



Annual Report 2010

INVEST  ORS Bank B.S.C. (C)
بنك المستثمرون على حد (مفتلة)

Licensed as an Islamic Wholesale Bank by the CBB

CONTENTS

Chairman's Report	4 - 5
Report of the Board of Directors	6 - 7
Shari'a Board's Report	8
Independent Auditors' Report to the Shareholders.....	11
Statement of Financial Position	12
Statement of Income	13
Statement of Cash Flows	14
Statement of Changes in Equity	15
Statement of Changes in Restricted Investment Accounts	16
Statement of Sources and Uses of Charity Fund	17
Notes to the Financial Statements	18 - 36
Public Disclosures Document 2010	39 - 62



His Royal Highness
Prince Khalifa Bin Salman
Al Khalifa

The Prime Minister
The Kingdom of Bahrain



His Majesty
King Hamad Bin Isa
Al Khalifa

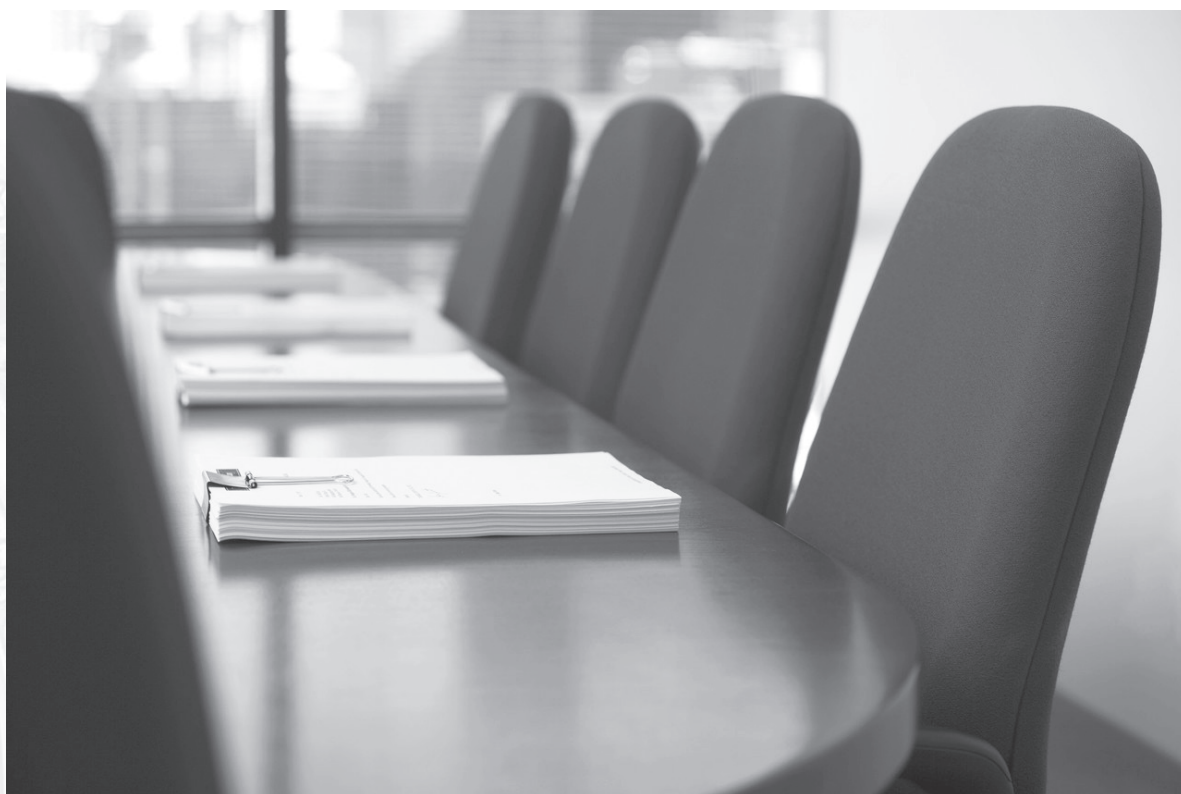
The King of
The Kingdom of Bahrain



His Royal Highness
Prince Salman Bin Hamad
Al Khalifa

The Crown Prince and
Deputy Supreme Commander

BOARD OF DIRECTORS



BOARD OF DIRECTORS

Dr. Abdulaziz Bader Hussain Bader Al Jenaie
Chairman

Mr. Hamad Abdulla Al Ghanim
Vice Chairman

Mr. Ahmed Shabeeb Al Dhaheri
Member

Mr. Ghassan Fahad Sultan Al-Essa
Member

Mr. Isa Abdulla Al Mannai
Member

Mr. Eyad Omar Al-Serri
Member

EXECUTIVE COMMITTEE

Mr. Isa Abdulla Al Mannai
Chairman

Mr. Ghassan Fahad Sultan Al-Essa
Member

Ahmed Shabeeb Al Dhaheri
Member

AUDIT COMMITTEE

Mr. Hamad Abdulla Al Ghanim
Chairman

Mr. Eyad Omar Al-Serri
Member

SHARI'A BOARD

Shaikh Dr. AbdulSattar A.Karim Abu Ghuddah
Chairman

Shaikh Dr. Ali Muhyealdin A. Al Quradaghi
Member

Shaikh Nedham Mohammed Saleh Yaqoobi
Member

CHAIRMAN'S REPORT

For the year ended 31 December 2010

All amounts are expressed in US Dollars unless otherwise stated



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

Dear Shareholders

On behalf of my colleagues, members of the Board of Director I am pleased to present to you the annual report on the activities of the Bank for the financial year ended 31 December 2010.

During the year 2010, the global financial markets did not completely recover so that the financial activity has record decrease less than expectation and the development still breaking and unemployment still in a higher level despite of that we are after three years since the global crises, which affected the global economic markets in 2008. Currently Middle East countries are witnessing some improvement because of the inner flow out capitals and the going up of the oil prices. But the pressures in the Banking and financial sectors beside of the slow credit activity remain as a hindrance in the way of the recovery within those countries.

Dear Brothers,

In fact, GCC banking sector reported drops in net profit in year 2010 which seen to be another very difficult year as a result of many banks and companies defaults as well as losses related to the unpaid loans still not disclosed, where GCC governments should give every effort in order to balance between reactivation of the credit and the necessity of supporting financial orders and supervision specially at those courtiers with over exposure.

Investors Bank was also not immune to the prevailing economical slowdown. The Bank suffered a drop in the market prices of "held for trading investments" to the tune of US\$ 3,402,560 (2009: US\$ 69,453). Additionally the Bank had to make net provision for impairment of US\$ 22,089,835 (2009: US\$ 17,771,243) on account of a drop in the market value of its real estate investments and revaluation of receivables and the drop in market prices of held for sale investments. Therefore, the bank reported a net loss of US\$ 27,277,875 (2009: US\$ 21,216,840) for the year ended 31 December 2010.

We believe that the drop in real estate and investments prices is temporary and our efforts to recover the receivables continue.

The Bank believes that 2011 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 on 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 last years will have their fruits during the coming period, bearing in mind that the Bank has taken into consideration the directives issued by the Central Bank of Bahrain. In spite of all this we do realise that the future challenges will be numerous but we as members of the Board of Directors are quite confident that we have the ability to face them, thanks to God's Grace, the work of the senior management which undertakes the leadership in the 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 Commander-in-Chief of the Bahrain Defence Force, to Government of the Kingdom of Bahrain, the Minister of Industry and Commerce, the Central Bank of Bahrain, the Bahrain Stock Exchange for their vision , guidance and continuous support for the establishment of a distinguished Islamic Banking Centre in the Kingdom. Gratitude is also extended to the Shariah Supervisory Board for their support and valuable guidance, to our investors and to our members of staff: executives and employees whose support is adding value to the bank.



Dr. Abdulaziz Al Bader
Chairman

22 February 2011

REPORT OF THE BOARD OF DIRECTORS

For the year ended 31 December 2010

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 2010.

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.

During the year 2010 the bank did not undertake any new investment transactions, except exiting from certain investments.

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.

