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Investors Bank B.S.C. (c)

Public Disclosures Document

June 30, 2014

(All amounts in US$)

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1 Executive Summary

Basel 2 based guidelines of the Central Bank of Bahrain [“the CBB”] outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from January 1, 2008 in the Kingdom of Bahrain.

This document encompasses the detailed public disclosure requirements and contains a description of following major aspects of Investors Bank [“the Bank” or “IB”]:

Capital Adequacy Policies and Practices; and Risk Management

The Bank has adopted the Standardised Approach to determine the capital requirement for credit risk and market risk, and the Basic Indicator Approach for operational risk.

The disclosed Tier 1 and total capital adequacy ratios comply with the minimum capital requirements under the CBB’s Basel 2 framework.

2 Management Discussion and Analysis

During the first half of the year 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 the second half of 2014, growth is expected to accelerate progressively and the Bank management is optimistic of returning to profitability.

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

For the period ended 30 June 2014 the Bank cash and balances with banks has reached US$ 1,463,261 compared to US$ 768,919 for the year ended December 31, 2013.

Financial ratios for five years:

Ratio name	June 2014	December 2013	December 2012	December 2011	December 2010
ROAE	0.90	-20.32	-19.82	-13.31	-51.58
ROAA	0.62	-14.78	-15.87	-11.08	-45.28
STAFF COST/INCOME	39.42	115.68	58.29	294.85	N/A
COST/INCOME	78.55	788.10	490.76	1,575.47	N/A
EPS ($)	0.0008	-0.02	-0.02	-0.02	-0.11

3 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.

3.1 Capital Structure

The Bank has capital in the form of equity and does not have any other equity related instrument including innovative, complex or hybrid capital instruments.

CAPITAL STRUCTURE		
Components of capital	**Tier One**	**Tier Two**
Core capital - Tier I:		
Issued and fully paid ordinary shares	80,000,000	-
Legal / statutory reserves	7,409,515	-
Accumulated losses	(67,024,045)	-
Tier 1 Capital	**20,385,470**	**-**
Current interim profits	-	205,458
Unrealized gross gains arising from fair valuing equities (45% only)	-	1,233,004
Tier 2 Capital	**-**	**1,438,462**
Total Available Capital	**20,385,470**	**1,438,462**
Deductions:		
Excess amount over maximum permitted large exposure limit		
- Tier 1	(823,295)	-
- Tier 2	-	(823,295)
Net Available Capital	**19,562,175**	**615,167**
Total Eligible Capital		**20,177,342**

3.2 Capital Adequacy

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

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	293,779	35,253
- Due from a financial institution	530,769	63,692
- Investments at fair value through equity		
- Listed equities	4,435,551	532,266
- Unlisted equities	466,365	55,964
- Deferred payment sale receivables	2,374,263	284,912
- Investment in real estate	36,137,744	4,336,529
- Other assets	956,593	114,791
- Fixed assets	73,050	8,766
Total Credit Risk	45,268,114	5,432,173
Market Risk		
- Equity position risk	554,892	66,587
- Foreign exchange risk	2,064,851	247,782
Total Market Risk	2,619,743	314,369
Total Operational Risk	1,616,336	193,960
Total Risk Weighted Assets (a)	49,504,193	
Total Eligible Capital (b)	20,177,342	
Total Capital Adequacy Ratio [(b)/(a)]		**40.76%**

4 Risk Management

The Bank is exposed to the credit, market and liquidity risk during the course of its business along with other operational risks.

The Bank's Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established an Executive Committee (EXCOM), a board level sub committee that is responsible for developing and monitoring the Bank's operations and policies across various functions including the risk management framework.

The Bank's Audit Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by outsourced Internal Audit function.

The Bank has 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.

4.1 Credit Risk

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

The Bank's credit risk arises mainly from balances with banks, 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	1,461,935	1,374,071
Due from a financial institution	2,653,846	2,653,831
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	929,621	930,562
Total	8,725,605	8,638,667

* These have been computed based on a quarterly average.

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

The Bank continues to have certain exposures, originated in earlier years that exceed the limit stipulated under the CBB guidelines and the internal limit structure of the Bank.

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

For "Balances with banks", the Bank uses ratings assigned by External Credit Assessment Institutions ["ECAI"] for risk assessment and calculating risk weighted equivalents. ECAIs considered by the Bank are Standard and Poor's, Moody's and Fitch.

Analysis of Bank's exposure to Credit Risk (Past due and impaired):

	Banking and financial institutions	**Investment Companies**	**Others**	**Total**
Past due but not impaired Islamic financing contracts	926,366	3,680,203	-	4,606,569
Impaired financing contracts	16,088,102	6,125,125	11,267,312	33,480,539
Total	17,014,468	9,805,328	11,267,312	38,087,108

Aging of past due and impaired financing contracts:

	Banking and financial institutions	Investment Companies	Others	Total
Less than 3 months	38,633	-	-	38,633
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	17,014,468	9,805,328	11,267,312	38,087,108

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 June 30, 2014.

