



Licensed as an Islamic Wholesale Bank by the CBB

Investors Bank B.S.C. (c)
Public Disclosures Document
December 31, 2014
(All amounts in US\$)

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1 Executive Summary

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

This document encompasses the detailed 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 December 31, 2014 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 2014, the global financial markets did not completely recover where growth in the region has decelerated as the recovery in the economy faced many obstructions. Generally, financial markets have adjusted and cash inflow recommenced. In 2015, growth is expected to accelerate progressively.

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

The Bank's Board of Directors decided to change the basis of measurement of the Bank's Investment in Real Estate from the Cost model to the valuation model. This change in accounting policy was applied retrospectively.

Additional provision against lease commitment of US \$ 4,058,982 was reflected in the account.

For the year ended December 31, 2014 the Bank reported a net loss of US\$ 1,733,640 (2013 (Restated): US\$ 3,978,928).

Financial ratios for five years:

Ratio name	2014	Restated			
		2013	2012	2011	2010
ROAE	-6.93	-14.15	-15.34	-13.72	-45.52
ROAA	-4.63	-10.59	-12.41	-11.48	-40.30
STAFF COST/INCOME	39.45	187.95	64.69	294.85	N/A
COST/INCOME	209.70	967.95	454.00	1,672.43	N/A
EPS (\$)	-0.01	-0.02	-0.02	-0.02	-0.11

3 Corporate Governance

3.1 Ownership structure of the Bank

The ownership structure of the Bank is given below:

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

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%
Total	242,424,242	100.00%

3.1.3 Distribution of ownership of shares by size of shareholder

Ownership size	No of shareholders	Total ownership
0-5%	105	37.96%
5-15%	2	12.70%
>15%	2	49.34%

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

Shareholder Name	No of shares	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 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 Protiviti, Bahrain in 2014 (2013: 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. Currently the Bank has five members on its Board of Directors, of which one is independent.

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 misuse 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. Ameer Abdulrahaman Al Mansour – Chairman / Independent / Non-Executive (From June 19, 2014 to November 5, 2014)

Mr. AL Mansour holds a Master degree in Technical Analysis from the United Kingdom; He has over 13 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 K. Al Hajraf - Vice Chairman / Non-Independent / Executive (Appointed on May 19, 2014)

Mr. Al Hajraf holds Bachelor degree in Law from Cairo University, Egypt; He has over 12 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.

Sheikh Yousif bin Abdulla Sabah Al Naser Al Sabah – Member / Non-Independent / Non-Executive **(Appointed on May 19, 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 18 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 Ahmed Al Ali – Member / Non-Independent / Executive **(Appointed on May 19, 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 21 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 Mohammad Al Refaei – Member / Non-Independent / Executive **(Appointed on May 19, 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 he is an authorized lawyer in state of Kuwait. Mr. Al Refaei has over 10 years of experience in the law and legislation.

Dr. Jamshir Mohammed Nasimi – Member / Independent / Non-Executive **(From June 19, 2014 to November 5, 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.

Mr. AbdulNaser Ahmed Mohamed – Member / Independent / Non-Executive **(Appointed on June 19, 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.

Executive Committee (EXCOM) Members:

Mr. Majed Yousif Ahmed Al Ali – Chairman (Non-Independent)

Mr. AbdulNaser Ahmed Mohamed – Vice Chairman (Independent)

Mr. Ameer Abdulrahaman Al Mansour – Member (Independent) **(Until November 5, 2014)**

Mr. Falah Hajraf K. Al Hajraf – Member (Non –Independent) **(From November 5, 2014)**

3.4.2 Audit and Risk 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.

Audit and Risk Committee Members:

Dr. Jamshir Mohammed Nasimi – Chairman (Independent) **(Until November 5, 2014)***

Sheikh Yousif bin Abdulla Sabah Al Naser Al Sabah – Vice Chairman (Non-Independent)

Mr. AbdulNaser Ahmed Mohamed – Member (Independent)*

Mr. Majed Yousif Ahmed Al Ali – Member (Non-Independent) **(From November 5, 2014)**

* Mr. AbdulNaser Ahmed Mohamed was appointed as Chairman of the Audit and Risk Committee with effect from November 5, 2014.

