

Investors Bank B.S.C. (c)

Public Disclosure Document

Six Month Period ended 30th June 2011

1 CAPITAL MANAGEMENT

1.1 Regulatory capital

	30 June 2011 US\$	31 December 2010 US\$
Tier 1 Capital		
Issued and fully paid ordinary shares	80,000,000	80,000,000
Legal / statutory reserves	7,409,515	7,409,515
Retained profit brought forward	(51,190,740)	(23,912,862)
Unrealised gross losses arising from fair valuing equity securities	(27)	(6,494)
Current interim cumulative net losses	(3,188,739)	(27,277,875)
	33,030,009	36,212,284
Excess amount over maximum permitted large exposure limit	(16,424,857)	(15,007,956)
Total Tier 1 Capital	16,605,152	21,204,328
Tier 2 Capital		
Unrealised gross gains arising from fair valuing equities (45% only)	1,224,325	1,192,994
	1,224,325	1,192,994
Excess amount over maximum permitted large exposure limit	(1,224,325)	(1,192,994)
Total Tier 2 Capital	-	-
Total Eligible Capital	16,605,152	21,204,328

1.2 Risk weighted assets

	30 June 2011 US\$	31 December 2010 US\$
Credit risk weighted assets	50,703,353	55,618,005
Operational risk weighted assets	41,130,394	41,130,394
Market risk weighted assets	5,967,999	6,389,437
	97,801,746	103,137,836

The Bank has adopted the Standardised Approach for credit risk and market risk and the Basic Indicator Approach for operational risk management under the revised framework.

Investors Bank B.S.C. (c)

Public Disclosure Document

Six Month Period ended 30th June 2011

1 CAPITAL MANAGEMENT

1.3 Capital adequacy ratio

	30 June 2011 US\$	<i>31 December 2010 US\$</i>
Total capital base (a) (note 1.1)	16,605,152	21,204,328
Risk weighted assets (b) (note 1.2)	97,801,746	103,137,836
Capital adequacy (a/b x 100)	16.98%	20.56%

The Bank's policy is to maintain its capital adequacy ratio in excess of the minimum required by the CBB at all times. The current minimum requirement for the Bank is 15% (31 December 2010: 15%).

2 RISK MANAGEMENT

Credit risk

Credit risk arises 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, dividend receivable and other assets.

The table below shows the maximum exposures to credit risk for components of the statement of financial position. There are no unfunded exposures and no significant use of master netting and collateral agreements.

	<u>30 June 2011</u>		<u>31 December 2010</u>	
	<i>Total gross credit risk exposure US\$</i>	<i>Average gross credit exposure over the period* US\$</i>	<i>Total gross credit risk exposure US\$</i>	<i>Average gross credit exposure over the period* US\$</i>
Cash and balances with banks	299,429	284,521	411,444	390,963
Investments at fair value through equity	13,670,110	13,831,636	14,468,548	16,946,589
Deferred payment sale receivables	3,680,203	3,680,203	3,680,203	3,680,203
Investment properties	18,616,533	19,265,920	20,020,445	24,617,590
Other assets	1,595,539	1,590,407	1,594,222	3,074,111
Property and equipment	3,147,795	3,448,396	3,843,948	5,229,814
	41,009,609	42,101,083	44,018,810	53,939,270

* These have been computed based on a quarterly average balances.

Investors Bank B.S.C. (c)

Public Disclosure Document

Six Month Period ended 30th June 2011

2 RISK MANAGEMENT (continued)

Credit risk (continued)

Geographical distribution of credit risk exposures:

	30-Jun-11			
	Bahrain	Kuwait	Other	Total
	US\$	US\$	US\$	US\$
Cash and balances with banks	282,627	16,802	-	299,429
Investments at fair value through equity	10,671,246	1,998,864	1,000,000	13,670,110
Deferred payment sale receivables	3,680,203	-	-	3,680,203
Investment properties	15,378,910	-	3,237,623	18,616,533
Other assets	1,120,539	-	475,000	1,595,539
Property and equipment	3,147,795	-	-	3,147,795
	34,281,320	2,015,666	4,712,623	41,009,609

