

INVESTORS BANK B.S.C. (c)
INTERIM FINANCIAL INFORMATION

30 September 2008

Commercial Registration	:	39646 (registered with Central Bank of Bahrain as a wholesale Bank (Islamic Principles))
Registered Office	:	Seef Star Building Seef District PO Box 11818 Manama, Kingdom of Bahrain
Directors	:	Mr. Sami Al Bader, <i>Chairman</i> (until 4 August 2008) Dr. Abdulaziz Al Bader, <i>Chairman</i> (from 30 August 2008) Mr. Ahmed Shabeeb Al Dhaheri, <i>Vice Chairman</i> Mr. Ghassan Fahad Al-Sultan Mr. Isa Abdulla Al-Mannai
Reviewing Accountants	:	KPMG

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To
The Board of Directors
Investors Bank BSC
Manama
Kingdom of Bahrain

5 November 2008

Introduction

We have reviewed the accompanying condensed balance sheet of Investors Bank BSC (the "Bank") as at 30 September 2008, and the related condensed statements of income, changes in equity, cash flows, and changes in restricted investment accounts for the nine-month period then ended (the interim financial information). The Board of Directors of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Our responsibility is to express a conclusion on this interim financial information 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.

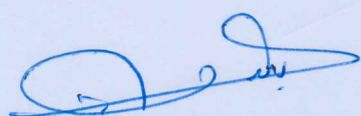
Conclusion


Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

CONDENSED BALANCE SHEET
as at 30 September 2008

US\$

	Note	30 September 2008 (reviewed)	31 December 2007 (audited)
ASSETS			
Cash and cash equivalents		7,115,532	9,631,572
Trading investments		17,973,826	29,727,074
Available-for-sale investments		27,550,823	20,735,571
Murabaha receivables	5	3,243,848	3,243,848
Mudaraba investment	5,7	-	4,500,000
Receivable from Mudarib	5	6,127,801	11,896,174
Receivables from sale of investments	5	18,048,080	29,860,901
Deferred payment sale receivables	5	3,680,203	3,680,203
Investment properties	7	26,345,709	13,838,620
Other assets		13,871,943	8,310,384
Equipment		1,681,327	1,631,225
Total assets		125,639,092	137,055,572
LIABILITIES AND EQUITY			
Liabilities			
Due to a financial institution	8	3,670,202	3,670,202
Murabaha payable	5	3,229,064	3,229,064
Other liabilities		353,938	291,232
Total liabilities		7,253,204	7,190,498
Equity			
Share capital		80,000,000	80,000,000
Statutory reserve		7,409,515	7,409,515
Available-for-sale investments fair value reserve		9,136,042	10,263,817
Retained earnings		21,840,331	32,191,742
Total equity (page 4)		118,385,888	129,865,074
Total liabilities and equity		125,639,092	137,055,572
OFF-BALANCE SHEET ITEMS			
Restricted investment accounts (page 6)		16,997,684	16,708,037


Abdulaziz Al Bader
Chairman


Isa Abdulla Al-Mannai
Director

The Directors approved the interim financial information consisting of pages 2 to 10 on 5 November 2008.

CONDENSED INCOME STATEMENT
for the nine months ended 30 September 2008

US\$

	Nine months ended		Three months ended	
	30 September 2008 (reviewed)	30 September 2007 (reviewed)	30 September 2008 (reviewed)	30 September 2007 (reviewed)
Income from available-for-sale investments	253,299	412,579	21,366	-
Income from trading investments	1,020,766	771,937	-	-
Fair value (loss)/gain on trading investments	(12,559,549)	(4,905,846)	(12,419,400)	987,119
Fair value loss on available-for-sale investments	(540,770)	(100,904)	-	(50,452)
Income from investment property, net	1,411,517	-	-	-
Other income (note 6)	2,166,695	1,312,231	(165,934)	963,540
Total net income	(8,248,042)	(2,510,003)	(12,563,968)	1,900,207
Staff cost	1,106,644	1,010,051	395,165	268,214
Administrative and general expenses	599,943	787,556	120,582	190,739
Impairment loss on available-for-sale investments	41,953	-	41,953	-
Depreciation	354,829	37,082	118,976	11,961
Total expenses	2,103,369	1,834,689	676,676	470,914
(Loss) / profit for the period	(10,351,411)	(4,344,692)	(13,240,644)	1,429,293
Earnings per share (US\$)				
Basic	(0.04)	(0.02)	(0.05)	0.01

The interim financial information consists of pages 2 to 10.

