



Licensed as an Islamic Wholesale Bank by the CBB

**Investors Bank B.S.C. (c)
Public Disclosures Document
31st December 2012**

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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 2012 in accordance with Financial Accounting Standards (“FAS”) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (“AAOIFI”) and the Shari’a rules and principles as determined by the Shari’a Supervisory Board (“SSB”) of the Bank.

2 Management Discussion and Analysis

During the year 2012, 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 2013, growth is expected to accelerate progressively.

The Bank has also suffered from economic slowdown. The Bank had to make provision for impairment, net of US\$ 780,571 on account of a drop in market prices of Investments carried at fair value through equity.

During the year 2012 the Bank did not undertake any new investment transactions. The Bank focused on generating liquidity through renting its buildings, exiting from certain investments and reducing its expenses.

Therefore, for the year ended 31 December 2012 the Bank reported a net loss of US\$ 1,484,688 (2011: US\$ 4,914,988).

The Bank believes that 2013 would be a challenging year for the banking sector as a whole and the Bank in particular. The Bank has appointed a consultancy firm to assist the Bank with developing a three years business plan to support the continuation of the Bank and its mission.

Financial ratios for five years:

Ratio name	2012	2011	2010	2009	2008
ROAE	-4.38	-13.31	-51.58	-27.45	-32.08
ROAA	-3.58	-11.08	-45.28	-25.07	-30.06
STAFF COST/INCOME	58.09	294.44	N/A	321.17	N/A
COST/INCOME	195.95	1,573.43	N/A	5,184.63	N/A
EPS (\$)	-0.006	-0.02	-0.11	-0.09	-0.14

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 Dhahery	2,579,393	1.06%

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

There has been no trading of the Bank shares held by Directors during the year.

3.1.2 Distribution of ownership by nationality

Country	No. Of Shares	Ownership %
Kuwait	198,149,182	81.75%
Bahrain	30,726,460	12.67%
Qatar	6,934,298	2.86%
UAE	5,266,423	2.17%
Oman	130,909	0.05%
KSA	1,216,970	0.50%
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%	94	37.95%
5-15%	2	12.70%
>15%	2	49.35%

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

Shareholder Name	No of shareholders	Total ownership
Ajal Holding Company	82,844,459	34.17%
International Investment Group	36,780,742	15.17%
Fahad Sultan Sons & Co.	15,709,091	6.48%
Gulf Monetary Group	15,069,091	6.22%
Total	150,403,383	62.04%

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

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

The Board shall also ensure the integrity of the Bank's accounting and financial reporting system through regular independent review by internal and external auditors. The Audit Committee is responsible for review of the integrity of the Bank's financial reporting and report to the Board.

The BOD aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency; and maintaining full compliance with the laws, rules and regulations that govern the Bank's business. The Board attempts to monitor compliance of the ethical conduct through periodic reviews by compliance and the internal audit functions.

Review of internal control, processes & procedure is carried out by internal Audit department where the Bank has outsourced its internal audit function to Grant Thornton, Bahrain in 2012 (2011: PricewaterhouseCoopers (PWC), Bahrain).

As per the Articles of Association ("AOA") of the Bank, the Board should have not less than three and not more than 10 members. Currently the Bank has Seven members on its Board of Directors, of which the following three are independent:

- Mr. Mersal Saad Al Majedi
- Mr. Jamal Hassan Naqi
- Mr. Ebrahim Abdullah AlShaikh

Currently the Bank does not have a pre-defined process to induct, educate and orient new directors, which is going to be established soon.

3.2.1 The election system of the Board of Directors

As per the AOA, The Ordinary General Assembly may appoint a number of members from amongst those who have experience and expertise in the Board of Directors from other than the founders of the Bank and the shareholders in the number and specialization that the Board believes that the interest of the Bank so requires and in order to make available qualified, technical, management, academic and practical expertise

3.2.2 Termination of Board's membership

As per the AOA, the membership of the director may terminate in the following cases:

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

3.3 Profiles of Members of the Board of Directors

Mr. Ghassan Al Sultan – Chairman

Mr. Sultan has over 30 Years of experience in real estate and investments. Mr. Sultan is currently the Chairman of the Board of Gulf Petroleum 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 Travellers 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 – Vice Chairman

Mr. Mannai has over 30 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. Ahmed Shabib Al Dhahery – Member

Mr. Dhahery has over 26 years experience. He is currently the Executive Director – Scholarships Department 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, Mr. Dhahery holds a Master of Human Resources Management, Master in Business Administration 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. Ebrahim Abdulla Al Shaikh - Member

Mr. Al Shaikh holds a Bachelor degree in Economic Science and Marketing from Oxford, UK. He has over 15 years of experience in automobile and marketing industry. He is also the owner of Montreal Motor Company S.P.C, Bahrain.

