Annual Report 2009

INVESTORS Bank B.S.C. (C)
بنك المستثمرون ش.م.ب (مقفلة)

Contents

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His Royal Highness
Prince Khalifa Bin Salman
Al Khalifa

The Prime Minister
The Kingdom of Bahrain

His Majesty
King Hamad Bin Isa
Al Khalifa

The King of
The Kingdom of Bahrain

His Royal Highness
Prince Salman Bin Hamad
Al Khalifa

The Crown Prince and
Deputy Supreme Commander


NVEST
ORS

BOARD OF DIRECTORS

Dr. Abdulaziz Al Bader Al Jenaei
Chairman

Mr. Ahmed Shabib Al Dhahery
Vice Chairman

Mr. Ghassan Fahad Al Sultan
Member

Mr. Isa Abdulla Al Mannai
Member

Mr. Abdulwahab Mohammed A'amer
Member (from 25 October 2009)

EXECUTIVE COMMITTEE

Mr. Isa Abdulla Al Mannai
Chairman

Mr. Ghassan Fahad Al Sultan
Member

Mr. Ahmed Shabib Al Dhahery
Member

AUDIT COMMITTEE

Dr. Abdulaziz Al Bader Al Jenaei
Chairman
(upto 25 October 2009)

Mr. Abdulwahab Mohammed A'amer
Chairman
(from 25 October 2009)

Mr. Ghassan Fahad Al Sultan
Member

Mr. Ahmed Shabib Al Dhahery
Member

SHARI'A BOARD

Shaikh Dr. Abdul Sattar A. Karim Abu Ghuddah
Chairman

Shaikh Dr. Ali Mohieddin Al Quaradaghi
Member

Shaikh Nedham Mohammed Saleh Yaqoobi
Member

Chairman's Report

For the year ended 31 December 2009

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 Directors I am pleased to present to you the annual report on the activities of the Bank for the financial year ended 31 December 2009.

During the year 2009, the global financial markets did not completely recover from the global economic crisis of 2008. Currently, markets are witnessing only very mild recovery at best with underlying uncertainly. As most of the world economies got impacted by the credit and liquidity crisis, the economies of Middle East were also significantly affected.

Dear Brothers,

In fact, GCC banking sector reported drop in net profit in year 2009 which is seen as a very difficult year as a result of many corporate defaults as well as Dubai World crisis. GCC governments are still offering direct and indirect support, which reduced the impact of global and regional Crisis.

Investors Bank was also not immune to the prevailing economic slowdown. The Bank suffered a drop in the market prices of "held for trading investments" to the tune of US$ 69,453 (2008: US$ 24,794,626). Additionally the Bank had to make net provision for impairment of US$ 17,771,243 (2008: US$ 12,343,522) on account of a drop in the market value of its real estate investments and assessment of receivables. Therefore, the bank reported a net loss of US$ 21,216,840 (2008: US$ 34,887,764) for the year ended 31 December 2009. We believe that the drop in real estate prices is temporary and our efforts to recover the receivables continue.

The Bank believes that 2010 would be a challenging year for the banking sector as a whole and Investors Bank in particular. The Bank is currently attempting to restructure its activities and implement robust internal processes as per the guidelines of Central Bank of Bahrain. The delicate and uncertain economic situation demands caution in business approach in the immediate future. We are, therefore, exploring avenues to generate income from the real estate while keeping an eye on the opportunities to book capital gains once the market conditions improve.

Dear Shareholders,

We assure that the steps taken by the Bank in 2008, 2009 to significantly change its asset profile will have their benefits during the coming period. However, 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 support of the Central Bank of Bahrain, the work of the senior management and the new team which undertakes the leadership in the guidance working area.

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 Prince Khalifa Bin Salman Al Khalifa, the Prime Minister and His Highness Prince Salman Bin Hamed Al Khalifa, the Crown Prince and Supreme Commander, 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 whose support is adding value to the bank.

Dr. Abdulaziz Al Bader
Chairman

24 February 2010

REPORT OF THE BOARD OF DIRECTORS

for the year ended 31 December 2009

US $

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

Dear Shareholders,

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

Principal Activities

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

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

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

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

Financial Position and Results

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

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

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

Dividends

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

Directors and Management

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

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

Thanks

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

Dr. Abdulaziz Al Bader
Chairman

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

24 February 2010

SHARI'A BOARD'S REPORT

In the Name of Allah, The Beneficent, The Merciful

To the Shareholders of Investors Bank

Assalam Alaikum Wa Rahmat Allah Wa Baraketuh

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

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

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

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

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

In our opinion:

(1) the contracts, transactions and dealings entered into by the Bank during the year ended 31/12/2009 that we have reviewed are in compliance with the Islamic Shari'a Rules and Principles;

(2) the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'a Rules and Principles;

(3) the calculation of Zakah is in compliance with Islamic Shari'a Rules and principles.

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

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

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

SHARI'A BOARD

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

Shaikh Dr. Ali Mohieddin Al Quradaghi
Member

Shaikh Nedham Mohammed Saleh Yaqoobi
Member

Financial Statements
31 December 2009

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

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

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

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

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

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

Ernst + Young

24 February 2010
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

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

Dr. Abdulaziz Al Bader
Chairman

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

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

STATEMENT OF INCOME

for the year ended 31 December 2009

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

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

STATEMENT OF CASH FLOWS
for the year ended 31 December 2009

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

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

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

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

STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

for the year ended 31 December 2009

	Balance at 1 January 2009			Movements during the year					Balance at 31 December 2009		
	No of units (000)	Average value per share US$	Total US$	Investment/ (withdrawal) US$	Revaluations US$	Investment profit/ (loss) US$	Bank's fees as an agent US$	Adminis-tration expenses US$	No of units (000)	Average value per share US$	Total US$
Murabaha with Lotus Air Ltd	–	–	317,689	–	–	–	–	–	–	–	317,689
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	–	–	–	–	–	12,887	0.44	5,670,202
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.08	10,658,932	–	(418,598)	–	–	–	142,059	0.07	10,240,334
			16,646,823	**–**	**(418,598)**	–	–	–			**16,228,225**

	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$	Adminis-tration expenses US$	No of units (000)	Average value per share US$	Total US$
Murabaha with Lotus Air Ltd	–	–	317,689	–	–	–	–	–	–	–	317,689
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	–	–	–	–	–	12,887	0.44	5,670,202
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.08	10,720,146	–	(61,214)	–	–	–	142,059	0.08	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 2009 are carried net of a provision for impairment amounting to US$ 282,311 (2008: US$ 282,311).

2. On the instructions of a restricted investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C ('IIG'). The Bank then entered into a deferred payment sale agreement with the restricted investment account holder for sale of the these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of the IIG shares to the restricted investment account holder (note 20).

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

STATEMENT OF SOURCES AND USES OF CHARITY FUND

for the year ended 31 December 2009

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

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

1 INCORPORATION AND ACTIVITIES

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

The Bank's activities are regulated by the CBB and supervised by a Religious Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank include investment banking and financial activities, investment transactions, participating in equity investments in projects in conformity with the Islamic Shari'a. The Bank may, in particular, carry on the following business activities:

(a) Providing investment account facilities;

(b) Accepting restricted or unrestricted investment funds commingling the same with those of the Bank and investing them in accordance with the Shari'a;

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

(d) Industrial, commercial and agricultural business activities, either directly or through companies which the Bank may establish, or in which the Bank may acquire shares; and

(e) Purchasing, leasing and constructing buildings, and the renting thereof.

