



Investors Bank B.S.C. (c)

INTERIM CONDENSED FINANCIAL STATEMENTS

30 SEPTEMBER 2010

Ernst & Young

 **ERNST & YOUNG**

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

Introduction

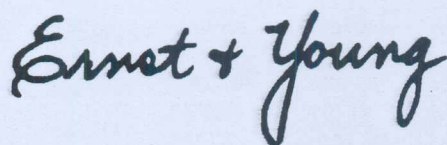
We have reviewed the accompanying interim condensed financial statements of Investors Bank B.S.C. (c) ["the Bank"] as at 30 September 2010, comprising of the statement of financial position as at 30 September 2010 and the related interim statements of income, cash flows, changes in equity and changes in restricted investment accounts for the nine months 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.



27 October 2010
Manama, Kingdom of Bahrain

Investors Bank B.S.C. (c)

STATEMENT OF FINANCIAL POSITION

As at 30 September 2010 (Unaudited)

	30 September 2010 US\$	(Audited) 31 December 2009 US\$
ASSETS		
Cash and balances with banks	341,024	612,263
Investments	17,857,725	27,669,174
Deferred payment sale receivables	3,680,203	3,680,203
Investment properties	25,449,934	27,571,404
Other assets	1,581,286	7,624,912
Property and equipment	4,997,272	7,098,715
TOTAL ASSETS	53,907,444	74,256,671
LIABILITIES AND EQUITY		
Liabilities		
Due to a financial institution	3,670,202	3,670,202
Murabaha payable	3,229,064	3,229,064
Other liabilities	489,264	449,051
Total liabilities	7,388,530	7,348,317
Equity		
Share capital	80,000,000	80,000,000
Statutory reserve	7,409,515	7,409,515
Investments fair value reserve	1,909,408	3,411,701
Accumulated losses	(42,800,009)	(23,912,862)
Total equity	46,518,914	66,908,354
TOTAL LIABILITIES AND EQUITY	53,907,444	74,256,671
OFF-BALANCE SHEET ITEMS		
Restricted investment accounts	16,314,369	16,228,225



Dr. Abdulaziz Al Bader
Chairman



Hamad Abdulla Al Ghanim
Director and Chairman of the Audit
Committee

Investors Bank B.S.C. (c)

STATEMENT OF INCOME

For the nine months ended 30 September 2010 (Unaudited)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Income from trading investments	-	-	5,902	25,704
Income from available-for-sale investments	131,423	-	130,933	16,965
Fair value (loss) / gains on trading investments	(748,276)	(844,178)	(2,944,782)	2,105,744
Income from mudaraba investment	-	-	-	63,680
Other income	245,879	226,027	692,952	196,738
Total net income	(370,974)	(618,151)	(2,114,995)	2,408,831
Staff cost	331,222	331,782	885,472	1,041,690
Administrative and general expenses	154,268	82,133	447,536	1,212,987
Net provision for impairment (note 4)	1,918,814	922,405	14,563,702	(975,187)
Depreciation	265,850	239,886	875,442	596,385
Total expenses	2,670,154	1,576,206	16,772,152	1,875,875
(LOSS) / PROFIT FOR THE PERIOD	(3,041,128)	(2,194,357)	(18,887,147)	532,956

The attached notes 1 to 6 form part of these interim condensed financial statements

Investors Bank B.S.C. (c)

STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2010 (Unaudited)

	<i>Nine months ended</i>	
	<i>30 September</i>	<i>30 September</i>
	<i>2010</i>	<i>2009</i>
	<i>US\$</i>	<i>US\$</i>
OPERATING ACTIVITIES		
Dividends received	5,902	36,138
Placement fees received	-	50,000
Purchase of available-for-sale investments	-	(492,461)
Proceeds from sale of available-for-sale investments	288,854	145,897
Payments for operating and other expenses	(1,196,042)	(1,539,923)
Employee qard hasan and advances, net	36,171	(66,459)
Net cash outflow from operating activities	(865,115)	(1,866,808)
INVESTING ACTIVITIES		
Purchase of equipment	-	(49,995)
Proceeds from disposal of equipment	2,520	8,721
Registration fees paid	-	(139,736)
Rent received	591,356	281,427
Net cash inflow from investing activities	593,876	100,417
NET DECREASE IN CASH AND CASH EQUIVALENTS	(271,239)	(1,766,391)
Cash and cash equivalents at 1 January	612,263	2,557,184
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	341,024	790,793

The attached notes 1 to 6 form part of these interim condensed financial statements

Investors Bank B.S.C. (c)

STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2010 (Unaudited)

	<i>Share capital US\$</i>	<i>Statutory reserve US\$</i>	<i>Investments fair value reserve US\$</i>	<i>Accumulated losses US\$</i>	<i>Total equity US\$</i>
Balance at 1 January 2010	80,000,000	7,409,515	3,411,701	(23,912,862)	66,908,354
Loss for the period	-	-	-	(18,887,147)	(18,887,147)
Fair value loss during the period	-	-	(1,502,293)	-	(1,502,293)
Balance as at 30 September 2010	80,000,000	7,409,515	1,909,408	(42,800,009)	46,518,914
Balance at 1 January 2009	80,000,000	7,409,515	2,959,559	(2,696,022)	87,673,052
Profit for the period	-	-	-	532,956	532,956
Fair value gain during the period	-	-	1,028,705	-	1,028,705
Balance as at 30 September 2009	80,000,000	7,409,515	3,988,264	(2,163,066)	89,234,713

The attached notes 1 to 6 form part of these interim condensed financial statements

Investors Bank B.S.C. (c)

INTERIM STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the nine months ended 30 September 2010 (Unaudited)

