

**Al Salam Bank-Bahrain B.S.C.**  
**INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 JUNE 2009**

## REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF AL SALAM BANK-BAHRAIN B.S.C.

### *Introduction*

We have reviewed the accompanying interim condensed statement of financial position of Al Salam Bank-Bahrain B.S.C. (the "Bank") as at 30 June 2009, and the related interim condensed statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed financial statements in accordance with note 2. Our responsibility is to issue a conclusion on these interim condensed financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

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



13 August 2009  
Manama, Kingdom of Bahrain

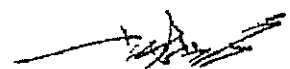
Al Salam Bank-Bahrain B.S.C.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

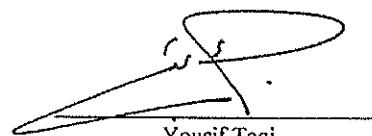
30 June 2009 (Unaudited)

	<i>Unaudited</i> 30 June 2009 BD	<i>Audited</i> 31 December 2008 BD
<b>ASSETS</b>		
Cash and balances with Central Bank of Bahrain	66,340,620	83,533,981
Central Bank of Bahrain Sukuk	34,539,413	31,095,000
Murabaha with banks	107,613,003	87,167,449
Murabaha financing	123,794,945	72,483,745
Ijarah Muntahia Bittamleek	42,933,112	41,530,784
Non-trading investments	161,572,213	116,929,500
Investment in an associate	7,949,342	8,011,913
Investment properties	1,177,528	1,177,528
Receivables and prepayments	52,728,379	21,032,829
Premises and equipment	2,258,899	2,583,796
Assets held-for-sale	39,742,962	88,934,033
<b>TOTAL ASSETS</b>	<b>640,650,416</b>	<b>554,480,558</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>		
<b>LIABILITIES</b>		
Murabaha from banks	93,229,235	32,880,685
Wakala from non-banks	327,718,508	289,004,770
Customers' current accounts	4,582,806	3,231,303
Other liabilities	12,913,518	10,755,559
Total liabilities, excluding unrestricted investment accounts	438,444,067	335,872,317
<b>UNRESTRICTED INVESTMENT ACCOUNTS</b>	<b>31,962,221</b>	<b>46,124,760</b>
Total liabilities, including unrestricted investment accounts	470,406,288	381,997,077
<b>EQUITY</b>		
Share capital	120,000,000	120,000,000
Reserves and retained earnings	50,244,128	39,660,956
Proposed appropriations	-	12,822,525
<b>TOTAL LIABILITIES, UNRESTRICTED INVESTMENTS ACCOUNTS AND EQUITY</b>	<b>640,650,416</b>	<b>554,480,558</b>

These financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 13 August 2009.



Mohamed Ali Rashid Alabbar  
Chairman



Yousif Taqi  
Director & Chief Executive Officer

The attached notes 1 to 8 form part of the interim condensed financial statements.

Al Salam Bank-Bahrain B.S.C.

INTERIM CONDENSED STATEMENT OF INCOME

For the period ended 30 June 2009 (Unaudited)

	<i>Three months ended 30 June 2009 BD</i>	<i>Three months ended 30 June 2008 BD</i>	<i>Six months ended 30 June 2009 BD</i>	<i>Six months ended 30 June 2008 BD</i>
Income from financing contracts	3,052,167	2,890,238	5,461,338	5,613,759
Gain on disposal of assets held-for-sale	3,992,748	8,858,121	13,344,081	17,379,609
Gains on investments designated as fair through profit or loss	1,950,449	904,476	3,961,270	1,125,588
Other operating income	327,091	939,897	746,892	1,641,110
<b>Total operating income</b>	<b>9,322,455</b>	<b>13,592,732</b>	<b>23,513,581</b>	<b>25,760,066</b>
Less: Profit on Murabaha from banks	(157,787)	(636,075)	(275,944)	(1,146,099)
Less: Profit on Wakala from non-banks	(3,370,878)	(2,059,732)	(6,571,228)	(3,685,675)
Less: Profit on unrestricted investment accounts	(28,729)	(49,102)	(59,670)	(119,399)
<b>Net operating income</b>	<b>5,765,061</b>	<b>10,847,823</b>	<b>16,606,739</b>	<b>20,808,893</b>
Staff costs	1,812,669	1,867,590	3,666,753	3,618,900
Premises and equipment cost	213,981	159,899	386,036	253,920
Depreciation	258,654	220,629	511,771	437,237
Other operating expenses	741,043	739,002	1,396,436	1,216,099
	<b>3,026,347</b>	<b>2,987,120</b>	<b>5,960,996</b>	<b>5,526,156</b>
<b>NET PROFIT FOR THE PERIOD</b>	<b>2,738,714</b>	<b>7,860,703</b>	<b>10,645,743</b>	<b>15,282,737</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>1,200,000,000</b>	<b>1,200,000,000</b>	<b>1,200,000,000</b>	<b>1,200,000,000</b>
<b>BASIC EARNINGS PER SHARE (FILS)</b>	<b>2.3</b>	<b>6.6</b>	<b>8.9</b>	<b>12.7</b>

