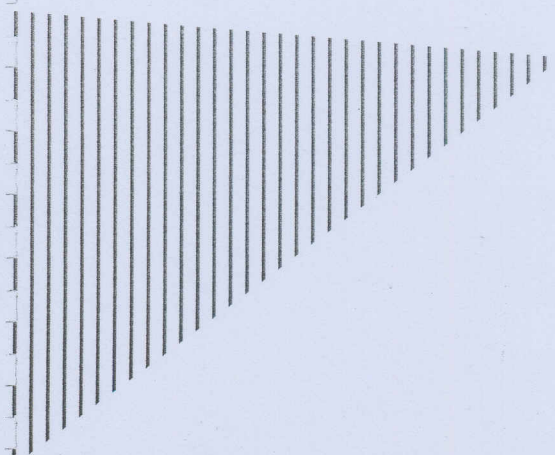




Investors Bank B.S.C. (c)

FINANCIAL STATEMENTS

31 DECEMBER 2009

Ernst & Young

 **ERNST & YOUNG**

In the Name of Allah, The Beneficent, The Merciful

SHARI'A BOARD'S REPORT

To the Shareholders of Investors Bank

Assalam Alaikum Wa Rahmat Allah Wa Baraketuh

In compliance with the letter of appointment, we are required to submit the following report:
We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Investors Bank during the period ended 31/12/2009.

We have also conducted our review to form an opinion as to whether Bank has complied with Shari'a Rules and principles and also with the specific fatwas, rulings and guidelines issued by us.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Islamic Shari'a Rules and Principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

We conducted our review which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Islamic Shari'a Rules and Principles.

In our opinion:

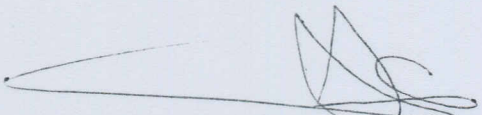
- (1) the contracts, transactions and dealings entered into by the Bank during the year ended 31/12/2009 that we have reviewed are in compliance with the Islamic Shari'a Rules and Principles;
- (2) the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'a Rules and Principles;
- (3) the calculation of Zakah is in compliance with Islamic Shari'a Rules and principles.

We beg Allah the Almighty to grant us all the success and straight-forwardness.

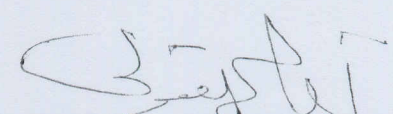
Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

26th Safar II, 1431 Hijri corresponding to 10th February 2010.

SHARI'A BOARD


Shaikh Dr. Abdul Sattar A. Karim Abu Ghuddah
Chairman of the Board


Shaikh Dr. Ali Mohieddin Al Quradaghi
Member


Shaikh Nedham Mohammed Saleh Yaqoobi
Member

**REPORT OF THE BOARD OF DIRECTORS
for the year ended 31 December 2009**

US \$

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Muhammad.

Dear Shareholders,

The Directors have pleasure to submit their report, together with the financial statements of Investors Bank B.S.C. (c) ("the Bank") for the year ended 31 December 2009.

Principal Activities

The Bank was established in the Kingdom of Bahrain as exempt company on 26 October 1997 and operates under a Wholesale Bank (Islamic principles) license granted by the Central Bank of Bahrain (the "CBB"). The Bank commenced commercial operations on 15 June 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on 3 July 2005.

The principal activities of the Bank include investment banking and financial activities, investment transactions, participating in equity investments in projects in conformity with the Islamic Shari'a.

During the year, the Bank did not undertake any new investment transactions, except investing in certain rights shares offered by the companies in which the Bank held investments.

Apart from the same, the Bank focused on recovery of receivables and booked certain transactions settling some receivables in kind.

Financial Position and Results

The detailed financial position of the Bank at 31 December 2009 and the results for the year then ended are set out in the accompanying financial statements.

Financial highlights	2009	2008
Total asset	74,256,671	95,026,771
Total equity	66,908,354	87,673,052
Loss for the year	(21,216,840)	(34,887,764)

Movement in accumulated deficit	2009	2008
Balance at 1 January	(2,696,022)	32,191,742
Loss for the period	(21,216,840)	(34,887,764)
Balance at 31 December	(23,912,862)	(2,696,022)

Dividends

The Board of Directors has not made any appropriations for dividends for the year ended 31 December 2009 (2008: nil).

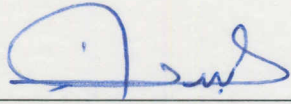
Directors and Management

The following served as directors of the Bank during the year ended 31 December 2009:

<u>Name</u>	<u>Title</u>
Dr. Abdulaziz Al Bader	Chairman
Mr. Ahmed Shabib Al Dhahery	Vice-Chairman
Mr. Ghassan Fahad Al Sultan	Director
Mr. Isa Abdulla Al Mannai	Director and Chairman of the Executive Committee
Mr. Abdulwahab Mohammed A'amer	Director and Chairman of the Audit Committee

Thanks

We wish to express our gratitude and appreciation to His Majesty King Hamed Bin Isa Al Khalifa, the King of Bahrain, to his Royal Highness Amir Khalifa Bin Salman Al Khalifa, the Prime Minister and His Royal Highness Amir Salman Bin Hamed Al Khalifa, the Crown Prince and Commander-in-Chief of the Bahrain Defence Force, to Government of the Kingdom of Bahrain, the Minister of Industry and Commerce, the Central Bank of Bahrain, the Bahrain Stock Exchange for their vision , guidance and continuous support for the establishment of a distinguished Islamic Banking Centre in the Kingdom. Gratitude is also extended to the Shari'a Supervisory Board for their support and valuable guidance, to our investors and to our members of staff, executives and employees.