4.1.1 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.

4.1.2 Concentration Risk

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

The Bank's assets exposed to credit risk are distributed over the following geographical areas:

Own capital

Asset category	Geographic area			
	Bahrain	Kuwait	Other countries	Total
Balances with banks	1,457,297	4,638	-	1,461,935
Due from a financial institution	2,653,846	-	-	2,653,846
Deferred payment sale receivables	3,680,203	-	-	3,680,203
Other assets	926,923	-	2,698	929,621
Total	8,718,269	4,638	2,698	8,725,605

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

Own capital

Asset category	Industry sector			
	Banks and financial institutions	Investment companies	Others	Total
Funded				
Balances with banks	1,461,935	-	-	1,461,935
Due from a financial institution	2,653,846	-	-	2,653,846
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Other assets	926,366	-	3,255	929,621
Total	5,042,147	3,680,203	3,255	8,725,605

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

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	10,913,378	6,306,809
Kuwait	25,890,194	25,890,194
Other countries	1,283,536	1,283,536
Total	38,087,108	33,480,539

4.2 Market Risk

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

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

The Bank has following sources of market risk:

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

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

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

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

The following table demonstrates the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's statement of income based on the statement of financial position as of June 30, 2014:

Particulars	20% decrease	20% increase
Investments at fair value through statement of income	(55,489)	55,489

As part of the overall market risk strategy, the Bank attempts to proactively measure and monitor market risk in its portfolio using appropriate measurement techniques (standardised measurement methodology suggested by CBB). Additionally, in order to control market risk the Bank holds sufficient capital in line with Pillar 1 regulatory capital requirements of the CBB. The Bank has also established a limit structure to provide a ceiling on the market risk exposure that can be taken by the Bank.

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

Particulars	Gross exposure	Risk weighted assets (RWA)	Capital requirements @ 12% of RWA	Maximum capital requirement during the year	Minimum capital requirement during the year
Equity Position	277,446	554,892	66,587	70,539	66,587
Foreign Exchange Position	2,064,851	2,064,851	247,782	247,842	247,782

4.2.1 Currency Risk

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

The Bank had the following net foreign currency exposures as at June 30,2014:

Currency	(US$ Equivalent)
Bahraini Dinar	26,524,396
Kuwaiti Dinar	2,064,851
United Arab Emirates Dirham	1,007,026

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 June 30, 2014:

Currency	5% decrease	5% increase
Kuwaiti Dinar	(103,243)	103,243

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

4.3 Operational Risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events which includes but is not limited to legal risk and Shari'a compliance risk. This definition excludes strategic and reputational risk.

The Bank has implemented an operational risk framework of the Basic Indicator Approach ["BIA"], as defined by the CBB guidelines. This framework includes measuring, monitoring and managing operational risk across the Bank. This framework uses tools like Risk and Control Self Assessment, identification of Key Risk Indicators.

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.

4.3.1 Risk and Control Self Assessment

The Bank has established RCSA methodology to provide an annual, forward-looking process for identifying and assessing risks, evaluating controls, establishing thresholds for risks and controls and determining the appropriate level of risk mitigation.

This process will enable the Bank to better understand its risk profile and ensure that operational risk-taking is aligned with the Bank's risk appetite.

RCSA exercise is undertaken on an annual basis by the business and support units in co-ordination with RMD. The Bank has been performing RCSA of its activities on an annual basis since 2008.

4.3.2 Operational Risk Loss Database

The Bank has a policy to collect loss events' information for preparing Operational Risk Loss Database. The functional units of the Bank have to map their risk events and collect/record related operational loss event data as defined in the Basel II Accord. This data tracking provides a mechanism for early reporting and response to operational risk events and losses.

On occurrence basis, all process owners collect and record operational risk loss event data, using the template provided by the RMD in accordance with Basel II risk categorization framework.

The RMD is responsible for maintaining a comprehensive database for loss events reported as per the Basel II guidelines.

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

4.3.3 Operational Risk capital charge

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

Particulars	Average gross income	Risk weighted exposures	Capital charge
Operational risk	862,046	1,616,336	129,307

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

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

Particulars	Amount
Gross Income	862,046
Amount of non-Shari'a-compliant income	None
Number of Shari'a violations that were identified and reported during the financial year	None

The non-Shari'a compliant income is the interest income on the Bank's current accounts and forms part of undistributed charity funds (as approved by the Shari'a Board).

As per the CBB rulebook, Gross income is defined as:

Net income from financing activities which is gross of any provisions, operating expenses, realised profits/losses from the sale of securities in the banking book, and depreciation of Ijarah assets;

Net income from investment activities; and

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

Less

Investment account holders' share of income

Takaful income

4.3.4 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 sale and purchase agreement, the Bank pledged certain own equity investments in addition to subsequent dividend shares received, in favour of the financial institution, which carrying value of as at June 30, 2014 amounted to US$ 3,658,314 (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 are 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 cases.

