

INVESTORS Bank B.S.C. (C)

بنك المستثمرون ش.م.ب (مقفلة)

مرخص كبنك إسلامي - قطاع الجملة من قبل مصرف البحرين المركزي

ANNUAL REPORT

2014

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

Prime Minister of the  
Kingdom of Bahrain



**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





## CHAIRMAN'S STATEMENT

*for the year ended December 31, 2014*

*IN THE NAME OF ALLAH, THE BENEFICIENT, THE MERCIFUL, PRAYERS AND PEACE BE UPON THE  
LAST APOSTLE AND MESSENGER, OUR PROPHET MOHAMMED*

### **Dear Shareholders,**

With great appreciation and gratitude I present the Annual Report and the audited finances of the Investors Bank ending 31 December 2014. On behalf of the members of the Board of Directors, I would like to express our deep thanks to you for your continuous support, despite the existence of many of the challenges in the banking sector, and the economic recession and instability in the region.

However, despite the sharp decline in oil prices during the year 2014, the price of a barrel to \$ 60, the economic status of the GCC remained relatively stable. Being primarily dependent on oil revenues as its main source of income, and with existing indicators warn of low oil prices to lower levels, some countries rushed to diversify sources of income by drawing on other sectors, such as Service sectors and other alternatives resources. They also worked on the privatization of some institutions, supported service for some commodities and derivatives, and reducing government expenditure and privileges to cover the deficit in oil revenue. The UAE for example, has -to a certain extent- managed to decrease its dependence on oil by diversifying their sources of income.

The effects of this recession, have been evidently seen in construction projects, infrastructure projects and oil projects; however, the huge financial reserves to those countries, namely, the sovereign funds is considered the safety valve in case of any deterrent facing the oil markets.

The instability in the world economy and uncertainties by investors and the heightened geopolitical tensions, have compelled many investors to pursue a policy of wait-and-see attitude, or perhaps refrain completely from the areas of unrest taking place in the region.

Federal Russia has been vastly affected and its currency fell to record levels of vulnerability due to the oil markets. The decline in oil exports and other political factors prompted Russia to work a package of economic reforms and redirect its exports.

In Asia, China has witnessed a sharp decline in the growth rate stood at a rate of 7.5 percent, the slowest over the past 25 years. Japan was also economically affected by the regression, witnessing a slow growth while dealing with existent economic problems expected to worsen in the future.

European, the economic problems of the EURO are complex and fragile, with renewed Greek debt crisis. And while both Ireland and Portugal have seen a certain improvement, neither Italy nor France has seen any improvement in their economic performance, despite the efforts made to reduce the inflation.

**CHAIRMAN'S STATEMENT (continued)**

As for the United States of America, the measures taken to reduce taxes and expenditures alone would not solve the relatively stable economic situation without tackling unresolved problems, such as unemployment, healthcare and inflation. Although the U.S. economy has somewhat recovered, it has been unevenly, due to the continuous economic turmoil.

Finally, on the financial level of the Bank for the year ended December 31, 2014 The Bank recorded a loss of an amount of US\$ 1,733,640 compared with Year 2013 losses, which amounted to US\$ 3,798,928 The Bank was able to withstand the challenges and thanks to God Almighty and to our faithful shareholders whom in this regard, and on behalf of the Board of Directors, I'd like to express our immense gratitude for your trust and continuous support, wishing everyone more success in the coming year, and I would like to extend my thanks to the Council of Administration and all the staff of the Bank for their endless efforts.



**Mr. Falah Hajraf K. Al Hajraf**

Vice Chairman





## REPORT OF THE BOARD OF DIRECTORS

for the year ended December 31, 2014

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 December 31, 2014.

### Principal Activities

The Bank was established in the Kingdom of Bahrain as an exempt company on October 26, 1997 and operates under an investment banking license [Wholesale Bank (Islamic principles)] granted by the Central Bank of Bahrain (the "CBB"). The Bank commenced its commercial operations on June 15, 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on July 3, 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 five 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 December 31, 2014 and the results for the year then ended are set out in the accompanying financial statements.

Financial highlights	2014	2013
Total assets	<b>38,782,073</b>	36,135,393
Total equity	<b>24,392,441</b>	25,656,589
Net loss for the year	<b>(1,733,640)</b>	(3,798,928)

Movement in accumulated losses	2014	2013
Balance at January 1	<b>(63,717,460)</b>	(59,918,532)
Net loss for the year	<b>(1,733,640)</b>	(3,798,928)
Balance at December 31	<b>(65,451,100)</b>	(63,717,460)

### Dividends

The Board of Directors has not made any appropriations for dividends for the year ended December 31, 2014 (December 31, 2013: nil).

### Board of Directors

The following are the directors of the Bank as at December 31, 2014:

Name	Title	Independent/ Non Independent
Mr. Falah Hajraf K. Al Hajraf	Vice Chairman	Non Independent
Sheikh Yousif Abdulla Al-Sabah	Member	Non Independent
Mr. Majed Yusef Ahmed Al-Ali	Member	Non Independent
Mr. Abdulla Mohammad Al Rifaie	Member	Non Independent
Mr. AbdulNaser Ahmed Mohamed	Member	Independent

**REPORT OF THE BOARD OF DIRECTORS (continued)****Auditors**

Deloitte & Touche have expressed their willingness to continue in office and a resolution proposing their appointment, as auditors of the Bank for the year ending December 31, 2015; will be submitted to the Annual General Meeting.

**Thanks**

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



**Mr. Falah Hajraf K. Al Hajraf**  
Vice-Chairman



**Mr. Majed Yousef Ahmed Al-Ali**  
Director

May 23, 2015



## 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 31/12/2014.

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 31/12/2014 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.

29th Rajab 1436 Hijri corresponding to 18th May 2015.

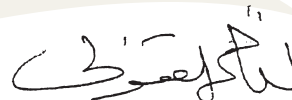
#### SHARI'A BOARD



**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

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders  
Investors Bank B.S.C. (c)  
Manama, Kingdom of Bahrain

### Report on the Financial Statements

We have audited the accompanying statement of financial position of Investors Bank B.S.C. (c) (the "Bank") as at December 31, 2014, and the related statements of income, cash flows, changes in owners' equity, changes in off-balance equity of investment accountholders and sources and uses of charity fund for the year then ended. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those Standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 Investors Bank B.S.C (c) as of December 31, 2014, 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 funds for the year then ended in accordance with Financial Accounting Standards Issued by AAOIFI.

#### *Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2 in the financial statements which indicates that the Bank has incurred significant accumulated losses as at December 31, 2014. This situation, along with other matters as set forth in Note 2 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Bank's ability to continue as a going concern. The accompanying financial statements have been prepared assuming that the Bank will continue as a going concern.

#### *Other Matter*

The Bank's financial statements for the year ended December 31, 2013 were audited by another auditor whose report dated September 2, 2014 expressed an unqualified opinion on these financial statements.

### Report on other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain ("CBB") RuleBook Volume 2, we report that, except for the matters discussed in Note 1 to the accompanying financial statements:

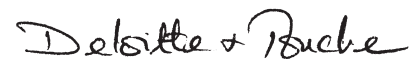
- a) the Bank has maintained proper accounting records and the attached financial statements are in agreement therewith;
- b) the financial information contained in the 2014 Report of the Board of Directors is consistent with the financial statements;
- c) we are not aware of further violations (other than those mentioned in Note 1 to the accompanying financial statements) of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB RuleBook (Volume 2 and applicable provisions of Volume 6) and CBB directives and the Bank's

**INDEPENDENT AUDITOR'S REPORT (continued)**

Memorandum and Articles of Association having occurred during the year ended December 31, 2014 that might have had a material adverse effect on the business of the Bank or on its financial position;

- d) satisfactory explanations and information have been provided to us by management in response to our requests for the purpose of our audit. To the best of our knowledge and belief, the Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Manama, Kingdom of Bahrain,  
May 23, 2015



**Deloitte & Touche – Middle East**  
Partner Registration No. 184





## **FINANCIAL STATEMENTS**

### **December 31, 2014**







# STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2014

	Notes	December 31, 2014 US\$	(Restated ) December 31, 2013 US\$	(Restated ) January 1, 2013 US\$
<b>ASSETS</b>				
Cash and balances with banks	4	4,120,830	768,919	993,440
Due from a financial institution	5	–	2,656,499	–
Equity investments	6	6,345,135	6,006,438	7,253,314
Deferred payment sale receivable	7	3,680,203	3,680,203	3,680,203
Investments in real estate	8	23,616,756	21,562,357	22,232,566
Other assets	9	952,330	1,375,853	1,403,831
Fixed assets	10	66,819	85,124	53,650
<b>Total Assets</b>		<b>38,782,073</b>	<b>36,135,393</b>	<b>35,617,004</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Due to a financial institution	7	3,670,202	3,670,202	3,670,202
Murabaha payable	11	3,229,064	3,229,064	3,229,064
Provision against lease commitment	12	6,944,282	2,885,300	–
Other liabilities	13	546,084	694,238	697,194
<b>Total Liabilities</b>		<b>14,389,632</b>	<b>10,478,804</b>	<b>7,596,460</b>
<b>Equity</b>				
Share capital	14	80,000,000	80,000,000	80,000,000
Statutory reserve	14	7,409,515	7,409,515	7,409,515
Investments fair value reserve	14	2,316,221	1,964,534	529,561
Properties fair value reserve	8	117,805	–	–
Accumulated losses		(65,451,100)	(63,717,460)	(59,918,532)
<b>Total Equity</b>		<b>24,392,441</b>	<b>25,656,589</b>	<b>28,020,544</b>
<b>Total Liabilities and Equity</b>		<b>38,782,073</b>	<b>36,135,393</b>	<b>35,617,004</b>
<b>OFF-BALANCE SHEET ITEMS</b>				
Equity of investment accountholders		–	–	16,440,667