Financial Position and Results

The detailed financial position of the Bank at 31 December 2010 and the results for the year then ended are set out in the accompanying financial statements.

Financial highlights	2010	2009
Total asset	46,227,832	74,256,671
Total equity	38,863,382	66,908,354
Loss for the year	(27,277,875)	(21,216,840)
Movement in accumulated losses	2010	2009
Balance at 1 January	(23,912,862)	(2,696,022)
Loss for the year	(27,277,875)	(21,216,840)
Balance at 31 December	(51,190,737)	(23,912,862)

Dividends

The Board of Directors has not made any appropriations for dividends for the year ended 31 December 2010 (2009: nil).

Directors and Management

The following served as directors of the Bank during the year ended 31 December 2010:

<u>Name</u>	<u>Title</u>
Dr. Abdulaziz Al Bader	Chairman
Mr. Hamad Abdulla Al-Ghanim	Vice-Chairman and Chairman of the Audit Committee
Mr. Ahmed Shabib Al Dhahery	Member
Mr. Ghassan Fahad Al Sultan	Member
Mr. Isa Abdulla Al Mannai	Member and Chairman of the Executive Committee
Mr. Eyad Omer Al-Serri	Member

Auditors

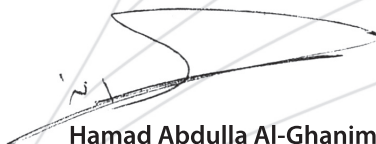
Ernst & Young have expressed their willingness to continue in office and a resolution proposing their appointment, as auditors of the Bank for the year ending 31 December 2011, will be submitted to the Annual General Meeting.

Thanks

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



Dr. Abdulaziz Al Bader
Chairman



Hamad Abdulla Al-Ghanim
Vice Chairman and Chairman
of the Audit Committee

22 February 2011

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 31/12/2010.

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 31/12/2010 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.

12th Rabia I, 1432 Hijri corresponding to 15th February 2011.

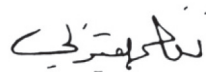
SHARI'A BOARD



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



Shaikh Dr. Ali Muhyealdin Al Quradaghi
Member



Shaikh Nedham Mohammed Saleh Yaqoobi
Member



**Financial Statements
31 December 2010**

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

We have audited the accompanying statement of financial position of INVESTORS BANK B.S.C. (c) ["the Bank"] as of 31 December 2010, and the related statements of income, cash flows, changes in equity, sources and uses of charity fund for the year then ended. These financial statements and the Bank'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.

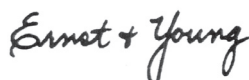
We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, the results of its operations, its cash flows, changes in equity and sources and uses of charity fund for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Other Matters

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 2010 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 and has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.



22 February 2011
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION

as at 31 December 2010

	Note	2010 US\$	2009 US\$
ASSETS			
Cash and balances with banks	3	411,444	612,263
Investments	4	16,677,570	27,669,174
Deferred payment sale receivables	19	3,680,203	3,680,203
Investment properties	5	20,020,445	27,571,404
Other assets	6	1,594,222	7,624,912
Property and equipment	7	3,843,948	7,098,715
TOTAL ASSETS		46,227,832	74,256,671
LIABILITIES AND EQUITY			
Liabilities			
Due to a financial institution	19	3,670,202	3,670,202
Murabaha payable		3,229,064	3,229,064
Other liabilities		465,184	449,051
Total liabilities		7,364,450	7,348,317
Equity			
Share capital	8	80,000,000	80,000,000
Statutory reserve		7,409,515	7,409,515
Investments fair value reserve		2,644,604	3,411,701
Accumulated losses		(51,190,737)	(23,912,862)
Total equity		38,863,382	66,908,354
TOTAL LIABILITIES AND EQUITY		46,227,832	74,256,671
Restricted investment accounts		16,424,155	16,228,225



Dr. Abdulaziz Al Bader
Chairman



Hamad Abdulla Al Ghanim
Vice Chairman and Chairman of the Audit Committee

The attached notes 1 to 21 form part of these financial statements.

STATEMENT OF INCOME

for the year ended 31 December 2010

	<i>Note</i>	2010 US\$	2009 US\$
Income/(Loss) from trading investments	9	5,902	(20,651)
Income from available-for-sale investments	10	291,792	16,965
Fair value loss on trading investments		(3,402,560)	(69,453)
Income from Mudaraba investment		–	63,680
Other income	11	793,613	426,733
Total net (loss)/income		(2,311,253)	417,274
Staff cost		1,123,068	1,340,145
Administrative and general expenses	12	612,686	1,414,552
Net provision for impairment	13	22,089,835	17,771,243
Depreciation		1,141,033	1,108,174
Total expenses		24,966,622	21,634,114
LOSS FOR THE YEAR		(27,277,875)	(21,216,840)

The attached notes 1 to 21 form part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	Note	2010 US\$	2009 US\$
OPERATING ACTIVITIES			
Loss for the year		(27,277,875)	(21,216,840)
Adjustments for:			
Depreciation		1,141,033	1,108,174
(Gain)/Loss on disposal of property and equipment		(2,035)	3,846
Net provision for impairment	13	22,089,835	17,771,243
Gain on disposal of available for sale investments	10	(291,792)	(6,531)
Fair value loss on trading investments		3,402,560	69,453
Loss on disposal of trading investments		–	46,355
Operating loss before changes in operating assets and liabilities:		(938,274)	(2,224,300)
Changes in operating assets and liabilities:			
Other assets		158,212	550,465
Other liabilities		16,133	5,402
Net cash (used in) operating activities		(763,929)	(1,668,433)
INVESTING ACTIVITIES			
Purchase of trading investments		–	(57,285)
Proceeds from disposal of trading investments		–	68,645
Purchase of available for sale investments		–	(492,461)
Proceeds from disposal of available for sale investments		560,590	145,897
Purchase of property and equipment		–	49,995
Proceeds from disposal of property and equipment		2,520	8,721
Net cash from / (used in) investing activities		563,110	(276,488)
DECREASE IN CASH AND CASH EQUIVALENTS		(200,819)	(1,944,921)
Cash and cash equivalents at beginning of the year		612,263	2,557,184
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	411,444	612,263

The attached notes 1 to 21 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

	Share capital US\$	Statutory reserve US\$	Investments fair value reserve US\$	Accumulated losses US\$	Total US\$
Balance at 1 January 2010	80,000,000	7,409,515	3,411,701	(23,912,862)	66,908,354
Loss for the year	–	–	–	(27,277,875)	(27,277,875)
Fair value loss during the year	–	–	(767,097)	–	(767,097)
Balance as at 31 December 2010	80,000,000	7,409,515	2,644,604	(51,190,737)	38,863,382
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

The attached notes 1 to 21 form part of these financial statements.

STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

for the year ended 31 December 2010

	Balance at 1 January 2010				Movements during the year				Balance at 31 December 2010		
	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	0.07	10,240,334	-	195,930	-	-	-	142,059	0.07	10,436,264
			<u>16,228,225</u>	<u>-</u>	<u>195,930</u>	<u>-</u>	<u>-</u>	<u>-</u>			<u>16,424,155</u>
	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
			<u>16,646,823</u>	<u>-</u>	<u>(418,598)</u>	<u>-</u>	<u>-</u>	<u>-</u>			<u>16,228,225</u>

1. Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties.

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 19).

The attached notes 1 to 21 form part of these financial statements.

STATEMENT OF SOURCES AND USES OF CHARITY FUND

for the year ended 31 December 2010

	2010 US\$	2009 US\$
Sources of charity fund		
Non-Islamic income	–	296
Total sources	–	296
Uses of charity fund		
Contributions to charitable organisations	266	–
Total uses	266	–
Excess of sources over uses	(266)	296
Undistributed charity fund at 1 January	35,551	35,255
Undistributed charity fund at 31 December	35,285	35,551

The attached notes 1 to 21 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

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 Bank has not undertaken any new significant business activity since 2009 on account of losses, termination of key management staff and over all downturn in the global economies.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 22 February 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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"] the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law ["BCCL"], 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"].