	31 December 2010			
	Bahrain	Kuwait	Other	Total
	US\$	US\$	US\$	US\$
Cash and balances with banks	393,040	18,404	-	411,444
Investments at fair value through equity	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
	36,935,803	2,298,437	4,784,570	44,018,810

Investors Bank B.S.C. (c)

Public Disclosure Document

Six Month Period ended 30th June 2011

2 RISK MANAGEMENT (continued)

Credit risk (continued)

Industry sector of credit risk exposures:

	30-Jun-11			
	<i>Banks and financial institutions</i> US\$	<i>Investment companies</i> US\$	<i>Other</i> US\$	<i>Total</i> US\$
Cash and balances with banks	299,429	-	-	299,429
Investments at fair value through equity	12,086,816	250,587	1,332,707	13,670,110
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment properties	-	-	18,616,533	18,616,533
Other assets	900,995	-	694,544	1,595,539
Property and equipment	-	-	3,147,795	3,147,795
	13,287,240	3,930,790	23,791,579	41,009,609

	31 December 2010			
	<i>Banks and financial institutions</i> US\$	<i>Investment companies</i> US\$	<i>Other</i> US\$	<i>Total</i> US\$
Cash and balances with banks	411,444	-	-	411,444
Investments at fair value through equity	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 equipment	-	-	3,843,948	3,843,948
	14,098,376	3,925,124	25,995,310	44,018,810

The Bank does not have any unfunded exposures.

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

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. 0% limit). In addition, the Bank may not incur an exposure to individual counterparty funded by restricted investment account, which exceeds 30% of the Bank's capital base. Additionally, a combined exposure funded by on balance sheet funds and restricted investment accounts to an individual counterparty or a group of closely related parties may not exceed 35% of the Bank's (consolidated) capital base.

The Bank's concentrations of exposure to individual counterparties and group of closely related counterparties in excess of 15%, restricted investment account of 30%, combined exposures (funded by on balance sheet funds and restricted investment accounts) of 35% and significant shareholders with limit exposure of greater than 0% are given below:

	30 June 2011 US\$	31 December 2010 US\$
Counterparty # 1 - Individual - Significant Shareholder - 0% limit	5,673,239	5,673,160
Counterparty # 2 - Individual - Individual Counterparty - 15% limit	7,771,808	7,771,808
Counterparty # 3 - Individual - Restricted Investment - 30% limit	10,713,895	-
Counterparties – Closely Related - Including Counterparty 2 & 3	25,346,758	24,987,528

Past due and impaired financing contracts

	30-Jun-11			
	Banking and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
Past due but not impaired islamic financing contracts	887,733	3,680,203	179,576	4,747,512
Impaired financing contracts	15,312,239	6,125,125	11,951,931	33,389,295
	16,199,972	9,805,328	12,131,507	38,136,807

	31 December 2010			
	Banking and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
Past due but not impaired islamic financing contracts	887,733	3,680,203	179,576	4,747,512
Impaired financing contracts	15,312,239	6,125,125	12,156,251	33,593,615
	16,199,972	9,805,328	12,335,827	38,341,127

Ageing of past due and impaired financing contracts

	30-Jun-11			
	Banking and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
3 months – 1 year	-	-	179,576	179,576

Investors Bank B.S.C. (c)

Public Disclosure Document

Six Month Period ended 30th June 2011

1 year – 3 years	-	-	9,892,534	9,892,534
Over 3 years	16,199,972	9,805,328	2,059,397	28,064,697
	16,199,972	9,805,328	12,131,507	38,136,807

Investors Bank B.S.C. (c)

Public Disclosure Document

Six Month Period ended 30th June 2011

2 RISK MANAGEMENT (continued)

Credit risk (continued)

Ageing of past due and impaired financing contracts (continued)

