

Bahrain Islamic Bank (BISB.BH)

Country: Bahrain

Exchange: Bahrain Stock Exchange

Sector: Banking

Local Ticker: BISB

Reuters Code: BISB.BH

Investment Opinion: OVERWEIGHT

Last traded Price: BHD 0.53 (as on November 06, 2007)

Fair Value: BHD 0.63

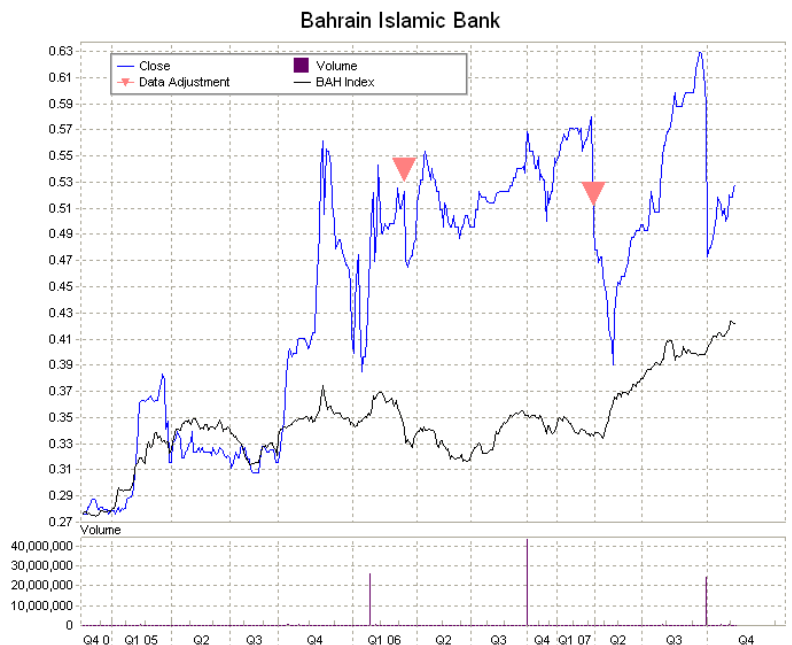
Products & Services: Islamic banking

- Bahrain Islamic Bank (BISB) was the first Islamic financial institution in Bahrain.
- The bank is on a healthy trajectory of profits, thanks to Bahrain's massive investment in the non-oil sector, such as large infrastructure, aluminum and metal projects.
- World-wide, Islamic banking is growing rapidly as its products are gaining popularity among Muslims as well as non-Muslims.
- On March 6, 2007, BISB approved a 20% cash dividend and distributed 12.5% bonus shares and 100% rights issue to its shareholders.
- The Islamic banking industry in Bahrain is becoming highly competitive as more multinational banks enter the arena. Consequently, BISB is likely to face increasing competition.
- We revise our 12-month price target to BHD 0.63 from BHD 0.64, while reiterating our OVERWEIGHT recommendation on BISB's stock.

Current Market Price (BHD)			0.53
YTD Stock Performance %			29.3%
Outstanding Shares (In million)			602.14
Market Cap (BHD Million)			319.13
Annualized Adj. EPS, 9M 2007 (BHD)	0.04	P/E	13.69
BVPS (9M 2007) (BHD)	0.14	P/B	3.82
Adjusted Dividend (BHD)	0.018	Dividend Yield (%)	3.35
52-week High (BHD)	0.63	52-week Low (BHD)	0.37

Source: Bahrain Stock Exchange, Zawya.com

Share Price Movement BISB vs. BAH



Background

The year 1979 saw the emergence of Bahrain Islamic Bank (BISB), the first Islamic financial institution in Bahrain and the third in the region. Headquartered in Manama, the pioneering Islamic bank operates under an onshore domestic commercial banking license granted by the Bahrain Monetary Agency (BMA). Since inception, the bank has grown steadily to become a leading Islamic Institution with BHD 74.92 million in shareholders funds and total assets of BHD 436.48 million as of December 31, 2006. The bank is jointly owned by the government and regional financial institutions. It is publicly listed on the Bahrain Stock Exchange.

