

# ANNUAL REPORT



# 2013



**CONTENTS**

Chairman's Statement .....	4 - 5
Report of the Board of Directors .....	6 - 7
Chairman of Audit & Risk Committee Statement .....	8 - 11
Shari'a Board's Report .....	12

**Financial Statements**

Independent Auditors' Report to the Shareholders of Investors Bank B.S.C. (c) .....	15 - 16
Statement of Financial Position .....	17
Statement of Income .....	18
Statement of Cash Flows .....	19
Statement of Changes in Owners' Equity .....	20
Statement of Changes in Off-Balance Sheet Equity of Investment Accountholders .....	21
Statement of Sources and Uses of Charity Fund .....	22
Notes to the Financial Statements .....	23 - 43
Public Disclosures Document 2013 .....	45 - 71



**His Royal Highness  
Prince Khalifa bin Salman  
Al Khalifa**

Prime Minister



**His Royal Majesty  
King Hamad bin Isa  
Al Khalifa**

King of The Kingdom of Bahrain



**His Royal Highness  
Prince Salman bin Hamad  
Al Khalifa**

Crown Prince, Deputy Supreme  
Commander and First Deputy  
Prime Minister





## BOARD OF DIRECTORS

The preceding Board of Directors of the Bank were:

Name	Title	Independent/ Non Independent	Termination Date
Mr. Ghassan Fahad Al Sultan	Chairman	Non Independent	28 November 2013
Mr. Isa Abdulla Al Mannai	Vice Chairman	Non Independent	5 February 2014
Mr. Ahmed Shabeeb Al Dhaheri	Member	Non Independent	29 September 2013
Mr. Reyadh Abdulwahab Al Sharaf	Member	Non Independent	28 November 2013
Mr. Mersal Saad Al Majedi	Member	Independent	27 June 2013
Mr. Ebrahim Abdullah Al Shaikh	Member	Independent	5 February 2014
Mr. Jamal Hassan Naqi	Member	Independent	5 February 2014

## The Current Directors of the Bank:

Name	Title	Independent/ Non Independent	Appointment Date
Mr. Ameer Abdulrahman Al Mansour	Chairman	Independent	19 June 2014
Mr. Falah Hajraf K Al Hajraf	Vice Chairman	Non Independent	19 May 2014
Sheikh Yousif Abdulla Al-Sabah	Member	Non Independent	19 May 2014
Mr. Majed Yousef Ahmed Al-Ali	Member	Non Independent	19 May 2014
Mr. Abdulla Mohammad Al Rifaie	Member	Non Independent	19 May 2014
Dr. Jamshir Mohammed Nasimi	Member	Independent	19 June 2014
Mr. AbdulNaser Ahmed Mohamed	Member	Independent	19 June 2014

## SHARI'A BOARD

Name	Title
Shaikh Dr. AbdulSattar A.Karim Abu Ghuddah	Chairman
Shaikh Dr. Ali Mohieddin Al Quradaghi	Member
Shaikh Dr. Nedham Mohammed Saleh Yaqoobi	Member



## CHAIRMAN'S STATEMENT

*For the year ended 31 December 2013*

### Dear Shareholders

It is with great gratitude that I present the annual report and the financial statements of the Investors Bank for the year ended 31 December 2013. On behalf of the bank's executives, I would like to pass our greatest appreciation to you for working hand in hand with the bank. The bank has continued to show great resilience and spirit over the last few years both in the local and regional banking sectors.

### The Global Economy

The global economy is gradually improving, and this is attributed to the improved financial conditions and increased international trade. After a period of low turnover in the previous years, the economy is expected to rise slowly in the first half of 2014. The established monetary policies conducive for all businesses worldwide account for this rise. Some countries such as the US, Europe and Japan have already experienced the much-anticipated rise in their economy. Other economies such as the Middle East and Central Europe are likely to experience an average rise in financial activities. Growth is expected to continue despite the slow momentum because of the fact that at the end of the financial year, the global economy was on a stable ground than the previous years.

Growth in the developing countries will still be low due to a number of factors such as unemployment and low financial potential. The risks experienced by large economies such as the USA and Europe reduced to a minimum in the previous financial year. It is also true to say that this has led to the eradication of the economic slowdown experienced in market economies such as the Middle East. The expected trend of the economy shows a great improvement in the year 2014, the growth of the world's economy is expected to rise from 3.2% to 3.7% in the years 2013 and 2014 respectively. This is according to estimations done by the International Monetary fund.

A number of economies have shown great potential and expected to rise in 2014. An economy such as that of the United States has put in place policies that will see its development. These Policies lead to improved growth conditions through a number of areas. These areas include the extensive loan benefits and improvement in the housing sector. The private sector has also had a great influence in the development of the global economy, most of the private companies are moving into underdeveloped countries opening them up for international trade.

There is an optimistic view towards the global economy, but the fiscal cliff and reduced asset purchase programs are causing the world markets to be careful in their operations. The fear of a downward shift in the current economic trend is what is causing the stagnant market operations. Countries that are changing from one market to another such as China continue to record low growths. The country's growth recorded at 7.7%, which is a sustainable projected path. Other countries such as India have recorded a very low growth margin, less than what they had projected. The underdeveloped countries are still growing at a slow pace and have not yet reached their projected margin. This growth will continue to slow down because of the decreased demands of their commodities in the international markets.

### Middle East Economy

Countries in the Middle East are well known for exporting oil. Oil is one of their major income earners that have seen the development of other sectors in the economy. There has been an increased demand for workers in other non-oil sectors such as the housing sector. The increased migration of people into the countries in search for better jobs has caused pressure on the housing amenities. With oil being the major income earner, the decrease in oil prices in the year 2013 had a great impact on MENA. The banking sector had to reduce the amounts of loans given to the public. Countries such as the UAE that are experiencing a balanced growth in their economy, much of the revenue earned are used in public utilities and amenities increasing their spending. It is essential that the countries formulate policies that will see to it that creation of jobs in the private sector does not take up much of their revenue or else there will be diminished growth in the economy.

### Global Political Instability

The global economy is experiencing a steady rise, but this will not be so if the political instability in major areas such as the Middle East and North Africa (MENA) continues. The flow of the Foreign Direct Investment (FDI) is also reducing because of the fear of uncertainty. The political war has become a major hindrance to investment opportunities for the banking sector. The crisis in the MENA region has negatively influenced the FDI whereby investors have adopted a wait and see attitude or have given up investing in such countries.

## CHAIRMAN'S STATEMENT (continued)

The banking sector is also affected greatly because of the reduction in loans being given to the public due to fear of repayment issues. Investment banks in war-torn countries either, close shops or reduced their activities in the most affected areas. Banking operations are low with international banks pulling away from areas with the potential of war occurring. With the reduction of FDI, there is no monetary stability in developing countries and so lowered banking activities.

### 2014- 2015 Forecast

The growth of the global economy is expected to increase from 3.2 % in 2013 to 3.7% in 2014 and 3.9% in 2015. The high-income economies are expected to grow from 1.9% in 2013 to 2.2 % in 2014. On the other hand, growth in the developing countries and growing markets will increase to 5.2% in 2014 and 5.5 % in 2015. The banking sector sees this growth as an opportunity to increase their activities and earn more profits. To make this dream a reality, the Investors Bank has put in place measures to increase its asset purchasing power. The bank also wants to invest in private equity markets that will see to the expansion of capital.

### Acknowledgements

The unrelenting survival of the bank is because of the continued support of our shareholders. Therefore, on behalf of the Board of Directors, I would like pass my gratitude and appreciation to the stakeholders for the unwavering support. The Investors Bank through your support will continue its operations into the next financial year successfully. I would like to thank the board and all the banks employees who have ensured that we remain in the banking sector. Finally, I am thankful to the Board of Directors for their continued support and confidence in their chairman.



**Ameer Abdulrahman Al Mansour**  
Chairman



## REPORT OF THE BOARD OF DIRECTORS

For the year ended 31 December 2013

US Dollars

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 2013.

### 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.

The Bank focuses 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 2013 and the results for the year then ended are set out in the accompanying financial statements.

Financial highlights	2013	2012
Total assets	<b>32,828,808</b>	33,404,618
Total owner's equity	<b>22,350,004</b>	25,808,158
Net loss for the year	<b>(4,893,127)</b>	(6,025,193)

Movement in accumulated losses	2013	2012
Balance at 1 January	<b>(62,130,918)</b>	(56,105,725)
Net loss for the year	<b>(4,893,127)</b>	(6,025,193)
Balance at 31 December	<b>(67,024,045)</b>	(62,130,918)

### Dividends

The Board of Directors has not made any appropriations for dividends for the year ended 31 December 2013 (2012: nil).

### Board of Directors

The preceding Board of Directors of the Bank were:

Name	Title	Independent/ Non Independent	Termination Date
Mr. Ghassan Fahad Al Sultan	Chairman	Non Independent	28 November 2013
Mr. Isa Abdulla Al Mannai	Vice Chairman	Non Independent	5 February 2014
Mr. Ahmed Shabeeb Al Dhaheri	Member	Non Independent	29 September 2013
Mr. Reyadh Abdulwahab Al Sharaf	Member	Non Independent	28 November 2013
Mr. Mersal Saad Al Majedi	Member	Independent	27 June 2013
Mr. Ebrahim Abdullah Al Shaikh	Member	Independent	5 February 2014
Mr. Jamal Hassan Naqi	Member	Independent	5 February 2014



## REPORT OF THE BOARD OF DIRECTORS (continued)

The following are the Current directors of the Bank:

Name	Title	Independent/ Non Independent	Appointment Date
Mr. Ameer Abdulrahman Al Mansour	Chairman	Independent	19 June 2014
Mr. Falah Hajraf K Al Hajraf	Vice Chairman	Non Independent	19 May 2014
Sheikh Yousif Abdulla Al-Sabah	Member	Non Independent	19 May 2014
Mr. Majed Yousef Ahmed Al-Ali	Member	Non Independent	19 May 2014
Mr. Abdulla Mohammad Al Rifaie	Member	Non Independent	19 May 2014
Dr. Jamshir Mohammed Nasimi	Member	Independent	19 June 2014
Mr. AbdulNaser Ahmed Mohamed	Member	Independent	19 June 2014

### 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 2014; 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.



**Ameer Abdulrahman Al Mansour**  
Chairman



**Dr. Jamshir Nasimi**  
Director

2 September 2014

## CHAIRMAN OF AUDIT & RISK COMMITTEE STATEMENT

This year brought a significant progress to our experience, competency, and proficiency. On the background of the current business environment, which remains rather competitive and challenging, the Investors Bank managed to cope with the pitfalls and learn the lessons in order to stay immune to the possible mistakes in the future. It means that the Bank became a better business partner, which takes responsibility for all the successes and failures, constantly improving its strategies and business performance.

We acknowledge that we recorded a loss in equity shareholders over the last year. The former management actions, implemented three years ago in order to redesign and restructure the bank's functions drastically failed to bring any fruitful results, since the number of investors' loss appeared to be much higher than the prior years. This was also augmented by the non-implementation of any risk reduction strategies. With the new Board of Directors, however, which was appointed during 2014, a new business plans and a innovative set of strategies will be executed that will deliver breakthrough business performance and marketplace leadership.

### Our Business Activities

Investors Bank was founded in 1997 in the Kingdom of Bahrain as an exempt company and operates under an investment banking license (Wholesale Bank Islamic principles) granted by the Central Bank of Bahrain. The legal status of the Bank was changed to a closed Bahraini joint stock company in 2005. The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association. Bank customers can present financial statements to assigned staff members to acquire expert business advice. Third party members can additionally input their funds to the bank's care for a fixed fee. The bank can enter into an agreement with the party to either use the funds for investment or solely for saving purposes. The bank also revives restricted funds that correlate with its functions or objective. Investors Bank also funds commercial, industrial and agricultural activities directly or indirectly through companies that the bank either has founded or has a mutually benefiting relationship. In the funding of business activities, investment in real estate is identified as the bank's main revenue generator as it is heavily participant in the purchase, leasing and construction of large commercial buildings.

