

INVESTORS BANK B.S.C. (c)

FINANCIAL STATEMENTS 31 DECEMBER 2008

Commercial registration	:	39646 (registered with Central Bank of Bahrain as a Wholesale Bank (Islamic Principles)).
Registered Office	:	Seef Star Building Seef District PO Box 11818 Manama, Kingdom of Bahrain
Directors	:	Mr. Sami Al Bader, <i>Chairman</i> (until 4 August 2008) Dr. Abdulaziz Al Bader, <i>Chairman</i> (from 30 August 2008) Mr. Ahmed Shabeeb Al Dhaheeri, <i>Vice Chairman</i> Mr. Ghassan Fahad Al-Sultan Mr. Isa Abdulla Al-Mannai
Auditors	:	KPMG

FINANCIAL STATEMENTS
for the year ended 31 December 2008

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Chairman's Report

For the year ended 31 December 2008

All amounts are expressed in US Dollars unless otherwise stated

Praise be to Allah and peace and blessing be upon the Messenger

Dear Shareholders

On behalf of my colleagues, members of the Board of Director I am pleased to present to you the annual report on the activities of the Bank for the financial year ended 31 December 2008.

The world economies witnessed a noticeable slow down during 2008, particularly, in the United States of America where the most severe financial turmoil is concentrated. The real estate mortgage markets crisis appeared in August 2007 in the American high risk sub-prime market and its effect unexpectedly extended to cause extensive damage to markets and vital institution in the international financial system. The subsequent fallouts lead to the reduction in liquidity in the inter-bank dealing which substantially affected the capital adequacy of major international central banks. This led, also, to the demise and bankruptcy of several international banks. Fear of credit risk extended beyond the high risk real estate mortgage sector. Share prices dropped with the increase in indications of economic weakness. The level of volatility in the equity and currency market continued.

The turmoil which hit the markets has affected the foreign exchange markets also. The rate of exchange for the US Dollar was further reduced compared to the level reached in mid 2007 and 2008 because of the reduction in investments in American bonds and shares, which was due to the drop in the level of confidence in the liquidity of these securities and their return because of the financial crises.

In Fact the risks have concentrated against the financial stability since October 2008. Increased macroeconomic risk with a sharp decline in commercial global activity. As well as increased credit risk with the continuing rise in loan losses. At the same time, increased financing costs due to escape from high-risk assets and the lack of market liquidity. While the prices of risk-free under the easing of monetary policy.

Dear shareholders

In spite of the strategic initiatives and distinguished steps taken by the Bank in the year 2008 in the business side,, the use of specialised firms in the formulation of a clear working strategy for the Bank for the next five years, opening of new

communication channels with the countries of the region and the activation of the Bank role in its cooperation with the other companies of the Group, the financial crises has affected the bank.

After the Bank has moved to its new headquarters in the Seef District in the building, named the "Seef Star". The Bank has owned 50% of the total built area jointly with Takaful International.

With respect to the financial position of the Bank for the financial year ended 31 December 2008, the Bank has booked losses amounting to USD 34,887,764 (Thirty four million Eight Hundred Eighty Seven Thousands and Seven hundred sixty four US Dollars).

Dear Shareholders,

We assure that the steps taken by the Bank in 2008 will have their fruits during the coming period, bearing in mind that the Bank has taken into consideration all directives issued by the Central Bank of Bahrain to the bank. In spite of all this we do realise that the future challenges will be numerous but we as members of the Board of Directors are quite confident that we have the ability to face them, thanks to God's Grace, the work of the Senior management and the new team which undertakes the leadership in the working arena, in addition to the continuous training of the Bank staff and the implementation of modern technology information in the Bank.

In conclusion I wish to express our gratitude and appreciation to His Majesty King Hamed Bin Isa Al Khalifa, the King of Bahrain, to his highness Sheikh Khalifa Bin Salman Al Khalifa, the Prime Minister and His Highness Sheikh 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 Shariah Supervisory Board for their support and valuable guidance, to our investors and to our members of staff: executives and employees who stand behind the success achieved.



Dr. Abdul- Aziz Al Bader
Chairman

5th March 2009

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 31/12/2008.

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 31/12/2008 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.

3rd March 2009 corresponding to 6th Rabia I, 1429 Hijri.

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



INVESTORS Bank B.S.C. (C)

بنك المستثمرين (م.ش.م.ع.)



KPMG Fakhro
Audit
5th Floor
Chamber of Commerce Building
PO Box 710, Manama
Kingdom of Bahrain

CR No. 6220
Telephone +973 17 224807
Fax +973 17 227443
Internet www.kpmg.com.bh

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
INVESTORS BANK B.S.C. (c)
Manama, Kingdom of Bahrain

5 March 2009

Report on the financial statements

We have audited the accompanying financial statements of Investors Bank B.S.C. (c) ("the Bank"), which comprise the balance sheet as at 31 December 2008, and the income statement, the statement of changes in equity, the statement of cash flows, the statement of changes in restricted investment accounts and the statement of sources and uses of charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the board of directors of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2008, and the results of its operations, changes in its cash flows, equity, restricted investment accounts and sources and uses of charity fund for the year then ended, in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Other regulatory matters

