

**Investors Bank B.S.C. (c)**

**INTERIM CONDENSED FINANCIAL STATEMENTS**

**30 JUNE 2009**

**REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS  
TO THE BOARD OF DIRECTORS OF INVESTORS BANK B.S.C. (c)**

***Introduction***

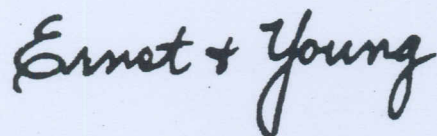
We have reviewed the accompanying interim condensed financial statements of Investors Bank B.S.C. (c) ["the Bank"] as at 30 June 2009, comprising of the interim statement of financial position as at 30 June 2009 and the related interim statements of income, cash flows, changes in equity and changes in restricted investment accounts for the six 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 the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

***Scope of review***

We conducted our review in accordance with the 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 respects, in accordance with the accounting policies in note 2.



13 August 2009  
Manama, Kingdom of Bahrain



## Investors Bank B.S.C. (c)

## INTERIM STATEMENT OF FINANCIAL POSITION

At 30 June 2009 (Unaudited)

	30 June 2009 US\$	(Audited) 31 December 2008 US\$
<b>ASSETS</b>		
Cash and balances with banks	1,500,609	2,557,184
Trading investments	8,688,672	5,738,750
Available-for-sale investments	23,083,467	21,252,382
Murabaha receivables	-	3,243,848
Mudaraba investment	-	4,000,000
Receivable from Mudarib	4,464,281	6,127,801
Receivable from sale of investments	11,136,115	11,846,542
Deferred payment sale receivables	3,680,203	3,680,203
Investment property	22,404,398	10,742,443
Assets held-for-sale	6,797,605	6,797,782
Other assets	9,392,704	17,460,260
Property and equipment	8,628,911	1,579,576
<b>TOTAL ASSETS</b>	<b>99,776,965</b>	<b>95,026,771</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Due to a financial institution	3,670,202	3,670,202
Murabaha payable	3,229,064	3,229,064
Other liabilities	506,855	454,453
<b>Total liabilities</b>	<b>7,406,121</b>	<b>7,353,719</b>
<b>Equity</b>		
Share capital	80,000,000	80,000,000
Statutory reserve	7,409,515	7,409,515
Investments fair value reserve	4,930,038	2,959,559
Retained earnings / (accumulated losses)	31,291	(2,696,022)
<b>Total equity</b>	<b>92,370,844</b>	<b>87,673,052</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>99,776,965</b>	<b>95,026,771</b>
<b>OFF-BALANCE SHEET ITEMS</b>		
Restricted investment accounts	16,213,444	16,646,823

The interim condensed financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 13 August 2009.



Dr. Abdulaziz Al Bader  
Chairman



Isa Abdulla Al-Mannai  
Director

The attached notes 1 to 8 form part of these interim condensed financial statements

## Investors Bank B.S.C. (c)

## INTERIM STATEMENT OF INCOME

For the six months ended 30 June 2009 (Unaudited)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<b>30 June</b>	<b>30 June</b>	<b>30 June</b>	<b>30 June</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Income from trading investments	-	1,020,766	<b>25,704</b>	1,020,766
Income from available-for-sale investments	<b>16,965</b>	231,933	<b>16,965</b>	231,933
Fair value gain / (loss) on trading investments	<b>4,704,163</b>	(598,274)	<b>2,949,922</b>	(140,149)
Fair value loss on available-for-sale investments	-	(343,547)	-	(539,353)
Income from murabaha contracts	-	37,540	-	89,880
Income from mudaraba investment	-	192,452	<b>63,680</b>	192,452
Net (loss) / income from asset held-for-sale	<b>(132,070)</b>	432,783	<b>(132,070)</b>	1,411,517
Other income	<b>281,545</b>	977,765	<b>1,216,922</b>	2,050,297
<b>NET INCOME</b>	<b>4,870,603</b>	1,951,418	<b>4,141,123</b>	4,317,343
Staff cost	<b>338,294</b>	376,796	<b>709,908</b>	711,479
Administrative and general expenses	<b>166,516</b>	179,982	<b>347,403</b>	479,361
Depreciation	<b>240,061</b>	118,124	<b>356,499</b>	235,853
<b>TOTAL EXPENSES</b>	<b>744,871</b>	674,902	<b>1,413,810</b>	1,426,693
<b>PROFIT FOR THE PERIOD</b>	<b>4,125,732</b>	1,276,516	<b>2,727,313</b>	2,890,650