Mr. Al Shaikh is Board of Director of Investors Bank since 29th April 2012.

Mr. Reyadh Abdulwahab Al Sharaf - Member

Mr. Al Sharaf holds a Bachelor degree in Economic Science and Marketing from University of Tulsa, USA. He has over 20 years of experience in organizational change, corporate re-engineering and change management - having worked in senior positions in various private sector companies. He is a board member in Gulf petroleum Investment, Kuwait.

Mr. Al Sharaf is Board of Director of Investors Bank since 29th April 2012.

Mr. Jamal Hasan Naqi - Member

Mr. Naqi holds (HND) in Business Management from Jordan. He has over 24 years of experience in commercial banking - having worked for BISB Bahrain. Currently Mr. Naqi is a real-estate expert and owns a private business in Bahrain.

Mr. Naqi is Board of Director of Investors Bank since 29th April 2012.

Mr. Mersal Saad Al Majedi - Member

Mr. Al Majedi holds a Master degree in Law and BOT agreements from Egypt. He has over 11 years of experience in Law making and cooperate governance.

Mr. Al Majedi is Board of Director of Investors Bank since 29th April 2012.

3.4 Board Committees

Consistent with the industry practices, the Board has established the following board sub-committees with defined roles and responsibilities:

3.4.1 Executive Committee (EXCOM)

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

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

EXCOM Members:

Mr. Isa Abdulla Al Mannai – Chairman (Non-Independent)

Mr. Mersal Saad Al Majedi – Member (Independent)

Mr. Jamal Hassan Naqi – 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. The information pertaining to the appointment / reappointment of the external auditors and the related fees is available for the perusal of the shareholders, the same will be decided at the Annual General meeting scheduled on 25th April 2013.

Audit Committee Members:

Mr. Ebrahim Abdulla AlShaikh – Chairman (Independent)
Mr. Ahmed Shabeeb Al Dhahery – Member (Non-Independent)
Mr. Reyadh Abdulwahab AlSharaf – Member (Non-Independent)

Members of management, representatives of internal and External Auditors, independent consultants and other specialists may be invited to attend meetings at the request of the Chairman of the Audit Committee.

3.4.3 Nomination and Remuneration Committee

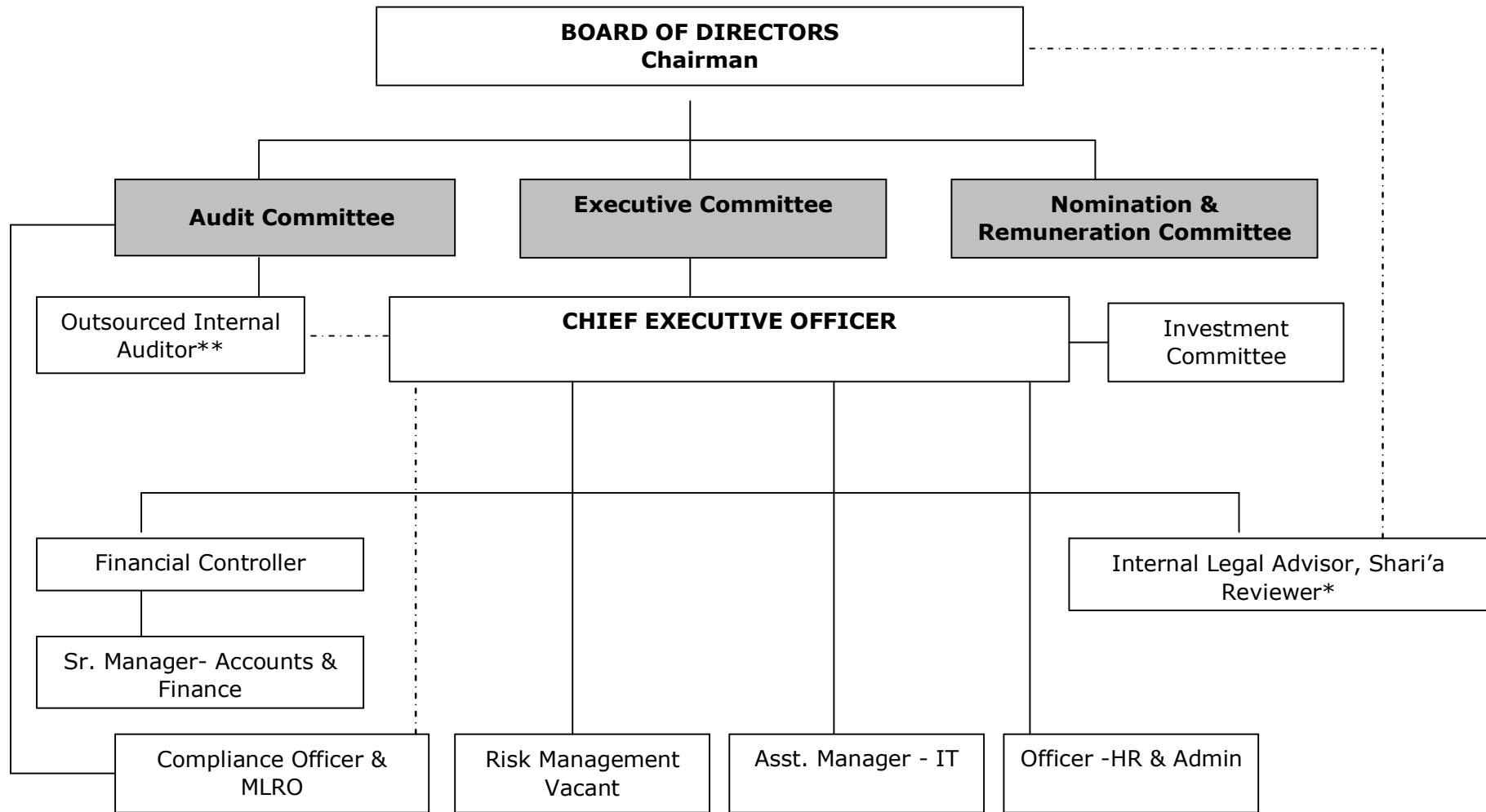
- The Nomination and Remuneration Committee is appointed by the Board of Directors to assist the Board in discharging its oversight duties relating to:-
- Identifying individuals qualified to become the members of the Board of Directors and recommending to the Board nominees for the next Annual General Meeting.
- Review and approve a formal and transparent procedure for developing a remuneration policy for the Board Chairman, Directors, the CEO and the senior management, and
- Ensure that compensation offered is competitive in line with the market/per group and consistent with the responsibilities assigned.

