

Ernst & Young

Investors Bank B.S.C. (c)

INTERIM CONDENSED FINANCIAL STATEMENTS

30 JUNE 2011

REVIEW REPORT TO THE BOARD OF DIRECTORS OF INVESTORS BANK B.S.C. (c)

Introduction

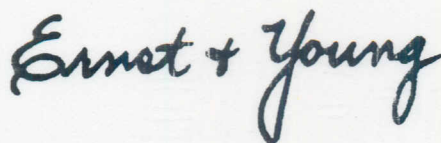
We have reviewed the accompanying interim statement of financial position of Investors Bank B.S.C (c) ["the Bank"] as of 30 June 2011, and the related interim statements of income, cash flows and changes in equity for the six month period then ended and explanatory notes. The Board of Directors is responsible 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 disclosed in note 2.



8 August 2011
Manama, Kingdom of Bahrain

Investors Bank B.S.C. (c)

INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2011 (Unaudited)

			(Audited)
	Notes	30 June 2011 US\$	31 December 2010 US\$
ASSETS			
Cash and balances with banks		299,429	411,444
Investments	3	15,890,945	16,677,570
Deferred payment sale receivables		3,680,203	3,680,203
Investment properties	4	18,616,533	20,020,445
Other assets		1,595,539	1,594,222
Property and equipment		3,147,795	3,843,948
TOTAL ASSETS		43,230,444	46,227,832
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		580,443	465,184
Total liabilities		7,479,709	7,364,450
Equity			
Share capital		80,000,000	80,000,000
Statutory reserve		7,409,515	7,409,515
Investments fair value reserve		2,720,696	2,644,604
Accumulated losses		(54,379,476)	(51,190,737)
Total equity		35,750,735	38,863,382
TOTAL LIABILITIES AND EQUITY		43,230,444	46,227,832
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDERS		16,701,786	16,424,155



Dr. Abdulaziz Al Bader
Chairman



Hamad Abdulla Al Ghanim
Vice Chairman and Chairman of the
Audit Committee

Investors Bank B.S.C. (c)

INTERIM STATEMENT OF INCOME

For the six months ended 30 June 2011 (Unaudited)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Income from investments at fair value through income statement	-	-	-	5,902
(Loss) / Gain on disposal of investments at fair value through equity	-	(490)	21,904	(490)
Fair value gain / (loss) on investments at fair value through income statement	472,555	(888,296)	11,813	(2,196,506)
Other income	119,495	217,367	140,285	447,073
Total net income / (loss)	592,050	(671,419)	174,002	(1,744,021)
EXPENSES				
Staff cost	273,891	277,396	488,254	554,250
Administrative and general expenses	158,955	183,558	251,275	293,268
Depreciation	199,978	304,432	400,069	609,592
Operating expenses	632,824	765,386	1,139,598	1,457,110
Net loss before net provision for impairment	(40,774)	(1,436,805)	(965,596)	(3,201,131)
Net provision for impairment	(1,728,539)	(12,644,888)	(2,223,143)	(12,644,888)
LOSS FOR THE PERIOD	(1,769,313)	(14,081,693)	(3,188,739)	(15,846,019)

The attached notes 1 to 6 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 2011 (Unaudited)

	<i>Six months ended</i>	
	30 June	30 June
	2011	2010
	US\$	US\$
OPERATING ACTIVITIES		
Loss for the period	(3,188,739)	(15,846,019)
Adjustments for:		
Depreciation	400,069	609,592
Gain on disposal of property and equipment	-	(2,520)
Provision for impairment	2,427,465	12,644,888
(Gain) / loss on disposal of investments at fair value through equity	(21,904)	490
Fair value (gain) / loss on investments at fair value through income statement	(11,813)	2,196,506
Operating loss before changes in operating assets and liabilities:	(394,922)	(397,063)
Changes in operating assets and liabilities:		
Other assets	(1,317)	95,350
Other liabilities	115,259	(24,018)
Net cash used in operating activities	(280,980)	(325,731)
INVESTING ACTIVITIES		
Acquisition of property and equipment	(1,326)	-
Proceeds from disposal of investments at fair value through equity	170,291	25,812
Proceeds from disposal of property and equipment	-	2,520
Net cash from investing activities	168,965	28,332
DECREASE IN CASH AND CASH EQUIVALENTS	(112,015)	(297,399)
Cash and cash equivalents at beginning of the period	411,444	612,263
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	299,429	314,864