	<i>31 December 2010</i>			
	<i>Banking and financial institutions US\$</i>	<i>Investment companies US\$</i>	<i>Others US\$</i>	<i>Total US\$</i>
3 months – 1 year	-	-	179,576	179,576
1 year – 3 years	-	-	10,096,854	10,096,854
Over 3 years	16,199,972	9,805,328	2,059,397	28,064,697
	<u>16,199,972</u>	<u>9,805,328</u>	<u>12,335,827</u>	<u>38,341,127</u>

Movement in specific provision during the period

	<i>30-Jun-11</i>			
	<i>Banking and financial institutions US\$</i>	<i>Investment companies US\$</i>	<i>Others US\$</i>	<i>Total US\$</i>
Balance at the beginning of the period	15,312,239	6,125,125	11,681,251	33,118,615
Impaired charge during the period	-	-	(204,320)	(204,320)
Balance at the end of the period	<u>15,312,239</u>	<u>6,125,125</u>	<u>11,476,931</u>	<u>32,914,295</u>

Past due exposures are those on which payments are not being made on time and which is behind schedule, although partial payments have been made.

Past due exposures by geographical area:

	<i>30 June 2011</i>		<i>31 December 2010</i>	
	<i>Past due islamic financing contract US\$</i>	<i>Specific impairment provision US\$</i>	<i>Past due islamic financing contract US\$</i>	<i>Specific impairment provision US\$</i>
Bahrain	4,747,512	-	4,747,512	-
Kuwait	32,105,760	32,105,760	32,310,080	32,310,080
Other countries	1,283,535	808,535	1,283,535	808,535
Total	<u>38,136,807</u>	<u>32,914,295</u>	<u>38,341,127</u>	<u>33,118,615</u>

Investors Bank B.S.C. (c)

Public Disclosure Document

Six Month Period ended 30th June 2011

2 RISK MANAGEMENT (continued)

Market risk

The total market risk weighted assets and regulatory capital requirements related to market risk are as follows:

	30 June 2011				
	Gross US\$	Risk assets US\$	Capital requirements US\$	Maximum capital requirement during the period US\$	Minimum capital requirement during the period US\$
Equity position	2,220,835	1,602,860	240,429	261,663	240,429
Foreign exchange position	4,365,139	4,365,139	654,771	654,771	575,473

	31 December 2010				
	Gross US\$	Risk assets US\$	Capital requirements US\$	Maximum capital requirement during the year US\$	Minimum capital requirement during the year US\$
Equity position	2,209,022	1,802,408	270,361	305,035	270,361
Foreign exchange position	4,587,029	4,587,029	688,054	1,556,392	688,054

Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. As at 30 June 2011, the Bank had investment at fair value through income statement and investment at fair value through equity listed on local and overseas stock exchanges. Based on the values at 30 June 2011, a change in the quoted price of plus or minus 20% would change the value of investment at fair value through income statement by plus or minus US\$ 0.44 million (31 December 2010: US\$ 0.44 million) with a corresponding increase or decrease in statement of income.

Based on the values at 30 June 2011, a change in the quoted price of plus or minus 20% would change the value of investment at fair value through equity by plus or minus US\$ 2.33 million (31 December 2010: US\$ 2.49 million) with a corresponding increase or decrease in statement of equity.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign currency rates. Certain investments and other financial assets and liabilities are in foreign currencies and give rise to foreign currency risk.

Investors Bank B.S.C. (c)

Public Disclosure Document

Six Month Period ended 30th June 2011

2 RISK MANAGEMENT (continued)

Market risk (continued)

Foreign currency risk (continued)

The Bank has following net foreign currency exposures at 30 June 2011:

Currency	30 June	31 December
	2011	2010
	US\$	US\$
Bahraini Dinar	30,434,245	34,150,155
Kuwaiti Dinar	4,365,139	4,587,029
United Arab Emirates	3,237,623	3,309,570
	38,037,007	42,046,754

Sensitivity Analysis

The following figures demonstrates the sensitivity of the statement of income to a 5% possible movement of the currency rates against the US Dollar (functional and reporting currency) based on the above positions with all other variables held constant.

	30 June	31 December
	2011	2010
	US\$	US\$
	(+/-)	(+/-)
Kuwaiti Dinar	218,257	229,351

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.

