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**Investors Bank B.S.C. (c)**  
**Public Disclosures Document**  
**31 December 2013**  
(All amounts in US\$)

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## **1 Executive Summary**

Basel 2 based guidelines of the Central Bank of Bahrain [“the CBB”] outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 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 2013 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 2013, 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 2014, growth is expected to accelerate progressively.

The Bank suffered a drop in market prices of investment carried at fair value through statement of income in the amount of US\$ 1,601,027.

Additionally the Bank had to make a provision for impairment of US\$ 521,217 due to a drop in market prices of investments carried at fair value through equity and the revaluation of other assets.

Moreover, provision against lease commitment of US \$ 2,885,300 was reflected in the account.

During the year 2013 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 2013 the Bank reported a net loss of US\$ 4,893,127 (2012: US\$ 6,025,193).

Financial ratios for five years:

<b>Ratio name</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
ROAE	-20.32	-19.82	-13.31	-51.58	-27.45
ROAA	-14.78	-15.87	-11.08	-45.28	-25.07
STAFF COST/INCOME	115.68	58.29	294.44	N/A	321.17
COST/INCOME	788.10	490.76	1,573.43	N/A	5,184.63
EPS (\$)	-0.02	-0.02	-0.02	-0.11	-0.09

### 3 Corporate Governance

#### 3.1 Ownership structure of the Bank

The ownership structure of the Bank is given below:

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

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

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

##### 3.1.2 Distribution of ownership by nationality

Country	No. Of Shares	Ownership %
Kuwait	198,149,182	81.75%
Bahrain	30,726,460	12.67%
Qatar	6,934,298	2.86%
UAE	5,266,423	2.17%
KSA	1,216,970	0.50%
Oman	130,909	0.05%
<b>Total</b>	<b>242,424,242</b>	<b>100.00%</b>

##### 3.1.3 Distribution of ownership of shares by size of shareholder

Ownership size	No of shareholders	Total ownership
0-5%	104	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:

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

### **3.1.4 Ownership by Government**

No sovereign Government owns any shares in the Bank.

### **3.2 The Board of Directors**

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

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

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

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

Review of internal control, processes & procedure is carried out by internal Audit department where the Bank has outsourced its internal audit function to Grant Thornton, Bahrain in 2013 (2012: Grant Thornton, Bahrain).

As per the Articles of Association ("AOA") of the Bank, the Board should have not less than three and not more than 10 members. The preceding BOD was dissolved on 5<sup>th</sup> February 2014.

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

### **3.2.1 The election system of the Board of Directors**

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

### **3.2.2 Termination of Board's membership**

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

- If he is appointed or elected in contrary to the provisions of the Memorandum and AOA.
- If he 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**

- **The preceding Board of Directors:**

Mr. Ghassan Al Sultan – Chairman / Non-Independent / Executive **(Terminated on 28 November 2013)**

Mr. Sultan holds a Bachelors Degree in Industrial Engineering from University of Portland, Oregon USA. Mr. Sultan has over 30 Years of experience in real estate and investments.

Mr. Sultan was in the Board of Directors of Investors Bank since 15<sup>th</sup> June 1998.

Mr. Isa Abdulla Al Mannai – Vice Chairman / Non-Independent / Executive **(Until 5 February 2014)**

Mr. Mannai is MSc. (Engineering Management) from the Catholic University, Washington DC and BSc (Civil Engineering) University of Washington, Seattle. Mr. Mannai has over 30 years experience in the Construction Industry.

Mr. Mannai was in the Board of Directors of Investors Bank since 10<sup>th</sup> June 2007.

Mr. Ahmed Shabib Al Dhahery – Member / Non-Independent / Non-Executive **(Terminated on 29 September 2013)**

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. Dhahery has over 26 years experience.

Mr. Dhahery was in the Board of Directors of Investors Bank since 5<sup>th</sup> August, 2004.

Mr. Ebrahim Abdulla Al Shaikh – Member / Independent / None-Executive **(Until 5 February 2014)**

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 was Board of Director of Investors Bank since 29th April 2012.

Mr. Reyadh Abdulwahab Al Sharaf – Member / Non Independent / Non-Executive **(Terminated on 28 November 2013)**

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

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

Mr. Jamal Hasan Naqi – Member / Independent / Non-Executive (Until 5 February 2014)

Mr. Naqi holds (HND) in Business Management from Jordan. He has over 24 years of experience in commercial banking - having worked for BISB Bahrain.