Mr. Falah Hajraf K. Al Hajraf  
Vice-Chairman



Mr. Majed Yousef Ahmed Al-Ali  
Director

The accompanying notes form an integral part of these financial statements

## STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014

	Notes	2014 US\$	(Restated) 2013 US\$
<b>Revenues</b>			
Rental income from investment in real estate		1,545,274	1,517,984
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	6	(12,990)	(1,601,027)
Other income, net	15	48,094	226,888
<b>Operating income</b>		<b>1,580,378</b>	<b>437,690</b>
<b>Expenses</b>			
Staff cost		(623,401)	(822,619)
Administrative and general expenses	16	(543,426)	(934,964)
Depreciation	10	(24,803)	(22,186)
Operating expenses		(1,191,630)	(1,779,769)
Net profit / (loss) before provision and impairment		388,748	(1,342,079)
Provision against lease commitment	12	(4,058,982)	(2,885,300)
Provision for impairment of financial assets	17	–	(521,217)
Provision on investment in real estate written back	8	1,936,594	949,668
<b>Net loss for the year</b>		<b>(1,733,640)</b>	<b>(3,798,928)</b>



Mr. Falah Hajraf K. Al Hajraf  
Vice-Chairman



Mr. Majed Yousef Ahmed Al-Ali  
Director

The accompanying notes form an integral part of these financial statements

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 US\$	(Restated) 2013 US\$
<b>Cash flows from operating activities:</b>		
Net loss for the year	(1,733,640)	(3,798,928)
Adjustments for:		
Depreciation	24,803	22,186
Provision against lease commitment	4,058,982	2,885,300
Provision for impairment of financial assets	-	521,217
Write back of impairment on investment in real estate	(1,936,594)	(949,668)
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	12,990	1,601,027
Gain on disposal of investments in real estate	-	(182,711)
Operating profit / (loss) before changes in operating assets and liabilities:	426,541	(195,422)
Working capital adjustments:		
Other assets*	423,523	(38,442)
Other liabilities	(148,154)	14,816
Payments to charities	-	(17,772)
Net cash from / (used in) from operating activities	701,910	(236,820)
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of investments at fair value through equity	-	919,870
Proceeds from disposal of investment in real estate	-	1,802,588
Purchase of fixed assets	(6,498)	(53,660)
Net cash (used in) / from investing activities	(6,498)	2,668,798
Net increase in cash and cash equivalents	695,412	2,431,978
Cash and cash equivalents at January 1,	3,425,418	993,440
Cash and cash equivalents at December 31,	4,120,830	3,425,418
Cash and cash equivalents comprise:		
Cash and balances with banks	4,120,830	768,919
Due from a financial institution with original maturity of ninety days or less	-	2,656,499
	4,120,830	3,425,418
<b>Non cash activity:</b>		
*Proceeds from disposal of investment at fair value through equity	-	420,000

The accompanying notes form an integral part of these financial statements

# STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014

	Share Capital US\$	Statutory Reserve US\$	Investments Fair Value Reserve US\$	Properties Fair Value Reserve US\$	Accumulated Losses US\$	Total US\$
Balance as at January 1, 2013 (as previously stated)	80,000,000	7,409,515	529,561	-	(62,130,918)	25,808,158
Adjustments (Note 25)	-	-	-	-	2,212,386	2,212,386
Balance as at January 1, 2013 (restated)	80,000,000	7,409,515	529,561	-	(59,918,532)	28,020,544
Net loss for the year (restated)	-	-	-	-	(3,798,928)	(3,798,928)
Other comprehensive gain:						
Fair value gain on equity investments at fair value through equity (Note 6)	-	-	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)
Balance as at December 31, 2013 (restated)	80,000,000	7,409,515	1,964,534	-	(63,717,460)	25,656,589
Net loss for the year	-	-	-	-	(1,733,640)	(1,733,640)
Other comprehensive gain:						
Fair value gain on equity investments at fair value through equity (Note 6)	-	-	351,687	-	-	351,687
Fair value gain on investment in real estate (Note 8)	-	-	-	117,805	-	117,805
<b>Balance as at December 31, 2014</b>	<b>80,000,000</b>	<b>7,409,515</b>	<b>2,316,221</b>	<b>117,805</b>	<b>(65,451,100)</b>	<b>24,392,441</b>

The accompanying notes form an integral part of these financial statements.

FOR THE YEAR ENDED DECEMBER 31, 2014

[illegible]

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

b. 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 ("IIIG"). 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 the IIIG shares to the off-balance sheet investment account holder (note 7). The Bank's Board of Directors had resolved to write down the value of these shares to zero in the latter part of 2013 based on the performance of these shares and / or the lack of information to support the carrying value of these shares.

## STATEMENT OF SOURCES AND USES OF CHARITY FUND

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 US\$	2013 US\$
Undistributed charity fund at the beginning of the year	17,513	35,285
Payments made during the year	–	(17,772)
<b>Undistributed charity fund at the year end (Note 13)</b>	<b>17,513</b>	<b>17,513</b>

The accompanying notes form an integral part of these financial statements



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

## 1. INCORPORATION AND ACTIVITIES

Investors Bank B.S.C. (c) (the "Bank") was established in the Kingdom of Bahrain as an exempt company on October 26, 1997 and operates under an investment banking license [Wholesale Bank (Islamic principles)] granted by the Central Bank of Bahrain (the "CBB"). The Bank commenced its commercial operations on June 15, 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on July 3, 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.

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

- a) Providing investment account facilities;
- b) Accepting restricted or unrestricted investment funds and investing them in accordance with the Shari'a;
- c) Managing third party funds as an agent for a fixed fee as a Mudarib and any other banking activities not contravening the provisions of 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 renting them.

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 regulations (as contained in Volume 2 of the CBB rulebook and applicable provisions of Volume 6) and directives and the memorandum and articles of association of the Bank. During 2014, the Bank was not in compliance with respect to the following:

- a) The Bank did not submit to the CBB, within two months following each quarter end its quarterly financial statements of March 31, 2014, June 30, 2014 and September 30, 2014 including the quarterly statements of income nor published its quarterly financial information within 45 days of each quarter end.
- b) The Bank did not submit to the CBB, within three months of the financial year ended December 31, 2014, its final audited accounts including statement of income nor publish its accounts within two months of the financial year end as required by the CBB.
- c) The Bank's quarterly Prudential Information Returns are required to be prepared and submitted to the CBB within 20 days following the quarter end and are required to be reviewed by the external auditors within two months. As at the date of approval of these financial statements the 2014 quarterly returns have not yet been submitted for review, awaiting the approval of the respective quarterly financial statements.
- d) The Bank's semi-annual and annual public disclosures are required to be prepared for the review by the external auditors within two months from June 30, 2014 and three months from December 31, 2014 respectively. As of the date of approval of these financial statements, the public disclosures have not yet been prepared, awaiting the approval of the respective financial statements
- e) As of the date of issuance of these financial statements the Board of Directors has not elected a Chairman nor appointed a new board member following the resignation of the previous Chairman and a board member. Furthermore the Bank's key control positions such as the Chief Executive Officer, Financial Controller, Head of Operations, Head of Risk Management, Head of Compliance and Head of Shari'a Review are vacant.
- f) The Bank's accumulated losses exceeded a significant portion of the Bank's capital as at December 31, 2014. The Bahrain Commercial Companies Law requires if the Bank has lost a substantial portion of its capital, an Extraordinary General Meeting of the Shareholders should be convened to take appropriate measures. This meeting is yet to be convened.

## 2 BASIS OF PREPARATION

### Statement of Compliance

The 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 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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 2 BASIS OF PREPARATION (continued)

directives. For matters which are not covered by AAOIFI standards, the Bank uses the relevant International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

#### Basis of Measurement

The financial statements have been prepared on the historical cost convention except for investments in equities and certain investments in real estate which are re-measured at fair value, as discussed under the accounting policies which follow.

The financial statements are presented in United States Dollars ("US\$") which management considers is the functional currency of the Bank.

Assets and liabilities are grouped according to their nature and presented in the statement of financial position in an approximate order that reflects their relative liquidity.

#### Going Concern

These financial statements have been prepared using the going concern assumption, as management is satisfied that the Bank will continue in operation for the foreseeable future. As at December 31, 2014 the Bank's accumulated losses exceeded a significant portion of its share capital. This situation along with the current lack of adequate capitalization and the Bank's current limited sources of revenue and inability to generate sufficient cash flows from operations raise significant doubts about its ability to continue as a going concern.

Management is of the opinion that the Bank has the ability to develop profitable operations, depending on securing adequate financial resources.

There can be no assurance that the Bank will be successful in achieving profitability or raising additional cash to finance operations. The financial statements do not include any adjustments relating to the recoverability of assets and liabilities that might be necessary should the Bank be unable to continue as a going concern.

#### Summary of significant accounting policies

Following is a summary of the most significant accounting policies applied in the preparation of these financial statements. These accounting policies are consistent with those of the previous financial year, except for the adoption of the fair value model for certain of the Bank's investments in real estate as permitted by FAS 26 Investment in Real Estate with retroactive restatement of comparative figures. For details refer to Notes 8 and 25.

None of the new Standards and revised Standards that have been adopted in the current period which are effective for annual periods beginning on or after January 1, 2014 had a significant effect on the financial statements of the Bank.

#### A. Cash and cash equivalents:

Cash and cash equivalents comprise cash and balances with banks and due from a financial institution.

#### B. Investments in equities:

Investments in equities are classified as either investments at fair value through statement of income or investments at fair value through equity.

All investments in equities are initially recognized 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.

#### 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 that are classified as investments at fair value through equity are carried at fair value. The fair value changes of investments at fair value through equity are reported in the statement of changes in owners' equity under "investments fair value reserve" until such time the investments are sold, realized or deemed to be impaired, at which time the realized gain or loss is reported in the statement of income. The losses arising from impairment of such investments are recognized in the statement of income under "provision for impairment" and removed from the "investments fair value reserve". Impairment losses recognized in the statement of income for an equity instrument classified as investment at fair value through equity are not reversed through the statement of income.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 2 BASIS OF PREPARATION (continued)

#### C. Deferred Payment Sale Receivables:

Receivables arising from deferred payment sale are recognized at the time of contracting and stated at cost less impairment, if any.