CONDENSED STATEMENT OF CHANGES IN EQUITY
for the nine months ended 30 September 2008

US\$

2008 (reviewed)

Balance at 1 January 2008

Fair value loss during the period

Expenses recognised directly in equity

Loss for the period

Total recognised income and expenses for the period**Balance as at 30 September 2008**

Share Capital	Statutory reserve	AFS investment fair value reserve	Retained earnings	Total
80,000,000	7,409,515	10,263,817	32,191,742	129,865,074
-	-	(1,127,775)	-	(1,127,775)
-	-	(1,127,775)	-	(1,127,775)
-	-	-	(10,351,411)	(10,351,411)
-	-	(1,127,775)	(10,351,411)	(11,479,186)
80,000,000	7,409,515	9,136,042	21,840,331	118,385,888

2007 (reviewed)

Balance at 1 January 2007

Fair value gain during the period

Income recognised directly in equity

Loss for the period

Total recognised income and expenses for the period**Balance as at 30 September 2007**

Share Capital	Statutory reserve	AFS investment fair value reserve	Retained earnings	Total
80,000,000	7,409,515	10,714,722	42,452,597	140,576,834
-	-	1,339,689	-	1,339,689
-	-	1,339,689	-	1,339,689
-	-	-	(4,344,692)	(4,344,692)
-	-	1,339,689	(4,344,692)	(3,005,003)
80,000,000	7,409,515	12,054,411	38,107,905	137,571,831

The interim financial information consists of pages 2 to 10.

STATEMENT OF CASH FLOWS

for the nine months ended 30 September 2008

US\$

	30 September 2008 (reviewed)	30 September 2007 (reviewed)
OPERATING ACTIVITIES		
Dividends received	216,342	-
Placement fees received	-	2,000,000
Underwriting fees received	-	3,631,836
Purchase of trading investments	(941,509)	-
Purchase of available-for-sale investments	(8,609,692)	-
Proceeds from sale of trading investments	148,150	-
Proceeds from sale of available-for-sale investments	239,119	-
Collections of receivable from sale of investments	1,494,006	-
Payments for operating and other expenses	(1,535,715)	(1,973,668)
Employee Qard Hasan and advances, net	22,094	43,268
Others	988,625	44,008
Cash flows from operating activities	(7,978,580)	3,745,444
INVESTING ACTIVITIES		
Purchase of equipment	(358,353)	(1,186,128)
Advances for purchase of equipment	-	(266,993)
Proceeds from disposal of equipment	52,520	-
Cash flows from investing activities	(305,833)	(1,453,121)
FINANCING ACTIVITIES		
Mudaraba investments	-	(4,500,000)
Receipt from Mudaraba investments	-	10,034,860
Collections of receivable from Mudarib	5,768,373	-
Cash paid to charitable organisations	-	(588)
Cash flows from financing activities	5,768,373	5,534,272
Net (decrease) / increase in cash and cash equivalents	(2,516,040)	7,826,595
Cash and cash equivalents at 1 January	9,631,572	383,182
Cash and cash equivalents at 30 September	7,115,532	8,209,777

CONDENSED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the nine months ended 30 September 2008

