Investors Bank B.S.C. (c)

INTERIM CONDENSED FINANCIAL STATEMENTS

30 JUNE 2012

ERNST & YOUNG

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

Introduction

We have reviewed the accompanying interim condensed financial statements of Investors Bank B.S.C. (c) ["the Bank"] as of 30 June 2012, comprising the interim statement of financial position as at 30 June 2012 and the related interim statements of income, cash flows and changes in owners' equity for the six month period then ended and explanatory notes. The Bank's Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with the accounting policies disclosed in note 2.

Ernst + Young

30 July 2012
Manama, Kingdom of Bahrain

Investors Bank B.S.C. (c)

INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2012 (Unaudited)

	Notes	*(Unaudited)* *30 June* *2012* *US$*	*(Audited)* *31 December* *2011* *US$*
ASSETS			
Cash and balances with banks		**336,411**	158,912
Investments	3	**14,907,044**	15,859,440
Deferred payment sale receivables		**3,680,203**	3,680,203
Investment properties	4	**18,105,372**	18,474,757
Other assets		**1,479,438**	1,385,874
Property and equipment		**2,779,987**	2,963,735
TOTAL ASSETS		**41,288,455**	42,522,921
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Due to a financial institution		**3,670,202**	3,670,202
Murabaha payable		**3,229,064**	3,229,064
Other liabilities		**690,759**	640,175
Total liabilities		**7,590,025**	7,539,441
Owners' Equity			
Share capital		**80,000,000**	80,000,000
Statutory reserve		**7,409,515**	7,409,515
Investments fair value reserve		**2,921,778**	3,679,690
Accumulated losses		**(56,632,863)**	(56,105,725)
Total owners' equity		**33,698,430**	34,983,480
TOTAL LIABILITIES AND OWNERS' EQUITY		**41,288,455**	42,522,921
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDERS		**16,489,766**	16,546,150

Mr. Ghassan Al Sultan
Chairman

Mr. Ebrahim Al Shaikh
Director

The attached notes 1 to 9 form part of these interim condensed financial statements

Investors Bank B.S.C. (c)

INTERIM STATEMENT OF INCOME

For the six months ended 30 June 2012 (Unaudited)

	Note	*Unaudited* *Three months ended*		*Unaudited* *Six months ended*	
		30 June 2012 US$	*30 June 2011 US$*	***30 June 2012 US$***	*30 June 2011 US$*
Gain on disposal of investments at fair value through equity		**-**	-	**-**	21,904
Fair value (loss) / gain on investments at fair value through statement of income		**(28,357)**	472,555	**(9,253)**	11,813
Other income	5	**380,517**	119,495	**784,120**	140,285
Operating income		**352,160**	592,050	**774,867**	174,002
EXPENSES					
Staff cost		**238,068**	273,891	**432,550**	488,254
Administrative and general expenses		**163,321**	158,955	**287,233**	251,275
Depreciation		**197,864**	199,978	**396,991**	400,069
Operating expenses		**599,253**	632,824	**1,116,774**	1,139,598
Net loss before provision for impairment		**(247,093)**	(40,774)	**(341,907)**	(965,596)
Provision for impairment, net		**-**	(1,728,539)	**(185,231)**	(2,223,143)
NET LOSS FOR THE PERIOD		**(247,093)**	(1,769,313)	**(527,138)**	(3,188,739)

Mr. Ghassan Al Sultan

Chairman

Mr. Ebrahim Al Shaikh

Director

The attached notes 1 to 9 form part of these interim condensed financial statements

INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012 (Unaudited)