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 EQUITY

For the six months ended 30 June 2011 (Unaudited)

	Share capital US\$	Statutory reserve US\$	Investments fair value reserve US\$	Accumulated losses US\$	Total equity US\$
Balance at 1 January 2011	80,000,000	7,409,515	2,644,604	(51,190,737)	38,863,382
Loss for the period	-	-	-	(3,188,739)	(3,188,739)
Fair value gain during the period	-	-	76,092	-	76,092
Balance as at 30 June 2011	80,000,000	7,409,515	2,720,696	(54,379,476)	35,750,735
Balance at 1 January 2010	80,000,000	7,409,515	3,411,701	(23,912,862)	66,908,354
Loss for the period	-	-	-	(15,846,019)	(15,846,019)
Fair value loss during the period	-	-	(1,103,233)	-	(1,103,233)
Balance as at 30 June 2010	80,000,000	7,409,515	2,308,468	(39,758,881)	49,959,102

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 OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

For the six months ended 30 June 2011 (Unaudited)

2011 (unaudited)

	Balance at 1 January 2011			Movements during the period					Balance at 30 June 2011		
	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 Investments in International Investment Group K.S.C.C. (note 2 below)	-	-	317,689	-	-	-	-	-	-	-	317,689
Portfolio managed by the Bank (Gulf Monetary Group shares)	12,887	0.44	5,670,202	-	-	-	-	-	12,887	0.44	5,670,202
	142,059	0.07	10,436,264	-	277,631	-	-	-	142,059	0.08	10,713,895
			16,424,155		277,631						16,701,786

1 Off -balance sheet investment accounts represent amounts received from and transactions entered on behalf of related parties.

2 On the instructions of an off-balance sheet 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 off-balance sheet 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 IIG shares to the off-balance sheet investment account holder.

Investors Bank B.S.C. (c)

INTERIM STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

For the six months ended 30 June 2011 (Unaudited)

2010 (unaudited)

	Balance at 1 January 2010		Movements during the period					Balance at 30 June 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 an 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.	12,887	0.44	5,670,202	-	-	-	-	-	12,887	0.44	5,670,202
(note 2 below)											
Portfolio managed by the Bank											
(Gulf Monetary Group shares)	142,059	0.07	10,240,334	-	(144,874)	-	-	-	142,059	0.07	10,095,460
			<u>16,228,225</u>		<u>(144,874)</u>						<u>16,083,351</u>

1 Off -balance sheet investment accounts represent amounts received from and transactions entered on behalf of related parties.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011 (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 License issued by the Central Bank of Bahrain ["the CBB"].

The Bank's activities are regulated by the CBB and supervised by a Religious Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association.

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 off balance sheet investment accounts 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 8 August 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed financial statements of the Bank for the six months period ended 30 June 2011 have been prepared in accordance with the guidance given by the International Accounting Standard 34 - "Interim Financial Reporting". The interim condensed financial statements do not contain all information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2010. In addition, results for the six months period ended 30 June 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

2.2 Accounting convention

The financial statements have been prepared on a historical cost basis, except for investment in real estate, and certain investments classified as "fair value through statement of income" and "fair value through equity" that have been measured at fair value. The financial statements have been presented in United States Dollar ("US\$"), being the functional currency of the Bank's operations.

2.3 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2010 except for the new and amended conceptual framework financial accounting standards, which were prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (the "AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law and Central Bank of Bahrain and Financial Institutions Law. For matters which are not covered by AAOIFI standards, including "Interim Financial Reporting", the Bank uses the International Financial Reporting Standards (the "IFRSs").

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 Significant accounting policies (continued)****New and amended accounting standards and framework**

During 2010, AAOFI amended its conceptual framework and issued new Financial Accounting Standard (FAS 25) "Investment in sukuk, shares and similar instruments", which are effective as of 1 January 2011.

Statement of financial accounting no.1: conceptual framework for the financial reporting by islamic financial institutions

The amended conceptual framework provides the basis for the financial accounting standards issued by AAOFI. The amended framework introduces the concept of substance and form compared to the concept of form over substance. The framework state that it is necessary that information, transaction and other events are accounted for and presented in accordance with its substance and economic reality as well as the legal form.

Financial accounting standard (FAS 25) "investment in sukuk, shares and similar instruments".

The Bank has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by the Islamic financial institutions.

The adoption of these amendments did not have any impact on the accounting policies, financial position or performance of the Bank.