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

Mr. Mersal Saad Al Majedi - Member / Independent / Non-Executive (until 27 June 2013)

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 was Board of Director of Investors Bank since 29th April 2012.

Sheikh Yusuf Bin Abdulla Al Nasser Al Sabah / Non-Independent / Non-Executive (from 29 December 2013 Until 5 February 2014)

Sheikh Al Sabah holds a Master degree in Business Administration from University of Kuwait; He also holds a Master degree in International Studies & Diplomacy from University of London, UK. He has over 17 years of experience, having worked in senior positions in various public and private sector. Currently, Mr. Al Sabah is the Chairman of Industry & Technology Co. Kuwait.

Mr. Majed Yusuf Ahmed Al Ali / Non-Independent / Executive (from 29 December 2013 Until 5 February 2014)

Mr. Al Ali holds HND degree in Banking from Institute of Banking studies, Kuwait; Mr. Al Ali worked in Banking industry for more than 20 years, he was the Chief Financial Officer of Kuwait Real-Estate Bank. Currently he is the General Manager of Wethaq Takaful Insurance Co. Kuwait.

Mr. Falah Hajraf Al Hajraf / Non-Independent / Executive (from 29 December 2013 Until 5 February 2014)

Mr. Al Hajraf holds Bachelor degree in Law from Cairo University, Egypt; He has over 11 years of experience in real-estate investment and logistics. Mr. Al Hajarf is a lawyer, co-founder and owner of RHA Law office in Kuwait.

- **The Current Board of Directors:**

Mr. Ameer Abdulrahman Al Mansour – Chairman / Independent / Non-Executive (Appointed on 19 June 2014)

Mr. AL Mansour holds a Master degree in Technical Analysis from the United Kingdom; He has over 12 years of experience in Banking and financial industry - having worked in senior position in Kuwait Commercial Bank. He is also an expert & economic analyst in stock exchange markets.

MR. Falah Hajraf Al Hajraf - Vice Chairman / Non-Independent / Executive **(Appointed on 19 May 2014)**

Mr. Al Hajraf holds Bachelor degree in Law from Cairo University, Egypt; He has over 11 years of experience in real-estate investment and logistics. Mr. Al Hajraf is a lawyer, co-founder and owner of RHA Law office in Kuwait.

Sheikh Yousif bin Abdulla Sabah Al Nasser Al Sabah – Member / Non-Independent / Non-Executive **(Appointed on 19 May 2014)**

Sheikh Al Sabah holds a Master degree in Business Administration from University of Kuwait; He also holds a Master degree in International Studies & Diplomacy from University of London, UK. He has over 17 years of experience, having worked in senior positions in various public and private sector. Currently, Mr. Al Sabah is the Chairman of Industry & Technology Co. Kuwait.

Mr. Majed Yousif Al Ali – Member / Non-Independent / Executive **(Appointed on 19 May 2014)**

Mr. Al Ali holds HND degree in Banking from Institute of Banking studies, Kuwait; Mr. Al Ali worked in Banking industry for more than 20 years, he was the Chief Financial Officer of Kuwait Real-Estate Bank. Currently he is the General Manager of Wethaq Takaful Insurance Co. Kuwait.

Mr. Abdulla Mohammed Al Refaei – Member / Non-Independent / Executive **(Appointed on 19 May 2014)**

Mr. Al Refaei is a lawyer, he studied in University of Cairo, Egypt. Mr. Al Refaei was a lawyer in Kuwait National Bank. Currently his is authorized lawyer in Kuwait. Mr. Al Refaei has over 9 years experience.

Dr. Jamshir Mohammed Nasimi – Member / Independent / Non-Executive **(Appointed on 19 June 2014)**

Mr. Nasimi holds a Doctoral Degree in Business & Management (Ph.D.) - specialization in Finance and Master of Science in Project Management from Orlando University, USA and Master in Business Administration from University of Strathclyde, Glasgow. He is also Certified Public Accountant (CPA) and has over 30 years of experience in investment & offshore banking industry; having worked for many financial institutions such as Investcorp Bank, Arab Banking Corporation (ABC) and United Gulf Bank. Currently, Mr. Nasimi is the Managing Director of Aequora accountancy & management consultancy-Bahrain.

