

Al Salam Bank-Bahrain B.S.C.

FINANCIAL STATEMENTS

31 MARCH 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 31 March 2009, and the related interim condensed statements of income, comprehensive income, changes in 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 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.



18 April 2009
Manama, Kingdom of Bahrain

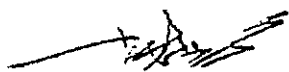
Al Salam Bank-Bahrain B.S.C.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

31 March 2009 (Unaudited)

	<i>Reviewed</i> <i>31 March</i> <i>2009</i> <i>BD</i>	<i>Audited</i> <i>31 December</i> <i>2008</i> <i>BD</i>
ASSETS		
Cash and balances with Central Bank of Bahrain	47,651,720	83,533,981
Central Bank of Bahrain Sukuk	32,515,000	31,095,000
Murabaha with banks	123,058,252	87,167,449
Murabaha financing	104,780,258	72,483,745
Ijarah Muntahia Bittamleek	42,054,738	41,530,784
Non-trading investments	119,833,338	116,929,500
Investment in an associate	7,735,345	8,011,913
Investment properties	1,177,528	1,177,528
Receivables and prepayments	51,076,425	21,032,829
Premises and equipment	2,476,618	2,583,796
Assets held-for-sale	68,510,407	88,934,033
TOTAL ASSETS	600,869,629	554,480,558
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		
LIABILITIES		
Murabaha from banks	76,409,815	32,880,685
Wakala from non-banks	303,080,240	289,004,770
Customers' current accounts	8,609,346	3,231,303
Other liabilities	14,166,760	10,755,559
Total liabilities, excluding unrestricted investment accounts	402,266,161	335,872,317
UNRESTRICTED INVESTMENT ACCOUNTS	31,312,051	46,124,760
Total liabilities, including unrestricted investment accounts	433,578,212	381,997,077
EQUITY		
Share capital	120,000,000	120,000,000
Reserves and retained earnings	47,291,417	39,660,956
Proposed appropriations	-	12,822,525
	167,291,417	172,483,481
TOTAL LIABILITIES, UNRESTRICTED INVESTMENTS ACCOUNTS AND EQUITY	600,869,629	554,480,558

These financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 18 April 2009.



Mohamed Ali Rashid Alabbar
Chairman



Yousif Taqi
Director & Chief Executive Officer

The attached notes 1 to 7 form part of the interim condensed financial statements.

Al Salam Bank-Bahrain B.S.C.

INTERIM CONDENSED STATEMENT OF INCOME

For the period ended 31 March 2009 (Unaudited)

	<i>Three months ended 31 March 2009 BD</i>	<i>Three months ended 31 March 2008 BD</i>
Income from financing contracts	2,409,171	2,723,521
Gain on disposal of assets held-for-sale	9,351,333	8,521,488
Gains on investments designated as fair value through profit or loss	2,010,821	221,112
Other operating income	419,801	701,213
Total operating income	14,191,126	12,167,334
Less: Profit on Murabaha from banks	(118,157)	(510,024)
Less: Profit on Wakala from non-banks	(3,200,350)	(1,625,943)
Less: Profit on unrestricted investment accounts	(30,941)	(70,297)
Net operating income	10,841,678	9,961,070
Staff costs	1,854,084	1,751,310
Premises and equipment cost	172,055	94,021
Depreciation	253,117	216,608
Other operating expenses	655,393	477,097
	2,934,649	2,539,036
NET PROFIT FOR THE PERIOD	7,907,029	7,422,034
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	1,200,000,000	1,200,000,000
BASIC EARNINGS PER SHARE (FILS)	6.6	6.2

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 March 2009 (Unaudited)

	<i>Three months ended 31 March 2009 BD</i>	<i>Three months ended 31 March 2008 BD</i>
NET PROFIT FOR THE YEAR	7,907,029	7,422,034
Other comprehensive income:		
Exchange differences on investment in an associate	(276,568)	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	7,630,461	7,422,034

The attached notes 1 to 7 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 31 March 2009 (Unaudited)

	<i>Three months ended 31 March 2009 BD</i>	<i>Three months ended 31 March 2008 BD</i>
OPERATING ACTIVITIES		
Net profit for the period	7,907,029	7,422,034
Adjustments:		
Depreciation	253,117	216,608
Unrealised gains on investments designated as fair value through profit or loss	(2,010,821)	(221,112)
Operating income before changes in operating assets and liabilities	6,149,325	7,417,530
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank of Bahrain	1,337,000	(6,386,000)
Central Bank of Bahrain Sukuk	(1,420,000)	(4,080,000)
Murabaha with Banks with original maturities of 90 days or more	(931,189)	(6,000,212)
Murabaha financing	(32,296,513)	(25,994,716)
Ijarah Muntahia Bittamleek	(523,955)	(848,966)
Non-trading investments, net	(893,017)	(28,140,784)
Receivables and prepayments	(30,043,596)	(10,800,259)
Customers' current accounts	5,378,043	2,720,054
Murabaha from banks	43,529,130	(19,145,990)
Wakala from non-banks	14,075,470	79,308,547
Other liabilities	(3,384,725)	(2,259,600)
Assets held-for-sale	20,423,627	(27,862,486)
Net cash from (used in) operating activities	21,399,600	(42,072,882)
INVESTING ACTIVITIES		
Purchase of premises and equipment	(145,939)	(51,560)
Net cash used in investing activities	(145,939)	(51,560)
FINANCING ACTIVITIES		
Unrestricted investment accounts	(14,812,710)	28,863,872
Dividend	(6,026,600)	(4,699,059)
Net cash (used in) from financing activities	(20,839,310)	24,164,813
NET CHANGE IN CASH AND CASH EQUIVALENTS	414,351	(17,959,629)
Cash and cash equivalents at 1 January	156,204,000	233,608,190
CASH AND CASH EQUIVALENTS AT 31 MARCH	156,618,351	215,648,561
Cash and cash equivalents comprise of:		
Cash and other balances with Central Bank of Bahrain	32,895,768	1,049,815
Balances with other banks	3,211,950	1,450,110
Murabaha with banks with original maturities of less than 90 days	120,510,633	213,148,636
	156,618,351	215,648,561