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

2 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates

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

Going concern

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

Fair value of financial instruments

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

(i) For investments quoted in an active market, fair value is determined by reference to quoted market prices.

(ii) For investments in unit funds, fair value is determined based on the latest net asset value provided by the fund manager.

(iii) For unquoted investments, fair value is determined using net asset valuation on disposal of significant portion or on occurrence of an arm's length transaction involving a third party. Should a reliable fair value not be available, such investments are carried at cost less impairment.

Classification of investments

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

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

Impairment

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

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

Initial recognition

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

Trading investments

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

Available-for-sale investments

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

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

Deferred payment sale receivables

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

Receivable from mudarib and sale of investments

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

Investment properties

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

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

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

Freehold land	Indefinite
Building	25 years
Others	3-5 years

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

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

Statutory reserve

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

Employees' end of service benefits

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

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

Fair values

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

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

Offsetting financial instruments

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expenses

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

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

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

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

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

Earnings prohibited by Shari'a

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

Provisions

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

Restricted investment accounts

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

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

Foreign currencies

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

Cash and cash equivalents

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

Zakah

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

3 CASH AND BANK BALANCES

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

4 INVESTMENTS

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

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

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

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

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

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

5 INVESTMENT PROPERTIES

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

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

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

6 OTHER ASSETS

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

7 PROPERTY AND EQUIPMENT

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

8 SHARE CAPITAL

	2009 US$	2008 US$
Authorised:		
303,030,303 ordinary shares of US$ 0.33 each	**100,000,000**	100,000,000
Issued and fully paid up:		
242,424,242 shares of US$ 0.33 each	**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%

9 (LOSS) / INCOME FROM TRADING INVESTMENTS

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

10 INCOME FROM AVAILABLE-FOR-SALE INVESTMENTS

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

11 OTHER INCOME

	2009 US$	2008 US$
Income from murabaha contracts	**–**	147,374
Net income from investment properties	**275,314**	2,930,193
Other income	**151,419**	1,150,659
	426,733	4,228,226

12 ADMINISTRATIVE AND GENERAL EXPENSES

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

13 NET PROVISION FOR IMPAIRMENT

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

14 MATURITY PROFILE

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

2009

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

2008

	Up to 1 month US$	1 to 3 months US$	3 months to 1 year US$	Within 1 year US$	1 to 3 years US$	Over 3 years US$	No fixed maturity US$	Total US$
Assets								
Cash and balances with banks	2,557,184	-	-	2,557,184	-	-		2,557,184
Investments	-	-	-	-	-	-	26,991,132	26,991,132
Murabaha receivables	-	-	-	-	-	-	3,243,848	3,243,848
Mudaraba investment	-	-	-	-	-	-	6,127,801	6,127,801
Receivable from Mudarib	-	-	-	-	-	-	4,000,000	4,000,000
Receivable from sale of investments	-	-	-	-	-	-	11,846,542	11,846,542
Deferred payment sale receivables	-	-	-	-	-	-	3,680,203	3,680,203
Investment properties	-	-	-	-	-	-	17,540,225	17,540,225
Other assets	-	1,083	52,040	53,123	86,662	1,499	17,318,976	17,460,260
Property and equipment	-	-	-	-	-	-	1,579,576	1,579,576
Total assets	2,557,184	1,083	52,040	2,610,307	86,662	1,499	92,328,303	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	80,112	299,286	-	-	155,167	454,453
Total liabilities	137,378	81,796	80,112	299,286	-	-	7,054,433	7,353,719
Cumulative Liquidity Gap	2,419,806	2,339,093	2,311,021	2,311,021	2,397,683	2,399,182	87,673,052	

15 CONCENTRATION OF ASSETS AND LIABILITIES

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

	2009			
	Banks and financial institutions US$	Investment Companies US$	Others US$	Total US$
Assets				
Cash and balances with banks	612,263	–	–	612,263
Investments	19,878,026	672,456	7,118,692	27,669,174
Deferred payment sale receivables	–	3,680,203	–	3,680,203
Investment properties	–	–	27,571,404	27,571,404
Other assets	900,995	–	6,723,917	7,624,912
Property and equipment	–	–	7,098,715	7,098,715
Total assets	**21,391,284**	**4,352,659**	**48,512,728**	**74,256,671**
Liabilities				
Due to a financial institution	3,670,202	–	–	3,670,202
Murabaha payable	3,229,064	–	–	3,229,064
Other liabilities	15,957	–	433,094	449,051
Total liabilities	**6,915,223**	**–**	**433,094**	**7,348,317**
Off-balance sheet items				
Restricted investment accounts	**5,670,202**	**10,240,334**	**317,689**	**16,228,225**

15 CONCENTRATION OF ASSETS AND LIABILITIES (continued)

	2008			
	Banks and financial institutions US$	**Investment Companies** US$	**Others** US$	**Total** US$
Assets				
Cash and balances with banks	2,557,184	–	–	2,557,184
Investments	19,351,383	479,769	7,159,980	26,991,132
Murabaha receivables	–	–	3,243,848	3,243,848
Mudaraba investment	6,127,801	–	–	6,127,801
Receivable from Mudarib	4,000,000	–	–	4,000,000
Receivable from sale of investments	8,328,852	3,517,690	–	11,846,542
Deferred payment sale receivables	–	3,680,203	–	3,680,203
Investment properties	–	–	17,540,225	17,540,225
Other assets	1,744,621	150,371	15,565,268	17,460,260
Property and equipment	–	–	1,579,576	1,579,576
Total assets	42,109,841	7,828,033	45,088,897	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

Geographical concentration

Assets and liabilities of the Bank as at 31 December 2009 and 31 December 2008 are primarily concentrated in the Middle East region.

16 RELATED PARTY TRANSACTIONS AND BALANCES

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

A significant portion of the Bank's income arises from transactions with related parties. Transactions with related parties are undertaken on terms agreed between the parties.

Significant balances with related parties at 31 December comprise:

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

16 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant transactions with related parties include:

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

Key management personnel of the Bank comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. The key management personnel compensation is as follows:

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

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

17 RISK MANAGEMENT

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

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

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

Credit risk

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

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

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

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

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

17 RISK MANAGEMENT (continued)

Analysis of Bank's exposure to credit risk:

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

2008	Cash and balances with banks US$	Murabaha receivables US$	Mudaraba investment US$	Receivables from sale of investments US$	Deferred payment sale receivables US$	Other assets US$	Total US$
Neither past due nor impaired	2,555,858	–	4,000,000	–	–	285,261	6,841,119
Past due but not impaired - Over 180 days	–	–	–	–	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
Provision for impairment	–	(1,904,059)	–	(5,626,381)	–	(2,291,965)	(9,822,405)
Net	–	3,243,848	–	11,846,542	–	14,454,891	29,545,281
Total exposure to credit risk	2,555,858	3,243,848	4,000,000	11,846,542	3,680,203	23,534,937	48,861,388

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

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

17 RISK MANAGEMENT (continued)

Liquidity risk

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

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

Currency risk

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

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

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

Sensitivity Analysis:

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

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

Equity price risk

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

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

Sensitivity Analysis:

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

17 RISK MANAGEMENT (continued)

Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events which includes but is not limited to legal risk and Shari'a compliance risk. This definition excludes strategic and reputational risk.