3 INVESTMENTS

	<i>(Unaudited)</i> 30 June 2011 US\$	<i>(Audited)</i> 31 December 2010 US\$
Investments at fair value through income statement	<u>2,220,835</u>	<u>2,209,022</u>
Investments at fair value through equity		
<i>Investment in shares</i>		
Quoted – at fair value	18,931,309	19,029,985
Unquoted – at cost	1,799,442	1,778,727
<i>Investment in funds</i>	868,651	862,985
	<u>21,599,402</u>	<u>21,671,697</u>
Net provision for impairment	<u>(7,929,292)</u>	<u>(7,203,149)</u>
	<u>13,670,110</u>	<u>14,468,548</u>
	<u>15,890,945</u>	<u>16,677,570</u>

Investors Bank B.S.C. (c)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011 (Unaudited)

4 INVESTMENT PROPERTIES

	Freehold land US\$	Buildings US\$	Total US\$
Cost:			
At 1 January 2011	18,742,649	13,488,761	32,231,410
At 30 June 2011	18,742,649	13,488,761	32,231,410
Depreciation and impairment:			
At 1 January 2011	8,464,134	3,746,831	12,210,965
Impairment	1,193,634	-	1,193,634
Charge for the period	-	210,278	210,278
At 30 June 2011	9,657,768	3,957,109	13,614,877
Net carrying values:			
At 30 June 2011	9,084,881	9,531,652	18,616,533
At 31 December 2010	10,278,515	9,741,930	20,020,445

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.

Significant balances with related parties were as follows:

	(Unaudited) 30 June 2011 US\$	(Audited) 31 December 2010 US\$
Assets		
Investments at fair value through income statement		
Grand Real Estate Projects Co. - Kuwait	2,130,822	2,075,605
Investments at fair value through equity		
International Investment Group	3,037	2,958
Gulf Monetary Group	31,936	31,936
Takaful International - Bahrain	7,771,808	7,771,808
Gulf Monetary Group - Managed Portfolio	218,651	212,985
Takaful International - Kuwait	753,890	734,354
International Projects Consultancy	45,552	44,372
Deferred payment sale receivables		
Gulf Monetary Group	3,680,203	3,680,203
	14,635,899	14,554,221

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011 (Unaudited)

5 RELATED PARTY TRANSACTIONS (continued)

	(Unaudited) 30 June 2011 US\$	(Audited) 31 December 2010 US\$
Liabilities		
Murabaha payable		
<i>International Investment Group</i>	3,229,063	3,229,064
Other liabilities		
<i>Takaful International - Bahrain</i>	46,107	19,149
<i>Key Management Personnel</i>	94,827	151,798
	<u>3,369,997</u>	<u>3,400,011</u>
OFF-BALANCE SHEET ITEMS:		
EQUITY OF INVESTMENT ACCOUNTHOLDERS	<u>16,384,097</u>	<u>16,106,466</u>

Significant transactions with related parties include:

	<i>Six months ended (Unaudited)</i>	
	30 June 2011 US\$	30 June 2010 US\$
Income		
Fair value gain / (loss) on investments at fair value value through income statement		
<i>Grand Real Estate Projects Co.- Kuwait</i>	55,216	(2,141,752)
Other income		
<i>Gulf Monetary Group</i>	-	4,775
<i>Grand Real Estate Projects Co.- Bahrain</i>	2,122	3,183
	<u>57,338</u>	<u>(2,133,794)</u>
Expenses		
Provision for impairment		
<i>Grand Real Estate Projects Co.- Kuwait</i>	-	6,729,263
<i>International Investment Group</i>	-	4,502
Board of Directors	1,678	6,684
Shari'a Supervisory Board	13,926	16,145
	<u>15,604</u>	<u>6,756,594</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>Six months ended (Unaudited)</i>	
	30 June 2011 US\$	30 June 2010 US\$
Salaries and other short-term benefits	48,054	92,287
Post employment benefits	-	9,885
	<u>48,054</u>	<u>102,172</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011 (Unaudited)

6 LITIGATION AND CLAIMS

In 2004, the Bank entered into a sale and purchase agreement with a 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 as at 30 June 2011 (31 December 2010: 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain of its investments with a carrying value of US\$ 2,361,696 as at 30 June 2011 (31 December 2010 : 2,778,466). 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 the Bank's 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 amounting to US\$ 3,680,203 as at 30 June 2011 (31 December 2010: US\$ 3,680,203). 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.