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2009 (Unaudited)

	<i>Three months ended 30 June 2009 BD</i>	<i>Three months ended 30 June 2008 BD</i>	<i>Six months ended 30 June 2009 BD</i>	<i>Six months ended 30 June 2008 BD</i>
<b>NET PROFIT FOR THE YEAR</b>	<b>2,738,714</b>	<b>7,860,703</b>	<b>10,645,743</b>	<b>15,282,737</b>
Other comprehensive income:				
Exchange differences on investment in an associate	213,997	-	(62,571)	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>2,952,711</b>	<b>7,860,703</b>	<b>10,583,172</b>	<b>15,282,737</b>

The attached notes 1 to 8 form part of the interim condensed financial statements.

Al Salam Bank-Bahrain B.S.C.

INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the period ended 30 June 2009 (Unaudited)

	<i>Six months ended 30 June 2009 BD</i>	<i>Six months ended 30 June 2008 BD</i>
<b>OPERATING ACTIVITIES</b>		
Net profit for the period	10,645,743	15,282,737
Adjustments:		
Depreciation	511,771	437,237
Unrealised gains on investments designated as fair value through profit or loss	(3,961,270)	(1,125,588)
Operating income before changes in operating assets and liabilities	<u>7,196,244</u>	<u>14,594,386</u>
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank of Bahrain	248,000	(9,750,000)
Central Bank of Bahrain Sukuk	(3,444,413)	(4,080,000)
Murabaha with Banks with original maturities of 90 days or more	1,505,940	(28,698,785)
Murabaha financing	(51,311,201)	(35,306,659)
Ijarah Muntahia Bittamleek	(1,402,329)	(8,541,907)
Non-trading investments, net	(40,681,443)	(29,628,620)
Receivables and prepayments	(31,695,550)	(15,208,295)
Customers' current accounts	1,351,503	9,836,914
Murabaha from banks	60,348,550	67,738,465
Wakala from non-banks	38,713,737	118,966,213
Other liabilities	(1,088,928)	15,348,100
Assets held-for-sale	49,191,072	(42,852,481)
Net cash from operating activities	<u>28,931,182</u>	<u>52,417,331</u>
<b>INVESTING ACTIVITY</b>		
Purchase of premises and equipment	(186,874)	(184,485)
Net cash used in investing activities	<u>(186,874)</u>	<u>(184,485)</u>
<b>FINANCING ACTIVITIES</b>		
Unrestricted investment accounts	(14,162,539)	34,198,189
Dividend Paid	(9,575,638)	(12,000,000)
Net cash (used in) from financing activities	<u>(23,738,177)</u>	<u>22,198,189</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>5,006,131</b>	<b>74,431,035</b>
Cash and cash equivalents at 1 January	<u>156,204,000</u>	<u>233,608,190</u>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b><u>161,210,131</u></b>	<b><u>308,039,225</u></b>
<b>Cash and cash equivalents comprise of:</b>		
Cash and other balances with Central Bank of Bahrain	47,954,760	4,827,346
Balances with other banks	5,752,860	2,513,656
Murabaha with banks with original maturities of less than 90 days	107,502,511	300,698,223
	<u>161,210,131</u>	<u>308,039,225</u>

The attached notes 1 to 8 form part of the interim condensed financial statements.

Al Salam Bank-Bahrain B.S.C.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2009 (Unaudited)

	Share capital BD	Statutory reserve BD	Retained earnings BD	Investment reserve BD	Foreign exchange translation reserve BD	Proposed appropriations BD	Total equity BD
Balance as of 1 January 2009	120,000,000	6,514,137	12,575,078	20,472,731	99,010	12,822,525	172,483,481
Dividends paid for 2008	-	-	-	-	-	(12,000,000)	(12,000,000)
Zakah	-	-	-	-	-	(822,525)	(822,525)
Total comprehensive income for the period	-	-	10,645,743	-	(62,571)	-	10,583,172
Transfers	-	-	(3,961,270)	3,961,270	-	-	-
<b>Balance at 30 June 2009</b>	<b>120,000,000</b>	<b>6,514,137</b>	<b>19,259,551</b>	<b>24,434,001</b>	<b>36,439</b>	<b>-</b>	<b>170,244,128</b>
Balance as of 1 January 2008	120,000,000	3,959,869	12,458,881	22,523,040	-	529,087	159,470,877
Dividends paid for 2007	-	-	(12,000,000)	-	-	-	(12,000,000)
Zakah	-	-	-	-	-	(529,087)	(529,087)
Total comprehensive income for the period	-	-	15,282,737	-	-	-	15,282,737
Transfers	-	-	(1,125,588)	1,125,588	-	-	-
Balance at 30 June 2008	120,000,000	3,959,869	14,616,030	23,648,628	-	-	162,224,527

The attached notes 1 to 8 form part of the interim condensed financial statements.