Nomination and Remuneration Committee Members:

Mr. Ghassan Fahad Al Sultan – Chairman (Non-Independent)
Mr. Isa Abdulla Al Mannai – Member (Non-Independent)
Mr. Ebrahim Abdulla AlShaikh – Member (Independent)

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 2012



* Also the Board Secretary ** Grant Thornton – 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 2012.

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

Date & location of meeting	Names of Directors present or participated by phone/video link	Names of directors not present
13/3/2012 – Bahrain	Dr. Abdulaziz Al Jenaie (By Phone)	Mr. Hamad Al Ghanim (resigned on 12/2/2012)
	Mr. Ahmed Shabib AlDhahery	Mr. Eyad Al Serri (resigned on 12/2/2012)
	Mr. Isa Abdulla Al Mannai	
	Mr. Ghassan Al Sultan	
29/4/2012 – Bahrain	Mr. Ghassan Al Sultan	
	Mr. Isa Abdulla Al Mannai	
	Mr. Ahmed Shabib Al Dhahery	
	Mr. Reyadh Abdulwahab AlSharaf	
	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	
27/9/2012 - Bahrain	Mr. Ghassan Al Sultan	
	Mr. Isa Abdulla Al Mannai	
	Mr. Ahmed Shabib Al Dhahery	
	Mr. Reyadh Abdulwahab AlSharaf	
	Mr. Mersal Saad Al Majedi	
	Mr. Ebrahim Abdulla AlShaikh	
27/12/2012 – Bahrain	Mr. Ghassan Al Sultan	Mr. Ebrahim Abdulla AlShaikh
	Mr. Isa Abdulla Al Mannai	
	Mr. Ahmed Shabib Al Dhahery	
	Mr. Reyadh Abdulwahab AlSharaf	
	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	

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

Date & location of meeting	Names of Committee members present or participated by phone/video link	Names of Committee members not present
2/2/2012 – Bahrain	Mr. Isa Abdulla Al Mannai	
	Mr. Ghassan Al Sultan (By Phone)	
	Mr. Ahmed Shabeeb Al Dhahery (By Phone)	
29/4/2012 – Bahrain	Mr. Isa Abdulla Al Mannai	
	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	

17/5/2012 - Bahrain	Mr. Isa Abdulla Al Mannai	
	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	
27/9/2012 - Bahrain	Mr. Isa Abdulla Al Mannai	
	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	
20/12/2012 - Bahrain	Mr. Isa Abdulla Al Mannai	
	Mr. Mersal Saad Al Majedi	
	Mr. Jamal Hassan Naqi	

