

**Investors Bank BSC (c)
Public Disclosures Document
2010**

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1 Executive Summary

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

This document encompasses the detailed qualitative and quantitative public disclosure requirements (to enhance corporate governance and transparency). The document contains a description of following major aspects of Investors Bank [“the Bank” or “IB”]:

- Corporate Governance;
- Capital Adequacy Policies and Practices; and
- Risk Management

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

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

The disclosures in this report are in addition to the disclosures set out in the financial statements for the year ended 31 December 2010 in accordance with Financial Accounting Standards issued by the Auditing Organisation for Islamic Financial Institutions and the Shari’a rules and principles as determined by the Shari’a Supervisory Board of the Bank.

2 Management Discussion and Analysis

During the year 2010, the global financial markets did not completely recover from the financial meltdown. The financial activity in the region was subdued during the period. Although the region is witnessing some improvement because of the higher oil prices, the Banking and financial sectors on account of slow credit activity remain as a hindrance in the way of the recovery.

GCC banking sector reported drops in net profit in year 2010. It was seen to be another very difficult year on account of defaults by many banks and companies as well as losses related to the unpaid loans still not disclosed. The GCC governments should make efforts to stimulate credit and support financial order and supervision.

Investors Bank was also not immune to the prevailing economical slowdown. The Bank suffered a drop in the market prices of "held for trading investments" to the tune of US\$ 3,402,560 (2009: US\$ 69,453). Additionally the Bank had to make net provision for impairment of US\$ 22,089,835 (2009: US\$ 17,771,243) on account of a drop in the market value of its real estate, held for sale investments and revaluation of receivables. Hence, the Bank reported a net loss of US\$ 27,277,875 (2009: US\$ 21,216,840) for the year ended 31 December 2010.

During the year 2010 the Bank did not undertake any new investment transactions, except exiting from certain investments.

We believe that the drop in real estate and investments prices is temporary and our efforts to recover the receivables continue.

The Bank believes that 2011 would be a challenging year for the Banking sector as a whole and Investors Bank in particular. The Bank is currently attempting to restructure its activities and implement robust internal processes as per the guidelines of Central Bank of Bahrain. The delicate and uncertain economic situation demands caution in business approach in the immediate future. We are, therefore, exploring avenues to generate income from the real estate while keeping on eye on the opportunities to book capital gains once the market conditions improve.

Financial ratios for 2010

Ratio name	Ratio
ROAE	-51.58
ROAA	-45.28
STAFF COST/INCOME	N/A
COST/INCOME	N/A
EPS	-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

On an individual basis, the following is the distribution of ownership by Board of Directors:

Name	No. of shares	Ownership percentage
Ahmed Shabib Al Dhaheri	2,579,393	1.06%

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

3.1.2 Distribution of ownership by nationality

Country	No. Of Shares	Ownership %
Kuwait	198,149,182	81.74%
Bahrain	31,419,793	12.96%
Qatar	6,934,298	2.86%
UAE	5,266,423	2.17%
Oman	130,909	0.05%
KSA	523,637	0.22%
Total	242,424,242	100.00%

3.1.3 Distribution of ownership of shares by size of shareholder

Ownership size	No of shareholders	Total ownership
0-5%	105	37.95%
5-15%	2	12.70%
>15%	2	49.35%

3.1.4 Ownership by Govt.

No sovereign Govt. owns any shares in the Investors Bank

3.2 The Board of Directors

The Board of Directors is responsible for approving the Bank's overall business strategy, monitoring its operations, and taking critical business decisions. The Board, elected by the shareholders, is the ultimate decision making body of the Bank and has the following broad responsibilities, as enunciated in the Corporate Governance Manual of the Bank:

- Providing effective governance over the Bank's affairs for the benefit of its shareholders, employees, customers and other stakeholders;
- overseeing the conduct of the Bank's business so that it is effectively managed in the long-term interest of shareholders;
- selecting, evaluating and compensating the Chief Executive Officer (CEO) and planning for CEO succession, as well as monitoring management's succession planning for other key executives;
- reviewing, approving and monitoring the Bank's strategic plans and objectives;
- approving the policies of the Bank with respect to various risks and for ensuring that the management takes the steps necessary to identify, measure, monitor, and control these risks. The Board shall also approve policies that identify lines of authority and responsibility for managing risk exposures.
- monitoring the Bank's accounting and financial reporting practices and reviewing the Bank's financial and other controls; and
- overseeing the Bank's compliance with applicable laws and regulations.