Dr. Abdulaziz Al Bader
Chairman



Mr. Abdulwahab Mohammed A'amer
Director and Chairman of the Audit Committee

24 February 2010

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTORS BANK B.S.C. (c)

We have audited the accompanying statement of financial position of Investors Bank B.S.C. ["the Bank"] as of 31 December 2009, and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

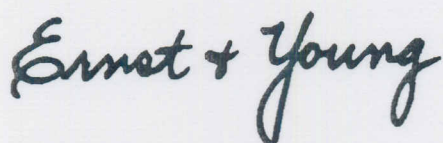
We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As disclosed in note 16 to the financial statements, a related party owed US\$ 6,043,576 to the Bank as at 31 December 2009. This balance has been past due for over one year. Management has informed us that they are securing settlement of this balance and are in final negotiations. They believe no provision is necessary at this time. In the absence of a final agreement, we were unable to satisfy ourselves on the recoverability of this balance at 31 December 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves on the recoverability of the balance discussed above, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2009, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI and the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
INVESTORS BANK B.S.C. (c) (continued)

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the financial statements, and the contents of the Report of the Board of Directors relating to these financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2009 that might have had a material adverse effect on the business of the Bank or on its financial position and that the Bank has complied with the terms of its banking license.

A stylized, handwritten-style signature of 'Ernst & Young' in a dark ink.

24 February 2010
Manama, Kingdom of Bahrain

Investors Bank B.S.C.(c)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	2009 US\$	2008 US\$
ASSETS			
Cash and balances with banks	3	612,263	2,557,184
Investments	4	27,669,174	26,991,132
Murabaha receivables		-	3,243,848
Mudaraba investment		-	4,000,000
Receivable from Mudarib		-	6,127,801
Receivable from sale of investments		-	11,846,542
Deferred payment sale receivables	20	3,680,203	3,680,203
Investment properties	5	27,571,404	17,540,225
Other assets	6	7,624,912	17,460,260
Property and equipment	7	7,098,715	1,579,576
TOTAL ASSETS		74,256,671	95,026,771
LIABILITIES AND EQUITY			
Liabilities			
Due to a financial institution	20	3,670,202	3,670,202
Murabaha payable		3,229,064	3,229,064
Other liabilities		449,051	454,453
Total liabilities		7,348,317	7,353,719
Equity			
Share capital	8	80,000,000	80,000,000
Statutory reserve		7,409,515	7,409,515
Investments fair value reserve		3,411,701	2,959,559
Accumulated losses		(23,912,862)	(2,696,022)
Total equity		66,908,354	87,673,052
TOTAL LIABILITIES AND EQUITY		74,256,671	95,026,771
OFF-BALANCE SHEET ITEMS			
Restricted investment accounts		16,228,225	16,646,823



Dr. Abdulaziz Al Bader
Chairman



Abdulwahab Mohammed A'Amer
Director and Chairman of the Audit
Committee

The attached notes 1 to 23 form part of these financial statements

Investors Bank B.S.C.(c)

STATEMENT OF INCOME

For the year ended 31 December 2009

	Note	2009 US\$	2008 US\$
(Loss) / income from trading investments	9	(20,651)	1,020,766
Income from available-for-sale investments	10	16,965	259,698
Fair value loss on trading investments		(69,453)	(24,794,626)
Fair value loss on available-for-sale investments		-	(541,184)
Income from Mudaraba investment		63,680	192,452
Other income	11	426,733	4,228,226
Total net income		417,274	(19,634,668)
Staff cost		1,340,145	1,490,642
Administrative and general expenses	12	1,414,552	944,434
Net provision for impairment	13	17,771,243	12,343,522
Depreciation		1,108,174	474,498
Total expenses		21,634,114	15,253,096
LOSS FOR THE YEAR		(21,216,840)	(34,887,764)

The attached notes 1 to 23 form part of these financial statements

Investors Bank B.S.C.(c)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2009

	2009 US\$	2008 US\$
OPERATING ACTIVITIES		
Dividends received	36,138	216,342
Placement fees received	50,000	-
Income from Murabaha contracts received	-	147,374
Purchase of trading investments	(57,285)	(941,508)
Purchase of available-for-sale investments	(492,461)	(8,609,692)
Proceeds from sale of trading investments	68,645	148,150
Proceeds from sale of available-for-sale investments	145,897	257,037
Collection of receivable from sale of investment	-	1,494,004
Payments for operating expenses	(1,970,359)	(2,043,855)
Employee Qard Hasan and advances, net	(47,629)	(30,646)
Refund of payments to Managing Director	-	1,000,000
Net cash outflow from operating activities	<u>(2,267,054)</u>	<u>(8,362,794)</u>
INVESTING ACTIVITIES		
Purchase of equipment	(49,995)	(418,998)
Proceeds from disposal of equipment	8,721	52,520
Registration fees paid	(139,736)	(141,803)
Rent received	503,143	28,314
Net cash inflow (outflow) from investing activities	<u>322,133</u>	<u>(479,967)</u>
FINANCING ACTIVITIES		
Mudaraba investment	-	(4,000,000)
Collections form receivable from Mudarib	-	5,768,373
Net cash inflow from financing activities	<u>-</u>	<u>1,768,373</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,944,921)	(7,074,388)
Cash and cash equivalents at beginning of the year	<u>2,557,184</u>	<u>9,631,572</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (note 3)	<u>612,263</u>	<u>2,557,184</u>