BISB operates through three divisions - Retail, Commercial, and Investments - in addition to a newly established Real Estate company. The Retail banking division focuses on providing Islamic asset and liability products to retail clients. The Commercial banking division provides finance to a cross section of small and medium enterprises (SMEs) and corporate clients in the target market. The Investment banking division is involved in Islamic investment opportunities including equity, Sukuk and Mudaraba investments. This division also conducts the bank's treasury and foreign exchange activities. The bank provides these services through a network of 12 domestic branches and 19 ATMs scattered across the island. In September 2007, BISB launched a real estate company to target the booming real estate market. Further, it has established several other Islamic financial institutions domestically as well as in Egypt, Kuwait, Turkey, Sudan, Bangladesh, and Yemen. In addition, it has invested in a number of institutions such as Capital Investment Bank, Islamic International Rating Agency, Islamic International Paints and Chemical Industry Company, Gulf Finance House, The Benefit Company, among others. An active player in Bahrain's banking sector, BISB has undertaken a pioneering role in the application of international standards and practices in all aspects of its business.

The authorized share capital of the bank stands at 100 million ordinary shares with a nominal value of BHD 0.100 each, of which 283.36 million shares were issued as on December 31, 2006. On March 6, 2007, the AGM and EGM resolved the issuance of a further 283.36 million (100%) right shares in addition to 35.42 million (12.5%) bonus shares, based on the total outstanding shares as on December 31, 2006. The bank's share capital currently stands at BHD 602.14 million.

Bahrain Islamic Bank has been actively involved in supporting and sponsoring a wide range of humanitarian, social, and other events that concern the local community such as first Gulf Children and Adolescents Nutrition Conference, and the Zakat fund's advertising campaign, among others. Over the last five years, it has contributed around one million Bahrain Dinars in the form of donations, Zakat, sponsorships, and contributions to the community.

In order to stave off competition in the Islamic banking segment and to tap the vast potential lying dormant in the GCC region and the Arab world, the bank is looking to grow both organically and inorganically. For this, it intends to not only increase the number of its branches and strategic alliances, but also grow its share capital and list on the various GCC stock exchanges to enhance its equity base. In 2006, the bank unveiled a personal financial service scheme 'Tas'heel. A Murabaha product, 'Tas'heel' enables customers to take advantage of this Islamic finance over a 7-year repayment period and with a higher ceiling of up to BHD100,000.

On April 22, 2007, Islamic International Rating Agency (IIRA), a leading credit rating agency, assigned BISB a national scale entity credit rating for medium to long term at 'BBB' and for short term at 'A-2' and International scale entity credit rating for medium to long term at 'BBB-' and for short term at 'A-3' with a 'Positive' outlook. The ratings indicate strong capital reflected by core capital ratio of 10% in 2006, coupled with robust ownership and stable regulatory environment that the bank operates in. Similarly, Capital Intelligence, has assigned the bank a long-term foreign currency rating of 'BBB', a short term foreign currency rating of 'A3', a financial strength of 'BBB' with a 'Stable' outlook.

For the nine-month period ended September 30, 2007, BISB's net profit surged 81.1% to BHD 17.48 million. A large share of the profit came from an increase in income from Islamic finance and investment income. Consequently, the company's reported earnings per share (EPS) increased to 56.40 fils from 35.00 fils in 9M 2006. During the period, both annualized return on equity (ROE) and return on assets (ROA) increased to 27.9% and 3.8% as against 16.7% and 2.9%, respectively, in the prior year period.

Bahrain's pioneering Islamic financial institution.

Sensitive to corporate social responsibility.

A high credit rating.

Excellent financial results.

Board of Directors

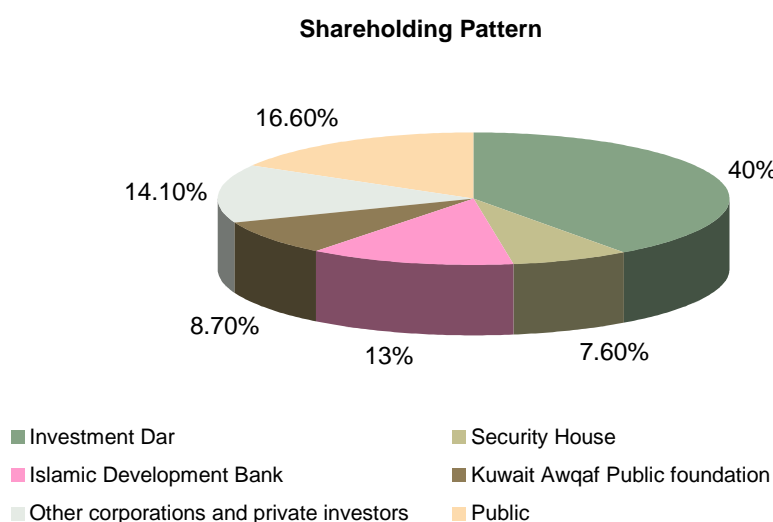
BISB's board of directors consists of ten members. The Chairman is Mr. Khalid Abdullah Al Bassam and Mr. Hisham A. Rahman Al Khalifa is the Vice Chairman. The rest of the board members are as follows:

Name	Designation
Khalid Mohammed Najibi	Member
Aref Ahmad Al Koheejj	Member
Yousif Mohd Saleh Al Awadhi	Member
Ali Mohammed Ali Al Olimi	Member
Nabil Ahmed Mohamed Amin	Member and MD
Rezam Mohamed Yousif Al Roumi	Member
Adnan Abdulqader Al Musallam	Member
Mohammed Al Zarroq Al Zrooq	Member

Major Shareholders and Affiliates

Investment Dar, an active player in the financial sector of Kuwait increased its share in BISB to 40%, in 2005. This apart, two government entities, the Islamic Development Bank (a Saudi Govt. body) and Kuwait Awqaf Public Foundation (a Kuwaiti Govt. organization) hold 13% and 8.7% of the outstanding shares respectively. Other corporations and private investors control 14.1% of the company, while the balance 16.6% is with the general public.

Lion's share (40%) with Investment Dar.



The bank in turn holds 100% of Abaad Real-Estate Company. It also has a 22.75% share in Takaful International Company and a 25% stake in Liquidity Management Centre.

The Industry Scenario

During 2005, Bahrain's nominal GDP grew by 19.7% to reach BHD 4.21 billion. Buoyed by the regional oil boom, real GDP growth is expected to average 6.1% in 2008-09, reflecting both the strength of oil prices and regional demand for financial services. Bahrain is utilizing the petro-dollars in developing its non-oil sector. It has already pumped in USD 5 billion in the metals sector with plans of industrial initiatives in the aluminum sector - 15 projects worth a total of USD 142 million. After oil & gas, the financial services sector remains the highest contributor to the country's GDP and stands to benefit from the current investments in the non-oil sector.

Bahrain is a leading financial services hub of the GCC with some of the region's well established banking and insurance institutions located there. Further, it is considered as the focal point of Islamic banking due to its extensive heritage, and progressive approach to Islamic finance. The strong growth of Islamic banking and its impact on financial markets has promoted a number of traditional, local, and international banks to seek stronger relationships and joint project financing arrangements with their Islamic counterparts. Currently, there are 27 Islamic financial institutions – 24 Islamic banks and three banking related institutions registered in Bahrain. Many international institutions have their Islamic banking business in Bahrain including BNP Paribas, CITI Islamic investment bank, ABC Islamic, Al-Baraka Islamic Bank and UBS.

In June 2006, the Bahrain Monetary Agency (BMA) announced details of a comprehensive package of regulatory reforms to modernize and strengthen the licensing framework for banks operating in the country. A key feature of the revised framework is the simplification of existing categories of onshore and offshore banking licenses, enabling offshore banks to undertake onshore business in a controlled manner. On September 7, 2006, the BMA was replaced by the Central Bank of Bahrain (CBB). The CBB is now responsible for licensing, supervision, and regulation of the financial sector. Its new supervisory and regulatory framework is playing a significant role in liberalizing the sector.

In 2006, the CBB granted three new licenses to international banks that will offer a diverse range of banking activities. It granted a license to the Royal Bank of Scotland (RBS) and to EFG Bank to establish representative offices in Bahrain. Subsequently, a new Islamic investment bank, Investment Dar, was set up in July 2007. In October 2007, Credit Libanais Sal, one of the leading banks in Lebanon, launched operations in the country. The entry of international banks with deep pockets, and the establishment of new local banks is fuelling fierce competition among Bahrain's banks.

Since the 1970s, Islamic banking has been witnessing an annual growth of approximately 10%. The success of the sector is set to increase further with a projected growth rate of 10% to 15% per annum in the MENA region, while global Islamic banking is estimated to expand 20% by 2010. For the year 2006, total assets of Islamic retail banks increased 65.7% to reach USD 4.3 billion, while overall net profits surged 79.4% to reach USD 260 million. Assets of Islamic wholesale banks also increased to USD 7.4 billion in 2006 from USD 5.1 billion in 2005, a rise of 45.1%. We believe that Islamic banks' assets will continue to grow at a faster pace than those of conventional banks, as many investors are migrating from conventional banking to Islamic banking. However, the average Capital Adequacy Ratio for Islamic retail banks stood at 35.5%, lower than the 47.7% of investment banks.