#### D. Investment in Real Estate:

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and directly attributable charges. Subsequent to initial recognition, investments in real estate (except for the investment in freehold land) are measured at fair value. Investment in freehold land is carried at cost less impairment based on specific directives from the Regulator.

Gains arising from changes in the fair values are recognized as property fair value reserve in the statement of changes in owners' equity.

Losses arising from changes in the fair values are firstly adjusted against the property fair value reserve to the extent of the available balance and the remaining losses are recognized in the statement of income. If there are unrealized losses that have been recognized in the statement of income in the previous financial periods, the current period unrealized gain shall be recognized in the statement of income to the extent of crediting back such previous losses in the statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the statement of income.

#### E. Fixed Assets:

Fixed assets are stated at historical cost, less accumulated depreciation and impairment loss, if any. Depreciation is recognized so as to write off the cost of these assets using the straight-line method over their useful lives estimated.

The estimated useful lives of the different fixed assets categories are 3 to 5 years.

Expenditures for maintenance and repairs is expensed as incurred. An item of fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on the disposal or retirement of the asset is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognized in the statement of income.

#### F. Due to Financial Institutions:

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

#### G. Off-balance Sheet equity Investments Accounts:

Off-balance sheet equity investment accounts represent 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 account holders. 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.

#### H. Employees' End-of-Service Benefits:

The Bank makes contributions to the Social Insurance Organization 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 recognizes 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 salaries and length of service. The expected costs of these benefits are accounted over the period of employment.

#### I. Recognition of Income and Expense:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 2 BASIS OF PREPARATION (continued)

#### I. Recognition of Income and Expense: (continued)

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

Rental income is recognized on the basis of the contractual amounts receivable on a time proportionate basis.

#### J. Earnings Prohibited by Shari'a:

The Bank is committed to avoid recognizing 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.

#### K. Dercognition of Financial Instruments:

A financial asset or part of a financial asset, is derecognized when:

- the contractual rights to the cash flows from the asset expire, or
- the Bank transfers its rights to receive cash flows from the financial asset or has assumed an obligation to pay the received cash flows in full without material delay to another counterpart under a 'pass through' arrangement; and 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 the control of the asset.

A financial liability is derecognized when the contractual obligation is discharged, cancelled or expires.

#### L. Foreign Currencies:

Transactions in currencies other than the functional currency (foreign currencies) are initially recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 not retranslated. Non-monetary items carried at fair value are retranslated at the functional currency closing exchange rates. Differences are taken to equity.

#### M. Fair Values:

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

#### N. Provisions:

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

#### O. 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 recognized amounts and the Bank intends to settle on a net basis.

#### P. Zakah:

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

### 3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In the application of the accounting policies which are described in Note 2, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

to the carrying amount of the asset or liability affected in future periods. The most significant judgments and estimates are discussed below:

#### 3-1. Going Concern:

The Bank's management 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 (See also Note 2).

#### 3-2. Fair value of Investments in Real Estate:

The Fair value of investments 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.

#### 3-3. Impairment of Financial Assets:

At each reporting date, the Bank's management assesses whether there is objective evidence that a financial asset, other than those at fair value through statement of income, may be impaired. An asset or a group of assets may be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event(s) have an impact on the estimated future cash flows of the asset or group of assets that can be reliably estimated.

#### 3-4. Fair Value of Financial Instruments:

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

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

### 4 CASH AND BALANCES WITH BANKS

	2014 US\$	2013 US\$
Cash at banks	4,119,504	767,593
Cash in hand	1,326	1,326
	<u>4,120,830</u>	<u>768,919</u>

### 5. DUE FROM A FINANCIAL INSTITUTION

	2014 US\$	2013 US\$
Commodity murabaha contract	-	2,657,493
Less: Deferred profit	-	(994)
	<u>-</u>	<u>2,656,499</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 6. EQUITY INVESTMENTS

	2014 US\$	2013 US\$
Investments at fair value through statement of income	185,422	198,412
Investments at fair value through equity	6,159,713	5,808,026
	<u>6,345,135</u>	<u>6,006,438</u>

Investments at fair value through statement of income consist of the following:

	2014 US\$	2013 US\$
Quoted:		
Gulf Finance House	7,573	6,976
Al Salam Bank	161,121	173,515
Khaleeji Commercial Bank	16,728	17,921
Unquoted:		
Grand Real Estate Projects Co.	-	-
	<u>185,422</u>	<u>198,412</u>

Investments at fair value through equity consist of the following:

	2014 US\$	2013 US\$
Bahrain Islamic Bank (Note 6.1)	3,380,467	2,894,236
First Takaful Insurance Co.	1,489,575	1,628,098
Bahrain Family Leisure Co.	88,329	84,350
Takaful International, Kuwait	428,677	428,677
Takaful International, Bahrain	772,665	772,665
Gulf Monetary Group	-	-
International Investment Group	-	-
International Projects Consultancy Co.	-	-
	<u>6,159,713</u>	<u>5,808,026</u>

**6.1** Bahrain Islamic Bank shares are under legal dispute and in custody of the Court (Refer to Note 7)

**6.2** As at December 31, 2014 and 2013 the Bank had a total of 11,265,655 shares in Takaful International, Bahrain of which 2,912,950 shares are valued at US\$ 772,665 and the remaining 8,352,705 shares are written-down to zero as explained in Note 11.

**6.3** The Bank's equity investments are categorised into fair value hierarchy as follows:

	2014 US\$	2013 US\$
Level 1 (quoted prices):		
Investments at fair through statement of income	185,422	198,412
Investments at fair value through equity	4,958,371	4,606,684
	<u>5,143,793</u>	<u>4,805,096</u>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 6. EQUITY INVESTMENTS (continued)

	2014 US\$	2013 US\$
Level 3:		
Investments at fair value through equity	1,201,342	1,201,342
	<b>6,345,135</b>	<b>6,006,438</b>
The movement of investments during the year is as follows:		
	Investments at fair value through statement of income US\$	Investments at fair value through equity US\$
At January 1, 2013	1,799,439	5,453,875
Net unrealised (loss) / gain	(1,601,027)	1,434,973
Impairment loss (Note 17)	–	(34,797)
Disposal	–	(1,046,025)
At December 31, 2013	<b>198,412</b>	<b>5,808,026</b>
Net unrealised (loss) / gain	<b>(12,990)</b>	<b>351,687</b>
At December 31, 2014	<b>185,422</b>	<b>6,159,713</b>

### 7. DEFERRED PAYMENT SALE RECEIVABLE / DUE TO A FINANCIAL INSTITUTION

On March 7, 2004 the Bank entered into a sale and purchase agreement with a financial institution to purchase shares of a related party for a total consideration of US\$ 5,811,957 including six-month deferred payment costs of US\$ 141,755. Concurrently the Bank entered into an agreement with another related party to sell the same shares for a total consideration of US\$ 5,821,958 including deferred payment costs of US\$ 151,755, payable on September 30, 2004.

In accordance with the terms of the sale and purchase agreement, the Bank pledged certain own equity investments in addition to subsequent dividend shares received, in favour of the financial institution, the carrying value of which as at December 31, 2014 amounted to US\$ 3,380,467 (US\$ 2,894,235 as at December 31, 2013) and dividends receivable up to 2006 totalling US\$ 887,733 (Note 9).

At the date of signature of both agreements, the net remaining amounts due to the financial institution and due from the related party amounted to US\$ 3,670,202 and US\$ 3,680,203 respectively (excluding deferred payment costs). No further settlements were made and the agreement was terminated by the financial institution, which retained the Bank's pledged shares. The Bank's management considered that the agreement was wrongfully terminated and pledged shares were unlawfully retained. The Bank has filed a legal case before the Courts of Bahrain against the financial institution for repossession of the pledged shares, which are currently under the custody of the Court with the related dividends discussed above. Further a cheque in the amount of US\$ 3,680,203 representing the amount due to the Bank on the deferred sale of shares, was drawn by that related party and deposited at the Court.

In the opinion of the Bank's management, no provision is required to be made in the financial statements against the pledged shares or against any contingent liabilities that might arise on the final settlement.

### 8. INVESTMENTS IN REAL ESTATE

Effective from December 31, 2014, the Bank changed its accounting policy for measuring investments in real estate from the cost model to the valuation model (except for freehold land in Burhama which will continue to be carried at cost less impairment based on specific directives of the Regulator) under FAS 26: Investment in Real Estate. With the retrospective

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 8. INVESTMENTS IN REAL ESTATE (continued)

application of this change in policy, the prior year carrying amounts of the investments in real estate were restated and a three column statement of financial position was presented. The effect of this change in accounting policy is detailed in Note 25.

	2014 US\$	(Restated) 2013 US\$	(Restated) 2012 US\$
At January 1,	21,562,357	22,232,566	22,209,807
Write back of provision for impairment	1,936,594	949,668	804,244
Change in fair value recognised in equity	117,805	–	–
Fair value of investment in real estate sold	–	(1,619,877)	(781,485)
Balance at December 31,	23,616,756	21,562,357	22,232,566

The fair value of investments in real estate at the year end is determined based on valuations performed by independent valuation experts as at December 31.