In addition, in our opinion, the Bank has maintained proper accounting records and the financial statements are in agreement therewith. We have reviewed the accompanying report of the Chairman and confirm that the information contained therein is consistent with the financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, terms of the Bank's license or its memorandum and articles of association having occurred during the year that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

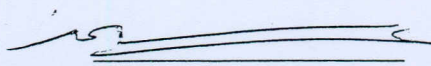
BALANCE SHEET
as at 31 December 2008

US\$

	Note	2008	2007
ASSETS			
Cash and cash equivalents	3	2,557,184	9,631,572
Trading investments	4,19	5,738,750	29,727,074
Available-for-sale investments	5,19	21,252,382	20,735,571
Murabaha receivables	19	3,243,848	3,243,848
Receivable from Mudarib	19	6,127,801	11,896,174
Mudaraba investment	19	4,000,000	4,500,000
Receivables from sale of investments	19	11,846,542	29,860,901
Deferred payment sale receivables	19,25	3,680,203	3,680,203
Investment property	8	10,742,443	-
Asset held-for-sale	9	6,797,782	13,838,620
Other assets	6	17,460,260	8,310,384
Equipment	7	1,579,576	1,631,225
Total assets -		95,026,771	137,055,572
LIABILITIES AND EQUITY			
Liabilities			
Due to a financial institution	25	3,670,202	3,670,202
Murabaha payable	19	3,229,064	3,229,064
Other liabilities		454,453	291,232
Total liabilities		7,353,719	7,190,498
Equity			
Share capital	10	80,000,000	80,000,000
Statutory reserve		7,409,515	7,409,515
Available-for-sale investments fair value reserve		2,959,559	10,263,817
(Accumulated losses) / retained earnings		(2,696,022)	32,191,742
Total equity (page 7)		87,673,052	129,865,074
Total liabilities and equity		95,026,771	137,055,572
OFF-BALANCE SHEET ITEMS			
Restricted investment accounts (page 10)		16,646,823	16,708,037

The financial statements, which consist of pages 5 to 35, were approved by the Board of Directors on 5 March 2009 and signed on its behalf by:


 Dr. Abdulaziz Al Bader
 Chairman


 Isa Abdulla Al-Mannai
 Director

The accompanying notes 1 to 26 form an integral part of these financial statements.

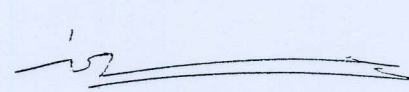
INCOME STATEMENT
for the year ended 31 December 2008

US\$

	Note	2008	2007
Income from trading investments	11,19	1,020,766	771,937
Income from available-for-sale investments	12,19	259,698	412,579
Fair value losses on trading investments	4, 19	(24,794,626)	(9,566,793)
Fair value losses on available-for-sale investments		(541,184)	-
Income from Mudaraba investment	19	192,452	79,377
Net income from asset held-for-sale	9	2,930,193	1,257,051
Other income	13	1,371,243	2,028,155
Total net income		(19,561,458)	(5,017,694)
Staff cost		1,490,642	1,444,954
Administrative and general expenses	14	944,434	1,039,510
Impairment allowance	15,19	12,416,732	2,712,594
Depreciation		474,498	46,103
Total expenses		15,326,306	5,243,161
Loss for the year		(34,887,764)	(10,260,855)



Dr. Abdulaziz Al Bader
Chairman



Isa Abdulla Al-Mannai
Director

The accompanying notes 1 to 26 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2008

US\$

2008	Share capital	Statutory reserve	AFS investments fair value reserve	Retained earnings	Total
Balance at 1 January 2008	80,000,000	7,409,515	10,263,817	32,191,742	129,865,074
Fair value losses during the year	-	-	(7,304,258)	-	(7,304,258)
Net loss recognised directly in equity	-	-	(7,304,258)	-	(7,304,258)
Loss for the year	-	-	-	(34,887,764)	(34,887,764)
Total recognised income and expense	-	-	(7,304,258)	(34,887,764)	(42,192,022)
At 31 December 2008	80,000,000	7,409,515	2,959,559	(2,696,022)	87,673,052

The accompanying notes 1 to 26 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2008

US\$

2007	Share capital	Statutory reserve	AFS investments fair value reserve	Retained earnings	Total
Balance at 1 January 2007	80,000,000	7,409,515	10,714,722	42,452,597	140,576,834
Fair value losses during the year	-	-	(450,905)	-	(450,905)
Net loss recognised directly in equity	-	-	(450,905)	-	(450,905)
Loss for the year	-	-	-	(10,260,855)	(10,260,855)
Total recognised income and expense	-	-	(450,905)	(10,260,855)	(10,711,760)
At 31 December 2007	80,000,000	7,409,515	10,263,817	32,191,742	129,865,074

The accompanying notes 1 to 26 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2008