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

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

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

18 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

19 CAPITAL MANAGEMENT

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

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

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

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

19 CAPITAL MANAGEMENT (continued)

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

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

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

20 LITIGATION AND CLAIMS

In 2004, the Bank entered into a sale and purchase agreement with a local financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution was US$ 3,670,202 (2008: 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain of its investments with a carrying value of US$ 4,306,622 as at 31 December 2009. Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged investments have been retained by the financial institution. In the opinion of the Bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the Bahrain courts against the financial institution for wrongful possession of investments.

As a result, the court has taken custody of the shares under dispute. The related party on whose behalf the transaction was entered has provided a manager's cheque for an equal amount which has been deposited with the court. This amount is included under deferred payment sale receivables.

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

21 SEGMENTAL INFORMATION

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

22 SOCIAL RESPONSIBILITY

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

23 COMPARATIVES

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

Public Disclosures Document
2009

Table of Conetents

PUBLIC DISCLOSURES DOCUMENT 2009

1 Executive Summary

Basel 2 based guidelines of the Central Bank of Bahrain [“the CBB”] outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008 in the Kingdom of Bahrain.

This document encompasses the detailed qualitative and quantitative public disclosure requirements (to enhance corporate governance and transparency). The document contains a description of following major aspects of Investors Bank [“the Bank” or “IB”]:

- Corporate Governance;
- Capital Adequacy Policies and Practices; and
- Risk Management

The Bank has adopted the Standardised Approach to determine the capital requirement for credit risk and market risk, and the Basic Indicator Approach for operational risk.

The disclosed Tier 1 and total capital adequacy ratios comply with the minimum capital requirements under the CBB’s Basel 2 framework.

The disclosures in this report are in addition to the disclosures set out in the financial statements for the year ended 31 December 2009 in accordance with Financial Accounting Standards issued by the Auditing Organisation for Islamic Financial Institutions and the Shari’a rules and principles as determined by the Shari’a Supervisory Board of the Bank.

2 Management Discussion and Analysis

During the year 2009, the global financial markets did not completely recover from the global economic crisis which affected the global economic markets in 2008. Currently markets are witnessing only very mild recovery at best. As most of the world economies got impacted by the credit and liquidity crisis, the economies of Middle East were also significantly affected. The regional markets witnessed a sharp fall in stock indices, severe fall in the real estate prices, high level of volatility in the equity and currency markets and disappointing corporate earnings. The announcement of debt restructuring by the UAE based entity did not help restore confidence in the regional markets.

The Bank was also not immune to the prevailing economic slowdown. The Bank’s ”held for trading investments” suffered a drop in market prices of US$ 69,453 (2008: US$ 24,794,626). Additionally the Bank had to make a net provision for impairment of US$ 17,771,243 (2008: US$ 12,343,522) for the decline in value of its real estate holdings (investment properties and office building) and recovery assessment of receivables. Therefore, the Bank reported a net loss of US$ 21,216,840 (2008: US$ 34,887,764) for the year ended 31 December 2009.

During the year 2009, in terms of business, IB was not active in the market and did not engage in significant investment activity. A significant portion of the assets of the Bank, before provisions, are in the form of receivables from the related parties or long term passive investments. On account of these investments and receivables the Bank does not have surplus funds for new investments.

Additionally, on account of significantly reduced liquidity in the market due to prevailing economic slowdown, the Bank could not unlock funds from the existing investments and receivables from various parties. However, in a few cases, the Bank swapped receivables with real estate assets from various related parties as settlement in kind.

The Bank believes that 2010 would be a challenging year for the banking sector as a whole and Investors Bank in particular. The Bank is currently attempting to restructure its activities and implement robust internal processes as per the guidelines of Central Bank of Bahrain. The delicate and uncertain economic situation demands caution in business approach in the immediate future. We are, therefore, exploring avenues to generate income from the real estate while keeping an eye on the opportunities to book capital gains once the market conditions improve. In light of this, it is the Bank's assessment that capital is adequate for current and future expected operations. The Board of Directors is also reflecting on options to raise additional capital / unlock existing capital.

Various ratios depicting the performance of the Bank are given below:

	2009	2008	2007	2006	2005	2004
ROAE %	-27.45	-32.08	-7.59	8.35	61.02	15.93
ROAA %	-25.07	-30.06	-7.20	7.92	53.10	11.44
Staff cost / Income %	321.17	N/A	N/A	14.93	2.16	12.52
Cost / Income %	5,184.63	N/A	N/A	26.58	9.63	32.35
Earning per share US$	-0.09	-0.14	-0.04	0.05	0.35	0.18

3 Corporate Governance

The Board of Directors is responsible for approving the Bank's overall business strategy, monitoring its operations, and taking critical business decisions. The Board, elected by the shareholders, is the ultimate decision making body of the Bank and has the following broad responsibilities, as enunciated in the Corporate Governance Manual of the Bank:

- Providing effective governance over the Bank's affairs for the benefit of its shareholders, employees, customers and other stakeholders;
- overseeing the conduct of the Bank's business so that it is effectively managed in the long-term interest of shareholders;
- selecting, evaluating and compensating the Chief Executive Officer (CEO) and planning for CEO succession, as well as monitoring management's succession planning for other key executives;
- reviewing, approving and monitoring the Bank's strategic plans and objectives;
- approving the policies of the Bank with respect to various risks and for ensuring that the management takes the steps necessary to identify, measure, monitor, and control these risks. The Board shall also approve policies that identify lines of authority and responsibility for managing risk exposures.
- monitoring the Bank's accounting and financial reporting practices and reviewing the Bank's financial and other controls; and
- overseeing the Bank's compliance with applicable laws and regulations.

As per the Articles of Association of the Bank, the Board should have not less than three and not more than 9 members. Currently the Bank has five members on its Board of Directors. The Board takes an active interest in the running of the Bank and the Board members meet frequently.

3.1 Profiles of Members of the Board of Directors

Dr. Abdulaziz Al Jenaei – Chairman

Dr. Al-Jenaei has a Doctorate degree in comparative Fiqh (Jurisprudence), from Azhar University in Egypt. He has over 20 years experience in various fields including Sharia supervisory in a number of Islamic investment companies, Research, Shari'a and Islamic education etc. He is currently Chairman of Ajal Holding Company. He has been an Assistant Undersecretary of Awqaf (Endowments) and Islamic Affairs, Cultural Affairs, Member of the Board of Directors of Research Centre for History, Arts and Culture (Istanbul), Media Advisor in supreme advisory committee aiming at fulfilment of implementation of Islamic Shari'a provisions, Seconded Professor at Faculty of Shari'a, Seconded Professor at the Public Authority for Applied Education, etc. Dr. Al Jenaei has attended various training courses including on Strategic Planning and Top Management (London), Motivation Strategies, Leadership and Crisis Management, Change Strategy Management etc.

Additionally, Dr. Al Jenaei has been an active contributor for the benefit of society. Dr. Al Jenaei is the Mosque orator on Fridays, Imam for His Highness, Amir of Kuwait. Dr.Al Jenaei is also and Ex-member of the Board of Literacy Supreme Council, Shari'a authenticator since 1986 etc.

Mr. Ahmed Shabib Al Dhahery – Vice Chairman

Mr. Dhahery is the Executive Director of the Abu Dhabi Investment Authority. He is also a Board member in the Tunis and Emirates Bank (Tunis), Federal National Council, National Advisory Council for the College of Business Sciences (Zyed University, Abu Dhabi), Arab Tourism Organisation, Al Ain Sports Club etc. He has been a Board Member of Gulf Air Company, Abu Dhabi Fund for Development etc.