The carrying value and fair value of the Burhama land which is carried at cost as explained above are USD 7,161,804 and USD 8,209,549 respectively. (2013: USD 7,161,804 and USD 8,472,149 respectively)

### 9. OTHER ASSETS

	2014 US\$	2013 US\$
Disputed dividends receivable (Note 7)	887,733	887,733
Receivable from disposal of investment at fair value through equity	–	420,000
Prepaid expenses	45,495	49,081
Regulatory deposit with CBB	13,263	13,263
Other receivables	5,282	5,219
Refundable deposit	557	557
	952,330	1,375,853

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 10. FIXED ASSETS

	Motor vehicles US\$	Office equipment & furniture US\$	Fixtures US\$	Total US\$
Cost:				
At January 1, 2013	–	844,675	1,398,005	2,242,680
Additions	21,292	18,920	13,448	53,660
Write off	–	(60,950)	–	(60,950)
At December 31, 2013	21,292	802,645	1,411,453	2,235,390
Additions	–	6,279	219	6,498
<b>At December 31, 2014</b>	<b>21,292</b>	<b>808,924</b>	<b>1,411,672</b>	<b>2,241,888</b>
Accumulated Depreciation:				
At January 1, 2013	–	842,155	1,346,875	2,189,030
Charge for the year	2,484	5,520	14,182	22,186
Write off	–	(60,950)	–	(60,950)
At December 31, 2013	2,484	786,725	1,361,057	2,150,266
Charge for the year	4,258	7,623	12,922	24,803
<b>At December 31, 2014</b>	<b>6,742</b>	<b>794,348</b>	<b>1,373,979</b>	<b>2,175,069</b>
Net carrying values:				
<b>At December 31, 2014</b>	<b>14,550</b>	<b>14,576</b>	<b>37,693</b>	<b>66,819</b>
At December 31, 2013	18,808	15,920	50,396	85,124

### 11. MURABAHA PAYABLE

In 2004, a related party entered into a Murabaha financing agreement with a financial institution against the pledge of 18,840,341 equity shares, of which 8,352,705 owned by the Bank with a carrying value at that time of US\$ 5,760,487, and the remaining 10,487,636 shares owned by the borrowing related party and another related party.

Also on November 1, 2004 the Bank obtained from the above related party a one year financing totalling US\$ 3,229,064 including financing cost of US\$ 134,295 by virtue of a Murabaha contract.

Following the default of the related party, the case was brought to Court, which ruled in favour of the financial institution and ordered the settlement of the outstanding balance of BD 2,236,191 (US\$ 5,931,541) in addition to annual profit of 3% effective April 2011 and settlement of legal costs.

As no settlement was made by any of the parties that had pledged the shares in guarantee of the financing agreement as stated above, the Court appointed in 2013 a broker to auction all the 18,840,341 pledged shares in one bulk. A number of unsuccessful auctions were held at varying starting prices, however no potential buyers indicated their interest and the shares are yet to be sold.

In recognition of the Bank's liability, the management decided to write down to zero the value of its 8,352,705 pledged shares and valued the remaining same shares (2,912,950 shares) in its portfolio at BD 0.100 (US\$ 0.2652) per share, being the lowest bidding price up to the 2014 year end. Subsequent to the year end in April 2015, the 8,352,705 shares were liquidated at an auction price of BD 0.100 per share.

### 12. PROVISION AGAINST LEASE COMMITMENTS

	2014 US\$	2013 US\$
Lease commitment	<b>6,944,282</b>	2,885,300

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 12. PROVISION AGAINST LEASE COMMITMENTS (continued)

During 2006, the Bank entered into a lease agreement for the lease of a 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 the 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 had defaulted on its lease payments due to the delay in the 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. Accordingly and as at December 31, 2013 the Bank has provided 50% of the unpaid lease obligations as at the 2013 year end and had irrevocably pledged to the CBB that a full provision for the outstanding lease commitments will be made by December 31, 2014, should there be no settlement of any kind with the lessor or any changes / developments to the exposure of the leased land.

As no settlement was reached as at December 31, 2014, the Bank has provided for US\$ 6,944,282, being the total outstanding lease obligations as at that date.

The remaining contractual lease obligations to maturity are US\$ 23.2 million.

### 13. OTHER LIABILITIES

	2014 US\$	2013 US\$
Accrued expenses	197,540	474,457
Unearned rental income	306,642	187,863
Charity payable	17,513	17,513
Others	24,389	14,405
	<u>546,084</u>	<u>694,238</u>

### 14. SHARE CAPITAL AND STATUTORY RESERVE

#### (i) Share capital

	2014 US\$	2013 US\$
Authorised: 303,030,303 ordinary shares of US\$ 0.33 each	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid up As at the beginning and end of the year 242,424,242 shares of US\$ 0.33 each	<u>80,000,000</u>	<u>80,000,000</u>

#### (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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 15. OTHER INCOME, NET

	2014 US\$	(Restated) 2013 US\$
Gain on disposal of investment in real estate	-	182,711
Dividend income	6,197	26,325
Income from commodity murabaha contract	41,729	21,826
Foreign exchange loss	(530)	(3,974)
Others	698	-
	<u>48,094</u>	<u>226,888</u>

### 16. ADMINISTRATIVE AND GENERAL EXPENSES

	2014 US\$	2013 US\$
Consultancy and legal expenses	80,375	308,338
Staff related claims	36,953	202,419
Electricity and municipality	81,997	82,863
Maintenance	52,543	81,465
Professional fees	54,907	49,602
Office service and cleaning	35,117	35,780
License and registration	36,390	35,212
Board of Directors and committees meeting expenses and attendance allowances	55,533	31,245
Shari'a Supervisory Board remuneration, meeting expenses and attendance allowances	28,929	29,708
Advertising and promotion	12,320	15,098
Communication	11,186	11,097
Business development	11,739	10,992
Others	45,437	41,145
	<u>543,426</u>	<u>934,964</u>

### 17. IMPAIRMENT OF FINANCIAL ASSETS

	2014 US\$	2013 US\$
Investments at fair value through equity (Note 6)	-	34,797
Other assets	-	486,420
	<u>-</u>	<u>521,217</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 18. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and cash equivalents held by the Bank as at December 31, 2014 and 2013:

	Amortised cost US\$	Fair value through equity US\$	Fair value through statement of income US\$
<b>2014</b>			
<b>Financial assets:</b>			
Equity Investments	–	6,159,713	185,422
Deferred payment sale receivable	3,680,203	–	–
Other assets	893,572	–	–
<b>Total</b>	<b>4,573,775</b>	<b>6,159,713</b>	<b>185,422</b>
<b>Financial liabilities:</b>			
Due to a financial institution	3,670,202	–	–
Murabaha payable	3,229,064	–	–
Provision against lease commitment	6,944,282	–	–
Other liabilities	546,084	–	–
<b>Total</b>	<b>14,389,632</b>	<b>–</b>	<b>–</b>
<b>2013</b>			
<b>Financial assets:</b>			
Equity 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 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>	<b>10,478,804</b>	<b>–</b>	<b>–</b>

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. The categorisation into fair value hierarchy of financial instruments measured at fair value is provided under Note 6.3



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 19. CAPITAL MANAGEMENT

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:

	2014 US\$	(Restated) 2013 US\$
<b>Tier 1 Capital</b>		
Issued and fully paid ordinary shares	80,000,000	80,000,000
Legal / statutory reserve	7,409,515	7,409,515
Accumulated losses	(65,451,100)	(63,717,460)
	<b>21,958,415</b>	23,692,055
Excess amount over maximum permitted large exposure limit	(711,744)	(11,480,343)
<b>Total Tier 1 Capital</b>	<b>21,246,671</b>	12,211,712
<b>Tier 2 Capital</b>		
Assets revaluation reserve – Property, plant and equipment (45% only)*	53,012	–
Unrealised gross gains arising from fair valuing equities (45% only)	1,042,300	884,040
	<b>1,095,312</b>	884,040
Excess amount over maximum permitted large exposure limit	(711,744)	(884,040)
<b>Total Tier 2 Capital</b>	<b>383,568</b>	–
<b>Total eligible capital</b>	<b>21,630,239</b>	12,211,712

\* The amount taken to this reserve relates to the Bank's "Properties fair value reserve" pertaining to investments in real estate.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 19. 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:

	2014 US\$	(Restated) 2013 US\$
Credit risk weighted exposures	56,236,632	51,776,541
Market risk weighted exposures	2,293,558	2,458,227
Operational risk weighted exposures	2,129,618	1,350,079
Total risk weighted exposure	60,659,808	55,584,847
Capital adequacy ratio	35.66%	21.97%

### 20. 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.

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

## 20 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	December 31, 2014					
	Shareholders			Others		
	Gross US\$	Provision US\$	Net US\$	Gross US\$	Provision US\$	Net US\$
<b>ASSETS</b>						
<b>Equity investments at fair value through statement of income</b>						
- Grand Real Estate Projects Co.	-	-	-	15,802,165	(15,802,165)	-
<b>Equity investments at fair value through equity</b>						
- International Investment Group (IIG)	7,364	(7,364)	-	-	-	-
- Gulf Monetary Group (GMG)	96,250	(96,250)	-	-	-	-
- Managed Portfolio (GMG Shares)	203,562	(203,562)	-	-	-	-
- Takaful International, Bahrain	-	-	-	5,313,170	(4,540,505)	772,665
- Takaful International, Kuwait	-	-	-	715,434	(286,757)	428,677
- International Projects Consultancy Co.	-	-	-	45,579	(45,579)	-
<b>Deferred payment sale receivables</b>						
- Gulf Monetary Group	3,680,203	-	3,680,203	-	-	3,680,203
<b>Other assets</b>						
<b>Receivable from sale of investments:</b>						
- Gulf Monetary Group	5,974,754	(5,974,754)	-	-	-	-
- International Investment Group	10,811,971	(10,811,971)	-	-	-	-
<b>Receivable from Mudarib:</b>						
- International Investment Group	4,464,281	(4,464,281)	-	-	-	-
<b>Dividend receivable:</b>						
- International Investment Group	778,343	(778,343)	-	-	-	-
- Grand Real Estate Projects Co.	-	-	-	931,034	(931,034)	-
- Takaful International, Bahrain	-	-	-	38,633	(38,633)	-
<b>Current account:</b>						
- Gulf Monetary Group	150,371	(150,371)	-	-	-	-
- International Investment Group	33,507	(33,507)	-	-	-	-
- Grand Real Estate Projects Co.	-	-	-	8,861,745	(8,861,745)	-
<b>Advance for investment</b>						
- Josor Capital	-	-	-	408,536	(408,536)	-