US\$

	2008	2007
OPERATING ACTIVITIES		
Dividends received	216,342	-
Placement fees received	-	2,000,000
Underwriting fees received	-	3,631,836
Income from Murabaha contracts received	147,374	129,130
Purchase of available-for-sale investments	(8,609,692)	-
Purchase of trading investments	(941,508)	-
Proceeds from sale of available-for-sale investments	257,037	2,006,527
Proceeds from sale of trading investments	1,642,154	-
Payments for operating expenses	(2,043,855)	(2,606,368)
Employee Qard Hasan and advances, net	(30,646)	84,403
Refund of payments to Managing Director	1,000,000	-
Others	(113,489)	21,028
Cash flows from operating activities	(8,476,283)	5,266,556
INVESTING ACTIVITIES		
Purchase of equipment	(418,998)	(1,551,262)
Proceeds from disposal of equipment	52,520	-
Cash flows from investing activities	(366,478)	(1,551,262)
FINANCING ACTIVITIES		
Mudaraba investment	(4,000,000)	(4,500,000)
Mudaraba investment income received	-	79,377
Receipt from Mudaraba investments	-	10,034,860
Collections from receivable from Mudarib	5,768,373	-
Payments to charitable organisations, net (page 12)	-	(81,141)
Cash flows from financing activities	1,768,373	5,533,096
Net (decrease) / increase in cash and cash equivalents	(7,074,388)	9,248,390
Cash and cash equivalents at beginning of the year	9,631,572	383,182
Cash and cash equivalents at end of the year (note 3)	2,557,184	9,631,572

The accompanying notes 1 to 26 form an integral part of these financial statements.

STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2008

2008	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\$	Administra- tion 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	2,940	3.65	10,720,146	-	(61,214)	-	-	-	2,940	3.63	10,658,932
			16,708,037	-	(61,214)	-	-	-			16,646,823

1 Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties. The restricted investment accounts at 31 December 2008 are carried net of a provision for impairment amounting to US\$ 282,311 (2007: US\$ 282,311).

2 On the instructions of a restricted investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C ('IIG'). The Bank then entered into a deferred payment sale agreement with the restricted investment account holder for sale of 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 25).

The accompanying notes 1 to 26 form an integral part of these financial statements.

STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2008

2007	Balance at 1 January 2007			Movements during the year					Balance at 31 December 2007		
	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\$	Administra- tion 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	2,940	3.46	10,169,140	-	551,006	-	-	-	2,940	3.65	10,720,146
			16,157,031	-	551,006	-	-	-			16,708,037

1 Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties. The restricted investment accounts at 31 December 2007 are carried net of a provision for impairment amounting to US\$ 282,311 (2006: 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 25).

The accompanying notes 1 to 26 form an integral part of these financial statements.

STATEMENT OF SOURCES AND USES OF CHARITY FUND
for the year ended 31 December 2008

US\$

	2008	2007
Sources of charity fund		
Non-Islamic income	634	553
Total sources	634	553
Uses of charity fund		
Contributions to charitable organisations	-	81,141
Total uses	-	81,141
Excess / (deficit) of sources over uses	634	(80,588)
Undistributed charity fund at 1 January	34,621	115,209
Undistributed charity fund at 31 December	35,255	34,621

The accompanying notes 1 to 26 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

US\$

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 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.

2 SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

The financial statements have been prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by AAOIFI standards, the Bank uses guidance from the relevant International Financial Reporting Standard.

(b) Basis of preparation

The financial statements are presented in US Dollars, being the principal currency of the Bank's operations. They are prepared on the historical cost basis modified by 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, except for the change described below.

Up to June 2008, fair value gains and losses on available-for-sale investments were recognised in an "investment fair value reserve" as a separate component in equity. Further, fair value losses were recognised in the investment fair value reserve only to the extent of the available balance. If the fair value losses exceeded the available balance, the unrealised losses were recognised in the income statement. In case there were unrealised losses that had been previously recognised in the income statement, then the unrealised gains for the year were recognised in the income statement to the extent of previously recognised losses in the income statement. Any excess of such gains over previously recognised losses were taken to the investment fair value reserve.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

US\$

2 Significant accounting policies (continued)**(b) Basis of preparation (continued)**

In October 2008, AAOIFI issued an amendment to "FAS 17: Investments", effective 1 July 2008. The amendment states that losses on AFS investments are recognised in the "Investment fair value reserve" even if that results in a negative fair value reserve provided the investments are not impaired. In the event of sale, disposal or impairment, the cumulative gains and losses recognised in equity are transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

During 2008, the Bank recognised fair value loss of US\$ 1,995,758, on certain investments, in the investment fair value reserve. Had this amendment not been effected, this fair value loss would have been recognised in the income statement and accordingly the net loss for the year ended 31 December 2008 would have been higher by US\$ 1,995,758. This change had no effect on the previously reported profit or equity.

The preparation of financial statements in conformity with FAS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements as set out in note 23.

(c) Revenue recognition

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.

(d) Mudaraba investments

Mudaraba investments are stated at cost less provision for impairment.

(e) Investment securities**(i) Classification**

Investment in equity securities are classified either as trading or available-for sale.

Trading investments are those 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. The Bank currently does invest in trading securities.

Available-for-sale investments are those investments that are not classified as trading investments or are held-to-maturity. These include investments in certain quoted and unquoted equity securities.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008**

US\$

2 Significant accounting policies (continued)**(e) Investment securities (continued)****(ii) Recognition and de-recognition**

Investment securities are recognised on trade date i.e. the date the Bank commits to purchase the investments. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risk and rewards of ownership.

(iii) Initial and subsequent re-measurement

Investment securities are measured initially at fair value, which is the value of the consideration given, including transaction costs, except in the case of trading securities, transaction costs are expensed.

