



# 2012



# Annual Report

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His Royal Highness Prince Khalifa Bin Salman Al Khalifa

The Prime Minister
The Kingdom of Bahrain



His Majesty King Hamad Bin Isa Al Khalifa

The King of The Kingdom of Bahrain



His Royal Highness Prince Salman Bin Hamad Al Khalifa

The Crown Prince and Deputy Supreme Commander



### **BOARD OF DIRECTORS**

Mr. Ghassan Fahad Al Sultan Chairman

Mr. Isa Abdulla Al Mannai Vice Chairman

Mr. Ahmed Shabeeb AlDhaheri Member

Mr. Reyadh Abdulwahab Al-Sharaf Member

Mr. Mersal Saad Al Majedi Member

Mr. Ebrahim Abdullah Al Shaikh Member

Mr. Jamal Hassan Naqi Member



### **EXECUTIVE COMMITTEE**

Mr. Isa Abdulla Al Mannai Chairman

Mr. Mersal Saad Al Majedi Member

Mr. Jamal Hassan Naqi Member

### **AUDIT COMMITTEE**

Mr. Ebrahim Abdullah Al Shaikh Chairman

Mr. Ahmed Shabeeb AlDhaheri Member

Mr. Reyadh Abdulwahab Al-Sharaf Member

# NOMINATION & REMUNERATION COMMITTEE

Mr. Ghassan Fahad Al Sultan Chairman

Mr. Isa Abdulla Al Mannai Member

Mr. Ebrahim Abdullah Al Shaikh Member

### SHARI'A BOARD

Shaikh Dr. AbdulSattar A.Karim Abu Ghuddah Chairman

Shaikh Dr. Ali Mohieddin Al Quradaghi Member

Shaikh Dr. Nedham Mohammed Saleh Yaqoobi Member

### **CHAIRMAN'S REPORT**

for the year ended 31 December 2012



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 Investors Bank (the Bank) for the financial year ended 31 December 2012.

During the year 2012, the global financial markets did not completely recover where growth in the region has decelerated as the recovery in the economy faced many obstructions. Generally, financial markets have adjusted and cash inflow recommenced. In 2013, growth is expected to accelerate progressively. Currently, Middle East countries are witnessing some improvement mainly due to the increase in the oil prices. But the pressures in the Banking and financial sectors beside the slow credit activity remain as a barrier in the way of the recovery within those countries. The growth is expected to remain robust, but is expected to slow in 2013 with oil production stability.

In fact, GCC banking sector in general and Bahrain in particular faced a very difficult year as a result of global and regional difficulties, while economic stability is the immediate goal. With monetary policy focussed at maintaining a stable exchange rate and managing inflation, financial policy has been the main tool to achieve other economic goals, including development and employment.

Indeed, Kingdom of Bahrain is one of the best financial centres in the region which has been innovative in Islamic finance and which plays a tremendous role in developing Islamic finance.

Investors Bank has also suffered from economic slowdown. The Bank had to make net provision for impairment of US\$ 780,571 (Seven Hundred Eighty Thousand Five Hundred Seventy One US Dollar) on account of a drop in market prices of Investments carried at fair value through equity.

Therefore, for the year ended 31 December 2012 the Bank reported a net loss of US\$ 1,484,688 (One Million Four Hundred Eighty Four Thousand Six Hundred Eighty Eight US Dollar) (2011: US\$ 4,914,988). We believe that the drop in investments prices is temporary and our efforts to recover the receivables continue.



During the year 2012 new Board of Directors (BOD) has been elected in the AGM held on 29 April 2012 and a new Chief Executive Officer (CEO) has joined the Bank on 22 April 2012. The new BOD and the new CEO are keen to resolve all outstanding issues and problems facing the Bank where serious steps have been taken toward achieving the Bank objectives. The Bank has appointed a consultancy firm to assist the Bank with developing a three years business plan to support the continuation of the Bank & its mission and re launch the Bank services to potential clients and investors.

### Dear Shareholders,

We assure that the steps taken by the Bank in last years will have their fruits during the coming period. 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 Hamad Bin Isa AI Khalifa, The King of the Kingdom of Bahrain, to His Royal Highness Prince Khalifa Bin Salman AI Khalifa, The Prime Minister and His Royal Highness Prince Salman Bin Hamad AI Khalifa, The Crown Prince and Deputy Supreme Commander, to Government of the Kingdom of Bahrain, the Minister of Industry and Commerce, the Central Bank of Bahrain, the Bahrain Bourse for their vision, guidance and continuous support and for the establishment of a distinguished Islamic Banking Centre in the Kingdom. Gratitude is also extended to the Sharia'a Supervisory Board for their support and valuable guidance, to our investors and to our members of staff, executives and employees.

Mr. Ghassan Al Sultan

Chairman

14 February 2013

# REPORT OF THE BOARD OF DIRECTORS

for the year ended 31 December 2012

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 2012.

### **Principal Activities**

The Bank was established in the Kingdom of Bahrain as an exempt company on 26 October 1997 and operates under an Islamic Wholesale Bank 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 2012 new Board of Directors (BOD) has been elected in the AGM held on 29 April 2012 and a new Chief Executive Officer (CEO) has joined the Bank on 22 April 2012. The new BOD and the new CEO are keen to resolve all outstanding issues and problems facing the Bank where serious steps have been taken toward achieving the Bank objectives. In 2012 the Bank did not undertake any new major investment transaction. The Bank focused on generating liquidity through renting its buildings, exiting from certain investments and reducing its expenses. The bank has appointed a consultancy firm to assist the Bank with developing a three years business plan to support the continuation of the Bank and its mission.

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 2012 and the results for the year then ended are set out in the accompanying financial statements.

Financial highlights	2012	2011
Total assets	40,403,761	42,522,921
Total owner's equity	32,807,301	34,983,480
Net loss for the year	(1,484,688)	(4,914,988)

Movement in accumulated losses	2012	2011
Balance at 1 January	(56,105,725)	(51,190,737)
Net loss for the year	(1,484,688)	(4,914,988)
Balance at 31 December	(57,590,413)	(56,105,725)

### **Dividends**

The Board of Directors has not made any appropriations for dividends for the year ended 31 December 2012 (2011: nil).



### **Board of Directors**

The following are the directors of the Bank as at 31 December 2012:

Name	<u>Title</u>
Mr. Ghassan Fahad Al Sultan	Chairman
Mr. Isa Abdulla Al Mannai	Vice-Chairman and Chairman of the Executive Committee
Mr. Ebrahim Abdulla Al Shaikh	Member and Chairman of the Audit Committee
Mr. Ahmed Shabeeb Al Dhaheri	Member
Mr. Reyadh AbdulWahab Al Sharaf	Member
Mr. Jamal Hassan Naqi	Member
Mr. Mersal Saad Al Majedi	Memebr

### **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 2013, will be submitted to the Annual General Meeting.

### Thanks

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

Mr. Ghašsan Al Sultan

Chairman

**Mr. Ebrahim Al Shaikh** Director

14 February 2013

## 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 31/12/2012.

We have also conducted our review to form an opinion as to whether the 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 31/12/2012 that we have reviewed are in compliance with the Islamic Shari'a Rules and Principles;
- (2) the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'a Rules and Principles;
- (3) the calculation of Zakah is in compliance with Islamic Shari'a Rules and principles.

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

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

26th Rabia I, 1434 Hijri corresponding to 7th February 2013.

SHARI'A BOARD

Shaikh Dr. Abdul Sattar A.Karim Abu Ghuddah

Chairman of the Board

Shaikh Dr. Ali Mohieddin Al Quradaghi

Member

Shaikh Nedham Mohammed Saleh Yaqoobi

Member

Financial Statements 31 December 2012





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

We have audited the accompanying statement of financial position of Investors Bank B.S.C. (c) ["the Bank"] as of 31 December 2012, and the related statements of income, cash flows, changes in owners' equity, changes in off-balance sheet equity of investment accountholders and sources and uses of charity fund for the year then ended and a summary of significant accounting policies and other explanatory information. 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Basis for Qualified Opinion**

As explained in note 20, the Bank holds an equity investment, with a carrying value of US\$ 5,760,487 as at 31 December 2012, pledged in respect of a financing obtained by a related party from a financial institution. Following the default by the related party, the financial institution had filed a legal case in court and the court ruled in favor of the financial institution as set out in note 20. Since, the claim that could be made on the Bank is uncertain and dependent on the selling price of the pledged shares, we are unable to determine the adjustment that maybe required to these financial statements, if any.

### Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012, the results of its operations, its cash flows, changes in owners' equity, changes in off-balance sheet equity of investment accountholders and sources and uses of charity fund for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

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

### **Other Matters**

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

- a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith; and
- b) the financial information contained in the Report of the Board of Directors is consistent with the financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2012 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

14 February 2013

Ernst + Young

Manama, Kingdom of Bahrain

# STATEMENT OF FINANCIAL POSITION

as at 31 December 2012

	Notes	2012 US\$	2011 US\$
ASSETS		7-7-10 W	
Cash and balances with banks	4	993,440	158,912
Investments	5	14,252,457	15,859,440
Deferred payment sale receivables	19	3,680,203	3,680,203
Investment properties	6	17,436,112	18,474,757
Other assets	7	1,403,831	1,385,874
Property and equipment	8	2,637,718	2,963,735
TOTAL ASSETS		40,403,761	42,522,921
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Due to a financial institution	19	3,670,202	3,670,202
Murabaha payable		3,229,064	3,229,064
Other liabilities		697,194	640,175
Total liabilities		7,596,460	7,539,441
Owners' Equity			
Share capital	9	80,000,000	80,000,000
Statutory reserve		7,409,515	7,409,515
Investments fair value reserve		2,988,199	3,679,690
Accumulated losses		(57,590,413)	(56,105,725)
Total owners' equity		32,807,301	34,983,480
TOTAL LIABILITIES AND OWNERS' EQUITY		40,403,761	42,522,921
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDE	RS	16,440,667	16,546,150

**Mr. Ghassan Al Sultan** Chairman

**Mr. Ebrahim Al Shaikh**Director

# STATEMENT OF INCOME

for the year ended 31 December 2012

	Notes	2012 US\$	2011 US\$
Gain on disposal of investments at fair value through equity  Fair value loss on investments at fair value		-	21,904
through statement of income	10	(4,921)	(404,662)
Other income, net	10	1,552,200	716,332
Operating income		1,547,279	333,574
EXPENSES			
Staff cost		898,764	982,181
Administrative and general expenses	11	566,263	590,352
Depreciation		786,369	799,038
Operating expenses		2,251,396	2,371,571
Net loss before provision for impairment, net		(704,117)	(2,037,997)
Provision for impairment, net	12	(780,571)	(2,876,991)
NET LOSS FOR THE YEAR		(1,484,688)	(4,914,988)

Mr. Ghassan Al Sultan Chairman

Mr. Ebrahim Al Shaikh Director

# STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	Notes	2012 US\$	2011 US\$
OPERATING ACTIVITIES		007	σσφ
Net loss for the year		(1,484,688)	(4,914,988)
Adjustments for non-cash items:			
Depreciation		786,369	799,038
Provision for impairment, net	12	780,571	3,111,923
Gain on disposal of investments at			(01.004)
fair value through equity  Fair value loss on investments at fair val	IA.	-	(21,904)
through statement of income	ue	4,921	404,662
Gain on disposal of investment property	/ 10	(164,850)	-
Loss on disposal of equipment	10	57,560	
Operating loss before changes in operatin assets and liabilities:	9	(20,117)	(621,269)
docore arra nacimiesi		(=0,1.17)	(021/207)
Working capital adjustments:			
Other assets		(17,957)	28,772
Other liabilities		57,019	174,991
Net cash from / (used in) operating activit	ies	18,945	(417,506)
INVESTING ACTIVITIES			
Proceeds from disposal of investments at			
fair value through equity		-	170,291
Redemption of investments at fair value		120.000	
through equity  Proceeds from disposal of investment prop	ortv	130,000 793,737	_
Purchase of equipment	8 8	(156,695)	(5,317)
Proceeds from disposal of equipment	O	48,541	(0,017)
Treeseas nem alspessar et equipment		,	
Net cash from investing activities		815,583	164,974
NET INCREASE / (DECREASE) IN CASH AND		224 522	(050 500)
CASH EQUIVALENTS		834,528	(252,532)
Cash and cash equivalents at 1 January		158,912	411,444
CASH AND CASH EQUIVALENTS			
AT 31 DECEMBER	4	993,440	158,912

# STATEMENT OF CHANGES IN OWNERS' EQUITY

for the year ended 31 December 2012

Balance at 1 January 2012 80,000,000 7,409,515 3,	value Accumulated serve losses Total US\$ US\$ US\$	
Net loss for the year – – – Other comprehensive loss	3,679,690 (56,105,725) 34,983,480 - (1,484,688) (1,484,688)	)
during the year (note 5.1.3) – – (a	(691,491) – (691,491)	)
Balance as at 31 December 2012 80,000,000 7,409,515 2,9	2,988,199 (57,590,413) 32,807,301	=
Balance at 1 January 2011 80,000,000 7,409,515 2,6 Net loss for the year – Other comprehensive income	2,644,604 (51,190,737) 38,863,382 - (4,914,988) (4,914,988)	
	,035,086 – 1,035,086	_
Balance as at 31 December 2011 80,000,000 7,409,515 3,6	3,679,690 (56,105,725) 34,983,480	

# STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

for the year ended 31 December 2012	Balance	3alance at 1 January 2012	ary 2012	Movements during the year	ring the year	Balance	at 31 Dece	Balance at 31 December 2012
	No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	Revaluations US\$	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd	I	I	317,689	I	I	I	I	317,689
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	I	I	12,887	0.44	5,670,202
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.074	10,558,259	I	(105,483)	142,059	0.073	10,452,776
			16,546,150	I	(105,483)			16,440,667
	Balance	salance at 1 January 2011	ary 2011	Movements during the year	ring the year	Balance	Balance at 31 December 2011	mber 2011
	No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	Revaluations US\$	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd		ı	317,689		1		1	317,689
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	1	1	12,887	0.44	5,670,202
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.073	10,436,264		121,995	142,059	0.074	10,558,259
			16,424,155	1	121,995			16,546,150

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

On the instructions of an off-balance sheet investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C ('IIG'). The Bank then entered into a deferred payment sale agreement with the off-balance sheet investment account holder for sale of the these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of IIG shares to the off-balance sheet investment account holder (note 19). 2

# STATEMENT OF SOURCES AND USES OF CHARITY FUND

for the year ended 31 December 2012

	2012 US\$	2011 US\$
Sources of charity fund Non-Islamic income	-	
Total sources		<u> </u>
Uses of charity fund Contributions to charitable organisations	-	
Total uses		
Excess of uses over sources	-	-
Undistributed charity fund at 1 January	35,285	35,285
Undistributed charity fund at 31 December	35,285	35,285

as at 31 December 2012

### 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, Kinadom 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 14 February 2013.

### 2 BASIS OF PREPERATION

The financial statements have been prepared under the historical cost convention as modified for the re-measurement of investments at fair value through statement of income and certain investments at fair value through equity.

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

The Bank incurred a net loss of US\$ 1,484,688 during the year ended 31 December 2012 (2011: US\$ 4,914,988) and as of that date, the Bank's accumulated losses amounted to US\$ 57,590,413 (2011: US\$ 56,105,725). 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.

### **Statement of Compliance**

These financial statements have been prepared in accordance with the Financial Accounting Standards ["FAS"] issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"] 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 CBB's regulations (as contained in volume II of the CBB rulebook) and directives 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"].

as at 31 December 2012

### 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are consistent with those of the previous year.

### 3.1 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.

### Fair value of investment properties

The fair value of investment properties is determined by independent real estate valuation experts. The determination of the fair value for such assets requires the use of judgment and estimates by the independent valuation experts that are based on local market conditions existing at the date of the statement of financial position.

### Useful life of property and equipment

The Bank's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset and physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimate.

### 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 investments at fair value through equity 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.

### Impairment provisions against receivables

The Bank reviews its receivables at each reporting date to assess whether an impairment provision should be recorded in the financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

### 3.2 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks.

as at 31 December 2012

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.3 Investments

These are classified as either investments at fair value through statement of income or investments at fair value through equity.

### 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.

Investments at fair value through statement of income

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

Investments at fair value through equity

Subsequent to initial recognition, investments that are classified as "investments at fair value through equity" are measured at fair value. The fair value changes of investments at fair value through equity are reported in statement of changes in owners' equity under "investments fair value reserve" until such time 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 "provision for impairment, net" and removed from the "investments fair value reserve". Impairment losses recognised in the statement of income for an equity instrument classified as investments at fair value through equity are not reversed through the statement of income.

### 3.4 Deferred payment sale receivables

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

### 3.5 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 measured 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 lives. Freehold land is subsequently measured at cost less accumulated impairment losses, if any.

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.

as at 31 December 2012

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 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 lives.

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

Building 25 years Others 35- 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.

### 3.7 Due to financial institutions

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

### 3.8 Off-balance sheet equity investment accounts

Off-balance sheet equity investment accounts represents assets acquired by funds provided by holders of off-balance sheet equity investment accounts and their equivalent and managed by the Bank as an investment manager based on either a Mudaraba contract or agency contract. The off-balance sheet equity investment accounts are exclusively restricted for investment in specified investment instruments as directed by the off-balance sheet equity of investment accountholders. Assets that are held in such capacity are not included as assets of the Bank in the financial statements.

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

### 3.9 Employees' end of service benefits

The Bank makes contributions to the Social Insurance Organisation (SIO) scheme for its national employees calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due. For Bahrainis with basic salaries above a certain threshold, the Bank recognises leaving indemnity in line with the requirements of the Labor Law.

The Bank also provides for end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

### 3.10 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

as at 31 December 2012

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.10 Recognition of income and expenses (continued)

Dividend income

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

Rental income

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

### 3.11Earnings prohibited by Shari'a

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

### 3.12 Derecognition of financial instruments

Financial instruments consist of cash and balances with banks, due from 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.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

### 3.13 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 "investments fair value reserve."

### 3.14 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.

as at 31 December 2012

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.15 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

### 3.16 Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position, 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.