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 Board of Directors (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 PricewaterhouseCoopers (PWC), Bahrain in 2009

As per the Articles of Association of the Bank, the Board should have not less than three and not more than 9 members. Currently the Bank has six members on its Board of Directors, of which the following two are independent:

- Mr. Ahmed Shabib Al Daheri
- Mr. Hamad Al Ghanem

Currently the Bank does not have a pre-defined process to induct, educate and orient new directors.

3.2.1 The election system of the Board of Directors

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

Dr. Abdulaziz Al Jenaei – Chairman

Dr. Al Jenaei is in the Board of Investors Bank since 10th June 2007. He has a Doctorate degree in comparative Fiqh (Jurisprudence), from Azhar University in Egypt. He has over 30 years experience in various fields including Sharia supervisory in a number of Islamic investment companies, Research, Shari'a and Islamic education etc. He is currently the Vice Chariman and Chief Executive Officer of Grand Real Estate Company, Kuwait. He has been an Assistant Undersecretary of Awqaf (Endowments) and Islamic Affairs, Cultural Affairs, Member of the Board of Directors of Research Centre for History, Arts and Culture (Istanbul), Media Advisor in supreme advisory committee aiming at fulfilment of implementation of Islamic Shari'a provisions, Seconded Professor at Faculty of Shari'a, Seconded Professor at the Public Authority for Applied Education etc. Dr. Al Jenaei has attended various training courses including on Strategic Planning and Top Management (London), Motivation Strategies, leadership and Crisis Management, Change Strategy Management etc.

Additionally, Dr. Al Jenaei has been an active contributor for the benefit of society. Dr. Al Jenaei is the Mosque orator on Fridays, Imam for His Highness, Amir of Kuwait. Dr. Al Jenaei is also an Ex-member of the Board of Literacy Supreme Council, Shari'a authenticator since 1986 etc.

Mr. Hamad Abdulla Al Ghanim - Vice Chairman

Mr. Al Ghanim has around 27 years experience in Banking, Overseas Trading and Managing Investments Projects. He is currently the General Manager of First Holding Company and also the Chairman of Wara Constructions Company. He has been a Board Member of Central Bank of Kuwait, Assistant Deputy Minister of Ministry of Commerce and Industry and also the Investment Projects Manager of the Kuwaiti Company for Trading and Contracting and Foreign Investments.

Mr. Al Ghanim has been in the Board of Directors of Investors Bank since 29th April, 2010

Educationally, Mr. Al Ghanim has a Bachelor degree in Business Management from Sonoma State University in U.S.A.

Mr. Ahmed Shabib Al Dhahery – Member

Mr. Dhahery is the Executive Director of the Abu Dhabi Investment Authority. He is also a Board member in Tunis and Emirates Bank (Tunis), Federal National Council, National Advisory Council for College of Business Sciences (Zyed University, Abu Dhabi), Arab Tourism Organisation, Al Ain Sports Club etc. He has been a Board Member of Gulf Air Company, Abu Dhabi Fund for Development etc.

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

Educationally, currently Mr. Dhahery is enrolled in Abu Dhabi University for Master of Human Resources Management Program. He is also an MBA from Abu Dhabi University, Master in International Business from Ecole Nationale Des Ponts Et Chaussees (ENPC) – Paris and is Bachelor in Economics from University of La Verne – California, USA.

Mr. Ghassan Al Sultan – Member

Mr. Sultan has more than 29 Years of experience in real estate and investments. Mr. Sultan is currently the Chairman of the Board of Gulf Petroloum Company (K.S.C.C.), also he is a Board Member of Salloum & Co. – Riviera Hotel and the Chairman and General Manager of Riviera Holding – Lenabon SAL. He has also been in the positions of Chairman and Managing Director of Gulf United real Estate and Tourism Investment Company (K.S.C.C.), Chairman- Managing Director and General Manager of Pearl of Kuwait Real Estate Company, Director of Finance and International Investments in Fahad Sultan Sons & Co. W.L.L., Managing Director of Kuwait Computer Services Company etc.

Mr. Sultan has also served on the Board of Directors in a USD 15 million Real Estate Fund managed by a joint venture between First Boston and Travelers Insurance Co., Board of Directors in a USD 20 million Venture Capital Fund, Board of Directors of IntraWest Corporation (USA).

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

Educationally, Mr. Sultan has a Bachelors Degree in Industrial Engineering from University of Portland, Oregon USA.