The attached notes 1 to 23 form part of these financial statements

Investors Bank B.S.C.(c)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital US\$	Statutory reserve US\$	Investments fair value reserve US\$	Accumulated losses US\$	Total US\$
Balance at 1 January 2009	80,000,000	7,409,515	2,959,559	(2,696,022)	87,673,052
Loss for the year	-	-	-	(21,216,840)	(21,216,840)
Fair value gain during the year	-	-	452,142	-	452,142
Balance as at 31 December 2009	80,000,000	7,409,515	3,411,701	(23,912,862)	66,908,354
Balance at 1 January 2008	80,000,000	7,409,515	10,263,817	32,191,742	129,865,074
Loss for the year	-	-	-	(34,887,764)	(34,887,764)
Fair value loss during the year	-	-	(7,304,258)	-	(7,304,258)
Balance as at 31 December 2008	80,000,000	7,409,515	2,959,559	(2,696,022)	87,673,052

Investors Bank B.S.C.(c)

STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the year ended 31 December 2009

	Balance at 1 January 2009			Movements during the year				Balance at 31 December 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\$
Murabaha with Lotus Air Ltd	-	-	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
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.08	10,658,932	-	(418,598)	-	-	-	142,059	0.07
			<u>16,646,823</u>		<u>(418,598)</u>					
										<u>16,228,225</u>

	Balance at 1 January 2008			Movements during the year				Balance at 31 December 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\$
Murabaha with Lotus Air Ltd	-	-	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
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.08	10,720,146	-	(61,214)	-	-	-	142,059	0.08
			<u>16,708,037</u>		<u>(61,214)</u>					
										<u>16,646,823</u>

1 Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties. The restricted investment accounts at 31 December 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 the these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of the IIG shares to the restricted investment account holder (note 20).

The attached notes 1 to 23 form part of these financial statements

Investors Bank B.S.C.(c)

STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December 2009

	2009 US\$	2008 US\$
Sources of charity fund		
Non-Islamic income	296	634
Total sources	<u>296</u>	<u>634</u>
Uses of charity fund		
Contributions to charitable organisations	-	-
Total uses	<u>-</u>	<u>-</u>
Excess of sources over uses	296	634
Undistributed charity fund at 1 January	35,255	34,621
Undistributed charity fund at 31 December	<u><u>35,551</u></u>	<u><u>35,255</u></u>

The attached notes 1 to 23 form part of these financial statements

1 INCORPORATION AND ACTIVITIES

Investors Bank B.S.C. (c) ["the Bank"] was established in the Kingdom of Bahrain as an exempt company on 26 October 1997 and operates under an investment banking license [Wholesale Bank (Islamic principles)] granted by the Central Bank of Bahrain ["the CBB"]. The Bank commenced commercial operations on 15 June 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on 3 July 2005. The postal address of the registered office of the Bank is Seef Star Building, Seef District, PO Box 11818, Manama, Kingdom of Bahrain.

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 the Islamic 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 the Shari'a;
- (c) Managing the investment of third party funds as an agent for a fixed fee or as a Mudarib and any other banking activities not contravening the provisions of the 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 the renting thereof.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 24 February 2010.

2 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with the Financial Accounting Standards ["FAS"] issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"] and in conformity with the Bahrain Commercial Companies Law ["BCCL"] and the Central Bank of Bahrain and Financial Institutions Law. In accordance with the requirement of AAOIFI, for matters for which no AAOIFI standards exist, the Bank uses the relevant International Financial Reporting Standards ["IFRS"] issued by the International Accounting Standards Board ["IASB"].

Basis of preparation

The financial statements have been presented in United States Dollar ["US\$"], being the functional currency of the Bank. The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 14.

The financial statements have been prepared under the historical cost convention as modified for the re-measurement at fair value of trading investments and certain available-for-sale investments.

The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates

The application of the accounting policies requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant judgements and estimates are discussed below:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

The determination of fair value for each financial instrument on the statement of financial position depends on the accounting policy as set out below:

- (i) For investments quoted in an active market, fair value is determined by reference to quoted market prices.
- (ii) For investments in unit funds, fair value is determined based on the latest net asset value provided by the fund manager.
- (iii) For unquoted investments, fair value is determined using net asset valuation on disposal of significant portion or on occurrence of an arm's length transaction involving a third party. Should a reliable fair value not be available, such investments are carried at cost less impairment.

Classification of investments

Real estate investments acquired to earn rentals or for capital appreciation are classified as investment properties.

The Bank decides on acquisition of a financial asset whether it should be classified as "trading", "available-for-sale" or "held to maturity". The Bank currently does not have held to maturity investments.