### 3.17 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.

CASH AND BALANCES WITH BANKS		2012 US\$	2011 US\$
Cash in hand Cash at banks		1,326 992,114	1,326 157,586
		993,440	158,912
INVESTMENTS		2012 US\$	2011 US\$
Investments at fair value through statement of income		1,799,439	1,804,360
equity	5.1	12,453,018	14,055,080
		14,252,457	15,859,440
5.1 Investments at fair value throug	h equity	2012 US\$	2011 US\$
Quoted equity securities	5.1.1	11,154,341	12,267,250
(at cost)	5.1.2	1,298,677	1,787,830
		12,453,018	14,055,080
	Cash in hand Cash at banks  INVESTMENTS  Investments at fair value through statement of income Investments at fair value through equity  5.1 Investments at fair value through Unquoted equity securities Unquoted equity securities	Cash in hand Cash at banks  INVESTMENTS  Investments at fair value through statement of income Investments at fair value through equity  5.1  5.1 Investments at fair value through equity  Quoted equity securities Unquoted equity securities	Cash in hand Cash at banks  INVESTMENTS  Investments at fair value through statement of income Investments at fair value through equity  Investments at fair value through statements at fair value through equity  5.1 Investments at fair value through equity  Quoted equity securities Unquoted equity securities (at cost)  5.1.2  1,326 992,114 993,440  1,799,439  1,799,439  12,453,018  14,252,457  11,154,341  11,154,341  11,154,341  11,154,341

The movement of investments carried at fair value through equity during the year is as follows:

2012

0011

	US\$	2011 US\$
At 1 January Fair value changes Disposal Return of capital	14,055,080 (1,472,062) - (130,000)	14,468,548 (270,232) (143,236)
At 31 December	12,453,018	14,055,080

as at 31 December 2012

### 5 INVESTMENTS (continued)

### 5.1 Investments at fair value through equity (continued)

- 5.1.1 As at 31 December, investments with a carrying value of US\$ 1,898,618 (2011: US\$ 1,921,772) are under dispute and in the custody of the court as more fully explained in note 19. In addition investments with a carrying value of US\$ 5,760,487 (2011: US\$ 5,760,487) are pledged, on behalf of a related party, against amounts due to a financial institution.
- **5.1.2** These investments are carried at cost as their fair value could not be reliably measured.
- **5.1.3** Other comprehensive loss in investments fair value reserve of US\$ 691,491 represents fair value loss on investments classified at fair value through equity

### 6 INVESTMENT PROPERTIES

	2012	
Freehold land US\$	Buildings US\$	Total US\$
18,742,649 –	13,557,902 (928,120)	32,300,551 (928,120)
18,742,649	12,629,782	31,372,431
9,657,768 - -	4,168,026 409,758 (299,233)	13,825,794 409,758 (299,233)
9,657,768	4,278,551	13,936,319
9,084,881	8,351,231	17,436,112
	2011	
Freehold land US\$	Buildings US\$	Total US\$
18,742,649 -	13,488,761 69,141	32,231,410 69,141
18,742,649	13,557,902	32,300,551
8,464,134 1,193,634	3,746,831 - 421,195	12,210,965 1,193,634 421,195
9,657,768	4,168,026	13,825,794
9,084,881	9,389,876	18,474,757
	18,742,649  18,742,649  9,657,768  9,657,768  9,084,881  Freehold land US\$  18,742,649  18,742,649  8,464,134 1,193,634 9,657,768	Freehold land US\$  18,742,649 - (928,120)  18,742,649  12,629,782  9,657,768 4,168,026 409,758 (299,233)  9,657,768 4,278,551  9,084,881 8,351,231  2011  Freehold land US\$ 18,742,649 - 84,44,141 18,742,649 13,488,761 69,141 18,742,649 13,557,902  8,464,134 1,193,634 - 421,195 9,657,768 4,168,026

The fair value of investment properties at the year end was US\$ 19,580,047 (2011: US\$ 19,557,287) determined based on valuations performed by independent professional valuers at 31 December.

as at 31 December 2012

### 7 OTHER ASSETS

		2012 US\$	2011 US\$
Dividends receivable (note 19) Other receivables Statutory deposit with CBB Prepaid expenses Qard Hassan Refundable deposit	7.1	887,733 489,531 13,263 9,565 2,108 1,631 1,403,831	887,733 475,000 13,263 5,034 3,213 1,631

<sup>7.1</sup> These dividends have been pledged against amounts due to a financial institution along with the pledged shares as disclosed in note 19 and are in custody of the court.

### 8 PROPERTY AND EQUIPMENT

	Freehold land US\$	Building US\$	Motor vehicles US\$	Office equipment & furniture US\$	Fixtures US\$	Total US\$
Cost:						
At 1 January 2012	3,535,847	3,793,497	58,045	842,840	1,349,246	9,579,475
Additions	_		_	107,936	48,759	156,695
Disposals	-		(58,045)	(106,101)	_	(164,146)
At 31 December 2012	3,535,847	3,793,497	-	844,675	1,398,005	9,572,024
Depreciation and impairm	nent:					
At 1 January 2012	1,921,518	2,778,123	58,045	781,589	1,076,465	6,615,740
Charge for the year		45,635	_	60,566	270,410	376,611
Disposals		_	(58,045)	_	_	(58,045)
At 31 December 2012	1,921,518	2,823,758	_	842,155	1,346,875	6,934,306
Net carrying values: At 31 December 2012	1,614,329	969,739	_	2,520	51,130	2,637,718

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 at 31 December.

			2011			
				Office		
	Freehold		Motor	equipment		
	land US\$	Building US\$	vehicles US\$	& furniture US\$	Fixtures US\$	Total US\$
Cost:						
At 1 January 2011	3,535,847	3,793,497	58,045	839,778	1,346,991	9,574,158
Additions	_	_	_	3,062	2,255	5,317
At 31 December 2011	3,535,847	3,793,497	58,045	842,840	1,349,246	9,579,475
Depreciation and impairmer	nt:					
At 1 January 2011	1,413,831	2,732,489	58,045	719,001	806,844	5,730,210
Charge for the year	_	45,634	_	62,588	269,621	377,843
<i>Impairment</i>	507,687	_	_	_	-	507,687
At 31 December 2011	1,921,518	2,778,123	58,045	781,589	1,076,465	6,615,740
Net carrying values:						
At 31 December 2011	1,614,329	1,015,374		61,251	272,781	2,963,735

as at 31 December 2012

### 9 OWNERS' EQUITY

Share capital	2012 US\$	2011 US\$
Authorised: 303,030,303 ordinary shares of US\$ 0.33 each	100,000,000	100,000,000
Issued and fully paid up As at the beginning and end of the year 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 the reserve reaches 50% of the Bank's paid-up share capital. This reserve is not available for distribution, but can be utilised as security for the purpose of distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations. No transfer was made during the year as the Bank incurred a loss.

### Investments fair value reserve

Unrealised gains and losses resulting from investments carried at fair value through equity, if not determined to be impaired, are recorded in the investments fair value reserve and not available for distribution. Upon disposal of such assets, the related cumulative gains or losses are transferred to retained earnings and become available for distribution.

### 10 OTHER INCOME

10	OTHER INCOME	2012 US\$	2011 US\$
	Gain on disposal of investment property Loss on reversal of disposal of investment property Rental income Dividend income Loss on disposal of equipment	164,850 - 1,411,753 33,157 (57,560) 1,552,200	(79,945) 796,044 233 — 716,332
11	ADMINISTRATIVE AND GENERAL EXPENSES		
		2012 US\$	2011 US\$
	Maintenance Consultancy and legal expenses Electricity and municipality Professional fees License and registration Office service and cleaning Board of Directors and Board Committees	96,489 95,171 78,404 57,560 40,754 37,159	110,226 135,866 66,266 79,576 36,147 39,151
	attendance allowances Shari'a Supervisory Board remuneration and attendance allowances Business development Advertising and promotion Communication Foreign exchange loss Others	11,900 31,565 17,331 13,545 12,039 5,360 68,986	14,700 27,851 4,703 14,874 12,052 460 48,480
		566,263	590,352

as at 31 December 2012

12	PROVISION FOR IMPAIRMENT	2012 US\$	2011 US\$
	Investments at fair value through equity (note 5.1.3) Investment properties Other assets Property & equipment Provision written back	780,571 - - - -	1,300,167 1,193,634 179,576 507,687 (304,073)
	Provision for impairment, net	780,571	2,876,991
13	CONTINGENCIES AND COMMITMENTS	2012 US\$	2011 US\$
	Lease commitment (note 13.1)	4,596,919	3,423,237

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

### 14 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

The Bank's quoted equity investments with a carrying value of US\$ 12,953,780 (2011: US\$ 14,071,610) fall under level 1 of the fair value hierarchy. The Bank does not have financial instruments qualifying for Level 2 or Level 3. The other investments at fair value through equity are carried at cost less impairment, if any.

### **CAPITAL MANAGEMENT**

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong

as at 31 December 2012

### 15 CAPITAL MANAGEMENT (continued)

credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or return capital to shareholders. No changes were made in the objectives, policies and processes from the previous years.

The Bank's capital structure is primarily made up of its paid up capital, including reserves. From a regulation's perspective, the significant amount of the Bank's capital is in tier 1 form as defined by the CBB, i.e., most of the capital is of permanent nature.

The classification of the Bank's capital in accordance with the regulatory requirements is as follows:

	2012 US\$	2011 US\$
Tier 1 Capital		
Issued and fully paid ordinary shares	80,000,000	80,000,000
Legal / statutory reserves Accumulated losses	7,409,515 (57,590,413)	7,409,515 (56,105,725)
Unrealised gross losses arising from valuing	(07,070,410)	(00,100,720)
equity securities	-	(688)
	29,819,102	31,303,102
Excess amount over maximum permitted	(14 150 040)	(15 474 005)
large exposure limit	(16,159,268)	(15,676,895)
Total Tier 1 Capital	13,659,834	15,626,207
Tier 2 Capital		
Unrealised gross gains arising from fair valuing		
equities (45% only)	1,344,690	1,656,170
	1,344,690	1,656,170
Excess amount over maximum permitted large exposure limit	(1,344,690)	(1,656,170)
	(1,044,070)	
Total Tier 2 Capital	-	
Total Eligible Capital	13,659,834	15,626,207

To assess its capital adequacy requirements in accordance with the CBB requirements, the Bank adopts the Standardised approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. The Capital requirements for these risks are as follows:

Credit Risk Weighted Exposures Market Risk Weighted Exposures Operational Risk Weighted Exposures	47,003,946 4,681,065 1,436,329	50,002,447 6,133,112 41,130,394
Total Risk Weighted Exposures  Capital Adequacy Ratio	25.71%	97,265,953

as at 31 December 2012

### 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.

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:

US\$	2011 US\$
1,715,715	1,733,030
8,235,384	8,594,567
3,680,203	3,680,203
9,312	-
3,229,064	3,229,064
158,386	174,199
16,122,978	16,228,461
	1,715,715 8,235,384 3,680,203 9,312 3,229,064

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

Income	2012 US\$	2011 US\$
Fair value loss on investments at fair value through statement of income Other income	(17,315) -	(342,575) 2,122
Expenses Provision for impairment Board of Directors and Board Committees	332,336	203,562
attendance allowances	11,900	14,700
Shari'a Supervisory Board remuneration and attendance allowances	31,565	27,851
Other comprehensive loss	(26,847)	(284)

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:

	2012 US\$	2011 US\$
Salaries and other short-term benefits Post employment benefits	149,969 11,034	126,038 11,034
	161,003	137,072

as at 31 December 2012

### 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 credit risk, liquidity risk and market risk 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 the 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 an 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 balances with banks, deferred payment sale receivables and other assets.