Mr. Isa Abdulla Al Mannai – Member

Mr. Mannai has over 29 years' experience in the Construction Industry. He is currently the Chairman of the Mannai Technical Services W.L.L., Isa Mannai Technical Services Est, Saudi Arabia, Chairman of Computer Systems Protection Chambers and Integrated Communications Co. Ltd Saudi Arabia and Director of Manorchem Engineering Pvt. Ltd in Chennai India.

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

Educationally, Mr. Mannai is MSc. (Engineering Management) from the Catholic University, Washington DC and BSc (Civil Engineering) University of Washington, Seattle.

Mr. Eyad Omar Al Serri – Member

Mr. Serri has around 18 years experience in Banking, Investment and Real Estate industry. Currently he is a Board Member of Grand Real Estate Projects Company, Kuwait. Mr. Serri has been a Board Member of Osoul Investment Company, Kuwait, Managing Director of Ajal Finance & Investment Company, Kuwait and Chairman and Managing Director of Wared Lease and Finance Company, Kuwait.

Mr. Serri is in the Board of Investors Bank since 29th April, 2010

Educationally, Mr. Serri has B.A. – Business Management from Sonoma State University in U.S.A.

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)

The Executive Committee consists of three non-executive directors of the Bank with the Chief Executive Officer (CEO) as an attendee. The EXCOM provides direction to the executive management on all business matters. The Executive Committee reviews and approves the recommendations for investment strategies, investment proposals, various products and services and where deemed necessary, also refers decisions to the Board of Directors.

The EXCOM is also responsible for business matters concerning risk management, strategy review and recommendation to the Board.

EXCOM Members:

Mr. Isa Abdulla Al Mannai – Chairman

Mr. Ghassan Al Sultan – Member

Mr. Ahmed Shabib Al Dhahery – Member (Independent)

3.4.2 Audit Committee

The Audit Committee has the responsibility to assist the Board in discharging its oversight duties relating to matters such as risk and compliance, including the integrity

of the Bank's financial statements, financial reporting process and systems, internal controls and financial controls. The Committee also liaises between the External Auditors and the Board.

Audit Committee Members:

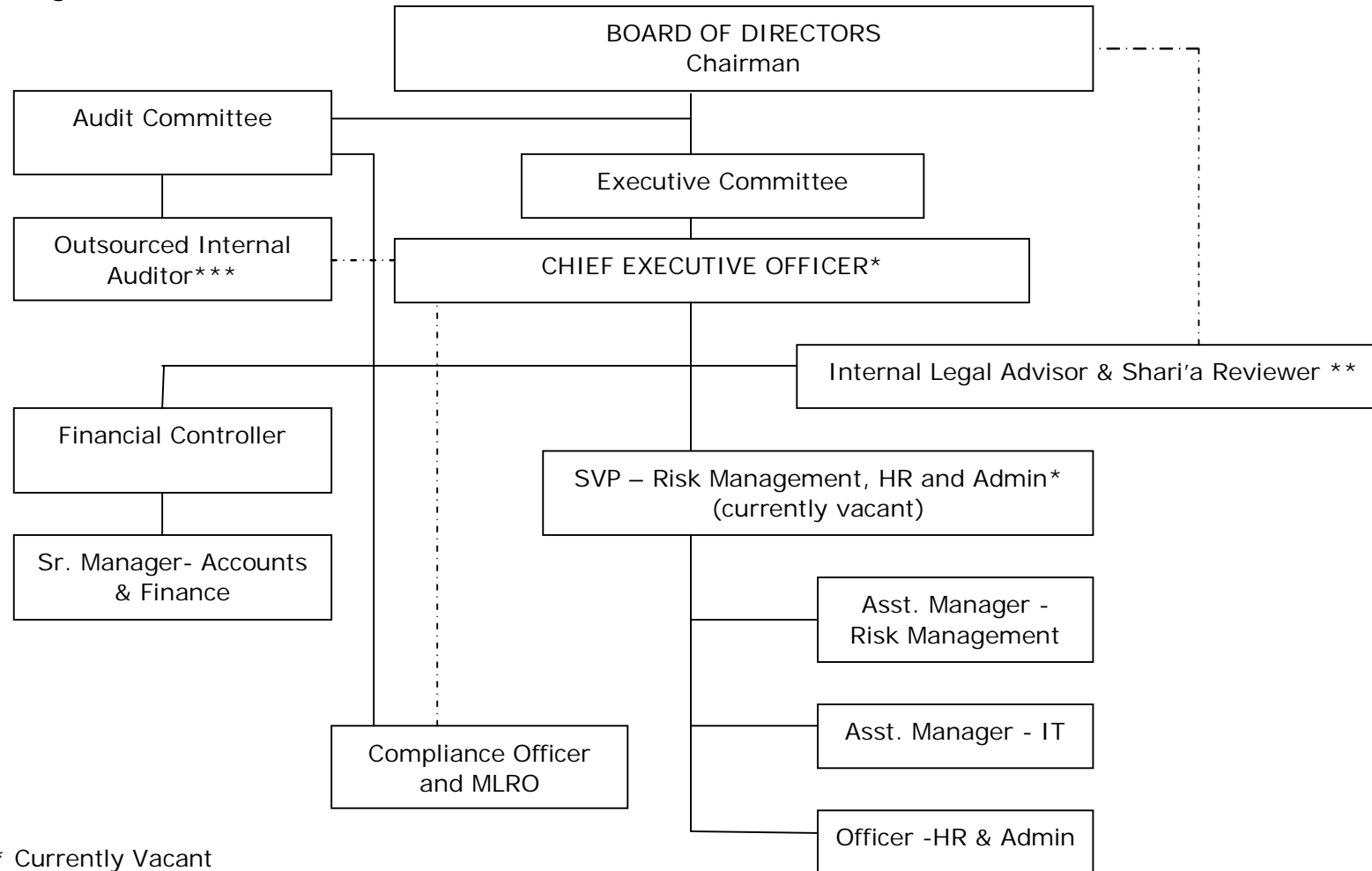
Mr. Hamad Al Ghanim – Chairman (Independent)