### Our Performance

#### Fair Values

Fair value conducted is for investments trading in the organized financial market. The figures are determined through a consideration of stated market bid prices at the end of business. For investments where there is no fixed market price, fair value is determined through consideration of the current market values or assessment of future cash flow worth. Investments at fair value through equity denoted the following financial amount:

US\$

Investment	2013	2012
Quoted Equity Securities	5,379,349	4,155,198
Unquoted Equity Securities	428,677	1,298,677
<b>Total</b>	<b>5,808,026</b>	<b>5,453,875</b>
<b>At 1st January</b>	<b>5,453,875</b>	<b>14,055,080</b>
Fair value changes	1,434,973	(3,150,129)
Impairment	(34,797)	(5,321,076)
Disposal	(1,046,025)	(130,000)
<b>At 31st December</b>	<b>5,808,026</b>	<b>5,453,875</b>



## CHAIRMAN OF AUDIT &amp; RISK COMMITTEE STATEMENT (continued)

Equally, fair value on financial instruments was also conducted. In the process, fair worth represents the amount, which an asset can be exchanged or a liability established between knowledgeable and willing parties in an arm's length transaction. Consequently, divergence can occur between carrying numerals and value estimates. Below is the overview of the fair value on financial instruments. The fair worth of instruments carried at amortized costs are not different from the carrying values.

US\$

	Amortized Cost	Fair Value through Equity	Fair value through statement of income
<b>Financial Assets</b>			
Investments	–	5,808,026	198,412
Deferred payment sale receivables	3,680,203	–	–
Other assets	1,313,509	–	–
<b>Total</b>	<b>4,993,712</b>	<b>5,808,026</b>	<b>198,412</b>
<b>Financial Liabilities</b>			
Due to financial institutions	3,670,202	–	–
Murabaha payable	3,229,064	–	–
Provision against Lease Commitment	2,885,300	–	–
Other Liabilities	694,238	–	–
<b>Total</b>	<b>10,478,804</b>	<b>–</b>	<b>–</b>

**Owners' Equity and Operational Costs**

The share capital amounts remained the same during the period of 2012 and 2013. Apart from owner payments and shares, statutory reserve amounts arose as necessitated by the Bahrain bank policies where ten percent of net profit is transferred into statutory reserves until the financial sum surpasses the fifty percent mark of banks paid up share capital.

The amount in reserves is not available to the bank for distribution, but can be utilized as security for the purpose of distribution in such circumstances as stipulated in the Bahrain commercial law and other statutory regulation. The sole purpose of the reserve is to provide security for the bank given occurrence of adverse conditions. In fair value reserve investments, gains and losses are moved to retained profits and become accessible for distribution. Operational costs went higher because of increased income earnings and the tough business environment. The tables below depict the rising amounts that also contributed to the general loss.

US\$

Other Income, net	2013	2012
Gain on disposable of investment in real estate	456,126	164,850
Dividend income	26,325	33,157
Income from commodity murabaha contract	21,826	–
Foreign exchange loss	(3,974)	(5,360)
Loss on disposable of fixed assets	–	(57,560)
<b>Totals</b>	<b>500,303</b>	<b>135,087</b>

## CHAIRMAN OF AUDIT &amp; RISK COMMITTEE STATEMENT (continued)

US\$

Administrative Expenses	2013	2012
Consultancy and legal fees	308,338	95,171
Staff related claims	202,419	–
Municipality and electricity	82,863	78,404
Maintenance	81,465	96,489
Professional fees	49,602	57,560
Office services and cleaning	35,780	37,159
License and Registration	35,212	40,754
Board of Directors & committee meetings expenses	31,245	33,554
Sharia Supervisory Board remuneration	29,708	31,565
Advertising and promotions	15,098	13,545
Communication	11,097	12,039
Business development	10,992	17,331
Others	41,145	47,332
<b>Totals</b>	<b>934,964</b>	<b>560,903</b>

**Capital Resources**

At the end of the financial period, the total equity capital was at \$7,747,824 while total capital resources applicable in prudential purposes amounting to \$48,835,226.

The Bank remains well-resourced with sufficient amounts to run the company for the next five years without profit generation. Given the independence, the Bank persists in heavy real estate investments. The bank integrates a standardized approach as necessitated by the CBB in credit, and market risks and basic indicator approach for operational risks.

**Liquidity**

The Bank maintained a consistent value loss in liquidity throughout the financial period as liquidity buffers were well below the required amounts at the end of the year. The current and future funding sources are reviewed on an ongoing and gradual process through frequent evaluations. The maturity mismatch, liquidity ratios, diversification, source stress and deposit base are the key indicators of liquidity that are measured in the often evaluations. To allow optimum control of liquidity in the firm, high level management should implement suitable algorithms that will go to address the credit and operation risks that resulted in high losses in the financial year. The losses to the exposure of credit risk can be seen below.

US\$

Credit Risk	2013	2012
Balances with Banks	767,593	992,114
Due from a financial institution	2,656,499	–
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	1,313,509	1,381,003
<b>Totals</b>	<b>8,417,804</b>	<b>6,053,320</b>



## CHAIRMAN OF AUDIT &amp; RISK COMMITTEE STATEMENT (continued)

**Capital Management**

The primary focus of the bank's capital management is to ascertain that this financial institution complies with external government imposed requirements. In addition, the Bank facilitates a consistent credit rating and capital ratios in attempts to support businesses and to elevate shareholder worth. The bank's financial structure is subject to change given shifts in the economic conditions surrounding it. In order to facilitate the structural consistency and flexibility to change, the bank adjusts its payable dividends or returns capital to shareholders. The Bank's structure is entirely constituted of paid up capital. Financial reserves are also included in the structure. The categorization of the Bank's capital can be identified below with conformance to set regulatory requirements.

US\$

<b>Tier I Capital</b>	<b>2013</b>	<b>2012</b>
Issued and Complete ordinary share payments	80,000,000	80,000,000
Legal/statutory reserves	7,409,515	7,409,515
Accumulated losses	(67,024,045)	(62,130,918)
	<b>20,385,470</b>	<b>25,278,597</b>
Excess amount over maximum permitted large exposure limit	(12,637,646)	(13,595,178)
<b>Total Tier I capital</b>	<b>7,747,824</b>	<b>11,683,419</b>
<b>Tier II Capital</b>		
Unrealized gross gains arising from fair valuing equities (45% only)	884,040	238,302
Excess amount over maximum permitted large exposure limit	(884,040)	(238,302)
<b>Total Tier II capital</b>	<b>-</b>	<b>-</b>
<b>Total Eligible Capital</b>	<b>7,747,824</b>	<b>11,683,419</b>

**Looking Ahead**

The prospects for the Kingdom of Bahrain as a whole for 2014 - 2015 are encouraging and we believe that despite all the difficulties the economy will survive and prosper. With the newly appointed Board of Directors, the priorities during 2014 - 2015 would be on preserving and raising new capital to lay the foundations for the next phase of Investors Bank growth. The Board of Directors will also come up with a new business plan, a new strategy and a new business model that will gain traction with all key segments and the Bank would therefore be positioned to continue its successful growth path both at home and across the broader MENA region.

However, we have not forgotten the lessons of the recent economic downturn; in particular, we are closely monitoring the real estate market, and therefore remain equally focused on building a sustainable business while continuing our remedial and problem credit recognition, provisioning and remedial management processes.



**Dr. Jamshir Nasimi**  
Chairman of Audit & Risk Committee

**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 31/12/2013.

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.

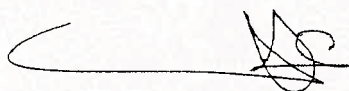
**In our opinion:**

- (1) the contracts, transactions and dealings entered into by the Bank during the year ended 31/12/2013 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.

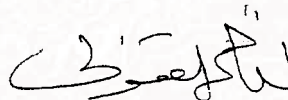
8th Dhul-Qa'da, 1435 Hijri corresponding to 3rd September 2014.

**SHARI'A BOARD**


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



**Shaikh Dr. Ali Mohieddin Al Quradaghi**  
Member



**Shaikh Dr. Nedham Mohammed Saleh Yaqoobi**  
Member



## **Financial Statements**

### **31 December 2013**









Ernst & Young  
P.O. Box 140  
14th Floor, South Tower  
Bahrain World Trade Center  
Manama  
Kingdom of Bahrain

Tel: +973 1753 5455  
Fax: +973 1753 5405  
manama@bh.ey.com  
ey.com/mena  
C.R. No. 6700

## 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 2013, and the related statements of income, cash flows, changes in owners' equity, changes in off-balance sheet equity of investment accountholders and source and uses of charity fund for the year then ended. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2013, 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 Financial Accounting Standards issued by AAOIFI.

### *Emphasis of matter*

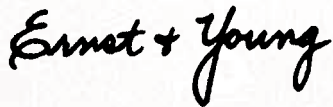
Without qualifying our opinion, we draw attention to note 2 to the financial statements. The Bank incurred a loss of US\$ 4,893,127 during the year ended 31 December 2013, and as of that date the Bank's accumulated losses exceeded a substantial part of its share capital. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. However, these financial statements have been prepared on a going concern basis as the shareholders are confident that the Bank will generate sufficient cash flows to meet its obligations as they fall due.

**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 (the 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.

Except for the matters disclosed in note 1, 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 2013 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.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

2 September 2014  
Manama, Kingdom of Bahrain




**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2013

	Notes	2013 US\$	Restated* 2012 US\$
<b>ASSETS</b>			
Cash and balances with banks	4	768,919	993,440
Due from a financial institution	5	2,656,499	–
Investments	6	6,006,438	7,253,314
Deferred payment sale receivables	21	3,680,203	3,680,203
Investment in real estate	7	18,255,772	20,020,180
Other assets	8	1,375,853	1,403,831
Fixed assets	10	85,124	53,650
<b>TOTAL ASSETS</b>		<b>32,828,808</b>	<b>33,404,618</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Due to a financial institution	21	3,670,202	3,670,202
Murabaha payable	22	3,229,064	3,229,064
Provision against lease commitment	15	2,885,300	–
Other liabilities	9	694,238	697,194
<b>Total liabilities</b>		<b>10,478,804</b>	<b>7,596,460</b>
<b>Owners' equity</b>			
Share capital	11	80,000,000	80,000,000
Statutory reserve	11	7,409,515	7,409,515
Investments fair value reserve	11	1,964,534	529,561
Accumulated losses		(67,024,045)	(62,130,918)
<b>Total owners' equity</b>		<b>22,350,004</b>	<b>25,808,158</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>32,828,808</b>	<b>33,404,618</b>
<b>OFF-BALANCE SHEET ITEMS:</b>			
<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>			
		–	16,440,667

\*Restatement as described in note 25



**Ameer Abdulrahman Al Mansour**  
Chairman

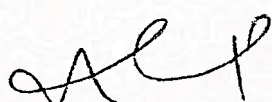


**Dr. Jamshir Nasimi**  
Director

The attached notes 1 to 25 form part of these financial statements

**STATEMENT OF INCOME***For the year ended 31 December 2013*

	Notes	2013 US\$	Restated 2012 US\$
Rental income from investment in real estate		1,517,984	1,411,753
Gain on disposal of investments at fair value through equity		293,845	–
Fair value loss on investments at fair value through statement of income, net		(1,601,027)	(4,921)
Other income, net	12	500,303	135,087
<b>Operating income</b>		<b>711,105</b>	<b>1,541,919</b>
<b>EXPENSES</b>			
Staff cost		822,619	898,764
Administrative and general expenses	13	934,964	560,903
Depreciation		440,132	786,369
<b>Operating expenses</b>		<b>2,197,715</b>	<b>2,246,036</b>
<b>Net loss before provision and impairment</b>		<b>(1,486,610)</b>	<b>(704,117)</b>
Provision against lease commitment	15	(2,885,300)	–
Impairment	14	(521,217)	(5,321,076)
<b>NET LOSS FOR THE YEAR</b>		<b>(4,893,127)</b>	<b>(6,025,193)</b>