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

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

	2012 US\$	2011 US\$
Balances with banks	992,114	157,586
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	1,381,003	1,367,577
Maximum exposure to credit risk	6,053,320	5,205,366

as at 31 December 2012

### 18 RISK MANAGEMENT (continued)

### Credit risk (continued)

Analysis of Bank's exposure to credit risk:

			2012		
	Balances with banks US\$	Receivables from sale of investments US\$	Deferred payment sale receivables US\$	Ohter financial assets US\$	Total US\$
Neither past due nor impaired	992,114	-	-	6,850	998,964
Past due but not impaired	-	-	3,680,203	899,153	4,579,356
Individually impaired Gross amount Provision for impairment	-	16,786,726 (16,786,726)	-	16,682,392 (16,207,392)	33,469,118 (32,994,118)
Net	-	-	-	475,000	475,000
Total exposure to credit risk	992,114		3,680,203	1,381,003	6,053,320
			2011		
	Balances with banks US\$	Receivables from sale of investments US\$	Deferred payment sale receivables US\$	Ohter financial assets US\$	Total US\$
Neither past due nor impaired	157,586	-	_	4,844	162,430
Past due but not impaired	-	-	3,680,203	887,733	4,567,936
Individually impaired Gross amount Provision for impairment	_ 	16,786,726 (16,786,726)	- -	16,682,392 (16,207,392)	33,469,118 (32,994,118)
Net				475,000	475,000
Total exposure to credit risk	157,586		3,680,203	1,367,577	5,205,366

as at 31 December 2012

### 18 RISK MANAGEMENT (continued)

### **Concentration risk**

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

2012

		2012		
	Banks and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
Assets	099	025	025	099
Cash and balances with banks Investments Deferred payment sale receivables Investment properties	993,440 11,353,019 - -	31,936 3,680,203	2,867,502 - 17,436,112	993,440 14,252,457 3,680,203 17,436,112
Other assets	900,996	_	502,835	1,403,831
Property and equipment	-	_	2,637,718	2,637,718
Total assets	13,247,455	3,712,139	23,444,167	40,403,761
Liabilities				
Due to a financial institution	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064
Other liabilities	35,395	-	661,799	697,194
Total liabilities	6,934,661		661,799	7,596,460
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS	5,670,202	10,452,776	317,689	16,440,667
		2011		
Accode	Banks and financial institutions US\$	2011  Investment companies US\$	Others US\$	Total US\$
Assets Cash Balances with banks Investments Deferred payment sale receivables	financial institutions	Investment companies		US\$ 158,912 15,859,440 3,680,203
Cash Balances with banks Investments	financial institutions US\$ 158,912	Investment companies US\$ — 31,936	US\$ —	US\$ 158,912 15,859,440
Cash Balances with banks Investments Deferred payment sale receivables Investment properties Other assets	financial institutions US\$ 158,912 12,767,796	Investment companies US\$ — 31,936	US\$  - 3,059,708 - 18,474,757 484,878	US\$  158,912 15,859,440 3,680,203 18,474,757 1,385,874
Cash Balances with banks Investments Deferred payment sale receivables Investment properties Other assets Property and equipment Total assets Liabilities	financial institutions US\$ 158,912 12,767,796 — 900,996 — 13,827,704	Investment companies US\$  - 31,936 3,680,203	US\$  - 3,059,708 - 18,474,757 484,878 2,963,735	US\$ 158,912 15,859,440 3,680,203 18,474,757 1,385,874 2,963,735 42,522,921
Cash Balances with banks Investments Deferred payment sale receivables Investment properties Other assets Property and equipment  Total assets  Liabilities Due to a financial institution	financial institutions US\$ 158,912 12,767,796 — 900,996 — 13,827,704	Investment companies US\$  - 31,936 3,680,203	US\$  - 3,059,708 - 18,474,757 484,878 2,963,735	US\$ 158,912 15,859,440 3,680,203 18,474,757 1,385,874 2,963,735 42,522,921  3,670,202
Cash Balances with banks Investments Deferred payment sale receivables Investment properties Other assets Property and equipment Total assets Liabilities	financial institutions US\$ 158,912 12,767,796 — 900,996 — 13,827,704	Investment companies US\$  - 31,936 3,680,203	US\$  - 3,059,708 - 18,474,757 484,878 2,963,735	US\$ 158,912 15,859,440 3,680,203 18,474,757 1,385,874 2,963,735 42,522,921
Cash Balances with banks Investments Deferred payment sale receivables Investment properties Other assets Property and equipment  Total assets  Liabilities Due to a financial institution Murabaha payable	financial institutions US\$ 158,912 12,767,796 — 900,996 — 13,827,704 3,670,202 3,229,064	Investment companies US\$  - 31,936 3,680,203	US\$  3,059,708  - 18,474,757 484,878 2,963,735 24,983,078	US\$  158,912  15,859,440 3,680,203 18,474,757 1,385,874 2,963,735  42,522,921  3,670,202 3,229,064
Cash Balances with banks Investments Deferred payment sale receivables Investment properties Other assets Property and equipment  Total assets  Liabilities Due to a financial institution Murabaha payable Other liabilities	financial institutions US\$ 158,912 12,767,796 - 900,996 - 13,827,704 3,670,202 3,229,064 69,751	Investment companies US\$  - 31,936 3,680,203	US\$  - 3,059,708 - 18,474,757 484,878 2,963,735  24,983,078  - 570,424	US\$ 158,912 15,859,440 3,680,203 18,474,757 1,385,874 2,963,735 42,522,921  3,670,202 3,229,064 640,175

### Geographical concentration

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

as at 31 December 2012

### 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:

			2012			
Up to 1 month US\$	1 to 3 months US\$	3 months to 1 year US\$	Total Within 1 year US\$	1 to 3 years US\$	No fixed maturity US\$	Total US\$
993 440	_	_	993 440	_	_	993,440
-	_	1.799.439	•	_	12.453.018	14,252,457
3,680,203	_	-	3,680,203	_	-	3,680,203
· · -	-	-	· · · -	-	17,436,112	17,436,112
7,327	9,312	9,565	26,204	-	1,377,627	1,403,831
-	-	-	-	-	2,637,718	2,637,718
4,680,970	9,312	1,809,004	6,499,286		33,904,475	40,403,761
3,670,202	_	-	3,670,202	-	-	3,670,202
3,229,064	-	-	3,229,064	-	-	3,229,064
121,018	83,893	255,144	460,055	201,854	35,285	697,194
7,020,284	83,893	255,144	7,359,321	201,854	35,285	7,596,460
(2,339,314)	(74,581)	1,553,860	(860,035)	(201,854)	33,869,190	
	7,327 - 4,680,970 3,670,202 3,229,064 121,018	month US\$  993,440 3,680,203 7,327 9,312 - 4,680,970 9,312  3,670,202 - 3,229,064 - 121,018 83,893	month US\$ to 1 year US\$  993,440 1,799,439 3,680,203 7,327 9,312 9,565 4,680,970 9,312 1,809,004  3,670,202 3,229,064 121,018 83,893 255,144	month US\$         months US\$         to 1 year US\$         1 year US\$           993,440         -         -         993,440           -         -         1,799,439         1,799,439           3,680,203         -         -         3,680,203           -         -         -         -           7,327         9,312         9,565         26,204           -         -         -         -           4,680,970         9,312         1,809,004         6,499,286           3,670,202         -         -         3,670,202           3,229,064         -         -         3,229,064           121,018         83,893         255,144         460,055	month US\$         months US\$         to 1 year US\$         1 year US\$         years US\$           993,440         -         -         993,440         -           -         -         1,799,439         1,799,439         -           3,680,203         -         -         3,680,203         -           -         -         -         -         -           7,327         9,312         9,565         26,204         -           -         -         -         -         -           4,680,970         9,312         1,809,004         6,499,286         -           3,670,202         -         -         3,670,202         -           3,229,064         -         -         3,229,064         -           121,018         83,893         255,144         460,055         201,854	month US\$         months US\$         to 1 year US\$         1 year US\$         years US\$         maturity US\$           993,440         -         -         993,440         -         -         -           -         -         1,799,439         1,799,439         -         12,453,018           3,680,203         -         -         -         17,436,112           7,327         9,312         9,565         26,204         -         1,377,627           -         -         -         -         2,637,718           4,680,970         9,312         1,809,004         6,499,286         -         33,904,475           3,670,202         -         -         3,670,202         -         -           3,229,064         -         -         3,229,064         -         -           121,018         83,893         255,144         460,055         201,854         35,285

				2011			
	Up to 1	1 to 3	3 months	Total Within	1 to 3	No fixed	
	month	months	to 1 year	1 year	years	maturity	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Assets							
Cash and balances with banks	158,912	-	-	158,912	-	_	158,912
Investments	_	_	1,804,360	1,804,360	-	14,055,080	15,859,440
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	3,680,203
Investment properties	_	_	_	_	-	18,474,757	18,474,757
Other assets	-	_	8,246	8,246	-	1,377,628	1,385,874
Property and equipment	-	_	_	-	_	2,963,735	2,963,735
Total assets	3,839,115	_	1,812,606	5,651,721		36,871,200	42,522,921
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	198,333	118,306	267,098	583,737		56,438	640,175
Total liabilities	7,097,599	118,306	267,098	7,483,003		56,438	7,539,441
Net	(3,258,484)	(118,306)	1,545,508	(1,831,282)		36,814,762	

#### **NOTES TO THE FINANCIAL STATEMENTS**

as at 31 December 2012

#### 18 RISK MANAGEMENT (continued)

#### Liquidity risk

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

It is the Bank's policy to keep a significant part of its assets in the form of liquid assets such as investments at fair value through statement of income and investments at fair value through equity.