In November 2007, the Central bank decided to cut its key policy interest rates by a quarter percent, following the US Federal Reserve's reduction of interest rates to 4.50% from 4.75%. The CBB reduced its rate on the one week deposit to 4.75% from 5%, while overnight deposit and overnight Repo rates were cut by 25 points to 4.25% and 5.25%, respectively. As a result, loans in Bahrain are expected to increase, although commercial banks may not pass on the full reduction to customers. The Fed Rate cut is expected to increase credit growth and money supply in the GCC, thereby fuelling credit growth.

The second largest contributor to GDP.

Spiralling competition.

The Central Bank lowers interest rates.

Peer Analysis

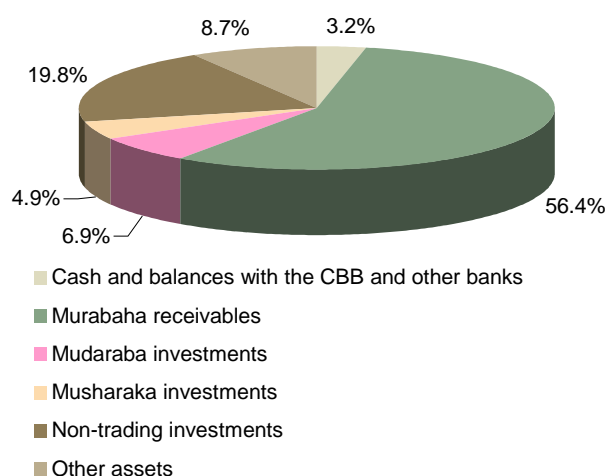
In BHD '000	AUB	BBK	NBB	BSB	BISB
Net profit	78,220	32,810	36,860	3,111	13,053
Total Assets	7,841,188	1,693,766	1,676,380	189,284	436,476
Total Equity	581,755	187,682	222,140	54,589	74,924
ROA	1.0%	1.9%	2.2%	1.6%	3.0%
ROE	13.4%	17.5%	16.6%	5.7%	17.4%
EPS	0.03	0.05	0.07	0.01	0.05
Capital adequacy	14.80%	16.20%	28.69%	50.33%	35.17%

Asset Structure

As at the end of the nine-month period (September 30, 2007), BISB's total assets surged 38.1% to BHD 615.68 million from BHD 445.93 million in the corresponding period last year. The improvement in total assets was driven mainly by the bank's Murabaha receivables which dominates the assets structure. During the period, Murabaha receivables increased 35.4% to BHD 347.34 million from BHD 256.49 million in 9M 2006, accounting for 56.4% of total assets. The next highest component of total assets was non-trading investments comprising 19.8% at BHD 122.16 million. Mudaraba investment was the third largest component, accounting for 6.9% total assets.

Total assets grew 38.1%.

Asset Structure (as on September 30, 2007)



As at the end of 2006, BISB's total asset-base grew a healthy 36.1% year-on-year to BHD 436.48 million, from BHD 320.70 million. This is mainly on account of a surge in Murabaha receivables (54.5%), and non trading investments (20.6%).

Capital Structure

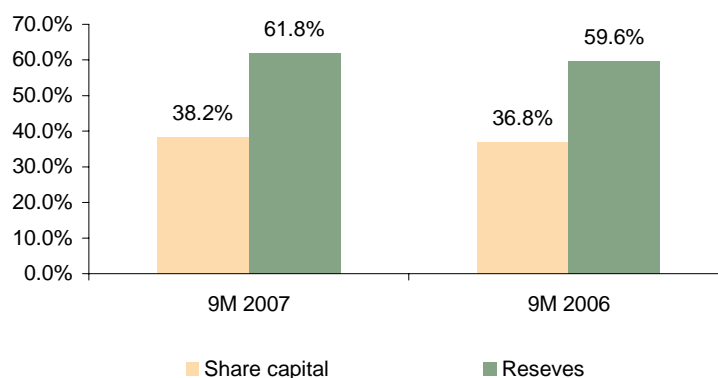
Return on Assets (ROA) of Islamic banks tend to be higher than those of conventional banks, since their cost of funds is lower. Unlike conventional banks, Islamic banks do not carry interest expense on their deposits. Their share of investment profits can result from returns on higher yielding assets, which further aid ROAs.

During 9M 2007, BISB's total shareholders' equity registered a growth of 8.4% to BHD 83.44 billion from BHD 76.97 billion. The bank's primary source of fund came in from unrestricted investment accounts, which surged 26.6% to BHD 402.03 million, representing 65.3% of the bank's total capital structure. During the period, customers' current account stood at BHD 122.54 million, up 180.6%.