Mr. Abdul Nasser Ahmed Mohammed – Member / Independent / Non-Executive **(Appointed on 19 June 2014)**

Mr. Mohammed holds a Bachelor Degree in Economics from University of Texas at Austin USA; he has over 27 years of experience in banking & Finance; he worked for many financial institutions such as Bank of Bahrain and Kuwait, Bahraini Saudi Bank, Bahrain Islamic Bank, Reef Real Estate Financing Company and Alpine Wealth Management.

### 3.4 Board Committees

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

#### 3.4.1 Executive Committee (EXCOM)

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

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

##### EXCOM Members:

Mr. Isa Abdulla Al Mannai – Chairman (Non-Independent) **(Until 5 February 2014)**

Mr. Mersal Saad Al Majedi – Member (Independent) **(until 27 June 2013)**

Mr. Jamal Hassan Naqi – Member (Independent) **(Until 5 February 2014)**

#### 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 23<sup>rd</sup> October 2014.

##### Audit Committee Members:

Mr. Ebrahim Abdulla Al Shaikh – Chairman (Independent) **(Until 5 February 2014)**

Mr. Ahmed Shabeeb Al Dhahery – Member (Non-Independent) **(Terminated on 29 September 2013)**

Mr. Reyadh Abdulwahab AlSharaf – Member (Non-Independent) **(Terminated on 28 November 2013)**

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) **(Terminated on 28 November 2013)**

Mr. Isa Abdulla Al Mannai – Member (Non-Independent) **(Until 5 February 2014)**

Mr. Ebrahim Abdulla Al Shaikh – Member (Independent) **(Until 5 February 2014)**

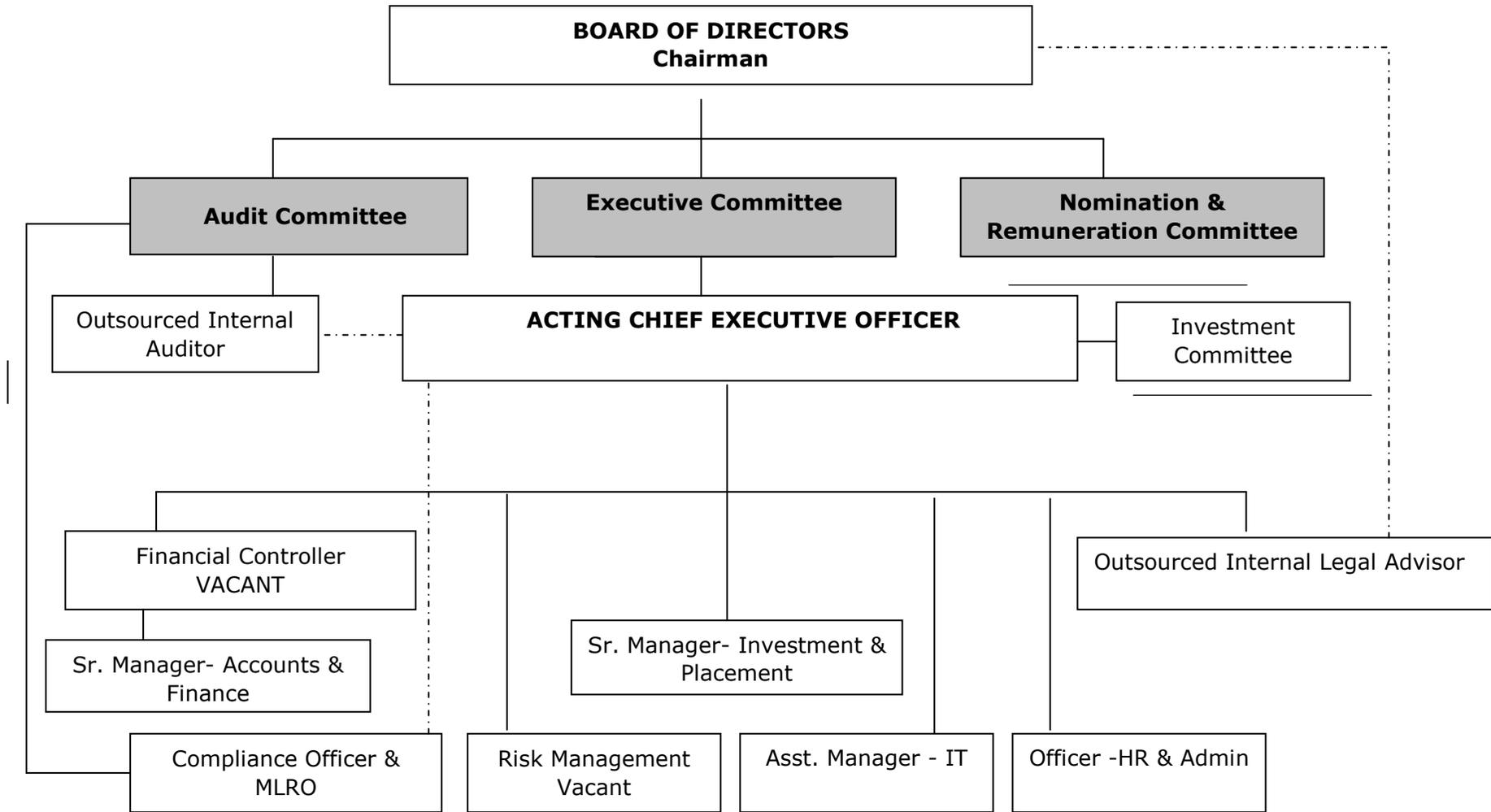
Striving to enhance the Corporate Governance practices, commensurate with the size of operations and feasibility, the Bank may introduce additional board sub-committees (like Board Risk Committee) as well as management level committees to manage its affairs in an efficient and transparent manner.