The attached notes 1 to 8 form part of these interim condensed financial statements



Investors Bank B.S.C. (c)

INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009 (Unaudited)

	<i>Six months ended</i>	
	<b>30 June</b>	<b>30 June</b>
	<b>2009</b>	<b>2008</b>
	<b>US\$</b>	<b>US\$</b>
<b>OPERATING ACTIVITIES</b>		
Dividends received	36,138	216,342
Placement fees received	50,000	-
Income from Murabaha contracts	-	89,880
Purchase of trading investments	-	(334,281)
Purchase of available-for-sale investments	-	(6,216,794)
Proceeds from sale of trading investments	-	148,150
Proceeds from sale of available-for-sale investments	-	178,364
Payments for operating and other expenses	(1,072,252)	(1,077,993)
Employee qard hasan and advances, net	(77,909)	16,701
Refund of payments to managing director	-	1,000,000
Cash flows used in operating activities	<b>(1,064,023)</b>	<b>(5,979,631)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(49,995)	(337,996)
Proceeds from disposal of equipment	8,721	52,520
Registration fees paid	(139,736)	-
Rent received	188,458	-
Cash flows from / (used) in investing activities	<b>7,448</b>	<b>(285,476)</b>
<b>FINANCING ACTIVITY</b>		
Collection of receivable from mudarib	-	5,768,373
Cash flows from financing activity	-	5,768,373
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,056,575)</b>	<b>(496,734)</b>
Cash and cash equivalents at the beginning	<b>2,557,184</b>	<b>9,631,572</b>
<b>CASH AND CASH EQUIVALENTS AT</b>	<b>1,500,609</b>	<b>9,134,838</b>

The attached notes 1 to 8 form part of these interim condensed financial statements

Investors Bank B.S.C. (c)

INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009 (Unaudited)

	Share capital US\$	Statutory reserve US\$	Investments fair value reserve US\$	Retained earnings US\$	Total US\$
Balance at 1 January 2009	80,000,000	7,409,515	2,959,559	(2,696,022)	87,673,052
Profit for the period	-	-	-	2,727,313	2,727,313
Fair value gain during the period	-	-	1,970,479	-	1,970,479
<b>Balance as at 30 June 2009</b>	<b>80,000,000</b>	<b>7,409,515</b>	<b>4,930,038</b>	<b>31,291</b>	<b>92,370,844</b>
Balance at 1 January 2008	80,000,000	7,409,515	10,263,817	32,191,742	129,865,074
Profit for the period	-	-	-	2,890,650	2,890,650
Fair value loss during the period	-	-	(11,376)	-	(11,376)
<b>Balance as at 30 June 2008</b>	<b>80,000,000</b>	<b>7,409,515</b>	<b>10,252,441</b>	<b>35,082,392</b>	<b>132,744,348</b>



# Investors Bank B.S.C. (c)

## INTERIM STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the six months ended 30 June 2009 (Unaudited)

	Balance at 1 January 2009			Movements during the period					Balance at 30 June 2009		
	No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	Revaluations US\$	Investment profit/ (loss) US\$	Bank's fees as agent US\$	Administration expenses US\$	No of units (000)	Average value per share US\$	Total US\$
Receivable from Lotus Air Ltd	-	-	317,689	-	-	-	-	-	-	-	317,689
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	-	-	-	-	12,887	0.44	5,670,202
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.08	10,658,932	-	(433,379)	-	-	-	142,059	0.07	10,225,553
			<u>16,646,823</u>		<u>(433,379)</u>						<u>16,213,444</u>

1 Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties. The restricted investment accounts at 30 June 2009 are carried net of a provision for impairment amounting to US\$ 282,311 (2008: 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 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.

# Investors Bank B.S.C. (c)

## INTERIM STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the six months ended 30 June 2009 (Unaudited)

	Balance at 1 January 2008		Movements during the period					Balance at 30 June 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\$
Receivable from 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 (Gulf Monetary Group shares)	142,059	0.08	10,720,146	-	399,790	-	-	-	142,059	0.08	11,119,936
			16,708,037		399,790						17,107,827

1 Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties. The restricted investment accounts at 30 June 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 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.