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

## 20 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	December 31, 2014					
	Shareholders			Others		
	Gross US\$	Provision US\$	Net US\$	Gross US\$	Provision US\$	Net US\$
<b>Others (Rent Receivable)</b>						
– Grand Real Estate Projects Co.	–	–	–	9,312	(9,312)	–
<b>LIABILITIES:</b>						
– <b>Murabaha payables</b>						
– International Investment Group	3,229,064	–	3,229,064	–	–	3,229,064
– <b>Other liabilities</b>						
– Takaful International, Bahrain	–	–	–	3,610	–	3,610
– Key Management Personnel	–	–	–	14,967	–	14,967
– Shari'a Supervisory Board	–	–	–	–	–	–
– Remuneration & attendance allowances	–	–	–	27,852	–	27,852
– Board Members attendance allowances	–	–	–	2,500	–	2,500
<b>Off-balance sheet items:</b>						
<b>Equity of investment accountholders</b>						
– Investments in IIG on behalf of GMG	5,670,202	(5,670,202)	–	–	–	–
– GMG shares managed by the Bank on behalf of GMG, IIG and Investors Holding	10,452,776	(10,452,776)	–	–	–	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

## 20 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	December 31, 2013					
	Shareholders			Others		
	Gross US\$	Provision US\$	Net US\$	Gross US\$	Provision US\$	Net US\$
<b>ASSETS</b>						
<b>Equity investments at fair value through statement of income</b>						
– Grand Real Estate Projects Co.	–	–	–	15,802,165	(15,802,165)	–
<b>Equity investments at fair value through equity</b>						
– International Investment Group (IIG)	7,364	(7,364)	–	–	–	–
– Gulf Monetary Group (GMG)	96,250	(96,250)	–	–	–	–
– Managed Portfolio (GMG Shares)	203,562	(203,562)	–	–	–	–
– Takaful International, Bahrain	–	–	–	5,313,170	(4,540,505)	772,665
– Takaful International, Kuwait	–	–	–	715,434	(286,757)	428,677
– International Projects Consultancy Co.	–	–	–	45,579	(45,579)	–
<b>Deferred payment sale receivables</b>						
– Gulf Monetary Group	3,680,203	–	3,680,203	–	–	3,680,203
<b>Other assets</b>						
<b>Receivable from sale of investments:</b>						
– Gulf Monetary Group	5,974,754	(5,974,754)	–	–	–	–
– International Investment Group	10,811,971	(10,811,971)	–	–	–	–
<b>Receivable from Mudarib:</b>						
– International Investment Group	4,464,281	(4,464,281)	–	–	–	–
<b>Dividend receivable:</b>						
– International Investment Group	778,343	(778,343)	–	–	–	–
– Grand Real Estate Projects Co.	–	–	–	931,034	(931,034)	–
<b>Current account:</b>						
– Gulf Monetary Group	150,371	(150,371)	–	–	–	–
– International Investment Group	33,507	(33,507)	–	–	–	–
– Grand Real Estate Projects Co.	–	–	–	8,861,745	(8,861,745)	–
<b>Advance for investment</b>						
– Josor Capital	–	–	–	408,536	(408,536)	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

## 20 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	December 31, 2013					
	Shareholders			Others		
	Gross US\$	Provision US\$	Net US\$	Gross US\$	Provision US\$	Total US\$
<b>Others (Rent Receivable)</b>						
– Grand Real Estate Projects Co.	–	–	–	9,312	(9,312)	–
<b>LIABILITIES:</b>						
<b>Murabaha payables</b>						
– International Investment Group	3,229,064	–	3,229,064	–	–	3,229,064
<b>Other liabilities</b>						
– Takaful International, Bahrain	–	–	–	3,271	–	3,271
– Key Management Personnel	–	–	–	82,723	–	82,723
– Shari'a Supervisory Board Remuneration & attendance allowances	–	–	–	58,488	–	58,488
<b>Off-balance sheet items:</b>						
<b>Equity of investment accountholders</b>						
– Investments in IIG on behalf of GMG	5,670,202	(5,670,202)	–	–	–	–
– GMG shares managed by the Bank on behalf of GMG, IIG and Investors Holding	10,452,776	(10,452,776)	–	–	–	–

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

	December 31, 2014		
	Shareholders		Others
	Net US\$	Net US\$	Total US\$
<b>Expenses:</b>			
BOD and Board Committees meeting expenses and attendance allowance	–	55,533	55,533
Shari'a Supervisory Board Remuneration, meeting expenses and attendance allowances	–	28,929	28,929
<b>Key Management Benefits:</b>			
Salaries and other short term benefits	–	130,848	130,848
Post employment benefits	–	9,693	9,693

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 20 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	December 31, 2013		
	Shareholders		Total US\$
	Net US\$	Others Net US\$	
<b>Income:</b>			
– <b>Fair value on investment at FVTPL:</b>			
– Grand Real Estate Projects Co.	–	(1,715,715)	(1,715,715)
<b>Expenses:</b>			
Provision for impairment:			
<i>Equity investments</i>			
– International Investment Group	2,862	–	2,862
– Gulf Monetary Group	31,936	–	31,936
<i>Other assets</i>			
– Grand Real Estate Projects Co.	–	9,312	9,312
BOD and Board Committees meeting expenses and attendance allowance	–	31,245	31,245
Shari'a Supervisory Board remuneration, meeting expenses and attendance allowance	–	29,708	29,708
<b>Other comprehensive gain / (loss)</b>			
<i>Equity investments</i>	(101)	–	(101)
– International Investment Group			
<b>Key Management Benefits:</b>			
Salaries and other short term benefits	–	227,036	227,036
Post employment benefits	–	9,655	9,655

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 21. SEGMENT INFORMATION:

The industrial distribution of the Bank's assets and liabilities as at December 31, 2014 is as follows:

	December 31, 2014			
	Banks and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
<b>Assets</b>				
Cash and balances with banks	4,120,830	–	–	4,120,830
Equity investments	6,256,806	–	88,329	6,345,135
Deferred payment sale receivable	–	3,680,203	–	3,680,203
Investments in real estate	–	–	23,616,756	23,616,756
Other assets	900,996	–	51,334	952,330
Fixed assets	–	–	66,819	66,819
<b>Total assets</b>	<b>11,278,632</b>	<b>3,680,203</b>	<b>23,823,238</b>	<b>38,782,073</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	–	–	6,944,282	6,944,282
Other liabilities	3,610	–	542,474	546,084
<b>Total liabilities</b>	<b>6,902,876</b>	<b>–</b>	<b>7,486,756</b>	<b>14,389,632</b>

	December 31, 2013 (Restated)			
	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
Equity investments	5,922,088	–	84,350	6,006,438
Deferred payment sale receivable	–	3,680,203	–	3,680,203
Investments in real estate	–	–	21,562,357	21,562,357
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>22,206,688</b>	<b>36,135,393</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>

### Geographical concentration

Assets and liabilities of the Bank as at December 31, 2014 and December 31, 2013 are primarily concentrated in the Middle East region.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 22. 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.

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

	2014 US\$	2013 US\$
Balances with banks	4,119,504	767,593
Due from a financial institution	–	2,656,499
Deferred payment sale receivable	3,680,203	3,680,203
Other assets	893,572	1,313,509
	<b>8,693,279</b>	<b>8,417,804</b>

Analysis of the Bank's exposure to credit risk:

	December 31, 2014				
	Balances with banks and financial institution US\$	Receivables from sale of investments US\$	Deferred payment sale receivable US\$	Other financial assets US\$	Total US\$
Neither past due nor impaired	4,119,504	–	–	5,839	4,125,343
Past due but not impaired	–	–	3,680,203	887,733	4,567,936
Individually impaired					
Gross amount	–	16,786,726	–	16,693,813	33,480,539
Provision for impairment	–	(16,786,726)	–	(16,693,813)	(33,480,539)
	4,119,504	–	3,680,203	893,572	8,693,279

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 22. RISK MANAGEMENT: (continued)

#### Credit risk (continued)

	December 31, 2013				
	Balances with banks and financial institution US\$	Receivables from sale of investments US\$	Deferred payment sale receivable 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					
Gross amount	–	16,786,726	–	16,693,813	33,480,539
Provision for impairment	–	(16,786,726)	–	(16,693,813)	(33,480,539)
	<u>3,424,092</u>	<u>–</u>	<u>3,680,203</u>	<u>1,313,509</u>	<u>8,417,804</u>

#### 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>2014</b>				
Non-investment / speculative: BB – B	1,389,150	–	–	1,389,150
Unrated	2,730,354	3,680,203	893,572	7,304,129
	<u>4,119,504</u>	<u>3,680,203</u>	<u>893,572</u>	<u>8,693,279</u>
<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>

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 22. RISK MANAGEMENT: (continued)

#### Concentration Risk (continued)

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>2014</b>				
Balances with banks	4,119,504	–	–	4,119,504
Deferred payment sale receivable	–	3,680,203	–	3,680,203
Other assets	887,733	–	5,839	893,572
	<u>5,007,237</u>	<u>3,680,203</u>	<u>5,839</u>	<u>8,693,279</u>
<b>2013</b>				
Balances with banks	767,593	–	–	767,593
Due from a financial institution	2,656,499	–	–	2,656,499
Deferred payment sale receivable	–	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>

#### Geographical concentration

Assets and liabilities of the Bank as at 31 December 2014 and 31 December 2013 are primarily concentrated in the Middle East region.