**As of 5<sup>th</sup> February 2014 the Bank Board of Directors was dissolved.**

**New Board of Directors was appointed on 19 May 2014 and 19 June 2014.**

After the appointment of the new Board of Directors during 2014, the Bank has reconstituted the committees, waiting approval from the Central Bank of Bahrain.

**3.5 Organisational Chart 2013**



### 3.6 Board Meetings

As per the Corporate Governance Manual, the Board is expected to meet minimum four times during a year. There were three Board and Sub Committee meeting during the 2013.

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

Members	25/4/2013	27/6/2013	8/9/2013
Mr. Ghassan F. Al Sultan	(√)	(√)	(√)
Mr. Isa A. Al Mannai	(√)	(√)	(√)
Mr. Ahmed S. Al Dhahery	(√)	(X)	(√) By Phone
Mr. Reyadh A. Sharaf	(√)	(X)	(√) By Phone
Mr. Mersal M. Al Majedi	(√)	(√)	(X) resigned on 27/6/2013
Mr. Jamal H. Naqi	(√)	(√)	(√)
Mr. Ebrahim A. Al Shaikh	(√)	(X)	(√)

**Attended: (√)**

**Absent: (X)**

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

Members	11/4/2013	13/6/2013	23/7/2013	3/10/2013
Mr. Isa A. Al Mannai	(√)	(√)	(√)	(√)
Mr. Mersal M. Al Majedi	(√)	(√)	(X) resigned on 27/6/2013	-
Mr. Jamal H. Naqi	(√)	(√)	(√)	(√)

**Attended: (√)**

**Absent: (X)**

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

Members	11/4/2013	13/6/2013	8/9/2013
Mr. Ebrahim A. Al Shaikh	(√)	(√) By Phone	(√)
Mr. Ahmed S. Al Dhahery	(√) By Phone	(√) By Phone	(√) By Phone
Mr. Reyadh A. Sharaf	(√)	(√) By Phone	(√) By Phone

**Attended: (√)**

**Absent: (X)**

### **3.7 Approval authority structure**

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

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

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

### **3.8 Code of Conduct**

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

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

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

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

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

### **3.9 Evaluation of Board Performance**

The Board shall, through the Nomination and Remuneration Committee, conduct an annual review of the Board's performance. This review shall include an overview of the talent base of the Board as a whole as well as an individual assessment of each

director's qualification under corporate governance rules and all other applicable laws, rules and regulations regarding directors; consideration of any changes in a director's responsibilities that may have occurred since the director was first elected to the Board and such other factors as may be determined by the Committee to be appropriate for review.