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 and Corporate Governance Committee

The Nomination and Remuneration and Corporate Governance 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 and Corporate Governance Committee Members:

Mr. Ameer Abdulrahman Al Mansour – Chairman (Independent) **(Until November 5, 2014)***

Dr. Jamshir Mohammed Nasimi – Vice Chairman (Independent) **(Until November 5, 2014)**

Mr. Majed Yousif Ahmed Al Ali – Member (Non-Independent)*

Mr. Abdul Naser Ahmed Mohamed – Member (Independent)

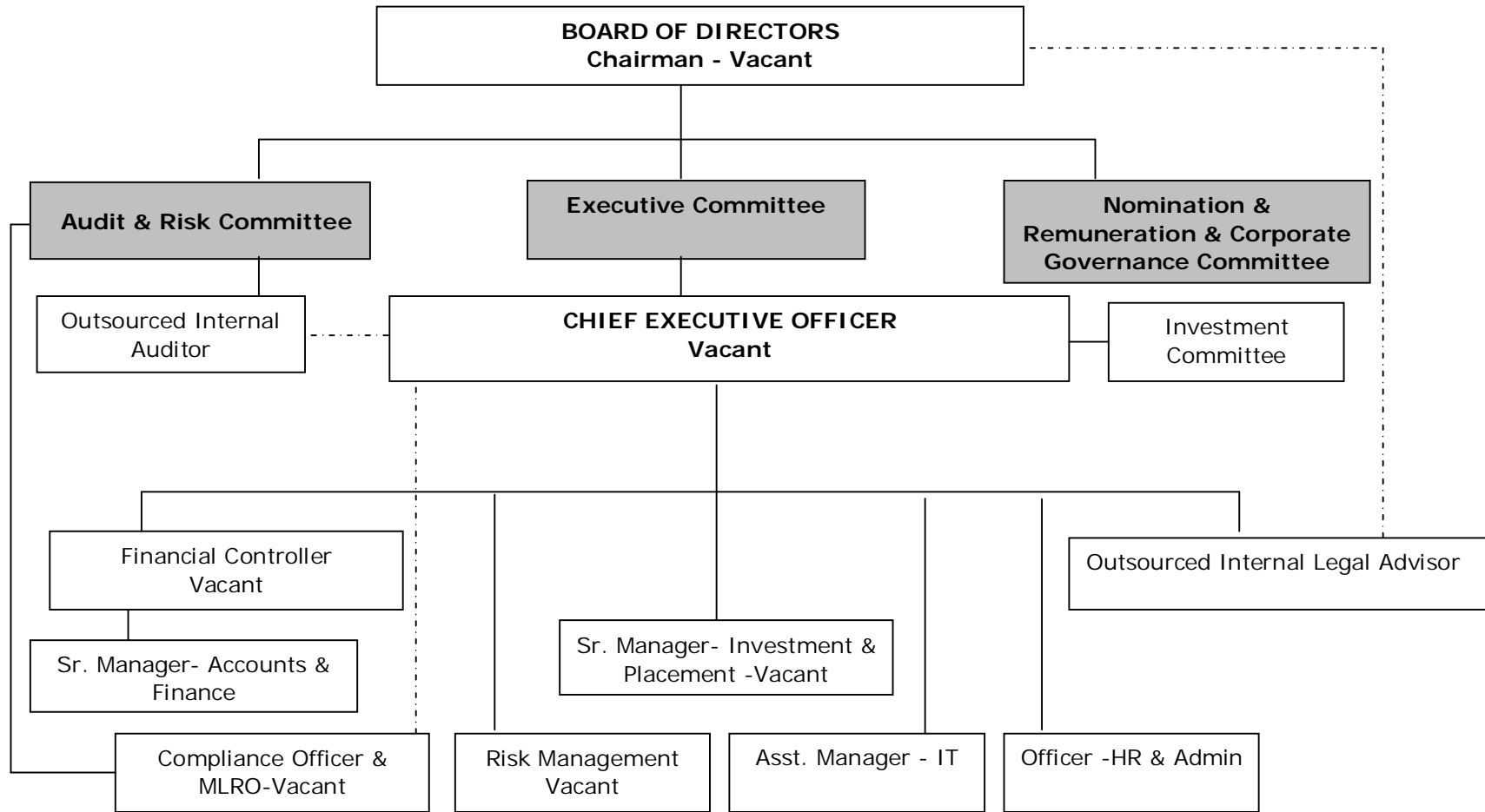
Mr. Falah Hajraf Al K. Hajraf – Chairman (Non-Independent) **(From November 5, 2014)**

Mr. Abdulla Mohammad Al Refaei – Member (Non-Independent) **(From November 5, 2014)**

* Mr. Majed Yousif Ahmed Al Ali was appointed as Vice Chairman of the Nomination and Remuneration and Corporate Governance Committee with effect from November 5, 2014.