## 1 INCORPORATION AND ACTIVITIES

Investors Bank B.S.C (c) ["the Bank"] was incorporated on 26 October 1997, under commercial registration number 39646 as an Exempt Company. The legal status of the Company was subsequently changed to Bahrain Joint Stock Company (closed) on 3 July 2005. The Bank's registered office is Seef Star Building, Seef District, PO Box 11818, Manama, Kingdom of Bahrain. The Bank operates under a Wholesale Islamic Banking Licence issued by the Central Bank of Bahrain ["the CBB"].

The principal activities of the Bank include investment banking and financial activities, investment transactions, participating in equity investments in projects in conformity with Shari'a. The Bank may, in particular, carry on the following business activities.

- a) Providing investment account facilities;
- b) Accepting restricted or unrestricted investment funds commingling the same with those of the Bank and investing them in accordance with Shari'a;
- c) Managing investment of third parties as an agent for a fixed fee as a Mudarib and any other banking activities not contravening the provisions of Shari'a;
- d) Industrial, commercial and agricultural business activities, either directly or through companies which the Bank may establish, or in which the Bank may acquire shares; and
- e) Purchasing, leasing and constructing buildings, and their renting thereof.

## 2 BASIS OF PREPARATION

These interim condensed financial statements have been prepared using accounting policies which are in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. For matters for which no AAOIFI standards exist, including interim financial reporting, the Bank uses the relevant International Financial Reporting Standard ["IFRS"] issued by the International Accounting Standards Board. The accounting policies applied in these interim condensed financial statements are consistent with those applied in the financial statements for the year ended 31 December 2008.

The interim condensed financial statements do not include all the information and disclosures required for the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2008.

Results for the six month period ended 30 June 2009 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2009.

## 3 CYCLICALITY OF OPERATIONS

Due to the nature of the Bank's operations, the six month results reported in these interim condensed financial statements may not represent a proportionate share of the overall annual results.

## 4 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, Shari'a Supervisory Board, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Group.



## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

**4 RELATED PARTY TRANSACTIONS (continued)**

The significant balances with related parties were as follows:

	<b>30 June 2009 US\$</b>	<b>31 December 2008 US\$</b>
<b>Assets</b>		
Trading investments	<b>8,367,216</b>	5,451,147
Available-for-sale investments	<b>8,287,978</b>	8,338,922
Murabaha receivables	-	3,243,848
Mudaraba investment	-	4,000,000
Receivables from sale of investments	<b>11,136,115</b>	11,846,542
Deferred payment sale receivables	<b>3,680,203</b>	3,680,203
Receivable from Mudarib	<b>4,464,281</b>	6,127,801
Other assets:		
Current account with related parties	<b>6,091,815</b>	14,163,730
Dividend receivable	<b>1,706,909</b>	1,779,251
<b>Liabilities</b>		
Murabaha payable	<b>3,229,064</b>	3,229,064

The Bank has investments in companies of certain shareholders. The carrying amounts of such investments at 30 June 2009 were US\$ 245,629 (31 December 2008: US\$ 252,280).

The significant transactions in respect of related parties were as follows:

	<b>Six months ended 30 June 2009 US\$</b>	<b>30 June 2008 US\$</b>
Fair value gain / (loss) on trading investments	<b>2,916,070</b>	(155,135)
Income from trading investment	-	1,007,824
Income from mudaraba investment	<b>63,680</b>	192,452
Other income	<b>1,897,619</b>	1,000,569
Shari'a Supervisory Board	<b>17,626</b>	42,080

Compensation of key management personnel is as follows:

	<b>Six months ended 30 June 2009 US\$</b>	<b>30 June 2008 US\$</b>
Short term employee benefits	<b>179,520</b>	141,442
Termination benefits	<b>8,276</b>	8,276
Total compensation of key management personnel	<b>187,796</b>	149,718

**5 SETTLEMENT OF RELATED PARTY BALANCES**

During the current period, the Bank realised its mudaraba investment and murabaha receivables and partly realised its receivable from mudarib and current accounts of US\$ 18,940,621, from related parties. In exchange, the Bank received investment property of US\$ 11,646,191 and tangible non-current asset of US\$ 7,294,430 as consideration in kind.



## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

**6 CAPITAL MANAGEMENT****6.1 Regulatory capital**

	<b>30 June 2009 US\$</b>	<b>31 December 2008 US\$</b>
<b>Tier 1 Capital</b>		
Issued and fully paid ordinary shares	80,000,000	80,000,000
Legal / statutory reserves	7,409,515	7,409,515
Retained earnings	(2,696,022)	(2,696,022)
Unrealised gross losses arising from fair valuing equity securities	(4,460)	(1,995,759)
	<b>84,709,033</b>	<b>82,717,734</b>
Excess amount over maximum permitted large exposure limit	<b>(29,519,008)</b>	<b>(43,659,407)</b>
Total Tier 1 Capital	<b>55,190,025</b>	<b>39,058,327</b>
<b>Tier 2 Capital</b>		
Unrealised gross gains arising from fair valuing equities (45% only)	2,220,524	2,229,893
Profit for the period / year	2,727,313	-
	<b>4,947,837</b>	<b>2,229,893</b>
Excess amount over maximum permitted large exposure limit	<b>(4,947,837)</b>	<b>(2,229,893)</b>
Total Tier 2 Capital	<b>-</b>	<b>-</b>
Total Eligible Capital	<b>55,190,025</b>	<b>39,058,327</b>

**6.2 Risk weighted assets**

	<b>30 June 2009 US\$</b>	<b>31 December 2008 US\$</b>
Credit risk weighted assets	93,148,954	61,051,341
Operational risk weighted assets	37,156,227	28,112,697
Market risk weighted assets	41,130,394	74,857,969
	<b>171,435,575</b>	<b>164,022,007</b>

The Bank has adopted the Standardised Approach for credit risk and market risk and the Basic Indicator Approach for operational risk management under the revised framework.

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

**6 CAPITAL MANAGEMENT****6.3 Capital adequacy ratio**

	<b>30 June 2009 US\$</b>	<b>31 December 2008 US\$</b>
Total capital base (a) (note 6.1)	<b>55,190,025</b>	39,058,327
Risk weighted assets (b) (note 6.2)	<b>171,435,575</b>	164,022,007
Capital adequacy (a/b x 100)	<b>32.2%</b>	23.8%

The Bank's policy is to maintain its capital adequacy ratio in excess of the minimum required by the CBB at all times. The current minimum requirement for the Bank is 15% (31 December 2008: 12.5%).

**7 RISK MANAGEMENT****Credit risk**

Credit risk arises from all products and services where counterparties of the Bank fail to meet their payment obligations in accordance with terms and conditions of the contract. This risk exists in all activities of the Bank, including the banking book and both on or off the balance sheet. The Bank's credit risk arises mainly from cash and balances with banks, murabaha receivables, mudaraba investment, receivable from sale of investments, receivable from mudarib, deferred payment sale receivables, dividend receivable and other assets.

The table below shows the maximum exposures to credit risk for components of the statement of financial position. There are no unfunded exposures and no significant use of master netting and collateral agreements.

	<b>30 June 2009</b>		<b>31 December 2008</b>	
	<b>Total gross credit risk exposure US\$</b>	<b>Average gross credit exposure over the period* US\$</b>	<b>Total gross credit risk exposure US\$</b>	<b>Average gross credit exposure over the period* US\$</b>
Cash and balances with banks	<b>1,500,609</b>	<b>1,697,869</b>	2,557,184	6,447,784
Available-for-sale investments	<b>23,083,468</b>	<b>21,972,787</b>	21,252,382	24,946,216
Murabaha receivables	-	-	3,243,848	3,243,848
Mudaraba investment	-	-	4,000,000	4,250,000
Receivable from Mudarib	<b>4,464,281</b>	<b>4,464,281</b>	6,127,801	6,882,394
Receivable from sale of investments	<b>11,136,115</b>	<b>11,021,255</b>	11,846,542	20,110,926
Deferred payment sale receivables	<b>3,680,203</b>	<b>3,680,203</b>	3,680,203	3,680,203
Investment property	<b>22,404,398</b>	<b>22,448,927</b>	10,742,443	10,598,853
Assets held-for-sale	<b>6,797,605</b>	<b>6,797,694</b>	6,797,782	9,770,542
Other assets	<b>9,392,703</b>	<b>9,401,644</b>	17,460,260	14,211,595
Property and equipment	<b>8,628,911</b>	<b>8,704,413</b>	1,579,576	1,742,972
	<b>91,088,293</b>	<b>90,189,073</b>	89,288,021	105,885,333

\* These have been computed based on a quarterly average balances.



