

Liquidity Management Centre B.S.C. (c)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2009 (UNAUDITED)

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF
LIQUIDITY MANAGEMENT CENTRE B.S.C. (c)**

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Liquidity Management Centre B.S.C. (c) [the "Bank"] and its subsidiary [together "the Group"] as at 30 September 2009, comprising of the interim condensed consolidated balance sheet as at 30 September 2009 and the related interim condensed consolidated statements of income, cash flows and changes in equity for the nine month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies discussed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated 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 consolidated financial statements are not prepared, in all material respects, in accordance with the accounting policies disclosed in note 2.

15 October 2009
Manama, Kingdom of Bahrain

Liquidity Management Centre B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2009 (Unaudited)

| | <i>Note</i> | 30 September 2009 (Unaudited) US\$ '000 | <i>31 December 2008 (Audited) US\$ '000</i> |
|---|-------------|--|---|
| ASSETS | | | |
| Cash and balances with banks | | 1,437 | 1,149 |
| Murabaha receivables | | - | 13,807 |
| Due from bank | | 4,000 | 15,000 |
| Investments | 4 | 254,604 | 242,598 |
| Other assets | | 5,446 | 3,868 |
| Equipments | | 1,385 | 369 |
| TOTAL ASSETS | | 266,872 | 276,791 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Due to Short Term Sukuk - investors | | 109,027 | 161,748 |
| Due to banks | | 92,532 | 42,997 |
| Due to non banks | | - | 13,604 |
| Other liabilities | | 3,178 | 2,132 |
| | | 204,737 | 220,481 |
| EQUITY | | | |
| Share capital | | 51,000 | 51,000 |
| Reserves | | 7,848 | 5,555 |
| Retained earnings (accumulated deficit) | | 3,287 | (245) |
| | | 62,135 | 56,310 |
| TOTAL LIABILITIES AND EQUITY | | 266,872 | 276,791 |

Emad Al Monayea
Deputy Chairman

Khalid Al Dossari
Director

Ahmad Abbas
Chief Executive Officer

The attached explanatory notes 1 to 8 form part of these interim condensed consolidated financial statements.

Liquidity Management Centre B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the nine months ended 30 September 2009 (Unaudited)

| | <i>Three month ended</i> | | <i>Nine month ended</i> | |
|--|--|--|--|--|
| | 30 September 2009 US\$ '000 | <i>30 September</i> <i>2008</i> <i>US\$ '000</i> | 30 September 2009 US\$ '000 | <i>30 September</i> <i>2008</i> <i>US\$ '000</i> |
| Income from investments | 2,428 | 3,034 | 8,570 | 10,678 |
| Less: Return to Short Term Sukuk - investors | (711) | (1,670) | (2,498) | (5,951) |
| Less: Return to banks | (1,003) | (208) | (2,658) | (379) |
| Less: Return to non banks | - | (153) | (223) | (281) |
| | 714 | 1,003 | 3,191 | 4,067 |
| Investment banking fees | 1,880 | 587 | 5,279 | 970 |
| Income from Murabaha and Wakala receivables | 9 | 224 | 20 | 769 |
| Income from Mudaraba | - | 102 | - | 102 |
| Other income | 336 | - | 448 | - |
| Fair value adjustments | - | (98) | - | 5,363 |
| Foreign exchange income (loss) | 45 | - | (146) | - |
| OPERATING INCOME | 2,984 | 1,818 | 8,792 | 11,271 |
| Staff costs | 1,003 | 1,123 | 2,586 | 3,739 |
| Depreciation | 29 | 22 | 74 | 66 |
| General and administrative expenses | 431 | 428 | 1,160 | 1,178 |
| OPERATING EXPENSES | 1,463 | 1,573 | 3,820 | 4,983 |
| NET PROFIT FOR THE PERIOD BEFORE IMPAIRMENT PROVISION | 1,521 | 245 | 4,972 | 6,288 |
| Impairment provision on investments | - | - | (1,440) | - |
| NET PROFIT FOR THE PERIOD | 1,521 | 245 | 3,532 | 6,288 |

The attached explanatory notes 1 to 8 form part of these interim condensed consolidated financial statements.