Mr. Eyad Al Serri – Member

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.

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

3.5 Organisational Chart 2010



* Currently Vacant

** Also the Board Secretary

*** *PriceWaterhouseCooper* (PWC) - Bahrain

3.6 Board Meetings

As per the Corporate Governance Manual, the Board is expected to meet minimum four times during a year. There were four Board and Sub Committee meeting during the 2010.

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

Date & location of meeting	Names of Directors present	Names of directors not present
13/5/2010 – Kuwait	Dr. Abdulaziz Al Jenaie	Mr. Ghassan Al Sultan
	Mr. Ahmed Shabib AIDhahery	
	Mr. Isa Al Mannai	
	Mr. Abdulwahab A'amer	
	Mr. Hamad Al Ghanim	
	Mr. Eyad Al Serri	
5/7/2010 – Kuwait	Dr. Abdulaziz Al Jenai	Mr. Ahmed Shabib AIDhahery
	Mr. Ghassan Al Sultan	Mr. Hamad Al Ghanim
	Mr. Isa Al Mannai	Mr. Abdulwahab A'amer (resigned)
	Mr. Eyad Al Serri	
13/10/2010 - Kuwait	Dr. Abdulaziz Al Jenaie	
	Mr. Ghassan Al Sultan	
	Mr. Isa Al Mannai	
	Mr. Ahmed Shabib Al Dhahery	
	Mr. Hamad Al Ghanim	
	Mr. Eyad Al Serri	
28/12/2010 – Kuwait	Dr. Abdulaziz Al Jenaie	Mr. Ahmed Shabib AIDhahery
	Mr. Ghassan Al Sultan	
	Mr. Isa Al Mannai	
	Mr. Hamad Al Ghanim	
	Mr. Eyad Al Serri	

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.

3.8 Management Profile

Mr. Aref Hussain, Financial Controller

Mr. Hussain has over 14 years of experience in Telecommunication sector and over 3 years of experience in the Banking sector. He has experience across project management, management reporting, international and wholesale financial services, regulatory control and financial control. His experience includes positions of head of management reporting at Bahrain Telecommunication Company (Batelco); manager of international and wholesale financial services at Bahrain Telecommunication Company (Batelco) and manager of regulatory accounts at Telecommunication Regulatory Authority (TRA - Bahrain).

Mr. Hussain holds a Bachelor degree in Accounting from University of Bahrain and is a CMA (Certified management accountant) from Institute of Management Accountants from the United States of America.

Mr. Ismaeel Omar Ahmed Elnasri, Legal Advisor (Internal), Shari'a Reviewer and Secretary to the Board of Directors

Mr. Elnasri has an extensive experience of 8 years experience in Law. He has worked as an advocate in the Commissioner's office in Khartoum and with various other law firms as a Legal Advisor in Bahrain. He also has the responsibility of the secretary to General Assembly, Executive Committee, Audit Committee, Secretary to Sharia Board and Internal Sharia Controller.

Educationally he is a B. A. in Law with first class Honors Degree, University of Elneelain, Khartoum – Sudan. Mr. Elnasri is a member of the Sudanese lawyers` Bar Association and a member of the Sudanese Network of the International Humanitarian Law. Mr. Elnasri has attended various training programs on Islamic Banking, Intellectual Property Rights, Human Rights and Human Law.