Impairment

The Bank assesses at each statement of financial position date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event(s) have an impact on the estimated future cash flows of the asset or the group of the assets that can be reliably estimated.

The Bank treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

These are classified as either held to trading or available-for-sale.

Initial recognition

Trading investments are initially recognised at cost, being the fair value of the consideration on acquisition. Available-for-sale investments are initially recognised at cost, being the fair value of the consideration on acquisition including related direct expenses. Direct expenses are transaction costs and include fees and commissions paid to agents, advisors and consultants, levies by regulatory agencies and transfer taxes and duties.

Trading investments

After initial recognition, investments which the Bank acquires principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed together for short-term profit taking are classified as "trading investments". The fair value changes of trading investments for sale are reported in the statement of income.

Available-for-sale investments

After initial recognition, investments that are classified as "available-for-sale" are re-measured at fair value. The fair value changes of investments available-for-sale are reported in equity until such time as the investments are sold, realised or deemed to be impaired, at which time the realised gain or loss is reported in the statement of income.

The losses arising from impairment of such investments are recognised in the statement of income in "provision for impairment" and removed from the investment fair value reserve. Impairment losses recognised in the statement of income for an equity instrument classified as available-for-sale are not reversed through the statement of income.

Deferred payment sale receivables

Receivables arising from deferred payment sale are recognised at the time of contracting and stated at their cost less impairment allowances.

Receivable from mudarib and sale of investments

Receivable from mudarib and sale of investments are stated at original amount less provision for impairment. Amounts are written off when there is no possibility of recovery.

Investment properties

Investment properties are held to earn rentals or for capital appreciation. They are initially recorded at cost, including acquisition charges associated with the properties.

Subsequent to initial recognition, buildings classified as investment properties are remeasured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on the straight line method at rates intended to write-off the cost of the assets over their estimated useful life. Freehold land is subsequently measured at cost less accumulated impairment losses.

Expenditure for maintenance and repairs is expensed as incurred. An item of investment property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognised.

The residual values, useful lives and methods of depreciation for investment properties are reviewed, and adjusted if appropriate, at each financial year end.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**Property and equipment**

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on the straight line method at rates intended to write-off the cost of the assets over their estimated useful life.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Freehold land	Indefinite
Building	25 years
Others	3-5 years

Expenditure for maintenance and repairs is expensed as incurred. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognised.

The residual values, useful lives and methods of depreciation for property and equipment are reviewed, and adjusted if appropriate, at each financial year end.

Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. This reserve is not distributable, but can be utilised as security for the purpose of distribution in such circumstances as stipulated in the BCCL and other applicable statutory regulations. No transfers are required when the Bank makes a loss.

Employees' end of service benefits

The Bank provides end of service benefits to its employees in accordance with the requirement of Bahrain Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its employees who are Bahraini nationals, the Bank makes contributions to the General Organisation for Social Insurance calculated as a percentage of the employees' salaries in accordance with the relevant regulation. The Bank's obligations are limited to these contributions, which are expensed when due.

Fair values

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the statement of financial position date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on an assessment of the value of future cash flows. For financial contracts, future cash flows are determined by the Bank at current profit rates for financing contracts with similar terms and risk characteristics. Should a reliable fair value not be available, such investments are carried at cost less impairment.

Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet, if and only if there is a legally enforceable or religious right (as determined by Shari'a) to set off the recognised amounts and the Bank intends to settle on a net basis.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expenses

Income from investment advisory services is recognised when the Bank has performed all significant acts relating to the advisory service being rendered and it is highly probable that economic benefits from the transaction will flow to the Bank.

Income from Murabaha contracts are recognised on a time-apportioned basis over the period of the contract.

Income from deferred payment sale contracts are recognised on a time-apportioned basis over the period of the contract.

Income from **Mudaraba contracts** are recognised when the Mudarib declares profits.

Dividend income from investments is recognised when the right to receive is established.

Earnings prohibited by Shari'a

The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Bank uses these funds for charitable means.

Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Restricted investment accounts

Restricted investment accounts represent assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Bank as an investment manager based on either a Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified investment instruments as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Bank in the financial statements.

Restricted investments in quoted securities are valued at their market bid price. Restricted investments in securities for which there are no quoted market price or other appropriate methods from which to derive fair values, are stated at cost less impairment allowances, if any.

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non monetary items carried at fair value are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. All differences are taken to equity as "investment fair value reserve."

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks with original maturities of less than ninety days.

Zakah

In the absence of appointment of the Bank to pay zakah on behalf of Shareholders, the responsibility of payment of zakah is on individual shareholders of the Bank.

Investors Bank B.S.C.(c)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2009

3 CASH AND BANK BALANCES

	2009 US\$	2008 US\$
Cash on hand	1,326	1,326
Cash at banks	610,937	2,555,858
	612,263	2,557,184

4 INVESTMENTS

	2009 US\$	2008 US\$
Trading investments	5,611,582	5,738,750
Available-for-sale investments		
<i>Investment in shares</i>		
Quoted – at fair value	19,652,965	19,009,208
Unquoted – at cost	1,764,107	1,795,341
<i>Investments in funds</i>	1,442,525	1,249,811
	22,859,597	22,054,360
<i>Provision for impairment</i>	(802,005)	(801,978)
	22,057,592	21,252,382
	27,669,174	26,991,132

Movement in the provision for impairment on available-for-sale investments:

	2009 US\$	2008 US\$
At 1 January	801,978	1,382,100
Additional provision during the year	27	151,978
Impairment reversals during the year	-	(732,100)
At 31 December	802,005	801,978

Material available-for-sale investments as at current year end are as follows:

	Country of incorporation	% ownership	Nature of main activities
Quoted shares at fair value			
Bahrain Islamic Bank BSC	Bahrain	1.2	Commercial banking in accordance with Islamic
Takaful International BSC	Bahrain	18.03	Takaful – insurance according to the Islamic Shari'a.