#### 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 exposures in a foreign currency at the date of statement of financial position:

		2012	
	Assets US\$	Liabilities US\$	Net US\$
Kuwaiti Dinar	3,329,991	-	3,329,991
		2011	
	Assets US\$	Liabilities US\$	Net US\$
Kuwaiti Dinar	4,796,387	_	4,796,387

#### 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:

	Change in rate	Effect on net in	come for the year
		2012 US\$	2011 US\$
Kuwaiti Dinar	5%	166,500	239,819

The decrease in rate will have an opposite impact on net income.

#### **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 investments at fair value through statement of income and investments at fair value through equity 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:

#### **NOTES TO THE FINANCIAL STATEMENTS**

as at 31 December 2012

#### 18 RISK MANAGEMENT (continued)

#### Equity price risk (continued)

Sensitivity Analysis:

	Change in price	Effect on net income for the year	
		2012 US\$	2011 US\$
Particulars			
Investments at fair value			
through statement of income	20%	359,888	360,872
Investments at fair value through equity	20%	2,230,868	2,453,450

The decrease in rate will have an opposite impact on net income.

#### **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 of the employees, and internal checks and balances including internal audit and compliance.

#### 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 as at 31 December 2012 (31 December 2011: US\$ 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain equity shares with a carrying value of US\$ 1,898,618 as at 31 December 2012 (31 December 2011: US\$ 1,921,772) in addition to dividends received on these shares amounting to US\$ 887,733 as at 31 December 2012 (31 December 2011: US\$ 887,733). Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged investments have been retained by the financial institution. In the opinion of the Bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the courts of Bahrain against the financial institution for possession of the Bank's investments.

#### NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2012

#### 19 LITIGATION AND CLAIMS (continued)

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

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

#### 20 SHARES PLEDGED ON BEHALF OF A RELATED PARTY

In 2004, a related party of the Bank (the "borrower") has entered into a murabaha financing agreement (the "financing") with a financial institution, and the Bank has pledged certain listed equity shares, (8,352,705 shares) with a carrying value of US\$ 5,760,487 as at 31 December 2012 (2011: US\$ 5,760,487) on behalf of the borrower against the financing. In addition the borrower and another related party had also pledged 4,647,011 shares and 5,840,625 shares respectively against the same financing.

The borrower defaulted on the financing and the financial institution had filed a case in the court and during the current year the court ruled in favour of the financial institution. The court has ordered the borrower to settle the outstanding balance of US\$ 5,906,529 plus an annual profit of 3% from the date of the claim, being 10 April 2011, to the date of full payment in addition to legal expenses. The obligation of the Bank and the other related party is limited to the pledged shares.

The claim to be made on the Bank's pledged equity investments is dependent on the selling price of the pledged shares.

Further, the borrower on behalf of which the Bank has pledged its equity shares has provided an Islamic financing facility to the Bank which appears in the statement of financial position under "murabaha payable" and amounted to US\$ 3,229,064 as at 31 December 2012.

#### 21 SEGMENTAL INFORMATION

The Bank operates solely in the Middle East region and no geographic segment information has been presented.

#### 22 SOCIAL RESPONSIBILITY

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

#### 23 COMPARATIVES

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



Public Disclosures Document 31 December 2012

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#### 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 2012 in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and the Shari'a rules and principles as determined by the Shari'a Supervisory Board ("SSB") of the Bank.

#### 2 Management Discussion and Analysis

During the year 2012, the global financial markets did not completely recover where growth in the region has decelerated as the recovery in the economy faced many obstructions. Generally, financial markets have adjusted and cash inflow recommenced. In 2013, growth is expected to accelerate progressively.

The Bank has also suffered from economic slowdown. The Bank had to make provision for impairment, net of US\$ 780,571 on account of a drop in market prices of Investments carried at fair value through equity.

During the year 2012 the Bank did not undertake any new investment transactions. The Bank focused on generating liquidity through renting its buildings, exiting from certain investments and reducing its expenses.

Therefore, for the year ended 31 December 2012 the Bank reported a net loss of US\$ 1,484,688 (2011: US\$ 4,914,988).

The Bank believes that 2013 would be a challenging year for the banking sector as a whole and the Bank in particular. The Bank has appointed a consultancy firm to assist the Bank with developing a three years business plan to support the continuation of the Bank and its mission.

## Financial ratios for five years:

Ratio name	2012	2011	2010	2009	2008
ROAE	-4.38	-13.31	-51.58	-27.45	-32.08
ROAA	-3.58	-11.08	-45.28	-25.07	-30.06
STAFF COST/INCOME	58.09	294.44	N/A	321.17	N/A
COST/INCOME	195.95	1,573.43	N/A	5,184.63	N/A
EPS (\$)	-0.006	-0.02	-0.11	-0.09	-0.14

#### 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 percentage
Ahmed Shabib Al Dhahery	2,579,393	1.06%

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

There has been no trading of the Bank shares held by Directors during the year.

#### 3.1.2 Distribution of ownership by nationality

Country	No. of Shares	Ownership %
Kuwait	198,149,182	81.75%
Bahrain	30,726,460	12.67%
Qatar	6,934,298	2.86%
UAE	5,266,423	2.17%
Oman	130,909	0.05%
KSA	1,216,970	0.50%
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%	94	37.95%
5-15%	2	12.70%
>15%	2	49.35%

The following table shows the names of the shareholders who own 5% or more in the Bank's capital:

Shareholder Name	No. of shareholders	Total ownership
Ajal Holding Company	82,844,459	34.17%
International Investment Group	36,780,742	15.17%
Fahad Sultan Sons & Co.	15,709,091	6.48%
Gulf Monetary Group	15,069,091	6.22%
Total	150,403,383	62.04%

#### 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 ("BOD") 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.
- Approving the financial statements of the Bank.

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 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 monitors 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 Grant Thornton, Bahrain in 2012 (2011: PricewaterhouseCoopers (PWC), Bahrain).

As per the Articles of Association ("AOA") of the Bank, the Board should have not less than three and not more than 10 members. Currently the Bank has Seven members on its Board of Directors, of which the following three are independent:

- Mr. Mersal Saad Al Majedi
- Mr. Jamal Hassan Naai
- Mr. Ebrahim Abdullah AlShaikh

Currently the Bank does not have a pre-defined process to induct, educate and orient new directors, which is going to be established soon.

#### 3.2.1 The election system of the Board of Directors

As per the 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 Bank and the shareholders in the number and specialization that the Board believes that the interest of the Bank 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 AOA.
- If he misuses his membership to carry out business in competition with the Bank or causes actual damages to it.
- If he fails to attend three consecutive meetings without legitimate cause and this issue is notified to the BOD 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 Bank.
- If he occupies another position within the Bank for consideration other than the position that the BOD 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

#### Mr. Ghassan Al Sultan - Chairman

Mr. Sultan has over 30 Years of experience in real estate and investments. Mr. Sultan is currently the Chairman of the Board of Gulf Petroleum 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 Travellers 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 - Vice Chairman

Mr. Mannai has over 30 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. Ahmed Shabib Al Dhahery - Member

Mr. Dhahery has over 26 years experience. He is currently the Executive Director – Scholarships Department 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, Mr. Dhahery holds a Master of Human Resources Management, Master in Business Administration 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. Ebrahim Abdulla Al Shaikh - Member

Mr. Al Shaikh holds a Bachelor degree in Economic Science and Marketing from Oxford, UK. He has over 15 years of experience in automobile and marketing industry. He is also the owner of Montreal Motor Company S.P.C, Bahrain.

Mr. Al Shaikh is Board of Director of Investors Bank since 29th April 2012.

#### Mr. Reyadh Abdulwahab Al Sharaf - Member

Mr. Al Sharaf holds a Bachelor degree in Economic Science and Marketing from University of Tulsa, USA. He has over 20 years of experience in organizational change, corporate re-engineering and change management - having worked in senior positions in various private sector companies. He is a board member in Gulf Petroleum Investment, Kuwait.

Mr. Al Sharaf is Board of Director of Investors Bank since 29th April 2012.

#### Mr. Jamal Hasan Naqi - Member

Mr. Naqi holds (HND) in Business Management from Jordan. He has over 24 years of experience in commercial banking - having worked for BISB Bahrain. Currently

Mr. Nagi is a real-estate expert and owns a private business in Bahrain.

Mr. Nagi is Board of Director of Investors Bank since 29th April 2012.

#### Mr. Mersal Saad Al Majedi - Member

Mr. Al Majedi holds a Master degree in Law and BOT agreements from Egypt. He has over 11 years of experience in Law making and cooperate governance.

Mr. Al Majedi is Board of Director of Investors Bank since 29th April 2012.