Mr. Faisal Isa, Compliance Officer and MLRO

Mr. Hussain has an experience of 6 years in the Banking and Financial institutions sector in Bahrain. He has experience and strong background in accounting and finance and good knowledge in risk management and compliance and money laundering functions. He was hired by Bahrain institute of Banking and Finance to teach accounting, finance and banking classes and to develop new offerings in these areas.

Educationally, Mr. Hussain holds a Master in Finance from Royal Melbourne Institute of Technology (RMIT), Australia, and Bachelor degree in Accounting from University of Bahrain.

Mr. Hussain reports functionally to the Audit Committee and administratively to the CEO.

3.9 Managerial Committee

The Bank does not have any managerial committee as on December 31st, 2010. The Board has approved the formation of "Investment Committee" in October 2009; however it has not been formed as on December 31st, 2010.

The committee is proposed to be the highest management level authority on all investment credit and asset liability management related decisions. The overall role of the Investment Committee as approved by the Board will be 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 expected to be headed by the CEO and will comprise of heads of other departments as members e.g. Head of Risk, Head of Investments (currently vacant), Head of Finance and Control, etc.

3.10 Remuneration and Incentives

The remuneration to the Board of Directors is governed by the Articles of Association of the Bank.

The Bank provides fixed annual fees to the Shariah 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 Articles of Association provides the guidelines for the employee incentive programme that has currently not been implemented.

3.11 Corporate Governance Events

- In June 2010, the Chairman of the Audit Committee Mr. Abdulwahab A'amer resigned as Board member and as the Chairman of Audit Committee. Mr. Hamad Abdualla Al-Ghanem was appointed as the new Chairman of the Audit Committee.
- Departure of the SVP Risk Management and Acting Chief Executive Officer – As of October 2009, Mr. Yash Parasnis, resigned from the position of the SVP Risk Management and the Acting CEO of the Bank. The Bank has not yet appointed anybody else to take over his responsibilities.
- Appointment of new Compliance Officer and MLRO – In order to segregate the duties and responsibilities of the existing Bank officials and to efficiently manage the compliance responsibilities, the Bank has appointed Mr. Faisal Isa as the Compliance Officer. Mr. Isa also has the responsibility of the Money Laundering Reporting Officer (MLRO).

3.12 Communications Policy

The Bank has a Board approved 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 disclosure policy applies to all modes of communication to the public including written, oral and electronic communications. These disclosures are made on a timely basis in a manner required by applicable laws and regulatory requirements.

Management seeks to respond to shareholders' questions and concerns on a prompt basis, subject to the limitations imposed by law and the confidentiality of certain information. The Bank maintains a website at www.investorsb.com, which includes information of interest to various stakeholders including the regulatory authorities.

Information available on the website includes the Annual Report and reviewed quarterly financials of the Bank.

3.13 Shari'a Compliance

All the transactions entered into by the Bank are presented to Shari'a Supervisory Board, which comprises of three Shari'a scholars, for review on an annual basis and to ensure that the respective agreements are in compliance the principles of Shari'a. The internal legal advisor of the Bank is also the internal 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.

3.14 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.

4 Capital Adequacy and Management

The Central Bank of Bahrain (CBB) Basel 2 guidelines became effective from 1st January 2008 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel 2 capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

Investors Bank follows 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 CBB guidelines and include:

- Tier 1: Core Capital - This includes issued and fully paid ordinary shares, statutory reserves, accumulated losses and 45% of the unrealised net gains recognised in income statement arising from fair valuing unlisted equities; and
- Tier 2: Supplementary Capital – retained profits and 45% of the unrealised gains arising on the re-measurement of fair valuing equities classified as available for sale.

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	(23,912,862)	-
Less:		
Unrealized gross losses arising from fair valuing equity securities	6,494	-
Tier 1 Capital	36,212,281	-
Unrealized gross gains arising from fair valuing equities (45% only)	-	1,192,994
Tier 2 Capital	-	1,192,994
Total Available Capital		
Deductions:		
Excess amount over maximum permitted large exposure limit		
- Tier 1	12,052,747	-
- Tier 2	-	1,192,994
Net Available Capital	24,159,534	
Total Eligible Capital	24,159,534	

4.2 Capital Adequacy

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

The Bank's policy is to maintain a capital adequacy ratio, at all times, in excess of the minimum required by CBB. The current minimum capital adequacy ratio (CAR) requirement for the Bank has been increased from 12% (in 2008) to 15%. This increase in CAR has been stipulated by CBB as the Bank did not have three years' positive gross income required for operational risk capital charge calculation (the Bank had only one year of positive income during last four years).