Subsequent to initial recognition, trading and available-for-sale investments are re-measured to fair value. Changes in fair value of trading investments are taken to the income statement. Fair value changes on available-for-sale investments are recognised in a separate fair value reserve in the statement of equity and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the fair value reserve is transferred to the income statement. Available-for-sale investments, which do not have a quoted market price or other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

(iv) Measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Bank measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. Fair value for unquoted managed funds is the fund's net assets value as determined by the fund manager.

(f) 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.

(g) Equipment

Equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 3 to 5 years. The assets' residual value and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

(h) Investment property

Investment property is stated at cost less impairment.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

US\$

2 *Significant accounting policies (continued)***(i) Asset-held-for sale**

The Bank classifies non-current assets or disposal groups as held-for-sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. Non-current assets or disposal groups classified as held-for-sale are measured at the lower of its carrying amount and fair value less costs to sell. The Bank continues to classify non-current assets or disposal groups as held for sale where events or circumstances beyond the control of the Bank extend the period to complete the sale beyond twelve months and the Bank remains committed to its plan to sell.

(j) Impairment of assets

The Bank assesses at each balance sheet date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets (including equity securities) are impaired include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Available-for-sale investments

In the case of investments in equity securities classified as available-for-sale and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity. For available-for-sale investments carried at cost less impairment, the Bank makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

Other non-financial assets

The carrying amount of the Bank's assets (other than for financial assets referred to above), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(k) 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

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2 *Significant accounting policies (continued)***(l) 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.

(m) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

(n) Restricted investment accounts

Restricted investment accounts represents 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.

(o) Transactions and balances in foreign currencies

Transactions in foreign currencies are translated at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date, are translated at the exchange rate prevailing at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the exchange rates prevailing at the dates that the values are determined.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with financial institutions and short-term highly liquid assets (commodity Murabahas), with maturities of three months or less when acquired.

(q) Employee benefits**(i) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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2 Significant accounting policies (continued)

(ii) Post-employment benefits

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the balance sheet date.

These benefits qualify as "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the income statement.

3 CASH AND CASH EQUIVALENTS

	2008	2007
Cash on hand	1,326	1,326
Cash at banks	2,555,858	1,778,918
Short term Commodity Murabaha:		
Gross	-	7,856,537
Deferred profit	-	(5,209)
Carrying amount	-	7,851,328
	2,557,184	9,631,572

4 TRADING INVESTMENTS

	2008	2007
At 1 January	29,727,074	39,293,867
Purchases during the year	941,508	-
Sales during the year, at carrying value	(135,206)	-
Fair value losses during the year	(24,794,626)	(9,566,793)
At 31 December	5,738,750	29,727,074

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for the year ended 31 December 2008

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5 AVAILABLE-FOR-SALE INVESTMENTS

	2008	2007
At 1 January	20,735,571	21,586,476
Purchases during the year	8,655,271	-
Sales during the year, at carrying value	(228,805)	-
Fair value losses during the year	(7,757,677)	(450,905)
Impairment loss	(151,978)	(400,000)
At 31 December	21,252,382	20,735,571

Available-for -sale investments comprise:

	2008	2007
<i>Investment in shares</i>		
i) Quoted – at fair value	19,009,208	19,762,462
ii) unquoted – at cost	1,795,341	1,486,430
<i>Investments in funds</i>	1,249,811	868,779
	22,054,360	22,117,671
Less: impairment allowance	(801,978)	(1,382,100)
	21,252,382	20,735,571

Movement on impairment allowance on available for sale investments:

	2008	2007
At 1 January	1,382,100	982,100
Additional provision during the year	151,978	400,000
Impairment reversals during the year	(732,100)	-
At 31 December	801,978	1,382,100

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	1.32	Commercial banking in accordance with Islamic Shari'a.
Takaful International BSC	Bahrain	18.03	Takaful – insurance according to the Islamic Shari'a.

At 31 December 2008, investments with carrying value of US\$ 6,321,010 (2007: US\$ 11,854,788) were held in the name of a financial institution and pledged as collateral against amounts due to the financial institution (note 25). Also, investments with carrying value of US\$ 6,435,709 (2007: US\$ 6,435,709) were pledged as collateral against amounts due to a related party.

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6 OTHER ASSETS

	2008	2007
Current account with related parties (note 19)	15,647,159	5,666,486
Statutory deposit with CBB	13,263	13,263
Management and advisory fees receivable	-	71,701
Prepaid expenses	53,124	179,502
Qard Hassan	86,662	56,016
Advance towards purchase of AFS investment (note 19)	408,535	454,114
Dividends receivable (note 19)	2,666,984	1,701,992
Others	876,498	975,845
	19,752,225	9,118,919
Less: provision for impairment	(2,291,965)	(808,535)
	17,460,260	8,310,384

Movement on impairment allowance on other assets

	2008	2007
At 1 January	808,535	400,000
Additional provision during the year	1,483,430	408,535
At 31 December	2,291,965	808,535