Unrestricted investments - the main growth driver.

BISB's authorized share capital is 1000 million ordinary shares with a nominal value of BHD 0.100 each, of which 283.36 million shares were issued as on December 31, 2006. On March 6, 2007, the AGM and EGM declared the issuance of an additional 100% or 283.36 million right shares, which were approved on October 8, 2007. It also distributed 35.42 million or 12.5% bonus shares (based on the total outstanding shares as of December 31, 2006). The bank's share capital currently stands at 602.14 million shares worth BHD 0.100 each.

Capital Structure



Recent Performance

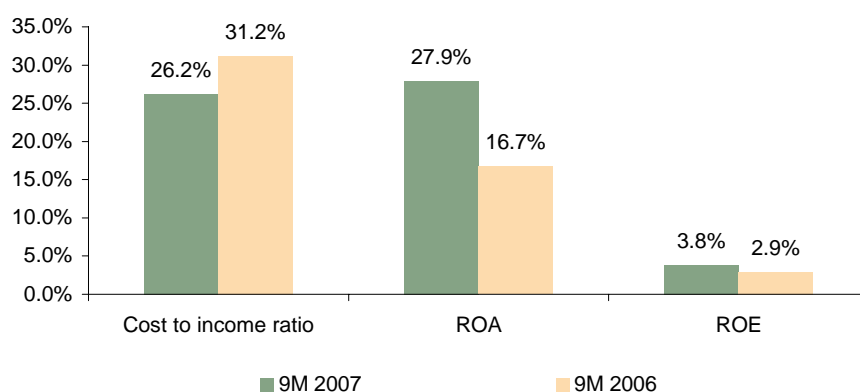
For the nine months ended September 30, 2007, BISB's net profit surged 81.1% BHD17.48 million from BHD 9.65 million posted for 9M 2006. This resulted in annualized earnings per share of 56.40 fils as against 35 fils in the earlier year period. With the issuance of the additional 283.36 million (100%) right shares and 35.42 million (12.5%) bonus shares, the bank's annualized adjusted EPS stands at BHD 0.04 as against BHD 0.02 in the corresponding year period. Maximizing shareholders' return, both annualized return on equity (ROE) and return on assets (ROA) increased to 27.9% and 3.8% as against 16.7% and 2.9%, respectively in 9M 2006. In its Annual General Meeting held on March 6, 2007, the bank approved a 20% cash dividend.

During 9M 2007, the bank's total operating income surged 53.4% to BHD 35.34 million from BHD 23.03 million. The growth can be attributed to a strong improvement in realization of attractive returns on various investment activities. The bank's total income surged 68.9% to BHD 23.69 million from BHD 14.02 million, which can be mainly attributed to income from investment. Meanwhile, income from investment increased to BHD 10.42 million from BHD 2.53 million in 9M 2006. Islamic financing activities also climbed to BHD 21.79 million from BHD 16.59 million, up 31.4%.

Impressive performance in 9M 2007.

Total income grew 68.9%.

Recent Performance



Net profit surged 76.6%

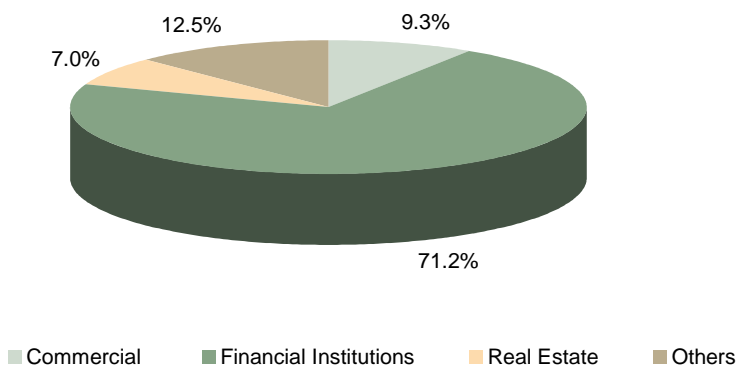
For FY 2006, BISB's net profit surged 76.6% to BHD 13.05 million from BHD 7.39 million posted for 9M 2006. ROA and ROE stood at 3.0% and 17.4% respectively, a significant improvement from 2.3% and 10.3% respectively, recorded in 2005. The bank's improved profitability is represented by an increase in yield of earnings assets, improvement in efficiency ratios, and growth in investment income. During the year, operating income registered a substantial increase of 84.6% to BHD 34.22 million from BHD 18.53 million. In-line with hardening yields, the return on unrestricted investment accounts witnessed a surge of 150.4% to reach BHD12.66 million from BHD 5.06 million in 2005. Further, investment income registered a significant increase of 146.6% to BHD 5.52 million from BHD 2.24 million and the bank's share of income increased 47.5% to BHD 12.05 million. As a result, total income grew 60.0% to BHD 21.56 million. The bank's total income from Islamic finances includes income from Murahaba receivables, Mudaraba financing, Mishraka investments, investments in Sukuk, and Ijarah muntahia bittamleek. For 2006, income from Murabaha receivables increased to BHD 15.78 million from BHD 8.40 million, up 87.8%, accounting for 63.9% of the total income from Islamic finances. Concurrently, the bank's cost to income ratio decreased to 38.8% from 45.2% in 2005, despite a 37.3% surge in operating expenses, indicating its improving efficiency.

