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Investors Bank B.S.C. (c)
Public Disclosures Document
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Table of Contents

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 public disclosure requirements and contains a description of following major aspects of Investors Bank ["the Bank" or "IB"]:

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.

2 Management Discussion and Analysis

During the first half of 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 the second half of 2013, growth is expected to accelerate progressively and the Bank management is optimistic of returning to profitability.

The Bank has returned to profitability and has reported a profit (after provision) of US$ 84,446 for the period ended 30 June 2013.

During the first half of 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 period ended 30 June 2013 the Bank cash and balances with banks has reached US$ 1,493,337 compared to US$ 993,440 for the year ended 31 December 2012.

The Bank believes that the year 2013 would bring new opportunities to the Bank and has thus recruited head of investment and placement to look after the existing investments and to search for new investment opportunities.

Financial ratios for five years:

Ratio name	June2013	2012	2011	2010	2009
ROAE	0.25	-4.38	-13.31	-51.58	-27.45
ROAA	0.20	-3.58	-11.08	-45.28	-25.07
STAFF COST/INCOME	37.47	58.09	294.44	N/A	321.17
COST/INCOME	92.76	195.95	1,573.43	N/A	5,184.63
EPS ($)	0.0003	-0.006	-0.02	-0.11	-0.09

3 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, accumulated losses and unrealised losses arising on the re-measurement of fair valuing equities classified as Investments at fair value through equity ; and

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

3.1 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	(57,590,413)	-
Less:		
Unrealized gross losses arising from valuing equity securities	(7,828)	
Tier 1 Capital	29,811,274	-
Current interim profits	-	84,446
Unrealized gross gains arising from fair valuing equities (45% only)	-	2,149,017
Tier 2 Capital	-	2,233,463
Total Available Capital	29,811,274	2,233,463
Deductions:		
Excess amount over maximum permitted large exposure limit		
- Tier 1	(14,776,530)	-
- Tier 2	-	(2,233,463)
Net Available Capital	15,034,744	-
Total Eligible Capital	15,034,744	

3.2 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.

Risk Assets/ Categories	Risk Weighted Assets (RWA)	Capital Charge @ 12% of RWA
Credit Risk		
- Cash and balances with banks	298,402	35,808
- Investments at fair value through equity		
- Listed equities	5,528,621	663,435
- Unlisted equities	225,969	27,116
- Deferred payment sale receivables	1,293,301	155,196
- Investment in real estate	39,298,674	4,715,841
- Other assets	2,082,205	249,865
- Fixed assets	87,194	10,463
Total Credit Risk	48,814,366	5,857,724
Market Risk		
- Equity position risk	1,462,972	175,557
- Foreign exchange risk	3,770,698	452,484
Total Market Risk	5,233,670	628,041
Total Operational Risk	1,436,329	172,359
Total Risk Weighted Assets (a)	55,484,365	
Total Eligible Capital (b)	15,034,744	
Total Capital Adequacy Ratio [(b)/(a)]	27.10%	

4 Risk Management

4.1 Credit Risk

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

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

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

The following table demonstrates Bank's credit risk exposure:

Credit Risk Exposure (all figures in US Dollars)		
	Own capital and current account	
Portfolios	Total gross credit risk exposure	Average gross credit exposure over the period *
Balances with banks	1,492,011	1,278,316
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	2,015,612	1,879,338
Total	7,187,826	6,837,857

* These have been computed based on a quarterly average.

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	650,000	5,217,936
Impaired financing contracts	16,088,101	6,125,125	11,267,312	33,480,538
Total	16,975,834	9,805,328	11,917,312	38,698,474

Aging of past due and impaired financing contracts:

	Banking and financial institutions	Investment Companies	Others	Total
Less than 3 months	-	-	650,000	650,000
3 months – 1 year	-	-	9,312	9,312
1 year – 3 years	-	-	179,576	179,576
Over 3 years	16,975,834	9,805,328	11,078,424	37,859,586
Total	16,975,834	9,805,328	11,917,312	38,698,474

Movement in specific provisions during the period:

	Banking and financial institutions	Investment Companies	Others	Total
Balance at the beginning of the period	16,088,101	6,125,125	10,780,892	32,994,118
Net provision for impairment for the period	-	-	11,420	11,420
Balance at the end of the period	16,088,101	6,125,125	10,792,312	33,005,538

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 30 June 2013.

4.1.1 Concentration Risk

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

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

Own capital

Asset category	Geographic area			
	Bahrain	Kuwait	Other countries	Total
Balances with banks	1,487,075	4,936	-	1,492,011
Deferred payment sale receivables	3,680,203	-	-	3,680,203
Other assets	889,364	-	1,126,248	2,015,612
Total	6,056,642	4,936	1,126,248	7,187,826

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	1,492,011	-	-	1,492,011
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Other assets	887,733	-	1,127,879	2,015,612
Total	2,379,744	3,680,203	1,127,879	7,187,826

The Bank does not have any unfunded exposures.

