Al Salam Bank-Bahrain B.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2012

ERNST & YOUNG

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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 statement of financial position of Al Salam Bank-Bahrain B.S.C. ("the Bank") and its subsidiary (together "the Group") as of 31 March 2012, and the related interim consolidated statements of income, changes in owners' equity and cash flows for the three-month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with 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.

Ernst & Young

15 April 2012
Manama, Kingdom of Bahrain

Al Salam Bank-Bahrain B.S.C.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2012 (reviewed)

	Note	*Reviewed 31 March 2012* BD '000	*Audited 31 December 2011* BD '000
ASSETS			
Cash and balances with banks and Central Bank of Bahrain		**161,058**	72,318
Central Bank of Bahrain Sukuk		**126,766**	125,027
Murabaha and Wakala receivables from banks		**168,873**	135,698
Corporate Sukuk		**62,510**	49,650
Murabaha financing		**133,873**	135,383
Mudaraba financing		**68,999**	57,706
Ijarah Muntahia Bittamleek		**64,377**	66,477
Musharaka financing		**12,169**	11,711
Assets under conversion	3	**26,430**	27,750
Non-trading investments		**228,107**	223,320
Investment properties		**2,500**	2,500
Receivables and prepayments		**18,800**	15,278
Premises and equipment		**943**	1,089
TOTAL ASSETS		**1,075,405**	923,907
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Murabaha and Wakala payables to banks		**105,155**	104,573
Wakala payables to non-banks		**664,992**	515,147
Customers' current accounts		**65,389**	66,585
Liabilities under conversion	3	**-**	7,633
Other liabilities		**13,344**	13,088
TOTAL LIABILITIES		**848,880**	707,026
EQUITY OF INVESTMENT ACCOUNTHOLDERS		**22,853**	16,256
OWNERS' EQUITY			
Share capital	4	**149,706**	149,706
Treasury stock		**(492)**	(465)
Reserves and retained earnings		**50,266**	47,228
Total equity attributable to shareholders of the Bank		**199,480**	196,469
Non-controlling interest		**4,192**	4,156
TOTAL OWNERS' EQUITY		**203,672**	200,625
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**1,075,405**	923,907

Sh. Hessa Bint Khalifa Al Khalifa
Chairperson of the Board

Yousif A. Taqi
Director and Chief Executive Officer

The attached explantory notes 1 to 7 form part of these interim consolidated financial statements.

INTERIM CONSOLIDATED INCOME STATEMENT

For the three month period ended 31 March 2012 (reviewed)

	Note	*31 March 2012* **BD '000**	*31 March 2011* BD '000
OPERATING INCOME			
Income from financing contracts and sukuk	3	**8,117**	6,413
Gains on sale of investments and sukuk		**-**	693
Loss from FVTPL investments		**(43)**	(301)
Fair value changes on FVTPL investments		**3,292**	108
Writedown of available for sale investments		**(191)**	-
Dividend income		**540**	248
Fees, commissions and foreign exchange gains		**456**	559
		12,171	7,720
Profit on Murabaha and Wakala payables to banks		**(148)**	(166)
Profit on Wakala payables to non-banks	3	**(5,520)**	(4,044)
Profit relating to equity of investment accountholders		**(38)**	(63)
Depreciation on Ijarah Muntahia Bittamleek		**(1,784)**	(780)
Total operating income		**4,681**	2,667
OPERATING EXPENSES			
Staff costs		**1,509**	1,505
Premises and equipment cost		**287**	277
Depreciation		**138**	307
Other operating expenses		**818**	923
Total operating expenses		**2,752**	3,012
NET PROFIT (LOSS) BEFORE PROVISIONS		**1,929**	(345)
Provision for impairment		**(117)**	(468)
NET PROFIT (LOSS) FOR THE PERIOD		**1,812**	(813)
Attributable to:			
Shareholders of the Bank		**1,776**	(853)
Non-controlling interest		**36**	40
		1,812	(813)
WEIGHTED AVERAGE NUMBER OF SHARES (in '000)		**1,491,652**	1,496,751
BASIC AND DILUTED EARNINGS PER SHARE (FILS)		1.2	(0.6)