As at 31 December 2009, investments with carrying value of US\$ 4,306,622 (2008: US\$ 6,321,010) were held in the name of a financial institution and pledged as collateral against amounts due to the financial institution (note 20). Also, investments with carrying value of US\$ 5,760,486 (2008: US\$ 6,435,709) were pledged as collateral against amounts due to a related party.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

5 INVESTMENT PROPERTIES

	<i>Freehold land US\$</i>	<i>Buildings US\$</i>	<i>Total US\$</i>
Cost			
At 1 January 2009	15,897,386	6,797,782	22,695,168
Additions	2,845,263	8,905,749	11,751,012
Disposals	-	(269,101)	(269,101)
At 31 December 2009	18,742,649	15,434,430	34,177,079
Depreciation and impairment:			
At 1 January 2009	5,154,943	-	5,154,943
Impairment	922,405	-	922,405
Charge for the year	-	539,084	539,084
Disposals	-	(10,757)	(10,757)
At 31 December 2009	6,077,348	528,327	6,605,675
Net carrying values:			
At 31 December 2009	12,665,301	14,906,103	27,571,404
At 31 December 2008	10,742,443	6,797,782	17,540,225

During the year, the Bank received property as settlement in kind for outstanding murabaha receivables, receivable from mudarib and mudaraba investment. This property has been classified as investment property as it is being held to earn rentals.

The fair value of investment properties at the year end date was US\$ 33,842,774 determined based on valuations performed by independent professional valuers as of 31 December 2009.

6 OTHER ASSETS

	<i>2009 US\$</i>	<i>2008 US\$</i>
Current account with related parties (note 16)	7,710,884	15,647,159
Dividends receivable (note 16)	2,597,109	2,666,984
Statutory deposit with CBB	13,263	13,263
Prepaid expenses	69,550	53,124
Qard Hassan	134,292	86,662
Advance towards purchase of AFS investment (note 16)	408,535	408,535
Others	876,499	876,498
	11,810,132	19,752,225
Provision for impairment	(4,185,220)	(2,291,965)
	7,624,912	17,460,260

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

7 PROPERTY AND EQUIPMENT

	Freehold land US\$	Building US\$	Motor vehicles US\$	Office equipment & furniture US\$	Fixtures US\$	Total US\$
Cost:						
At 1 January 2009	-	-	58,045	884,110	1,352,295	2,294,450
Additions	3,535,847	3,793,497	-	-	-	7,329,344
Disposals	-	-	-	(11,883)	(5,304)	(17,187)
At 31 December 2009	3,535,847	3,793,497	58,045	872,227	1,346,991	9,606,607
Depreciation and impairment:						
At 1 January 2009	-	-	55,143	390,622	269,109	714,874
Charge for the year	-	113,805	2,902	184,047	268,336	569,090
Impairment	1,228,548	-	-	-	-	1,228,548
Disposals	-	-	-	(4,620)	-	(4,620)
At 31 December 2009	1,228,548	113,805	58,045	570,049	537,445	2,507,892
Net carrying values:						
At 31 December 2009	2,307,299	3,679,692	-	302,178	809,546	7,098,715
At 31 December 2008	-	-	2,902	493,488	1,083,186	1,579,576

Investors Bank B.S.C.(c)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

8 SHARE CAPITAL

	2009 US\$	2008 US\$
Authorised:		
303,030,303 ordinary shares of US\$ 0.33	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid up:		
242,424,242 shares of US\$ 0.33 each	<u>80,000,000</u>	<u>80,000,000</u>

Names and nationalities of the significant shareholders, holding more than 5% of the outstanding shares, and the number of equity shares held by these shareholders:

	Nationality	Number of shares	% of total outstanding shares
Ajal Holding Company K.S.C.C.	Kuwait	82,844,459	34.17%
International Investment Group	Kuwait	36,780,742	15.17%
Fahad Sultan Sons & Company	Kuwait	15,709,091	6.48%
Gulf Monetary Group B.S.C.	Bahrain	15,069,091	6.22%

9 (LOSS) / INCOME FROM TRADING INVESTMENTS

	2009 US\$	2008 US\$
Dividend income	25,704	1,007,824
(Loss) / Income from sale of trading investments	(46,355)	12,942
	<u>(20,651)</u>	<u>1,020,766</u>

10 INCOME FROM AVAILABLE-FOR-SALE INVESTMENTS

	2009 US\$	2008 US\$
Dividend income	10,434	216,911
Income from sale of available-for-sale investments	6,531	42,787
	<u>16,965</u>	<u>259,698</u>

