Al Salam Bank-Bahrain B.S.C.

INTERIM CONDENSED FINANCIAL STATEMENTS

30 SEPTEMBER 2009

ERNST & YOUNG

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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 September 2009, and the related interim condensed statements of income, comprehensive income, changes in equity and cash flows 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 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.

Ernst + Young

14 October 2009
Manama, Kingdom of Bahrain

Al Salam Bank-Bahrain B.S.C.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

30 September 2009 (Unaudited)

	Note	*Unaudited 30 September 2009 BD*	*Audited 31 December 2008 BD*
ASSETS			
Cash and balances with Central Bank of Bahrain		**69,971,783**	83,533,981
Central Bank of Bahrain Sukuk		**34,319,413**	31,095,000
Murabaha with banks		**159,144,217**	87,167,449
Murabaha financing		**89,043,588**	72,483,745
Ijarah Muntahia Bittamleek		**46,073,929**	41,530,784
Non-trading investments	4	**188,953,802**	116,929,500
Investment in an associate		**7,757,383**	8,011,913
Investment properties		**1,177,528**	1,177,528
Receivables and prepayments		**51,642,453**	21,032,829
Premises and equipment		**2,019,601**	2,583,796
Assets held-for-sale		**16,499,292**	88,934,033
TOTAL ASSETS		**666,602,989**	554,480,558
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Murabaha from banks		**96,442,040**	32,880,685
Wakala from non-banks		**304,145,365**	289,004,770
Customers' current accounts		**43,704,116**	42,985,844
Other liabilities		**14,389,686**	10,755,559
Total liabilities, excluding unrestricted investment accounts		**458,681,207**	375,626,858
UNRESTRICTED INVESTMENT ACCOUNTS	11	**7,978,199**	6,370,219
Total liabilities, including unrestricted investment accounts		**466,659,406**	381,997,077
EQUITY			
Share capital	5	**142,577,508**	120,000,000
Reserves and retained earnings		**57,366,075**	39,660,956
Proposed appropriations		**-**	12,822,525
		199,943,583	172,483,481
TOTAL LIABILITIES, UNRESTRICTED INVESTMENTS ACCOUNTS AND EQUITY		**666,602,989**	554,480,558

These financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 14 October 2009.

Mohamed Ali Rashid Alabbar
Chairman

Yousif Taqi
Director & Chief Executive Officer

The attached notes 1 to 11 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF INCOME

For the period ended 30 September 2009 (Unaudited)

	Three months ended 30 September 2009 BD	*Three months ended 30 September 2008 BD*	*Nine months ended 30 September 2009 BD*	*Nine months ended 30 September 2008 BD*
Income from financing contracts	**3,264,530**	3,438,968	**8,725,868**	9,052,727
Gain on disposal of assets held-for-sale	**4,356,734**	6,163,749	**17,700,815**	23,543,358
Gains on investments designated as fair value through profit or loss	**3,455,954**	4,970,312	**7,417,224**	6,095,900
Other operating income	**489,975**	(5,877)	**1,236,867**	1,635,234
Total operating income	**11,567,193**	14,567,152	**35,080,774**	40,327,219
Less: Profit on Murabaha from banks	**(177,763)**	(917,414)	**(453,707)**	(2,063,513)
Less: Profit on Wakala from non-banks	**(3,685,014)**	(2,635,943)	**(10,256,242)**	(6,321,618)
Less: Profit on unrestricted investment accounts	**(33,841)**	(122,708)	**(93,511)**	(242,107)
Net operating income	**7,670,575**	10,891,087	**24,277,314**	31,699,981
Staff costs	**1,845,813**	1,892,935	**5,512,566**	5,511,835
Premises and equipment cost	**187,542**	137,558	**573,578**	391,478
Depreciation	**255,942**	227,375	**767,713**	664,613
Other operating expenses	**642,301**	1,258,287	**2,038,737**	2,474,386
	2,931,598	3,516,155	**8,892,594**	9,042,312
OPERATING PROFIT	**4,738,977**	7,374,932	**15,384,720**	22,657,669
Share of loss from an associate	**(178,628)**	-	**(178,628)**	-
NET PROFIT FOR THE PERIOD	**4,560,349**	7,374,932	**15,206,092**	22,657,669
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**1,371,785,383**	1,200,000,000	**1,257,891,045**	1,200,000,000
BASIC EARNINGS PER SHARE (FILS)	**3.3**	6.1	**12.1**	18.9