7 EQUIPMENT

	Office equipment & furniture	Fixtures	Motor vehicles	2008 Total	2007 Total
Cost					
At 1 January	874,877	1,245,596	58,045	2,178,518	584,530
Additions	134,687	291,578	-	426,265	1,593,988
Disposals	(125,454)	(184,879)	-	(310,333)	-
At 31 December	884,110	1,352,295	58,045	2,294,450	2,178,518
Depreciation					
At 1 January	318,880	184,879	43,534	547,293	501,190
Charge for the period	193,780	269,109	11,609	474,498	46,103
Disposals	(122,038)	(184,879)	-	(306,917)	-
At 31 December	390,622	269,109	55,143	714,874	547,293
Net book value at 31 December	493,488	1,083,186	2,902	1,579,576	1,631,225

NOTES TO THE FINANCIAL STATEMENTS
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8 INVESTMENT PROPERTY

During the year, the Bank realised one Mudaraba investment with a related party of US\$ 4,692,452 and partially realised receivable from sale of investments of US\$ 11,216,450 in exchange for a land in Bahrain as settlement. The land has been recognised as investment property at the market price on the date of settlement.

	2008	2007
Investment property	15,897,386	-
Less: provision for impairment	(5,154,943)	-
	10,742,443	-

9 ASSET HELD-FOR-SALE

Asset held-for-sale comprise the Bank's share in a building in Sharjah, which is jointly owned with a related party. The building is registered in the name of the related party. During the year, the Bank recognised US\$ 2,930,193 (2007: US\$ 1,257,051) as net income from partial sale of its share in the building.

10 SHARE CAPITAL

Authorised:
 303,030,303 ordinary shares of US\$ 0.33 each

Issued and fully paid up:
 242,424,242 shares of US\$ 0.33 each

	2008	2007
	100,000,000	100,000,000
	80,000,000	80,000,000

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 K.S.C.C.	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%

11 INCOME FROM TRADING INVESTMENTS

Dividend income
 Income from sale of investments

	2008	2007
	1,007,824	771,937
	12,942	-
	1,020,766	771,937

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

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12 INCOME FROM AVAILABLE-FOR-SALE INVESTMENTS

	2008	2007
Dividend income	216,911	412,579
Income from sale of investments	42,787	-
	259,698	412,579

13 OTHER INCOME

Other income for 2008 includes US\$ 1,000,000 received from the late Managing Director as a refund of consideration paid to him in 2006 for his services in earlier periods. This refund has been received subsequent to the conclusion of the discussions on this payment with the Central Bank of Bahrain.

14 ADMINISTRATIVE AND GENERAL EXPENSES

	2008	2007
Consultancy and legal expenses	187,849	364,139
Rent	134,975	164,945
Advertising and promotion	58,863	80,162
Professional fees	62,599	62,334
License and registration	34,589	35,589
Communication	16,871	32,279
Business development	171,162	52,608
Brokerage fees	660	6,256
Others	276,866	241,198
	944,434	1,039,510

15 IMPAIRMENT ALLOWANCE

	2008	2007
Murabaha receivables	-	1,904,059
Available-for-sale investments	151,978	400,000
Receivables from sale of investments	5,626,381	-
Investment property	5,154,943	-
Other assets	1,483,430	408,535
	12,416,732	2,712,594

16 ZAKAH

Zakah is directly borne by the shareholders and, accordingly, no provision is made by the Bank for Zakah. The Bank computes the Zakah payable by the shareholder on the net invested funds method. The basis of computation is approved by the Shari'a Board and the amounts payable are notified to the shareholders.

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for the year ended 31 December 2008

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17 MATURITY PROFILE

The maturity profile of for cash and cash equivalents, Murabaha receivables and payables, receivables from Mudarib and Mudaraba investment has been presented using contractual cash flows. For other balances, maturity profile is based on expected cash flows/ settlement profile of the.

2008	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and cash equivalents	2,557,184	-	-	-	-	2,557,184
Trading investments	-	-	5,738,750	-	-	5,738,750
Available-for-sale investments	-	-	6,538,539	14,713,843	-	21,252,382
Murabaha receivables	3,243,848	-	-	-	-	3,243,848
Receivable from Mudarib	6,127,801	-	-	-	-	6,127,801
Mudaraba investment	-	-	4,000,000	-	-	4,000,000
Receivables from sale of investments	11,846,542	-	-	-	-	11,846,542
Deferred payment sale receivables	-	-	3,680,203	-	-	3,680,203
Investment property	-	-	-	10,742,443	-	10,742,443
Asset held-for-sale	-	-	6,797,782	-	-	6,797,782
Other assets	14,163,730	1,083	3,194,024	86,662	14,761	17,460,260
Equipment	-	-	-	-	1,579,576	1,579,576
Total assets	37,939,105	1,083	29,949,298	25,542,948	1,594,337	95,026,771
Liabilities						
Due to a financial institution	-	-	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	-	-	3,229,064
Other liabilities	137,378	81,796	115,368	119,911	-	454,453
Total liabilities	3,366,442	81,796	3,785,570	119,911	-	7,353,719
Off-balance sheet items						
Restricted investment accounts	-	-	16,646,823	-	-	16,646,823

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

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17 Maturity profile (continued)