#### 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)

As per the charter, 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 (Non-Independent)

Mr. Mersal Saad Al Majedi – Member (Independent)

Mr. Jamal Hassan Naqi – 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. The information pertaining to the appointment / reappointment of the external auditors and the related fees is available for the perusal of the shareholders, the same will be decided at the Annual General meeting scheduled on 25th April 2013.

#### **Audit Committee Members:**

Mr. Ebrahim Abdulla AlShaikh – Chairman (Independent)

Mr. Ahmed Shabeeb Al Dhahery – Member (Non-Independent)

Mr. Reyadh Abdulwahab AlSharaf – Member (Non-Independent)

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.

#### 3.4.3 Nomination and Remuneration Committee

- The Nomination and Remuneration Committee is appointed by the Board of Directors to assist the Board in discharging its oversight duties relating to:-
- Identifying individuals qualified to become the members of the Board of Directors and recommending to the Board nominees for the next Annual General Meeting.
- Review and approve a formal and transparent procedure for developing a remuneration policy for the Board Chairman, Directors, the CEO and the senior management, and
- Ensure that compensation offered is competitive in line with the market/per group and consistent with the responsibilities assigned.

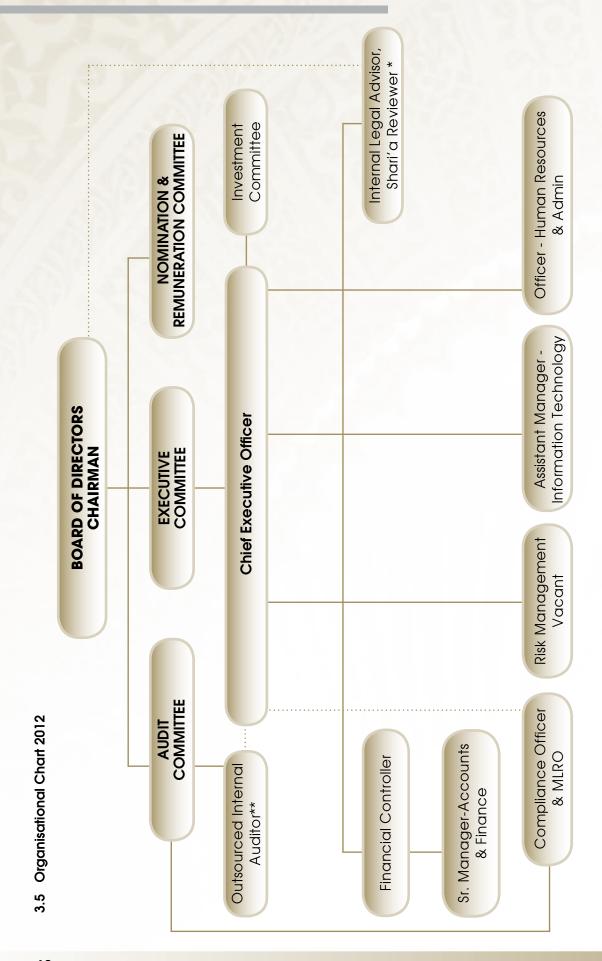
#### Nomination and Remuneration Committee Members:

Mr. Ghassan Fahad Al Sultan – Chairman (Non-Independent)

Mr. Isa Abdulla Al Mannai – Member (Non-Independent)

Mr. Ebrahim Abdulla AlShaikh – Member (Independent)

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.



\* Also the Board Secretary \*\* Grant Thornton - Bahrain

## 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 2012.

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

Date & location of meeting	Names of Directors present or participated by phone/video link	Names of directors not present
13/3/2012 – Bahrain	Dr. Abdulaziz Al Jenaei (By Phone)	Mr. Hamad Al Ghanim (resigned on 12/2/2012)
	Mr. Ahmed Shabib AlDhahery	Mr. Eyad Al Serri (resigned on 12/2/2012)
	Mr. Isa Abdulla Al Mannai	
	Mr. Ghassan Al Sultan	
29/4/2012 –	Mr. Ghassan Al Sultan	
Bahrain	Mr. Isa Abdulla Al Mannai	
	Mr. Ahmed Shabib Al Dhahery	
	Mr. Reyadh Abdulwahab AlSharaf	
	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	
	Mr. Ebrahim Abdulla AlShaikh	
27/9/2012 -	Mr. Ghassan Al Sultan	
Bahrain	Mr. Isa Abdulla Al Mannai	
	Mr. Ahmed Shabib Al Dhahery	
	Mr. Reyadh Abdulwahab AlSharaf	
	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	
	Mr. Ebrahim Abdulla AlShaikh	
27/12/2012 –	Mr. Ghassan Al Sultan	Mr. Ebrahim Abdulla AlShaikh
Bahrain	Mr. Isa Abdulla Al Mannai	
	Mr. Ahmed Shabib Al Dhahery	
	Mr. Reyadh Abdulwahab AlSharaf	
	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	

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

Date & location of meeting	Names of Committee members present or participated by phone/video link	Names of Committee members not present
2/2/2012 –	Mr. Isa Abdulla Al Mannai	
Bahrain	Mr. Ghassan Al Sultan (By Phone)	
	Mr. Ahmed Shabeeb Al Dhahery (By Phone)	
29/4/2012 –	Mr. Isa Abdulla Al Mannai	
Bahrain	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	
17/5/2012 -	Mr. Isa Abdulla Al Mannai	
Bahrain	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	
27/9/2012 –	Mr. Isa Abdulla Al Mannai	
Bahrain	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	
20/12/2012 -	Mr. Isa Abdulla Al Mannai	
Bahrain	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	

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

Date & location of meeting	Names of Committee members present or participated by phone/video link	Names of Committee members not present
29/4/2012 –	Mr. Ebrahim Abdulla AlShaikh	
Bahrain	Mr. Ahmed Shabeeb Al Dhahery	
	Mr. Reyadh Abdulwahab AlShara	f
27/9/2012 –	Mr. Ebrahim Abdulla AlShaikh	
Bahrain	Mr. Ahmed Shabeeb Al Dhahery	
	Mr. Reyadh Abdulwahab AlShara	f
19/12/2012 - Bahrain	Mr. Ebrahim Abdulla AlShaikh (By Phone)	
	Mr. Ahmed Shabeeb Al Dhahery (By Phone)	
	Mr. Reyadh Abdulwahab AlShara (By Phone)	f
27/12/2012 –	Mr. Ebrahim Abdulla Al Shaikh	
Bahrain	(By Phone)	
	Mr. Ahmed Shabeeb Al Dhahery	
	Mr. Reyadh Abdulwahab Al Sharc	af

The dates and attendance details of the Nomination & Remuneration Committee meetings are given below:

Date & location of meeting	Names of Committee members present or participated by phone/video link	Names of Committee members not present
29/4/2012 –	Mr. Ghassan Al Sultan	
Bahrain	Mr. Isa Abdulla Al Mannai	
	Mr. Ebrahim Abdulla AlShaikh	
27/9/2012 –	Mr. Ghassan Al Sultan	
Bahrain	Mr. Isa Abdulla Al Mannai	
	Mr. Ebrahim Abdulla AlShaikh	

#### 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.

In addition as per the Board Charter, decisions made by the Board, other than those made at Annual General Meetings and Extraordinary General Meetings may be made through circulation. In all such cases:

- The Board secretary shall ensure and confirm circulation of necessary information and documentation; and
- A decision through circulation will not be valid unless approved by more than half of the responding members, which should not be less than two.
- All Board members shall be required to respond to the Board Secretary within the following working week of circulation.
- If the Board Secretary does not receive the response from any Board member within the following working week of circulation, his/her response shall be considered as approved.

#### 3.8 Code of Conduct

The Bank will adopt a Code of Conduct and other internal policies and guidelines designed to support the mission statement set forth above and to comply with the laws, rules and regulations that govern the Bank's business operations. The Code of Conduct will be documented, published and communicated throughout the Bank. The Code of Conduct will apply to all employees of the Bank and its subsidiaries, as well as to Directors, temporary workers and other independent contractors and consultants when engaged by or otherwise representing the Bank, so that the Board, senior management and staff understand the importance of conducting business based on good corporate governance values and understand their accountabilities to various stakeholders of the Bank.

The Board, senior management and staff will be informed of and be required to fulfil their fiduciary responsibilities to the Bank's stakeholders.

All have adopted and will adhere to the following code of conduct in respect to their behaviour:

- Ensure that their conduct in general is in the best interest of the Bank and its stakeholders
- To act only within the scope of their responsibilities
- Disclose any potential conflicts of interest
- Ensure confidentiality of information

The Audit Committee shall monitor compliance with the Code of Conduct and other internal policies and guidelines.

#### 3.9 Evaluation of Board Performance

The Board shall, through the Nomination and Remuneration Committee, conduct an annual review of the Board's performance. This review shall include an overview of the talent base of the Board as a whole as well as an individual assessment of each

director's qualification under corporate governance rules and all other applicable laws, rules and regulations regarding directors; consideration of any changes in a director's responsibilities that may have occurred since the director was first elected to the Board and such other factors as may be determined by the Committee to be appropriate for review.

The Board of Directors shall review the performance of the Chairman and the CEO in order to ensure they are providing the best leadership for the Bank.

#### 3.10 Social Responsibility

The Bank discharges its social responsibility through donations to charitable causes and organisations. However, there were no donations to charitable causes and organisations during the year ended 31 December 2012.