  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.

- 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.

4.4 Liquidity Risk

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

It is the Bank's policy to keep a significant part of its assets in liquid assets such as investments at fair value through statement of income and investment at fair value through equity. The Bank funds its exposures mainly from equity and does not take restricted or unrestricted deposits to fund its exposures.

The Bank has established a limit structure to monitor the prevailing liquidity position and to control negative mismatches that may affect the fulfilment of short term obligations of the Bank.

The maturity profile of for cash and cash equivalents, Murabaha payables has been presented using contractual cash flows.

For other balances, maturity profile is based on expected cash flows/ settlement profile.

Period June 30, 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	1,463,261	-	-	1,463,261	-	-	1,463,261
Due from a financial institution	2,653,846	-	-	2,653,846	-	-	2,653,846
Equity Investments	-	-	277,446	277,446	-	6,583,501	6,860,947
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	3,680,203
Investment in real estate	-	-	-	-	-	18,068,872	18,068,872
Other assets	41,331	-	37,586	78,917	-	901,553	980,470
Fixed assets	-	-	-	-	-	73,050	73,050
Total assets	7,838,641	-	315,032	8,153,673	-	25,626,976	33,780,649

Period June 30, 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	-	-	-	-	-	2,885,300	2,885,300
Other liabilities	139,475	174,300	332,332	646,107	-	19,039	665,146
Total liabilities	7,038,741	174,300	332,332	7,545,373	-	2,904,339	10,449,712
Cumulative Liquidity Gap	799,900	625,600	608,300	608,300	608,300	23,330,937	

Following are the key liquidity ratios as at June 30, 2014:

Description	Ratio
Short Term Assets : Total Assets	24.10%
Short Term Assets : Short Term Liabilities (Times)	1.08

4.5 Rate of Return Risk

Rate of return risk arises due to different timing of re-pricing of the Bank's assets and liabilities. The Bank's exposure to rate of return risk is limited to due from a financial institution. The amount due from a financial institution as of June 30, 2014 is US$ 2,653,846.

The Bank does not have significant rate of return risk sensitivity due to the short-term nature of its balances with banks.

4.6 Equity Price Risk in the Banking book

Equity price risk is the risk that quoted equity investments will depreciate in value due to movements in the quoted equity prices. The Bank has a few listed equity exposures in the investments at fair value through equity portfolio. The price movement of these exposures are closely monitored by the Bank and reported to the management.

Sensitivity Analysis:
The following table demonstrates the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's equity based on the statement of financial position as of June 30, 2014:

Particulars	20% decrease	20% increase
Investments at fair value through equity	(1,230,965)	1,230,965

4.6.1 Valuations Policy

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

4.6.2 Equity based financing

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

Types And Nature of Investments		
	Publicly traded	**Privately held**
Investment in shares	6,154,824	428,677
Investment in managed funds	-	-
Total	6,154,824	428,677

Additionally the Bank has following cumulative realized gains or losses arising from sales or liquidations, total unrealized gains and losses recognized in the statement of financial position but not through the statement of income, and any unrealized gains

and losses included in Tier 1 and Tier 2 capital:

Particulars	**Amount**
Cumulative realized gains (losses) arising from sales or liquidations in the reporting period	-
Total unrealized gains (losses) recognized in the statement of financial position but not through the statement of income	2,740,009
Unrealized gains (losses) included in Tier One Capital	-
Unrealized gains (losses) included in Tier Two Capital	1,233,004

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	4,901,916	588,230
Investment in managed funds	-	-
Total	4,901,916	588,230

4.7 Displaced Commercial Risk

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

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

4.8 Risks Mitigation

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

5 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 June 30, 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			-

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

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

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

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

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

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

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 theses shares.

6 Related party transactions

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

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

As per the Investment Policy (approved in July 2010), adequate due-diligence should be carried out before undertaking any investment exposure (whether to a related party or an outside investment).

Additionally all the exposures to connected counterparties are justified only when undertaken for the clear commercial advantage for the Bank, when negotiated and undertaken on terms agreed between the parties which may not be necessary be on an arm's length basis and when included in the policy statement agreed with CBB. The investments in related parties need to be approved by the BOD and a prior approval from the CBB is also required.

Significant balances with related parties comprise:

	June 30, 2014	**December 31, 2013**
Assets	4,920,178	4,881,545
Liabilities	3,404,960	3,373,546
Restricted Investment Accounts	-	-

Significant transactions with related parties at June 30 include:

	2014	2013
Income	38,633	(24,858)
Expenses	20,751	25,266
Provision for impairment	-	9,312
Other comprehensive loss	-	(43)

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 at June 30 is as follows:

	2014	2013
Salaries, short term benefits and post employment benefits	115,888	118,040