The Bank incurred a loss of US\$ 27,277,875 during the year ended 31 December 2010 (2009: 21,216,840) and as of that date, the Bank's accumulated losses of US\$ 51,190,737 (2009:23,912,862) which represents a significant portion of the Bank's equity. The shareholders are confident that the Bank will generate positive results in the future and, hence, the financial statements have been prepared on a going concern basis.

2.2 Accounting Convention

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

The financial statements have been presented in United States Dollar ["US\$"], being the functional currency of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Convention (continued)

Following is the summary of significant accounting policies adopted in preparing the financial statements. These accounting policies are consistent with those used in the previous year, except as noted below:

2.2.1 New financial accounting standards

Following are the new financial accounting standards that have been adopted by the Bank during the year. Adoption of these new standards did not have any effect on the financial statements of the Bank.

Financial Accounting Standard No. 23 - Consolidation

During the year, the Bank has adopted FAS 23 issued by the AAOIFI which sets out the principles for determining entities that are subject to be included in the consolidated financial statements of a parent and prescribes the accounting for investment in subsidiaries by parent. The adoption of this standard is effective for financial periods commencing on or after 1 January 2010.

Financial Accounting Standard No. 24 - Associates

During the year, the Bank has adopted FAS 24 issued by the AAOIFI which sets out the accounting principles for recognising, measuring, presenting and disclosing the investments in associate. The adoption of this standard is effective for financial periods commencing on or after 1 January 2010.

2.3 Significant accounting judgments and estimates

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

2.4 Impairment of financial assets

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.

2.5 Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investments

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

Initial recognition

All 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

Subsequent to initial recognition investments that are classified as trading investments are carried at fair value. The fair value changes of trading investments are reported in the statement of income.

Available for sale

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

The losses arising from impairment of such investments are recognized in the statement of income in "net 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.

2.7 Deferred payment sale receivables

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

2.8 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 premeasured 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 derecognized 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.

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

2.9 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Property and equipment (continued)

Freehold land is not depreciated. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Building	25 years
Others	3-5 years

Expenditure for maintenance and repairs is expensed as incurred. An item of property and equipment is derecognized 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.

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

2.10 Due to financial institutions

Amounts due to banks and financial institutions are initially recognised at cost, being the fair value of consideration received plus accrued profit less amount repaid.

2.11 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.

2.12 Employees' end of service benefits

The Bank provides end of service benefits to its employees in accordance with the requirement of Bahrain Labor 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.

2.13 Recognition of income and expenses

Dividend income

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

Rental income

Rental income is recognised on the basis of contractual amounts receivable on a time apportioned basis.

2.14 Earnings prohibited by Shari'a

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Derecognition of financial instruments

Financial instruments consist of cash and balances with banks, due from banks and financial institutions, non-trading investments and receivables.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- (i) the right to receive cash flows from the asset has expired;
- (ii) the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- (iii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.16 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".

2.17 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.

2.18 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.

2.19 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.

2.20 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

3 CASH AND BALANCES WITH BANKS

	2010 US\$	2009 US\$
Cash in hand	1,326	1,326
Cash at banks	410,118	610,937
	411,444	612,263

4 INVESTMENTS

Trading investments	2,209,022	5,611,582
Available-for-sale investments		
Investment in shares		
Quoted – at fair value	19,029,985	19,652,965
Unquoted – at cost *	1,778,727	1,764,107
Investment in funds	862,985	1,442,525
	21,671,697	22,859,597
Net provision for impairment	(7,203,149)	(802,005)
	14,468,548	22,057,592
	16,677,570	27,669,174

* These investments are recorded at cost since their fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold them for the long term.

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

	2010 US\$	2009 US\$
At 1 January	802,005	801,978
Provision for impairment during the year	6,553,149	27
Provision reversed due to disposal of investment	(152,005)	–
At 31 December	7,203,149	802,005

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

	Country of incorporation	% ownership	Amount US\$	Nature of main activities
Quoted shares at fair value				
Bahrain Islamic Bank BSC	Bahrain	1.2	2,778,466	Commercial banking in accordance with Islamic Shari'a
Takaful International BSC	Bahrain	18.03	7,771,808	Takaful – insurance according to the Islamic Shari'a.

As at 31 December 2010, investments with carrying value of US\$ 2,778,466 (2009: US\$ 4,306,622) were held in the name of a financial institution and pledged as collateral against amounts due to the financial institution (note 19).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

5 INVESTMENT PROPERTIES

	Freehold land US\$	Buildings US\$	Total US\$
Cost:			
At 1 January 2010	18,742,649	15,434,430	34,177,079
Disposals	–	(1,945,669)	(1,945,669)
At 31 December 2010	18,742,649	13,488,761	32,231,410
Depreciation and impairment:			
At 1 January 2010	5,154,943	1,450,732	6,605,675
Impairment	3,309,191	1,857,782	5,166,973
Charge for the year	–	574,075	574,075
Disposals	–	(135,758)	(135,758)
At 31 December 2010	8,464,134	3,746,831	12,210,965
Net carrying values:			
At 31 December 2010	10,278,515	9,741,930	20,020,445
At 31 December 2009	13,587,706	13,983,698	27,571,404

The fair value of investment properties at the year end date was US\$ 21,448,792 determined based on valuations performed by independent professional valuers as of 31 December 2010.

6 OTHER ASSETS

	2010 US\$	2009 US\$
Current account with related parties (note 16)	9,349,698	7,710,884
Dividends receivable (note 16)	2,597,109	2,597,109
Statutory deposit with CBB	13,263	13,263
Prepaid expenses	7,110	69,550
Qard Hassan	31,144	134,292
Advance towards purchase of AFS investment (note 16)	408,535	408,535
Others	1,054,972	876,499
	13,461,831	11,810,132
Provision for impairment	(11,867,609)	(4,185,220)
	1,594,222	7,624,912

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

7 PROPERTY AND EQUIPMENT

	Freehold land US\$	Building US\$	Motor vehicles US\$	Office equipment & furniture US\$	Fixtures US\$	Total US\$
Cost:						
At 1 January 2010	3,535,847	3,793,497	58,045	872,227	1,346,991	9,606,607
Additions	–	–	–	–	–	–
Disposals	–	–	–	(32,449)	–	(32,449)
At 31 December 2010	3,535,847	3,793,497	58,045	839,778	1,346,991	9,574,158
Depreciation and impairment:						
At 1 January 2010	1,228,548	113,805	58,045	570,049	537,445	2,507,892
Charge for the year	–	116,643	–	180,916	269,399	566,958
Impairment	185,283	2,502,041	–	–	–	2,687,324
Disposals	–	–	–	(31,964)	–	(31,964)
At 31 December 2010	1,413,831	2,732,489	58,045	719,001	806,844	5,730,210
Net carrying values:						
At 31 December 2010	2,122,016	1,061,008	–	120,777	540,147	3,843,948
At 31 December 2009	2,307,299	3,679,692	–	302,178	809,546	7,098,715

The property and equipment mainly represents land and building in the Kingdom of Bahrain. The impairment charge is based on valuations performed by independent professional valuers as of 31 December 2010 and 31 December 2009.

8 EQUITY

Share Capital

	2010 US\$	2009 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

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 were made during the year as the Bank incurred a loss.