Liquidity Management Centre B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2009 (Unaudited)

| | <i>30 September</i> 2009 <i>US\$ '000</i> | <i>30 September</i> 2008 <i>US\$ '000</i> |
|---|--|--|
| OPERATING ACTIVITIES | | |
| Net profit for the period | 3,532 | 6,288 |
| Adjustment for: | | |
| Depreciation | 74 | 66 |
| Amortisation of discount on investments | (259) | (509) |
| Fair value adjustments | - | (5,363) |
| Impairment of investments | 1,440 | - |
| Operating profit before changes in operating assets and liabilities: | <u>4,787</u> | <u>482</u> |
| Changes in: | | |
| Other assets | (1,578) | (19,494) |
| Due to Short Term Sukuk - investors | (52,721) | (4,804) |
| Due to banks | 49,535 | - |
| Due to non banks | (13,604) | (17,000) |
| Other liabilities | 1,046 | (287) |
| Purchase of investments held-to-maturity | (20,000) | (13,100) |
| Redemption proceeds from investments held-to-maturity | 6,427 | 42,460 |
| Sale/(Purchase) proceeds of available-for-sale investments | 1,012 | (7,382) |
| Redemption of investment available-for-sale | 1,667 | 677 |
| Purchase of investments carried at fair value through statement of income | - | (861) |
| Sale of trading investment | - | 123 |
| Net cash used in operating activities | <u>(23,429)</u> | <u>(19,186)</u> |
| INVESTING ACTIVITY | | |
| Purchase of equipment | (1,090) | (161) |
| Net cash used in investing activities | <u>(1,090)</u> | <u>(161)</u> |
| FINANCING ACTIVITIES | | |
| Wakala payable | - | 53,072 |
| Dividend paid | - | (5,100) |
| Net cash from financing activities | <u>-</u> | <u>47,972</u> |
| (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (24,519) | 28,625 |
| Cash and cash equivalents at 1 January | <u>29,956</u> | <u>13,610</u> |
| CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER | <u>5,437</u> | <u>42,235</u> |
| Cash and cash equivalents at period end comprise of: | | |
| Cash and balances with banks | 1,437 | 1,278 |
| Mudaraba | - | 2,122 |
| Murabaha receivables maturing within ninety days | - | 23,835 |
| Wakala receivable maturing within ninety days | 4,000 | 15,000 |
| | <u>5,437</u> | <u>42,235</u> |

The attached explanatory notes 1 to 8 form part of these interim condensed consolidated financial statements.

Liquidity Management Centre B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2009 (Unaudited)

| | Share capital | Reserves | | | | | Retained earnings | Total equity |
|---|---------------|-------------------|-----------------|------------------------|-------------------------------|----------------|-------------------|---------------|
| | | Statutory reserve | General reserve | Investments fair value | Foreign exchange translations | Total reserves | | |
| | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 |
| Balance at 1 January 2009 | 51,000 | 1,930 | 1,930 | 2,199 | (504) | 5,555 | (245) | 56,310 |
| Cumulative changes in fair value | - | - | - | 2,160 | - | 2,160 | - | 2,160 |
| Foreign currency translation | - | - | - | - | 133 | 133 | - | 133 |
| Total income recognised directly in equity | - | - | - | 2,160 | 133 | 2,293 | - | 2,293 |
| Net profit for the period | - | - | - | - | - | - | 3,532 | 3,532 |
| Total income and expenses recognised for the period | - | - | - | 2,160 | 133 | 2,293 | 3,532 | 5,825 |
| Balance at 30 September 2009 | 51,000 | 1,930 | 1,930 | 4,359 | (371) | 7,848 | 3,287 | 62,135 |
| Balance at 1 January 2008 | 51,000 | 1,930 | 1,930 | 448 | - | 4,308 | 10,026 | 65,334 |
| Cumulative changes in fair value | - | - | - | (1,800) | - | (1,800) | - | (1,800) |
| Transfer of fair value loss to reserve, net | - | - | - | 5,501 | - | 5,501 | (5,501) | - |
| <i>Income recognised directly in equity</i> | - | - | - | 3,701 | - | 3,701 | (5,501) | (1,800) |
| Net profit for the period | - | - | - | - | - | - | 6,288 | 6,288 |
| <i>Total income and expenses recognised during for the period</i> | - | - | - | 3,701 | - | 3,701 | 787 | 4,488 |
| Dividend paid | - | - | - | - | - | - | (5,100) | (5,100) |
| Balance at 30 September 2008 | 51,000 | 1,930 | 1,930 | 4,149 | - | 8,009 | 5,713 | 64,722 |

The attached explanatory notes 1 to 8 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2009 (Unaudited)