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

### **3.10 Social Responsibility**

The Bank discharges its social responsibility through donations to charitable causes and organisations. During the year ended 31 December 2013 the Bank paid an amount of US\$ 17,772 (2012: nil) on account of donations to charitable causes and organisations.

### **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. Abduljabbar Salah, Acting Chief Executive Officer (from 1<sup>st</sup> December 2013 – Terminated on 13 July 2014)**

Mr. Saleh has an extensive experience over 30 years in Banking and Financial sector in Bahrain. His experience includes a position of Manager, with Bank of Bahrain &

Kuwait (BBK), Assistant Vice President with Chase Manhattan Bank also he was an Executive Director with ABC Islamic Bank and finally he was Head of Structured Finance with Bahrain Islamic Bank, as he provides leadership and vision to the Bank. He joined Investors Bank in December 2013.

Educationally, Mr. Saleh holds a Master in Investment & Finance (MBA) from The University of Hull – UK. He has also attended various training courses in the Banking related fields.

Mr. Jassim Mohammed Khalaf Al Mutawa'a, Chief Executive Officer **(Terminated on 3 July 2013)**

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 **(until 2 June 2013)**

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 17 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.

Mr. Salah Janahi, Senior Manager, Investment and placement **(from 12 June 2013)**

Mr. Janahi has over 13 years of experience in Telecommunication sector and over 5 years of experience in the Investment sector.

He has experience across Investment analysis, business planning product development etc. His experience includes positions of Product Manager, Retail Development at Bahrain Telecommunication Company (Batelco); & Assistant Manager with Tharawat Investment House B.S.C.

Mr. Janahi holds a Bachelor degree in Business, Double Major of Marketing & Finance from New York Institute of Technology (NYIT), and a Middle Management Diploma from University of Bahrain. He joined Investors Bank during June 2013.

### **3.13 Managerial Committee**

The Board has approved the formation of "Investment Committee" in October 2009.

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

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

to oversee and perform Asset Liability Management activities; and

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

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

### **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 27<sup>th</sup> June 2013, the Board of Directors have approved the resignation of Mr. Mersal Al Majedi from the Board of Directors.
- On 3<sup>rd</sup> July 2013, the Bank CEO contract has been terminated and the Board had appointed Mr. Jamal Hasan Naqi – Bank board member as Bank operations caretaker until the appointment of new CEO.
- On 29<sup>th</sup> September 2013 IIG have requested to change their Board representative Mr. Ahmed Shabib Al Dhahery with immediate effect.
- On 28<sup>th</sup> November AJAL Holding have requested to change their Board representatives Mr. Ghassan Al sultan and Mr. Reyadh Abdulwahab Al Sharaf with immediate effect.
- Mr. Ghassan Fahad Al Sultan was Chairman of the Board of Directors until the 28<sup>th</sup> November 2013.
- Appointment of the Acting Chief Executive Officer, Mr. Abduljabbar Saleh joined the Bank in 1<sup>st</sup> December 2013 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.
- On 29<sup>th</sup> December 2013 the CBB have approved the following Board Members:
  - Shaikh Yusuf Bin Abdulla Al Nasser Al Subah
  - Mr. Majed Yusuf Al Ali
  - Mr. Falah Hajraf Al Hajraf
- On the 5<sup>th</sup> of February 2014 AJAL Holding and IIG have submitted the resignation of their representatives on the board, for the following board members:
  - Shaikh Yusuf Bin Abdulla Al Nasser Al Subah
  - Mr. Majed Yusuf Al Ali
  - Mr. Falah Hajraf Al Hajraf
- On 19 May 2014 and 19 June 2014 the following Board of Directors were appointed:
  - Mr. Ameer Abdulrahaman Al Mansour
  - Mr. Falah Hajraf K Al Hajraf
  - Shaikh Yusuf Bin Abdulla Al Nasser Al Suba

- Mr. Majed Yusuf Al Ali
  - Mr. Abdulla Mohammad Al Rifaie
  - Dr. Jamshir Mohammed Nasimi
  - AbdulNaser Ahmed Mohamed
- The Contract of the Acting Chief Executive Officer, Mr. Abduljabbar Saleh was terminated by the Board of Directors on 13 July 2014.