Investment fair value reserve

This represents the unrealised gain on revaluation of Available-for-sale investments. The reserve is distributable upon value realisation, which takes place at the time of actual exit or derecognition.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

9 INCOME/(LOSS) FROM TRADING INVESTMENTS

	2010 US\$	2009 US\$
Dividend income	5,902	25,704
Loss on disposal of trading investments	–	(46,355)
	<u>5,902</u>	<u>(20,651)</u>

10 INCOME FROM AVAILABLE-FOR-SALE INVESTMENTS

	2010 US\$	2009 US\$
Dividend income	–	10,434
Gain on disposal of available-for-sale investments	291,792	6,531
	<u>291,792</u>	<u>16,965</u>

11 OTHER INCOME

	2010 US\$	2009 US\$
Net income from investment properties	625,034	275,314
Other income	168,579	151,419
	<u>793,613</u>	<u>426,733</u>

12 ADMINISTRATIVE AND GENERAL EXPENSES

	2010 US\$	2009 US\$
Consultancy and legal expenses	181,272	316,719
Professional fees	91,512	61,008
License and registration	35,385	34,562
Shari'a Supervisory Board meetings' expenses and attendance allowances	30,070	31,552
Board of Directors and Committees meetings' expenses and attendance allowances	20,696	29,882
Advertising and promotion	16,415	17,737
Communication	13,023	15,032
Business development	4,881	8,009
Brokerage fees	331	370
Foreign exchange loss	41	759,425
Others	219,060	140,256
	<u>612,686</u>	<u>1,414,552</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

13 NET PROVISION FOR IMPAIRMENT

		2010 US\$	2009 US\$
Available-for-sale investments	(a)	6,553,149	27
Receivable from Mudarib		–	4,464,281
Receivables from sale of investments		–	11,160,346
Investment properties	(b)	5,166,973	922,405
Other assets	(c)	7,682,389	1,893,255
Property & equipment	(d)	2,687,324	1,228,548
Provision write back		–	(1,897,619)
		22,089,835	17,771,243

- (a) This mainly represents the decline in the market value of quoted shares in First Takaful Insurance Company and BIsB.
- (b) The impairment is based on the latest valuation performed by the independent valuer as of 31 December 2010.
- (c) This amount pertains to the current account receivable from GRAND. The amount of US\$ 6,043,576 was not provided by the client last year on the basis of which the auditor's report was qualified. During 2010 the full amount has been provided by the client based on the instruction received from CBB in a letter dated 2 June 2010.
- (d) The impairment charge for the year is based on the valuations performed by independent valuer as of 31 December 2010.

14 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

The Bank's quoted equity investments qualify for disclosure under Level 1 and their carrying value as at 31 December 2010 is US\$ 14,685,858 (2009: US\$ 25,264,547). 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.

15 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 analyzed 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 unrealized gains on trading investments (45% of the value); and
- Tier 2: Supplementary Capital – current retained profits, asset revaluation reserves and unrealized gains arising from fair valuing equities (45% of the value).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

15 CAPITAL MANAGEMENT (continued)

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%.

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

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

	2010 Besel II	2009 Besel II
Total risk weighted assets (a)	104,313,869	144,282,013
Total regulatory capital, net of deductions (b)	24,159,534	46,555,098
Capital adequacy ratio (b/a x 100)	23.16%	32.27%

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

Significant balances with related parties at 31 December comprise:

	2010 US\$	2009 US\$
Assets		
Trading investments		
<i>Grand Real Estate Projects Co.</i>	2,075,605	5,411,638
Available-for-sale investments		
<i>International Investment Group</i>	2,958	3,431
<i>Gulf Monetary Group</i>	31,936	31,936
<i>Takaful International - Bahrain</i>	7,771,808	7,771,808
<i>Gulf Monetary Group - Managed portfolio</i>	212,985	208,986
<i>Takaful International - Kuwait</i>	734,354	720,568
<i>International Projects Consultancy</i>	44,372	43,539
Deferred payment sale receivables		
<i>Gulf Monetary Group</i>	3,680,203	3,680,203
Current account		
<i>Grand Real Estate Projects Co.</i>	-	6,043,576
	14,554,221	23,915,685

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

16 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	2010 US\$	2009 US\$
Liabilities		
Murabaha payables <i>International Investment Group</i>	3,229,064	3,229,064
Other Liabilities <i>Takaful International - Bahrain</i> <i>Key Management Personnel</i>	19,149 151,798	15,957 240,254
	<u>3,400,011</u>	<u>3,485,275</u>
Restricted Investment Accounts	<u>16,106,466</u>	<u>15,910,536</u>
Significant transactions with related parties include:		
	2010 US\$	2009 US\$
Income		
Fair value losses on trading investments <i>Grand Real Estate Projects Co.</i>	(3,336,033)	(39,509)
Income from Mudaraba investment <i>International Investment Group</i>	–	63,680
Other income <i>Gulf Monetary Group</i> <i>Grand Real Estate Projects Co.</i>	4,775 5,305	– –
	<u>(3,325,953)</u>	<u>24,171</u>
Expenses		
Provision for impairment <i>Grand Real Estate Projects Co.</i> <i>International Investment Group</i> <i>Gulf Monetary Group</i>	7,682,389 4,502 –	1,706,897 12,387,156 3,423,829
Provision Write Back <i>Other related party</i>	–	(1,897,619)
Board of Directors <i>Board of Directors</i>	20,696	29,882
Shari'a Supervisory Board <i>Shari'a Board</i>	30,070	31,552
	<u>7,737,657</u>	<u>15,681,697</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

16 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Key management personnel of the Bank comprise 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:

	2010 US\$	2009 US\$
Salaries and other short-term benefits	233,094	496,927
Post employment benefits	16,475	31,397
	<u>249,569</u>	<u>528,324</u>

17 SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board consists of three scholars who review the Bank's compliance with general Shari'a principles and specific fatwa's, rulings and guidelines issued. Their review includes examination of the documentation and procedures adopted by the Bank to ensure that its activities are conducted in accordance with Shari'a principles.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

18 RISK MANAGEMENT (continued)

Credit risk (continued)

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

	2010 US\$	2009 US\$
Balances with banks	410,118	610,937
Deferred payment sale receivable	3,680,203	3,680,203
Other assets	1,573,849	7,542,099
Maximum exposure to credit risk	5,664,170	11,833,239

Analysis of Bank's exposure to credit risk:

	2010				
	Balances with bank US\$	Receivables from sale of investments US\$	Deferred payment sale receivables US\$	Other financial assets US\$	Total US\$
Neither past due nor impaired	410,118	–	–	31,144	441,262
Past due but not impaired	–	–	3,680,203	1,067,705	4,747,908
Individually impaired					
Gross amount	–	16,786,726	–	16,806,891	33,593,617
Provision for impairment	–	(16,786,726)	–	(16,331,891)	(33,118,617)
Net	–	–	–	475,000	475,000
Total exposure to credit risk	410,118	–	3,680,203	1,573,849	5,664,170

	2009				
	Balances with bank US\$	Receivables from sale of investments US\$	Deferred payment sale receivables US\$	Other financial assets US\$	Total US\$
Neither past due nor impaired	610,937	–	–	135,789	746,726
Past due but not impaired	–	–	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	7,542,099	11,833,239

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

18 RISK MANAGEMENT (continued)

Concentration risk

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

	2010			
	Banks and financial institutions US\$	Investment companies US\$	Other US\$	Total US\$
Assets				
Balances with banks	410,118	–	–	410,118
Investments	12,919,354	244,921	3,513,295	16,677,570
Deferred payment sale receivables	–	3,680,203	–	3,680,203
Investment properties	–	–	20,020,445	20,020,445
Other assets	900,996	–	693,226	1,594,222
Property and equipment	–	–	3,843,948	3,843,948
Total assets	14,230,468	3,925,124	28,070,914	46,226,506
Liabilities				
Due to a financial institution	3,670,202	–	–	3,670,202
Murabaha payable	3,229,064	–	–	3,229,064
Other liabilities	19,149	–	446,035	465,184
Total liabilities	6,918,415	–	446,035	7,364,450
Restricted investment accounts	5,670,202	10,436,264	317,689	16,424,155
	2009			
	Banks and financial institutions US\$	Investment companies US\$	Other US\$	Total US\$
Assets				
Balances with banks	610,937	–	–	610,937
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	900,996	–	6,723,916	7,624,912
Property and equipment	–	–	7,098,715	7,098,715
Total assets	21,389,959	4,352,659	48,512,727	74,255,345
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
Restricted investment accounts	5,670,202	10,240,334	317,689	16,228,225

Geographical concentration

Assets and liabilities of the Bank as at 31 December 2010 and 31 December 2009 are primarily concentrated in the Middle East region.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

18 RISK MANAGEMENT (continued)

Maturity Profile

The table below summarizes 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:

	2010						
	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
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Assets							
Cash and balances with banks	411,444	-	-	411,444	-	-	-
Investments	-	-	2,209,022	2,209,022	-	-	14,468,548
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	-
Investment properties	-	-	-	-	-	-	20,020,445
Other assets	-	-	7,110	7,110	31,144	-	1,555,968
Property and equipment	-	-	-	-	-	-	3,843,948
Total assets	4,091,647	-	2,216,132	6,307,779	31,144	-	39,888,909
Liabilities							
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	-
Murabaha payable	3,229,064	-	-	3,229,064	-	-	-
Other liabilities	92,272	155,557	168,729	416,558	-	-	48,626
Total liabilities	6,991,538	155,557	168,729	7,315,824	-	-	48,626
Cumulative Liquidity Gap	(2,899,891)	(3,055,448)	(1,008,045)	(1,008,045)	(976,901)	(976,901)	38,863,382
	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
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Assets							
Cash and balances with banks	612,263	-	-	612,263	-	-	-
Investments	-	-	5,611,582	5,611,582	-	-	22,057,592
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	-
Investment properties	-	-	-	-	-	-	27,571,404
Other assets	-	10,038	59,512	69,550	134,292	1,499	7,419,571
Property and equipment	-	-	-	-	-	-	7,098,715
Total assets	4,292,466	10,038	5,671,094	9,973,598	134,292	1,499	64,147,282
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
Total liabilities	6,931,070	101,148	132,007	7,164,225	-	-	184,092
Cumulative Liquidity Gap	(2,638,604)	(2,729,714)	2,809,373	2,809,373	2,943,665	2,945,164	66,908,354

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

18 RISK MANAGEMENT (continued)

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 has the following significant foreign currency exposures at the statement of financial position date:

	2010		
	Assets US\$	Liabilities US\$	Net US\$
Kuwaiti Dinar	4,587,029	–	4,587,029
2009			
	Assets US\$	Liabilities US\$	Net US\$
Kuwaiti Dinar	13,273,011	–	13,273,011

Bahraini Dinar and United Arab Emirates Dirham are pegged with US Dollar.

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	
	2010	2009	2010	2009
Kuwaiti Dinar	(229,351)	(663,651)	229,351	663,651

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:

Particulars	20% decrease		20% increase	
	2010	2009	2010	2009
Trading investments	(441,804)	(1,122,316)	441,804	1,122,316
Available-for-sale investments	(2,495,367)	(4,016,900)	2,495,367	4,016,900

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

18 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.

The Bank measures and allocates capital to its operational risk using the Basic Indicator Approach. The total operational risk weighted assets and regulatory capital requirements related to the operational risk are as follows:

	2010 US\$	2009 US\$
Average gross income	21,936,210	21,936,210
Operational risk weighted assets	41,130,394	41,130,394
Regulatory capital requirement (at 15%)	3,290,432	3,290,432

19 LITIGATION AND CLAIMS

In 2004, the Bank entered into a sale and purchase agreement with a financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution was US\$ 3,670,202 (31 December 2009: 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain of its investments with a carrying value of US\$ 2,778,466 as at 31 December 2010 (2009: 4,306,622). 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 the Bank's 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 amounting to US\$ 3,680,203 (2009: US\$ 3,680,203). This amount is included under deferred payment sale receivables.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

19 LITIGATION AND CLAIMS (continued)

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.

20 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.

21 SOCIAL RESPONSIBILITY

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



Public Disclosures Document 2010

PUBLIC DISCLOSURES DOCUMENT 2010

Table of Contents

1	Executive Summary	39
2	Management Discussion and Analysis	39
3	Corporate Governance	40
3.1	Ownership Structure of the Bank	40
3.1.1	Distribution of Ownership by Directors, Senior Managers, on an Individual Basis	40
3.1.2	Distribution of Ownership by Nationality	40
3.1.3	Distribution of Ownership of Shares by Size of Shareholder	40
3.1.4	Ownership By Govt.	40
3.2	The Board Of Directors	40
3.2.1	The Election System of the Board of Directors	41
3.2.2	Termination of Board's Membership	42
3.3	Profiles of Members of The Board of Directors	42
3.4	Board Committees	44
3.4.1	Executive Committee (Excom)	44
3.4.2	Audit Committee	44
3.5	Organisational Chart 2010	45
3.6	Board Meetings	46
3.7	Approval Authority Structure	46
3.8	Management Profile	46
3.9	Managerial Committee	47
3.10	Remuneration And Incentives	47
3.11	Corporate Governance Events	48
3.12	Communications Policy	48
3.13	Shari'a Compliance	48
3.14	Zakah Contributions	48
4	Capital Adequacy And Management	48
4.1	Capital Structure	49
4.2	Capital Adequacy	49
5	Risk Management	50
5.1	Credit Risk	51
5.1.1	Credit Risk Mitigation	53
5.1.2	Concentration Risk	53
5.2	Market Risk	54
5.2.1	Currency Risk	55
5.3	Operational Risk	56
5.3.1	Risk And Control Self Assessment	56
5.3.2	Operational Risk Loss Database	56
5.3.3	Operational Risk Capital Charge	56
5.3.4	Legal Risk – Surrent Litigations And Claims	57
5.4	Liquidity Risk	58
5.5	Rate Of Return Risk	59
5.6	Equity Price Risk In The Banking Book	59
5.6.1	Valuations Policy	59
5.6.2	Equity Based Financing	60
5.7	Displaced Commercial Risk	60
6	Restricted Investment Accounts	61
7	Related Party Transactions	61

PUBLIC DISCLOSURES DOCUMENT 2010

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 2010 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 2010, the global financial markets did not completely recover from the financial meltdown. The financial activity in the region was subdued during the period. Although the region is witnessing some improvement because of the higher oil prices, the Banking and financial sectors on account of slow credit activity remain as a hindrance in the way of the recovery.

GCC banking sector reported drops in net profit in year 2010. It was seen to be another very difficult year on account of defaults by many banks and companies as well as losses related to the unpaid loans still not disclosed. The GCC governments should make efforts to stimulate credit and support financial order and supervision.

Investors Bank was also not immune to the prevailing economical slowdown. The Bank suffered a drop in the market prices of "held for trading investments" to the tune of US\$ 3,402,560 (2009: US\$ 69,453). Additionally the Bank had to make net provision for impairment of US\$ 22,089,835 (2009: US\$ 17,771,243) on account of a drop in the market value of its real estate, held for sale investments and revaluation of receivables. Hence, the Bank reported a net loss of US\$ 27,277,875 (2009: US\$ 21,216,840) for the year ended 31 December 2010.

During the year 2010 the Bank did not undertake any new investment transactions, except exiting from certain investments.

We believe that the drop in real estate and investments prices is temporary and our efforts to recover the receivables continue.

The Bank believes that 2011 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 on eye on the opportunities to book capital gains once the market conditions improve.

PUBLIC DISCLOSURES DOCUMENT 2010

Financial ratios for 2010

Ratio name	Ratio
ROAE	-51.58
ROAA	-45.28
STAFF COST/INCOME	N/A
COST/INCOME	N/A
EPS	-0.11

3 Corporate Governance

3.1 Ownership structure of the Bank

The ownership structure of the Bank is given below:

3.1.1 Distribution of ownership by Directors, Senior Managers, on an individual basis

On an individual basis, the following is the distribution of ownership by Board of Directors:

Name	No. of Shares	Ownership %
Ahmed Shabib Al Dhaheri	2,579,393	1.06%

The Bank's other Board of Directors and Senior Managers do not own any shares in Bank on an individual basis.

3.1.2 Distribution of ownership by nationality

Country	No. of Shares	Ownership %
Kuwait	198,149,182	81.74%
Bahrain	31,419,793	12.96%
Qatar	6,934,298	2.86%
UAE	5,266,423	2.17%
Oman	130,909	0.05%
KSA	523,637	0.22%
Total	242,424,242	100.00%

3.1.3 Distribution of ownership of shares by size of shareholder

Ownership size	No of shareholders	Total ownership
0-5%	105	37.95%
5-15%	2	12.70%
>15%	2	49.35%

3.1.4 Ownership by Govt.

No sovereign Govt. owns any shares in the Investors Bank

3.2 The Board of Directors

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.