**Ameer Abdulrahman Al Mansour**  
Chairman



**Dr. Jamshir Nasimi**  
Director

The attached notes 1 to 25 form part of these financial statements



**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2013

	Notes	2013 US\$	Restated 2012 US\$
<b>OPERATING ACTIVITIES</b>			
Net loss for the year		(4,893,127)	(6,025,193)
Adjustments for non-cash items:			
Depreciation		440,132	786,369
Provision against lease commitment	15	2,885,300	–
Impairment	14	521,217	5,321,076
Gain on disposal of investments at fair value through equity		(293,845)	–
Fair value loss on investments at fair value through statement of income		1,601,027	4,921
Gain on disposal of investment in real estate	12	(456,126)	(164,850)
Loss on disposal of fixed assets	12	–	57,560
Operating loss before changes in operating assets and liabilities:		(195,422)	(20,117)
Working capital adjustments:			
Other assets*		(38,442)	(17,957)
Other liabilities		14,816	57,019
Payments to charities		(17,772)	–
Net cash (used in) from operating activities		(236,820)	18,945
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of investments at fair value through equity		919,870	130,000
Proceeds from disposal of investment in real estate		1,802,588	793,737
Purchase of fixed assets	10	(53,660)	(156,695)
Proceeds from disposal of fixed assets		–	48,541
Net cash from investing activities		2,668,798	815,583
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		2,431,978	834,528
Cash and cash equivalents at 1 January		993,440	158,912
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		3,425,418	993,440
Cash and cash equivalents comprise:			
Cash and balances with banks	4	768,919	993,440
Due from a financial institution with original maturity of ninety days or less	5	2,656,499	–
		3,425,418	993,440
<b>Non-cash activity</b>			
*Proceeds from disposal of investment at fair value through equity	8	420,000	–

The attached notes 1 to 25 form part of these financial statements

**STATEMENT OF CHANGES IN OWNERS' EQUITY***For the year ended 31 December 2013*

	Share capital US\$	Statutory reserve US\$	Investments fair value reserve US\$	Accumulated losses US\$	Total US\$
Balance at 1 January 2013 (restated)	80,000,000	7,409,515	529,561	(62,130,918)	25,808,158
Net loss for the year	–	–	–	(4,893,127)	(4,893,127)
Other comprehensive gain: fair value gain on investments at fair value through equity	–	–	1,446,415	–	1,446,415
Net amount transferred to statement of income on disposal of investment at fair value through equity	–	–	(11,442)	–	(11,442)
<b>Balance as at 31 December 2013</b>	<b>80,000,000</b>	<b>7,409,515</b>	<b>1,964,534</b>	<b>(67,024,045)</b>	<b>22,350,004</b>
Balance at 1 January 2012	80,000,000	7,409,515	3,679,690	(56,105,725)	34,983,480
Net loss for the year	–	–	–	(6,025,193)	(6,025,193)
Other comprehensive loss: fair value loss on investments at fair value through equity	–	–	(3,150,129)	–	(3,150,129)
Balance as at 31 December 2012 (restated)	80,000,000	7,409,515	529,561	(62,130,918)	25,808,158

The attached notes 1 to 25 form part of these financial statements



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

For the year ended 31 December 2013

	Balance at 1 January 2013			Movements during the year			Balance at 31 December 2013		
	No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	Revaluations US\$	No of units (000)	Average value per share US\$	Total US\$	
Murabaha with Lotus Air Ltd	-	-	317,689	-	(317,689)	-	-	-	
Investments in International									
Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	(5,670,202)	12,887	-	-	
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.073	10,452,776	-	(10,452,776)	142,059	-	-	
			<u>16,440,667</u>	-	<u>(16,440,667)</u>			<u>-</u>	
								<u>-</u>	
								<u>-</u>	
	Balance at 1 January 2012			Movements during the year			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	-	-	317,689	-	-	-	-	317,689	
Investments in International									
Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	-	12,887	0.44	5,670,202	
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.074	10,558,259	-	(105,483)	142,059	0.073	10,452,776	
			<u>16,546,150</u>	-	<u>(105,483)</u>			<u>16,440,667</u>	

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

2. On the instructions of an off-balance sheet investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C ('IIG'). The Bank then entered into a deferred payment sale agreement with the off-balance sheet investment account holder for sale of 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 21).

3. During the year, the Board of Directors has written down the value of investments of off-balance sheet investment account holders to nil, based on the performance of these investments and the lack of information available to support the carrying value of these investments.

The attached notes 1 to 25 form part of these financial statements.

**STATEMENT OF SOURCES AND USES OF CHARITY FUND***For the year ended 31 December 2013*

	2013 US\$	2012 US\$
Undistributed charity fund at 1 January	35,285	35,285
Payments made during the year	(17,772)	-
<b>Undistributed charity fund at 31 December</b>	<b>17,513</b>	<b>35,285</b>

The attached notes 1 to 25 form part of these financial statements



## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2013

### 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, P.O. Box 11818, Manama, Kingdom of Bahrain.

The Bank's activities are regulated by the CBB and supervised by a Shari'a 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 that conform 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 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 is subject to the requirements of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the Central Bank of Bahrain's (the CBB) regulations (as contained in Volume 2 of the CBB rulebook) and directives and the memorandum and articles of association of the Bank. The Bank is not in compliance with the following requirements of the below mentioned laws:

- a) the ordinary general assembly of the shareholders has to be convened within six months of the financial year end. As of the date of approval of these financial statements, ordinary general assembly for the year ended 31 December 2013 has not been convened;
- b) the Bank's Board of Directors are required to meet at least four times during each financial year, however this requirement was not complied with for the year ended 31 December 2013;
- c) the Bank did not submit to the CBB, within three months of the financial year ended 31 December 2013, its final audited accounts including the profit and loss statement nor publish its accounts within two months of the financial year end as required by the CBB;
- d) the Bank's annual public disclosures are required to be prepared for the review of external auditors within three month period from 31 December 2013. As of the date of approval of these financial statements, the public disclosures have not been prepared;
- e) the Bank's prudential information return is required to be prepared and submitted to the CBB within 20 days from 31 December 2013 and is required to be reviewed by external auditors within two months from 31 December 2013. As of the date of approval of these financial statements the return has not been reviewed; and
- f) the Bank's key control positions such as the Financial Controller, Head of Risk Management and Head of Compliance are vacant.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 2 September 2014.

### 2 BASIS OF PREPARATION

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\$ 4,893,127 during the year ended 31 December 2013 (2012: US\$ 6,025,193) and as of that date, the Bank's accumulated losses amounted to US\$ 67,024,045 (2012: US\$ 62,130,918) and has exceeded a substantial part of its share capital. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. The shareholders are confident that the Bank will

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2013

### 2 BASIS OF PREPARATION (continued)

generate sufficient cash flows to meet its obligations as they fall due, hence, the financial statements have been prepared on a going concern basis.

The Bahrain Commercial Companies Law requires in the case the Bank that has lost a substantial portion of its capital, an Extraordinary General Meeting of the shareholders should be convened at which the shareholders resolve whether or not to continue the operations of the Company. This meeting is yet to be convened.

#### Statement of Compliance

These financial statements have been prepared in accordance with Financial Accounting Standards ["FAS"] as 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, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, the Bank uses the relevant International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

### 3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations effective as of 1 January 2013.

#### FAS 26 Investment in Real Estate

The Bank has adopted FAS 26 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both. Before the adoption of FAS 26, the Bank was following FAS 17 'Investments' and measured its investments in real estate at cost and this measurement continued to be followed under FAS 26.

Accordingly, the Bank has reclassified assets amounting to US\$ 2,584,068 from "property and equipment" (changed in the current period to "fixed assets") to "investment in real estate", and has reclassified assets amounting to US\$ 17,436,112 from "investment properties" to "investment in real estate". The reclassification had no impact on previously reported loss and accumulated losses.

#### 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 in real estate

The fair value of investment in real estate 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 fixed assets

The Bank's management determines the estimated useful lives of its fixed assets 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



## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2013

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.1 Significant accounting judgments and estimates (continued)

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 and due from a financial institution.

#### 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, realised or deemed to be impaired, at which time the realised gain or loss is reported in the statement of income.

The losses arising from impairment of such investments are recognised in the statement of income in "provision for impairment" and removed from the "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 in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investment in real estate is initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, buildings classified as investment in real estate 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.

#### 3.6 Fixed assets

Fixed assets is stated at cost less accumulated depreciation. Depreciation is provided on the straight line method at rates intended to write-off the cost of the assets over their estimated useful lives.

**NOTES TO THE FINANCIAL STATEMENTS***As at 31 December 2013***3 SIGNIFICANT ACCOUNTING POLICIES (continued)****3.6 Fixed assets (continued)**

The estimated useful lives of the assets for the calculation of depreciation is 3 - 5 years.

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

The residual values, useful lives and methods of depreciation for fixed assets 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.

*Dividend income*

Dividend income from investments is recognised 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.

**3.11 Earnings 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**

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 has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and



## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2013

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.12 Derecognition of financial instruments (continued)

either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank 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.

#### 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.

### 4 CASH AND BALANCES WITH BANKS

	2013 US\$	2012 US\$
Cash at banks	767,593	992,114
Cash in hand	1,326	1,326
	<u>768,919</u>	<u>993,440</u>

### 5 DUE FROM A FINANCIAL INSTITUTION

	2013 US\$	2012 US\$
Commodity murabaha contract	2,657,493	—
Less: Deferred profit	(994)	—
	<u>2,656,499</u>	<u>—</u>

**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2013

**6 INVESTMENTS**

	2013 US\$	2012 US\$
Investments at fair value through statement of income	198,412	1,799,439
Investments at fair value through equity (note 6.1)	5,808,026	5,453,875
	<b>6,006,438</b>	<b>7,253,314</b>

**6.1 Investments at fair value through equity**

	2013 US\$	2012 US\$
Quoted equity securities (note 6.1.1)	5,379,349	4,155,198
Unquoted equity security (note 6.1.2)	428,677	1,298,677
	<b>5,808,026</b>	<b>5,453,875</b>

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

	2013 US\$	2012 US\$
At 1 January	5,453,875	14,055,080
Fair value changes	1,434,973	(3,150,129)
Impairment (note 14)	(34,797)	(5,321,076)
Disposal	(1,046,025)	(130,000)
At 31 December	<b>5,808,026</b>	<b>5,453,875</b>

**6.1.1** Investments with a carrying value of US\$ 2,894,235 (31 December 2012 : US\$ 1,898,618) are under dispute and in custody of the court as more fully explained in note 21.