2007	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and cash equivalents	9,631,572	-	-	-	-	9,631,572
Trading investments	-	-	29,727,074	-	-	29,727,074
Available-for-sale investments	-	-	12,073,567	8,662,004	-	20,735,571
Murabaha receivables	3,243,848	-	-	-	-	3,243,848
Receivable from Mudarib	11,896,174	-	-	-	-	11,896,174
Mudaraba investment	-	4,500,000	-	-	-	4,500,000
Receivables from sale of investments	29,860,901	-	-	-	-	29,860,901
Deferred payment sale receivables	-	-	3,680,203	-	-	3,680,203
Asset held-for-sale	-	-	13,838,620	-	-	13,838,620
Other assets	5,666,486	905,942	1,511,478	211,530	14,948	8,310,384
Equipment	-	-	-	-	1,631,225	1,631,225
Total assets	60,298,981	5,405,942	60,830,942	8,873,534	1,646,173	137,055,572
Liabilities						
Due to a financial institution	-	-	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	-	-	3,229,064
Other liabilities	73,183	54,788	69,640	93,621	-	291,232
Total liabilities	3,302,247	54,788	3,739,842	93,621	-	7,190,498
Off-balance sheet items						
Restricted investment accounts	-	-	167,08,037	-	-	167,08,037

NOTES TO THE FINANCIAL STATEMENTS
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18 CONCENTRATION OF ASSETS AND LIABILITIES

The Bank's assets and liabilities are distributed over the following industry sectors and geographical areas:

2008

	Banks and financial institutions	Investment companies	Others	Total
Assets				
Cash and cash equivalents	2,557,184	-	-	2,557,184
Trading investments	287,603	-	5,451,147	5,738,750
Available-for-sale investments	18,313,757	479,769	2,458,856	21,252,382
Murabaha receivables	-	-	3,243,848	3,243,848
Receivable from Mudarib	6,127,801	-	-	6,127,801
Mudaraba investment	4,000,000	-	-	4,000,000
Receivables from sale of investments	8,328,852	3,517,690	-	11,846,542
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment property	-	-	10,742,443	10,742,443
Asset held-for-sale	-	-	6,797,782	6,797,782
Other assets	1,744,621	150,371	15,565,268	17,460,260
Equipment	-	-	1,579,576	1,579,576
Total assets	41,359,818	7,828,033	45,838,920	95,026,771
Liabilities				
Due to a financial institution	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064
Other liabilities	-	-	454,453	454,453
Total liabilities	6,899,266	-	454,453	7,353,719
Off-balance sheet items				
Restricted investment accounts	5,670,202	10,658,932	317,689	16,646,823

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

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18 Concentration of assets and liabilities (continued)

2007

	Banks and financial institutions	Investment companies	Others	Total
Assets				
Cash and cash equivalents	9,631,572	-	-	9,631,572
Trading investments	-	-	29,727,074	29,727,074
Available-for-sale investments	19,162,940	250,715	1,321,916	20,735,571
Murabaha receivables	-	-	3,243,848	3,243,848
Receivable from Mudarib	11,896,174	-	-	11,896,174
Mudaraba investment	-	4,500,000	-	4,500,000
Receivables from sale of investments	22,165,907	7,694,994	-	29,860,901
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Asset held-for-sale	-	-	13,838,620	13,838,620
Other assets	1,862,268	145,959	6,302,157	8,310,384
Equipment	-	-	1,631,225	1,631,225
Total assets	64,718,861	16,271,871	56,064,840	137,055,572

Liabilities				
Due to a financial institution	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064
Other liabilities	-	-	291,232	291,232
Total liabilities	6,899,266	-	291,232	7,190,498

Off-balance sheet items				
Restricted investment accounts	5,670,202	10,720,146	317,689	16,708,037

Geographical concentration

Assets and liabilities of the Bank as at 31 December 2008 and 31 December 2007 are primarily concentrated in the Middle East region.

19 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties also include directors and shareholders of the Bank and companies in which they have an ownership interest.

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.

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19 *Related party transactions and balances (continued)*

Significant balances with related parties at 31 December comprise:

Assets	Nature of relationship	2008	2007
Trading investments	Group entity	5,451,147	29,727,074
Available-for-sale investments	Shareholders	252,280	267,567
	Group entities	8,086,642	8,045,630
		8,338,922	8,313,197
Murabaha receivables	Group entity	3,243,848	3,243,848
Mudaraba investments	Shareholder	4,000,000	4,500,000
Receivables from sale of investments	Shareholders	11,846,542	29,860,901
Deferred payment sale receivables	Shareholder	3,680,203	3,680,203
Receivable from Mudarib	Shareholder	6,127,801	11,896,174
Other assets:			
Advance towards purchase of available-for-sale investments	Group entity	-	45,579
Current account	Shareholders	183,839	175,693
	Group entity	13,979,891	5,490,793
		14,163,730	5,666,486
Dividend receivable	Shareholder	2,581	2,044
	Group entity	1,776,670	812,215
		1,779,251	814,259
Due from Chairman	Key Management Personnel	-	99,161
Management and advisory fees receivable	Group entity	-	71,701
Liabilities			
Murabaha payables	Shareholder	3,229,064	3,229,064

Significant transactions with related parties include:

Income		2008	2007
Income from trading investments	Group entity	1,007,824	771,937
Income from available-for-sale investments	Shareholder	569	955
Fair value losses on trading investments	Group entity	(24,275,927)	(9,566,793)
Income from Mudaraba investment	Group entity	192,452	79,377
Income from Murabaha receivables	Group entity	-	222,858
Other income – refund of payments to Managing Director	Key Management Personnel	1,000,000	-
Expenses			
Impairment allowance	Group entity	1,483,430	2,312,594
	Shareholders	5,626,381	-
		7,109,811	2,312,594

The Group entities includes those entities, which are subject common control or influence of certain shareholders of the Bank.

