

Al Salam Bank-Bahrain B.S.C.

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

30 SEPTEMBER 2012

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

Introduction

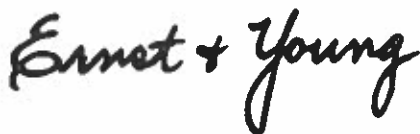
We have reviewed the accompanying interim condensed consolidated financial statements of Al Salam Bank-Bahrain B.S.C. ("the Bank") as at 30 September 2012, comprising of the interim consolidated statement of financial position as at 30 September 2012 and the related interim consolidated statements of income, cash flows and changes in owners' equity for the nine month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with 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. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

A stylized, handwritten signature of 'Ernst & Young' in a cursive script.

15 October 2012
Manama, Kingdom of Bahrain

Al Salam Bank-Bahrain B.S.C.

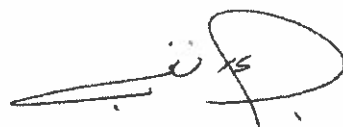
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2012 (reviewed)

		<i>Reviewed</i> 30 September 2012 BD '000	<i>Audited</i> 31 December 2011 BD '000
ASSETS			
Cash and balances with banks and Central Bank of Bahrain		86,795	72,318
Central Bank of Bahrain Sukuk		135,908	125,027
Murabaha and Wakala receivables from banks		134,465	135,698
Corporate Sukuk		75,505	49,650
Murabaha financing		125,591	135,383
Mudaraba financing		96,791	57,706
Ijarah Muntahia Bittamleek		77,379	66,477
Musharaka financing		16,245	11,711
Non-trading investments		213,333	223,320
Investment in an associate	3	6,757	-
Investment properties		2,500	2,500
Other assets	4	47,640	43,028
Premises and equipment		825	1,089
TOTAL ASSETS		1,019,734	923,907
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Murabaha and Wakala payables to banks		102,806	104,573
Wakala payables to non-banks		572,636	515,147
Customers' current accounts		88,014	66,585
Other liabilities		17,966	20,721
TOTAL LIABILITIES		781,422	707,026
EQUITY OF INVESTMENT ACCOUNTHOLDERS		34,146	16,256
OWNERS' EQUITY			
Share capital	5	149,706	149,706
Treasury stock		(492)	(465)
Reserves and retained earnings		54,952	47,228
Total equity attributable to shareholders of the Bank		204,166	196,469
Non-controlling interest	5	-	4,156
TOTAL OWNERS' EQUITY		204,166	200,625
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		1,019,734	923,907



Sh. Hessa Bint Khalifa Al Khalifa
Chairperson of the Board



Yousif A. Taqi
Director and Chief Executive Officer

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

Al Salam Bank-Bahrain B.S.C.

INTERIM CONSOLIDATED INCOME STATEMENT

For the period ended 30 September 2012 (reviewed)

	<i>Three months ended 30 September 2012 BD '000</i>	<i>Three months ended 30 September 2011 BD '000</i>	<i>Nine months ended 30 September 2012 BD '000</i>	<i>Nine months ended 30 September 2011 BD '000</i>
OPERATING INCOME				
Income from financing contracts and sukuk	7,791	9,007	24,638	22,386
Gains on sale of investments and sukuk	1,495	472	5,073	2,209
Income from FVTPL investments	463	844	917	356
Fair value changes on FVTPL investments	(152)	70	(4,237)	742
Net (loss) gain from available-for-sale investments	(168)	-	1,591	-
Dividend income	410	416	1,178	975
Foreign exchange gains	109	361	486	1,053
Fees and commissions	114	131	432	603
Other income	4	125	6,263	243
	16,211	11,426	36,341	28,567
Profit on Murabaha and Wakala payables to banks	(134)	(165)	(436)	(529)
Profit on Wakala payables to non-banks	(4,970)	(4,082)	(15,811)	(11,787)
Profit relating to equity of investment accountholders	(41)	(31)	(128)	(125)
Depreciation on Ijarah Muntahia Bittamleek	(1,530)	(2,885)	(5,555)	(4,862)
Total operating income	9,536	4,263	14,411	11,264
OPERATING EXPENSES				
Staff costs	1,435	1,498	4,493	4,547
Premises and equipment cost	280	328	880	894
Depreciation	80	193	326	796
Other operating expenses	791	864	2,430	2,671
Total operating expenses	2,586	2,883	8,129	8,908
NET PROFIT BEFORE PROVISIONS	6,950	1,380	6,282	2,356
Provision on financing facilities	(65)	(34)	(209)	(387)
NET PROFIT FOR THE PERIOD	6,885	1,346	6,073	1,969
<i>Attributable to:</i>				
Shareholders of the Bank	6,885	1,308	6,037	1,826
Non-controlling interest	-	38	36	143
	6,885	1,346	6,073	1,969
WEIGHTED AVERAGE NUMBER OF SHARES	1,491,402,726	1,492,426,455	1,491,402,726	1,492,426,455
BASIC AND DILUTED EARNINGS PER SHARE (FILS)	4.6	0.9	4.0	1.2