#### 3.11 Conflict of Interest

As per the Board Charter:

- Directors and employees of the Bank shall act ethically at all times and in accordance with the Bank's applicable Code of Conduct. If an actual or potential conflict of interest arises in respect of a director, the director shall promptly disclose such conflict to the Board.
- The Board will establish and disseminate to its members and management policies and procedures for the identification, reporting, disclosure, prevention or strict limitation of potential conflicts of interest. It is senior management's responsibility to implement these policies.
- Any decision to enter into transactions, under which Board members or any member of executive management may have a conflict of interest that is material, shall be formally and unanimously approved by the Board.
- Executive directors shall absent themselves from any discussions or decisionmaking that involve a subject where they are incapable of providing objective advice, or which involves a subject or (proposed) transaction where a conflict of interest exists.
- Directors shall disclose to the Board any potential conflict of interest in their activities with other organisations.
- All Board members and members of executive management must declare to the Board in writing, on an annual basis, all of their other interests in other institutions, whether as a shareholder of five percent (5%) or more of the voting capital of the company, a manager or other form of significant participation.

### 3.12 Management Profile

#### Mr. Jassim Mohammed Khalaf Al Mutawa'a, Chief Executive Officer

Mr. Al Mutawa'a has an extensive experience over 21 years in Banking and Financial sector in Bahrain. His experience includes a position of Assistant Manager, Trade Finance with The Arab Investment Company (TAIC), Assistant General Manager with Bahrain Credit where he was responsible to maintain control of Management team, motivate the marketing of new business, controls and administration etc. He Worked with National Finance House (NFH) as a General Manager.

Educationally, Mr. Al Mutawa'a holds a Master in Business Administration (MBA)-Finance from King Fahad University of Petroleum and Minerals, KSA, and Bachelor of Business Administration – Finance from ST. Edwards' University, Texas – USA.

#### Mr. Aref Hussain, Financial Controller

Mr. Hussain has over 13 years of experience in Telecommunication sector and over 6 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 has a CMA (Certified management accountant) from Institute of Management Accountants from the United States of America.

#### Mr. Maher Ali Husain, Senior Manager- Accounts & Finance

Mr. Hussain has over 16 years experience in the Banking and Financial sector in Bahrain. He has experience and strong background in accounting and finance. He worked with The Arab Investment Company (TAIC) for two years and he has then joined the Bank in 1999.

Educationally, Mr. Husain holds a Bachelor degree in Accounting from University of Bahrain. He has also attended various training courses in the Banking related fields.

## 3.13 Managerial Committee

The Board has approved the formation of "Investment Committee" in October 2009. The committee has been established in year 2012 after the appointment of new Chief Executive Officer in April 2012

The overall role of the Investment Committee as approved by the Board is 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 chaired by the Chief Executive Officer and comprise of Financial Controller and Assistant Manager – Information Technology with two in house advisors.

#### 3.14 Remuneration and Incentives

The remuneration to the BOD is governed by the AOA of the Bank, which states the following:

• The General Assembly shall determine the remunerations of the members of the BOD, provided that such remunerations shall not exceed ten percent (10%) of the net profit in each financial year after deducting statutory reserves and after distributing a profit of not less than five percent (5%) of the Bank's paid capital to the shareholders. However, this provision shall not oblige the Bank to pay five percent (5%) of any other amount. Such remunerations shall be distributed to the members of the Board in proportion to their actual attendance of the meetings

of the BOD and the committees connected to it as per the minutes of meetings approved by the Bank.

 The General Assembly may decide to pay an annual remuneration to the members of the BOD during the years in which the Bank does not post any profit or during the years in which it does not pay out dividends to the shareholders, subject to the approval of the Minister of Commerce.

The Bank provides fixed annual fees to the Shari'a 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 AOA provides the guidelines for the employee incentive programme that has currently not been implemented.

#### 3.15 Corporate Governance Events

- On 12th February 2012, the following Board of Directors resigned from the Bank:
  - Mr. Hamad Al Ghanim Vice Chairman & Chairman of Audit Committee
  - Mr. Eyad Al Serri Member
- New Board has been elected in the AGM held on 29th April 2012 as per the following:-
  - Mr. Ghassan Fahad Al Sultan Chairman
  - Mr. Isa Abdulla Al Mannnai Vice Chairman & Chairman of EXCOM
  - Mr. Ahmed Shabeeb Al Dhahery Member
  - Mr. Reyadh Abdulwahab Al-Sharaf Member
  - Mr. Mersal Saad Al Majedi Member
  - Mr. Jamal Hassan Naqi Member
  - Mr. Ebrahim Abdulla Al-Shaikh Member & Chairman of the Audit Committee
- Dr. Abdulaziz Al Jenaei was Chairman of the Bank until the election of the new Board on 29th April 2012.
- Appointment of the Chief Executive Officer, Mr. Jassim Mohammed Khalaf Al Mutawa'a. Mr. Al Mutawa'a has joined the Bank in April 2012. In order to run the business of the Bank and to use all resources, internal & external needed for implementing actions necessary to fix any issues raised and also implement the strategy that has been approved by the Board of Directors and work on a business plan in line with the new strategy.

#### 3.16 Communications Policy

The Bank has a Board approved communication strategy which is part of the 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 communication 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.

#### 3.17 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.

#### 3.18 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.

#### 3.19 Compliance with CBB's Corporate Governance Guidelines

The Bank is obliged to comply with CBB's Rulebook High-Level Controls (HC) Module which contains applicable Rules and Guidance for the Bank. The Bank prepares an internal report where non-compliance is explained to shareholders. Accordingly, the Bank's report has been revised to incorporate the CBB's rulebook quarterly updates and all the non compliance with the requirements were communicated to the shareholders as of December 2012.

However, the Bank, during the year ended 31 December 2012, has reported non-compliance with the following sections of the CBB rule book volume 2 HC module:

HC-1.2.9; Written Appointment Agreement with Directors:

The Bank does not have a written appointment agreement with each director which should recites the directors' powers, duties, responsibilities and accountabilities and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.

HC-1.4.6; Chairman should be Independent:

The chairman of the Board is not an independent director, which is necessary so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making.

HC-1.9.1 and 1.9.4; Evaluation of the Board, Committee and Directors:

The Bank's Board does not conduct an annual review of its performance, the performance of committees nor each individual director. Further the Board did not report to the shareholders, at each annual shareholder meeting, the evaluations that have been done and its findings.

HC-3.2.1: Audit Committee Members:

The Bank audit committee comprises of three directors of which the majority are not independent.

HC-4.2.2 and HC-5.3.2; Nomination and Remuneration Committee Members:

The majority members of Nomination & Remuneration committee are nonindependent directors. Also, the chairman of the committee is not an independent director.

#### 3.20 Types of Material Transactions that requires Board approval:

Based on the Bank's approved list of delegation of financial and administration authorities, the following are samples of transactions which have to be approved by Board of Directors:

- Investment in listed equities which exceeds US\$ 3MM.
- Investment in Unlisted equities which exceeds U\$\$ 1.5MM
- Investment in initial public offering (IPO) which exceeds US\$ 1MM
- Other investment which exceeds US\$ 1.5MM
- Write-off receivable in excess of US\$ 250,000.

#### 4 Capital Adequacy and Management

The 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.

The Bank follows the 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 the CBB guidelines and include:

Tier 1: Core Capital - This includes issued and fully paid ordinary shares, statutory reserves and accumulated losses; and

Tier 2: Supplementary Capital – 45% of the unrealised gains arising on the re-measurement of fair valuing equities classified as Investments at fair value through equity.

#### 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	- (1.4
Legal / statutory reserves	7,409,515	-
Accumulated losses	(57,590,413)	-
Tier 1 Capital	29,819,102	-
Unrealized gross gains arising from fair valuing equities (45% only)	<u> </u>	1,344,690
Tier 2 Capital	-	1,344,690
Total Available Capital	29,819,102	1,344,690
Deductions:		
Excess amount over maximum permitted large exposure limit		
- Tier 1	(16,159,268)	-
- Tier 2	-	(1,344,690)
Net Available Capital	13,659,834	
Total Eligible Capital		13,659,834

#### 4.2 Capital Adequacy

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

The Bank's policy is to maintain a capital adequacy ratio, at all times, in excess of the minimum required by CBB. The 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 five years). During 2012 the Bank has managed to secure three years of gross positive income as required. The Bank requested CBB to reconsider the previous enforcement. Accordingly, CBB has approved to reduce the minimum CAR back to normal of 12%.

Risk Assets/ Categories	Risk Weighted Assets (RWA)	Capital Charge @ 12% of RWA
Credit Risk	DANKE.	1/26
- Cash and balances with banks	198,423	23,811
- Investments at fair value through equity	1 / 33	17/2/ 1/10
- Listed equities	4,679,877	561,585
- Unlisted equities	1,961,800	235,416
- Deferred payment sale receivables	1,269,437	152,332
- Investment properties	34,872,224	4,184,667
- Other assets	1,384,467	166,136
- Property and equipment	2,637,718	316,526
Total Credit Risk	47,003,946	5,640,473
Market Risk		
- Equity position risk	1,351,074	162,129
- Foreign exchange risk	3,329,991	399,599
Total Market Risk	4,681,065	561,728
Total Operational Risk	1,436,329	172,359
Total Risk Weighted Assets (a)	53,121,340	
Total Eligible Capital (b)	13,659,834	
Total Capital Adequacy Ratio ((b)/(a))		25.71%

#### 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.

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. All limits have been set as per CBB guidelines and Bank's internal limits and policy.

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 balances with banks, deferred payment sale receivables and other assets.

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

The following table demonstrates Bank's credit risk exposure:

Credit Risk Exposure (all figures in US Dollars)				
	Own capital and current account			
Portfolios	Total gross credit risk exposure	Average gross credit exposure over the period *		
Balances with banks	992,114	498,059		
Deferred payment sale receivables	3,680,203	3,680,203		
Other assets	1,381,003	1,431,873		
Total	6,053,320	5,610,135		

<sup>\*</sup> These have been computed based on a quarterly average.