### **3.16 Communications Policy**

The Bank has a Board approved communication strategy which is part of the public disclosure policy, in compliance with CBB regulations under PD Module of the Volume 2 of CBB Rulebook, to disclose material information about its activities to various stakeholders. As a policy, the Bank maintains at least three years of financial data on its website.

The communication policy applies to all modes of communication to the public including written, oral and electronic communications.

These disclosures are made on a timely basis in a manner required by applicable laws and regulatory requirements.

Management seeks to respond to shareholders' questions and concerns on a prompt basis, subject to the limitations imposed by law and the confidentiality of certain information. The Bank maintains a website at [www.investorsb.com](http://www.investorsb.com), which includes Information of interest to various stakeholders including the regulatory authorities. Information available on the website includes the Annual Report and reviewed quarterly financials of the Bank.

### **3.17 Shari'a Compliance**

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

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

### **3.18 Zakah Contributions**

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

### **3.19 Compliance with CBB's Corporate Governance Guidelines**

The Bank, during the year ended 31 December 2013, 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 1<sup>st</sup> 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.

<b>CAPITAL STRUCTURE</b>		
<b>Components of capital</b>	<b>Tier One</b>	<b>Tier Two</b>
Core capital - Tier I:		
Issued and fully paid ordinary shares	80,000,000	-
Legal / statutory reserves	7,409,515	-
Accumulated losses	(67,024,045)	-
<b>Tier 1 Capital</b>	<b>20,385,470</b>	<b>-</b>
Unrealized gross gains arising from fair valuing equities (45% only)	-	884,040
<b>Tier 2 Capital</b>	<b>-</b>	<b>884,040</b>
<b>Total Available Capital</b>	<b>20,385,470</b>	<b>884,040</b>
Deductions:		
Excess amount over maximum permitted large exposure limit		
- Tier 1	(12,637,646)	-
- Tier 2	-	(844,040)
<b>Net Available Capital</b>	<b>7,747,824</b>	<b>-</b>
<b>Total Eligible Capital</b>		<b>7,747,824</b>

## 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.

<b>Risk Assets/ Categories</b>	<b>Risk Weighted Assets (RWA)</b>	<b>Capital Charge @ 12% of RWA</b>
Credit Risk		
- Cash and balances with banks	153,519	18,422
- Due from a financial institution	531,300	63,756
- Investments at fair value through equity		
- Listed equities	3,918,959	470,275
- Unlisted equities	326,865	39,224
- Deferred payment sale receivables	1,870,763	224,492
- Investment in real estate	36,511,544	4,381,385
- Other assets	1,362,590	163,511
- Fixed assets	85,123	10,215
<b>Total Credit Risk</b>	<b>44,760,663</b>	<b>5,371,280</b>
Market Risk		
- Equity position risk	396,824	47,619
- Foreign exchange risk	2,061,403	247,368
<b>Total Market Risk</b>	<b>2,458,227</b>	<b>294,987</b>
<b>Total Operational Risk</b>	<b>1,616,336</b>	<b>193,960</b>
Total Risk Weighted Assets (a)	48,835,226	
Total Eligible Capital (b)	7,747,825	
<b>Total Capital Adequacy Ratio [(b)/(a)]</b>		<b>15.87%</b>

## **5 Risk Management**

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

The Bank's Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established an Executive Committee (EXCOM), a board level 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, due from a financial institution, deferred payment sale receivables and other assets.

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

The following table demonstrates Bank's credit risk exposure:

<b>Credit Risk Exposure</b>		
	<b>Own capital and current account</b>	
<b>Portfolios</b>	<b>Total gross credit risk exposure</b>	<b>Average gross credit exposure over the period *</b>
Balances with banks	767,593	1,018,018
Due from a financial institution	2,656,499	1,128,938
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	1,313,509	1,838,452
<b>Total</b>	<b>8,417,804</b>	<b>7,665,611</b>

\* 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):

	<b>Banking and financial institutions</b>	<b>Investment Companies</b>	<b>Others</b>	<b>Total</b>
Past due but not impaired Islamic financing contracts	887,733	3,680,203	420,000	4,987,936
Impaired financing contracts	16,088,101	6,125,125	11,267,312	33,480,538
<b>Total</b>	<b>16,975,834</b>	<b>9,805,328</b>	<b>11,687,312</b>	<b>38,468,474</b>