**6.1.2** This investment is carried at cost, less impairment, as its fair value could not be reliably measured.

**7 INVESTMENT IN REAL ESTATE**

	2013		
	Freehold land US\$	Buildings US\$	Total US\$
Cost:			
At 1 January 2013	22,278,496	16,423,279	38,701,775
Disposals	–	(2,094,768)	(2,094,768)
<b>At 31 December 2013</b>	<b>22,278,496</b>	<b>14,328,511</b>	<b>36,607,007</b>
Depreciation and impairment:			
At 1 January 2013	11,579,286	7,102,309	18,681,595
Charge for the year	–	417,946	417,946
Disposals	–	(748,306)	(748,306)
<b>At 31 December 2013</b>	<b>11,579,286</b>	<b>6,771,949</b>	<b>18,351,235</b>
Net carrying values:			
<b>At 31 December 2013</b>	<b>10,699,210</b>	<b>7,556,562</b>	<b>18,255,772</b>



**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2013

**7 INVESTMENT IN REAL ESTATE (continued)**

	2012		
	Freehold land US\$	Buildings US\$	Total US\$
Cost:			
At 1 January 2012	18,742,649	13,557,902	32,300,551
Transfer from fixed assets (note 10)	3,535,847	3,793,497	7,329,344
Disposals	–	(928,120)	(928,120)
At 31 December 2012	22,278,496	16,423,279	38,701,775
Depreciation and impairment:			
At 1 January 2012	9,657,768	4,168,026	13,825,794
Charge for the year	–	409,758	409,758
Transfer from fixed assets (note 10)	1,921,518	2,823,758	4,745,276
Disposals	–	(299,233)	(299,233)
At 31 December 2012	11,579,286	7,102,309	18,681,595
Net carrying values:			
At 31 December 2012	10,699,210	9,320,970	20,020,180

The fair value of investment in real estate at the year end was US\$ 22,872,701 (2012: US\$ 19,580,047) determined based on valuations performed by independent valuation experts as at 31 December.

**8 OTHER ASSETS**

	2013 US\$	2012 US\$
Dividends receivable (note 8.1 and 21)	887,733	887,733
Receivable from disposal of investment at fair value through equity (note 8.2)	420,000	–
Prepaid expenses	49,081	9,565
Statutory deposit with CBB	13,263	13,263
Other receivables	5,219	489,531
Qard Hassan	–	2,108
Refundable deposit	557	1,631
	<b>1,375,853</b>	<b>1,403,831</b>

**8.1** These dividends have been pledged against amounts due to a financial institution along with the pledged shares as disclosed in notes 6.1.1 and 21 and are in custody of the court.

**8.2** The amount was received on 23 March 2014.

**9 OTHER LIABILITIES**

	2013 US\$	2012 US\$
Accrued expenses	474,457	410,479
Unearned rental income	187,863	235,379
Charity payable	17,513	35,285
Others	14,405	16,051
	<b>694,238</b>	<b>697,194</b>

**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2013

**10 FIXED ASSETS**

		2013			
		Motor vehicles US\$	Office equipment & furniture US\$	Fixtures US\$	Total US\$
Cost:					
At 1 January 2013		–	844,675	1,398,005	2,242,680
Additions		21,292	18,920	13,448	53,660
Write off		–	(60,950)	–	(60,950)
<b>At 31 December 2013</b>		<b>21,292</b>	<b>802,645</b>	<b>1,411,453</b>	<b>2,235,390</b>
Depreciation:					
At 1 January 2013		–	842,155	1,346,875	2,189,030
Charge for the year		2,484	14,182	5,520	22,186
Write off		–	(60,950)	–	(60,950)
<b>At 31 December 2013</b>		<b>2,484</b>	<b>795,387</b>	<b>1,352,395</b>	<b>2,150,266</b>
Net carrying values:					
<b>At 31 December 2013</b>		<b>18,808</b>	<b>7,258</b>	<b>59,058</b>	<b>85,124</b>

		2012					
		Freehold land US\$	Buildings 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
Transfer to investment in real estate (note 7)		(3,535,847)	(3,793,497)	–	–	–	(7,329,344)
Additions		–	–	–	107,936	48,759	156,695
Disposals		–	–	(58,045)	(106,101)	–	(164,146)
<b>At 31 December 2012</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>844,675</b>	<b>1,398,005</b>	<b>2,242,680</b>
Depreciation and impairment:							
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
Transfer to investment in real estate (note 7)		(1,921,518)	(2,823,758)	–	–	–	(4,745,276)
Disposals		–	–	(58,045)	–	–	(58,045)
<b>At 31 December 2012</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>842,155</b>	<b>1,346,875</b>	<b>2,189,030</b>
Net carrying values:							
<b>At 31 December 2012</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>2,520</b>	<b>51,130</b>	<b>53,650</b>



**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2013

**11 OWNERS' EQUITY**(i) *Share capital*

	2013 US\$	2012 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

(ii) *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.

(iii) *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.

**12 OTHER INCOME, NET**

	2013 US\$	2012 US\$
Gain on disposal of investment in real estate	456,126	164,850
Dividend income	26,325	33,157
Income from commodity murabaha contract	21,826	-
Foreign exchange loss	(3,974)	(5,360)
Loss on disposal of fixed assets	-	(57,560)
	500,303	135,087

**13 ADMINISTRATIVE AND GENERAL EXPENSES**

	2013 US\$	2012 US\$
Consultancy and legal expenses	308,338	95,171
Staff related claims	202,419	-
Electricity and municipality	82,863	78,404
Maintenance	81,465	96,489
Professional fees	49,602	57,560
Office service and cleaning	35,780	37,159
License and registration	35,212	40,754
Board of Directors and committees meeting expenses and attendance allowances	31,245	33,554
Shari'a Supervisory Board remuneration, meeting expenses and attendance allowances	29,708	31,565
Advertising and promotion	15,098	13,545
Communication	11,097	12,039
Business development	10,992	17,331
Others	41,145	47,332
	934,964	560,903

**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2013

**14 IMPAIRMENT**

	2013 US\$	2012 US\$
Investments at fair value through equity (note 6)	34,797	5,321,076
Other assets	486,420	–
	<u>521,217</u>	<u>5,321,076</u>

**15 CONTINGENCIES AND COMMITMENTS**

	2013 US\$	2012 US\$
Lease commitment	–	4,596,919
	<u>–</u>	<u>4,596,919</u>

During 2006, the Bank entered into a lease agreement for the lease of land on behalf of a related party for a 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 both parties agreed that ultimate lessee of the land is the Bank's related party and is liable to make the lease payment to the Bank who in turn will settle the lease payments to the lessor.

The related party defaulted on its lease payments due to delay in execution of the planned project on the leased land. Since the lease agreement was signed between the Bank and the lessor, the Bank's Board of Directors acknowledged that the lessor may claim the outstanding lease payments from the Bank and has therefore entered into negotiations with the lessor to reach a settlement agreement on the outstanding lease commitments which amounted to US\$ 5,770,600 as at the date of statement of financial position. Based on these negotiations, the Bank's Board of Directors has recognised a liability amounting to US\$ 2,885,300 which in their opinion represents the reliable estimate of the expected settlement.

**16 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.

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by the Bank as at 31 December 2013:

	Amortised Cost US\$	Fair value through equity US\$	Fair value through statement of income US\$
<b>Financial assets:</b>			
Investments	–	5,808,026	198,412
Deferred payment sale receivables	3,680,203	–	–
Other assets	1,313,509	–	–
<b>Total</b>	<u>4,993,712</u>	<u>5,808,026</u>	<u>198,412</u>
<b>Financial liabilities:</b>			
Due to a financial institution	3,670,202	–	–
Murabaha payable	3,229,064	–	–
Provision against lease commitment	2,885,300	–	–
Other liabilities	694,238	–	–
<b>Total</b>	<u>10,478,804</u>	<u>–</u>	<u>–</u>

The fair values of financial instruments carried at amortised cost are not materially different from their carrying values as at the statement of financial position date.



## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2013

### 16 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

#### Fair value hierarchy

Fair values of quoted securities are derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

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 as at 31 December 2013 of US\$ 5,577,761 (31 December 2012: US\$ 5,954,637) fall under level 1 of the fair value hierarchy. The Bank does not have financial instruments qualifying for Level 2 and 3. The other investment of US\$ 428,677 (31 December 2012: US\$ 1,298,677) classified at fair value through equity is carried at cost less impairment.

### 17 CAPITAL MANAGEMENT

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

	2013 US\$	2012 US\$
<b>Tier 1 Capital</b>		
Issued and fully paid ordinary shares	80,000,000	80,000,000
Legal / statutory reserves	7,409,515	7,409,515
Accumulated losses	(67,024,045)	(62,130,918)
	<b>20,385,470</b>	<b>25,278,597</b>
Excess amount over maximum permitted large exposure limit	(12,637,646)	(13,595,178)
<b>Total Tier 1 Capital</b>	<b>7,747,824</b>	<b>11,683,419</b>
<b>Tier 2 Capital</b>		
Unrealised gross gains arising from fair valuing equities (45% only)	884,040	238,302
Excess amount over maximum permitted large exposure limit	(884,040)	(238,302)
<b>Total Tier 2 Capital</b>	<b>-</b>	<b>-</b>
<b>Total Eligible Capital</b>	<b>7,747,824</b>	<b>11,683,419</b>

**NOTES TO THE FINANCIAL STATEMENTS***As at 31 December 2013***17 CAPITAL MANAGEMENT (continued)**

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:

	<b>2013 US\$</b>	<b>2012 US\$</b>
Credit Risk Weighted Exposures	<b>44,760,663</b>	46,189,744
Market Risk Weighted Exposures	<b>2,458,227</b>	5,036,229
Operational Risk Weighted Exposures	<b>1,616,336</b>	1,432,979
<b>Total Risk Weighted Exposures</b>	<b>48,835,226</b>	52,658,952
<b>Capital Adequacy Ratio</b>	<b>15.87%</b>	22.19%

**18 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.



## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2013

## 18 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant balances with related parties at 31 December comprise:

	Shareholders			Others			2013	2012
	Gross US\$	Provision US\$	Net US\$	Gross US\$	Provision US\$	Net US\$	Total US\$	Total US\$
<b>Assets</b>								
Investment at fair value through statement of income	-	-	-	15,802,165	(15,802,165)	-	-	1,715,715
Investments at fair value through equity	307,176	(307,176)	-	6,074,183	(4,872,840)	1,201,343	1,201,343	1,236,241
Deferred payment sale receivables	3,680,203	-	3,680,203	-	-	-	3,680,203	3,680,203
Other assets	22,213,228	(22,213,228)	-	10,210,625	(10,210,625)	-	-	9,312
<b>Liabilities</b>								
Murabaha payables	3,229,064	-	3,229,064	-	-	-	3,229,064	3,229,064
Other liabilities	-	-	-	142,625	-	142,625	142,625	217,803
<b>OFF-BALANCE SHEET ITEMS:</b>								
<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>	16,122,978	(16,122,978)	-	-	-	-	-	16,122,978
The income and expenses with related parties included in the financial statements are as follows:								
	Shareholders			Others			2013	2012
	Gross US\$	Provision US\$	Net US\$	Gross US\$	Provision US\$	Net US\$	Total US\$	Total US\$
<b>Income</b>								
Fair value loss on investment at fair value through statement of income	-	-	-	-	-	(1,715,715)	(1,715,715)	(17,315)
<b>Expenses</b>								
Provision for impairment	34,798	-	-	9,312	-	-	44,110	4,872,841
Board of Directors and Board Committees attendance allowances	-	-	-	31,245	-	-	31,245	33,554
Shari'a Supervisory Board remuneration and attendance allowances	-	-	-	29,708	-	-	29,708	31,565
Other comprehensive loss	(101)	-	-	-	-	-	(101)	(2,485,485)

**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2013

**18 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

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

	2013 US\$	2012 US\$
Salaries and other short-term benefits	227,036	149,969
Post employment benefits	9,655	11,034
	<b>236,691</b>	<b>161,003</b>

**19 SEGMENTAL INFORMATION**

The industrial distribution of the Bank's assets and liabilities as of 31 December 2013 is as follows:

	2013			
	Banks and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
<b>Assets</b>				
Cash and balances with banks	768,919	-	-	768,919
Due from a financial institution	2,656,499	-	-	2,656,499
Investments	5,922,088	-	84,350	6,006,438
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment in real estate	-	-	18,255,772	18,255,772
Other assets	900,996	-	474,857	1,375,853
Fixed assets	-	-	85,124	85,124
<b>Total assets</b>	<b>10,248,502</b>	<b>3,680,203</b>	<b>18,900,103</b>	<b>32,828,808</b>
<b>Liabilities</b>				
Due to a financial institution	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064
Provision against lease commitment	-	-	2,885,300	2,885,300
Other liabilities	3,271	-	690,967	694,238
<b>Total liabilities</b>	<b>6,902,537</b>	<b>-</b>	<b>3,576,267</b>	<b>10,478,804</b>
<b>OFF-BALANCE SHEET ITEMS:</b>				
<b>EQUITY OF INVESTMENT</b>				
<b>ACCOUNTHOLDERS</b>	-	-	-	-



**NOTES TO THE FINANCIAL STATEMENTS***As at 31 December 2013***19 SEGMENTAL INFORMATION (continued)**

	2012			
	Banks and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
<b>Assets</b>				
Cash and balances with banks	993,440	–	–	993,440
Investments	4,353,876	31,936	2,867,502	7,253,314
Deferred payment sale receivables	–	3,680,203	–	3,680,203
Investment in real estate	–	–	20,020,180	20,020,180
Other assets	900,996	–	502,835	1,403,831
Fixed assets	–	–	53,650	53,650
<b>Total assets</b>	<b>6,248,312</b>	<b>3,712,139</b>	<b>23,444,167</b>	<b>33,404,618</b>
<b>Liabilities</b>				
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
<b>Total liabilities</b>	<b>6,934,661</b>	<b>–</b>	<b>661,799</b>	<b>7,596,460</b>
<b>OFF-BALANCE SHEET ITEMS:</b>				
EQUITY OF INVESTMENT ACCOUNTHOLDERS	5,670,202	10,452,776	317,689	16,440,667

**Geographical concentration**

Assets and liabilities of the Bank as at 31 December 2013 and 31 December 2012 are primarily concentrated in the Middle East region.

**20 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 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, due from a financial institution, 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.

**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2013

**20 RISK MANAGEMENT (continued)****Credit risk (continued)**

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

	2013 US\$	2012 US\$
Balances with banks	767,593	992,114
Due from a financial institution	2,656,499	–
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	1,313,509	1,381,003
<b>Maximum exposure to credit risk</b>	<b>8,417,804</b>	<b>6,053,320</b>

Analysis of the Bank's exposure to credit risk:

	2013				
	Balances with banks and financial institution US\$	Receivables from sale of investments US\$	Deferred payment sale receivables US\$	Other financial assets US\$	Total US\$
Neither past due nor impaired	3,424,092	–	–	5,776	3,429,868
Past due but not impaired	–	–	3,680,203	1,307,733	4,987,936
Individually impaired	–	16,786,726	–	16,693,813	33,480,539
Gross amount	–	(16,786,726)	–	(16,693,813)	(33,480,539)
Provision for impairment	–	–	–	–	–
<b>Net</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total exposure to credit risk</b>	<b>3,424,092</b>	<b>–</b>	<b>3,680,203</b>	<b>1,313,509</b>	<b>8,417,804</b>

	2012				
	Balances with banks US\$	Receivables from sale of investments US\$	Deferred payment sale receivables US\$	Other 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	–	16,786,726	–	16,682,392	33,469,118
Gross amount	–	(16,786,726)	–	(16,207,392)	(32,994,118)
Provision for impairment	–	–	–	–	–
<b>Net</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>475,000</b>	<b>475,000</b>
<b>Total exposure to credit risk</b>	<b>992,114</b>	<b>–</b>	<b>3,680,203</b>	<b>1,381,003</b>	<b>6,053,320</b>



## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2013

### 20 RISK MANAGEMENT (continued)

#### Credit risk (continued)

##### Credit quality per class of financial assets

The table below analyses the Bank's maximum credit exposure where the credit quality is reflected by external credit ratings (S&P, Moody's and Fitch) of the counterparties where relevant:

	Balances with banks and financial institution US\$	Deferred payment sale receivables US\$	Other financial assets US\$	Total US\$
<b>2013</b>				
Non-investment / speculative: BB – B	734,591	–	–	734,591
Unrated	2,689,501	3,680,203	1,313,509	7,683,213
	<u>3,424,092</u>	<u>3,680,203</u>	<u>1,313,509</u>	<u>8,417,804</u>
	Balances with banks US\$	Deferred payment sale receivables US\$	Other financial assets US\$	Total US\$
<b>2012</b>				
Non-investment / speculative: BB – B	983,473	–	–	983,473
Unrated	8,641	3,680,203	1,381,003	5,069,847
	<u>992,114</u>	<u>3,680,203</u>	<u>1,381,003</u>	<u>6,053,320</u>

##### Concentration Risk

Concentration risk is the risk of insufficient diversification of the portfolio resulting in an adverse impact of an external event on portfolio constituents sensitive to similar risk factors. Concentration risk primarily arises due to name and sector concentration.

The Bank's financial assets with credit risk can be analysed by the following industry sector:

	Banks and financial institution US\$	Investment companies US\$	Others US\$	Total US\$
<b>2013</b>				
Balances with banks	767,593	–	–	767,593
Due from a financial institution	2,656,499	–	–	2,656,499
Deferred payment sale receivables	–	3,680,203	–	3,680,203
Other assets	887,733	–	425,776	1,313,509
	<u>4,311,825</u>	<u>3,680,203</u>	<u>425,776</u>	<u>8,417,804</u>
	Banks and financial institution US\$	Investment companies US\$	Others US\$	Total US\$
<b>2012</b>				
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
	<u>1,879,847</u>	<u>3,680,203</u>	<u>493,270</u>	<u>6,053,320</u>

##### Geographical concentration

Assets and liabilities of the Bank as at 31 December 2013 and 31 December 2012 are primarily concentrated in the Middle East region.

**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2013

**20 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 balances with banks, due from a financial institution, investments at fair value through statement of income and investments at fair value through equity.

The table below summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2013 based on expected periods to cash conversion from the statement of financial position date:

	2013						
	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\$
<b>Assets</b>							
Cash and balances with banks	768,919	-	-	768,919	-	-	768,919
Due from a financial institution	2,656,499	-	-	2,656,499	-	-	2,656,499
Investments	-	-	198,412	198,412	-	5,808,026	6,006,438
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	3,680,203
Investment in real estate	-	-	-	-	-	18,255,772	18,255,772
Other assets	425,219	-	49,081	474,300	-	901,553	1,375,853
Fixed assets	-	-	-	-	-	85,124	85,124
<b>Total assets</b>	<b>7,530,840</b>	<b>-</b>	<b>247,493</b>	<b>7,778,333</b>	<b>-</b>	<b>25,050,475</b>	<b>32,828,808</b>
<b>Liabilities</b>							
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
Provision against lease commitment	-	-	-	-	-	2,885,300	2,885,300
Other liabilities	137,146	46,442	142,542	326,130	148,010	220,098	694,238
<b>Total liabilities</b>	<b>7,036,412</b>	<b>46,442</b>	<b>142,542</b>	<b>7,225,396</b>	<b>148,010</b>	<b>3,105,398</b>	<b>10,478,804</b>
<b>Net</b>	<b>494,428</b>	<b>(46,442)</b>	<b>104,951</b>	<b>552,937</b>	<b>(148,010)</b>	<b>21,945,077</b>	<b>22,350,004</b>

The table below summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2012 based on expected periods to cash conversion from the statement of financial position date:

	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\$
Assets							
Cash and balances with banks	993,440	-	-	993,440	-	-	993,440
Investments	-	-	1,799,439	1,799,439	-	5,453,875	7,253,314
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	3,680,203
Investment in real estate	-	-	-	-	-	20,020,180	20,020,180
Other assets	7,327	9,312	9,565	26,204	-	1,377,627	1,403,831
Fixed assets	-	-	-	-	-	53,650	53,650
Total assets	4,680,970	9,312	1,809,004	6,499,286	-	26,905,332	33,404,618
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
Net	(2,339,314)	(74,581)	1,553,860	(860,035)	(201,854)	26,870,047	25,808,158



**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2013

**20 RISK MANAGEMENT (continued)****Currency risk**

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

The Bank has the following significant exposure in a foreign currency at the date of statement of financial position:

	2013		
	Assets US\$	Liabilities US\$	Net US\$
Kuwaiti Dinar	2,061,403	–	2,061,403

	2012		
	Assets US\$	Liabilities US\$	Net US\$
Kuwaiti Dinar	3,329,991	–	3,329,991

**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 income for the year	
		2013 US\$	2012 US\$
Kuwaiti Dinar	5%	103,070	166,500

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 listed equity investments designated 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 demonstrates the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's statement of income or equity based on the position as of 31 December:

**Sensitivity Analysis:**

Particulars	Change in price	Effect on net income for the year	
		2013 US\$	2012 US\$
Investments at fair value through statement of income	20%	39,682	359,888
Investments at fair value through equity	20%	1,075,870	831,040

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.

**NOTES TO THE FINANCIAL STATEMENTS***As at 31 December 2013***20 RISK MANAGEMENT (continued)****Operational risk (continued)**

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.

**21 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 2013 (31 December 2012: US\$ 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain equity shares with a carrying value of US\$ 2,894,235 as at 31 December 2013 (31 December 2012: US\$ 1,898,618) in addition to dividends received on these shares amounting to US\$ 887,733 as at 31 December 2013 (31 December 2012: US\$ 887,733). Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged shares were 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 into has provided a manager's cheque for an equal amount which has been deposited with the court amounting to 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 investment pledged with the financial institution or for contingent claims that might arise on final settlement.

**22 SHARES PLEDGED ON BEHALF OF A RELATED PARTY**

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

The borrower defaulted on the financing and the financial institution filed a case in the court. 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.

During 2013, a broker was appointed by the court to sell the pledged shares for the best possible price. The broker auctioned the shares with a price of BD 0.100 per share however no potential buyers indicated their interest at this price and the shares are yet to be sold. Based on this price the Bank would not be able to recover its pledged investment and the Bank's Board of Directors have decided to derecognise its pledged investment. The Bank's equity investment in the same shares has also been written down to the auction price.

Further, the related party 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 2013 (31 December 2012: US\$ 3,229,064).