## Investors Bank B.S.C. (c)

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

## 7 RISK MANAGEMENT (continued)

## Credit risk (continued)

Geographical distribution of credit risk exposures:

	30 June 2009			
	Bahrain US\$	Kuwait US\$	Other US\$	Total US\$
Cash and balances with banks	1,495,795	4,814	-	1,500,609
Available-for-sale investments	14,110,877	7,633,739	1,338,852	23,083,468
Receivable from Mudarib	-	4,464,281	-	4,464,281
Receivable from sale of investments	-	11,136,115	-	11,136,115
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment property	22,404,398	-	-	22,404,398
Assets held-for-sale	-	-	6,797,605	6,797,605
Other assets	1,255,479	7,662,224	475,000	9,392,703
Property and equipment	8,628,911	-	-	8,628,911
	<b>47,895,460</b>	<b>34,581,376</b>	<b>8,611,457</b>	<b>91,088,293</b>

	31 December 2008			
	Bahrain US\$	Kuwait US\$	Other US\$	Total US\$
Cash and balances with banks	2,550,737	6,447	-	2,557,184
Available-for-sale investments	14,525,290	5,496,788	1,230,304	21,252,382
Murabaha receivables	-	3,243,848	-	3,243,848
Mudaraba investment	-	4,000,000	-	4,000,000
Receivable from Mudarib	-	6,127,801	-	6,127,801
Receivable from sale of investments	-	11,846,542	-	11,846,542
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment property	10,742,443	-	-	10,742,443
Assets held-for-sale	-	-	6,797,782	6,797,782
Other assets	1,042,280	15,942,980	475,000	17,460,260
Property and equipment	1,579,576	-	-	1,579,576
	<b>30,440,326</b>	<b>50,344,609</b>	<b>8,503,086</b>	<b>89,288,021</b>

## Investors Bank B.S.C. (c)

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

## 7 RISK MANAGEMENT (continued)

## Credit risk (continued)

Industry sector of credit risk exposures:

	30 June 2009			
	<i>Banks and financial institutions</i>	<i>Investment companies</i>	<i>Other</i>	<i>Total</i>
	US\$	US\$	US\$	US\$
Cash and balances with banks	1,500,609	-	-	1,500,609
Available-for-sale investments	20,077,477	579,473	2,426,518	23,083,468
Receivable from Mudarib	4,464,281	-	-	4,464,281
Receivable from sale of investments	7,871,281	3,264,834	-	11,136,115
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment property	-	-	22,404,398	22,404,398
Assets held-for-sale	-	-	6,797,605	6,797,605
Other assets	1,857,616	150,371	7,384,716	9,392,703
Property and equipment	-	-	8,628,911	8,628,911
	<b>35,771,264</b>	<b>7,674,881</b>	<b>47,642,148</b>	<b>91,088,293</b>

	31 December 2008			
	<i>Banks and financial institutions</i>	<i>Investment companies</i>	<i>Other</i>	<i>Total</i>
	US\$	US\$	US\$	US\$
Cash and balances with banks	2,557,184	-	-	2,557,184
Available-for-sale investments	18,313,757	479,769	2,458,856	21,252,382
Murabaha receivables	-	-	3,243,848	3,243,848
Mudaraba investment	4,000,000	-	-	4,000,000
Receivable from Mudarib	6,127,801	-	-	6,127,801
Receivable from sale of investments	8,328,852	3,517,690	-	11,846,542
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment property	-	-	10,742,620	10,742,620
Assets held-for-sale	-	-	6,797,605	6,797,605
Other assets	1,744,621	150,371	15,565,268	17,460,260
Property and equipment	-	-	1,579,576	1,579,576
	<b>41,072,215</b>	<b>7,828,033</b>	<b>40,387,773</b>	<b>89,288,021</b>

The Bank does not have any unfunded exposures.