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

Concentration of risk	
Counterparties	Own capital Total exposure
Counterparty # 1 – Individual - Significant Shareholder – 0% limit	5,673,122
Counterparty # 2 – Individual – Individual Counterparty – 15% limit	7,771,808
Counterparty # 3 – Individual – Restricted Investment – 30% limit	10,301,331
Counterparties – Closely Related – Including Counterparties 2 & 3	23,904,812

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

Impaired exposures, Past Due exposures and allowances		
Own capital		
Geographic area	Past due Islamic financing contracts	Specific impairment provision
Bahrain	10,874,745	6,306,809
Kuwait	25,890,193	25,890,193
Other countries	1,933,536	808,536
Total	38,698,474	33,005,538

4.2 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 30 June 2013:

Particulars	20% decrease	20% increase
Investments at fair value through statement of income	(365,628)	365,628

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 period	Minimum capital requirement during the period
Equity Position	1,828,140	1,462,972	175,557	175,557	166,807
Foreign Exchange Position	3,770,698	3,770,698	452,484	452,484	383,937

4.2.1 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 30 June 2013:

Currency	(USD Equivalent)
Bahraini Dinar	30,680,539
Kuwaiti Dinar	3,770,698
United Arab Emirates Dirham	2,263,745

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 30 June 2013:

Currency	5% decrease	5% increase
Kuwaiti Dinar	(188,535)	188,535

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

4.3 Operational Risk

4.3.1 Operational Risk capital charge

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

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

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

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

Particulars	Amount
Gross Income	766,042
Amount of non-Shari'a-compliant income*	None
Number of Shari'a violations that were identified and reported during the financial year	None

4.3.2 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 30 June 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$ 3,241,544 as at 30 June 2013 (31 December 2012: US$ 1,898,618) in addition to dividends received on these shares amounting to US$ 887,733 as at 30 June 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 30 June 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 as at 30 June 2013 (31 December 2012: US$ 5,760,487) on behalf of the borrower against the financing. In addition the borrower and another related party had also pledged 4,647,011 shares and 5,840,625 shares respectively against the same financing.

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

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

  Further, the borrower on behalf of which the Bank has pledged its equity shares has provided an Islamic financing facility to the Bank which appears in the statement of financial position under "murabaha payable" and amounted to US$ 3,229,064 as at 30 June 2013.

- There are four labour cases running against the bank from four former employees seeking compensations as a result of alleged unfair termination of their services with the bank. The Bank's legal position is strong and a material liability to the Bank is not expected from the cases.

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

4.4 Liquidity Risk

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

It is the Bank's policy to keep a significant part of its assets in liquid assets such as investments at fair value through statement of income and investment at fair value through equity.
The Bank funds its exposures mainly from equity and does not take restricted or unrestricted deposits to fund its exposures. The Bank has established a limit structure to monitor the prevailing liquidity position and to control negative mismatches that may affect the fulfilment of short term obligations of the Bank.

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

Period 30 June 2013	Up to 1 month	1 to 3 months	3 months to 1 year	Within 1 year	1 to 3 years	No fixed maturity	Total
Assets Cash and balances with banks	1,493,337	-	-	1,493,337	-	-	1,493,337
Investments	-	-	1,828,140	1,828,140	-	13,337,853	15,165,993
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	3,680,203
Investment in real estate	-	-	-	-	-	19,649,337	19,649,337
Other assets	651,248	-	66,593	717,841	-	1,377,627	2,095,468
Fixed assets	-	-	-	-	-	87,194	87,194
Total assets	5,824,788	-	1,894,733	7,719,521	-	34,452,011	42,171,532

Period 30 June 2013	Up to 1 month	1 to 3 months	3 months to 1 year	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
Other liabilities	61,226	94,720	197,075	353,021	226,525	21,406	600,952
Total liabilities	6,960,492	94,720	197,075	7,252,287	226,525	21,406	7,500,218

Following are the key liquidity ratios as at 30 June 2013:

Description	Ratio
Short Term Assets : Total Assets	18.3%
Short Term Assets : Short Term Liabilities (Times)	1.06

4.5 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 30 June 2013 is USD 1,492,011. The Bank does not have significant rate of return risk sensitivity due to the short-term nature of its balances with banks.

4.6 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 30 June 2013:

Particulars	20% decrease	20% increase
Investments at fair value through equity	(2,581,835)	2,581,835

4.6.1 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.

4.6.2 Equity based financing

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

Types And Nature of Investments		
	Publicly traded	Privately held
Investment in shares	12,909,176	428,677
Investment in managed funds	-	-
Total	12,909,176	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	270,468
Total unrealized gains (losses) recognized in the statement of financial position but not through the statement of income	4,767,766
Unrealized gains (losses) included in Tier One Capital	(7,828)
Unrealized gains (losses) included in Tier Two Capital	2,149,017

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	5,754,590	690,551
Investment in managed funds	-	-
Total	5,754,590	690,551

4.7 Displaced Commercial Risk

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

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

5 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 comprise:

	30 June 2013	31 December 2012
Assets	13,606,402	13,640,614
Liabilities	3,355,203	3,387,450
Restricted Investment Accounts	15,971,533	16,122,978

Significant transactions with related parties at 30 June include:

	2013	2012
Income	(24,858)	(9,255)
Expenses	34,578	21,139
Fair value loss on investment at fair value through equity	(43)	(4,223)

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 at 30 June is as follows:

	2013	2012
Salaries, short term benefits and post employment benefits	118,040	42,618