#### 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 December 31, 2014 based on expected periods to cash conversion from the reporting date:

	2014					
	Upto 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\$
<b>Assets</b>						
Cash and balances with banks	4,120,830	–	–	4,120,830	–	–
Equity investments	–	–	185,422	185,422	–	6,159,713
Deferred payment sale receivable	3,680,203	–	–	3,680,203	–	–
Investment in real estate	–	–	–	–	–	23,616,756
Other assets	5,282	–	45,495	50,777	–	901,553
Fixed assets	–	–	–	–	–	66,819
<b>Total assets</b>	<u>7,806,315</u>	<u>–</u>	<u>230,917</u>	<u>8,037,232</u>	<u>–</u>	<u>30,744,841</u>
<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	–	–	–	–	–	6,944,282
Other liabilities	52,567	62,916	413,088	528,571	–	17,513
<b>Total liabilities</b>	<u>6,951,833</u>	<u>62,916</u>	<u>413,088</u>	<u>7,427,837</u>	<u>–</u>	<u>6,961,795</u>
<b>Net</b>	<u>854,482</u>	<u>(62,916)</u>	<u>(182,171)</u>	<u>609,395</u>	<u>–</u>	<u>23,783,046</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 22. RISK MANAGEMENT: (continued)

#### Liquidity risk (continued)

	2013 (Restated)						
	Upto 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
Equity investments	–	–	198,412	198,412	–	5,808,026	6,006,438
Deferred payment sale receivable	3,680,203	–	–	3,680,203	–	–	3,680,203
Investments in real estate	–	–	–	–	–	21,562,357	21,562,357
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>28,357,060</b>	<b>36,135,393</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>25,251,662</b>	<b>25,656,589</b>

#### 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:

	2014		
	Assets US\$	Liabilities US\$	Total US\$
Kuwaiti Dinar	<u>1,922,714</u>	<u>–</u>	<u>1,922,714</u>
	2013		
	Assets US\$	Liabilities US\$	Total US\$
Kuwaiti Dinar	<u>2,061,403</u>	<u>–</u>	<u>2,061,403</u>

#### 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 December 31:

	Change in rate	Effect on net income for the year	
		2014 US\$	2013 US\$
Kuwaiti Dinar	<u>5%</u>	<u>96,136</u>	<u>103,070</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 22. RISK MANAGEMENT: (continued)

#### 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 classified at fair value through statement of income and investments at fair value through equity. 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 December 31:

Particulars	Change in rate	Effect on net income / equity for the year	
		2014 US\$	2013 US\$
Investments at fair value through statement of income	20%	37,084	39,602
Investments at fair value through equity	20%	1,146,207	1,075,870

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

#### 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.

### 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.

### 24. SOCIAL RESPONSIBILITY

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

### 25. RESTATEMENT OF COMPARATIVE FIGURES

As stated in Note 8, the Bank's Board of Directors decided to change the basis of measurement of the Bank's Investment in Real Estate from the cost model to the valuation model. This change in accounting policy was applied retrospectively resulting in the comparative financial statements being restated. The comparatives have been restated as set out below:

	December 31, 2013	
	(Restated) US\$	(As previously stated) US\$
<b>Statement of financial position</b>		
Investments in real estate	21,562,357	18,255,772
Accumulated losses	(63,717,460)	(67,024,045)
	January 1, 2013	
	(Restated) US\$	(As previously stated) US\$
Investments in real estate	22,232,566	20,020,180
Accumulated losses	(59,918,532)	(62,130,918)

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

### 25. RESTATEMENT OF COMPARATIVE FIGURES (continued)

	For the year ended December 31, 2013	
	(Restated)	(As previously stated)
	US\$	US\$
<b>Statement of income</b>		
Depreciation	(22,186)	(440,132)
Gain on disposal of investments in real estate	182,711	456,126
Provision for investments in real estate written back	949,668	–

### 26. CONTINGENT LIABILITIES

Various parties have filed legal actions against the Bank with varying claims and associated legal costs. Subsequent to the statement of financial position date, the Bank was charged for total amounts of approximately US\$ 22,200 in 2015. The outcome of the remaining actions cannot be presently determined. Accordingly the Bank has not made any provisions.

### 27. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Bank's Board of Directors on May 23, 2015.

# **PUBLIC DISCLOSURES DOCUMENT**

**December 31, 2014**

(All Amounts in US\$)



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## PUBLIC DISCLOSURES DOCUMENT 2014

### 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 January 1, 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 December 31, 2014 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 2014, 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 2015, growth is expected to accelerate progressively.

During the year 2014 the Bank did not undertake any new investment transactions. The Bank focused on generating liquidity through renting its buildings and reducing its expenses.

The Bank's Board of Directors decided to change the basis of measurement of the Bank's Investment in Real Estate from the Cost model to the valuation model. This change in accounting policy was applied retrospectively.

Additional provision against lease commitment of US \$ 4,058,982 was reflected in the account.

For the year ended December 31, 2014 the Bank reported a net loss of US\$ 1,733,640 (2013 (Restated): US\$ 3,978,928).

Financial ratios for five years:

Ratio name	2014	Restated			
		2013	2012	2011	2010
ROAE	-6.93	-14.15	-15.34	-13.72	-45.52
ROAA	-4.63	-10.59	-12.41	-11.48	-40.30
STAFF COST/INCOME	39.45	187.95	64.69	294.85	N/A
COST/INCOME	209.70	967.95	454.00	1,672.43	N/A
EPS (\$)	-0.01	-0.02	-0.02	-0.02	-0.11

### 3. Corporate Governance

#### 3.1 Ownership structure of the Bank

The ownership structure of the Bank is given below:

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

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 2014

### 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%	105	37.96%
5-15%	2	12.70%
>15%	2	49.34%

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

Shareholder Name	No of shares	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;
- 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;

## PUBLIC DISCLOSURES DOCUMENT 2014

### 3. Corporate Governance (continued)

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

- 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 Protiviti, Bahrain in 2014 (2013: 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. Currently the Bank has five members on its Board of Directors, of which one is independent.

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

#### 3.3 Profiles of Members of the Board of Directors

Mr. Ameer Abdulrahman Al Mansour – Chairman / Independent / Non-Executive (From June 19, 2014 to November 5, 2014)

Mr. Al Mansour holds a Master degree in Technical Analysis from the United Kingdom; He has over 13 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 K. Al Hajraf - Vice Chairman / Non-Independent / Executive (Appointed on May 19, 2014)

Mr. Al Hajraf holds Bachelor degree in Law from Cairo University, Egypt; He has over 12 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.

## PUBLIC DISCLOSURES DOCUMENT 2014

### 3. Corporate Governance (continued)

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

Sheikh Yousif bin Abdulla Sabah Al Naser Al Sabah – Member / Non-Independent / Non-Executive (Appointed on May 19, 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 18 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 Ahmed Al Ali – Member / Non-Independent / Executive (Appointed on May 19, 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 21 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 Mohammad Al Refaei – Member / Non-Independent / Executive (Appointed on May 19, 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 he is an authorized lawyer in state of Kuwait. Mr. Al Refaei has over 10 years of experience in the law and legislation.

Dr. Jamshir Mohammed Nasimi – Member / Independent / Non-Executive (From June 19, 2014 to November 5, 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.

Mr. AbdulNaser Ahmed Mohamed – Member / Independent / Non-Executive (Appointed on June 19, 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.

Executive Committee (EXCOM) Members:

Mr. Majed Yousif Ahmed Al Ali – Chairman (Non-Independent)

Mr. AbdulNaser Ahmed Mohamed – Vice Chairman (Independent)

Mr. Ameer Abdulrahman Al Mansour – Member (Independent) (Until November 5, 2014)

Mr. Falah Hajraf K. Al Hajraf – Member (Non –Independent) (From November 5, 2014)

## PUBLIC DISCLOSURES DOCUMENT 2014

### 3. Corporate Governance (continued)

#### 3.4 Board Committees (continued)

##### 3.4.2 Audit and Risk 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.

##### Audit and Risk Committee Members:

Dr. Jamshir Mohammed Nasimi – Chairman (Independent) **(Until November 5, 2014)\***

Sheikh Yousif bin Abdulla Sabah Al Naser Al Sabah – Vice Chairman (Non-Independent)

Mr. AbdulNaser Ahmed Mohamed – Member (Independent)\*

Mr. Majed Yousif Ahmed Al Ali – Member (Non-Independent) **(From November 5, 2014)**

\* Mr. AbdulNaser Ahmed Mohamed was appointed as Chairman of the Audit and Risk Committee with effect from November 5, 2014.

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 and Corporate Governance Committee

The Nomination and Remuneration and Corporate Governance 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 and Corporate Governance Committee Members:

Mr. Ameer Abdulrahman Al Mansour – Chairman (Independent) **(Until November 5, 2014)\***

Dr. Jamshir Mohammed Nasimi – Vice Chairman (Independent) **(Until November 5, 2014)**

Mr. Majed Yousif Ahmed Al Ali – Member (Non-Independent)\*

Mr. Abdul Naser Ahmed Mohamed – Member (Independent)

Mr. Falah Hajraf Al K. Hajraf – Chairman (Non-Independent) **(From November 5, 2014)**

Mr. Abdulla Mohammad Al Refaei – Member (Non-Independent) **(From November 5, 2014)**