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

Date & location of meeting	Names of Committee members present or participated by phone/video link	Names of Committee members not present
29/4/2012 - Bahrain	Mr. Ebrahim Abdulla AlShaikh	
	Mr. Ahmed Shabeeb Al Dhahery	
	Mr. Reyadh Abdulwahab AlSharaf	
27/9/2012 - Bahrain	Mr. Ebrahim Abdulla AlShaikh	
	Mr. Ahmed Shabeeb Al Dhahery	
	Mr. Reyadh Abdulwahab AlSharaf	
19/12/2012 - Bahrain	Mr. Ebrahim Abdulla AlShaikh (By Phone)	
	Mr. Ahmed Shabeeb Al Dhahery (By Phone)	
	Mr. Reyadh Abdulwahab AlSharaf (By Phone)	
27/12/2012 - Bahrain	Mr. Ebrahim Abdulla AlShaikh (By Phone)	
	Mr. Ahmed Shabeeb Al Dhahery	
	Mr. Reyadh Abdulwahab AlSharaf	

The dates and attendance details of the Nomination & Remuneration Committee meetings are given below:

Date & location of meeting	Names of Committee members present or participated by phone/video link	Names of Committee members not present
29/4/2012 - Bahrain	Mr. Ghassan Al Sultan	
	Mr. Isa Abdulla Al Mannai	
	Mr. Ebrahim Abdulla AlShaikh	
27/9/2012 - Bahrain	Mr. Ghassan Al Sultan	
	Mr. Isa Abdulla Al Mannai	
	Mr. Ebrahim Abdulla AlShaikh	

3.7 Approval authority structure

The materiality level for transactions that require Board approval varies for different activities and is governed by the Board approved delegation of authority document.

In addition as per the Board Charter, decisions made by the Board, other than those made at Annual General Meetings and Extraordinary General Meetings may be made through circulation. In all such cases:

- The Board secretary shall ensure and confirm circulation of necessary information and documentation; and
- A decision through circulation will not be valid unless approved by more than half of the responding members, which should not be less than two.
- All Board members shall be required to respond to the Board Secretary within the following working week of circulation.
- If the Board Secretary does not receive the response from any Board member within the following working week of circulation, his/her response shall be considered as approved.

3.8 Code of Conduct

The Bank will adopt a Code of Conduct and other internal policies and guidelines designed to support the mission statement set forth above and to comply with the laws, rules and regulations that govern the Bank's business operations. The Code of Conduct will be documented, published and communicated throughout the Bank. The Code of Conduct will apply to all employees of the Bank and its subsidiaries, as well as to Directors, temporary workers and other independent contractors and consultants when engaged by or otherwise representing the Bank, so that the Board, senior management and staff understand the importance of conducting business based on good corporate governance values and understand their accountabilities to various stakeholders of the Bank.

The Board, senior management and staff will be informed of and be required to fulfil their fiduciary responsibilities to the Bank's stakeholders.

All have adopted and will adhere to the following code of conduct in respect to their behaviour:

- Ensure that their conduct in general is in the best interest of the Bank and its stakeholders
- To act only within the scope of their responsibilities
- Disclose any potential conflicts of interest
- Ensure confidentiality of information

The Audit Committee shall monitor compliance with the Code of Conduct and other internal policies and guidelines.

3.9 Evaluation of Board Performance

The Board shall, through the Nomination and Remuneration Committee, conduct an annual review of the Board's performance. This review shall include an overview of the talent base of the Board as a whole as well as an individual assessment of each director's qualification under corporate governance rules and all other applicable laws, rules and regulations regarding directors; consideration of any changes in a director's responsibilities that may have occurred since the director was first elected

to the Board and such other factors as may be determined by the Committee to be appropriate for review.

The Board of Directors shall review the performance of the Chairman and the CEO in order to ensure they are providing the best leadership for the Bank.

3.10 Social Responsibility

The Bank discharges its social responsibility through donations to charitable causes and organisations. However, there were no donations to charitable causes and organisations during the year ended 31 December 2012.

3.11 Conflict of Interest

As per the Board Charter:

- Directors and employees of the Bank shall act ethically at all times and in accordance with the Bank's applicable Code of Conduct. If an actual or potential conflict of interest arises in respect of a director, the director shall promptly disclose such conflict to the Board.
- The Board will establish and disseminate to its members and management policies and procedures for the identification, reporting, disclosure, prevention or strict limitation of potential conflicts of interest. It is senior management's responsibility to implement these policies.
- Any decision to enter into transactions, under which Board members or any member of executive management may have a conflict of interest that is material, shall be formally and unanimously approved by the Board.
- Executive directors shall absent themselves from any discussions or decision-making that involve a subject where they are incapable of providing objective advice, or which involves a subject or (proposed) transaction where a conflict of interest exists.
- Directors shall disclose to the Board any potential conflict of interest in their activities with other organisations.
- All Board members and members of executive management must declare to the Board in writing, on an annual basis, all of their other interests in other institutions, whether as a shareholder of five percent (5%) or more of the voting capital of the company, a manager or other form of significant participation.