Educationally, he is an MBA from Abu Dhabi University, Masters in International Business from Ecole Nationale Des Ponts Et Chaussees (ENPC)- Paris and is a Bachelor in Economics from University of La Verne- California, USA

Mr. Ghassan Al Sultan – Member

Mr. Sultan has more than 28 Years of experience in real estate and investments. Mr. Sultan is currently the Chairman and Managing Director of Gulf United Real Estate and Tourism Investment Company (K.S.C.C.). He has also been in the positions of Chairman, Managing Director and General Manager of Pearl of Kuwait Real Estate Company, Director of Finance and International Investments in Fahad Sultan Sons & Co. W.L.L., Managing Director of Kuwait Computer Services Company, etc.

Mr. Sultan has also served on the Board of Directors in a USD 15 million Real Estate Fund managed by a joint venture between First Boston and Travelers Insurance Co., Board of Directors in a USD 20 million Venture Capital Fund, Board of Directors of Intrawest Corporation (USA). Educationally, Mr. Sultan has a Bachelors Degree in Industrial Engineering from University of Portland, Oregon USA.

Mr. Isa Abdulla Al Mannai – Member

Mr. Mannai has around 28 years experience in the Construction Industry. He is currently the Chairman of the Mannai Technical Services W.L.L., Isa Mannai Technical Services Est, Saudi Arabia, Chairman of Computer Systems Protection Chambers and Integrated Communications Co. Ltd Saudi Arabia and Director of Manorchem Engineering Pvt. Ltd in Chennai India.

Educationally, Mr. Mannai is MSc. (Engineering Management) from the Catholic University, Washington DC and BSc (Civil Engineering) University of Washington, Seattle.

Mr. Abdulwahab A'amer – Member

Mr. Abdulwahab has around 35 years of experience span in the fields of Banking, Transport and Real Estate. He is currently the Group General Manager of Haji Ali Haji Co. W.L.L. in Bahrain. Earlier he has worked in companies like Central Municipal Council Bahrain, Standard Chartered Bank, Al Ahli Commercial Bank, Citibank, etc. Mr. Abdulwahab has attended various training programmes including Standard Chartered Corporate Credit Workshop (U.K.), Credit Appraisal (U.K.), Financial Risk Management (U.K.) Project Lending (Bahrain), Development Banker's Negotiation Skills (Bahrain) etc. Educationally Mr. Abdulwahab is a GCE in Accounting from Cornwall College, UK.

3.2 Board Committees

Consistent with the industry practices, the Board has established the following board sub-committees with defined roles and responsibilities:

3.2.1 Executive Committee (EXCOM)

The EXCOM provides direction to the executive management on all business matters. The EXCOM is also responsible for business matters concerning risk management, strategy review and recommendation to the Board.

EXCOM Members:

Mr. Isa Abdulla Al Mannai – Chairman

Mr. Ghassan Al Sultan – Member

Mr. Ahmed Shabib Al Dhahery – Member

3.2.2 Audit Committee

The Audit Committee has the responsibility to assist the Board in discharging its oversight duties relating to matters such as risk and compliance, including the integrity of the Bank's financial statements, financial reporting process and systems, internal controls and financial controls. The Committee also liaises between the External Auditors and the Board.

Audit Committee Members:

Mr. Abdulwahab A'amer - Chairman

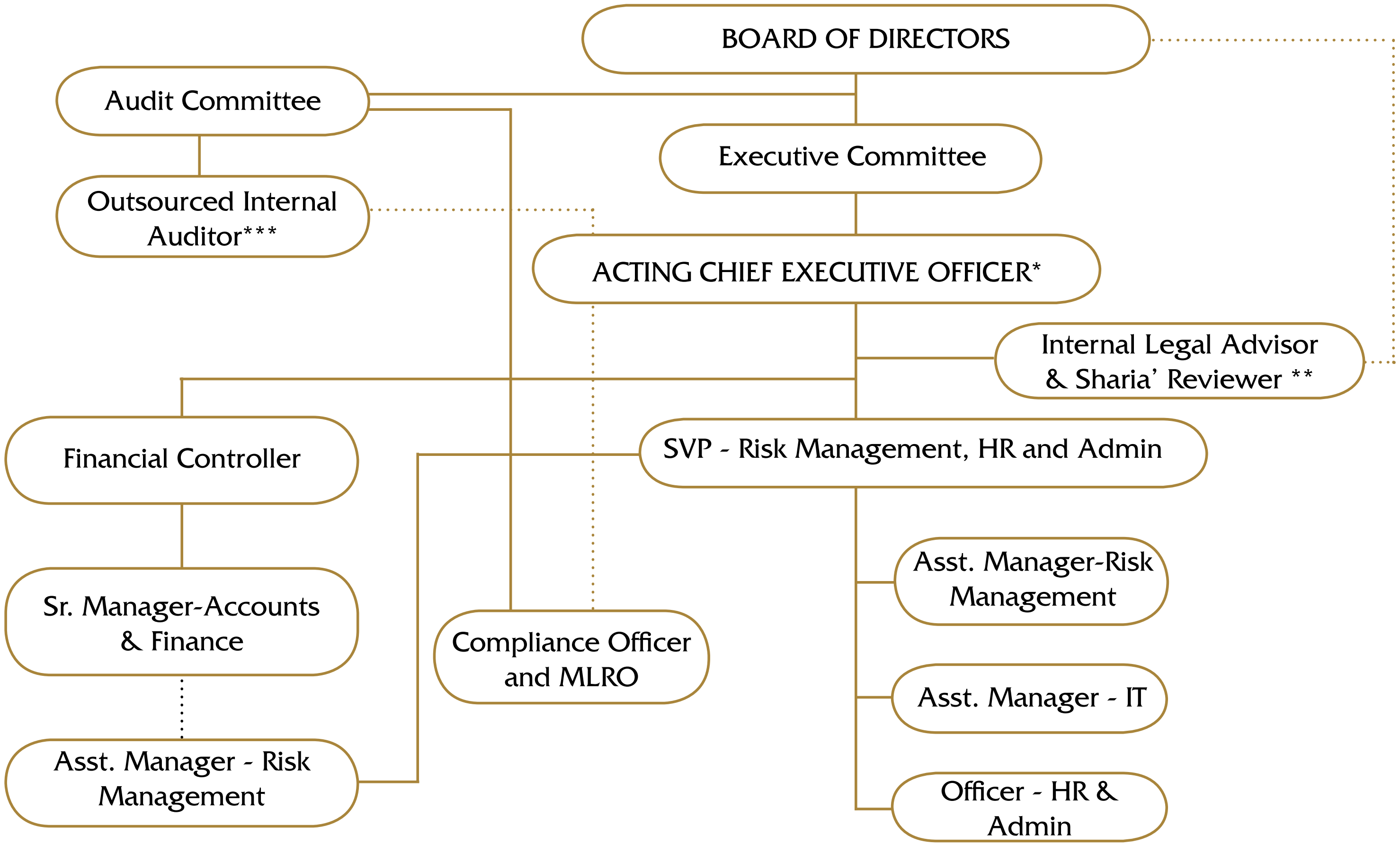
Mr. Ghassan Al Sultan – Member

Mr. Ahmed Shabib Al Dhahery – Member

Members of management, representatives of internal and External Auditors, independent consultants and other specialists may be invited to attend meetings at the request of the Chairman of the Audit Committee.