At the end of 2006, BISB's total assets-base grew a healthy 36.1% year-on-year to BHD 436.48 million, from BHD 320.70 million. As of now, most of the bank's assets are in the Middle East region (94.3%), however it increasing its presence in Europe and North America. Consequently, assets deployment in Europe and North America stood at around 5.7% of total assets at the end of 2006 as compared to 3.7% in the previous year. Going forward, we believe that BISB will continue to increase its market presence in the Middle East, as it is actively seeking opportunities across the Gulf countries.

Improved asset quality.

During the year 2006, BISB's Murabaha receivables portfolio reported a healthy growth of 54.5% to BHD 241.71 million from BHD 156.42 million. The share of lending to financial institutions in the Murabaha receivables portfolio increased to 71.2% from 63.3% in 2005. While lending to the commercial sector increased to BHD 23.34 million from BHD18.05 million, reporting an increase of 29.3%, its contribution to total Murabaha receivables declined to 9.3% at the end of 2006 from 10.9% in 2005. The bank deployed around 55.4% of the assets in receivables and 22.3% of assets were classified as non-trading investment. In 2006, non-trading investments increased by 20.6% to BHD 97.42 million, of which about 62.3% was in the form of sukuks, and the remaining 37.7% was in equities. BISB has been increasing customers' current account through its extensive branch network, technological innovations and aggressive marketing strategies. Hence, the bank's customers' current account surged 8.6% to BHD 51.39 million from BHD 47.35 million in 2005. Over the last three years, the bank's Non-Performing Murabaha receivables as a percentage of gross Murabaha receivables declined to 1.1% from 1.7% in 2003. This shows that the bank's asset quality has significantly improved.

Receivables Portfolio



New Projects and Strategy

To support its aspiration of becoming a "key player in the region", BISB has established a BHD 10 million company 'Abaad Real Estate Company' which commenced operations in accordance with Islamic Shariah on September 09, 2007. Earlier, in May 2007, the bank had applied for licenses from all the central banks in the region, as part of its regional expansion plans, expected to get underway from Qatar. On April 21, 2007, BISB revealed its intention of entering into a joint venture with Kuwait's Credit Rating and Collection to establish a company in Bahrain with an investment of BHD 100 million.

Of late, BISB has been concentrating on the surging regional construction sector. On October 21, 2007, the bank signed a Memorandum of Understanding (MoU) with Landmark Bahrain Real Estate Development Marketing to provide Islamic finance services to clients. On May 15, 2007, the bank forged a strategic partnership with RealCapita (Bahrain), to participate in financing RealCapita's construction project valued at USD 12 million, which was launched in December 2006. Further, on May 9, 2007, the bank signed an MoU with Riffa Views Signature Estates to provide finance for the purchase of homes within Bahrain's premier residential development. The contract provides property finance up to BHD 300,000 with a repayment period of 25 years.

In April 2007, BISB inked an agreement with Capital Partners, under which it will develop and launch an investment fund for hotels development and management in the holy city of Mecca. The fund gives the options of Sukuk and direct investment in the fund's units, while allowing investors to enjoy the benefit of using hotel rooms and earning operational returns at the same time. In the same month, along with Bank of Bahrain and Kuwait (BBK), the bank signed a six month renewable BHD 4.8 million Murabaha contract to finance Al Khaleej Development Company's (Bahrain) expansion activities. On March 11, it inked a deal with the Ministry of Finance to construct a BHD 5.3 million, 11 storey building in the Houra area (Manama) for the Ministry of Works and Housing. This alliance is expected to last for 9 years. In December 2006, BISB entered into a co-operation agreement with the European Islamic Investment Bank (EIIB) to help the latter benefit from the growing Islamic financial services sector. Under this agreement, both parties will work together on a non-exclusive basis in different areas such as capital markets, asset management, corporate finance, and treasury. In addition, they will promote awareness of Islamic finance at an international level through financing and investing. Simultaneously, they will jointly develop and distribute Islamic financial products.