3.12 Management Profile

Mr. Jassim Mohammed Khalaf Al Mutawa'a, Chief Executive Officer

Mr. Al Mutawa'a has an extensive experience over 21 years in Banking and Financial sector in Bahrain. His experience includes a position of Assistant Manager, Trade Finance with The Arab Investment Company (TAIC), Assistant General Manager with Bahrain Credit where he was responsible to maintain control of Management team, motivate the marketing of new business, controls and administration etc. He Worked with National Finance House (NFH) as a General Manager.

Educationally, Mr. Al Mutawa'a holds a Master in Business Administration (MBA)-Finance from King Fahad University of Petroleum and Minerals, KSA, and Bachelor of Business Administration – Finance from ST. Edwards' University, Texas – USA.

Mr. Aref Hussain, Financial Controller

Mr. Hussain has over 13 years of experience in Telecommunication sector and over 6 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 has a CMA (Certified management accountant) from Institute of Management Accountants from the United States of America.

Mr. Maher Ali Husain, Senior Manager- Accounts & Finance

Mr. Hussain has over 16 years experience in the Banking and Financial sector in Bahrain. He has experience and strong background in accounting and finance. He worked with The Arab Investment Company (TAIC) for two years and he has then joined the Bank in 1999.

Educationally, Mr. Husain holds a Bachelor degree in Accounting from University of Bahrain. He has also attended various training courses in the Banking related fields.

3.13 Managerial Committee

The Board has approved the formation of "Investment Committee" in October 2009. The committee has been established in year 2012 after the appointment of new Chief Executive Officer in April 2012

The overall role of the Investment Committee as approved by the Board is to facilitate:

the investment and credit business of the Bank in the most effective and efficient manner within the risk guidelines specified by the Board;

to oversee and perform Asset Liability Management activities; and

to oversee credit, market, liquidity, profit rate risk and other risks that the Bank is exposed to.

The Investment Committee is chaired by the Chief Executive Officer and comprise of Financial Controller and Assistant Manager – Information Technology with two in house advisors.

3.14 Remuneration and Incentives

The remuneration to the BOD is governed by the AOA of the Bank, which states the following:

- The General Assembly shall determine the remunerations of the members of the BOD, provided that such remunerations shall not exceed ten percent (10%) of the net profit in each financial year after deducting statutory reserves and after distributing a profit of not less than five percent (5%) of

the Bank's paid capital to the shareholders. However, this provision shall not oblige the Bank to pay five percent (5%) of any other amount. Such remunerations shall be distributed to the members of the Board in proportion to their actual attendance of the meetings of the BOD and the committees connected to it as per the minutes of meetings approved by the Bank.

- The General Assembly may decide to pay an annual remuneration to the members of the BOD during the years in which the Bank does not post any profit or during the years in which it does not pay out dividends to the shareholders, subject to the approval of the Minister of Commerce.

The Bank provides fixed annual fees to the Shari'a Board and does not provide any performance linked incentives.

The remuneration to the employees of the Bank is on the basis of the employment contracts of the individuals. There is a system of annual appraisal based on which the terms of the contract are reviewed every year. Any bonus/ex-gratia payment is purely at the discretion of the Bank. The AOA provides the guidelines for the employee incentive programme that has currently not been implemented.

3.15 Corporate Governance Events

- On 12th February 2012, the following Board of Directors resigned from the Bank:-

Mr. Hamad Al Ghanim – Vice Chairman & Chairman of Audit Committee
Mr. Eyad Al Serri – Member

- New Board has been elected in the AGM held on 29th April 2012 as per the following:-

Mr. Ghassan Fahad Al Sultan – Chairman
Mr. Isa Abdulla Al Mannai – Vice Chairman & Chairman of EXCOM
Mr. Ahmed Shabeeb Al Dhahery – Member
Mr. Reyadh Abdulwahab Al-Sharaf – Member
Mr. Mersal Saad Al Majedi – Member
Mr. Jamal Hassan Naqi – Member
Mr. Ebrahim Abdulla Al-Shaikh – Member & Chairman of the Audit Committee

- Dr. Abdulaziz Al Jenaie was Chairman of the Bank until the election of the new Board on 29th April 2012.
- Appointment of the Chief Executive Officer, Mr. Jassim Mohammed Khalaf Al Mutawa'a. Mr. Al Mutawa'a has joined the Bank in April 2012. In order to run the business of the Bank and to use all resources, internal & external needed for implementing actions necessary to fix any issues raised and also implement the strategy that has been approved by the Board of Directors and work on a business plan in line with the new strategy.