Striving to enhance the Corporate Governance practices, commensurate with the size of operations and feasibility, the Bank may introduce additional board sub-committees (like Board Risk Committee) as well as management level committees to manage its affairs in an efficient and transparent manner.

3.3 Organisational Chart
as on 31st December 2009



* Current Acting CEO is also the Head of Risk Management
** Also the Board Secretary
*** PWC Bahrain

3.4 Management Profile

Mr. Yash Parasnis – Acting CEO and Sr. Vice President Risk Management

Mr. Parasnis has over 23 years of experience in banking and investment banking across project finance, international finance, capital markets and corporate restructuring. His experience includes positions of Head of Capital Markets at Bank of America in Mumbai, India; Head of Business Development at Times Bank in India and Chief Executive at Mega Fin (India) Ltd, a listed non-banking finance company. Mr. Parasnis holds a Bachelor degree in Technology from Indian Institute of Technology, Delhi and a Post Graduate Diploma in Management from Indian Institute of Management, Bangalore.

Additionally, the human resources, IT and admin functions reports to him.

Mr. Aref Hussain, Financial Controller

Mr. Hussain has over 13 years of experience in Telecommunication sector and over 3 years of experience in the Banking sector. He has experience across project management, management reporting, international and wholesale financial services, regulatory control and financial control. His experience includes positions of head of management reporting at Bahrain Telecommunication Company (Batelco); manager of international and wholesale financial services at Bahrain Telecommunication Company (Batelco) and manager of regulatory accounts at Telecommunication Regulatory Authority (TRA - Bahrain).

Mr. Hussain holds a Bachelor degree in Accounting from University of Bahrain and is a CMA (Certified management accountant) from Institute of Management Accountants from the United States of America.

Mr. Ismaeel Omar Ahmed Elnasri, Legal Advisor (Internal), Shari'a Reviewer and Secretary to the Board of Directors

Mr. Elnasri has an extensive experience of 7 years experience in Law. He has worked as an advocate in the Commissioner's office in Khartoum and with various other law firms as a Legal Advisor in Bahrain. He also has the responsibility of the secretary to General Assembly, Executive Committee, Audit Committee, Secretary to Sharia Board and Internal Sharia Controller.

Educationally he is a B. A in Law with first class Honors Degree, University of Elneelain, Khartoum – Sudan. Mr. Elnasri is a member of the Sudanese lawyers` Bar Association and a member of the Sudanese Network of the International Humanitarian Law. Mr. Elnasri has attended various training programs on Islamic Banking, Intellectual Property Rights, Human Rights and Human Law.

Mr. Ahmed Ateya, Compliance Officer and MLRO

Mr. Ateya has extensive experience of around 5 years in the Banking and Financial Institutions sector in Bahrain. He has worked in the Audit and Advisory Services of KPMG in Bahrain for various banks in the region. He has also attended various training courses on IFRS, AAOIFI, Islamic Insurance and other Banking related fields.

Educationally, Mr. Ateya holds a Bachelor degree in Accounting from University of Bahrain and is a Certified Public Accountant from California Board of Accountancy - United States of America.

Mr. Ateya reports functionally to the Audit Committee and administratively to the CEO.

3.5 Investment Committee

The Board has approved the formation of management level "Investment Committee" in October 2009.This will be the highest management level authority on all investment credit and asset liability management related decisions. The overall role of the Investment Committee as approved by the Board will be to facilitate:

- the investment and credit business of the Bank in the most effective and efficient manner within the risk guidelines specified by the Board;
- to oversee and perform Asset Liability Management activities; and
- to oversee credit, market, liquidity, profit rate risk and other risks that the Bank is exposed to.

The Investment Committee is expected to be headed by the CEO and will comprise of heads of other departments as members e.g. Head of Risk, Head of Investments (currently vacant), Head of Finance and Control, etc.

3.6 Remuneration and Incentives

The remuneration to the Board of Directors is governed by the Articles of Association of the Bank.

The remuneration to the employees of the Bank is on the basis of the employment contracts of the individuals. There is a system of annual appraisal based on which the terms of the contract are reviewed every year. Any bonus/ex-gratia payment is purely at the discretion of the Bank. The Articles of Association provides the guidelines for the employee incentive programme that has currently not been implemented.

3.7 Corporate Governance Events

- As required by the CBB regulations, Mr. Abdulwahab A'amer was appointed as an independent director on the Board of Investors Bank in the month of October 2009.
- In October 2009, the Chairman of the Board Dr. Abdul Aziz Al Jenaei resigned as the Chairman of Audit Committee, in line with industry best practice. Mr. Abdulwahab A'amer was appointed as the new Chairman of the Audit Committee.
- Departure of the Chief Executive Officer – As of 8th October 2009, Mr. Adel Mannai, ceased to be the CEO of the Investors Bank. Mr. Yash Parasnis was appointed as the Acting CEO with the approval of the CBB.
- Appointment of new Compliance Officer and MLRO – In order to segregate the duties and responsibilities of the existing Bank officials and to efficiently manage the compliance responsibilities, the Bank has appointed Mr. Ahmed Ateya as the Compliance Officer. Mr. Ateya also has the responsibility of the Money Laundering Reporting Officer (MLRO). Mr. Ateya joined the Bank on 18th October 2009. The Compliance function was earlier managed by Sr. Manager in Finance and Control Department while the responsibilities of MLRO were performed by the Financial Controller.

3.8 Communications Policy

The Bank has a Board approved public disclosure policy, in compliance with CBB regulations under PD Module of the Volume 2 of CBB Rulebook, to disclose material information about its activities to various stakeholders. As a policy, the Bank maintains at least three years of financial data on its website.

The disclosure policy applies to all modes of communication to the public including written, oral and electronic communications. These disclosures are made on a timely basis in a manner required by applicable laws and regulatory requirements.

Management seeks to respond to shareholders' questions and concerns on a prompt basis, subject to the limitations imposed by law and the confidentiality of certain information. The Bank maintains a website at www.investorsb.com, which includes information of interest to various stakeholders including the regulatory authorities. Information available on the website includes the Annual Report and reviewed quarterly financials of the Bank.

3.9 Shari'a Compliance

All the transactions entered into by the Bank are presented to Shari`a Supervisory Board, which comprises of three Shari'a scholars, for review on an annual basis and to ensure that the respective agreements are in compliance the principles of Shari`a. The internal legal advisor of the Bank is also the internal Sharia`a reviewer and Secretary to the Shari`a Board.

The Bank strives to make sure that it does not engage in non Shari'a compliant earning. However if there are any non compliant earnings, they are dealt with through cleansing principles as recommended by the Shari'a Board.

The Bank is currently relying on equity financing only to fund its existing activities.

3.10 Zakah contributions

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

4 Capital Adequacy and Management

The Central Bank of Bahrain (CBB) Basel 2 guidelines became effective from 1 January 2008 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel 2 capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

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 include:

- Tier 1: Core Capital - This includes issued and fully paid ordinary shares, statutory reserves, accumulated losses and 45% of the unrealised net gains recognised in income statement arising from fair valuing unlisted equities; and
- Tier 2: Supplementary Capital –retained profits and 45% of the unrealised gains arising on the re-measurement of fair valuing equities classified as available for sale.

4.1 Capital Structure

The Bank has capital in the form of equity and does not have any other equity related instrument including innovative, complex or hybrid capital instruments.