Risk Assets/ Categories	Risk Weighted Assets (RWA)	Capital Charge @ 15% of RWA
Credit Risk		
- Cash and cash equivalents	82,024	12,304
- Available for sale investments		
- Listed equities	7,325,642	1,098,846
- Unlisted equities	2,123,149	318,472
- Deferred payment sale receivables	1,566,274	234,941
- Investment properties	40,040,890	6,006,134
- Other assets	1,580,955	237,143
- Property and equipment	3,843,948	576,592
Total Credit Risk	56,562,882	8,484,432
Market Risk		
- Equity position risk	2,033,564	305,035
- Foreign exchange risk	4,587,029	688,054
Total Market Risk	6,620,593	993,089
Total Operational Risk	41,130,394	6,169,559
Total Risk Weighted Assets (a)	104,313,869	
Total Eligible Capital (b)	24,159,534	
Total Capital Adequacy Ratio [(b)/(a)]	23.16%	

5 Risk Management

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

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

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

The Bank has an internal risk management function to provide independent review, monitoring and control of the various risks faced by the Bank. It works closely with the executive management and other functions. Various operating departments (the business units and the support functions) primarily manage the risks of their respective functions.

The Bank has established and implemented various exposure limits as well as set levels of risk that the Bank is willing to accept in relation to its available capital. The limit structure includes single obligor level limits, large exposure limits, industry level limits, country level limits etc.

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

5.1 Credit Risk

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

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

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

The following table demonstrates Bank's credit risk exposure:

Credit Risk Exposure (all figures in US Dollars)		
	Own capital and current account	
Portfolios	Total gross credit risk exposure	Average gross credit exposure over the period *
Cash and cash equivalents	411,444	390,963
Available-for-sale investments	14,468,548	16,946,589
Deferred payment sale receivables	3,680,203	3,680,203
Investment properties	20,020,445	24,617,590
Other assets	1,594,222	3,074,111
Property and equipment	3,843,948	5,229,814
Total	44,018,810	53,939,270

* These have been computed based on a quarterly average.

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

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

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

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

	Banking and financial institutions	Investment Companies	Others	Total
Past due but not impaired Islamic financing contracts	887,733	3,680,203	179,972	4,747,908
Impaired financing contracts	15,312,239	6,125,125	12,156,253	33,593,617
Total	16,199,972	9,805,328	12,336,225	38,341,525

Aging of past due and impaired financing contracts:

	Banking and financial institutions	Investment Companies	Others	Total
Less than 3 months	-	-	-	-
3 months – 1 year	-	-	179,972	179,972
1 year – 3 years	-	-	10,872,716	10,872,716
Over 3 years	16,199,972	9,805,328	1,283,537	27,288,837
Total	16,199,972	9,805,328	12,336,225	38,341,525

Movement in specific provisions during the year:

	Banking and financial institutions	Investment Companies	Others	Total
Balance at the beginning of the year	15,312,239	6,125,126	3,998,863	25,436,228
Net provision for impairment for the year	-	-	7,682,389	7,682,389
Balance at the end of the year	15,312,239	6,125,126	11,681,252	33,118,617

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 expected cash flows or settlement in kind.

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

Own capital

Asset category	Geographic area			
	Bahrain	Kuwait	Others countries	Total
Cash and cash equivalents	393,040	18,404	-	411,444
Available for sale investments	11,188,515	2,280,033	1,000,000	14,468,548
Deferred payment sale receivables	3,680,203	-	-	3,680,203
Investment properties	16,710,875	-	3,309,570	20,020,445
Other assets	1,119,222	-	475,000	1,594,222
Property and equipment	3,843,948	-	-	3,843,948
Total	36,935,803	2,298,437	4,784,570	44,018,810

Bank's Credit Risk exposures distribution by industry or counterparty is given below:

Own capital

Asset category	Industry sector			
	Banks and financial institutions	Investment companies	Others	Total
Funded				
Cash and cash equivalents	411,444	-	-	411,444
Available for sale investments	12,785,937	244,921	1,437,690	14,468,548
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment properties	-	-	20,020,445	20,020,445
Other assets	900,995	-	693,227	1,594,222
Property and equipments	-	-	3,843,948	3,843,948
Total	14,098,376	3,925,124	25,995,310	44,018,810

The Bank does not have any unfunded exposures.