The Board shall also ensure the integrity of the Bank's accounting and financial reporting system through regular independent review by internal and external auditors. The Audit Committee is responsible for review of the integrity of the Bank's financial reporting and report to the Board.

The Board of Directors (BoD) aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency; and maintaining full compliance with the laws, rules and regulations that govern the Bank's business. The Board attempts to monitor compliance of the ethical conduct through periodic reviews by compliance and the internal audit functions.

Review of internal control, processes & procedure is carried out by internal Audit department where the bank has outsourced its internal audit function to PricewaterhouseCoopers (PWC), Bahrain in 2009

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 six members on its Board of Directors, of which the following two are independent:

- Mr. Ahmed Shabib Al Daheri
- Mr. Hamad Al Ghanem

Currently the Bank does not have a pre-defined process to induct, educate and orient new directors.

3.2.1 The election system of the Board of Directors

As per the Articles of Association (AOA), the Ordinary General Assembly may appoint a number of members from amongst those who have experience and expertise in the Board of Directors from other than the founders of the Company and the shareholders in the number and specialization that the Board believes that the interest of the Company so requires and in order to make available qualified, technical, management, academic and practical expertise

3.2.2 Termination of Board's membership

As per the AOA, the membership of the director may terminate in the following cases:

- If he is appointed or elected in contrary to the provisions of the Memorandum and Articles of Association.
- If he misuses his membership to carry out business in competition with the Company or causes actual damages to it.
- If he fails to attend three consecutive meetings without legitimate cause and this issue is notified to the Board of Directors in writing and the Board takes an appropriate action in respect thereof.
- If he resigns, relinquishes or is dismissed from his office provided that this done in an appropriate time otherwise he shall be required to compensate the Company.
- If he occupies another position within the Company for consideration other than the position that the Board of Directors may resolve from time to time to pay a remuneration for the person who occupies such position due to its executive nature

3.3 Profiles of Members of the Board of Directors

Dr. Abdulaziz Al Jenaie – Chairman

Dr. Al Jenaie is in the Board of Investors Bank since 10th June 2007. He has a Doctorate degree in comparative Fiqh (Jurisprudence), from Azhar University in Egypt. He has over 30 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 the Vice Chairman and Chief Executive Officer of Grand Real Estate Company, Kuwait. 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 Jenaie 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 Jenaie has been an active contributor for the benefit of society. Dr. Al Jenaie is the Mosque orator on Fridays, Imam for His Highness, Amir of Kuwait. Dr. Al Jenaie is also an Ex-member of the Board of Literacy Supreme Council, Shari'a authenticator since 1986 etc.

Mr. Hamad Abdulla Al Ghanim - Vice Chairman

Mr. Al Ghanim has around 27 years experience in Banking, Overseas Trading and Managing Investments Projects. He is currently the General Manager of First Holding Company and also the Chairman of Wara Constructions Company. He has been a Board Member of Central Bank of Kuwait, Assistant Deputy Minister of Ministry of Commerce and Industry and also the Investment Projects Manager of the Kuwaiti Company for Trading and Contracting and Foreign Investments.

PUBLIC DISCLOSURES DOCUMENT 2010

Mr. Al Ghanim has been in the Board of Directors of Investors Bank since 29th April, 2010

Educationally, Mr. Al Ghanim has a Bachelor degree in Business Management from Sonoma State University in U.S.A.

Mr. Ahmed Shabib Al Dhahery – Member

Mr. Dhahery is the Executive Director of the Abu Dhabi Investment Authority. He is also a Board member in Tunis and Emirates Bank (Tunis), Federal National Council, National Advisory Council for 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.

Mr. Dhahery has been in the Board of Directors of Investors Bank since 5th August, 2004.

Educationally, currently Mr. Dhahery is enrolled in Abu Dhabi University for Master of Human Resources Management Program. He is also an MBA from Abu Dhabi University, Master in International Business from Ecole Nationale Des Ponts Et Chaussees (ENPC) – Paris and is Bachelor in Economics from University of La Verne – California, USA.

Mr. Ghassan Al Sultan – Member

Mr. Sultan has more than 29 Years of experience in real estate and investments. Mr. Sultan is currently the Chairman of the Board of Gulf Petroloum Company (K.S.C.C.), also he is a Board Member of Salloum & Co. – Riviera Hotel and the Chairman and General Manager of Riviera Holding – Lenabon SAL. He has also been in the positions of Chairman and Managing Director of Gulf United real Estate and Tourism Investment Company (K.S.C.C.), 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).

Mr. Sultan is in the Board of Directors of Investors Bank since 15th June 1998.

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 over 29 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.

Mr. Mannai is in the Board of Directors of Investors Bank since 10th June 2007.

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

Mr. Eyad Omar Al Serri – Member

Mr. Al Serri has around 18 years experience in Banking, Investment and Real Estate industry. Currently he is a Board Member of Grand Real Estate Projects Company, Kuwait. Mr. Al Serri has been a Board Member of Osoul Investment Company, Kuwait, Managing Director of Ajal Finance & Investment Company, Kuwait and Chairman and Managing Director of Wared Lease and Finance Company, Kuwait.

Mr. Al Serri is in the Board of Investors Bank since 29th April, 2010

Educationally, Mr. Al Serri has B.A. – Business Management from Sonoma State University in U.S.A.

3.4 Board Committees

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

3.4.1 Executive Committee (EXCOM)

The Executive Committee consists of three non-executive directors of the Bank with the Chief Executive Officer (CEO) as an attendee. The EXCOM provides direction to the executive management on all business matters. The Executive Committee reviews and approves the recommendations for investment strategies, investment proposals, various products and services and where deemed necessary, also refers decisions to the Board of Directors.

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 (Independent)

3.4.2 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:

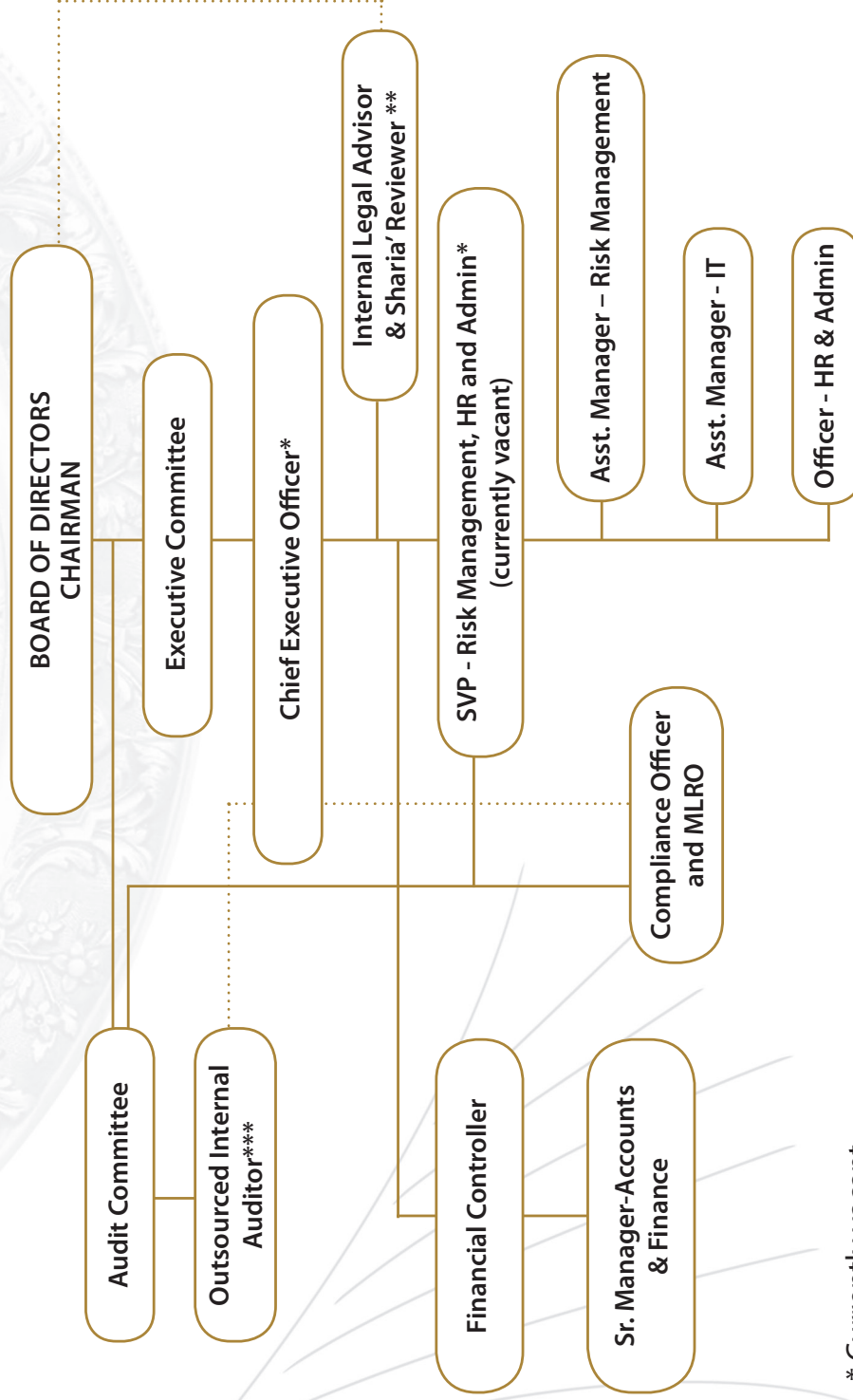
Mr. Hamad Al Ghanim – Chairman (Independent)