CAPITAL STRUCTURE

Components of capital	**Tier One**	**Tier Two**
Core capital - Tier I:		
Issued and fully paid ordinary shares	80,000,000	–
Legal / statutory reserves	7,409,515	–
Accumulated losses	(23,912,862)	–
Less:		
Unrealized gross losses arising from fair valuing equity securities	(5,974)	–
Tier 1 Capital	**63,490,679**	–
Unrealized gross gains arising from fair valuing equities (45% only)	–	1,537,953
Tier 2 Capital	**–**	**1,537,953**
Total Available Capital	**63,490,679**	**1,537,953**
Deductions:		
Excess amount over maximum permitted large exposure limit		
– Tier 1	16,935,582	–
– Tier 2	–	1,537,953
Net Available Capital	**46,555,097**	**–**
Total Eligible Capital	**46,555,097**	

4.2 Capital Adequacy

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 determines Risk Weighted Assets according to the Standardised Approaches for credit and market risk and Basic Indicator Approach for operational risk as per CBB guidelines that seek to reflect the varying levels of risk attached to the assets.

The Bank's policy is to maintain a capital adequacy ratio, at all times, in excess of the minimum required by CBB. The current requirement for the Bank has been increased from 12% (in 2008) to 15%. This increase in CAR ratio has been stipulated by CBB as the Bank did not have three years' positive gross income required for operational risk capital charge calculation (the Bank had only one year of positive income during last three years).

Risk Assets/ Categories	**Risk Weighted Assets (RWA)**	**Capital Charge @ 15% of RWA**
Credit Risk		
– Cash and cash equivalents	122,187	18,328
– Available for sale investments		
– Listed equities	14,462,839	2,169,426
– Unlisted equities	2,644,526	396,679
– Deferred payment sale receivables	1,721,446	258,217
– Investment properties	55,142,808	8,271,421
– Other assets	3,975,251	596,288
– Property and equipment	7,098,714	1,064,807
Total Credit Risk	**85,167,771**	**12,775,166**
Market Risk		
– Equity position risk	4,710,839	706,626
– Foreign exchange risk	13,273,011	1,990,952
Total Market Risk	**17,983,850**	**2,697,578**
Total Operational Risk	**41,130,394**	**6,169,559**
Total Risk Weighted Assets (a)	144,282,015	
Total eligible capital (b)	46,555,097	
Tier 1 and Total Capital Adequacy Ratio [(b/a)x100]	**32.27%**	

5 Risk Management

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

The Bank's Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established an Executive Committee (EXCOM), a board level sub committee that is responsible for developing and monitoring the Bank's operations and policies across various functions including the risk management framework.

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

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 functions. Various operating departments (the support functions) primarily manage the risks of their respective functions.

The Bank has established and implemented various exposure limits as well as set levels of risk that the Bank is willing to accept in relation to its available capital. The limit structure includes single obligor level limits, large exposure limits, industry level limits, rating based limits, country level limits etc.

The risk management philosophy of the Bank, as enunciated in the Risk Management Manual, is to identify, capture, monitor and manage the various dimensions of risk with the objective of protecting asset values and income streams so that the interests of the Bank's shareholders (and the Bank's creditors / lenders) are safeguarded.

5.1 Credit Risk

Credit risk is the risk that a counterparty to a financial transaction does not discharge its obligations on due dates and causes the other party to incur a financial loss. Credit risk may arise from all products and services where counterparties of the Bank fail to meet their payment obligations in accordance with terms and conditions of the contract. This risk exists in all activities of the Bank, including the banking book and both on or off the balance sheet.

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

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

The following table demonstrates Bank's credit risk exposure:

Credit Risk Exposure (all figures in US Dollars)

	Own capital and current account	
Portfolios	**Total gross credit risk exposure**	**Average gross credit exposure over the period ***
Cash and cash equivalents	612,263	1,199,699
Available–for-sale investments	22,057,592	22,159,330
Receivable from Mudarib	–	3,348,211
Receivables from sale of investments	–	8,305,469
Deferred payment sale receivables	3,680,203	3,680,203
Investment properties	27,571,404	28,563,797
Other assets	7,624,912	8,926,864
Property and equipment	7,098,715	8,246,406
Total	**68,645,089**	**84,429,979**

* These have been computed based on a quarterly average.

As part of the Bank's credit risk strategy, the Bank has established a credit risk appetite which is quantified in terms of a limit structure for credit risk. The limit structure also helps the Bank's control over the credit risk and to maintain a proper diversification of its activities and thereby attempt to avoid concentration of risks for counterparty, country, sector, industry and region. The Bank manages credit risk of its exposures by constant monitoring of the limit structure. The updated limit structure, approved by the Board in October 2009, covers new investment exposures by the Bank. The Bank continues to have certain exposures, originated in earlier years, that exceed the limit stipulated under the CBB guidelines and the internal limit structure of the Bank.

The Risk Management Department ["RMD"] coordinates with the Bank's management in reviewing investment/credit proposals and post sanction review and monitoring, at all stages of the deal cycle.

For "Balances with banks", the Bank the uses ratings assigned by External Credit Assessment Institutions ["ECAI"] for risk assessment and calculating risk weighted equivalents. ECAI considered by the Bank are Standard and Poor's, Moody's and Fitch.

Analysis of Bank's exposure to Credit Risk (Past due and impaired):

	Banking and financial institutions	**Investment Companies**	**Others**	**Total**
Past due but not impaired Islamic financing contracts	887,733	3,680,203	–	4,567,936
Impaired financing contracts	15,312,239	6,125,125	10,108,903	31,546,267
Total	**16,199,972**	**9,805,328**	**10,108,903**	**36,114,203**

Aging of past due and impaired financing contracts:

	Banking and financial institutions	**Investment Companies**	**Others**	**Total**
Less than 3 months	–	–	–	–
3 months – 1 year	–	–	–	–
1 year – 3 years	15,312,239	6,125,125	9,233,903	30,671,267
Over 3 years	887,733	3,680,203	875,000	5,442,936
Total	**16,199,972**	**9,805,328**	**10,108,903**	**36,114,203**

Movement in specific provisions during the year:

	Banking and financial institutions	Investment Companies	Others	Total
Balance at the beginning of the year	2,925,084	2,701,297	3,787,489	9,413,870
Net provision for impairment for the year	12,387,155	3,423,829	(197,162)	15,613,822
Balance at the end of the year	**15,312,239**	**6,125,126**	**3,590,327**	**25,027,692**

Past due exposures are those on which payments are not being made on time and are behind schedule, although partial payments may have been made.

The management of the Bank analyses its credit risk portfolio on a periodical basis to assess its recoverability. Impairment provisions for assets are based on the management's assessment of the expected realisations and consider 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 or settlement in kind.

5.1.1 Credit Risk Mitigation

The Bank does not generally engage in lending against collateral and does so by exception.

However, the Bank has designed policies and processes which are pending appropriate approvals for collateral valuation and management (wherever required) and will extend credit facilities only where it is supported by adequate tangible security and/or audited financial statements of its customers/counterparties.

Also the market value of security offered by prospective and existing customers/counterparties will be evaluated by the Bank based on market information.