In a bid to attract customers, BISB has adopted a customer friendly image. It has been offering awards and prizes linked to several of its products. In April 2007, the bank launched a customer friendly reward programme to motivate customers to update their data by awarding cash prizes worth BHD1000. The bank's scheme Tas'heel has been very successful. It enables customers to take advantage of Islamic finance over a 7-year repayment period, with a higher ceiling of up to BHD 100,000. As part of the scheme, BISB signed a Memorandum of Understanding with the Jordan Permanent Exhibition (JPE), whereby the bank provides credit facilities to anyone who wishes to travel to Jordan for medical treatment to join an educational programme.

Positives

- As Bahrain's first Islamic bank, BISB has tremendous brand value and visibility.
- The country's massive investment in the non-oil sector is providing abundant growth opportunities for banks.
- Increasing demand for Islamic products is likely to result in more deposits and increased lending activity.

Negatives

- Liberalization and the entry of new players are threatening BISB's market position.
- The bank's financial performance is heavily dependent on commodity Murabaha transactions, though is diversifying its income stream.

Focus on regional expansion.

BISB partners in a number of gigantic projects.

Customer-centric initiatives.

Valuation: Discounted Cash Flows

We have used the Discounted Cash Flow (DCF) method to determine our fair value estimate. As inputs for our valuation, we have used the unlevered industry Beta for emerging markets' Non-US Commercial Banks of 0.98. We have derived the equity premium by adding the historical premium of US equities over the risk-free rate and the country premium. We estimate a country premium of 1.28% using Moody's long-term country rating (A2 for Bahrain) and estimating a default spread for that rating, based upon the difference in yields for traded country bonds.

As a proxy for the risk-free rate of interest, we have taken the yield on 10-year US treasury notes as the proxy for the risk-free rate of interest. At the time of this report, the 10-year US Treasury bond had a yield of 4.357%.

Based on the inputs and the Capital Asset Pricing Model, we arrive at a Cost of Equity of 10.42%. The company has zero debt on its balance sheet (as of September 30, 2007). Consequently, we arrive at the Weighted Average Cost of Capital (WACC) of 10.42%.

Investment Opinion

The Bahrain's economic outlook continues to be favorable with an increasingly diversified economy. The rising demand for Shariah-compliant banking products from Muslims as well as non-Muslims is providing a great fillip to Islamic banking all over the world. BISB is well positioned to exploit these opportunities due to its current position, brand franchise, strategies to attract customers, and strong deposit franchise. In addition, the bank's application for licenses from all the central banks across the gulf region, as part of its expansion plans is likely to bear fruit.

The robust growth of Islamic banking and its impact on financial markets has prompted a number of conventional local and international banks to enter the Islamic banking arena either through branches or through Islamic banking windows. As a result, the Islamic banking industry in Bahrain is becoming highly competitive. However, we believe that BISB can counter competitive pressures thanks its dynamic diversification policy and innovative financial products.

Considering the above factors, we revise our Fair Value per share for BISB downwards by 1.6% to BHD 0.63 from BHD 0.64. The stock exhibits an 18.4% potential upside from its closing price of BHD 0.53 (as on November 06, 2007). Therefore, we reiterate our earlier OVERWEIGHT investment opinion on BISB's stock.

Condensed Projections

(in BHD' 000)	2007E	2008E	2009E
Total assets	645,984	878,539	1,106,959
Total income	34,329	47,353	59,187
Net profit	25,253	36,194	46,016
EPS (BHD)	0.04	0.06	0.08