3.16 Communications Policy

The Bank has a Board approved communication strategy which is part of the public disclosure policy, in compliance with CBB regulations under PD Module of the

Volume 2 of CBB Rulebook, to disclose material information about its activities to various stakeholders. As a policy, the Bank maintains at least three years of financial data on its website.

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

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

3.17 Shari'a Compliance

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

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

3.18 Zakah Contributions

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

3.19 Compliance with CBB's Corporate Governance Guidelines

The Bank is obliged to comply with CBB's Rulebook High-Level Controls (HC) Module which contains applicable Rules and Guidance for the Bank. The Bank prepares an internal report where non-compliance is explained to shareholders. Accordingly, the Bank's report has been revised to incorporate the CBB's rulebook quarterly updates and all the non compliance with the requirements were communicated to the shareholders as of December 2012.

However, the Bank, during the year ended 31 December 2012, has reported non-compliance with the following sections of the CBB rule book volume 2 HC module:

HC-1.2.9; Written Appointment Agreement with Directors:

The Bank does not have a written appointment agreement with each director which should recites the directors' powers, duties, responsibilities and accountabilities and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.

HC-1.4.6; Chairman should be Independent:

The chairman of the Board is not an independent director, which is necessary so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making.

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

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

HC-3.2.1; Audit Committee Members:

The Bank audit committee comprises of three directors of which the majority are not independent.

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

The majority members of Nomination & Remuneration committee are non independent directors. Also, the chairman of the committee is not an independent director.

3.20 Types of Material Transactions that requires Board approval:

Based on the Bank's approved list of delegation of financial and administration authorities, the following are samples of transactions which have to be approved by Board of Directors:

- Investment in listed equities which exceeds US\$ 3MM.
- Investment in Unlisted equities which exceeds US\$ 1.5MM
- Investment in initial public offering (IPO) which exceeds US\$ 1MM
- Other investment which exceeds US\$ 1.5MM
- Write-off receivable in excess of US\$ 250,000.

4 Capital Adequacy and Management

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

The Bank follows the CBB guidelines for the capital requirements of the Bank and maintains sufficient capital to ensure compliance with the minimum capital requirements of the CBB.

The Bank's regulatory capital is analysed in two tiers as per the CBB guidelines and include:

Tier 1: Core Capital - This includes issued and fully paid ordinary shares, statutory reserves 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.

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	(57,590,413)	-
Tier 1 Capital	29,819,102	-
Unrealized gross gains arising from fair valuing equities (45% only)	-	1,344,690
Tier 2 Capital	-	1,344,690
Total Available Capital	29,819,102	1,344,690
Deductions:		
Excess amount over maximum permitted large exposure limit		
- Tier 1	(16,159,268)	-
- Tier 2	-	(1,344,690)
Net Available Capital	13,659,834	
Total Eligible Capital		13,659,834

4.2 Capital Adequacy

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

The Bank's policy is to maintain a capital adequacy ratio, at all times, in excess of the minimum required by CBB. The 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 five years). During 2012 the Bank has managed to secure three years of gross positive income as required. The Bank requested CBB to reconsider the previous enforcement. Accordingly, CBB has approved to reduce the minimum CAR back to normal of 12%.

Risk Assets/ Categories	Risk Weighted Assets (RWA)	Capital Charge @ 12% of RWA
Credit Risk		
- Cash and balances with banks	198,423	23,811
- Investments at fair value through equity		
- Listed equities	4,679,877	561,585
- Unlisted equities	1,961,800	235,416
- Deferred payment sale receivables	1,269,437	152,332
- Investment properties	34,872,224	4,184,667
- Other assets	1,384,467	166,136
- Property and equipment	2,637,718	316,526
Total Credit Risk	47,003,946	5,640,473
Market Risk		
- Equity position risk	1,351,074	162,129
- Foreign exchange risk	3,329,991	399,599
Total Market Risk	4,681,065	561,728
Total Operational Risk	1,436,329	172,359
Total Risk Weighted Assets (a)	53,121,340	
Total Eligible Capital (b)	13,659,834	
Total Capital Adequacy Ratio [(b)/(a)]		25.71%

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. 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.