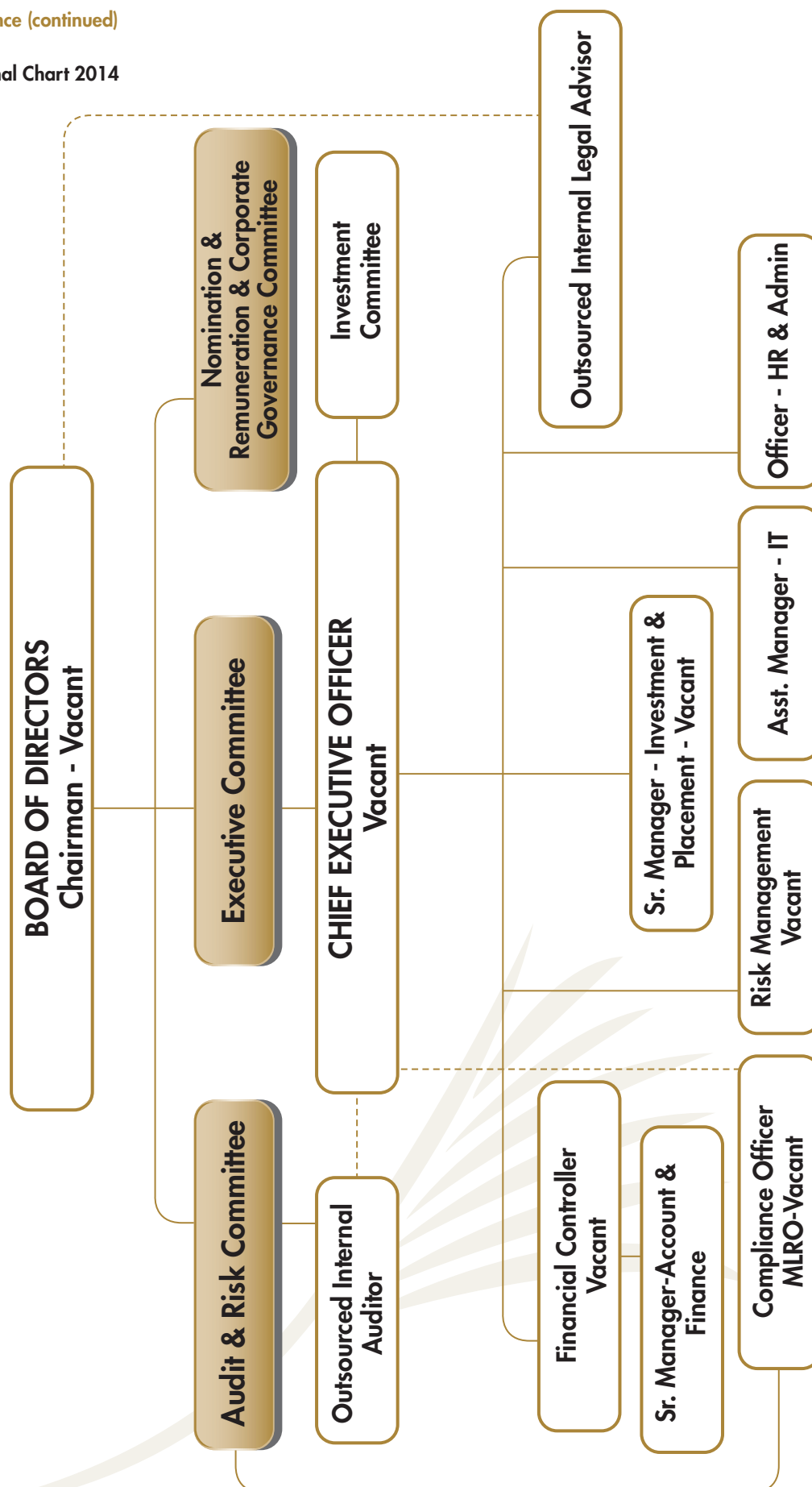
\* Mr. Majed Yousif Ahmed Al Ali was appointed as Vice Chairman of the Nomination and Remuneration and Corporate Governance Committee with effect from November 5, 2014.

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

## PUBLIC DISCLOSURES DOCUMENT 2014

### 3. Corporate Governance (continued)

#### 3.5 Organisational Chart 2014



## PUBLIC DISCLOSURES DOCUMENT 2014

### 3. Corporate Governance (continued)

#### 3.6 Board and Committees meetings

##### Board of Directors:

As per the Corporate Governance Manual, the BOD should meet at least four times during a single year. The BOD held five meetings during 2014

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

Names of directors	Date and location				
	19/6 Bahrain	27/6 Bahrain	7/8 Kuwait	20/9 Bahrain	5/11 Kuwait
Mr. Ameer Abdulrahman Al Mansour	(√)	(√)	(√)	(√)	(X)
Mr. Falah Hajraf K. Al Hajraf	(X)	(X)	(√)	(X)	(√)
Sheikh Yousif bin Abdulla Sabah Al Naser Al Sabah	(√)	(√)	(X)	(√)	(√)
Mr. Majed Yousif Ahmed Al Ali	(√)	(√)	(X)	(√)	(√)
Mr. Abdulla Mohammad Al Refaei	(√)	(X)	(√)	(X)	(√)
Dr. Jamshir Mohammed Nasimi	(√)	(√)	(√)	(√)	(√)
Mr. AbdullNaser Ahmed Mohamed	(√)	(√)	(√)	(√)	(√)

Attended: (√)

Absent: (X)

##### Executive Committee:

The committee should meet at least four times a year. The Committee did not hold any meeting during 2014.

##### Audit and Risk Committee:

The Committee should meet at least four times a year, during 2014, the Committee held only one meeting.

The date and attendance details of the Committee meeting are given below:

Names of directors	Date and location
	27/6 Bahrain
Dr. Jamshir Mohammed Nasimi	(√)
Sheikh Yousif bin Abdulla Sabah Al Naser Al Sabah	(√)
Mr. AbdullNaser Ahmed Mohamed	(√)

Attended: (√)

Absent: (X)

##### Nomination and Remuneration and Corporate Governance Committee:

The Committee must meet at least once a year. The date and attendance details of the Committee meetings are given below:

Names of directors	Date and location
	27/6 Bahrain
Mr. Ameer Abdulrahman Al Mansour	(√)
Dr. Jamshir Mohammed Nasimi	(√)
Mr. Majed Yousif Ahmed Al Ali	(√)
Mr. AbdullNaser Ahmed Mohamed	(√)

Attended: (√)

Absent: (X)



## PUBLIC DISCLOSURES DOCUMENT 2014

### 3. Corporate Governance (continued)

#### 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.

#### 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. However, there were no donations to charitable causes and organisations during the year ended December 31, 2014 (2013: US\$ 17,772).

#### 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.



## PUBLIC DISCLOSURES DOCUMENT 2014

### 3. Corporate Governance (continued)

#### 3.11 Conflict of Interest (continued)

- 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.

#### 3.12 Management Profile

##### Mr. Abduljabbar Saleh, Acting Chief Executive Officer (Terminated on July 13, 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. Maher Ali Husain, Senior Manager- Accounts & Finance

Mr. Hussain has over 19 years of experience in the Banking and Financial sector in Bahrain. He has a 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 (Until August 23, 2014)

Mr. Janahi has over 13 years of experience in Telecommunication sector and over 6 years of experience in the Investment sector.

He has experience in 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 had 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.

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.

## PUBLIC DISCLOSURES DOCUMENT 2014

### 3. Corporate Governance (continued)

#### 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 the February 5, 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 Naser Al Sabah
  - o Mr. Majed Yusuf Al Ali
  - o Mr. Falah Hajraf K. Al Hajraf
- On May 19, 2014 and June 19, 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 Naser Al Sabah
  - o Mr. Majed Yusuf Ahmed 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 July 13, 2014.
- On November 5, 2014, the following Board of Directors resigned from the Bank:
  - Mr. Ameer Abdulrahman Al Mansour
  - Dr. Jamshir Mohammed Nasimi

#### 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.

## PUBLIC DISCLOSURES DOCUMENT 2014

### 3. Corporate Governance (continued)

#### 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 Sharia'a reviewer and Secretary to the Shari'a Board.

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

#### 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 December 31, 2014 has reported non-compliance with the following sections of the CBB rule book volume 2 HC modules:

HC-1.4.6; Chairman should be Independent:

An independent director was appointed as Chairman of the Board of Directors on June 19, 2014. However, on November 5, 2014 Mr. Ameer abdulrahman Al Mansour resigned and currently the position of Chairman is vacant.

HC-1.5.2; One third of the Board should be Independent:

Two independent directors resigned from the Board of Directors in November 2014 and these positions have remained vacant since.

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

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

HC-3.2.1; Audit Committee Members:

The Bank Audit Committee comprises of three directors of which the majority are not independent.

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

The majority members of Nomination & Remuneration committee are 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\$ 3 million.
- Investment in Unlisted equities which exceeds US\$ 1.5 million.
- Investment in initial public offering (IPO) which exceeds US\$ 1 million.
- Other investment which exceeds US\$ 1.5 million.
- Write-off receivable in excess of US\$ 250,000.

### 4. Capital Adequacy and Management

The CBB Basel 2 guidelines became effective from January 1, 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 and 45% of the assets revaluation reserve.

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### 4. Capital Adequacy and Management (continued)

#### 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	(65,451,100)	–
<b>Tier 1 Capital</b>	<b>21,958,415</b>	–
Assets revaluation reserve – Property, plant , and equipment (45% only)*	–	53,012
Unrealized gross gains arising from fair valuing equities (45% only)	–	1,042,300
<b>Tier 2 Capital</b>	–	<b>1,095,312</b>
<b>Total Available Capital</b>	<b>21,958,415</b>	<b>1,095,312</b>
Deductions:		
Excess amount over maximum permitted large exposure limit		
- Tier 1	(711,744)	–
- Tier 2	–	(711,744)
<b>Net Available Capital</b>	<b>21,246,671</b>	<b>383,568</b>
<b>Total Eligible Capital</b>		<b>21,630,239</b>

\* The amount taken to this reserve relates to the Bank's "Properties fair value reserve" pertaining to investment in real estate.

#### 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.

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### 4. Capital Adequacy and Management (continued)

#### 4.2 Capital Adequacy (continued)

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	825,240	99,029
– Investments at fair value through equity		
– Listed equities	4,257,897	510,948
– Unlisted equities	477,226	57,267
– Deferred payment sale receivables	2,566,461	307,975
– Investment in real estate	47,103,924	5,652,471
– Other assets	939,065	112,688
– Fixed assets	66,819	8,018
<b>Total Credit Risk</b>	<b>56,236,632</b>	<b>6,748,396</b>
Market Risk		
– Equity position risk	370,844	44,501
– Foreign exchange risk	1,922,714	230,726
<b>Total Market Risk</b>	<b>2,293,558</b>	<b>275,227</b>
<b>Total Operational Risk</b>	<b>2,129,618</b>	<b>255,554</b>
<b>Total Risk Weighted Assets (a)</b>	<b>60,659,808</b>	
<b>Total Eligible Capital (b)</b>	<b>21,630,239</b>	
<b>Total Capital Adequacy Ratio [(b)/(a)]</b>		<b>35.66</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 subcommittee 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 established and implemented various exposure limits as well as set levels of risk that the Bank is willing to accept in relation to its available capital.