Aging of past due and impaired financing contracts:

	<b>Banking and financial institutions</b>	<b>Investment Companies</b>	<b>Others</b>	<b>Total</b>
Less than 3 months	-	-	-	-
3 months – 1 year	-	-	420,000	420,000
1 year – 3 years	-	-	9,312	9,312
Over 3 years	16,975,834	9,805,328	11,258,000	38,039,162
Total	16,975,834	9,805,328	11,267,312	38,468,474

Movement in specific provisions during the year:

	<b>Banking and financial institutions</b>	<b>Investment Companies</b>	<b>Others</b>	<b>Total</b>
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	-	-	486,420	486,420
Balance at the end of the year	16,088,101	6,125,125	11,267,312	33,480,538

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 2013.

### **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	762,964	4,629	-	767,593
Due from a financial institution	2,656,499	-	-	2,656,499
Deferred payment sale receivables	3,680,203	-	-	3,680,203
Other assets	888,290	-	425,219	1,313,509
Total	7,987,956	4,629	425,219	8,417,804

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

#### Own capital

Asset category	Industry sector			
	Banks and financial institutions	Investment companies	Others	Total
Funded				
Balances with banks	767,593	-	-	767,593
Due from a financial institution	2,656,499	-	-	2,656,499
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Other assets	887,733	-	425,776	1,313,509
Total	4,311,825	3,680,203	425,776	8,417,804

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:

<b>Concentration of risk</b>	
<b>Counterparties</b>	<b>Own capital</b>
	<b>Total exposure</b>
Counterparty # 1 – Individual - Significant Shareholder – 0% limit	5,670,202
Counterparty # 2 – Individual – Individual Counterparty – 15% limit	-
Counterparty # 3 – Individual – Restricted Investment – 30% limit	10,414,268
Counterparties – Closely Related – Including Counterparties 2 & 3	15,295,814

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

<b>Impaired exposures, Past Due exposures and allowances</b>		
<b>Own capital</b>		
<b>Geographic area</b>	<b>Past due and Impaired Islamic financing contracts</b>	<b>Specific impairment provision</b>
Bahrain	10,884,057	6,316,121
Kuwait	25,880,881	25,880,881
Other countries	1,703,536	1,283,536
Total	38,468,474	33,480,538

## **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 2013:

<b>Particulars</b>	<b>20% decrease</b>	<b>20% increase</b>
Investments at fair value through statement of income	(39,682)	39,682

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:

<b>Particulars</b>	<b>Gross exposure</b>	<b>Risk weighted assets (RWA)</b>	<b>Capital requirements @ 12% of RWA</b>	<b>Maximum capital requirement during the year</b>	<b>Minimum capital requirement during the year</b>
Equity Position	198,412	396,824	47,619	178,985	47,619
Foreign Exchange Position	2,061,403	2,061,403	247,368	495,690	247,368

### 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 2013:

<b>Currency</b>	<b>(US\$ Equivalent)</b>
Bahraini Dinar	25,548,984
Kuwaiti Dinar	2,061,403
United Arab Emirates Dirham	1,035,299

#### 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 2013:

<b>Currency</b>	<b>5% decrease</b>	<b>5% increase</b>
Kuwaiti Dinar	(103,070)	103,070

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	862,046	1,616,336	129,307

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

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

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

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

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

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

Net income from investment activities; and

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

Less

Investment account holders' share of income

Takaful income

#### **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 2013 (31 December 2012: US\$ 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain equity shares with a carrying value of US\$ 2,894,235 as at 31 December 2013 (31 December 2012: US\$ 1,898,618) in addition to dividends received on these shares amounting to US\$ 887,733 as at 31 December 2013 (31 December 2012: 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 2013 (31 December 2012: 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 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.

During 2013, a broker was appointed by the court to sell the pledged shares for the best possible price. The broker auctioned the shares with a price of BD 0.100 per share however no potential buyers indicated their interest at this price and the shares are yet to be sold. Based on this price the Bank would not be able to recover its pledged investment and the Bank's Board of Directors have decided to derecognise its pledged investment. The Bank's equity investment in the same shares has also been written down to the auction price.

Further, the related party 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 2013 (31 December 2012: US\$ 3,229,064).