As required by CBB, the Bank may 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	5,673,107
Counterparties – Closely Related	13,183,424
Total	18,856,531

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

Impaired exposures, Past Due exposures and allowances		
Own capital		
Geographic area	Past due Islamic financing contracts	Specific impairment provision
Bahrain	4,747,908	-
Kuwait	32,310,082	32,310,082
Others countries	1,283,535	808,535
Total	38,341,525	33,118,617

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 income statement based on the balance sheet position as of 31 December:

Particulars	20% decrease	20% increase
Trading investments	(441,804)	441,804

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 @ 15% of RWA	Maximum capital requirement during the year	Minimum capital requirement during the year
Equity Position	2,209,022	2,033,565	305,035	571,799	305,035
Foreign Exchange Position	4,587,029	4,587,029	688,054	1,556,392	688,054

5.2.1 Currency Risk

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

The Bank had the following net foreign currency exposures as at 31 December 2010:

Currency	2010 (USD Equivalent)
Bahraini Dinar	34,150,155
Kuwaiti Dinar	4,587,029
United Arab Emirates Dirham	3,309,570

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 income statement based on the balance sheet position as of 31 December:

Currency	5% decrease	5% increase
Kuwaiti Dinar	229,351	(229,351)

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

5.3 Operational Risk

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

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

The operational risk framework will evolve with the changing needs of the Bank's businesses and regulatory guidance, taking into account internal and external operational risk events, business environment and internal control factors.

While individual units have direct responsibility for the control and mitigation of operational risk, the proposed framework provides a consistent methodology across the Bank. The Bank attempts to manage operational risk through appropriate controls, appropriate training to the employees, and internal checks and balances including internal audit and compliance.

5.3.1 Risk and Control Self Assessment

The Bank has established RCSA methodology to provide an annual, forward-looking process for identifying and assessing risks, evaluating controls, establishing thresholds for risks and controls and determining the appropriate level of risk mitigation. This process will enable the Bank to better understand its risk profile and ensure that operational risk-taking is aligned with the Bank's risk appetite.

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

5.3.2 Operational Risk Loss Database

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

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

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

5.3.3 Operational Risk capital charge

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

Particulars	Average gross income	Risk weighted asset	Capital charge
Operational risk	21,936,210	41,130,394	3,290,432

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	21,936,210
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 CBB rulebook, Gross income is defined as:

- Net income from financing activities which is gross of any provisions, operating expenses, realised profits/losses from the sale of securities in the banking book, and depreciation of Ijarah assets;
- Net income from investment activities; and
- Fee income (e.g. commission and agency fee)
- Less
- Investment account holders' share of income
- Takaful income

5.3.4 Legal Risk – Current Litigations and Claims

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

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

- In 2004, the Bank entered into a sale and purchase agreement with a local financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution was US\$ 3,670,202. In accordance with the terms of the agreement, the Bank pledged

certain of its investments with a carrying value of US\$ 6,321,010 as at 31 December 2008. Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged investments have been retained by the financial institution. In the opinion of the Bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the Bahrain courts against the financial institution for wrongful possession of investments. As a result, the court has taken custody of the shares under dispute. The related party on whose behalf the transactions was entered has provided a manager's cheque for an equal amount which has been deposited with the court. This amount is included under deferred payment sale receivables.

- On 20 December 2006 Investors Bank (IB) has signed a mortgage agreement with The Arab Investment Company (TAIC) in order to pledge number of 7954985 from the shares of Takaful Insurance company – Bahrain in favour of and as security of the facility Murabaha 10,000,000 US\$ provided to International Investment Group- Kuwait (IIG) from TAIC. IIG did not be able to meet its obligations and debt has been rescheduled to IIG for several times without any tangible payment. As a result of no payment from IIG to TAIC, on 17 February 2009 TAIC has sent a legal notice to IIG whereby TAIC will direct all actions and measures provided by law to recover the debt owed to IIG, including revoking of the mortgage agreement, IB has come to know that TAIC has already begun to take legal proceedings in selling IB pledge shares to TAIC. IB took the decision to take its legal action against TAIC in order to protect its interest as soon as possible but the Bahrain chamber for dispute resolution has decline the case.
- The related party on whose behalf the transaction was entered into has also agreed to reimburse the Bank for legal expenses and any losses arising on final settlement with the financial institution. Accordingly, in the opinion of the directors, no provision is required to be made in the financial statements against the investments pledged with the financial institution or for contingent claims that might arise on final settlement.
- There are three labour cases running against the bank from three former employees seeking compensations as a result of alleged unfair termination of their services with the bank. The Bank's legal position is strong and a material liability to the Bank is not expected from the cases.