Bank's capital charge for Operational Risk using Basic Indicator Approach is as follows:

	Average gross income US\$	Risk weighted assets US\$	Capital US\$
30 June 2011	21,936,210	41,130,394	6,169,559
31 December 2010	21,936,210	41,130,394	6,169,559

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

	(Unaudited) 30 June 2011	(Audited) 31 December 2010
Gross Income - US\$	21,936,210	21,936,210
Amount of non-Shari'a-compliant income - US\$	-	-
Number of Shari'a violations identified and reported during the period	None	None

Investors Bank B.S.C. (c)

Public Disclosure Document

Six Month Period ended 30th June 2011

2 RISK MANAGEMENT (continued)

Operational risk (continued)

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

	<i>30 June 2011</i>		<i>31 December 2010</i>	
	<i>Publicly traded</i> <i>US\$</i>	<i>Privately held</i> <i>US\$</i>	<i>Publicly traded</i> <i>US\$</i>	<i>Privately held</i> <i>US\$</i>
Investment in shares	11,652,017	1,799,442	12,476,837	1,778,726
Investment in managed funds	-	218,651	-	212,985
	11,652,017	2,018,093	12,476,837	1,991,711

Additionally the Bank has the following cumulative realised gains or losses arising from sales or liquidations, total unrealised gains and losses recognised in the statement of financial position but not through the statement of income, and any unrealised gains and losses included in Tier 1 and Tier 2 capital:

	<i>30 June 2011</i> <i>US\$</i>	<i>31 December 2010</i> <i>US\$</i>
Cumulative realised gains (losses) arising from sales or liquidations	21,904	291,792
Total unrealised gains (losses) recognised in the statement of financial position but not through statement of income	2,720,696	2,644,604
Unrealised gains (losses) included in Tier 1 Capital	(27)	(6,494)
Unrealised gains (losses) included in Tier 2 Capital	1,224,325	1,192,994

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

	<i>30 June 2011</i>		<i>31 December 2010</i>	
	<i>Risk weighted assets</i> <i>US\$</i>	<i>Capital requirements</i> <i>US\$</i>	<i>Risk weighted assets</i> <i>US\$</i>	<i>Capital requirements</i> <i>US\$</i>
Investment in shares	7,346,543	1,101,981	8,593,540	1,289,031
Investment in managed funds	105,345	15,802	115,302	17,295
	7,451,888	1,117,783	8,708,842	1,306,326

2 RISK MANAGEMENT**Liquidity risk**

Liquidity risk is defined as the risk that funds will not be available to meet liabilities as they fall due. The maturity profile of assets and liabilities as at 30 June 2011 based on contractual maturity is as follows:

	<i>Upto 1 month US\$</i>	<i>1 to 3 months US\$</i>	<i>3 months to 1 year US\$</i>	<i>Within 1 year US\$</i>	<i>1 to 3 years US\$</i>	<i>Over 3 years US\$</i>	<i>No fixed maturity US\$</i>	<i>Total US\$</i>
Assets								
Cash and balances with banks	299,429	-	-	299,429	-	-	-	299,429
Investments	-	-	2,220,835	2,220,835	-	-	13,670,110	15,890,945
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	-	3,680,203
Investment property	-	-	-	-	-	-	18,616,533	18,616,533
Other assets	-	-	39,438	39,438	-	-	1,556,101	1,595,539
Property and equipment	-	-	-	-	-	-	3,147,795	3,147,795
	3,979,632	-	2,260,273	6,239,905	-	-	36,990,539	43,230,444
Liabilities								
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	-	3,229,064
Other liabilities	302,302	20,522	205,308	528,132	-	-	52,311	580,443
	7,201,568	20,522	205,308	7,427,398	-	-	52,311	7,479,709
Net	(3,221,936)	(20,522)	2,054,965	(1,187,493)	-	-	36,938,228	35,750,735
Cumulative	(3,221,936)	(3,242,458)	(1,187,493)	(1,187,493)	(1,187,493)	(1,187,493)	35,750,735	
Off- balance sheet items								
Equity of investment accountholders	-	-	-	-	-	-	16,701,786	16,701,786
	-	-	-	-	-	-	16,701,786	16,701,786