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 September 2009 (Unaudited)

	Three months ended 30 September 2009 BD	*Three months ended 30 September 2008 BD*	*Nine months ended 30 September 2009 BD*	*Nine months ended 30 September 2008 BD*
NET PROFIT FOR THE PERIOD	**4,560,349**	7,374,932	**15,206,092**	22,657,669
Other comprehensive income:				
Exchange differences on investment in an associate	**(13,331)**	-	**(75,902)**	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**4,547,018**	7,374,932	**15,130,190**	22,657,669

The attached notes 1 to 11 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 September 2009 (Unaudited)

	Nine months ended 30 September 2009 BD	*Nine months ended 30 September 2008 BD*
OPERATING ACTIVITIES		
Net profit for the period	**15,206,092**	22,657,669
Adjustments:		
Depreciation	**767,713**	664,613
Unrealised (gains)/ losses on investments designated as fair value through profit or loss	**(7,417,224)**	(6,095,900)
Share of loss from an associate	**178,628**	-
Operating income before changes in operating assets and liabilities	**8,735,209**	17,226,382
Changes in operating assets and liabilties:		
Mandatory reserve with Central Bank of Bahrain	**(263,000)**	(9,397,000)
Central Bank of Bahrain Sukuk	**(3,224,413)**	(4,095,000)
Murabaha with banks with original maturities of 90 days or more	**1,496,602**	(19,128,312)
Murabaha financing	**(16,559,843)**	(51,474,737)
Ijarah Muntahia Bittamleek	**(4,543,145)**	(18,787,150)
Non-trading investments, net	**4,950,391**	(16,674,338)
Receivables and prepayments	**(30,609,624)**	(972,268)
Assets held-for-sale	**28,164,080**	(113,233,309)
Customers' current accounts	**718,272**	(911,387)
Murabaha from banks	**63,561,355**	(9,990,681)
Wakala from non-banks	**15,140,595**	158,055,280
Other liabilities	**570,548**	389,990
Net cash from (used in) operating activities	**68,137,027**	(68,992,530)
INVESTING ACTIVITY		
Purchase of premises and equipment	**(203,518)**	(354,966)
Net cash used in investing activities	**(203,518)**	(354,966)
FINANCING ACTIVITIES		
Unrestricted investment accounts	**1,607,980**	39,631,848
Share issue expenses	**(134,371)**	-
Dividend paid	**(9,758,946)**	(12,000,000)
Net cash (used in) from financing activities	**(8,285,337)**	27,631,848
NET CHANGE IN CASH AND CASH EQUIVALENTS	**59,648,172**	(41,715,648)
Cash and cash equivalents at 1 January	**156,204,000**	233,608,190
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	**215,852,172**	191,892,542
Cash and cash equivalents comprise of:		
Cash and other balances with Central Bank of Bahrain	**52,436,455**	20,425,894
Balances with other banks	**4,391,328**	2,776,868
Murabaha with banks with original maturities of less than 90 days	**159,024,389**	168,689,780
	215,852,172	191,892,542

The attached notes 1 to 11 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2009 (Unaudited)

