelines approved by the CBB related to Basel II calculation will be effective from 1 January 2008.

The management believes that the Group will be able to meet the requirement of the CBB to comply with the above within the time set by the CBB.

### 35. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through zakah and charity fund's expenditures and donations to good faith qard fund for marriage, refurbishment, medical treatments, etc.

### 36. COMPARATIVE FIGURES

Certain figures of the prior year have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported net income or equity.



Contact and  
Information

**Head Office**

**Bahrain Islamic Bank B.S.C.**  
Al Salam Tower  
Diplomatic Area, Manama  
P.O. Box 5240  
Kingdom of Bahrain

**Telephone**  
+973 1754 6111

**Fax**  
+973 1753 5808

**Email**  
info@bisbonline.com

**Website**  
www.bisbonline.com

**Telex**  
9388 / 9390  
BESMEH BN

**Cable**  
Bank Islami

**S.W.I.F.T.**  
BIBBBHBM

**Contact Centre**  
+973 1751 5151

**Key Contacts**

**Corporate & Institutional Banking**  
Tel: + 973 1751 5155  
Fax: + 973 1791 9155

**Retail Banking**  
Tel: + 973 1751 5180  
Fax: + 973 1791 9180

**Treasury & Investment**  
Tel: + 973 1754 6183  
Fax: + 973 1791 6183

**Credit & Risk Management**  
Tel: + 973 1754 6166  
Fax: + 973 1791 6166

**Internal Sharia'a Supervision**  
Tel: + 973 1751 5173  
Fax: + 973 1791 9173

**Financial Control**  
Tel: + 973 1754 6188  
Fax: + 973 1791 6188

**Internal Audit**  
Tel: + 973 1754 6163  
Fax: + 973 1791 6163

**Central Operations**  
Tel: + 973 1754 6126  
Fax: + 973 1791 6126

**Information Technology**  
Tel: + 973 1754 6202  
Fax: + 973 1791 6202

**Human Resources & Services**  
Tel: + 973 1754 5131  
Fax: + 973 1791 5131

**Board Secretariat**  
Tel: + 973 1754 6128  
Fax: + 973 1791 6128

**Corporate Communications**  
Tel: + 973 1751 5150  
Fax: + 973 1791 9150

Branches	Telephone	Fax
Main Office	+ 973 1754 6111	+ 973 1753 5656
Manama	+ 973 1722 3936	+ 973 1722 3933
Muharraq	+ 973 1734 2796	+ 973 1734 2795
Gudaibiya	+ 973 1724 5446	+ 973 1726 2178
Riffa	+ 973 1777 8362	+ 973 1777 7510
Jidahafs	+ 973 1755 3983	+ 973 1755 3139
Isa Town	+ 973 1768 0044	+ 973 1768 2289
Sitra	+ 973 1745 8008	+ 973 1773 7610
Hidd	+ 973 1735 8555	+ 973 1746 7030
Al-Dana	+ 973 1782 8000	+ 973 1772 0585
Hamad Town	+ 973 1741 8111	+ 973 1741 4533
Budaiya	+ 973 1759 8555	+ 973 1759 2667