2 RISK MANAGEMENT (continued)**Liquidity risk (continued)**

The maturity profile of assets and liabilities as at 31 December 2010 based on contractual maturity is as follows:

	<i>Upto 1 month US\$</i>	<i>1 to 3 months US\$</i>	<i>3 months to 1 year US\$</i>	<i>Within 1 year US\$</i>	<i>1 to 3 years US\$</i>	<i>Over 3 years US\$</i>	<i>No fixed maturity US\$</i>	<i>Total US\$</i>
Assets								
Cash and balances with banks	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	-	-	-	3,680,203
Investment property	-	-	-	-	-	-	20,020,445	20,020,445
Other assets	-	-	7,110	7,110	31,144	-	1,555,968	1,594,222
Property and equipment	-	-	-	-	-	-	3,843,948	3,843,948
	<u>4,091,647</u>	<u>-</u>	<u>2,216,132</u>	<u>6,307,779</u>	<u>31,144</u>	<u>-</u>	<u>39,888,909</u>	<u>46,227,832</u>
Liabilities								
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	-	3,229,064
Other liabilities	92,272	155,557	168,729	416,558	-	-	48,626	465,184
	<u>6,991,538</u>	<u>155,557</u>	<u>168,729</u>	<u>7,315,824</u>	<u>-</u>	<u>-</u>	<u>48,626</u>	<u>7,364,450</u>
Net	<u>(2,899,891)</u>	<u>(155,557)</u>	<u>2,047,403</u>	<u>(1,008,045)</u>	<u>31,144</u>	<u>-</u>	<u>39,840,283</u>	<u>38,863,382</u>
Cumulative	<u>(2,899,891)</u>	<u>(3,055,448)</u>	<u>(1,008,045)</u>	<u>(1,008,045)</u>	<u>(976,901)</u>	<u>(976,901)</u>	<u>38,863,382</u>	
Off- balance sheet items								
Equity of investment accountholders	-	-	-	-	-	-	16,424,155	16,424,155
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,424,155</u>	<u>16,424,155</u>

3 LITIGATION AND CLAIMS

In 2004, the Bank entered into a sale and purchase agreement with a financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution was US\$ 3,670,202 as at 30 June 2011 (31 December 2010: 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain of its investments with a carrying value of US\$ 2,361,696 as at 30 June 2011 (31 December 2010 : 2,778,466). 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 the Bank's 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 amounting to US\$ 3,680,203 as at 30 June 2011 (31 December 2010: US\$ 3,680,203). This amount is included under deferred payment sale receivables.

The related party on whose behalf the transaction was entered into has also agreed to reimburse the Bank for legal expenses and any losses arising on final settlement with the financial institution. Accordingly, in the opinion of the directors, no provision is required to be made in the financial statements against the investments pledged with the financial institution or for contingent claims that might arise on final settlement.

In 2006, the Bank entered into a mortgage agreement with a local financial institution (TAIC) to pledge 7,954,958 (currently 8,352,705) shares of Takaful International owned by the bank in order to secure some financial facilities from TAIC to another related party (IIG). The net amount due to the TAIC was US 5,906,761/81. As per the terms of the agreement with IIG which is secured by IB and another related party. IIG was in default and did not fulfill its obligations to TAIC and as per that TAIC has filed a case against IIG as a debtor and IB and another related party as guarantors in order to force them together to pay the net amount due to TAIC which is at the same time requested from the court to take reservation action by selling the pledged shares of Takaful owned by IB and the others and deposit the price at the court custody.. In the opinion of the Bank's lawyers and management, TAIC has no right to sell the pledged shares from legal point of view. As a result, the Bahrain Chamber for dispute resolution rejected the request of TAIC to sell the pledged shares as a reservation action under the dispute. The case is running now before Bahrain Chamber for dispute resolution.