	Share capital BD	*Statutory reserve* BD	*Retained earnings* BD	*Investment reserve* BD	*Foreign exchange translation reserve* BD	*Share Premuim 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	-	-	-	-	-	-	(12,000,000)	(12,000,000)
Zakah	-	-	-	-	-	-	(822,525)	(822,525)
Total comprehensive income for the period	-	-	15,206,092	-	(75,902)	-	-	15,130,190
Transfers	-	-	(7,417,224)	7,417,224	-	-	-	-
Shares issued (note 4 and 5)	22,577,508	-	-	-	-	2,709,300	-	25,286,808
Share issue expenses	-	-	-	-	-	(134,371)	-	(134,371)
Balance at 30 September 2009	**142,577,508**	**6,514,137**	**20,363,946**	**27,889,955**	**23,108**	**2,574,929**	**-**	**199,943,583**
Balance as of 1 January 2008	120,000,000	3,959,869	12,458,881	22,523,040	-	-	529,087	159,470,877
Dividends	-	-	(12,000,000)	-	-	-	-	(12,000,000)
Zakah	-	-	-	-	-	-	(529,087)	(529,087)
Charitable donation	-	-	(100,000)	-	-	-	-	(100,000)
Total comprehensive income for the period	-	-	22,657,669	-	-	-	-	22,657,669
Adjustment during the period	-	-	-	-	22,000	-	-	22,000
Transfers	-	-	1,214,100	(1,214,100)	-	-	-	-
Balance at 30 September 2008	120,000,000	3,959,869	24,230,650	21,308,940	22,000	-	-	169,521,459

The attached notes 1 to 11 form part of the interim condensed financial statements.

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 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 confirmity 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 nine months ended 30 September 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 seperately 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.

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 NON-TRADING INVESTMENTS

Non-trading investments include an amount of BD 25,286,808 relating to investment in The Bahraini Saudi Bank B.S.C. On 21 April 2009, the Bank made an offer ("the Offer") to acquire up to 100% of the issued and paid up shares of The Bahraini Saudi Bank B.S.C. (BSB), a publicly listed commercial 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 through share exchange was approved by the shareholders of the Bank in their Extra-ordinary General Assembly Meeting on 4 May 2009 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 offer closed on 12 July 2009 ("the Offer Closing Date") with BSB shareholders holding 90.31% of the issued and paid up capital accepting the offer.

Consequently, the Bank issued 225,775,075 ordinary shares in exchange for 451,550,150 ordinary shares of BSB. As of the balance sheet date certain legal formalities with respect to the transaction were still in the process of being completed. As such the financial position and operating results of BSB have not been consolidated with that of the Bank.

5 SHARE CAPITAL

	30 September 2009 BD	*31 December 2008 BD*
Authorised:		
2,000,000,000 (2008: 1,200,000,000) ordinary shares of BD 0.100 each	**200,000,000**	120,000,000
Issued and fully paid:		
Balance at the beginning of the period	**120,000,000**	120,000,000
Issued during the period (refer note 4)	**22,577,508**	-
	142,577,508	**120,000,000**

Pursuant to shareholders' resolution referred under Note 4 above, the Bank issued 225,775,075 ordinary shares on 22 July 2009. At the Offer Closing Date the market price of the Bank's shares was BD 0.112 each resulting in proceeds of BD 25,286,808, including a share premium of BD 0.012 per share aggregating to BD 2,709,300.

6 BASIC EARNINGS PER SHARE

Earnings per share are calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period as follows:

	Three months ended 30 September 2009	*Three months ended 30 September 2008*	*Nine months ended 30 September 2009*	*Nine months ended 30 September 2008*
Net profit for the period (in BD)	**4,560,349**	7,374,932	**15,206,092**	22,657,669
Weighted Average number of ordinary shares	**1,371,785,383**	1,200,000,000	**1,257,891,045**	1,200,000,000
Basic earnings per share (in fils)	**3.3**	6.1	**12.1**	18.9

7 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 September 2009 were as follows:

	30 September 2009			
	Associates and joint ventures	*Directors and related entities*	*Senior management*	*Total*
	BD	*BD*	*BD*	*BD*
Assets:				
Murabaha financing	**14,478,196**	**3,519,778**	**26,058**	**18,024,032**
Ijarah Muntahia Bittamleek	**13,899,385**	**-**	**182,438**	**14,081,823**
Receivables and prepayments	**2,112,308**	**35**	**6,831**	**2,119,174**
Liabilities:				
Wakala from non-banks	**13,011,378**	**1,233,170**	**325,681**	**14,570,229**
Customer current accounts	**6,576,333**	**172,947**	**127,522**	**6,876,802**
Other liabilities	**8,718**	**4,828**	**450**	**13,996**
Unrestricted investment accounts	**-**	**124,233**	**21,246**	**145,479**