5.1.2 Concentration Risk

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

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

Own capital

Asset category	Geographic area			
	Bahrain	**Kuwait**	**Others countries**	**Total**
Cash and cash equivalents	603,067	9,196	-	612,263
Available for sale investments	12,982,868	7,643,190	1,431,534	22,057,592
Deferred payment sale receivables	3,680,203	-	-	3,680,203
Investment properties	22,226,283	-	5,345,121	27,571,404
Other assets	1,106,336	6,043,576	475,000	7,624,912
Property and equipment	7,098,715	-	-	7,098,715
Total	**44,017,269**	**17,376,165**	**7,251,655**	**68,645,089**

Bank's Credit Risk exposures distribution by industry or counterparty is given below:

Own capital

Asset category	Industrial Sector			
	Banks and financial institutions	**Investment companies**	**Others**	**Total**
Funded				
Cash and cash equivalents	612,263	-	-	612,263
Available for sale investments	19,878,026	672,456	1,507,110	22,057,592
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment properties	-	-	27,571,404	27,571,404
Other assets	900,995	-	6,723,917	7,624,912
Property and equipments	-	-	7,098,715	7,098,715
Total	**21,391,284**	**4,352,659**	**42,901,146**	**68,645,089**

The Bank does not have any unfunded exposures.

As required by CBB, the Bank may not incur an exposure to an individual counterparty or group of closely related counterparties, which exceeds 15% of the bank›s capital base without the prior written approval of the CBB. Also the Bank's shareholders with significant ownership of the Bank's capital are not allowed to obtain financing facilities from the Bank (i.e. a 0% limit). The Bank's concentrations of exposure to individual counterparties and group of closely related counterparties in excess of 15% and significant shareholders with limit exposure of greater than 0% are given below:

Concentration of risk

Counterparties	**Own capital Total exposure**
Counterparty # 1 – Individual	11,455,214
Counterparty # 2 - Individual	5,673,633
Counterparties – Closely Related	20,853,278
Total	**37,982,125**

Additionally, Bank's past due exposures broken-down by geographical areas are given in the table below:

Impaired exposures, Past Due exposures and allowances

Own capital

Geographic area	**Past due Islamic financing contracts**	**Specific impairment provision**
Bahrain	887,733	–
Kuwait	34,351,469	24,627,692
Others countries	1,283,536	808,535
Total	**36,522,738**	**25,436,227**

5.2 Market Risk

The Central Bank of Bahrain defines market risk as "the risk of losses in on and off-balance sheet positions arising from movements in market prices".

Market risk is the risk of changes in the value of the security or transaction due to changes in underlying market exposure. Market risk may arise from movements in market dynamics such as reference rates, foreign exchange markets, equity markets or commodity markets.

The Bank has following sources of market risk:

- Equity price risk in the trading book (for listed equities); and
- Currency risk on account of foreign currency denominated investments in the trading as well as banking book.

The Bank's trading book equity positions are listed in some GCC stock exchanges and have a ready market. The FX positions in the Banking book are structural in nature and have a ready market. Additionally, as part of trading book, the Bank does not have exposure to assets that do not have a ready market.

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

Particulars	20% decrease	20% increase
Trading investments	(1,122,316)	1,122,316

As part of the overall market risk strategy, the Bank attempts to proactively measure and monitor market risk in its portfolio using appropriate measurement techniques (standardised measurement methodology suggested by CBB). Additionally, in order to control market risk the Bank holds sufficient capital in line with Pillar 1 regulatory capital requirements of the CBB. The Bank has also established a limit structure to provide a ceiling on the market risk exposure that can be taken.

Bank's capital requirements for Market Risk using the Standardised measurement method

Particulars	Gross exposure	Risk weighted assets (RWA)	Capital requirements @ 15% of RWA	Maximum capital requirement during the year	Minimum capital requirement during the year
Equity Position	5,611,582	4,710,839	706,626	1,192,928	617,892
Foreign Exchange Position	13,273,011	13,273,011	1,990,952	4,380,506	1,990,952

5.2.1 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	2009 (USD Equivalent)
Bahraini Dinar	49,970,729
Kuwaiti Dinar	13,273,011
United Arab Emirates Dirham	5,345,121

Sensitivity Analysis:

The following table demonstrates 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
Kuwaiti Dinar	698,580	(632,048)

Note: Bahraini Dinar and UAE Dirham exposures are not considered to represent significant currency risk as both currencies are pegged to the US$.

5.3 Operational Risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events which includes but is not limited to legal risk and Shari'a compliance risk. This definition excludes strategic and reputational risk.

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

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

While individual functions 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.

5.3.1 Risk and Control Self Assessment

The Bank has established RCSA methodology to provide an annual, forward-looking process for identifying and assessing risks, evaluating controls, establishing thresholds for risks and controls and determining the appropriate level of risk mitigation. This process will enable the Bank to better understand its risk profile and ensure that operational risk-taking is aligned with the Bank's risk appetite.

RCSA exercise is undertaken on an annual basis by the business and support units in co-ordination with RMD. The Bank completed RCSA of its activities in 2008 and 2009.

5.3.2 Operational Risk Loss Database

The Bank collects loss events' information for preparing Operational Risk Loss Database. The functional units of the Bank map their risk events and collect/record related operational loss event data as defined in the Basel II Accord. This data tracking provides a mechanism for early reporting and response to operational risk events and losses.

On a periodic basis, all process owners collect and record operational risk loss event data, using the template provided by the RMD in accordance with Basel II risk categorization framework.

The RMD is responsible for maintaining a comprehensive database for loss events reported as per the Basel II guidelines.

5.3.3 Operational Risk capital charge

Bank's capital charge for Operational Risk using Basic Indicator Approach

Particulars	Average gross income	Risk weighted asset	Capital charge
Operational risk	21,936,210	41,130,394	3,290,432

As required by CBB under section CA 6.2.3 of the CBB Rulebook, the operational risk capital charge is 15% of the average of annual gross income of last 3 years' profit. Figure for any year in which annual gross income is negative or zero has been excluded from both the numerator and denominator when calculating the average.

Bank's indicators of Operational Risk exposures for Basic Indicator Approach

Particulars	Amount
Gross Income	21,936,210
Amount of non-Shari›a-compliant income*	296
Number of Shari›a violations that were identified and reported during the financial year	None

The non-Shari'a compliant income is the interest income on the Bank's current accounts and forms part of undistributed charity funds (as approved by the Shari'a Board).

As per CBB rulebook, Gross income is defined as:

- Net income from financing activities which is gross of any provisions, operating expenses, realised profits/losses from the sale of securities in the banking book, and depreciation of Ijarah assets;
- Net income from investment activities; and
- Fee income (e.g. commission and agency fee)
- Less
- Investment account holders' share of income
- Takaful income

5.3.4 Legal Risk – Current Litigations and Claims

The Bank has an internal legal counsel that prepares and reviews all the legal documents. The Bank has appointed external legal advisor(s) for advice on various legal issues including legal documentation.

The current litigations and claims of the Bank are given below:

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$ 4,306,622 as at 31 December 2009. Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged investments have been retained by the financial institution. In the opinion of the Bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the Bahrain courts against the financial institution for wrongful possession of 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.
- There are three labour cases running against the bank from three former employees seeking compensations as a result of alleged unfair termination of their services with the bank. The Bank's legal position is strong and a material liability to the Bank is not expected from the cases.

The bank has appointed external law firm(s) to deal with the above cases.

5.4 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 payables only. The Bank has established a limit structure to monitor the prevailing liquidity position and to control negative mismatches that may affect the fulfillment of short term obligations of the Bank.