2008 (reviewed)	Balance at 1 January 2008			Movements during the period					Balance at 30 September 2008		
	No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	Revaluations US\$	Investment profit/ (loss) US\$	Bank's fees as an agent US\$	Administration expenses US\$	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd Investments in International Investment Group K.S.C.C. (note 2 below)	-	-	317,689	-	-	-	-	-	-	-	317,689
	12,887	0.44	5,670,202	-	-	-	-	-	12,887	0.44	5,670,202
Portfolio managed by the Bank	2,940	3.65	10,720,146	-	289,647	-	-	-	2,940	3.74	11,009,793
			16,708,037	-	289,647	-	-	-			16,997,684

1 Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties. The restricted investment accounts at 30 September 2008 are carried net of a provision for impairment amounting to US\$ 282,311 (2007: US\$ 282,311).

2 On the instructions of a restricted investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C ('IIG'). The Bank then entered into a deferred payment sale agreement with the restricted investment account holder for sale of the these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of the IIG shares to the restricted investment account holder.

The interim financial information consists of pages 2 to 10.

CONDENSED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the nine months ended 30 September 2008 (continued)

2007 (reviewed)	Balance at 1 January 2007			Movements during the period					Balance at 30 September 2007		
	No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	Revaluations US\$	Investment profit/ (loss) US\$	Bank's fees as an agent US\$	Administration expenses US\$	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd Investments in International Investment Group K.S.C.C. (note 2 below)	-	-	317,689	-	-	-	-	-	-	-	317,689
	12,887	0.44	5,670,202	-	-	-	-	-	12,887	0.44	5,670,202
	2,940	3.46	10,169,140	-	337,239	-	-	-	2,940	3.57	10,506,379
Portfolio managed by the Bank			16,157,031	-	337,239	-	-	-			16,494,270

1 Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties. The restricted investment accounts at 30 September 2007 are carried net of a provision for impairment amounting to US\$ 282,311 (2006: US\$ 282,311).

2 On the instructions of a restricted investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C ('IIG'). The Bank then entered into a deferred payment sale agreement with the restricted investment account holder for sale of the these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of the IIG shares to the restricted investment account holder.

The interim financial information consists of pages 2 to 10.

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2008**

- 1 Investors Bank B.S.C. (c) (the "Bank") is a closed Bahraini joint stock company operating under a wholesale Bank (Islamic Principles) license issued by the Central Bank of Bahrain.

- 2 Basis of preparation and presentation

The interim financial information has been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by AAOIFI standards, the Bank uses guidance from the relevant International Financial Reporting Standard. Accordingly, the interim financial information has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting'.

The interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the audited financial statements of the Bank for the year ended 31 December 2007.

The accounting policies and methods of computation applied by the Bank in the preparation of the interim financial information are the same as those used in the preparation of the audited financial statements for the year ended 31 December 2007, except as disclosed below:

Recognition of subsequent re-measurement gains or losses on available-for-sale (AFS) investments

Up to June 2008, fair value gains on Available-for-sale investment were recognised in an "investment fair value reserve" as a separate component in equity. Realised losses resulting from re-measurement at fair value of AFS investments were also recognised in the investment fair value reserve to the extent of the available balance. If losses exceeded the available balance, the unrealised losses were recognised in the income statement. In case there were unrealised losses that had been previously recognised in the income statement, then the unrealised gains for the year were recognised to the extent of previously recognised losses in the income statement. Any excess of such gains over previously recognised losses were taken to the investment fair value reserve.

In October 2008, AAOIFI issued an amendment to "FAS 17: Investments", effective 1 July 2008. The amendment states that gains and losses on AFS investments are recognised in the "Investment fair value reserve" even if that results in a negative fair value reserve provided the investments are not impaired. In the event of sale, disposal or impairment, the cumulative gains and losses recognised in equity are transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

Impairment of AFS investments

The Bank assesses at each reporting date whether there is objective evidence that a financial asset is impaired.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale equity securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

NOTES TO THE INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2008

As a result of this change in accounting policy, due to amendment in accounting standard, the Bank has recognised fair value loss of US\$ 937,527, for three months ended 30 September 2008 as part of AFS investment fair value reserve. Had this change in accounting policy not been effected, the loss for the nine months ended 30 September 2008 would have been higher by US\$ 937,527. This change had no effect on the previously reported profit or equity.