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

	30 September 2009			
	Associates and joint ventures	*Directors and related entities*	*Senior management*	*Total*
	BD	*BD*	*BD*	*BD*
Income:				
Income from financing contracts	**2,176,716**	**44,805**	**6,089**	**2,227,610**
Expenses:				
Profit paid on Wakala from non-banks	**216,995**	**26,052**	**10,916**	**253,963**
Share of profit to unrestricted investment account holders	**-**	**813**	**652**	**1,465**

7 RELATED PARTY TRANSACTIONS (continued)

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

	31 December 2008			
	Associates and joint ventures BD	*Directors and related entities BD*	*Senior management BD*	*Total BD*
Assets:				
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
Liabilities:				
Wakala from non-banks	26,966,966	141,577	1,031,541	28,140,084
Customer current accounts	3,242,180	234,657	49,004	3,525,841
Unrestricted investment accounts	-	46,278	44,142	90,420

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

	30 September 2008			
	Associates and joint ventures BD	*Directors and related entities BD*	*Senior management BD*	*Total BD*
Income:				
Income from financing contracts	338,810	337,121	8,971	684,902
Fees and commission income	40,405	-	-	40,405
Expenses:				
Profit paid on Murabaha from banks	-	15,902	-	15,902
Profit paid on Murabaha from non-banks	728,427	3,067	22,554	754,048
Share of profit to unrestricted investment account holders	-	87	2,960	3,047

8 COMMITMENTS

Undrawn commitments

The Bank has a contracted commitment to the extent of BD 9,963,685 (31 December 2008: BD 2,434,840) 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 5,601,606 as of 30 September 2009 (31 December 2008: BD 5,027,488) 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

Operating lease commitment - Bank as lessee

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

	30 September 2009 BD	*31 December 2008 BD*
Within 1 year	**493,138**	451,095
After one year but not more than five years	**145,805**	448,371
	638,943	899,466

9 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 September 2009** was as follows:

	Banking *BD*	*Treasury* *BD*	*Investments* *BD*	*Capital* *BD*	*Total* *BD*
Operating income	**6,953,445**	**1,972,235**	**10,344,581**	**5,007,053**	**24,277,314**
Segment result	**3,436,057**	**1,006,821**	**7,531,543**	**3,231,671**	**15,206,092**
Other information					
Segment assets	**133,950,047**	**267,753,933**	**170,085,998**	**94,813,011**	**666,602,989**
Segment liabilities, and equity	**353,738,836**	**103,414,900**	**171,277**	**209,277,976**	**666,602,989**

Segment information for the period ended 30 September 2008 was as follows:

	Banking *BD*	*Treasury* *BD*	*Investments* *BD*	*Capital* *BD*	*Total* *BD*
Operating income	10,108,540	928,123	7,161,714	13,501,604	31,699,981
Segment result	6,727,836	(34,230)	4,688,865	11,275,198	22,657,669

Segment information for the period ended 31 December 2008 was as follows:

	Banking *BD*	*Treasury* *BD*	*Investments* *BD*	*Capital* *BD*	*Total* *BD*
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

10 IJARAH MUNTAHIA BITTAMLEEK

Income recognised on Ijarah assets, included under income from financing contracts, during the period amounted to BD 2,229,176 (Nine month to 30 September 2008: BD 1,082,413). The accumulated depreciation on assets subject to Ijarah amounted to BD 8,434,153 (30 September 2008: BD 2,183,997).

11 UNRESTRICTED INVESTMENT ACCOUNTS

During the current period an amount of BD 39,754,541 which was included in unrestricted investment accounts as of 31 December 2008, has been reclassified to customers' current account to conform with current year presentation. This has not impacted the previously reported net income and total equity.