**23 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.



## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2013

### 24 SOCIAL RESPONSIBILITY

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

### 25 RESTATEMENT OF COMPARATIVE FIGURES

As disclosed in note 22, the Bank pledged an investment with a carrying value of US\$ 5,760,487 in respect of a financing obtained by a related party from a financial institution. Following default by the related party, the financial institution filed a legal case in the court which was ruled out in favor of the financial institution and the court ordered the disposal of the pledged shares to settle the overdue amount. During the previous year, the Bank's Board of Directors was anticipating that only a portion of the pledged shares would be sold to settle the overdue amount, however, at the auction price suggested by the broker, all the pledged shares would be disposed off to settle the outstanding obligation. On that basis the Bank's Board of Directors has agreed to derecognise its pledged investment by adjusting the previous year financial statements and writing down its remaining stake in the same shares to the auction price. The comparatives have been restated as set out below:

		31 December 2012	
		(Restated)	(Previously reported)
		US\$	US\$
<b>Statement of financial position</b>			
Investments		<b>7,253,314</b>	14,252,457
Investments fair value reserve		<b>529,561</b>	2,988,199
Accumulated losses		<b>(62,130,918)</b>	(57,590,413)
		For the year ended 31 December 2012	
		(Restated)	(Previously reported)
		US\$	US\$
<b>Statement of income</b>			
Impairment		(5,321,076)	(780,571)





**Public Disclosures Document**  
**31 December 2013**  
(All Amounts in US\$)





## PUBLIC DISCLOSURES DOCUMENT 2013

## Table of Contents

<b>1</b>	<b>EXECUTIVE SUMMARY</b>	<b>47</b>
<b>2</b>	<b>MANAGEMENT DISCUSSION AND ANALYSIS</b>	<b>47</b>
<b>3</b>	<b>CORPORATE GOVERNANCE</b>	<b>47</b>
3.1	Ownership Structure of the Bank	47
3.1.1	Distribution of Ownership by Directors, Senior Managers, on an Individual Basis	47
3.1.2	Distribution of Ownership by Nationality	48
3.1.3	Distribution of Ownership of Shares by Size of Shareholder	48
3.1.4	Ownership by Government	48
3.2	The Board of Directors	48
3.2.1	The Election System of the Board of Directors	49
3.2.2	Termination of Board's Membership	49
3.3	Profiles of Members of the Board of Directors	49
3.4	Board Committees	51
3.4.1	Executive Committee (Excom)	51
3.4.2	Audit Committee	51
3.4.3	Nomination and Remuneration Committee	52
3.5	Organizational Chart 2013	53
3.6	Board Meeting	54
3.7	Approval Authority Structure	54
3.8	Code of Conduct	55
3.9	Evaluation of Board Performance	55
3.10	Social Responsibility	55
3.11	Conflict of Interest	55
3.12	Management Profile	56
3.13	Managerial Committee	56
3.14	Remuneration And Incentives	57
3.15	Corporate Governance Events	57
3.16	Communications Policy	58
3.17	Shari'a Compliance	58
3.18	Zakah Contributions	58
3.19	Compliance with CBB's Corporate Governance Guidelines	58
3.20	Types of Material Transactions that requires board approval	59
<b>4</b>	<b>CAPITAL ADEQUACY AND MANAGEMENT</b>	<b>59</b>
4.1	Capital Structure	59
4.2	Capital Adequacy	60
<b>5</b>	<b>RISK MANAGEMENT</b>	<b>60</b>
5.1	Credit Risk	61
5.1.1	Credit Risk Mitigation	62
5.1.2	Concentration Risk	62
5.2	Market Risk	64
5.2.1	Currency Risk	65
5.3	Operational Risk	65
5.3.1	Risk and Control Self Assessment	65
5.3.2	Operational Risk Loss Database	65
5.3.3	Operational Risk Capital Charge	66
5.3.4	Legal Risk – Current Litigations and Claims	66
5.4	Liquidity Risk	67
5.5	Rate of Return Risk	69
5.6	Equity Price Risk in the Banking Book	69
5.6.1	Valuations Policy	69
5.6.2	Equity Based Financing	69
5.7	Displaced Commercial Risk	70
5.8	Risk Mitigation	70
<b>6</b>	<b>RESTRICTED INVESTMENT ACCOUNTS</b>	<b>70</b>
<b>7</b>	<b>RELATED PARTY TRANSACTIONS</b>	<b>71</b>



## PUBLIC DISCLOSURES DOCUMENT 2013

### 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 2013 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 2013, 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 2014, growth is expected to accelerate progressively.

The Bank suffered a drop in market prices of investment carried at fair value through statement of income in the amount of US\$ 1,601,027.

Additionally the Bank had to make a provision for impairment of US\$ 521,217 due to a drop in market prices of investments carried at fair value through equity and the revaluation of other assets.

Moreover, provision against lease commitment of US \$ 2,885,300 was reflected in the account.

During the year 2013 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 2013 the Bank reported a net loss of US\$ 4,893,127 (2012: US\$ 6,025,193).

Financial ratios for five years:

Ratio name	2013	2012	2011	2010	2009
ROAE	-20.32	-19.82	-13.31	-51.58	-27.45
ROAA	-14.78	-15.87	-11.08	-45.28	-25.07
STAFF COST/INCOME	115.68	58.29	294.44	N/A	321.17
COST/INCOME	788.10	490.76	1,573.43	N/A	5,184.63
EPS (\$)	-0.02	-0.02	-0.02	-0.11	-0.09

### 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

The Bank's 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.

## PUBLIC DISCLOSURES DOCUMENT 2013

## 3 Corporate Governance (continued)

## 3.1 Ownership structure of the Bank (continued)

## 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%
KSA	1,216,970	0.50%
Oman	130,909	0.05%
<b>Total</b>	<b>242,424,242</b>	<b>100.00%</b>

## 3.1.3 Distribution of ownership of shares by size of shareholder

Ownership size	No of shareholders	Total ownership
0-5%	104	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%
<b>Total</b>	<b>150,403,383</b>	<b>62.04%</b>

## 3.1.4 Ownership by Government

No sovereign Government owns any shares in the 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;



## PUBLIC DISCLOSURES DOCUMENT 2013

### 3 Corporate Governance (continued)

#### 3.2 The Board of Directors (continued)

- 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;
- Overseeing the Bank's compliance with applicable laws and regulations;
- Approving the financial statements of the Bank; and
- Review of internal control processes and procedures.

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 monitor compliance of the ethical conduct through periodic reviews by compliance and the internal audit functions.

Review of internal control, processes & procedure is carried out by internal Audit department where the Bank has outsourced its internal audit function to Grant Thornton, Bahrain in 2013 (2012: Grant Thornton, 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. The preceding BOD was dissolved on 5th February 2014.

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 specialisation 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

- **The preceding Board of Directors:**

Mr. Ghassan Al Sultan – Chairman / Non-Independent / Executive (Terminated on 28 November 2013)

Mr. Sultan holds a Bachelors Degree in Industrial Engineering from University of Portland, Oregon USA. Mr. Sultan has over 30 Years of experience in real estate and investments.

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

**PUBLIC DISCLOSURES DOCUMENT 2013****3 Corporate Governance (continued)****3.3 Profiles of Members of the Board of Directors (continued)**

Mr. Isa Abdulla Al Mannai – Vice Chairman / Non-Independent / Executive (Until 5 February 2014)

Mr. Mannai is MSc. (Engineering Management) from the Catholic University, Washington DC and BSc (Civil Engineering) University of Washington, Seattle. Mr. Mannai has over 30 years experience in the Construction Industry.

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

Mr. Ahmed Shabib Al Dhahery – Member / Non-Independent / Non-Executive (Terminated on 29 September 2013)

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. Dhahery has over 26 years experience.

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

Mr. Ebrahim Abdulla Al Shaikh – Member / Independent / None-Executive (Until 5 February 2014)

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 was Board of Director of Investors Bank since 29th April 2012.

Mr. Reyadh Abdulwahab Al Sharaf – Member / Non Independent / Non-Executive (Terminated on 28 November 2013)

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

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

Mr. Jamal Hasan Naqi – Member / Independent / Non-Executive (Until 5 February 2014)

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

Mr. Naqi was Board of Director of Investors Bank since 29th April 2012.

Mr. Mersal Saad Al Majedi - Member / Independent / Non-Executive (until 27 June 2013)

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 was Board of Director of Investors Bank since 29th April 2012.

Sheikh Yusuf Bin Abdulla Al Nasser Al Sabah / Non-Independent / Non-Executive (from 29 December 2013 Until 5 February 2014)

Sheikh Al Sabah holds a Master degree in Business Administration from University of Kuwait; He also holds a Master degree in International Studies & Diplomacy from University of London, UK. He has over 17 years of experience, having worked in senior positions in various public and private sector. Currently, Mr. Al Sabah is the Chairman of Industry & Technology Co. Kuwait.

Mr. Majed Yusuf Ahmed Al Ali / Non-Independent / Executive (from 29 December 2013 Until 5 February 2014)

Mr. Al Ali holds HND degree in Banking from Institute of Banking studies, Kuwait; Mr. Al Ali worked in Banking industry for more than 20 years, he was the Chief Financial Officer of Kuwait Real-Estate Bank. Currently he is the General Manager of Wethaq Takaful Insurance Co. Kuwait.

Mr. Falah Hajraf Al Hajraf / Non-Independent / Executive (from 29 December 2013 Until 5 February 2014)

Mr. Al Hajraf holds Bachelor degree in Law from Cairo University, Egypt; He has over 11 years of experience in real-estate investment and logistics. Mr. Al Hajarf is a lawyer, co-founder and owner of RHA Law office in Kuwait.



## PUBLIC DISCLOSURES DOCUMENT 2013

### 3 Corporate Governance (continued)

#### 3.3 Profiles of Members of the Board of Directors (continued)

- **The Current Board of Directors:**

Mr. Ameer Abdulrahman Al Mansour – Chairman / Independent / Non-Executive (Appointed on 19 June 2014)

Mr. AL Mansour holds a Master degree in Technical Analysis from the United Kingdom; He has over 12 years of experience in Banking and financial industry - having worked in senior position in Kuwait Commercial Bank. He is also an expert & economic analyst in stock exchange markets.

MR. Falah Hajraf Al Hajraf - Vice Chairman / Non-Independent / Executive (Appointed on 19 May 2014)

Mr. Al Hajraf holds Bachelor degree in Law from Cairo University, Egypt; He has over 11 years of experience in real-estate investment and logistics. Mr. Al Hajraf is a lawyer, co-founder and owner of RHA Law office in Kuwait.

Sheikh Yousif bin Abdulla Sabah Al Nasser Al Sabah – Member / Non-Independent / Non-Executive (Appointed on 19 May 2014)

Sheikh Al Sabah holds a Master degree in Business Administration from University of Kuwait; He also holds a Master degree in International Studies & Diplomacy from University of London, UK. He has over 17 years of experience, having worked in senior positions in various public and private sector. Currently, Mr. Al Sabah is the Chairman of Industry & Technology Co. Kuwait.

Mr. Majed Yousif Al Ali – Member / Non-Independent / Executive (Appointed on 19 May 2014)

Mr. Al Ali holds HND degree in Banking from Institute of Banking studies, Kuwait; Mr. Al Ali worked in Banking industry for more than 20 years, he was the Chief Financial Officer of Kuwait Real-Estate Bank. Currently he is the General Manager of Wethaq Takaful Insurance Co. Kuwait.

Mr. Abdulla Mohammed Al Refaei – Member / Non-Independent / Executive (Appointed on 19 May 2014)

Mr. Al Refaei is a lawyer, he studied in University of Cairo, Egypt. Mr. Al Refaei was a lawyer in Kuwait National Bank. Currently his is authorized lawyer in Kuwait. Mr. Al Refaei has over 9 years experience.

Dr. Jamshir Mohammed Nasimi – Member / Independent / Non-Executive (Appointed on 19 June 2014)

Mr. Nasimi holds a Doctoral Degree in Business & Management (Ph.D.) - specialization in Finance and Master of Science in Project Management from Orlando University, USA and Master in Business Administration from University of Strathclyde, Glasgow. He is also Certified Public Accountant (CPA) and has over 30 years of experience in investment & offshore banking industry; having worked for many financial institutions such as Investcorp Bank, Arab Banking Corporation (ABC) and United Gulf Bank. Currently, Mr. Nasimi is the Managing Director of Aequora accountancy & management consultancy-Bahrain.

Mr. Abdul Nasser Ahmed Mohammed – Member / Independent / Non-Executive (Appointed on 19 June 2014)

Mr. Mohammed holds a Bachelor Degree in Economics from University of Texas at Austin USA; he has over 27 years of experience in banking & Finance; he worked for many financial institutions such as Bank of Bahrain and Kuwait, Bahraini Saudi Bank, Bahrain Islamic Bank, Reef Real Estate Financing Company and Alpine Wealth Management.