5.1 Credit Risk

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

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

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

The following table demonstrates Bank's credit risk exposure:

Credit Risk Exposure (all figures in US Dollars)		
	Own capital and current account	
Portfolios	Total gross credit risk exposure	Average gross credit exposure over the period *
Balances with banks	992,114	498,059
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	1,381,003	1,431,873
Total	6,053,320	5,610,135

* 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	887,733	3,680,203	11,420	4,579,356
Impaired financing contracts	16,088,101	6,125,125	11,255,892	33,469,118
Total	16,975,834	9,805,328	11,267,312	38,048,474

Aging of past due and impaired financing contracts:

	Banking and financial institutions	Investment Companies	Others	Total
Less than 3 months	-	-	-	-
3 months – 1 year	-	-	9,312	9,312
1 year – 3 years	-	-	179,576	179,576
Over 3 years	16,975,834	9,805,328	11,078,424	37,859,586
Total	16,975,834	9,805,328	11,267,312	38,048,474

Movement in specific provisions during the year:

	Banking and financial institutions	Investment Companies	Others	Total
Balance at the beginning of the year	16,088,101	6,125,125	10,780,892	32,994,118
Net provision for impairment for the year	-	-	-	-
Balance at the end of the year	16,088,101	6,125,125	10,780,892	32,994,118

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 31 December 2012.

5.1.1 Credit Risk Mitigation

The Bank does not generally engage in lending against collateral and does so by exception.

However, the Bank has designed guidelines (covered in the Credit policy approved in July 2010) for collateral valuation and management (wherever required) and will extend credit facilities only where it is supported by adequate tangible security and/or audited financial statements of its customers/counterparties.

Also the market value of security offered by prospective and existing customers/counterparties will be evaluated by the Bank based on market information.

5.1.2 Concentration Risk

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

The Bank allocates exposure to a particular geographical area based on the location of the asset or on the location of the investee company. 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	976,706	15,408	-	992,114
Deferred payment sale receivables	3,680,203	-	-	3,680,203
Other assets	891,471	9,312	480,220	1,381,003
Total	5,548,380	24,720	480,220	6,053,320

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

Own capital

Asset category	Industry sector			Total
	Banks and financial institutions	Investment companies	Others	
Funded				
Balances with banks	992,114	-	-	992,114
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Other assets	887,733	-	493,270	1,381,003
Total	1,879,847	3,680,203	493,270	6,053,320

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	5,673,165
Counterparty # 2 – Individual – Individual Counterparty – 15% limit	7,771,808
Counterparty # 3 – Individual – Restricted Investment – 30% limit	10,452,776
Counterparties – Closely Related – Including Counterparties 2 & 3	24,090,427

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

Impaired exposures, Past Due exposures and allowances		
Own capital		
Geographic area	Past due Islamic financing contracts	Specific impairment provision
Bahrain	10,874,745	6,304,701
Kuwait	25,890,193	25,880,881
Other countries	1,283,536	808,536
Total	38,048,474	32,994,118

5.2 Market Risk

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

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

The Bank has following sources of market risk:

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

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

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

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

The following table demonstrates the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's statement of income based on the statement of financial position as of 31 December 2012:

Particulars	20% decrease	20% increase
Investments at fair value through statement of income	(359,888)	359,888

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	1,799,439	1,351,074	162,129	162,129	155,392
Foreign Exchange Position	3,329,991	3,329,991	399,599	552,789	399,599

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 2012:

Currency	(USD Equivalent)
Bahraini Dinar	29,401,295
Kuwaiti Dinar	3,329,991
United Arab Emirates Dirham	2,486,724

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 31 December 2012:

Currency	5% decrease	5% increase
Kuwaiti Dinar	(166,500)	166,500

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.

The Bank is currently considering formulating and implementing the contingency planning and business continuity planning and the staff will be trained accordingly, which will further enhance loss mitigation process. However, due to last few years' financial and economic circumstances and in addition to the size of the Bank's operations, the formulation and implementation might take some time.

5.3.3 Operational Risk capital charge

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

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

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

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

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

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

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 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 31 December 2012 (31 December 2011: US\$ 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain equity shares with a carrying value of US\$ 1,898,618 as at 31 December 2012 (31 December 2011: US\$ 1,921,772) in addition to dividends received on these shares amounting to US\$ 887,733 as at 31 December 2012 (31 December 2011: US\$ 887,733). Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged investments have been retained by the financial institution. In the opinion of the Bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the courts of Bahrain against the financial institution for possession of the Bank's investments.

As a result, the court has taken custody of the shares under dispute and the related dividends. The related party on whose behalf the transaction was entered has provided a manager's cheque for an equal amount which has been deposited with the court amounting to US\$ 3,680,203 as at 31 December 2012 (31 December 2011: US\$ 3,680,203).