11 OTHER INCOME

	2009 US\$	2008 US\$
Income from murabaha contracts	-	147,374
Net income from investment properties	275,314	2,930,193
Other income	151,419	1,150,659
	<u>426,733</u>	<u>4,228,226</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

12 ADMINISTRATIVE AND GENERAL EXPENSES

	2009	2008
	US\$	US\$
Foreign exchange loss	759,425	-
Consultancy and legal expenses	316,719	187,849
Rent	-	134,975
Advertising and promotion	17,737	58,863
Professional fees	61,008	62,599
License and registration	34,562	34,589
Communication	15,032	16,871
Business development	8,009	171,162
Brokerage fees	370	660
Board of Directors and Committees meetings' expenses and attendance allowances	29,882	37,069
Shari'a Supervisory Board meetings' expenses and attendance allowances	31,552	46,721
Others	140,256	193,076
	<u>1,414,552</u>	<u>944,434</u>

13 NET PROVISION FOR IMPAIRMENT

	2009	2008
	US\$	US\$
Available-for-sale investments	27	151,978
Receivable from Mudarib	4,464,281	-
Receivables from sale of investments	11,160,346	5,626,381
Investment property	922,405	5,154,943
Other assets	1,893,255	1,483,430
Property & equipment	1,228,548	-
Provision write back	(1,897,619)	(73,210)
	<u>17,771,243</u>	<u>12,343,522</u>

Investors Bank B.S.C.(c)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

14 MATURITY PROFILE

The table below summarises the maturity profile of the Bank's financial assets and liabilities based on contractual cash flows. The other balances have been presented based on expected cash flows:

	2009							
	Up to 1 month US\$	1 to 3 months US\$	3 months to 1 year US\$	Within 1 year US\$	1 to 3 years US\$	Over 3 years US\$	No fixed maturity US\$	Total US\$
Assets								
Cash and balances with banks	612,263	-	-	612,263	-	-	-	612,263
Investments	-	-	-	-	-	-	27,669,174	27,669,174
Deferred payment sale receivables	-	-	-	-	-	-	3,680,203	3,680,203
Investment properties	-	-	-	-	-	-	27,571,404	27,571,404
Other assets	-	10,038	59,512	69,550	134,292	1,499	7,419,571	7,624,912
Property and equipment	-	-	-	-	-	-	7,098,715	7,098,715
Total assets	612,263	10,038	59,512	681,813	134,292	1,499	73,439,067	74,256,671
Liabilities								
Due to a financial institution	-	-	-	-	-	-	3,670,202	3,670,202
Murabaha payable	-	-	-	-	-	-	3,229,064	3,229,064
Other liabilities	31,804	101,148	132,007	264,959	-	-	184,092	449,051
Total liabilities	31,804	101,148	132,007	264,959	-	-	7,083,358	7,348,317
Cumulative Liquidity Gap	580,459	489,349	416,854	416,854	551,146	552,645	66,908,354	

Investors Bank B.S.C.(c)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

14 MATURITY PROFILE (continued)

	2008						Total US\$
	Up to 1 month US\$	1 to 3 months US\$	3 months to 1 year US\$	Within 1 year US\$	1 to 3 years US\$	Over 3 years US\$	
Assets							
Cash and balances with banks	2,557,184	-	-	2,557,184	-	-	2,557,184
Investments	-	-	-	-	-	-	26,991,132
Murabaha receivables	-	-	-	-	-	-	3,243,848
Mudaraba investment	-	-	-	-	-	-	6,127,801
Receivable from Mudarib	-	-	-	-	-	-	4,000,000
Receivable from sale of investments	-	-	-	-	-	-	11,846,542
Deferred payment sale receivables	-	-	-	-	-	-	3,680,203
Investment properties	-	-	-	-	-	-	17,540,225
Other assets	-	1,083	52,040	53,123	86,662	1,499	17,460,260
Property and equipment	-	-	-	-	-	-	1,579,576
Total assets	2,557,184	1,083	52,040	2,610,307	86,662	1,499	95,026,771
Liabilities							
Due to a financial institution	-	-	-	-	-	-	3,670,202
Murabaha payable	-	-	-	-	-	-	3,229,064
Other liabilities	137,378	81,796	80,112	299,286	-	-	454,453
Total liabilities	137,378	81,796	80,112	299,286	-	-	7,353,719
Cumulative Liquidity Gap	2,419,806	2,339,093	2,311,021	2,311,021	2,397,683	2,399,182	87,673,052

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

16 RELATED PARTY TRANSACTIONS AND BALANCES

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.

Significant balances with related parties at 31 December comprise:

	2009 US\$	2008 US\$
Assets		
Trading investments		
<i>Grand Real Estate Projects Co.</i>	5,411,638	5,451,147
Available-for-sale investments		
<i>International Investment Group</i>	3,431	2,815
<i>Gulf Monetary Group</i>	31,936	31,936
<i>Takaful International - Bahrain</i>	7,771,808	7,291,300
<i>Gulf Monetary Group - Managed portfolio</i>	208,986	217,529
<i>Takaful International - Kuwait</i>	720,568	750,023
<i>International Projects Consultancy</i>	43,539	45,319
Murabaha receivables		
<i>Other related party</i>	-	3,243,848
Mudaraba investments		
<i>International Investment Group</i>	-	4,000,000
Receivables from sale of investments		
<i>International Investment Group</i>	-	8,328,852
<i>Gulf Monetary Group</i>		3,517,690
Deferred payment sale receivables		
<i>Gulf Monetary Group</i>	3,680,203	3,680,203
Receivable from Mudarib		
<i>International Investment Group</i>	-	6,127,801
Current account		
<i>Gulf Monetary Group</i>	-	150,371
<i>International Investment Group</i>	-	33,467
<i>Grand Real Estate Projects Co. (note 16.1)</i>	6,043,576	13,979,891
Dividend receivable		
<i>International Investment Group</i>	-	2,581
<i>Grand Real Estate Projects Co.</i>	-	1,776,670
	23,915,685	58,631,444
Liabilities		
Murabaha payables		
<i>International Investment Group</i>	3,229,064	3,229,064
Other Liabilities		
<i>Takaful International - Bahrain</i>	15,957	-
<i>Key Management Personnel</i>	240,254	175,145
	3,485,275	3,404,209

Investors Bank B.S.C.(c)
NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

16 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant transactions with related parties include:

	2009 US\$	2008 US\$
Income		
Income from trading investments		
<i>Grand Real Estate Projects Co.</i>	-	1,007,824
Income from available-for-sale investments		
<i>International Investment Group</i>	-	569
Fair value losses on trading investments		
<i>Grand Real Estate Projects Co.</i>	(39,509)	(24,275,927)
Income from Mudaraba investment		
<i>Other Related Party</i>	-	192,452
Income from Mudaraba investment		
<i>International Investment Group</i>	63,680	-
Other income – refund of payments to Managing Director		
<i>Key Management Personnel</i>	-	1,000,000
	24,171	(22,075,082)
Expenses		
Provision for impairment		
<i>Grand Real Estate Projects Co.</i>	1,706,897	1,483,430
<i>International Investment Group</i>	12,387,156	2,925,084
<i>Gulf Monetary Group</i>	3,423,829	2,701,297
Provision Write Back		
<i>Other related party</i>	(1,897,619)	-
Board of Directors		
<i>Board of Directors</i>	29,882	37,069
Shari'a Supervisory Board		
<i>Shari'a Board</i>	31,552	46,721
	15,681,697	7,193,601

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:

	2009 US\$	2008 US\$
Salaries and other short-term benefits	496,927	447,113
Post employment benefits	31,397	27,356
	530,333	476,477

16.1 * The Bank is in advanced negotiations with Grand Real Estate Projects Company ["GRAND"] for full and final settlement. GRAND has proposed to settle in kind (using real estate assets owned by GRAND in Sharjah) subject to regulatory approvals. As at the date of signing of these financial statements, the draft agreement is being reviewed by the legal advisors of GRAND. The Bank expects the agreement in respect of this negotiation to be executed latest by June 2010. As a result, the Bank has not created a provision for this balance.

31 December 2009

17 RISK MANAGEMENT

The Bank is exposed to the credit risk, liquidity risk and market risk during the course of its business along with other operational risks.

The Bank's Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established an Executive Committee, which is responsible for developing and monitoring Bank's operations and policies across various functions including the risk management policies. The Executive Committee consists of three non-executive directors of the Bank along with the Chief Executive Officer ["CEO"] as an attendee. The Executive Committee reviews and approves the CEO's recommendations for investment strategies, investment proposals, various products and services and where deemed necessary, also refers decisions to the Board

The Bank's Audit Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by outsourced Internal Audit function.

Credit risk

Credit risk is the risk that a counterparty to a financial transaction does not discharge its obligations on due dates and causes the other party to incur a financial loss.

The Bank's credit risk arises mainly from cash and balances with banks, deferred payment sale receivables and other assets.

The Bank manages its credit risk on cash and bank balances by placing funds with reputable banks having good credit ratings.

The Bank's maximum exposure to credit risk at 31 December was as follows:

	2009	2008
	US\$	US\$
Balances with banks	610,937	2,555,858
Murabaha receivables	-	3,243,848
Mudaraba investment	-	4,000,000
Receivable from Mudarib	-	6,127,801
Receivable from sale of investments	-	11,846,542
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	7,555,363	17,407,136
Maximum exposure to credit risk	11,846,503	48,861,388

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

17 RISK MANAGEMENT (continued)

Credit risk (continued)

Analysis of Bank's exposure to credit risk:

	2009				
	Cash and balances with bank US\$	Receivables from sale of investments US\$	Deferred payment receivables US\$	Other assets US\$	Total US\$
Neither past due nor impaired	610,937	-	-	149,053	759,990
Past due but not impaired - Over 180 days	-	-	3,680,203	887,733	4,567,936
Individually impaired	-	16,786,726	-	15,168,078	31,954,804
Gross amount	-	(16,786,726)	-	(8,649,501)	(25,436,227)
Provision for impairment	-	-	-	-	-
Net	-	-	-	6,518,577	6,518,577
Total exposure to credit risk	610,937	-	3,680,203	7,555,363	11,846,503

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

17 RISK MANAGEMENT (continued)

Credit risk (continued)

	2008					
	Cash and balances with bank US\$	Murabaha receivables US\$	Mudaraba investment US\$	Receivables from sale of investments US\$	Deferred payment sale receivables US\$	Other assets US\$
Neither past due nor impaired	2,555,858	-	4,000,000	-	-	285,261
Past due but not impaired - Over 180 days	-	-	-	-	3,680,203	8,794,785
Individually impaired						
Gross amount	-	5,147,907	-	17,472,923	-	16,746,856
Provision for impairment	-	(1,904,059)	-	(5,626,381)	-	(2,291,965)
Net	-	3,243,848	-	11,846,542	-	14,454,891
Total exposure to credit risk	2,555,858	3,243,848	4,000,000	11,846,542	3,680,203	23,534,937
						29,545,281
						48,861,388

The impairment provision created on impaired assets is based on the management's assessment of the expected realisations and considers the time value of the money. Specific impairment is identified by the Bank based on the various specific factors, which include financial health of the counterparty and expected cash flows.