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

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

For "Balances with banks", the Bank 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	11,420	4,579,356
Impaired financing contracts	16,088,101	6,125,125	11,255,892	33,469,118
Total	16,975,834	9,805,328	11,267,312	38,048,474

Aging of past due and impaired financing contracts:

	Banking and financial institutions	Investment Companies	Others	Total
Less than 3 months				- Hilli
3 months – 1 year		- 1-	9,312	9,312
1 year – 3 years	-	-	179,576	179,576
Over 3 years	16,975,834	9,805,328	11,078,424	37,859,586
Total	16,975,834	9,805,328	11,267,312	38,048,474

Movement in specific provisions during the year:

	Banking and financial institutions	Investment Companies	Others	Total
Balance at the beginning of the year	16,088,101	6,125,125	10,780,892	32,994,118
Net provision for impairment for the year	-		-	-
Balance at the end of the year	16,088,101	6,125,125	10,780,892	32,994,118

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 any expected cash for in kind settlements.

The Bank does not maintain any collective impairment provisions as of 31 December 2012.

#### 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 allocates exposure to a particular geographical area based on the location of the asset or on the location of the investee company. The Bank's assets exposed to credit risk are distributed over the following geographical areas:

Own capital					
	Geographic area				
Asset category			Other		
	Bahrain	Kuwait	countries	Total	
Balances with banks	976,706	15,408	-	992,114	
Deferred payment					
sale receivables	3,680,203	-	-	3,680,203	
Other assets	891,471	9,312	480,220	1,381,003	
Total	5,548,380	24,720	480,220	6,053,320	

The Bank's assets exposed to credit risk by industry or counterparty is given below:

Own capital				
	Industry sector			
Asset category	Banks and financial institutions	Investment companies	Others	Total
Funded				
Balances with banks	992,114	-	-	992,114
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Other assets	887,733	-	493,270	1,381,003
Total	1,879,847	3,680,203	493,270	6,053,320

The Bank does not have any unfunded exposures.

As required by CBB, the Bank must 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 then 0% are given below:

Concentration of risk	
Counterparties	Own capital
	Total exposure
Counterparty # 1 – Individual - Significant Shareholder – 0% limit	5,673,165
Counterparty # 2 – Individual – Individual Counterparty – 15% lim	it 7,771,808
Counterparty # 3 – Individual – Restricted Investment – 30% limit	10,452,776
Counterparties – Closely Related – Including Counterparties 2 & 3	3 24,090,427

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

Impaired exposures, Past Due exposures and allowances				
Own capital				
Geographic area	Past due Islamic financing contracts	Specific impairment provision		
Bahrain	10,874,745	6,304,701		
Kuwait	25,890,193	25,880,881		
Other countries	1,283,536	808,536		
Total	38,048,474	32,994,118		

#### 5.2 Market Risk

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

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

The Bank has following sources of market risk:

Equity price risk in the trading book (for listed equities); and

Currency risk on account of foreign currency denominated investments in the trading as well as banking book.

The Bank's trading book equity positions are listed in some GCC stock exchanges and have a ready market. The FX positions in the Banking book are structural in nature and have a ready market.

Additionally, as part of trading book, the Bank does not have exposure to assets that do not have a ready market.

The following table demonstrates the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's statement of income based on the statement of financial position as of 31 December 2012:

Particulars	20% decrease	20% increase
Investments at fair value through statement of income	(359,888)	359,888

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 weighted assets (RWA)	Capital requirements @ 12% of RWA	Maximum capital requirement during the year	Minimum capital requirement during the year
Equity Position	1,799,439	1,351,074	162,129	162,129	155,392
Foreign Exchange Position	3,329,991	3,329,991	399,599	552,789	399,599

#### 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 2012:

Currency	(USD Equivalent)
Bahraini Dinar	29,401,295
Kuwaiti Dinar	3,329,991
United Arab Emirates Dirham	2,486,724

#### **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 statement of income based on the statement of financial position as of 31 December 2012:

Currency 5% decrease		5% increase
Kuwaiti Dinar	(166,500)	166,500

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.

The Bank is currently considering formulating and implementing the contingency planning and business continuity planning and the staff will be trained

accordingly, which will further enhance loss mitigation process. However, due to last few years' financial and economic circumstances and in addition to the size of the Bank's operations, the formulation and implementation might take some time.

#### 5.3.3 Operational Risk capital charge

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

Particulars	Average gross income	Risk weighted exposures	Capital charge
Operational risk	766,042	1,436,329	114,906

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	766,042
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 the 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 ligrah 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 financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution was US\$ 3,670,202 as at 31 December 2012 (31 December 2011: US\$ 3,670,202).

In accordance with the terms of the agreement, the Bank pledged certain equity shares with a carrying value of US\$ 1,898,618 as at 31 December 2012 (31 December 2011: US\$ 1,921,772) in addition to dividends received on these shares amounting to US\$ 887,733 as at 31 December 2012 (31 December 2011: US\$ 887,733). Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged investments have been retained by the financial institution. In the opinion of the Bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the courts of Bahrain against the financial institution for possession of the Bank's investments.

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

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

• In 2004, a related party of the Bank (the "borrower") has entered into a murabaha financing agreement (the "financing") with a financial institution, and the Bank has pledged certain listed equity shares, (8,352,705 shares) with a carrying value of US\$ 5,760,487 as at 31 December 2012 (2011: US\$ 5,760,487) on behalf of the borrower against the financing. In addition the borrower and another related party had also pledged 4,647,011 shares and 5,840,625 shares respectively against the same financing.

The borrower defaulted on the financing and the financial institution had filed a case in the court and during the current year the court ruled in favour of the financial institution. The court has ordered the borrower to settle the outstanding balance of US\$ 5,906,529 plus an annual profit of 3% from the date of the claim, being 10 April 2011, to the date of full payment in addition to legal expenses. The obligation of the Bank and the other related party is limited to the pledged shares.

The claim to be made on the Bank's pledged equity investments (if any) is dependent on the selling price of the pledged shares.

Further, the borrower on behalf of which the Bank has pledged its equity shares has provided an Islamic financing facility to the Bank which appears in the statement of financial position under "murabaha payable" and amounted to US\$ 3,229,064 as at 31 December 2012.

• There are four labour cases running against the bank from four 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 investments at fair value through statement of income and investment at fair value through equity.

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 2012	Up to 1 month	1 to 3 months	3 months to 1 yea		1 to 3 years	No fixed maturity	Total
Assets							
Cash and balances with banks	993,440	-	-	993,440	_	-	993,440
Investments	- HE	-	1,799,439	1,799,439	-	12,453,018	14,252,457
Deferred payment sale receivables	3,680,203		_	3,680,203	-	-	3,680,203
Investment properties	-	-	-	-	-	17,436,112	17,436,112
Other assets	7,327	9,312	9,565	26,204	-	1,377,627	1,403,831
Property & equipment	-	-	-	-	-	2,637,718	2,637,718
Total assets	4,680,970	9,312	1,809,004	6,499,286	-	33,904,475	40,403,761
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	121,018	83,893	255,144	460,055	201,854	35,285	697,194
Total liabilities	7,020,284	83,893	255,144	7,359,321	201,854	35,285	7,596,460
Cumulative Liquidity Gap	(2,339,314)	(2,413,895)	(860,035)	(860,035)	(1,061,889)	32,807,301	

Following are the key liquidity ratios as at 31 December 2012:

Description	Ratio
Short Term Assets : Total Assets	12.7%
Short Term Assets : Short Term Liabilities (Times)	11.2

#### 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 balances with banks. The balances with banks amount as on 31st December 2012 is USD 992,114. The Bank does not have significant rate of return risk sensitivity due to the short-term nature of its balances with banks.

#### 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 investments at fair value through equity 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 statement of financial position as of 31 December 2012:

Particulars	20% decrease	20% increase
Investments at fair value through equity	(2,230,868)	2,230,868

#### 5.6.1 Valuations Policy

The Bank measures the fair value of quoted investments using the market bidprices 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	11,154,341	1,298,677
Investment in managed funds	-	
Total	11,154,341	1,298,677

Additionally the Bank has following cumulative realized gains or losses arising from sales or liquidations, total unrealized gains and losses recognized in the statement of financial position but not through the statement of income, 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	-
Total unrealized gains (losses) recognized in the statement of financial position but not through the statement of income	2,988,199
Unrealized gains (losses) included in Tier One Capital	-
Unrealized gains (losses) included in Tier Two Capital	1,344,690

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

Equity grouping	Risk weighted assets (RWA)	Capital requirements @ 12% of RWA	
Investment in shares	6,641,677	797,001	
Investment in managed funds			
Total	6,641,677	797,001	

#### 5.7 Displaced Commercial Risk

The risk when an Islamic bank is under pressure to pay its investors-depositors a rate of return higher then 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.

#### 5.8 Risks Mitigation

The Strategies used to mitigate the risks faced by the Bank have been effective throughout the reporting year.

#### 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. Appropriable impairment provisions have been made in the RIA.

Balance as of 31 Dec 2012 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	0.073	10,452,776
Total			16,440,667

<sup>\*</sup> 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 Kingdom of Bahrain courts.

The Bank did not distribute any returns to the restricted investment account holders.

#### \*\* Managed Portfolio:

During 2004, 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

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

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

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 undertaken on terms agreed between the parties which may not be necessary be 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 BOD and a prior approval from the CBB is also required.

Significant balances with related parties at 31 December comprise:

	2012	2011
Assets	13,640,614	14,007,800
Liabilities	3,387,450	3,403,263
Restricted Investment Accounts	16,122,978	16,228,461

Significant transactions with related parties include:

	2012	2011
Income	(17,315)	(340,453)
Expenses	375,801	246,113
Other comprehensive loss	(26,847)	(284)

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 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:

	2012	2011
Salaries, short term benefits and post employment benefits	161,003	137,072