The attached explantory notes 1 to 7 form part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three month period ended 31 March 2012 (reviewed)

	31 March 2012 BD '000	*31 March 2011 BD '000*
OPERATING ACTIVITIES		
Net profit (loss) for the period	**1,812**	(813)
Adjustments:		
Depreciation	**138**	307
Gains on investments	**(3,292)**	(108)
Writedown of available for sale investments	**191**	-
Provision for impairment	**117**	468
Exchange differences on investment in an associate transferred to income statement	**-**	96
Operating loss before changes in operating assets and liabilities	**(1,034)**	(50)
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank of Bahrain	**(459)**	492
Central Bank of Bahrain Sukuk	**(1,739)**	(14,729)
Murabaha and Wakala receivables from banks with original maturities of 90 days or more	**(3,027)**	(23,815)
Corporate Sukuk	**(12,860)**	(2,793)
Murabaha financing	**1,510**	(6,358)
Mudaraba financing	**(11,293)**	473
Ijarah Muntahia Bittamleek	**2,100**	(3,051)
Musharaka financing	**(458)**	(1,006)
Assets under conversion	**1,205**	10,116
Non-trading investments, net	**(427)**	(1,031)
Receivables and prepayments	**(3,522)**	(496)
Murabaha and Wakala payables to banks	**582**	24
Wakala from non-banks	**149,845**	(33,338)
Customers' current accounts	**(1,196)**	2,688
Liabilities under conversion	**(7,633)**	192
Other liabilities	**256**	(1,516)
Net cash from (used in) operating activities	**111,850**	(74,198)
INVESTING ACTIVITIES		
Sale (purchase) of premises and equipment	**8**	(109)
Net cash from (used in) investing activities	**8**	(109)
FINANCING ACTIVITIES		
Equity of investment accountholders	**6,597**	7,851
Purchase of treasury stock	**(27)**	(84)
Net cash from financing activities	**6,570**	7,767
NET CHANGE IN CASH AND CASH EQUIVALENTS	**118,428**	(66,540)
Cash and cash equivalents at 1 January	**187,729**	203,116
CASH AND CASH EQUIVALENTS AT 31 MARCH	**306,157**	136,576
Cash and cash equivalents comprise of:		
Cash and other balances with Central Bank of Bahrain	**66,486**	41,552
Balances with other banks	**74,842**	7,213
Murabaha and Wakala receivables from banks with original maturities of less than 90 days	**164,829**	87,811
	306,157	136,576

The attached explantory notes 1 to 7 form part of these interim consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the three month period ended 31 March 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*	*Total*	*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**	**196,469**	**4,156**	**200,625**
Total comprehensive income for the period:												
Net profit for the period	**-**	**-**	**-**	**1,776**	**-**	**-**	**-**	**-**	**1,776**	**1,776**	**36**	**1,812**
Other comprehensive income (note 4):												
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**1,262**	**-**	**-**	**1,262**	**1,262**	**-**	**1,262**
Total comprehensive income	**-**	**-**	**-**	**1,776**	**-**	**1,262**	**-**	**-**	**3,038**	**3,038**	**36**	**3,074**
Treasury shares purchased	**-**	**(27)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(27)**	**-**	**(27)**
Balance at 31 March 2012	**149,706**	**(492)**	**8,662**	**39,599**	**-**	**(568)**	**-**	**2,573**	**50,266**	**199,480**	**4,192**	**203,672**
Balance as of 1 January 2011	149,706	-	8,631	4,603	33,039	172	(96)	2,573	48,922	198,628	3,997	202,625
Changes due to adoption of FAS 25	-	-	-	33,039	(33,039)	(757)	-	-	(757)	(757)	(8)	(765)
Balance as of 1 January 2011 (restated)	149,706	-	8,631	37,642	-	(585)	(96)	2,573	48,165	197,871	3,989	201,860
Total comprehensive income for the period:												
Net (loss) profit for the period	-	-	-	(853)	-	-	-	-	(853)	(853)	40	(813)
Other comprehensive income (note 4):												
Net change in fair value	-	-	-	-	-	(409)	-	-	(409)	(409)	4	(405)
Transfer to income statement	-	-	-	-	-	-	96	-	96	96	-	96
Total comprehensive (loss) income	-	-	-	(853)	-	(409)	96	-	(1,166)	(1,166)	44	(1,122)
Treasury shares purchased	-	(84)	-	-	-	-	-	-	-	(84)	-	(84)
Balance at 31 March 2011	149,706	(84)	8,631	36,789	-	(994)	-	2,573	46,999	196,621	4,033	200,654

The attached explanatory notes 1 to 7 form part of these interim consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

The parent company, 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 ("the CBB") and has an Islamic retail banking license 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.

