

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

**INTERIM CONDENSED FINANCIAL STATEMENTS**

**30 SEPTEMBER 2011**

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

### *Introduction*

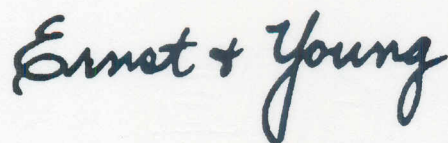
We have reviewed the accompanying interim statement of financial position of Investors Bank B.S.C (c) ["the Bank"] as of 30 September 2011, and the related interim statements of income, cash flows and changes in equity for the nine month period then ended and explanatory notes. The Board of Directors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



26 October 2011  
Manama, Kingdom of Bahrain



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

## INTERIM STATEMENT OF FINANCIAL POSITION

At 30 September 2011

	Notes	(Unaudited) 30 September 2011 US\$	(Audited) 31 December 2010 US\$
<b>ASSETS</b>			
Cash and balances with banks		127,418	411,444
Investments	3	15,169,481	16,677,570
Deferred payment sale receivables		3,680,203	3,680,203
Investment properties	4	18,580,536	20,020,445
Other assets		1,591,844	1,594,222
Property and equipment		3,056,913	3,843,948
<b>TOTAL ASSETS</b>		<b>42,206,395</b>	<b>46,227,832</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		486,408	465,184
<b>Total liabilities</b>		<b>7,385,674</b>	<b>7,364,450</b>
<b>Equity</b>			
Share capital		80,000,000	80,000,000
Statutory reserve		7,409,515	7,409,515
Investments fair value reserve		2,855,104	2,644,604
Accumulated losses		(55,443,898)	(51,190,737)
<b>Total equity</b>		<b>34,820,721</b>	<b>38,863,382</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>42,206,395</b>	<b>46,227,832</b>
<b>OFF-BALANCE SHEET ITEMS:</b>			
<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>		<b>16,613,309</b>	<b>16,424,155</b>



Dr. Abdulaziz Al Bader  
Chairman



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

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

Investors Bank B.S.C. (c)

**INTERIM STATEMENT OF INCOME**

For the nine months ended 30 September 2011 (Unaudited)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<b>30 September</b>	<b>30 September</b>	<b>30 September</b>	<b>30 September</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Income from investments at fair value through statement of income	-	-	-	5,902
Gain on disposal of investments at fair value through equity	-	131,423	<b>21,904</b>	130,933
Fair value loss on investments at fair value through statement of income	<b>(397,617)</b>	(748,276)	<b>(385,804)</b>	(2,944,782)
Other income	<b>240,942</b>	245,879	<b>381,227</b>	692,952
<b>Total net (loss) / income</b>	<b>(156,675)</b>	(370,974)	<b>17,327</b>	(2,114,995)
<b>EXPENSES</b>				
Staff cost	<b>249,101</b>	331,222	<b>737,355</b>	885,472
Administrative and general expenses	<b>100,941</b>	154,268	<b>352,216</b>	447,536
Depreciation	<b>199,204</b>	265,850	<b>599,273</b>	875,442
<b>Operating expenses</b>	<b>549,246</b>	751,340	<b>1,688,844</b>	2,208,450
<b>Net loss before net provision for impairment</b>	<b>(705,921)</b>	(1,122,314)	<b>(1,671,517)</b>	(4,323,445)
Net provision for impairment	<b>(358,501)</b>	(1,918,814)	<b>(2,581,644)</b>	(14,563,702)
<b>LOSS FOR THE PERIOD</b>	<b>(1,064,422)</b>	(3,041,128)	<b>(4,253,161)</b>	(18,887,147)

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 nine months ended 30 September 2011 (Unaudited)

	<i>Nine months ended</i>	
	<b>30 September</b>	<b>30 September</b>
	<b>2011</b>	<b>2010</b>
	<b>US\$</b>	<b>US\$</b>
<b>OPERATING ACTIVITIES</b>		
Loss for the period	<b>(4,253,161)</b>	(18,887,147)
Adjustments for:		
Depreciation	<b>599,273</b>	875,442
Gain on disposal of property and equipment	-	(2,520)
Provision for impairment	<b>2,816,579</b>	14,563,702
Gain on disposal of investments at fair value through equity	<b>(21,904)</b>	(130,933)
Fair value loss on investments at fair value through statement of income	<b>385,804</b>	2,944,782
Operating loss before changes in operating assets and liabilities:	<b>(473,409)</b>	(636,674)
Changes in operating assets and liabilities:		
Other assets	<b>2,378</b>	33,848
Other liabilities	<b>21,224</b>	40,213
Net cash used in operating activities	<b>(449,807)</b>	(562,613)
<b>INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	<b>(4,510)</b>	-
Proceeds from disposal of investments at fair value through equity	<b>170,291</b>	288,854
Proceeds from disposal of property and equipment	-	2,520
Net cash from investing activities	<b>165,781</b>	291,374
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(284,026)</b>	(271,239)
Cash and cash equivalents at beginning of the period	<b>411,444</b>	612,263
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>127,418</b>	341,024

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 nine months ended 30 September 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	-	-	-	(4,253,161)	(4,253,161)
Fair value gain during the period	-	-	210,500	-	210,500
<b>Balance as at 30 September 2011</b>	<b>80,000,000</b>	<b>7,409,515</b>	<b>2,855,104</b>	<b>(55,443,898)</b>	<b>34,820,721</b>
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)
<b>Balance as at 30 September 2010</b>	<b>80,000,000</b>	<b>7,409,515</b>	<b>1,909,408</b>	<b>(42,800,009)</b>	<b>46,518,914</b>

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 nine months ended 30 September 2011 (Unaudited)

2011

	Balance at 1 January 2011			Movements during the period					Balance at 30 September 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	-	-	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	10,436,264	-	189,154	-	-	-	142,059	0.08	10,625,418
			16,424,155	-	189,154	-	-	-			16,613,309

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 nine months ended 30 September 2011 (Unaudited)

2010

	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 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	-	86,144	-	-	-	142,059	0.07	10,326,478
			16,228,225	-	86,144	-	-	-			16,314,369

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 transfer of the IIG shares to the off-balance sheet investment account holder.