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

Al Salam Bank-Bahrain B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2012 (reviewed)

	<i>Nine months ended 30 September 2012 BD '000</i>	<i>Nine months ended 30 September 2011 BD '000</i>
OPERATING ACTIVITIES		
Net profit for the period	6,073	1,969
Adjustments:		
Depreciation	326	796
Fair value changes on FVTPL investments	4,237	(742)
Net loss from available-for-sale investments	(1,591)	-
Provision charge for financing facilities	209	387
Exchange differences on investment in an associate transferred to income statement	-	96
Operating profit before changes in operating assets and liabilities	<u>9,254</u>	<u>2,506</u>
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank of Bahrain	(2,630)	1,232
Central Bank of Bahrain Sukuk	(10,881)	(40,742)
Murabaha and Wakala receivables from banks with original maturities of 90 days or more	1,016	11,007
Corporate Sukuk	(25,855)	14,400
Murabaha financing	9,792	(5,185)
Mudaraba financing	(39,085)	(38,047)
Ijarah Muntahia Bittamleek	(10,902)	(8,492)
Musharaka financing	(4,534)	(2,069)
Non-trading investments, net	2,271	24,624
Other assets	(4,821)	(4,296)
Murabaha and Wakala payables to banks	(1,767)	1,286
Wakala payables to non-banks	57,489	9,569
Customers' current accounts	21,429	3,978
Other liabilities	(6,947)	(2,614)
Net cash used in operating activities	<u>(6,171)</u>	<u>(32,843)</u>
INVESTING ACTIVITIES		
Purchase of premises and equipment	(62)	(225)
Net cash used in investing activities	<u>(62)</u>	<u>(225)</u>
FINANCING ACTIVITIES		
Equity of investment accountholders	17,890	(1,212)
Purchase of treasury stock	(27)	(465)
Net cash from (used in) financing activities	<u>17,863</u>	<u>(1,677)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,630	(34,745)
Cash and cash equivalents at 1 January	<u>187,729</u>	<u>203,116</u>
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	<u>199,359</u>	<u>168,371</u>
Cash and cash equivalents comprise of:		
Cash and other balances with Central Bank of Bahrain	47,949	62,987
Balances with other banks	16,945	11,852
Murabaha and Wakala receivables from banks with original maturities of less than 90 days	134,465	93,532
	<u>199,359</u>	<u>168,371</u>

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

Al Salam Bank-Bahrain B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the period ended 30 September 2012 (reviewed)

Amounts in BD '000s

	Attributable to shareholders of the Bank										
	Share capital	Treasury stock	Statutory reserve	Retained earnings	Investment reserve	Changes in fair value	Foreign exchange translation reserve	Share premium reserve	Total reserves	Non-controlling interest	Total owners' equity
Balance as of 1 January 2012	149,706	(465)	8,662	37,823	-	(1,830)	-	2,573	47,228	4,156	200,625
<i>Total comprehensive income for the period:</i>											
Net profit for the period	-	-	-	6,037	-	-	-	-	6,037	36	6,073
Other comprehensive income (note 6):											
Net change in fair value	-	-	-	-	-	2,296	(609)	-	1,687	-	1,687
Total comprehensive income	-	-	-	6,037	-	2,296	(609)	-	7,724	36	7,760
Transfer to other liabilities (note 5)	-	-	-	-	-	-	-	-	-	(4,192)	(4,192)
Treasury shares purchased	-	(27)	-	-	-	-	-	-	-	-	(27)
Balance as of 30 September 2012	149,706	(492)	8,662	43,860	-	466	(609)	2,573	54,952	-	204,166
Balance as of 1 January 2011	149,706	-	8,631	4,603	33,039	172	(96)	2,573	48,922	3,997	202,625
Changes due to adoption of FAS 25	-	-	-	33,039	(33,039)	(757)	-	-	(757)	(8)	(765)
Balance as of 1 January 2011 (restated)	149,706	-	8,631	37,642	-	(585)	(96)	2,573	48,165	3,989	201,860
<i>Total comprehensive income for the period:</i>											
Net profit for the period	-	-	-	1,826	-	-	-	-	1,826	143	1,969
Other comprehensive income (note 6):											
Net change in fair value	-	-	-	-	-	(4,704)	-	-	(4,704)	6	(4,698)
Transfer to income statement	-	-	-	-	-	-	96	-	96	-	96
Total comprehensive income	-	-	-	1,826	-	(4,704)	96	-	(2,782)	149	(2,633)
Treasury shares purchased	-	(465)	-	-	-	-	-	-	-	-	(465)
Balance as of 30 September 2011	149,706	(465)	8,631	39,468	-	(5,289)	-	2,573	45,383	4,138	198,762