In 2009, the Bank acquired a 90.31% stake in Bahraini Saudi Bank B.S.C. (BSB), a publicly listed commercial bank in the Kingdom of Bahrain engaged in retail banking. On 26 February 2012, approval was granted by CBB to convert the BSB Bank's license from conventional to Islamic Bank. In January 2012, BSB shares were delisted from Bahrain Stock Exchange.

The Bank and its subsidiary, BSB, (together known as "the Group") operate through eleven retail branches in the Kingdom of Bahrain. The Bank offers a full range of Shari'a-compliant banking services and products. The activities of the Bank include 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. The Bank's ordinary shares are listed in the Bahrain Stock Exchange and Dubai Financial Market.

These interim condensed consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 15 April 2012.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared in accordance with the guidance given by International Accounting Standard 34 - " Interim Financial Reporting". These interim condensed consolidated financial statements incorporate all assets, liabilities and off-balance sheet financial instruments held by the Group. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2011, which 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 the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. In accordance with AAOIFI, for matters for which no AAOIFI standards exist, including "Interim Financial Reporting", the Group uses the relevant International Financial Reporting Standard.

The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with AAOIFI. In addition, results for the three months ended 31 March 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiary for the period ended 31 March 2012. The financial statements of the Bank's subsidiary is prepared for the same reporting period as the Bank, using consistent accounting policies. All income and expenses of the subsidiary, other than those relating to the assets and liabilities under conversion (note 3) have been consolidated on a line-by-line basis; in accordance with the requirements of AAOIFI consolidation standard.

Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and is presented separately in the interim consolidated income statement and within equity in the interim consolidated statement of financial position, separately from owners' equity.

3 ASSETS AND LIABILITIES UNDER CONVERSION

These represent interest bearing non-Shari'a compliant assets and liabilities of BSB, a majority owned subsidiary of the Bank and as such have been reported as separate line items on the face of the interim consolidated statement of financial position. The details of these assets and liabilities under conversion are as follows:

	31 March 2012 BD '000	*31 December 2011 BD '000*
Assets		
Loans and advances to customers	**18,303**	19,628
Non-trading-investments	**8,127**	8,122
	26,430	27,750
Liabilities		
Due to banks and financial institutions	**-**	7,633

For the three month period ended 31 March 2012, income from financing contracts includes BD 136,000 (2011:BD 710,000) arising from assets under conversion. For the three month period ended 31 March 2012, profit on Wakala from non-banks includes BD Nil (2011: BD 5,000) arising from liabilities under conversion.

4 TOTAL COMPREHENSIVE INCOME

	31 March 2012 BD '000	*31 March 2011 BD '000*
NET PROFIT (LOSS) FOR THE PERIOD	**1,812**	(813)
Other comprehensive income (loss):		
Net change in fair value	**1,262**	(405)
Exchange differences on investment in an associate transferred to income statement	**-**	96
Other comprehensive loss for the period	**1,262**	(309)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**3,074**	(1,122)
Attributable to:		
Equity holders of the Bank	**3,038**	(1,166)
Non-controlling interest	**36**	44
	3,074	(1,122)

5 RELATED PARTY TRANSACTIONS

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

The significant balances with related parties at 31 March 2012 were as follows:

	31 March 2012			
	Associates and joint ventures	*Directors and related entities*	*Senior management*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Assets:				
Murabaha financing	**29,635**	**42**	**111**	**29,788**
Mudaraba financing	**11,247**	**-**	**754**	**12,001**
Ijarah Muntahia Bittamleek	**-**	**117**	**205**	**322**
Musharaka financing	**2,154**	**-**	**77**	**2,231**
Receivables and prepayments	**1,762**	**21**	**15**	**1,798**
Liabilities and equity of investment accountholders:				
Wakala payables to non-banks	**6,954**	**1,060**	**98**	**8,112**
Customers' current accounts	**2,303**	**1,324**	**57**	**3,684**
Equity of investment accountholders	**-**	**192**	**65**	**257**
Commitments	**7,927**	**-**	**-**	**7,927**
Contingent liabilities	**4,303**	**-**	**-**	**4,303**

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

	31 March 2012			
	Associates and joint ventures	*Directors and related entities*	*Senior management*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Income:				
Income from Islamic financing contracts	**572**	**1**	**2**	**575**
Expenses:				
Profit paid on Wakala payables to non-banks	**14**	**10**	**1**	**25**
Share of profits on equity of investment accountholders	**-**	**-**	**-**	**-**

5 RELATED PARTY TRANSACTIONS (continued)

The significant balances with related parties at 31 December 2011 were as follows:

	31 December 2011			
	Associates and joint ventures BD '000	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Assets:				
Murabaha and Mudaraba financing	35,621	778	150	36,549
Ijarah Muntahia Bittamleek	-	118	140	258
Musharaka financing	2,100	-	79	2,179
Receivables and prepayments	1,333	16	7	1,356
Liabilities and equity of investment accountholders:				
Wakala payables to non-banks	3,289	1,090	453	4,832
Customers' current accounts	4,029	355	189	4,573
Equity of investment accountholders	-	130	74	204
Commitments	3,380	-	-	3,380
Contingent liabilities	-	-	-	-

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

	31 March 2011			
	Associates and joint ventures BD '000	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Income:				
Income from Islamic financing contracts	1,036	1	3	1,040
Expenses:				
Profit paid on Wakala payables to non-banks	15	10	5	30
Share of profits on equity of investment accountholders	1	-	-	1

6 CONTINGENT LIABILITIES AND COMMITMENTS

The Group has the following commitments:

	31 March 2012	*31 December 2011*
	BD '000	*BD '000*
Contingent liabilities on behalf of customers		
Guarantees	**9,350**	5,270
Letters of credit	**1,533**	1,301
Acceptances	**460**	406
	11,343	6,977
Irrevocable Unutilised commitments		
Unutilised financing commitments	**30,675**	25,591
Unutilised non-funded commitments	**12,332**	8,283
Unutilised capital commitments	**1,448**	1,398
	44,455	35,272
	55,798	42,249

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

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 - Group as lessee

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

	31 March 2012	*31 December 2011*
	BD '000	*BD '000*
Within 1 year	**378**	646
After one year but not more than five years	**1,279**	1,133
	1,657	1,779

7 SEGMENT INFORMATION

Primary segment information

For management purposes, the Group 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 Bank's 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 Group 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 31 March 2012 was as follows:

	31 March 2012				
	Banking ***BD '000***	***Treasury*** ***BD '000***	***Investments*** ***BD '000***	***Capital*** ***BD '000***	***Total*** ***BD '000***
Operating income	**681**	**642**	**712**	**2,646**	**4,681**
Segment result	**(420)**	**438**	**270**	**1,524**	**1,812**
Other information					
Segment assets	**299,016**	**455,476**	**269,819**	**51,094**	**1,075,405**
Segment liabilities, and equity	**764,504**	**103,100**	**204**	**207,597**	**1,075,405**

Segment information for the period ended 31 March 2011 was as follows:

	Banking *BD '000*	*Treasury* *BD '000*	*Investments* *BD '000*	*Capital* *BD '000*	*Total* *BD '000*
Operating income	1,750	1,049	(1,192)	1,060	2,667
Segment result	209	817	(1,688)	(151)	(813)

Segment information for the year ended 31 December 2011 was as follows:

	Banking *BD '000*	*Treasury* *BD '000*	*Investments* *BD '000*	*Capital* *BD '000*	*Total* *BD '000*
Segment assets	228,470	322,645	294,722	78,070	923,907
Segment liabilities, and equity	585,102	118,818	8,494	211,493	923,907

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.