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19 *Related party transactions and balances (continued)*

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:

	2008	2007
Salaries and other short-term benefits	244,105	168,572
Post employment benefits	9,655	3,820

20 **Proposed appropriations**

The Board of Directors doesn't propose any appropriation for the years ended 31 December 2008 and 31 December 2007.

21 **RISK MANAGEMENT**

The Bank is exposed to the credit risk, liquidity risk and market risk during the course of its business along with other operation 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 of Directors. Although the Bank currently has no separate Risk Management Committee (commensurate with its activities), the Risk Management Department assists with the overall management of the Bank's risks.

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 Internal Audit function. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Bank has an internal risk management function to provide independent review, monitoring and control of the various risks faced by the Bank. It works closely with the executive management and other business and control functions. Various operating departments (the business units and the support functions) own the risks.

The Bank, with the help of external consultants, has formulated a 5-year business plan. As part of this exercise, the Bank is in the process of establishing and implementing exposures limits, commensurate to its new business strategy and market environment as well as set levels of risk the Bank is willing to accept in relation to its available capital.

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21 *Risk Management (continued)*a) **Credit risk**

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

The Bank's credit risk arises mainly from cash and balances with banks, Murabaha receivables, Mudaraba investment, receivable from sale of investments, available-for-sale investments, deferred payment sale receivables and other assets.

The Bank's Risk Management Department (RMD) works alongside the investment originators at all stages of the deal cycle, up to exit and provides an independent review.

Bank has initiated steps to ensure adequate segregation of duties so that the RMD will independently deal with:

- Formulating investment and credit policies in consultation with business units, covering credit assessment, risk reporting, documentary and legal procedures, and compliance with relevant regulatory requirements.
- Establishing the authorization structure for the approval and renewal of investment and credit facilities. Authorization limits are currently allocated to Executive committee and Board of Directors.
- Reviewing and assessing investment and credit risk.
- Limiting concentrations of exposure to counterparties, geographies and industries and product types.
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The current risk grading framework consists of two broad grades "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.

The Bank ensures that liquid assets like cash is placed with Islamic financial institutions based on an appropriate credit evaluation. Deferred payment sale receivable is due from a related party. Majority of other assets represents current accounts with related parties.

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21 Risk Management (continued)

a) Credit risk (continued)

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

	2008	2007
Cash and cash equivalents	2,557,184	9,631,572
Murabaha receivables	3,243,848	3,243,848
Mudaraba investment	4,000,000	4,500,000
Receivable from Mudarib	6,127,801	11,896,174
Receivable from sale of investments	11,846,542	29,860,901
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	17,407,136	8,130,881
Maximum exposure to credit risk	48,862,714	70,943,579

Analysis of Bank's exposure to credit risk:

Descriptions	Cash & cash equivalents	Murabaha receivables	Mudaraba investment	Receivables from sale of investments	Deferred payment sale receivables	Other financial assets	Total US\$
2008							
Neither past due nor impaired:							
Carrying amount	2,557,184	-	4,000,000	-	-	285,261	6,842,445
Past due but not impaired:							
30 – 60 days	-	-	-	-	-	-	-
60 – 90 days	-	-	-	-	-	-	-
90 – 180 days	-	-	-	-	-	-	-
Over 180 days	-	-	-	-	3,680,203	8,794,785	12,474,988
Carrying amount - Past due but not impaired	-	-	-	-	3,680,203	8,794,785	12,474,988
Individually impaired:							
Gross amount	-	5,147,907	-	17,472,923	-	16,746,856	39,367,686
Allowance for impairment	-	(1,904,059)	-	(5,626,381)	-	(2,291,965)	(9,822,405)
Carrying Amount - Individually impaired	-	3,243,848	-	11,846,542	-	14,454,891	29,545,281
Carrying Amount – total	2,557,184	3,243,848	4,000,000	11,846,542	3,680,203	23,534,937	48,862,714

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

US\$

21 Risk Management (continued)

a) Credit risk (continued)

Descriptions	Cash & cash equivalents	Murabaha receivables	Mudaraba investment	Receivables from sale of investments	Deferred payment sale receivables	Other financial assets	Total US\$
2007							
Neither past due nor impaired:							
Carrying amount	9,631,572	-	4,500,000	-	-	5,882,190	20,013,762
Past due but not impaired:							
30 – 60 days	-	-	-	-	-	-	-
60 – 90 days	-	-	-	-	-	814,258	814,258
90 – 180 days	-	-	-	-	-	-	-
Over 180 days	-	-	-	29,860,901	3,680,203	12,855,607	46,396,711
Carrying amount - Past due but not impaired	-	-	-	29,860,901	3,680,203	13,669,865	47,210,969
Individually impaired:							
Gross amount	-	5,147,907	-	-	-	1,283,535	6,431,442
Allowance for impairment	-	(1,904,059)	-	-	-	(808,535)	(2,712,594)
Carrying Amount - Individually impaired	-	3,243,848	-	-	-	475,000	3,718,848
Carrying Amount – total	9,631,572	3,243,848	4,500,000	29,860,901	3,680,203	20,027,055	70,943,579

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 impairments are identified by the Bank based on the various specific factors, which include financial health of the investee and expected cash flows.