Mr. Eyad Al Serri – 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.

3.5 Organisational Chart 2010



* Currently vacant

** Also the Board Secretary

*** Price waterhouse Cooper Bahrain

PUBLIC DISCLOSURES DOCUMENT 2010

3.6 Board Meetings

As per the Corporate Governance Manual, the Board is expected to meet minimum four times during a year. There were four Board and Sub Committee meeting during the 2010.

The dates and attendance details of the meetings are given below:

Date & location of meeting	Names of Directors present	Names of directors not present
13/5/2010 – Kuwait	Dr. Abdulaziz Al Jenaie Mr. Ahmed Shabib AlDhahery Mr. Isa Al Mannai Mr. Abdulwahab A'amer Mr. Hamad Al Ghanim Mr. Eyad Al Serri	Mr. Ghassan Al Sultan
5/7/2010 – Kuwait	Dr. Abdulaziz Al Jenai Mr. Ghassan Al Sultan Mr. Isa Al Mannai Mr. Eyad Al Serri	Mr. Ahmed Shabib AlDhahery Mr. Hamad Al Ghanim Mr. Abdulwahab A'amer (resigned)
13/10/2010 - Kuwait	Dr. Abdulaziz Al Jenaie Mr. Ghassan Al Sultan Mr. Isa Al Mannai Mr. Ahmed Shabib Al Dhahery Mr. Hamad Al Ghanim Mr. Eyad Al Serri	
28/12/2010 – Kuwait	Dr. Abdulaziz Al Jenaie Mr. Ghassan Al Sultan Mr. Isa Al Mannai Mr. Hamad Al Ghanim Mr. Eyad Al Serri	Mr. Ahmed Shabib AlDhahery

3.7 Approval authority structure

The materiality level for transactions that require board approval varies for different activities and is governed by the Board approved delegation of authority document.

3.8 Management Profile

Mr. Aref Hussain, Financial Controller

Mr. Hussain has over 14 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 8 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. Faisal Isa, Compliance Officer and MLRO

Mr. Hussain has an experience of 6 years in the Banking and Financial institutions sector in Bahrain. He has experience and strong background in accounting and finance and good knowledge in risk management and compliance and money laundering functions. He was hired by Bahrain institute of Banking and Finance to teach accounting, finance and banking classes and to develop new offerings in these areas.

Educationally, Mr. Hussain holds a Master in Finance from Royal Melbourne Institute of Technology (RMIT), Australia, and Bachelor degree in Accounting from University of Bahrain.

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

3.9 Managerial Committee

The Bank does not have any managerial committee as on December 31st, 2010. The Board has approved the formation of "Investment Committee" in October 2009; however it has not been formed as on December 31st, 2010.

The committee is proposed to 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.

3.10 Remuneration and Incentives

The remuneration to the Board of Directors is governed by the Articles of Association of the Bank. The Bank provides fixed annual fees to the Shariah Board and does not provide any performance linked incentives.

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.

3.11 Corporate Governance Events

- In June 2010, the Chairman of the Audit Committee Mr. Abdulwahab A'amer resigned as Board member and as the Chairman of Audit Committee. Mr. Hamad Abdulla Al-Ghanem was appointed as the new Chairman of the Audit Committee.
- Departure of the SVP Risk Management and Acting Chief Executive Officer – As of October 2009, Mr. Yash Parasnis, resigned from the position of the SVP Risk Management and the Acting CEO of the Bank. The Bank has not yet appointed anybody else to take over his responsibilities
- 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. Faisal Isa as the Compliance Officer. Mr. Isa also has the responsibility of the Money Laundering Reporting Officer (MLRO).

3.12 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.

3.13 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 Shari'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.

3.14 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 1st 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.

PUBLIC DISCLOSURES DOCUMENT 2010

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	6,494	–
Tier 1 Capital	36,212,281	–
Unrealized gross gains arising from fair valuing equities (45% only)	–	1,192,994
Tier 2 Capital	–	1,192,994
Total Available Capital		
Deductions:		
Excess amount over maximum permitted large exposure limit		
– Tier 1	12,052,747	–
– Tier 2	–	1,192,994
Net Available Capital	24,159,534	
Total Eligible Capital	24,159,534	

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.

PUBLIC DISCLOSURES DOCUMENT 2010

The Bank's policy is to maintain a capital adequacy ratio, at all times, in excess of the minimum required by CBB. The current minimum capital adequacy ratio (CAR) requirement for the Bank has been increased from 12% (in 2008) to 15%. This increase in CAR 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 four years).

Risk Assets/ Categories	Risk Weighted Assets (RWA)	Capital Charge @ 15% of RWA
Credit Risk		
– Cash and cash equivalents	82,024	12,304
– Available for sale investments		
– Listed equities	7,325,642	1,098,846
– Unlisted equities	2,123,149	318,472
– Deferred payment sale receivables	1,566,274	234,941
– Investment properties	40,040,890	6,006,134
– Other assets	1,580,955	237,143
– Property and equipment	3,843,948	576,592
Total Credit Risk	56,562,882	8,484,432
Market Risk		
– Equity position risk	2,033,564	305,035
– Foreign exchange risk	4,587,029	688,054
Total Market Risk	6,620,593	993,089
Total Operational Risk	41,130,394	6,169,559
Total Risk Weighted Assets (a)	104,313,869	
Total Eligible Capital (b)	24,159,534	
Total Capital Adequacy Ratio [(b)/(a)]	23.16%	

5 Risk Management

The Bank is exposed to the credit, market and liquidity 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 business units and the support functions) primarily manage the risks of their respective functions.

PUBLIC DISCLOSURES DOCUMENT 2010

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, 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)

Portfolios	Own capital and current account	
	Total gross credit risk exposure	Average gross credit exposure over the period *
Cash and cash equivalents	411,444	390,963
Available-for-sale investments	14,468,548	16,946,589
Deferred payment sale receivables	3,680,203	3,680,203
Investment properties	20,020,445	24,617,590
Other assets	1,594,222	3,074,111
Property and equipment	3,843,948	5,229,814
Total	44,018,810	53,939,270

* 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.