2010 (unaudited)

	Balance at 1 January 2010			Movements during the period					Balance at 30 September 2010		
	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\$
Murabaha with 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	0.07	10,240,334	-	86,144	-	-	-	142,059	0.07	10,326,478
			<u>16,228,225</u>		<u>86,144</u>						<u>16,314,369</u>

1. Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties. The restricted investment accounts at 30 September 2010 are carried net of a provision for impairment amounting to US\$ 282,311 (2009: 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 the 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 nine months ended 30 September 2010 (Unaudited)

2009 (unaudited)

	Balance at 1 January 2009		Movements during the period					Balance at 30 September 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 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 (Gulf Monetary Group shares)	142,059	0.08	10,658,932	-	(406,992)	-	-	-	142,059	0.07	10,251,940
			16,646,823		(406,992)						16,239,831

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the nine months ended 30 September 2010 (Unaudited)

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.

The interim condensed financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 27 October 2010.

2 BASIS OF PREPARATION

These interim condensed financial statements have been prepared using accounting policies which are in accordance with Financial Accounting Standards ["FAS"] 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 ["IASB"]. 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 2009.

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 2009, on which a qualified opinion was issued.

Results for the Nine months period ended 30 September 2010 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2010.

3 CYCLICALITY OF OPERATIONS

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the nine months ended 30 September 2010 (Unaudited)

4 NET PROVISION FOR IMPAIRMENT

	<i>Nine months ended (Unaudited)</i>	
	30 September 2010 US\$	30 September 2009 US\$
Available-for-sale investments	5,206,453	27
Investment property	960,897	922,405
Other assets	6,729,263	-
Property & equipment	1,667,089	-
Provision write back	-	(1,897,619)
	14,563,702	(975,187)

5 RELATED PARTY TRANSACTIONS

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

A significant portion of the Bank's income arises from transactions with related parties. Transactions with related parties are undertaken on terms agreed between the parties which may not necessarily be on arm's length basis.

The significant balances with related parties were as follows:

	(Unaudited) 30 September 2010 US\$	(Audited) 31 December 2009 US\$
Assets		
Trading investments		
<i>Grand Real Estate Projects Co.</i>	2,523,204	5,411,638
Available-for-sale investments		
<i>International Investment Group</i>	2,927	3,431
<i>Gulf Monetary Group</i>	31,936	31,936
<i>Takaful International - Bahrain (note 5.1)</i>	7,771,808	7,771,808
<i>Gulf Monetary Group - Managed Portfolio</i>	210,744	208,986
<i>Takaful International - Kuwait</i>	726,629	720,568
<i>International Projects Consultancy</i>	43,905	43,539
Deferred payment sale receivables		
<i>Gulf Monetary Group</i>	3,680,203	3,680,203
Current account		
<i>Grand Real Estate Projects Co.</i>	-	6,043,576
	14,991,356	23,915,685
Liabilities		
Murabaha payable		
<i>International Investment Group</i>	3,229,064	3,229,064
Other liabilities		
<i>Takaful International - Bahrain</i>	3,432	15,957
<i>Key Management Personnel</i>	251,429	240,254
	3,483,925	3,485,275

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the nine months ended 30 September 2010 (Unaudited)

5 RELATED PARTY TRANSACTIONS (continued)

The Bank has investments in companies of certain shareholders. The carrying amounts of such investments at 30 September 2010 were US\$ 245,608 (31 December 2009: US\$ 244,353).

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

	<i>Nine months ended (Unaudited)</i>	
	<i>30 September 2010 US\$</i>	<i>30 September 2009 US\$</i>
Income		
Fair value (loss) / gains on trading investments		
<i>Grand Real Estate Projects Co.</i>	(2,888,434)	2,122,082
Income from mudaraba investment		
<i>International Investment Group</i>	-	63,680
Other income / Rent income		
<i>Gulf Monetary Group</i>	4,775	-
<i>Grand Real Estate Projects Co.</i>	3,714	-
	<u>(2,879,945)</u>	<u>2,185,762</u>
Expenses		
Provision Write Back		
<i>Other related party</i>	-	(1,897,619)
Provision for Impairment		
<i>Grand Real Estate Projects Co.</i>	6,729,263	-
<i>International Investment Group</i>	4,502	-
Board of Directors	10,043	17,203
Shari'a Supervisory Board	23,108	24,589
	<u>6,766,916</u>	<u>(1,855,827)</u>

Key management personnel of the Bank comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. The key management personnel compensation is as follows:

	<i>Nine months ended (Unaudited)</i>	
	<i>30 September 2010 US\$</i>	<i>30 September 2009 US\$</i>
Salaries and other short-term benefits	141,925	402,713
Post employment benefits	14,827	26,472
	<u>156,752</u>	<u>429,185</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the nine months ended 30 September 2010 (Unaudited)

5 RELATED PARTY TRANSACTIONS (continued)

- 5.1 In 2004, the Bank availed a murabaha facility ["the Facility"] of US\$ 3.1 million from a key shareholder. The Bank was required to pledged its shares in Takaful International Bahrain for this arrangement. At the request of the key shareholder the Bank pledged these shares to a regulated institution in Bahrain ["the counterparty"], from whom the key shareholder had availed a separate murabaha facility ["the Facility"]. As of the period end date, the Bank owed the key shareholder US\$ 3.2 million in relation to the same contract. The key shareholder is in negotiation with the counter party to resolve the issue and The Bank expects a favourable outcome from legal proceedings (if any) that may be initiated by the counterparty and is currently seeking legal advice.

6 COMPARATIVE FIGURES

Certain prior period amounts have been reclassified to conform to current period's presentation, such reclassification did not affect previously reported profit or equity.