Financial assets, which are past due but not impaired are primarily with related parties and are considered to be low risk as these are not disputed and are being negotiated among the group companies for settlement by way of exchange with other investment grade assets.

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, all 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 18.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

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21 *Risk Management (continued)*

b) 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 liquid assets such as trading and available-for-sale investments.

The short-term liabilities of the Bank mainly represent the operating account payable only. The Bank is in the process of establishing a senior management level Investment Committee, which will set policies and procedures for liquidity management. For maturity profile of assets and liabilities, please refer to note 17

c) Profit rate risk

Profit rate risk arises due to different timing of re-pricing of the Company's assets and liabilities. The Bank's exposure to profit rate risk is limited to cash and cash equivalents and Murabaha receivables. The Bank does not have significant profit rate risk sensitivity due to the short-term nature of its cash and cash equivalents and due to maturity of the Murabaha receivables.

d) 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:

Currency	2008	2007
	US\$	US\$
	Equivalent	Equivalent
Bahraini Dinar	48,638,488	48,103,181
Kuwaiti Dinar	24,797,704	61,448,035
United Arab Emirates Dirham	6,797,782	13,838,620

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 income statement based on the balance sheet position as of 31 December:

Currency	5% decrease		5% increase	
	2008	2007	2008	2007
Kuwaiti Dinar	1,305,142	3,234,107	(1,180,843)	(2,926,097)

e) 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 and reported to the management.

NOTES TO THE FINANCIAL STATEMENTS
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US\$

21 *Risk Management (continued)*

e) *Equity price risk (continued)*

Sensitivity Analysis:

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

Particulars	5% decrease		5% increase	
	2008	2007	2008	2007
Available-for-sale investments	(961,976)	(988,123)	961,976	988,123
Trading investments	(286,937)	(1,486,354)	286,937	1,486,354

f) **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 Sharia'a compliance risk. This definition excludes strategic and reputational risk.

The Bank is in the process of implementing an operational risk framework of the Basic Indicator Approach (BIA), as per 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.

The overall responsibility for the management and control of operational risk rests with the Board of Directors. However this responsibility is delegated to the CEO and the Head of Risk Management.

22 FAIR VALUE

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between the book values under the historical cost method and fair value estimates.

Other than certain available-for-sale investments carried at cost of US\$ 1,795,342 (2007: US\$ 754,330), the estimated fair values of the Bank's other financial assets are not significantly different from their book values.

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for the year ended 31 December 2008

US\$

23 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Estimates

Impairment of assets

The Bank determines that available-for-sale equity securities are impaired when there is an objective evidence on impairment and there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In case of quoted equity securities, the Bank considers a decline of more than 20% in the fair value below cost to be significant and considers a decline below cost which persists for more than 9 months as prolonged. Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment. In making this judgment, the Bank evaluates among other factors, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Judgements

Classification of investments

In the process of applying the Bank's accounting policies, management decides on acquisition of an investment whether it should be classified as trading or available-for-sale investments. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2 (e)].

24 CAPITAL MANAGEMENT

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

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, share premium, disclosed reserves, retained profit brought forward, unrealized net gains arising from fair valuing equities through P&L Account (45% of the value) and Minority interest
- Tier 2: Supplementary Capital – current interim 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 ratio, at all times, in excess of the minimum required by CBB. The current requirement for the Bank is 12.5%.

NOTES TO THE FINANCIAL STATEMENTS
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24 Capital management (continued)

With effect from 1 January 2008, the Bank is required to comply with the provisions of the revised Capital Adequacy Module of the CBB (revised based on the Basel II framework) in respect of regulatory capital. The Bank has adopted the Standardised Approach to credit 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:

	2008 Basel II	2007 Basel I
Total risk weighted assets	185,287,853	257,440,877
Total regulatory capital, net of deductions	57,986,546	124,220,076
Total regulatory capital expressed as a percentage of total risk weighted assets	31.30	48.25

The Bank has complied with all externally imposed capital requirements throughout the year.

25 LITIGATION AND CLAIMS

In 2004, the Bank entered into a sale and purchase agreement with a local financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution was US\$ 3,670,202. In accordance with the terms of the agreement, the Bank pledged certain of its investments with a carrying value of US\$ 6,321,010 as at 31 December 2008. Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged investments have been retained by the financial institution. In the opinion of the Bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the Bahrain courts against the financial institution for wrongful possession of investments. As a result, the court has taken custody of the shares under dispute. The related party on whose behalf the transactions was entered has provided a manager's cheque for an equal amount which has been deposited with the court. This amount is included under Deferred payment sale receivables.

The related party on whose behalf the transaction was entered into has also agreed to reimburse the Bank for legal expenses and any losses arising on final settlement with the financial institution. Accordingly, in the opinion of the directors, no provision is required to be made in the financial statements against the investments pledged with the financial institution or for contingent claims that might arise on final settlement.

26 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