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

<b>Period 2013</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>Total Within 1 year</b>	<b>1 to 3 years</b>	<b>No fixed maturity</b>	<b>Total</b>
Assets							
Cash and balances with banks	768,919	-	-	768,919	-	-	768,919
Due from a financial institution	2,656,499	-	-	2,656,499	-	-	2,656,499
Investments	-	-	198,412	198,412	-	5,808,026	6,006,438
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	3,680,203
Investment in real estate	-	-	-	-	-	18,255,775	18,255,772
Other assets	425,219	-	49,081	474,300	-	901,553	1,375,853
Fixed assets	-	-	-	-	-	85,124	85,124
<b>Total assets</b>	<b>7,530,840</b>	<b>-</b>	<b>247,493</b>	<b>7,778,333</b>	<b>-</b>	<b>25,050,475</b>	<b>32,828,808</b>

<b>Period 2013</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 Months to 1 year</b>	<b>Total Within 1 year</b>	<b>1 to 3 years</b>	<b>No fixed maturity</b>	<b>Total</b>
Liabilities							
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	3,229,064
Provision against lease commitment	-	-	-	-	-	2,885,300	2,885,300
Other liabilities	137,146	46,442	142,542	326,130	148,010	220,098	694,238
<b>Total liabilities</b>	<b>7,036,412</b>	<b>46,442</b>	<b>142,542</b>	<b>7,225,396</b>	<b>148,010</b>	<b>3,105,398</b>	<b>10,478,804</b>
<b>Cumulative Liquidity Gap</b>	<b>494,428</b>	<b>447,986</b>	<b>552,937</b>	<b>522,937</b>	<b>404,927</b>	<b>22,350,004</b>	

Following are the key liquidity ratios as at 31 December 2013:

<b>Description</b>	<b>Ratio</b>
Short Term Assets : Total Assets	23.7%
Short Term Assets : Short Term Liabilities (Times)	1.08

## 5.5 Rate of Return Risk

Rate of return risk arises due to different timing of re-pricing of the Bank's assets and liabilities. The Bank's exposure to rate of return risk is limited to balances with banks. The balances with banks amount as on 31 December 2013 is US\$ 767,593.

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 2013:

Particulars	20% decrease	20% increase
Investments at fair value through equity	(1,075,870)	1,075,870

### 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	5,379,349	428,677
Investment in managed funds	-	-
Total	5,379,349	428,677

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

<b>Particulars</b>	<b>Amount</b>
Cumulative realized gains (losses) arising from sales or liquidations in the reporting period	293,845
Total unrealized gains (losses) recognized in the statement of financial position but not through the statement of income	1,964,534
Unrealized gains (losses) included in Tier One Capital	-
Unrealized gains (losses) included in Tier Two Capital	884,040

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

<b>Equity grouping</b>	<b>Risk weighted assets (RWA)</b>	<b>Capital requirements @ 12% of RWA</b>
Investment in shares	4,245,825	509,499
Investment in managed funds	-	-
<b>Total</b>	<b>4,245,825</b>	<b>509,499</b>

## **5.7 Displaced Commercial Risk**

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

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

## **5.8 Risks Mitigation**

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

## **6 Restricted Investment Accounts**

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

Balance as of 31 Dec 2013 net of provision:

<b>Exposures</b>	<b>No of units (000)</b>	<b>Average value per share US\$</b>	<b>Total US\$</b>
Murabaha with Lotus Air Ltd *	-	-	-
Investments in International Investment Group K.S.C.C. **	12,887	-	-
Portfolio managed by the Bank ***	142,059	-	-
<b>Total</b>			-

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

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

During the year, the Board of Directors has written down the value of investments off-balance sheet investment account holders to nil, based on the performance of these investments and the lack of information available to support the carrying value of these investments.

## **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:

	<b>2013</b>	<b>2012</b>
Assets	4,881,546	6,641,471
Liabilities	3,371,689	3,446,867
Restricted Investment Accounts	-	16,122,978

Significant transactions with related parties include:

	<b>2013</b>	<b>2012</b>
Income	(1,715,715)	(17,315)
Expenses	105,063	4,937,960
Other comprehensive loss	(101)	(2,485,485)

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:

	<b>2013</b>	<b>2012</b>
Salaries, short term benefits and post employment benefits	236,691	161,003