## Investors Bank B.S.C. (c)

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

## 7 RISK MANAGEMENT (continued)

## Credit risk (continued)

Individual counterparties where the exposure is in excess of the 15% individual obligor limit:

	30 June 2009 US\$	31 December 2008 US\$
Counterparty # 1 - Individual	15,072,818	20,400,131
Counterparty # 2 - Individual	18,821,497	19,303,093
Counterparties – Closely Related	30,451,198	18,928,219
	<b>64,345,513</b>	<b>58,631,443</b>

## Past due and impaired financing contracts

	30 June 2009			
	Banking and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
Past due but not impaired islamic financing contracts	6,162,739	3,830,574	929,691	10,923,004
Impaired financing contracts	10,796,366	5,966,131	8,134,342	24,896,839
	<b>16,959,105</b>	<b>9,796,705</b>	<b>9,064,033</b>	<b>35,819,843</b>
	31 December 2008			
	Banking and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
Past due but not impaired islamic financing contracts	7,018,115	3,680,203	1,776,670	12,474,988
Impaired financing contracts	12,061,513	6,218,987	20,678,651	38,959,151
	<b>19,079,628</b>	<b>9,899,190</b>	<b>22,455,321</b>	<b>51,434,139</b>

## Ageing of past due and impaired financing contracts

	30 June 2009			
	Banking and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
1 year – 3 years	16,071,372	6,116,502	8,189,033	30,376,907
Over 3 years	887,733	3,680,203	875,000	5,442,936
	<b>16,959,105</b>	<b>9,796,705</b>	<b>9,064,033</b>	<b>35,819,843</b>

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

## 7 RISK MANAGEMENT (continued)

## Credit risk (continued)

## Ageing of past due and impaired financing contracts (continued)

	31 December 2008			
	<i>Banking and financial institutions</i>	<i>Investment companies</i>	<i>Others</i>	<i>Total</i>
	US\$	US\$	US\$	US\$
3 months – 1 year	-	-	969,093	969,093
1 year – 3 years	19,079,628	6,218,987	20,611,228	45,909,843
Over 3 years	-	3,680,203	875,000	4,555,203
	<u>19,079,628</u>	<u>9,899,190</u>	<u>22,455,321</u>	<u>51,434,139</u>

## Movement in specific provision during the period

	30 June 2009			
	<i>Banking and financial institutions</i>	<i>Investment companies</i>	<i>Others</i>	<i>Total</i>
	US\$	US\$	US\$	US\$
Balance at the beginning of the period	2,925,084	2,701,297	3,787,489	9,413,870
Impaired charge during the period	-	-	(1,904,059)	(1,904,059)
Balance at the end of the period	<u>2,925,084</u>	<u>2,701,297</u>	<u>1,883,430</u>	<u>7,509,811</u>

Past due exposures are those on which payments are not being made on time and which is behind schedule, although partial payments have been made.

## Past due exposures by geographical area:

	30 June 2009		31 December 2008	
	<i>Past due islamic financing contract</i>	<i>Specific impairment provision</i>	<i>Past due islamic financing contract</i>	<i>Specific impairment provision</i>
	US\$	US\$	US\$	US\$
Bahrain	887,733	-	887,733	-
Kuwait	34,057,110	7,109,811	49,671,406	9,013,870
Other countries	875,000	400,000	1,283,536	808,535
Total	<u>35,819,843</u>	<u>7,509,811</u>	<u>51,842,675</u>	<u>9,822,405</u>



## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

## 7 RISK MANAGEMENT (continued)

## Market risk

The total market risk weighted assets and regulatory capital requirements related to market risk are as follows:

	30 June 2009				
	Gross US\$	Risk assets US\$	Capital requirements US\$	Maximum capital requirement during the period US\$	Minimum capital requirement during the period US\$
Equity position	8,688,672	7,952,854	954,432	954,432	494,314
Foreign exchange position	29,203,373	29,203,373	3,504,405	3,504,405	2,607,282
	31 December 2008				
	Gross US\$	Risk assets US\$	Capital requirements US\$	Maximum capital requirement during the year US\$	Minimum capital requirement during the year US\$
Equity position	5,738,749	3,314,993	397,799	4,518,864	397,799
Foreign exchange position	24,797,704	24,797,704	2,975,724	7,962,262	2,975,724

*Equity price risk*

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. As at 30 June 2009, the Bank had trading investments and Available for sale investments listed on local and overseas stock exchanges. Based on the values at 30 June 2009, a change in the quoted price of plus or minus 5% would change the value of trading investments by plus or minus US\$ 0.434 million (31 December 2008: US\$ 1.489 million) with a corresponding increase or decrease in statement of income.