#### 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.

## PUBLIC DISCLOSURES DOCUMENT 2013

## 3 Corporate Governance (continued)

## 3.4 Board Committees (continued)

## 3.4.1 Executive Committee (EXCOM) (continued)

EXCOM Members:

Mr. Isa Abdulla Al Mannai – Chairman (Non-Independent) **(Until 5 February 2014)**

Mr. Mersal Saad Al Majedi – Member (Independent) **(until 27 June 2013)**

Mr. Jamal Hassan Naqi – Member (Independent) **(Until 5 February 2014)**

## 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 23rd October 2014.

Audit Committee Members:

Mr. Ebrahim Abdulla Al Shaikh – Chairman (Independent) **(Until 5 February 2014)**

Mr. Ahmed Shabeeb Al Dhahery – Member (Non-Independent) **(Terminated on 29 September 2013)**

Mr. Reyadh Abdulwahab AlSharaf – Member (Non-Independent) **(Terminated on 28 November 2013)**

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) **(Terminated on 28 November 2013)**

Mr. Isa Abdulla Al Mannai – Member (Non-Independent) **(Until 5 February 2014)**

Mr. Ebrahim Abdulla Al Shaikh – Member (Independent) **(Until 5 February 2014)**

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.

**As of 5th February 2014 the Bank Board of Directors was dissolved.**

**New Board of Directors was appointed on 19 May 2014 and 19 June 2014.**

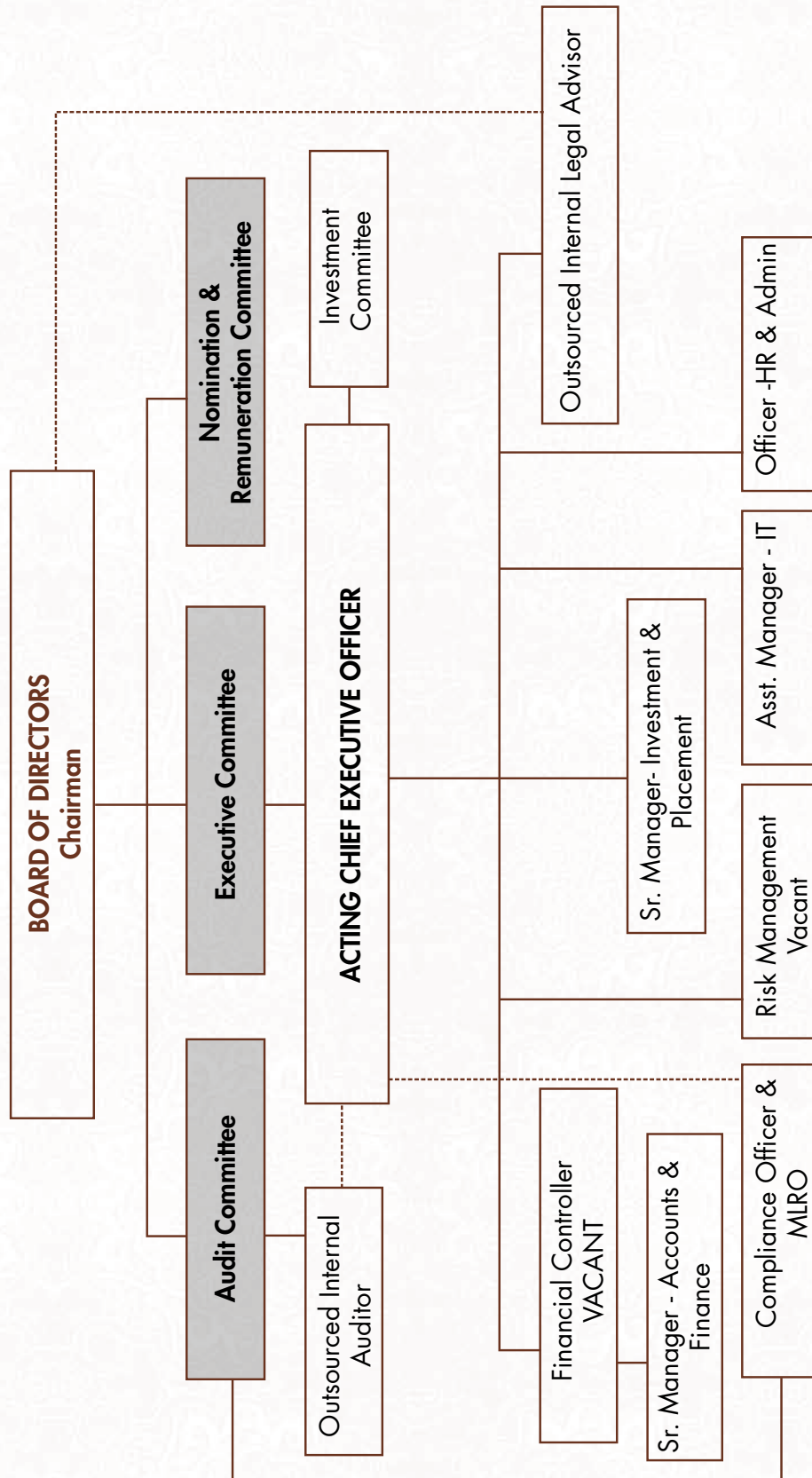
After the appointment of the new Board of Directors during 2014, the Bank has reconstituted the committees, waiting approval from the Central Bank of Bahrain.



## PUBLIC DISCLOSURES DOCUMENT 2013

## 3 Corporate Governance (continued)

## 3.5 Organisational Chart 2013



## PUBLIC DISCLOSURES DOCUMENT 2013

## 3 Corporate Governance (continued)

## 3.6 Board Meetings

As per the Corporate Governance Manual, the Board is expected to meet minimum four times during a year. There were three Board and Sub Committee meeting during the 2013.

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

Members	25/4/2013	27/6/2013	8/9/2013
Mr. Ghassan F. Al Sultan	(√)	(√)	(√)
Mr. Isa A. Al Mannai	(√)	(√)	(√)
Mr. Ahmed S. Al Dhahery	(√)	(X)	(√) By Phone
Mr. Reyadh A. Sharaf	(√)	(X)	(√) By Phone
Mr. Mersal M. Al Majedi	(√)	(√)	(X) resigned on 27/6/2013
Mr. Jamal H. Naqi	(√)	(√)	(√)
Mr. Ebrahim A. Al Shaikh	(√)	(X)	(√)

**Attended:** (√)

**Absent:** (X)

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

Members	11/4/2013	13/6/2013	23/7/2013	3/10/2013
Mr. Isa A. Al Mannai	(√)	(√)	(√)	(√)
Mr. Mersal M. Al Majedi	(√)	(√)	(X) resigned on 27/6/2013	–
Mr. Jamal H. Naqi	(√)	(√)	(√)	(√)

**Attended:** (√)

**Absent:** (X)

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

Members	11/4/2013	13/6/2013	8/9/2013
Mr. Ebrahim A. Al Shaikh	(√)	(√) By Phone	(√)
Mr. Ahmed S. Al Dhahery	(√) By Phone	(√) By Phone	(√) By Phone
Mr. Reyadh A. Sharaf	(√)	(√) By Phone	(√) By Phone

**Attended:** (√)

**Absent:** (X)

## 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;
- 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; and
- 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.



## PUBLIC DISCLOSURES DOCUMENT 2013

### 3 Corporate Governance (continued)

#### 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 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 will adopt 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. During the year ended 31 December 2013 the Bank paid an amount of US\$ 17,772 (2012: nil) on account of donations to charitable causes and organisations.

#### 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 decision-making 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.

**PUBLIC DISCLOSURES DOCUMENT 2013****3 Corporate Governance (continued)****3.12 Management Profile**

Mr. Abduljabbar Salah, Acting Chief Executive Officer (from 1st December 2013 – Terminated on 13 July 2014)

Mr. Saleh has an extensive experience over 30 years in Banking and Financial sector in Bahrain. His experience includes a position of Manager, with Bank of Bahrain & Kuwait (BBK), Assistant Vice President with Chase Manhattan Bank also he was an Executive Director with ABC Islamic Bank and finally he was Head of Structured Finance with Bahrain Islamic Bank, as he provides leadership and vision to the Bank. He joined Investors Bank in December 2013

Educationally, Mr. Saleh holds a Master in Investment & Finance (MBA) from The University of Hull – UK. He has also attended various training courses in the Banking related fields.

Mr. Jassim Mohammed Khalaf Al Mutawa'a, Chief Executive Officer (Terminated on 3 July 2013)

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 (until 2 June 2013)

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 17 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.

Mr. Salah Janahi, Senior Manager, Investment and placement (from 12 June 2013)

Mr. Janahi has over 13 years of experience in Telecommunication sector and over 5 years of experience in the Investment sector.

He has experience across Investment analysis, business planning product development etc. His experience includes positions of Product Manager, Retail Development at Bahrain Telecommunication Company (Batelco); & Assistant Manager with Tharawat Investment House B.S.C.

Mr. Janahi holds a Bachelor degree in Business, Double Major of Marketing & Finance from New York Institute of Technology (NYIT), and a Middle Management Diploma from University of Bahrain. He joined Investors Bank during June 2013.

**3.13 Managerial Committee**

The Board has approved the formation of "Investment Committee" in October 2009.

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.



## PUBLIC DISCLOSURES DOCUMENT 2013

### 3 Corporate Governance (continued)

#### 3.13 Managerial Committee (continued)

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. However, the position of Chief Executive Officer and Financial Controller are currently vacant.

#### 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 27th June 2013, the Board of Directors have approved the resignation of Mr. Mersal Al Majedi from the Board of Directors.
- On 3rd July 2013, the Bank CEO contract has been terminated and the Board had appointed Mr. Jamal Hasan Naqi – Bank board member as Bank operations caretaker until the appointment of new CEO.
- On 29th September 2013 IIG have requested to change their Board representative Mr. Ahmed Shabib Al Dhahery with immediate effect.
- On 28th November AJAL Holding have requested to change their Board representatives Mr. Ghassan Al Sultan and Mr. Reyadh Abdulwahab Al Sharaf with immediate effect.
- Mr. Ghassan Fahad Al Sultan was Chairman of the Board of Directors until the 28th November 2013.
- Appointment of the Acting Chief Executive Officer, Mr. Abduljabbar Saleh joined the Bank in 1st December 2013 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.
- On 29th December 2013 the CBB have approved the following Board Members:
  - o Shaikh Yusuf Bin Abdulla Al Nasser Al Subah
  - o Mr. Majed Yusuf Al Ali
  - o Mr. Falah Hajraf Al Hajraf
- On the 5th of February 2014 AJAL Holding and IIG have submitted the resignation of their representatives on the board, for the following board members:
  - o Shaikh Yusuf Bin Abdulla Al Nasser Al Subah
  - o Mr. Majed Yusuf Al Ali
  - o Mr. Falah Hajraf Al Hajraf

**PUBLIC DISCLOSURES DOCUMENT 2013****3 Corporate Governance (continued)****3.15 Corporate Governance Events (continued)**

- On 19 May 2014 and 19 June 2014 the following Board of Directors were appointed:
  - o Mr. Ameer Abdulrahman Al Mansour
  - o Mr. Falah Hajraf K Al Hajraf
  - o Shaikh Yusuf Bin Abdulla Al Nasser Al Suba
  - o Mr. Majed Yusuf Al Ali
  - o Mr. Abdulla Mohammad Al Rifaie
  - o Dr. Jamshir Mohammed Nasimi
  - o AbdulNaser Ahmed Mohamed
- The Contract of the Acting Chief Executive Officer, Mr. Abduljabbar Saleh was terminated by the Board of Directors on 13 July 2014.

**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](http://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 with 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, during the year ended 31 December 2013, 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.