The attached notes 1 to 7 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 31 March 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	-	-	7,907,029	-	(276,568)	-	7,630,461
Transfers	-	-	(2,010,821)	2,010,821	-	-	-
Balance at 31 March 2009	120,000,000	6,514,137	18,471,286	22,483,552	(177,558)	-	167,291,417
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	-	-	7,422,034	-	-	-	7,422,034
Transfers	-	-	(221,112)	221,112	-	-	-
Balance at 31 March 2008	120,000,000	3,959,869	7,659,803	22,744,152	-	-	154,363,824

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

31 March 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 on the principles in 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 are 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 three months ended 31 March 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.

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

31 March 2009 (Unaudited)

3 DIVIDENDS

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 31 March 2009 were as follows:

	31 March 2009			
	<i>Associates and joint ventures</i> BD	<i>Directors and related entities</i> BD	<i>Senior management</i> BD	<i>Total</i> BD
Assets:				
Murabaha financing	11,602,030	3,489,652	57,724	15,149,406
Ijarah Muntahia Bittamleek	12,564,493	2,251,856	87,449	14,903,798
Receivables and prepayments	9,098,249	-	10,444	9,108,693
Liabilities:				
Wakala from non-banks	23,486,516	223,246	686,280	24,396,042
Customer current accounts	-	2,476,790	120,920	2,597,710
Other liabilities	51,980	287	4,075	56,342
Unrestricted investment accounts	4,762,644	44,639	49,451	4,856,734

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

	31 March 2009			
	<i>Associates and joint ventures</i> BD	<i>Directors and related entities</i> BD	<i>Senior management</i> BD	<i>Total</i> BD
Income:				
Income from financing contracts	416,476	44,336	2,144	462,956
Expenses:				
Profit paid on Wakala from non-banks	173,297	1,557	6,516	181,370
Share of profit to unrestricted investment account holders	-	176	391	567

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

31 March 2009 (Unaudited)

4 RELATED PARTY TRANSACTIONS (continued)

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

	31 December 2008			
	<i>Associates and joint ventures BD</i>	<i>Directors and related entities BD</i>	<i>Senior management BD</i>	<i>Total BD</i>
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	-	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 31 March 2008 are as follows:

	31 March 2008			
	<i>Associates and joint ventures BD</i>	<i>Directors and related entities BD</i>	<i>Senior management BD</i>	<i>Total BD</i>
Income:				
Income from financing contracts	70,708	124,874	3,944	199,526
Fees and commission income	40,405	-	-	40,405
Expenses:				
Profit paid on Wakala from non-banks	127,714	2,594	7,772	138,080
Share of profit to unrestricted investment account holders	-	-	213	213

5 COMMITMENTS

Undrawn commitments

The Bank has a contracted commitment to the extent of BD 3,972,930 (31 December 2008: BD2,434,840) which remained undrawn as at the end of the period. In addition, the Bank had an undrawn capital commitment of BD4,783,290 as of 31 March 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:

	31 March 2009 BD	31 December 2008 BD
Within 1 year	443,113	451,095
After one year but not more than five years	367,791	448,371
	810,904	899,466

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

31 March 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 31 March 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	1,622,652	689,294	6,020,531	2,509,201	10,841,678
Segment result	443,600	356,188	5,118,568	1,988,673	7,907,029
Other information					
Segment assets	145,991,306	207,577,432	166,595,147	80,705,744	600,869,629
Segment liabilities, and equity	338,159,630	83,794,733	619,666	178,295,600	600,869,629
31 March 2008					
	<i>Banking BD</i>	<i>Treasury BD</i>	<i>Investments BD</i>	<i>Capital BD</i>	<i>Total BD</i>
Operating income	1,723,449	137,118	3,250,085	4,850,418	9,961,070
Segment result	666,948	(152,287)	2,548,617	4,358,756	7,422,034
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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

31 March 2009 (Unaudited)

7 IJARAH MUNTAHIA BITTAMLEEK

Income recognised on Ijarah assets, included under income from financing contracts, during the period amounted to BD 757,197 (31 March 2008: BD 235,568). The accumulated depreciation on assets subject to Ijarah amounted to BD 4,716,747 (31 March 2008: BD1,338,307).