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

- In 2004, a related party of the Bank (the "borrower") has entered into a murabaha financing agreement (the "financing") with a financial institution, and the Bank has pledged certain listed equity shares, (8,352,705 shares) with a carrying value of US\$ 5,760,487 as at 31 December 2012 (2011: US\$ 5,760,487) on behalf of the borrower against the financing. In addition the borrower and another related party had also pledged 4,647,011 shares and 5,840,625 shares respectively against the same financing.

The borrower defaulted on the financing and the financial institution had filed a case in the court and during the current year the court ruled in favour of the financial institution. The court has ordered the borrower to settle the

outstanding balance of US\$ 5,906,529 plus an annual profit of 3% from the date of the claim, being 10 April 2011, to the date of full payment in addition to legal expenses. The obligation of the Bank and the other related party is limited to the pledged shares.

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

Further, the borrower on behalf of which the Bank has pledged its equity shares has provided an Islamic financing facility to the Bank which appears in the statement of financial position under "murabaha payable" and amounted to US\$ 3,229,064 as at 31 December 2012.

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

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

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 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 2012	Up to 1 month	1 to 3 months	3 months to 1 year	Within 1 year	1 to 3 years	No fixed maturity	Total
Assets							
Cash and balances with banks	993,440	-	-	993,440	-	-	993,440
Investments	-	-	1,799,439	1,799,439	-	12,453,018	14,252,457
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	3,680,203
Investment properties	-	-	-	-	-	17,436,112	17,436,112
Other assets	7,327	9,312	9,565	26,204	-	1,377,627	1,403,831
Property & equipment	-	-	-	-	-	2,637,718	2,637,718
Total assets	4,680,970	9,312	1,809,004	6,499,286	-	33,904,475	40,403,761

Period 2012	Up to 1 month	1 to 3 months	3 Months to 1 year	Within 1 year	1 to 3 years	No fixed maturity	Total
Liabilities							
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	3,229,064
Other liabilities	121,018	83,893	255,144	460,055	201,854	35,285	697,194
Total liabilities	7,020,284	83,893	255,144	7,359,321	201,854	35,285	7,596,460
Cumulative Liquidity Gap	(2,339,314)	(2,413,895)	(860,035)	(860,035)	(1,061,889)	32,807,301	

Following are the key liquidity ratios as at 31 December 2012:

Description	Ratio
Short Term Assets : Total Assets	12.7%
Short Term Assets : Short Term Liabilities (Times)	11.2

5.5 Rate of Return Risk

Rate of return risk arises due to different timing of re-pricing of the Bank's assets and liabilities. The Bank's exposure to rate of return risk is limited to balances with banks. The balances with banks amount as on 31st December 2012 is USD 992,114. The Bank does not have significant rate of return risk sensitivity due to the short-term nature of its balances with banks.

5.6 Equity Price Risk in the Banking book

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

Sensitivity Analysis:

The following table demonstrates the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's equity based on the statement of financial position as of 31 December 2012:

Particulars	20% decrease	20% increase
Investments at fair value through equity	(2,230,868)	2,230,868

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	11,154,341	1,298,677
Investment in managed funds	-	-
Total	11,154,341	1,298,677

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	2,988,199
Unrealized gains (losses) included in Tier One Capital	-
Unrealized gains (losses) included in Tier Two Capital	1,344,690

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	6,641,677	797,001
Investment in managed funds	-	-
Total	6,641,677	797,001

5.7 Displaced Commercial Risk

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

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

5.8 Risks Mitigation

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

6 Restricted Investment Accounts

The Bank has not, as a focused business proposition, opened Investment Accounts or accepted Investment Account deposit (restricted or unrestricted) except for 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 2012 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	0.073	10,452,776
Total			16,440,667

* 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.

7 Related party transactions

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

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

As per the Investment Policy (approved in July 2010), adequate due-diligence should be carried out before undertaking any investment exposure (whether to a related party or an outside investment). Additionally all the exposures to connected counterparties are justified only when undertaken for the clear commercial advantage for the Bank, when negotiated and undertaken on terms agreed between the parties which may not be necessary be on an arm's length basis and when included in the policy statement agreed with CBB. The investments in related parties need to be approved by the BOD and a prior approval from the CBB is also required.

Significant balances with related parties at 31 December comprise:

	2012	2011
Assets	13,640,614	14,007,800
Liabilities	3,387,450	3,403,263
Restricted Investment Accounts	16,122,978	16,228,461

Significant transactions with related parties include:

	2012	2011
Income	(17,315)	(340,453)
Expenses	375,801	246,113
Other comprehensive loss	(26,847)	(284)

The Group entities include those entities, which are subject to common control or influence of certain shareholders of the Bank.

Key management personnel of the Bank comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank.

The key management personnel compensation is as follows:

	2012	2011
Salaries, short term benefits and post employment benefits	161,003	137,072