	Unaudited *Six months ended*	
	30 June 2012 US$	*30 June 2011 US$*
OPERATING ACTIVITIES		
Net loss for the period	**(527,138)**	(3,188,739)
Adjustments for non-cash items:		
Depreciation	**396,991**	400,069
Provision for impairment, net	**185,231**	2,427,465
Gain on disposal of investments at fair value through equity	**-**	(21,904)
Gain on disposal of investment property	**(30,117)**	-
Fair value loss / (gain) on investments at fair value through statement of income	**9,253**	(11,813)
Operating gain / (loss) before changes in operating assets and liabilities:	**34,220**	(394,922)
Working capital adjustments:		
Other assets	**(93,564)**	(1,317)
Other liabilities	**50,584**	115,259
Net cash used in operating activities	**(8,760)**	(280,980)
INVESTING ACTIVITIES		
Proceeds from disposal of investments at fair value through equity	**-**	170,291
Proceeds from disposal of investment property	**190,606**	-
Purchase of equipment	**(4,347)**	(1,326)
Net cash from investing activities	**186,259**	168,965
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**177,499**	(112,015)
Cash and cash equivalents at beginning of the period	**158,912**	411,444
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**336,411**	299,429

INTERIM STATEMENT OF CHANGES IN OWNERS' EQUITY

For the six months ended 30 June 2012 (Unaudited)

	Share capital US$	*Statutory reserve US$*	*Investments fair value reserve US$*	*Accumulated losses US$*	*Total Owners' equity US$*
Balance at 1 January 2012	80,000,000	7,409,515	3,679,690	(56,105,725)	34,983,480
Net loss for the period	-	-	-	(527,138)	(527,138)
Other comprehensive loss during the period (note 3.1.3)	-	-	(757,912)	-	(757,912)
Balance as at 30 June 2012	**80,000,000**	**7,409,515**	**2,921,778**	**(56,632,863)**	**33,698,430**
Balance at 1 January 2011	80,000,000	7,409,515	2,644,604	(51,190,737)	38,863,382
Net loss for the period	-	-	-	(3,188,739)	(3,188,739)
Other comprehensive income during the period	-	-	76,092	-	76,092
Balance as at 30 June 2011	80,000,000	7,409,515	2,720,696	(54,379,476)	35,750,735

The attached notes 1 to 9 form part of these interim condensed financial statements

INTERIM STATEMENT OF CHANGES IN OFF-BALANCE SHEET INVESTMENT ACCOUNTHOLDERS

For the six months ended 30 June 2012 (Unaudited)

	Balance at 1 January 2012			Movements during the period		Balance at 30 June 2012		
	No of units (000)	Average value per share US$	Total US$	Investment/ (withdrawal) US$	Revaluations US$	No of units (000)	Average value per share US$	Total US$
Murabaha with Lotus Air Ltd	-	-	317,689	-	-	-	-	317,689
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	-	12,887	0.44	5,670,202
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.0743	10,558,259	-	(56,384)	142,059	0.0739	10,501,875
			16,546,150		**(56,384)**			**16,489,766**

	Balance at 1 January 2011			Movements during the period		Balance at 30 June 2011		
	No of units (000)	Average value per share US$	Total US$	Investment/ (withdrawal) US$	Revaluations US$	No of units (000)	Average value per share US$	Total US$
Murabaha with Lotus Air Ltd	-	-	317,689	-	-	-	-	317,689
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	-	12,887	0.44	5,670,202
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.0735	10,436,264	-	277,631	142,059	0.0754	10,713,895
			16,424,155		277,631			16,701,786

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

2 On the instructions of an off-balance sheet investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C ('IIG'). The Bank then entered into a deferred payment sale agreement with the off-balance sheet investment account holder for sale of the these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of the IIG shares to the off-balance sheet investment account holder (note 7).

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 Shari'a. The Bank may, in particular, carry on the following business activities:

a) Providing investment account facilities;
b) Accepting off balance sheet investment accounts commingling the same with those of the Bank and investing them in accordance with Shari'a;
c) Managing investments of third parties as an agent for a fixed fee as a Mudarib and any other banking activities not contravening the provisions of Shari'a;
d) Industrial, commercial and agricultural business activities, either directly or through companies which the Bank may establish, or in which the Bank may acquire shares; and
e) Purchasing, leasing and constructing buildings, and their renting thereof.

The interim condensed financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 30 July 2012.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed financial statements of the Bank for the six months period ended 30 June 2012 have been prepared in accordance with the guidance given by the International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34). The interim condensed financial statements do not contain all information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2011. In addition, results for the six months period ended 30 June 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

The interim condensed financial statements have been prepared under the historical cost convention as modified for the re-measurement of investments at fair value through statement of income and certain investments at fair value through equity. The interim condensed financial statements have been presented in United States Dollar ("US$"), being the functional currency of the Bank's operations.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2011 which were prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions (the "AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law and Central Bank of Bahrain and Financial Institutions Law. For matters which are not covered by AAOIFI standards, including "Interim Financial Reporting", the Bank uses the International Financial Reporting Standards (the "IFRSs").