30 June 2009 (Unaudited)

**1 INCORPORATION AND PRINCIPAL ACTIVITIES**

**a) Incorporation**

Al-Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and was registered with Ministry of Industry and Commerce under Commercial Registration Number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain (CBB) and has a retail Islamic banking licence and is operating under Islamic principles, and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Building 22, Avenue 58, Block 436, Al Seef District, Kingdom of Bahrain.

**b) Principal activities**

The Bank offers a full range of Shari'a-compliant banking services and products. The activities of the Bank include accepting money placements/deposits, managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial instruments as principal/agent, managing Shari'a-compliant financial instruments and other activities permitted for under the CBB's Regulated Banking Services as defined in the licensing framework.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES**

These interim condensed financial statements have been prepared in conformity with International Accounting Standard 34 - "Interim Financial Reporting". The accounting policies used in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2008, except for the accounting policies which were adopted for the first time by the Bank during the period, if any. The financial statements for the year ended 31 December 2008 were prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and in conformity with International Financial Reporting Standards (IFRS).

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with AAOIFI and IFRS. In addition, results for the six months ended 30 June 2009 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2009.

During the period, the Bank has adopted the following standards effective for the annual periods beginning on or after 1 January 2009.

**IAS 1 "Presentation of Financial Statements (Revised):**

The revised standard requires changes in equity arising from transactions with owners in their capacity as owners to be presented in the statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in a statement of comprehensive income. Components of comprehensive income are not permitted to be presented in the statement of changes in equity.

**IFRS 8 'Operating segments':**

The new standard which replaced IAS 14 'Segment reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in any change in the reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2009 (Unaudited)

**3 DIVIDEND**

At the annual general meeting of the shareholders held on 22 February 2009, a cash dividend of 10 fils per share (2007: 10 fils per share) amounting to BD 12,000,000 (2007: BD 12,000,000) was approved and paid during the period.

**4 RELATED PARTY TRANSACTIONS**

Related parties comprise major shareholders, directors of the Bank, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directorships with that of the Bank. The transactions with these parties were made on commercial terms.

The significant balances with related parties at 30 June 2009 were as follows:

	<i>30 June 2009</i>			
	<i>Associates and joint ventures BD</i>	<i>Directors and related entities BD</i>	<i>Senior management BD</i>	<i>Total BD</i>
<b>Assets:</b>				
Murabaha financing	29,619,216	3,699,350	29,415	33,347,981
Ijarah Muntahia Bittamleek	12,564,995	-	85,368	12,650,363
Receivables and prepayments	1,342,446	156	13,749	1,356,351
<b>Liabilities:</b>				
Wakala from non-banks	17,921,642	1,077,409	378,379	19,377,430
Customer current accounts	-	146,096	40,549	186,645
Other liabilities	15,149	7,270	2,172	24,591
Unrestricted investment accounts	6,414,940	54,871	57,585	6,527,396

The income and expenses in respect of related parties included in the interim condensed financial statements are as follows:

	<i>30 June 2009</i>			
	<i>Associates and joint ventures BD</i>	<i>Directors and related entities BD</i>	<i>Senior management BD</i>	<i>Total BD</i>
<b>Income:</b>				
Income from financing contracts	1,245,694	44,443	4,157	1,294,294
<b>Expenses:</b>				
Profit paid on Wakala from non-banks	144,175	15,287	7,516	166,978
Share of profit to unrestricted investment account holders	-	161	156	317



30 June 2009 (Unaudited)

**4 RELATED PARTY TRANSACTIONS (continued)**

The significant balances with related parties at 31 December 2008 were as follows:

	31 December 2008			Total BD
	Associates and joint ventures BD	Directors and related entities BD	Senior management BD	
<b>Assets:</b>				
Murabaha financing	7,040,472	3,693,308	60,985	10,794,765
Ijarah Muntahia Bittamleek	12,556,290	6,301,531	179,595	19,037,416
Receivables and prepayments	8,669,913	91,225	14,583	8,775,721
<b>Liabilities:</b>				
Wakala from non-banks	26,966,966	141,577	1,031,541	28,140,084
Customer current accounts	-	180,255	49,004	229,259
Unrestricted investment accounts	3,242,180	100,680	44,142	3,387,002