Cost of Equity: 10.42%
WACC: 10.42%

Fair Value: BHD 0.63

Investment Opinion:
OVERWEIGHT

FINANCIAL STATEMENTS

BALANCE SHEET

As on

In BHD' 000	31 Dec' 06	31 Dec' 05	% Chg	30 Sept' 07	30 Sept' 06	% Chg
ASSETS						
Cash and balances with the CBB and other banks	15,469	10,448	48.1%	19,760	14,865	32.9%
Murabaha receivables	241,710	156,421	54.5%	347,337	256,492	35.4%
Mudaraba investments	22,180	29,459	-24.7%	42,579	14,783	188.0%
Musharaka investments	13,954	9,889	41.1%	30,084	10,548	185.2%
Non-trading investments	97,418	80,748	20.6%	122,157	101,993	19.8%
Investments in associates	6,652	3,382	96.7%	6,777	6,088	11.3%
Investments in Ijarah assets	4,998	5,174	-3.4%	5,252	5,042	4.2%
Ijarah Muntahia Bittamleek	15,486	11,876	30.4%	16,712	20,279	-17.6%
Investments in properties	9,985	10,341	-3.4%	13,338	12,110	10.1%
Ijarah rental receivables	2,315	938	146.8%	2,551	0	
Other assets	6,309	2,020	212.3%	9,135	3,727	145.1%
Total Assets	436,476	320,696	36.1%	615,682	445,927	38.1%
LIABILITIES						
Customers' current accounts	51,393	47,345	8.6%	122,536	43,674	180.6%
Other liabilities	6,041	3,562	69.6%	7,676	7,748	-0.9%
Total Liabilities	57,434	50,907	12.8%	130,212	51,422	153.2%
Unrestricted investment accounts	304,118	197,881	53.7%	402,031	317,538	26.6%
EQUITY						
Share capital	28,336	25,300	12.0%	31,878	28,336	12.5%
Reserves	36,999	39,444	-6.2%	51,561	45,905	12.3%
Share Premium	0	0	0.0%	0	2,726	-100.0%
Retained Earnings	0	0	0.0%	0	0	0.0%
Proposed appropriations	9,589	7,164	33.8%	0	0	0.0%
Total Equity	74,924	71,908	4.2%	83,439	76,967	8.4%
Total Liabilities, Unrestricted investment accounts and equity	436,476	320,696	36.1%	615,682	445,927	38.1%
Contingencies	9,432	7,379	27.8%	21,662	9,748	122.2%

INCOME STATEMENT
For the period ended

In BHD' 000	31 Dec' 06	31 Dec' 05	% Chg	30 Sept' 07	30 Sept' 06	% Chg
Income from Islamic finances	24,705	13,224	86.8%	21,794	16,587	31.4%
Return on unrestricted investment account before Bank's share as a Mudarib	20,049	5,627	256.3%	18,394	14,730	24.9%
Bank's share as a Mudarib	-7,389	-571	1194.0%	-6,745	-5,722	17.9%
Return to unrestricted investment accounts	12,660	5,056	150.4%	11,649	9,008	29.3%
Bank's share of income from unrestricted investment accounts	12,045	8,168	47.5%	10,145	7,579	33.9%
Income from investments	5,518	2,238	146.6%	10,416	2,534	311.0%
Gain on investments in properties	2,098	1,991	5.4%	702	2,947	-76.2%
Share of results of associate	609	454	34.1%	288	46	526.1%
Other income	1,288	626	105.8%	2,140	918	133.1%
Total income	21,558	13,477	60.0%	23,691	14,024	68.9%
EXPENSES						
Staff costs	3,855	3,248	18.7%	4,015	2,778	44.5%
Depreciation	2,854	1,440	98.2%	453	399	13.5%
Other expense	1,646	1,399	17.7%	1,745	1,195	46.0%
Total Expenses	8,355	6,087	37.3%	6,213	4,372	42.1%
Net income before provisions and Zakah	13,203	7,390	78.7%	17,478	9,652	81.1%
Zakah	0	0	0.0%	0	0	0.0%
Provisions	-150	0	0.0%	0	0	0.0%
Net income for the period	13,053	7,390	76.6%	17,478	9,652	81.1%
No. of Outstanding Shares (' 000)	602,140	602,140		602,140	602,140	
Adjusted EPS (BHD)	0.02	0.01	100%	0.04*	0.02*	100%

*Annualized figures

KEY RATIOS

	30 Sept' 07	31 Dec' 06
Net profit margin	73.8%	60.5%
Cost to income ratio	26.2%	38.8%
Adjusted EPS (BHD)	0.04*	0.02
ROE	27.9%*	17.4%
ROA	3.8%*	3.0%

*Annualized figures

OPINION RATINGS:

OVERWEIGHT	The stock is expected to perform better than the market index; investors may give the stock more weight in their portfolio, than its weight in the overall market
NEUTRAL	The stock is expected to perform in tandem with the market index; investors may give the stock the same weight in their portfolio as in the overall market.
UNDERWEIGHT	The Stock is not expected to perform in line with the market index; investors may give the stock less weight in their portfolio than its weight in the overall market.

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