3 INVESTMENTS

	(Unaudited) 30 June 2012 US$	*(Audited)* 31 December 2011 US$
Investments at fair value through statement of income	**1,795,107**	1,804,360
Investments at fair value through equity (note 3.1)	**13,111,937**	14,055,080
	14,907,044	15,859,440

3.1 Investments at fair value through equity

	Note	*(Unaudited)* 30 June 2012 US$	*(Audited)* 31 December 2011 US$
Quoted equity securities	3.1.1	**19,163,300**	19,917,004
Unquoted equity securities (at cost)	3.1.2	**1,783,622**	1,787,830
Investment in funds		**853,562**	853,562
		21,800,484	22,558,396
Provision for impairment		**(8,688,547)**	(8,503,316)
		13,111,937	14,055,080

3.1.1 As at the date of statement of financial position, investments with a carrying value of US$ 2,083,849 (31 December 2011 : US$ 1,921,772) were under dispute and in custody of the court as discussed in note 7. In addition, investments with a carrying value of US$ 5,760,487 (31 December 2011 : US$ 5,760,487) are pledged against amounts due to a financial institution.

3.1.2 These investments are carried at cost as their value cannot be reliably measured.

3.1.3 Other comprehensive loss represents fair value loss on investments classified at fair value through equity.

4 INVESTMENT PROPERTIES

	Freehold land US$	*Buildings* US$	*Total* US$
Cost:			
At 1 January 2012	18,742,649	13,557,902	32,300,551
Disposal	-	(232,608)	(232,608)
At 30 June 2012	**18,742,649**	**13,325,294**	**32,067,943**
Depreciation and impairment:			
At 1 January 2012	9,657,768	4,168,026	13,825,794
Charge for the period	-	208,896	208,896
Disposal	-	(72,119)	(72,119)
At 30 June 2012	**9,657,768**	**4,304,803**	**13,962,571**
Net carrying values:			
At 30 June 2012 (Unaudited)	**9,084,881**	**9,020,491**	**18,105,372**
At 31 December 2011 (Audited)	9,084,881	9,389,876	18,474,757

5 OTHER INCOME

	(Unaudited) 30 June 2012 US$	*(Unaudited)* 30 June 2011 US$
Gain on disposal of investment property	**30,117**	-
Rental income	**720,846**	140,051
Dividend income	**33,157**	234
	784,120	140,285

6 RELATED PARTY TRANSACTIONS

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

Transactions with related parties are undertaken on terms agreed between the parties which may not necessarily be on arm's length basis.

Significant balances with related parties comprise:

	(Unaudited) 30 June 2012 US$	*(Audited)* 31 December 2011 US$
Assets		
Investments at fair value through statement of income	**1,723,775**	1,733,030
Investments at fair value through equity	**8,590,343**	8,594,567
Deferred payment sale receivables	**3,680,203**	3,680,203
Other assets	**9,312**	-
Liabilities		
Murabaha payable	**3,229,064**	3,229,064
Other liabilities	**197,354**	174,199
OFF-BALANCE SHEET ITEMS:		
EQUITY OF INVESTMENT ACCOUNTHOLDERS	**16,172,077**	16,228,461

6 RELATED PARTY TRANSACTIONS (continued)

The income and expenses with related parties included in the condensed financial statements are as follows:

	Six months ended (Unaudited)	
	30 June 2012 US$	*30 June 2011 US$*
Income		
Fair value (loss) / gain on investments at fair value value through statement of income	**(9,255)**	55,216
Other income	**-**	2,122
Expenses		
Board of Directors	**7,213**	1,678
Shari'a Supervisory Board	**13,926**	13,926

Key management personnel of the Bank comprise key members of management having authority and responsibility for planning, directing and controlling activities of the Bank. The remuneration paid to key management personnel during the period was as follows:

	Six months ended (Unaudited)	
	30 June 2012 US$	*30 June 2011 US$*
Salaries and other short-term benefits	**42,618**	48,054
	42,618	48,054

7 LITIGATION AND CLAIMS

In 2004, the Bank entered into a sale and purchase agreement with a financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution was US$ 3,670,202 as at 30 June 2012 (31 December 2011: US$ 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain equity shares with a carrying value of US$ 2,083,849 as at 30 June 2012 (31 December 2011: US$ 1,921,772) in addition to dividends received on these shares amounting to US$ 887,733 as at 30 June 2012 (31 December 2011: US$ 887,733). 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 courts of Bahrain against the financial institution for possession of the Bank's investments.

As a result, the court has taken custody of the shares under dispute and the related dividends. The related party on whose behalf the transactions was entered has provided a manager's cheque for an equal amount which has been deposited with the court amounting to US$ 3,680,203 as at 30 June 2012 (31 December 2011: US$ 3,680,203).

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.

8 CONTINGENCIES AND COMMITMENTS

	(Unaudited) 30 June 2012 US$	*(Audited)* 31 December 2011 US$
Lease commitment (note 8.1)	**4,010,077**	2,836,397
	4,010,077	2,836,397

8.1 During 2006, the Bank entered into a lease agreement for the lease of a land on behalf of a related party of the Bank for term of 29 years, with a grace period of 2.5 years. The Bank also entered into a back to back agreement with the related party in which it has been agreed that the related party will make such lease payments to the Bank who in turn will settle the lease payments to the lessor. The related party had defaulted on its lease payments due to the delay in the execution of the planned project on the leased land. As at the reporting date, the lease commitment amounted to the lease payments outstanding as at that date. Based on an independent lawyers opinion, the Bank could include the related party as a defendant, if the lessor files a case against the Bank in case of default, where the related party would be liable to any settlment in accordance with the court ruling.

9 SEGMENT INFOMRATION

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

	(Unaudited) 30 June 2012			
	Banks and financial institutions US$	***Investment companies US$***	***Others US$***	***Total US$***
Assets				
Balances with banks	**336,411**	**-**	**-**	**336,411**
Investments	**11,824,894**	**31,936**	**3,050,214**	**14,907,044**
Deferred payment sale receivables	**-**	**3,680,203**	**-**	**3,680,203**
Investment properties	**-**	**-**	**18,105,372**	**18,105,372**
Other assets	**900,996**	**-**	**578,442**	**1,479,438**
Property and equipment	**-**	**-**	**2,779,987**	**2,779,987**
Total assets	**13,062,301**	**3,712,139**	**24,514,015**	**41,288,455**
Liabilities				
Due to a financial institution	**3,670,202**	**-**	**-**	**3,670,202**
Murabaha payable	**3,229,064**	**-**	**-**	**3,229,064**
Other liabilities	**86,904**	**-**	**603,855**	**690,759**
Total liabilities	**6,986,170**	**-**	**603,855**	**7,590,025**
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS	**5,670,202**	**10,501,875**	**317,689**	**16,489,766**

9 SEGMENT INFOMRATION (continued)

	(Audited) 31 December 2011			
	Banks and financial institutions US$	*Investment companies US$*	*Others US$*	*Total US$*
Assets				
Balances with banks	158,912	-	-	158,912
Investments	12,767,796	31,936	3,059,708	15,859,440
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment properties	-	-	18,474,757	18,474,757
Other assets	900,996	-	484,878	1,385,874
Property and equipment	-	-	2,963,735	2,963,735
Total assets	13,827,704	3,712,139	24,983,078	42,522,921
Liabilities				
Due to a financial institution	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064
Other liabilities	69,751	-	570,424	640,175
Total liabilities	6,969,017	-	570,424	7,539,441
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS	5,670,202	10,558,259	317,689	16,546,150

Industrial concentration

Income and expenses of the Bank for the period ended 30 June 2012 and 31 December 2011 are primarily concentrated in the "Others" sector.

Geographical concentration

Assets and liabilities of the Bank as at 30 June 2012 and 31 December 2011 are primarily concentrated in the Middle East region.