1 INCORPORATION AND ACTIVITIES

Liquidity Management Centre B.S.C. (c) (the "Bank") is a closed joint stock company incorporated in the Kingdom of Bahrain on 31 July 2002 and registered with Ministry of Industry and Commerce under commercial registration (CR) number 49092. The Bank operates in the Kingdom of Bahrain under wholesale banking license issued by the Central Bank of Bahrain (CBB). The Bank is engaged in the following activities:

- Facilitate creation of an Islamic inter-bank money market that will allow Islamic Financial Services Institutions ("IFIS") to effectively manage their assets and liabilities.
- Provide short-term liquid, tradable asset backed treasury instruments (Sukuk) based on Islamic Shari'a principles where IFIS can invest their surplus liquidity.
- Provide short-term investment opportunities based on Islamic Shari'a principles.

The activities of the Bank and its wholly owned subsidiary (the "Group") are to carry out operations in accordance with the teachings of Islam (Shari'a). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities.

The address of the Bank's registered office is Building 722, Road 1708, Block 317, Manama, Bahrain.

The Bank operates only in Bahrain. As of 30 September 2009, the total number of employees employed by the Group was 33 (31 December 2008: 25).

The interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 15 October 2009.

2 ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the nine months ended 30 September 2009 have been prepared in accordance with the guidance provided by the International Accounting Standard 34 - "Interim Financial Reporting". The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as at 31 December 2008. In addition, the results for the nine months ended 30 September 2009 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2009.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2008, which were prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (the 'AAOIFI'), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, Central Bank of Bahrain and Financial Institutions Law. For matters which are not covered by the AAOIFI standards including "Interim Financial Reporting", the Group uses the International Financial Reporting Standards.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2009 (Unaudited)

3 BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements incorporate the financial statements of the Bank and its wholly owned subsidiary "The Short Term Sukuk Centre B.S.C. (closed)" (STSC), a company incorporated in the Kingdom of Bahrain. A subsidiary is an entity over which the Bank has power to control, which is other than fiduciary in nature. The results of the subsidiary are included in the interim condensed consolidated financial statements from the effective date of formation or acquisition. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

4 INVESTMENTS

| | 30 September 2009 (Unaudited) US\$ '000 | 31 December 2008 (Audited) US\$ '000 |
|--|--|---|
| Investments held-to-maturity | 213,651 | 199,819 |
| Available-for-sale investments through statement of income | 12,275 | 12,275 |
| Available-for-sale investments through equity | 28,585 | 30,411 |
| Trading investment | 93 | 93 |
| | 254,604 | 242,598 |

5 RELATED PARTY TRANSACTIONS

The Group enters into transactions with its shareholders and their related concerns in the ordinary course of business. All the financing transactions with related parties are performing and are free of provisions for possible impairment.

The balances from transactions with related parties are as follows:

| | 30 September 2009 (Unaudited) US\$ '000 | 31 December 2008 (Audited) US\$ '000 |
|-------------------------------------|--|---|
| Cash and balances with banks | 393 | 1,269 |
| Murabaha receivables | - | 23,835 |
| Other assets | - | 20 |
| Due to Short Term Sukuk - investors | 95,045 | 105,052 |
| Due to bank | 82,449 | 16,794 |

The income and expenses arising from dealing with related parties comprising of shareholders included in the consolidated statement of income are as follows:

| | <u>Three months ended</u> | | <u>Nine months ended</u> | |
|--|--|--|--|--|
| | 30 September 2009 US\$ '000 | 30 September 2008 US\$ '000 | 30 September 2009 US\$ '000 | 30 September 2008 US\$ '000 |
| Income from Murabaha receivables | 8 | 79 | 18 | 396 |
| Return to Short Term Sukuk - investors | 548 | 855 | 1,952 | 2,227 |
| Return to banks | 334 | 79 | 601 | 142 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2009 (Unaudited)

6 SEGMENT INFORMATION

The activities of the Group are performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. As such, operating income, expenses, assets and liabilities are not segmented.

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

7 COMMITMENTS

The Group has the following commitments:

| | 30 September 2009 (Unaudited) US\$ '000 | 31 December 2008 (Audited) US\$ '000 |
|-------------------------------|--|---|
| Investment related commitment | 580 | 1,080 |
| Ijara commitment | 26,525 | 26,525 |

The Ijara commitment represents Ijara agreement entered with certain financial institutions for the Group's Headquarters.

8 COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassifications did not affect previously reported net profit or equity.