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

2009	Up to 1 month	1 to 3 months	3 months to 1 year	Within 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
Assets								
Cash and cash equivalents	612,263	-	-	612,263	-	-	-	612,263
Investments	-	-	-	-	-	-	27,669,174	27,669,174
Deferred payment sale receivables	-	-	-	-	-	-	3,680,203	3,680,203
Investment properties	-	-	-	-	-	-	27,571,404	27,571,404
Other assets	-	10,038	59,512	69,550	134,292	1,499	7,419,571	7,624,912
Property & equipment	-	-	-	-	-	-	7,098,715	7,098,715
Total assets	**612,263**	**10,038**	**59,512**	**681,813**	**134,292**	**1,499**	**73,439,067**	**74,256,671**

Liabilities	Up to 1 month	1 to 3 months	3 months to 1 year	Within 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
Due to a financial institution	-	-	-	-	-	-	3,670,202	3,670,202
Murabaha payable	-	-	-	-	-	-	3,229,064	3,229,064
Other liabilities	31,804	101,148	132,007	264,959	-	-	184,092	449,051
Total liabilities	**31,804**	**101,148**	**132,007**	**264,959**	**-**	**-**	**7,083,358**	**7,348,317**
Cumulative Liquidity Gap	**580,459**	**489,349**	**416,854**	**416,854**	**551,146**	**552,645**	**66,908,354**	

Following are the key liquidity ratios as at 31 December 2009:

Description	**Ratio**
Short Term Assets : Total Assets	0.29:1.00
Short Term Assets : Short Term Liabilities	47.80:1.00

5.5 Rate of Return Risk

Rate of return risk arises due to different timing of re-pricing of the Bank's assets and liabilities. The Bank's exposure to rate of return risk is limited to cash and cash equivalents. The cash and cash equivalents amount as on 31st December 2009 is USD 612,263. The Bank does not have significant rate of return risk sensitivity due to the short-term nature of its cash and cash equivalents.

5.6 Equity Price Risk in the Banking book

Equity price risk is the risk that 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 available-for-sale portfolio. The price movement of these exposures are closely monitored by the Bank and reported to the management.

Sensitivity Analysis:

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

Particulars	**20% decrease**	**20% increase**
Available-for-sale investments	(4,016,900)	4,016,900

5.6.1 Valuations Policy

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.

5.6.2 Equity based financing

The Bank has the following investments classified as quoted on an active market or privately held:

Types And Nature of Investments	**Publicly traded**	**Privately held**
Investment in shares	19,652,965	1,764,107
Investment in managed funds	–	640,520
Total	**19,652,965**	**2,404,627**

Additionally the Bank has following cumulative realized gains or losses arising from sales or liquidations, total unrealized gains and losses recognized in the balance sheet but not through the profit and loss statement, and any unrealized gains and losses included in Tier 1 and Tier 2 capital:

Particulars	**Amount**
Cumulative realized gains (losses) arising from sales or liquidations in the reporting period	6,530
Total unrealized gains (losses) recognized in the balance sheet but not through P&L	3,411,701
Unrealized gains (losses) included in Tier One Capital	(5,974)
Unrealized gains (losses) included in Tier Two Capital	1,537,953

The Bank has following capital requirements broken down by equity groupings:

Equity grouping	**Risk weighted assets (RWA)**	**Capital requirements @ 15% of RWA**
Investment in shares	16,496,985	2,474,548
Investment in managed funds	610,380	91,557
Total	**17,107,365**	**2,566,105**

5.7 Displaced Commercial Risk

The risk when an Islamic bank is under pressure to pay its investors-depositors a rate of return higher than what should be payable under actual terms of the investment contract.

Since the Bank does not take deposits from outside parties, displaced commercial risk is not currently relevant for the Bank.

6 Restricted Investment Accounts

The Bank has not, as a focused business proposition, opened Investment Accounts or accepted Investment Account deposit (restricted or unrestricted) except for certain transactions involving related parties in three cases and hence does not have any formal policies and procedures. The specific RIAs are opened according to the underlying arrangements. The bank accepted certain funds from a related party in 1999 under a Mudaraba arrangement which were deployed in a Murabaha with a non-related party. The Murabaha was partially repaid and the balance amount has been impaired. Appropriable impairment provisions have been made in the RIA.

Balance as of 31 Dec 2009 net of provision:

Exposures	**No of units (000)**	**Average value per share US$**	**Total US$**
Murabaha with Lotus Air Ltd	–	–	317,689
Investments in International Investment Group K.S.C.C. *	12,887	0.44	5,670,202
Portfolio managed by the Bank **	142,059	0.07	10,240,334

The Restricted Investment Accounts are not actively managed by the Bank and have not earned any income during the last six years.

* 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 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.

This account does not have a specific maturity due to it being a subject of litigation in the Bahrain courts.

** Managed Portfolio
The Bank has a signed portfolio Management Agreement with some related parties. The underlying assets of the portfolio comprise the shares of one of the related parties that is also a partial owner of the portfolio.

This portfolio may be liquidated on the instructions of the owners after due regulatory approvals are obtained and hence has no fixed maturity.

7 Related party transactions

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 which may not necessarily be on arm's length basis.

Significant balances with related parties at 31 December comprise:

Assets	**Counterparty**	**2009**	**2008**
Trading investments	Grand Real Estate Projects Co.	5,411,638	5,451,147
Available-for-sale investments			
	International Investment Group	3,431	2,815
	Gulf Monetary Group	31,936	31,936
	Takaful International – Bahrain	7,771,808	7,291,300
	Gulf Monetary Group – Managed portfolio	208,986	217,529
	Takaful International – Kuwait	720,568	750,023
	International Projects Consultancy	43,539	45,319
Murabaha receivables	Other related party	–	3,243,848
Mudaraba investments	International Investment Group	–	4,000,000
Receivables from sale of investments			
	International Investment Group	–	8,328,852
	Gulf Monetary Group	–	3,517,690
Deferred payment sale receivables	Gulf Monetary Group	3,680,203	3,680,203
Receivable from Mudarib	International Investment Group	–	6,127,801
Other assets:			
Current account			
	Gulf Monetary Group	–	150,371
	International Investment Group	–	33,467
	Grand Real Estate Projects Co.	6,043,576	13,979,891
Dividend receivable			
	International Investment Group	–	2,581
	Grand Real Estate Projects Co.	–	1,776,670
		23,915,685	**58,631,444**

Liabilities			
Murabaha payables	International Investment Group	3,229,064	3,229,064
Other Liabilities			
	Takaful International – Bahrain	15,957	–
	Key Management Personnel	240,254	175,145
		3,485,275	**3,404,209**

Significant transactions with related parties include:

Income	Counterparty	2009	2008
Income from trading investments	Grand Real Estate Projects Co.	–	1,007,824
Income from available-for-sale investments	International Investment Group	–	569
Fair value losses on trading investments	Grand Real Estate Projects Co.	(39,509)	(24,275,927)
Income from Mudaraba investment	Other related party	–	192,452
Income from Mudaraba investment	International Investment Group	63,680	–
Other income – refund of payments to Managing Director	Key Management Personnel	–	1,000,000
Expenses			
Provision for impairment	Grand Real Estate Projects Co.	1,706,897	1,483,430
	International Investment Group	12,387,156	2,925,084
	Gulf Monetary Group	3,423,829	2,701,297
Provision Write Back	Other related party	(1,897,619)	–
Board of Directors	Board of Directors	29,882	37,069
Shari'a Supervisory Board	Shari'a Board	31,552	45,721
		15,681,697	**7,193,601**

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

Key management personnel of the Bank comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. The key management personnel compensation is as follows:

	2009	2008
Salaries and other short-term benefits	496,927	447,113
Post employment benefits	31,397	27,356