- 3 The interim financial information is not audited but has been reviewed by KPMG. The comparative figures for the balance sheet have been extracted from the audited financial statements for the year ended 31 December 2007. The comparatives for the statements of income, changes in equity, cash flows and changes in restricted investment accounts have been extracted from reviewed interim financial information for the nine months ended 30 September 2007.
- 4 Due to the nature of the Bank's operations, the nine months results reported in this interim financial information may not represent a proportionate share of the overall annual results.
- 5 Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties also include directors and shareholders of the Bank and companies in which they have an ownership interest.

Significant balances with related parties (entities under common control) at 30 September 2008 include:

	30 September 2008 (reviewed) US\$	31 December 2007 (audited) US\$
Assets		
Trading investments	17,267,119	29,727,074
Available-for-sale investments	8,379,520	8,313,197
Murabaha receivables	3,243,848	3,243,848
Mudaraba investment	-	4,500,000
Receivables from sale of investments	18,048,080	29,860,901
Deferred payment sale receivables	3,680,203	3,680,203
Advance towards purchase of available-for-sale investments	-	45,579
Receivable from Mudarib	6,127,801	11,896,174
Other assets:		
Current account with related parties	10,477,269	5,666,486
Dividend receivable	1,837,819	814,259
Due from Chairman	-	99,161
Management and advisory fees receivable	70,815	71,701
Liabilities		
Murabaha payable	3,229,064	3,229,064

The Bank has investments in companies of certain shareholders. The carrying amounts of such investments at 30 September 2008 were US\$ 42,009 (31 December 2007: US\$ 48,788).

Significant transactions with related parties include:

	30 September 2008 (reviewed) US\$	30 September 2007 (reviewed) US\$
Income		
Income from available-for-sale investments	569	955
Income from trading Investments	1,007,824	771,937
Fair value loss on trading investments	(12,459,955)	(4,905,846)
Income from Murabaha contracts	-	222,858
Income from Mudaraba investment	192,452	-
Other income – refund of payments to Managing Director	1,000,000	-

6 Other income includes US\$ 1,000,000 received from the late Managing Director as a refund of consideration paid to him in 2006 for his services in earlier periods. This refund has been received subsequent to the conclusion of the discussions on this payment with the Central Bank of Bahrain.

7 During the period, the Bank realised its Mudaraba investment and partly realised its receivable from sale of investments by way of receiving a land in Bahrain as settlement. This land has been recognised as investment property at the agreed price of settlement. The carrying value of land approximates its market value as at 30 September 2008.

8 In 2004, the Bank entered into a sale and purchase agreement with a local financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution was US\$ 3,670,202. In accordance with the terms of the agreement, the Bank pledged certain of its investments with a carrying value of US\$ 11,484,326 as at 30 September 2008. Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged investments have been retained by the financial institution. In the opinion of the Bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the Bahrain courts against the financial institution for wrongful possession of investments. As a result, the court has taken custody of the shares under dispute. The related party on whose behalf the transactions was entered has provided a manager's cheque for an equal amount which has been deposited with the court. This amount is included under deferred payment sale receivables.

The related party on whose behalf the transaction was entered into has also agreed to reimburse the Bank for legal expenses and any losses arising on final settlement with the financial institution. Accordingly, in the opinion of the directors, no provision is required to be made in the financial statements against the investments pledged with the financial institution or for contingent claims that might arise on final settlement.

9 Subsequent event

Subsequent to the interim balance sheet date, the market values of trading investments and available-for-sale investments held by the Bank as on 30 September 2008 have reduced considerably thereby resulting in a further mark-to-market loss of US\$ 9,708,687.

10 Appropriations of net profit are made only at the year end.