## PUBLIC DISCLOSURES DOCUMENT 2013

## 3 Corporate Governance (continued)

## 3.19 Compliance with CBB's Corporate Governance Guidelines (continued)

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 non independent 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 US\$ 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	–
Legal / statutory reserves	7,409,515	–
Accumulated losses	(67,024,045)	–
<b>Tier 1 Capital</b>	<b>20,385,470</b>	<b>–</b>
Unrealized gross gains arising from fair valuing equities (45% only)	–	884,040
<b>Tier 2 Capital</b>	<b>–</b>	<b>884,040</b>
<b>Total Available Capital</b>	<b>20,385,470</b>	<b>884,040</b>
Deductions:		
Excess amount over maximum permitted large exposure limit		
- Tier 1	(12,637,646)	–
- Tier 2	–	(844,040)
<b>Net Available Capital</b>	<b>7,747,824</b>	<b>–</b>
<b>Total Eligible Capital</b>		<b>7,747,824</b>

## PUBLIC DISCLOSURES DOCUMENT 2013

## 4 Capital Adequacy and Management (continued)

## 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.

Risk Assets/ Categories	Risk Weighted Assets (RWA)	Capital Charge @ 12% of RWA
Credit Risk		
– Cash and balances with banks	153,519	18,422
– Due from a financial institution	531,300	63,756
– Investments at fair value through equity		
– Listed equities	3,918,959	470,275
– Unlisted equities	326,865	39,224
– Deferred payment sale receivables	1,870,763	224,492
– Investment in real estate	36,511,544	4,381,385
– Other assets	1,362,590	163,511
– Fixed assets	85,123	10,215
<b>Total Credit Risk</b>	<b>44,760,663</b>	<b>5,371,280</b>
Market Risk		
– Equity position risk	396,824	47,619
– Foreign exchange risk	2,061,403	247,368
<b>Total Market Risk</b>	<b>2,458,227</b>	<b>294,987</b>
<b>Total Operational Risk</b>	<b>1,616,336</b>	<b>193,960</b>
<b>Total Risk Weighted Assets (a)</b>	<b>48,835,226</b>	
<b>Total Eligible Capital (b)</b>	<b>7,747,825</b>	
<b>Total Capital Adequacy Ratio [(b)/(a)]</b>		<b>15.87%</b>

## 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.



## PUBLIC DISCLOSURES DOCUMENT 2013

## 5 Risk Management (continued)

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, due from a financial institution, 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		
	Own capital and current account	
Portfolios	Total gross credit risk exposure	Average gross credit exposure over the period *
Balances with banks	767,593	1,018,018
Due from a financial institution	2,656,499	1,128,938
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	1,313,509	1,838,452
Total	8,417,804	7,665,611

\* 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. ECAs 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	420,000	4,987,936
Impaired financing contracts	16,088,101	6,125,125	11,267,312	33,480,538
Total	16,975,834	9,805,328	11,687,312	38,468,474

## PUBLIC DISCLOSURES DOCUMENT 2013

## 5 Risk Management (continued)

## 5.1 Credit Risk (continued)

Aging of past due and impaired financing contracts:

	Banking and financial institutions	Investment Companies	Others	Total
Less than 3 months	–	–	–	–
3 months – 1 year	–	–	420,000	420,000
1 year – 3 years	–	–	9,312	9,312
Over 3 years	16,975,834	9,805,328	11,258,000	38,039,162
Total	16,975,834	9,805,328	11,267,312	38,468,474

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	–	–	486,420	486,420
Balance at the end of the year	16,088,101	6,125,125	11,267,312	33,480,538

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 2013.

## 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:



## PUBLIC DISCLOSURES DOCUMENT 2013

## 5 Risk Management (continued)

## 5.1 Credit Risk (continued)

## 5.1.2 Concentration Risk (continued)

## Own capital

Asset category	Geographic area			
	Bahrain	Kuwait	Other countries	Total
Balances with banks	762,964	4,629	–	767,593
Due from a financial institution	2,656,499	–	–	2,656,499
Deferred payment sale receivables	3,680,203	–	–	3,680,203
Other assets	888,290	–	425,219	1,313,509
Total	7,987,956	4,629	425,219	8,417,804

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

## Own capital

Asset category	Industry sector			
	Banks and financial institutions	Investment companies	Others	Total
Funded				
Balances with banks	767,593	–	–	767,593
Due from a financial institution	2,656,499	–	–	2,656,499
Deferred payment sale receivables	–	3,680,203	–	3,680,203
Other assets	887,733	–	425,776	1,313,509
Total	4,311,825	3,680,203	425,776	8,417,804

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 than 0% are given below:

Concentration of risk	
Counterparties	Own capital
	Total exposure
Counterparty # 1 – Individual - Significant Shareholder – 0% limit	5,670,202
Counterparty # 2 – Individual – Individual Counterparty – 15% limit	–
Counterparty # 3 – Individual – Restricted Investment – 30% limit	10,414,268
Counterparties – Closely Related – Including Counterparties 2 & 3	15,295,814

## PUBLIC DISCLOSURES DOCUMENT 2013

## 5 Risk Management (continued)

## 5.1 Credit Risk (continued)

## 5.1.2 Concentration Risk (continued)

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 and Impaired Islamic financing contracts	Specific impairment provision
Bahrain	10,884,057	6,316,121
Kuwait	25,880,881	25,880,881
Other countries	1,703,536	1,283,536
Total	38,468,474	33,480,538

## 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 2013:

Particulars	20% decrease	20% increase
Investments at fair value through statement of income	(39,682)	39,682

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	198,412	396,824	47,619	178,985	47,619
Foreign Exchange Position	2,061,403	2,061,403	247,368	495,690	247,368



## PUBLIC DISCLOSURES DOCUMENT 2013

## 5 Risk Management (continued)

## 5.2 Market Risk (continued)

## 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 2013:

Currency	(US\$ Equivalent)
Bahraini Dinar	25,548,984
Kuwaiti Dinar	2,061,403
United Arab Emirates Dirham	1,035,299

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 2013:

Currency	5% decrease	5% increase
Kuwaiti Dinar	(103,070)	103,070

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.

## PUBLIC DISCLOSURES DOCUMENT 2013

## 5 Risk Management (continued)

## 5.3 Operational Risk (continued)

## 5.3.2 Operational Risk Loss Database (continued)

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	862,046	1,616,336	129,307

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	862,046
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 Ijarah assets;

Net income from investment activities; and

Fee income (e.g. commission and agency fee)

Less

Investment account holders' share of income

Takaful income

## 5.3.4 Legal Risk – Current Litigations and Claims

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

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

- In 2004, the Bank entered into a sale and purchase agreement with a 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 2013 (31 December 2012: US\$ 3,670,202). In accordance



## PUBLIC DISCLOSURES DOCUMENT 2013

### 5 Risk Management (continued)

#### 5.3 Operational Risk (continued)

##### 5.3.4 Legal Risk – Current Litigations and Claims (continued)

with the terms of the agreement, the Bank pledged certain equity shares with a carrying value of US\$ 2,894,235 as at 31 December 2013 (31 December 2012: US\$ 1,898,618) in addition to dividends received on these shares amounting to US\$ 887,733 as at 31 December 2013 (31 December 2012: 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 2013 (31 December 2012: 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 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.

During 2013, a broker was appointed by the court to sell the pledged shares for the best possible price. The broker auctioned the shares with a price of BD 0.100 per share however no potential buyers indicated their interest at this price and the shares are yet to be sold. Based on this price the Bank would not be able to recover its pledged investment and the Bank's Board of Directors have decided to derecognise its pledged investment. The Bank's equity investment in the same shares has also been written down to the auction price.

Further, the related party 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 2013 (31 December 2012: US\$ 3,229,064).

- There are five labour cases running against the bank from five 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.

## PUBLIC DISCLOSURES DOCUMENT 2013

## 5 Risk Management (continued)

## 5.4 Liquidity Risk (continued)

Period 2013	Up to 1 month	1 to 3 months	3 months to 1 year	Total Within 1 year	1 to 3 years	No fixed maturity	Total
Assets							
Cash and balances with banks	768,919	–	–	768,919	–	–	768,919
Due from a financial institution	2,656,499	–	–	2,656,499	–	–	2,656,499
Investments	–	–	198,412	198,412	–	5,808,026	6,006,438
Deferred payment sale receivables	3,680,203	–	–	3,680,203	–	–	3,680,203
Investment in real estate	–	–	–	–	–	18,255,775	18,255,772
Other assets	425,219	–	49,081	474,300	–	901,553	1,375,853
Fixed assets	–	–	–	–	–	85,124	85,124
Total assets	7,530,840	–	247,493	7,778,333	–	25,050,475	32,828,808

Period 2013	Up to 1 month	1 to 3 months	3 months to 1 year	Total Within 1 year	1 to 3 years	No fixed maturity	Total
Liabilities							
Due to a financial institution	3,670,202	–	–	3,670,202	–	–	3,670,202
Murabaha payable	3,229,064	–	–	3,229,064	–	–	3,229,064
Provision against lease commitment	–	–	–	–	–	2,885,300	2,885,300
Other liabilities	137,146	46,442	142,542	326,130	148,010	220,098	694,238
Total liabilities	7,036,412	46,442	142,542	7,225,396	148,010	3,105,398	10,478,804
Cumulative Liquidity Gap	494,428	447,986	552,937	522,937	404,927	22,350,004	

Following are the key liquidity ratios as at 31 December 2013:

Description	Ratio
Short Term Assets : Total Assets	23.7%
Short Term Assets : Short Term Liabilities (Times)	1.08



## PUBLIC DISCLOSURES DOCUMENT 2013

## 5 Risk Management (continued)

## 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 31 December 2013 is US\$ 767,593.

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 2013:

Particulars	20% decrease	20% increase
Investments at fair value through equity	(1,075,870)	1,075,870

## 5.6.1 Valuations Policy

The Bank measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. Fair value for unquoted managed funds is the fund's net assets value as determined by the fund manager.

## 5.6.2 Equity based financing

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

Types And Nature of Investments		
	Publicly traded	Privately held
Investment in shares	5,379,349	428,677
Investment in managed funds	–	–
Total	5,379,349	428,677

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	293,845
Total unrealized gains (losses) recognized in the statement of financial position but not through the statement of income	1,964,534
Unrealized gains (losses) included in Tier One Capital	–
Unrealized gains (losses) included in Tier Two Capital	884,040

## PUBLIC DISCLOSURES DOCUMENT 2013

## 5 Risk Management (continued)

## 5.6 Equity Price Risk in the Banking book (continued)

## 5.6.2 Equity based financing (continued)

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	4,245,825	509,499
Investment in managed funds	–	–
Total	4,245,825	509,499

## 5.7 Displaced Commercial Risk

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

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

## 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 three specific transactions involving related parties and therefore does not have any formal policies and procedures for management of RIA accounts. The Bank accepted certain funds from a related party in 1999 under a Mudaraba arrangement which were deployed in a Murabaha with a non-related party. The Murabaha was partially repaid and the balance amount has been impaired. Appropriate impairment provisions have been made in the RIA.

Balance as of 31 Dec 2013 net of provision:

Exposures	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd *	–	–	–
Investments in International Investment Group K.S.C.C. **	12,887	–	–
Portfolio managed by the Bank ***	142,059	–	–
Total			–

\* The Bank accepted certain funds from a related party in 1999 under a Mudaraba arrangement which were deployed in a Murabaha with a non-related party. The Murabaha was partially repaid and the balance amount has been impaired. Appropriate impairment provisions have been made in the RIA.

\*\* 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.



## PUBLIC DISCLOSURES DOCUMENT 2013

**6 Restricted Investment Accounts (continued)****\*\*\* 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.

During the year, the Board of Directors has written down the value of investments off-balance sheet investment account holders to nil, based on the performance of these investments and the lack of information available to support the carrying value of these investments.

**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:

	2013	2012
Assets	4,881,546	6,641,471
Liabilities	3,371,689	3,446,867
Restricted Investment Accounts	–	16,122,978

Significant transactions with related parties include:

	2013	2012
Income	(1,715,715)	(17,315)
Expenses	105,063	4,937,960
Other comprehensive loss	(101)	(2,485,485)

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:

	2013	2012
Salaries, short term benefits and post employment benefits	236,691	161,003