The limit structure includes single obligor level limits, large exposure limits, industry level limits, country level limits etc. All limits have been set as per CBB guidelines and Bank's internal limits and policy.

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

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### 5. Risk Management (continued)

#### 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	4,119,504	2,038,463
Due from a financial institution	–	1,990,370
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	893,572	921,550
Total	8,693,279	8,630,586

\* These have been computed based on the average of the quarter end balances.

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.

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	–	4,567,936
Impaired financing contracts	16,088,102	6,125,125	11,267,312	33,480,539
Total	16,975,835	9,805,328	11,267,312	38,048,475

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### 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	–	–	–	–
1 year – 3 years	–	–	9,312	9,312
Over 3 years	16,975,835	9,805,328	11,258,000	38,039,163
Total	16,975,835	9,805,328	11,267,312	38,048,475

Movement in specific provisions during the year:

	Banking and financial institutions	Investment Companies	Others	Total
Balance at the beginning of the year	16,088,102	6,125,125	11,267,312	33,480,539
Net provision for impairment for the year	–	–	–	–
Balance at the end of the year	16,088,102	6,125,125	11,267,312	33,480,539

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 December 31, 2014.

##### 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.

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### 5. Risk Management (continued)

#### 5.1 Credit Risk (continued)

##### 5.1.2 Concentration Risk (continued)

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	4,115,042	4,462	–	4,119,504
Deferred payment sale receivables	3,680,203	–	–	3,680,203
Other assets	888,290	–	5,282	893,572
Total	8,683,535	4,462	5,282	8,693,279

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	4,119,504	–	–	4,119,504
Deferred payment sale receivables	–	3,680,203	–	3,680,203
Other assets	887,733	–	5,839	893,572
Total	5,007,237	3,680,203	5,839	8,693,279

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	–
Counterparty # 2 – Individual – Individual Counterparty – 15% limit	3,680,203
Counterparty # 3 – Individual – Restricted Investment – 30% limit	–
Counterparties – Closely Related – Including Counterparties 2 & 3	4,881,545



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### 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	10,874,745	6,306,809
Kuwait	25,890,194	25,890,194
Other countries	1,283,536	1,283,536
Total	38,048,475	33,480,539

#### 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 December 31, 2014:

Particulars	20% decrease	20% increase
Investments at fair value through statement of income	(37,084)	37,084

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.

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### 5. Risk Management (continued)

#### 5.2 Market Risk (continued)

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

Particulars	Gross exposure as at December 31, 2014	Risk weighted assets (RWA) as at December 31, 2014	Capital requirements @ 12% of RWA as at December 31, 2014	Maximum capital requirement during the year	Minimum capital requirement during the year
Equity Position	185,422	370,844	44,501	70,539	44,501
Foreign Exchange Position	1,922,714	1,922,714	230,726	247,842	230,726

##### 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 December 31, 2014:

Currency	(US\$ Equivalent)
Bahraini Dinar	31,137,828
Kuwaiti Dinar	1,922,714
United Arab Emirates Dirham	1,537,155

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 December 31, 2014:

Currency	5% decrease	5% increase
Kuwaiti Dinar	(96,136)	96,136

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

#### 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 and identification of Key Risk Indicators.

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.

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### 5. Risk Management (continued)

#### 5.3 Operational Risk (continued)

##### 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.

##### 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 in accordance with Basel II risk categorization framework.

The Bank has embellished a disaster recovery site to ensure timely recovery of system and restoration of critical business process in the event of disaster.

##### 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	1,135,797	2,129,618	170,370

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	1,135,797
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

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### 5. Risk Management (continued)

#### 5.3 Operational Risk (continued)

##### 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:

- On March 7, 2004, the Bank entered into a sale and purchase agreement with a financial institution to purchase shares of a related party for a total consideration of US\$ 5,811,957 including six-month deferred payment costs of US\$ 141,755. Concurrently the Bank has entered into an agreement with another related party to sell the same shares for a total consideration of US\$ 5,821,958 including deferred payment costs of US\$ 151,755, payable on September 30, 2004.

In accordance with the terms of the agreement, the Bank pledged certain own equity investments in addition to subsequent dividend shares received, in favour of the financial institution, the carrying value of which as at December 31, 2014 amounted to US\$ 3,380,467 (US\$ 2,894,235 as at December 31, 2013) and dividends receivable up to 2006 totalling US\$ 887,733.

As the date of signature of both agreements, the net remaining amounts due to the financial institution and due from the related party amounted to US\$ 3,670,202 and US\$ 3,680,203 respectively (excluding deferred payment costs). No further settlements were made and the agreement was terminated by the financial institution, which retained the Bank's pledged shares. The Bank's management considered that the agreement was wrongfully terminated and pledged shares were unlawfully retained. The Bank has filed a legal case before the Courts of Bahrain against the financial institution for repossession of the pledged share, which are currently under the custody of the Court with the related dividends discussed above. Further a cheque in the amount of US\$ 3,680,203 representing the amount due to the Bank on the deferred sale of shares was drawn by that related party and deposited at the Court.

In the opinion of the Bank's management, no provision is required to be made in the financial statements against the pledged shares or against any contingent liabilities that might arise on the final settlement.

- In 2004, a related party entered into a Murabaha financing agreement with a financial institution against the pledged of 18,840,341 equity shares, of which 8,352,705 owned by the Bank with a carrying value at that time of US\$ 5,760,487, and the remaining 10,487,636 shares owned by the borrowing related party and another related party.

Also on November 1, 2004 the Bank obtained from the above related party a one year financing totalling US\$ 3,229,064 including financing cost of US\$ 134,295 by virtue of a Murabaha contract.

Following the default of the related party, the case was brought to Court, which ruled in favour of the financial institution and ordered the settlement of the outstanding balance of BD 2,236,191 (US\$ 5,931,541) in addition to annual profit of 3% effective April 2011 and settlement of legal costs.

As no settlement was made by any of the parties that had pledged the shares in guarantee of the financing agreement as stated above, the Court appointed in 2013 a broker to auction all the 18,840,341 pledged shares in one bulk. A number of unsuccessful auctions were held at varying starting prices; however no potential buyers indicated their interest and the shares are yet to be sold.

In recognition of the Bank's liability, the management decided to write down to zero the value of its 8,352,705 pledged shares and valued the remaining same shares (2,912,950 shares) in its portfolio at BD 0.100 (US\$ 0.2652) per share, being the lowest bidding price up to the 2014 year end. Subsequent to the year end in April 2015, the 8,352,705 shares were liquidated at an auction price of BD 0.100 per share.

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

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### 5. Risk Management (continued)

#### 5.4 Liquidity Risk (continued)

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 2014	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	4,120,830	–	–	4,120,830	–	–	4,120,830
Equity Investments	–	–	185,422	185,422	–	6,159,713	6,345,135
Deferred payment sale receivables	3,680,203	–	–	3,680,203	–	–	3,680,203
Investment in real estate	–	–	–	–	–	23,616,756	23,616,756
Other assets	5,282	–	45,495	50,777	–	901,553	952,330
Fixed assets	–	–	–	–	–	66,819	66,819
Total assets	7,806,315	–	230,917	8,037,232	–	30,744,841	38,782,073

Period 2014	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	–	–	–	–	–	6,944,282	6,944,282
Other liabilities	52,567	62,916	413,088	528,571	–	17,513	546,084
Total liabilities	6,951,833	62,916	413,088	7,427,837	–	6,961,795	14,389,632
Cumulative Liquidity Gap	854,482	791,566	609,395	609,395	609,395	24,392,441	

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### 5. Risk Management (continued)

#### 5.4 Liquidity Risk (continued)

Following are the key liquidity ratios as at December 31, 2014:

Description	Ratio
Short Term Assets : Total Assets	20.7%
Short Term Assets : Short Term Liabilities (Times)	1.08

#### 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 Bank does not have any assets which are exposed to rate of return risk.

#### 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 December 31, 2014:

Particulars	20% decrease	20% increase
Investments at fair value through equity	(1,146,207)	1,146,207

##### 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 respective 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	5,731,036	428,677
Investment in managed funds	–	–
Total	5,731,036	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:

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### 5. Risk Management (continued)

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

##### 5.6.2 Equity based financing (continued)

Particulars	Amount
Cumulative realized gains (losses) arising from sales or liquidations in the reporting period	–
Total unrealized gains (losses) recognized in the statement of financial position but not through the statement of income	2,316,221
Unrealized gains (losses) included in Tier One Capital	–
Unrealized gains (losses) included in Tier Two Capital	1,042,300

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	4,735,123	568,215
Investment in managed funds	–	–
Total	4,735,123	568,215

#### 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 December 31, 2014 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			–

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### 6 Restricted Investment Accounts (continued)

\* 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 affect the transfer of the IIG shares to the restricted investment account holder.

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

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

#### \*\*\* Managed Portfolio

During 2004, the Bank signed a Portfolio Management Agreement with some related parties. The underlying assets of the portfolio comprise the shares of one of the related parties that is also a partial owner of the portfolio.

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

The Bank's Board of Directors had resolved to write down the value of these shares to zero in the latter part of 2013 based on the performance of these shares and / or the lack of information to support the carrying value of these shares.

### 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 December 31 comprise:

	2014	2013
Assets	4,881,545	4,881,545
Liabilities	3,277,993	3,373,546
Restricted Investment Accounts	–	–

Significant transactions with related parties include:

	2014	2013
Income	–	(1,715,715)
Expenses	84,462	60,953
Provision for impairment	–	44,110
Other comprehensive loss	–	(101)



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### 7 Related party transactions (continued)

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:

	2014	2013
Salaries, short term benefits and post employment benefits	140,541	236,691