17 RISK MANAGEMENT (continued)**Credit risk (continued)**

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Bank seeks to manage its concentration risk by establishing geographic and industry wise concentration limits. Presently, most of the Bank's assets are, however, in GCC region as this has strategic fit with Bank's overall business approach and also the current market imperatives. The sectoral distribution of assets and liabilities is in note 15.

Liquidity risk

Liquidity risk is defined as the risk that funds will not be available to meet liabilities as they fall due.

It is the Bank's policy to keep a significant part of its assets in the form of liquid assets such as trading and available-for-sale investments.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank had the following net foreign currency exposures as at 31 December:

	2009 US\$	2008 US\$
Bahraini Dinar	49,970,729	48,638,488
Kuwaiti Dinar	13,273,011	24,797,704
United Arab Emirates Dirham	5,345,121	6,797,782

Sensitivity Analysis:

The following table demonstrate the sensitivity to a reasonable possible change in foreign exchange rates, with all other variables held constant, of the Bank's statement of income for balances as of 31 December:

	5% decrease		5% increase	
	2009	2008	2009	2008
Kuwaiti Dinar	698,580	1,305,142	(632,048)	(1,180,843)

Equity price risk

Equity price risk is the risk that Bank's quoted equity investments will depreciate in value due to movements in the quoted equity prices. The Bank has a few listed equity exposures in the trading book as well as the available-for-sale portfolio. The price movement of these exposures are monitored by the Bank on a daily basis.

The following table demonstrate the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's statement of income or equity based on the position as of 31 December:

Sensitivity Analysis:

	20% decrease		20% increase	
	2009	2008	2009	2008
Particulars				
Trading investments	(1,122,316)	(1,147,748)	1,122,316	1,147,748
Available-for-sale investments	(4,016,900)	(3,847,904)	4,016,900	3,847,904

17 RISK MANAGEMENT (continued)

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.

The Bank has implemented an operational risk framework of the Basic Indicator Approach ["BIA"], as defined by the CBB guidelines. This framework includes measuring, monitoring and managing operational risk across the Bank. This framework uses tools like Risk and Control Self Assessment, identification of Key Risk Indicators, preparation of operational loss database etc.

The operational risk framework will evolve with the changing needs of the Bank's businesses and regulatory guidance, taking into account internal and external operational risk events, business environment and internal control factors.

While individual units have direct responsibility for the control and mitigation of operational risk, the proposed framework provides a consistent methodology across the Bank. The Bank attempts to manage operational risk through appropriate controls, appropriate training to the employees, and internal checks and balances including internal audit and compliance.

18 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank uses the following hierarchy for determining and disclosing financial assets by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Bank's quoted equity investments qualify for disclosure under Level 1 and their carrying value as at 31 December 2009 is US\$ 25,264,547 (31 December 2008: US\$ 24,747,958). The Bank does not have financial instruments qualifying for Level 2 or Level 3. The other available for sale investments are carried at cost less impairment, if any.

19 CAPITAL MANAGEMENT

The Bank follows the CBB guidelines for capital requirements and maintains sufficient capital to ensure compliance with the minimum capital requirements.

The Bank's regulatory capital is analysed in two tiers as per CBB guidelines and includes:

- Tier 1: Core capital - This includes issued and fully paid ordinary shares, statutory reserve, retained earnings and unrealised gains on trading investments (45% of the value); and
- Tier 2: Supplementary Capital – current retained profits, asset revaluation reserves and unrealised gains arising from fair valuing equities (45% of the value).

The risk weighted assets are determined according to CBB guidelines that seek to reflect the varying levels of risk attached to assets. The Bank's policy is to maintain a capital adequacy ratio ["CAR"], at all times, in excess of the minimum required by CBB. The current requirement for the Bank is 15%.

19 CAPITAL MANAGEMENT (continued)

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

The Bank's regulatory capital position at 31 December was as follows:

	2009 Basel II	2008 Basel II
Total risk weighted assets (a)	144,282,013	164,022,007
Total regulatory capital, net of deductions (b)	46,555,098	39,058,327
Capital adequacy ratio (b/a x 100)	32.27%	23.81%

20 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 (2008: 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain of its investments with a carrying value of US\$ 4,306,622 as at 31 December 2009. 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

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.

21 SEGMENTAL INFORMATION

The activities of the Bank are all related to investment banking activities. The Bank operates solely in the Kingdom of Bahrain and no geographic segment information has been presented.

22 SOCIAL RESPONSIBILITY

The Bank discharges its social responsibilities through donations to charitable causes and organisations.

23 COMPARATIVES

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