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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**

For the nine months ended 30 September 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 investments 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 26 October 2011.

**2 SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of preparation**

The interim condensed financial statements of the Bank for the nine month period ended 30 September 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 nine month period ended 30 September 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 nine months ended 30 September 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 is 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 significant impact on the accounting policies, financial position or performance of the Bank.

**3 INVESTMENTS**

	<i>(Audited)</i>	
	<i>30 September</i>	<i>31 December</i>
	<i>2011</i>	<i>2010</i>
	<i>US\$</i>	<i>US\$</i>
Investments at fair value through statement of income	<b>1,823,218</b>	2,209,022
Investments at fair value through equity		
<i>Investment in shares</i>		
Quoted – at fair value	<b>19,087,407</b>	19,029,985
Unquoted – at cost	<b>1,792,841</b>	1,778,727
<i>Investment in funds</i>	<b>853,562</b>	862,985
	<b>21,733,810</b>	21,671,697
Net provision for impairment	<b>(8,387,547)</b>	(7,203,149)
	<b>13,346,263</b>	14,468,548
	<b>15,169,481</b>	16,677,570



## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the nine months ended 30 September 2011 (Unaudited)

## 4 INVESTMENT PROPERTIES

	<i>Freehold land US\$</i>	<i>Buildings US\$</i>	<i>Total US\$</i>
Cost:			
At 1 January 2011	18,742,649	13,488,761	32,231,410
Additions	-	69,141	69,141
<b>At 30 September 2011</b>	<b>18,742,649</b>	<b>13,557,902</b>	<b>32,300,551</b>
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	-	315,416	315,416
<b>At 30 September 2011</b>	<b>9,657,768</b>	<b>4,062,247</b>	<b>13,720,015</b>
Net carrying values:			
<b>At 30 September 2011</b>	<b>9,084,881</b>	<b>9,495,655</b>	<b>18,580,536</b>
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:

	<i>(Audited)</i> <b>30 September 2011 US\$</b>	<b>31 December 2010 US\$</b>
<b>Assets</b>		
Investments at fair value through statement of income		
<i>Grand Real Estate Projects Co. - Kuwait</i>	<b>1,744,053</b>	2,075,605
Investments at fair value through equity		
<i>International Investment Group</i>	<b>3,012</b>	2,958
<i>Gulf Monetary Group</i>	<b>31,936</b>	31,936
<i>Takaful International - Bahrain</i>	<b>7,771,808</b>	7,771,808
<i>Gulf Monetary Group - Managed Portfolio</i>	-	212,985
<i>Takaful International - Kuwait</i>	<b>747,664</b>	734,354
<i>International Projects Consultancy</i>	<b>45,176</b>	44,372
Deferred payment sale receivables		
<i>Gulf Monetary Group</i>	<b>3,680,203</b>	3,680,203
	<b>14,023,852</b>	14,554,221

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the nine months ended 30 September 2011 (Unaudited)

## 5 RELATED PARTY TRANSACTIONS (continued)

	30 September 2011 US\$	(Audited) 31 December 2010 US\$
<b>Liabilities</b>		
Murabaha payable		
<i>International Investment Group</i>	3,229,064	3,229,064
Other liabilities		
<i>Takaful International - Bahrain</i>	66,657	19,149
<i>Key Management Personnel</i>	87,802	151,798
	<u>3,383,523</u>	<u>3,400,011</u>
<b>OFF-BALANCE SHEET ITEMS:</b>		
<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>	<u>16,295,620</u>	<u>16,106,466</u>
Significant transactions with related parties include:		
	<i>Nine months ended</i>	
	30 September 2011 US\$	30 September 2010 US\$
<b>Income</b>		
Fair value loss on investments at fair value value through statement of income		
<i>Grand Real Estate Projects Co.- Kuwait</i>	(331,552)	(2,888,434)
<b>Other income</b>		
<i>Gulf Monetary Group</i>	-	4,775
<i>Grand Real Estate Projects Co.- Bahrain</i>	2,122	3,714
	<u>(329,430)</u>	<u>(2,879,945)</u>
<b>Expenses</b>		
Provision for impairment		
<i>Grand Real Estate Projects Co.- Kuwait</i>	-	6,729,263
<i>International Investment Group</i>	-	4,502
<i>Gulf Monetary Group - Managed Portfolio</i>	203,562	-
Board of Directors	2,316	10,043
Shari'a Supervisory Board	20,889	23,108
	<u>226,767</u>	<u>6,766,916</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</i>	
	30 September 2011 US\$	30 September 2010 US\$
Salaries and other short-term benefits	95,555	141,925
Post employment benefits	8,276	14,827
	<u>103,831</u>	<u>156,752</u>



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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the nine months ended 30 September 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 September 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\$ 2,037,542 as at 30 September 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 September 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.