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

5.4 Liquidity Risk

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

It is the Bank's policy to keep a significant part of its assets in liquid assets such as trading and available-for-sale investments.

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.

Assets	Up to 1 month	1 to 3 months	3 months to 1 year	Within 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
Cash and cash equivalents	411,444	-	-	411,444	-	-	-	411,444
Investments	-	-	2,209,022	2,209,022	-	-	14,468,548	16,677,570
Deferred payment sale receivables	3,680,203	-	-	-	-	-	-	3,680,203
Investment properties	-	-	-	-	-	-	20,020,445	20,020,445
Other assets	-	-	7,110	7,110	31,144	-	1,555,968	1,594,222
Property & equipment	-	-	-	-	-	-	3,843,948	3,843,948
Total assets	4,091,647	-	2,216,132	6,307,779	31,144	-	39,888,909	46,227,832

Liabilities	Up to 1 month	1 to 3 months	3 Months to 1 year	Within 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	-	3,229,064
Other liabilities	92,272	155,557	168,729	416,558	-	-	48,626	465,184
Total liabilities	6,991,538	155,557	168,729	7,315,824	-	-	48,626	7,364,450
Cumulative Liquidity Gap	(2,899,891)	(3,055,448)	(1,008,045)	(1,008,045)	(976,901)	(976,901)	38,863,382	

Following are the key liquidity ratios as at 31 December 2010:

Description	Ratio
Short Term Assets : Total Assets	0.12
Short Term Assets : Short Term Liabilities	12.0

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 cash and cash equivalents. The cash and cash equivalents amount as on 31st December 2009 is USD 612,263. The Bank does not have significant rate of return risk sensitivity due to the short-term nature of its cash and cash equivalents.

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 available-for-sale 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 balance sheet position as of 31 December:

Particulars	20% decrease	20% increase
Available-for-sale investments	(2,495,367)	2,495,367

5.6.1 Valuations Policy

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

5.6.2 Equity based financing

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

Types And Nature of Investments		
	Publicly traded	Privately held
Investment in shares	12,476,836	1,778,726
Investment in managed funds	-	212,985
Total	12,476,836	1,991,711

Additionally the Bank has following cumulative realized gains or losses arising from sales or liquidations, total unrealized gains and losses recognized in the balance sheet but not through the profit and loss statement, 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	291,792
Total unrealized gains (losses) recognized in the balance sheet but not through P&L	2,644,604
Unrealized gains (losses) included in Tier One Capital	(6,494)
Unrealized gains (losses) included in Tier Two Capital	1,192,994

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

Equity grouping	Risk weighted assets (RWA)	Capital requirements @ 15% of RWA
Investment in shares	9,316,131	1,397,420
Investment in managed funds	132,659	19,899
Total	9,448,790	1,417,319

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.

6 Restricted Investment Accounts

The Bank has not, as a focused business proposition, opened Investment Accounts or accepted Investment Account deposit (restricted or unrestricted) except for certain transactions involving related parties in three cases and hence does not have any formal policies and procedures. The specific RIAs were opened according to the underlying arrangements. The Bank accepted certain funds from a related party in 1999 under a Mudaraba arrangement which were deployed in a Murabaha with a non-related party. The Murabaha was partially repaid and the balance amount has been impaired. Appropriate impairment provisions have been made in the RIA.

Balance as of 31 Dec 2010 net of provision:

Exposures	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd	-	-	317,689
Investments in International Investment Group K.S.C.C. *	12,887	0.44	5,670,202
Portfolio managed by the Bank **	142,059	0.07	10,436,264

* 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 Bahrain courts.

** Managed Portfolio

During 2009, the Bank signed a Portfolio Management Agreement with some related parties. The underlying assets of the portfolio comprise the shares of one of the related parties that is also a partial owner of the portfolio.

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

7 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties also include directors and shareholders of the Bank and companies in which they have an ownership interest.

A significant portion of the Bank's income arises from transactions with related parties. 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 agreed 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 Board of Directors and a prior approval from CBB is also required.

Significant balances with related parties at 31 December 2010 comprise:

	2010	2009
Assets	14,554,221	23,915,685
Liabilities	3,400,011	3,485,275
Restricted Investment Accounts	16,106,466	15,910,536

Significant transactions with related parties include:

	2010	2009
Income	(3,325,953)	24,171
Expenses	7,737,657	15,681,697

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 the Board of Directors and 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:

	2010	2009
Salaries, short term benefits and post employment benefits	249,569	528,324