Based on the values at 30 June 2009, a change in the quoted price of plus or minus 5% would change the value of available for sale investments by plus or minus US\$ 1.056 million (31 December 2008: US\$ 1.215 million) with a corresponding increase or decrease in statement of equity.

*Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign currency rates. Certain investments and other financial assets and liabilities are in foreign currencies and give rise to foreign currency risk.

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

## 7 RISK MANAGEMENT (continued)

## Market risk (continued)

## Foreign currency risk (continued)

The Bank has following net foreign currency exposures at 30 June 2009:

Currency	30 June 2009 US\$	31 December 2008 US\$
Bahraini Dinar	56,915,151	48,638,488
Kuwaiti Dinar	29,203,373	24,797,704
United Arab Emirates	6,797,605	6,797,782
	<b>92,916,129</b>	<b>80,233,974</b>

## Sensitivity Analysis

The following figures demonstrates the sensitivity of the statement of income to a 5% possible movement of the currency rates against the US Dollar (functional and reporting currency) based on the above positions with all other variables held constant.

	30 June 2009 US\$ (+/-)	30 June 2008 US\$ (+/-)
Kuwaiti Dinar	1,390,637	2,975,211

## Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events which includes but is not limited to legal risk and Shari'a compliance risk. This definition excludes strategic and reputational risk.

Bank's capital charge for Operational Risk using Basic Indicator Approach is as follows:

	Average gross income US\$	Risk weighted assets US\$	Capital US\$
30 June 2009	21,936,210	41,130,394	3,290,432
31 December 2008	39,924,250	74,857,969	5,988,638

Bank's indicators of Operational Risk exposures for Basic Indicator Approach:

	(Unaudited) 30 June 2009	(Audited) 31 December 2008
Gross Income - US\$	21,936,210	21,936,210
Amount of non-Shari'a-compliant income - US\$	-	-
Number of Shari'a violations identified and reported during the period	None	None



## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

## 7 RISK MANAGEMENT (continued)

## Operational risk (continued)

The Bank has following investments classified as quoted on an active market or privately held:

	30 June 2009		31 December 2008	
	<i>Publicly traded US\$</i>	<i>Privately held US\$</i>	<i>Publicly traded US\$</i>	<i>Privately held US\$</i>
Investment in shares	20,772,927	1,763,004	19,009,208	1,795,341
Investment in managed funds	-	547,537	-	447,833
	<b>20,772,927</b>	<b>2,310,541</b>	<b>19,009,208</b>	<b>2,243,174</b>

Additionally the Bank has the following cumulative realised gains or losses arising from sales or liquidations, total unrealised gains and losses recognised in the statement of financial position but not through the statement of income, and any unrealised gains and losses included in Tier 1 and Tier 2 capital:

	30 June 2009 US\$	31 December 2008 US\$
Cumulative realised gains (losses) arising from sales or liquidations	6,530	42,787
Total unrealised gains (losses) recognised in the statement of financial position but not through statement of income	4,930,038	2,959,559
Unrealised gains (losses) included in Tier 1 Capital	(4,460)	(1,995,759)
Unrealised gains (losses) included in Tier 2 Capital	2,220,524	2,229,893

The Bank has following capital requirements broken down by equity groupings:

	30 June 2009		31 December 2008	
	<i>Risk weighted assets US\$</i>	<i>Capital requirements US\$</i>	<i>Risk weighted assets US\$</i>	<i>Capital requirements US\$</i>
Investment in shares	17,146,069	2,057,528	18,982,341	2,277,881
Investment in managed funds	554,463	66,536	660,227	79,227
	<b>17,700,532</b>	<b>2,124,064</b>	<b>19,642,568</b>	<b>2,357,108</b>

# NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

## 7 RISK MANAGEMENT

### Liquidity risk

Liquidity risk is defined as the risk that funds will not be available to meet liabilities as they fall due. The maturity profile of assets and liabilities as at 30 June 2009 based on contractual maturity is as follows:

	Upto 1 month US\$	1 to 3 months US\$	3 months to 1 year US\$	1 to 3 years US\$	Over 3 years US\$	No fixed maturity US\$	Total US\$
<b>Assets</b>							
Cash and balances with banks	1,500,609	-	-	-	-	-	1,500,609
Trading investments	-	-	8,688,672	-	-	-	8,688,672
Available-for-sale investments	-	-	6,136,078	16,947,389	-	-	23,083,467
Receivable from Mudarib	4,464,281	-	-	-	-	-	4,464,281
Receivable from sale of investments	11,136,115	-	-	-	-	-	11,136,115
Deferred payment sale receivables	-	-	3,680,203	-	-	-	3,680,203
Investment property	-	-	-	10,742,443	11,661,955	-	22,404,398
Assets held-for-sale	-	-	6,797,605	-	-	-	6,797,605
Other assets	6,105,686	-	3,106,455	164,571	15,992	-	9,392,704
Property and equipment	-	-	-	-	-	8,628,911	8,628,911
	23,206,691	-	28,409,013	27,854,403	11,677,947	8,628,911	99,776,965
<b>Liabilities</b>							
Due to a financial institution	-	-	3,670,202	-	-	-	3,670,202
Murabaha payable	3,229,064	-	-	-	-	-	3,229,064
Other liabilities	-	471,600	35,250	-	-	-	506,850
	3,229,064	471,600	3,705,452	-	-	-	7,406,116
<b>Net</b>	19,977,627	(471,600)	24,703,561	27,854,403	11,677,947	8,628,911	92,370,849
<b>Cumulative</b>	19,977,627	19,506,027	44,209,588	72,063,991	83,741,938	92,370,849	
<b>Off- balance sheet items</b>							
Restricted investment accounts	-	-	16,213,444	-	-	-	16,213,444
	-	-	16,213,444	-	-	-	16,213,444



## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2009 (Unaudited)

## 7 RISK MANAGEMENT (continued)

## Liquidity risk (continued)

The maturity profile of assets and liabilities as at 31 December 2008 based on contractual maturity is as follows:

Assets	Upto 1 month US\$'000	1 to 3 months US\$'000	3 months to 1 year US\$'000	1 to 3 years US\$'000	Over 3 years US\$'000	No fixed maturity US\$'000	Total US\$'000
Cash and balances with banks	2,557,184	-	-	-	-	-	2,557,184
Trading investments	-	-	5,738,750	-	-	-	5,738,750
Available-for-sale investments	-	-	6,538,539	14,713,843	-	-	21,252,382
Murabaha receivables	3,243,848	-	-	-	-	-	3,243,848
Mudaraba investment	-	-	4,000,000	-	-	-	4,000,000
Receivable from Mudarib	6,127,801	-	-	-	-	-	6,127,801
Receivable from sale of investments	11,846,542	-	-	-	-	-	11,846,542
Deferred payment sale receivables	-	-	3,680,203	-	-	-	3,680,203
Investment property	-	-	-	10,742,443	-	-	10,742,443
Assets held-for-sale	-	-	6,797,782	-	-	-	6,797,782
Other assets	14,163,730	1,083	3,194,024	86,662	14,761	-	17,460,260
Property and equipment	-	-	-	-	-	1,579,576	1,579,576
	37,939,105	1,083	29,949,298	25,542,948	14,761	1,579,576	95,026,771
Liabilities							
Due to a financial institution	-	-	3,670,202	-	-	-	3,670,202
Murabaha payable	3,229,064	-	-	-	-	-	3,229,064
Other liabilities	137,378	81,796	115,368	119,911	-	-	454,453
	3,366,442	81,796	3,785,570	119,911	-	-	7,353,719
Net	34,572,663	(80,713)	26,163,728	25,423,037	14,761	1,579,576	87,673,052
Cumulative	34,572,663	34,491,950	60,655,678	86,078,715	86,093,476	87,673,052	
Off-balance sheet items	-	-	16,646,823	-	-	-	16,646,823
Restricted investment accounts	-	-	16,646,823	-	-	-	16,646,823

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**

At 30 June 2009 (Unaudited)

**8 LITIGATION AND CLAIMS**

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\$ 5,927,394 as at 30 June 2009 (31 December 2008: US\$ 6,321,010). 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.