PUBLIC DISCLOSURES DOCUMENT 2010

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 uses ratings assigned by External Credit Assessment Institutions ["ECAI"] for risk assessment and calculating risk weighted equivalents. ECAIs 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	179,972	4,747,908
Impaired financing contracts	15,312,239	6,125,125	12,156,253	33,593,617
Total	16,199,972	9,805,328	12,336,225	38,341,525

Aging of past due and impaired financing contracts:

	Banking and financial institutions	Investment Companies	Others	Total
Less than 3 months	–	–	–	–
3 months – 1 year	–	–	179,972	179,972
1 year – 3 years	–	–	10,872,716	10,872,716
Over 3 years	16,199,972	9,805,328	1,283,537	27,288,837
Total	16,199,972	9,805,328	12,336,225	38,341,525

Movement in specific provisions during the year:

	Banking and financial institutions	Investment Companies	Others	Total
Balance at the beginning of the year	15,312,239	6,125,126	3,998,863	25,436,228
Net provision for impairment for the year	–	–	7,682,389	7,682,389
Balance at the end of the year	15,312,239	6,125,126	11,681,252	33,118,617

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. 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.

PUBLIC DISCLOSURES DOCUMENT 2010

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 guidelines (covered in the Credit policy approved in July 2010) 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			
	Kuwait	Bahrain	Others countries	Total
Cash and cash equivalents	393,040	18,404	-	411,444
Available for sale investments	11,188,515	2,280,033	1,000,000	14,468,548
Deferred payment sale receivables	3,680,203	-	-	3,680,203
Investment properties	16,710,875	-	3,309,570	20,020,445
Other assets	1,119,222	-	475,000	1,594,222
Property and equipment	3,843,948	-	-	3,843,948
Total	36,935,803	2,298,437	4,784,570	44,018,810

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

Own capital

Asset category	Geographic area			
	Bank and financial institutions	Investment Companies	Others	Total
Funded				
Cash and cash equivalents	411,444	-	-	411,444
Available for sale investments	12,785,937	244,921	1,437,690	14,468,548
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment properties	-	-	20,020,445	20,020,445
Other assets	900,995	-	693,227	1,594,222
Property and equipments	-	-	3,843,948	3,843,948
Total	14,098,376	3,925,124	25,995,310	44,018,810

PUBLIC DISCLOSURES DOCUMENT 2010

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	5,673,107
Counterparties – Closely Related	13,183,424
Total	18,856,531

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

Impaired exposures, Past Due exposures and allowances

Geographic area	Own capital	
	Past due Islamic financing contracts	Specific impairment provision
Bahrain	4,747,908	–
Kuwait	32,310,082	32,310,082
Others countries	1,283,535	808,535
Total	38,341,525	33,118,617

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.

PUBLIC DISCLOSURES DOCUMENT 2010

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	(441,804)	441,804

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 by the Bank.

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

Particulars	Gross exposure	Risk wighted assets (RWA)	Capital requirements @ 15% of RWA	Maximum capital requirement during the year	Minimum capital requirement during the year
Equity Position	2,209,022	2,033,565	305,035	571,799	305,035
Foreign Exchange Position	4,587,029	4,587,029	688,054	1,556,392	688,054

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 2010:

Currency	2010 (USD Equivalent)
Bahraini Dinar	34,150,155
Kuwaiti Dinar	4,587,029
United Arab Emirates Dirham	3,309,570

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	229,351	(229,351)

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 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.

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 has been performing RCSA of its activities on an annual basis since 2008.

5.3.2 Operational Risk Loss Database

The Bank has a policy to collect loss events' information for preparing Operational Risk Loss Database. The functional units of the Bank have to 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 occurrence 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

PUBLIC DISCLOSURES DOCUMENT 2010

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*	None
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\$ 6,321,010 as at 31 December 2008. Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged investments have been retained by the financial institution. In the opinion of the Bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the Bahrain courts against the financial institution for wrongful possession of investments. As a result, the court has taken custody of the shares under dispute. The related party on whose behalf the transactions was entered has provided a manager's cheque for an equal amount which has been deposited with the court. This amount is included under deferred payment sale receivables.
- On 20 December 2006 Investors Bank (IB) has signed a mortgage agreement with The Arab Investment Company (TAIC) in order to pledge number of 7954985 from the shares of Takaful Insurance company – Bahrain in favour of and as security of the facility

PUBLIC DISCLOSURES DOCUMENT 2010

Murabaha 10,000,000 US\$ provided to International Investment Group- Kuwait (IIG) from TAIC. IIG did not be able to meet its obligations and debt has been rescheduled to IIG for several times without any tangible payment. As a result of no payment from IIG to TAIC, on 17 February 2009 TAIC has sent a legal notice to IIG whereby TAIC will direct all actions and measures provided by law to recover the debt owed to IIG, including revoking of the mortgage agreement, IB has come to know that TAIC has already begun to take legal proceedings in selling IB pledge shares to TAIC. IB took the decision to take its legal action against TAIC in order to protect its interest as soon as possible but the Bahrain chamber for dispute resolution has decline the case.

- 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 Bank funds its exposures mainly from equity and does not take restricted or unrestricted deposits to fund its exposures. The Bank has established a limit structure to monitor the prevailing liquidity position and to control negative mismatches that may affect the fulfilment of short term obligations of the Bank.

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

Period: 2010	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	411,444	-	-	411,444	-	-	-	411,444
Investments	-	-	2,209,022	2,209,022	-	-	14,468,548	16,677,570
Deferred payment sale receivables	3,680,203	-	-	-	-	-	-	3,680,203
Investment properties	-	-	-	-	-	-	20,020,445	20,020,445
Other assets	-	-	7,110	7,110	31,144	-	1,555,968	1,594,222
Property & equipment	-	-	-	-	-	-	3,843,948	3,843,948
Total assets	4,091,647	-	2,216,132	6,307,779	31,144	-	39,888,909	46,227,832

PUBLIC DISCLOSURES DOCUMENT 2010

Period: 2010	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
Liabilities								
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	-	3,229,064
Other liabilities	92,272	155,557	168,729	416,558	-	-	48,626	465,184
Total liabilities	6,991,538	155,557	168,729	7,315,824	-	-	48,626	7,364,450
Cumulative								
Liquidity Gap	(2,899,891)	(3,055,448)	(1,008,045)	(1,008,045)	(976,901)	(976,901)	38,863,382	

Following are the key liquidity ratios as at 31 December 2010:

Description	Ratio
Short Term Assets : Total Assets	0.12
Short Term Assets : Short Term Liabilities	12.0

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	(2,495,367)	2,495,367

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	12,476,836	1,778,726
Investment in managed funds	–	212,985
Total	12,476,836	1,991,711

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	291,792
Total unrealized gains (losses) recognized in the balance sheet but not through P&L	2,644,604
Unrealized gains (losses) included in Tier One Capital	(6,494)
Unrealized gains (losses) included in Tier Two Capital	1,192,994

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	9,316,131	1,397,420
Investment in managed funds	132,659	19,899
Total	9,448,790	1,417,319

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.

PUBLIC DISCLOSURES DOCUMENT 2010

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 were 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. Appropriate impairment provisions have been made in the RIA.

Balance as of 31 Dec 2010 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	10,436,264

* On the instructions of a restricted investment account holder, a related party, the Bank had 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

During 2009, the Bank signed a 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.

PUBLIC DISCLOSURES DOCUMENT 2010

As per the Investment Policy (approved in July 2010), adequate due-diligence should be carried out before undertaking any investment exposure (whether to a related party or an outside investment). Additionally all the exposures to connected counterparties are justified only when undertaken for the clear commercial advantage for the Bank, when negotiated and agreed on an arm's length basis and when included in the policy statement agreed with CBB. The investments in related parties need to be approved by the Board of Directors and a prior approval from CBB is also required.

Significant balances with related parties at 31 December 2010 comprise:

Category – as per the financials	2010	2009
Assets	14,554,221	23,915,685
Liabilities	3,400,011	3,485,275
Restricted Investment Accounts	16,106,466	15,910,536

Significant transactions with related parties include:

Category as per the financials	2010	2009
Income	(3,325,953)	24,171
Expenses	7,737,657	15,681,697

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:

Category as per the financials	2010	2009
Salaries, short term benefits and post employment benefits	249,569	528,324