The income and expenses in respect of related parties included in the interim condensed financial statements at 30 June 2008 are as follows:

	30 June 2008			Total BD
	Associates and joint ventures BD	Directors and related entities BD	Senior management BD	
<b>Income:</b>				
Income from financing contracts	176,879	249,511	7,785	434,175
Fees and commission income	40,405	-	-	40,405
<b>Expenses:</b>				
Profit paid on Murabaha from banks	-	15,902	-	15,902
Profit paid on Murabaha from non-banks	442,283	2,952	17,369	462,604
Share of profit to unrestricted investment account holders	-	-	508	508

**5 COMMITMENTS****Undrawn commitments**

The Bank has a contracted commitment to the extent of BD 6,641,055 (31 December 2008: BD2,434,840) on account of financing facilities which remained undrawn as at the end of the period. In addition, the Bank had an undrawn capital commitment of BD 5,309,967 as of 30 June 2009 (31 December 2008: BD5,027,488) on account of investments. Commitments generally have fixed expiration dates, or other termination clauses. Since commitment may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

**Operating lease commitment - Bank as lessee**

The Bank has entered into a five-year operating lease for its headquarters premises. Future minimal rentals payable under the non-cancellable lease as at the period ended are as follows:

	30 June 2009 BD	31 December 2008 BD
Within 1 year	432,340	451,095
After one year but not more than five years	286,316	448,371
	<b>718,656</b>	<b>899,466</b>

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2009 (Unaudited)

## 6 SEGMENT INFORMATION

## Primary segment information

For management purposes, the Bank is organised into four major business segments:

- Banking** - principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking and private banking and wealth management.
- Treasury** - principally handling Shari'a-compliant money market, trading and treasury services including short-term commodity Murabaha.
- Investments** - principally the Banks' proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.
- Capital** - manages the undeployed capital of the bank by investing it in high quality financial instruments, incurs all expenses in managing such investments and accounts for the capital governance related expenses.

These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information for the period ended 30 June 2009 was as follows:

	<i>Banking BD</i>	<i>Treasury BD</i>	<i>Investments BD</i>	<i>Capital BD</i>	<i>Total BD</i>
Operating income	3,829,770	1,017,701	8,248,579	3,510,689	16,606,739
Segment result	1,413,555	356,649	6,486,669	2,388,870	10,645,743
<b>Other information</b>					
Segment assets	165,211,554	212,866,724	194,918,504	67,653,634	640,650,416
Segment liabilities, and equity	360,958,516	100,629,515	1,209,067	177,853,318	640,650,416
30 June 2008					
	<i>Banking BD</i>	<i>Treasury BD</i>	<i>Investments BD</i>	<i>Capital BD</i>	<i>Total BD</i>
Operating income	6,728,954	692,958	6,979,751	6,407,230	20,808,893
Segment result	4,561,925	45,802	5,327,708	5,347,302	15,282,737
31 December 2008					
	<i>Banking BD</i>	<i>Treasury BD</i>	<i>Investments BD</i>	<i>Capital BD</i>	<i>Total BD</i>
Segment assets	111,419,675	206,307,380	164,730,985	72,022,518	554,480,558
Segment liabilities, and equity	332,442,317	41,505,053	1,000,000	179,533,188	554,480,558

**7 IJARAH MUNTAHIA BITTAMLEEK**

Income recognised on Ijarah assets, included under income from financing contracts, during the period amounted to BD 1,472,124 (Six month to 30 June 2008: BD 583,323). The accumulated depreciation on assets subject to Ijarah amounted to BD 7,318,250 (Six month to 30 June 2008: BD1,668,380).

**8 POST BALANCE SHEET EVENT**

On 21 April 2009, the Bank made a firm intent of offer to acquire up to 100% of the issued and paid up shares of The Bahraini Saudi Bank B.S.C. (BSB), a bank incorporated in the Kingdom of Bahrain, at an exchange ratio of one new share of the Bank for every two shares of BSB. At the offer date, BSB had 500 million outstanding issued and paid up shares. The proposed acquisition was approved by the shareholders of the Bank in their Extra-ordinary General Assembly Meeting in which the shareholders also resolved to issue up to 250 million shares of the Bank in favour of BSB shareholders accepting the offer. The Bank's offer closed on 12 July 2009 with BSB shareholders holding 90.43% of the issued and paid up capital accepting the offer. The Bank concluded the acquisition of BSB on 19 July 2009 by issuing 226,075,075 shares to the shareholders of BSB.