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

3.5 Organisational Chart 2014



3.6 Board and Committees meetings

Board of Directors:

As per the Corporate Governance Manual, the BOD should meet at least four times during a single year. The BOD held five meetings during 2014

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

Names of directors	Date and location				
	19/6 Bahrain	27/6 Bahrain	7/8 Kuwait	20/9 Bahrain	5/11 Kuwait
Mr. Ameer Abdulrahaman Al Mansour	(√)	(√)	(√)	(√)	(X)
Mr. Falah Hajraf K. Al Hajraf	(X)	(X)	(√)	(X)	(√)
Sheikh Yousif bin Abdulla Sabah Al Naser Al Sabah	(√)	(√)	(X)	(√)	(√)
Mr. Majed Yousif Ahmed Al Ali	(√)	(√)	(X)	(√)	(√)
Mr. Abdulla Mohammad Al Refaei	(√)	(X)	(√)	(X)	(√)
Dr. Jamshir Mohammed Nasimi	(√)	(√)	(√)	(√)	(√)
Mr. AbdullNaser Ahmed Mohamed	(√)	(√)	(√)	(√)	(√)

Attended: (√)

Absent: (X)

Executive Committee:

The committee should meet at least four times a year. The Committee did not hold any meeting during 2014.

Audit and Risk Committee:

The Committee should meet at least four times a year, during 2014, the Committee held only one meeting.

The date and attendance details of the Committee meeting are given below:

Names of directors	Date and location
	27/6 Bahrain
Dr. Jamshir Mohammed Nasimi	(√)
Sheikh Yousif bin Abdulla Sabah Al Naser Al Sabah	(√)
Mr. AbdullNaser Ahmed Mohamed	(√)

Attended: (√)

Absent: (X)

Nomination and Remuneration and Corporate Governance Committee:

The Committee must meet at least once a year. The date and attendance details of the Committee meetings are given below:

Names of directors	Date and location
	27/6 Bahrain
Mr. Ameer Abdulrahaman Al Mansour	(√)
Dr. Jamshir Mohammed Nasimi	(√)
Mr. Majed Yousif Ahmed Al Ali	(√)
Mr. AbdulNaser Ahmed Mohamed	(√)

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. However, there were no donations to charitable causes and organisations during the year ended December 31, 2014 (2013: US\$ 17,772).

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 Saleh, Acting Chief Executive Officer (Terminated on July 13, 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. Maher Ali Husain, Senior Manager- Accounts & Finance

Mr. Hussain has over 19 years of experience in the Banking and Financial sector in Bahrain. He has a 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 (Until August 23, 2014)

Mr. Janahi has over 13 years of experience in Telecommunication sector and over 6 years of experience in the Investment sector.

He has experience in 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 had 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 the February 5, 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 Naser Al Sabah
 - Mr. Majed Yusuf Al Ali
 - Mr. Falah Hajraf K. Al Hajraf

- On May 19, 2014 and June 19, 2014 the following Board of Directors were appointed:
 - Mr. Ameer Abdulrahaman Al Mansour
 - Mr. Falah Hajraf K. Al Hajraf
 - Shaikh Yusuf Bin Abdulla Al Naser Al Sabah
 - Mr. Majed Yusuf Ahmed 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 July 13, 2014.

- On November 5, 2014, the following Board of Directors resigned from the Bank:
Mr. Ameer Abdulrahaman Al Mansour
Dr. Jamshir Mohammed Nasimi

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 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 December 31, 2014 has reported non-compliance with the following sections of the CBB rule book volume 2 HC modules:

HC-1.4.6; Chairman should be Independent:

An independent director was appointed as Chairman of the Board of Directors on June 19, 2014. However, on November 5, 2014 Mr. Ameer abdulrahman Al Mansour resigned and currently the position of Chairman is vacant.

HC-1.5.2; One third of the Board should be Independent:

Two independent directors resigned from the Board of Directors in November 2014 and these positions have remained vacant since.

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

4 Capital Adequacy and Management

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

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

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

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

Tier 2: Supplementary Capital – 45% of the unrealised gains arising on the re-measurement of fair valuing equities classified as Investments at fair value through equity and 45% of the assets revaluation reserve.

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	(65,451,100)	-
Tier 1 Capital	21,958,415	-
Assets revaluation reserve – Property, plant , and equipment (45% only)*	-	53,012
Unrealized gross gains arising from fair valuing equities (45% only)	-	1,042,300
Tier 2 Capital	-	1,095,312
Total Available Capital	21,958,415	1,095,312
Deductions:		
Excess amount over maximum permitted large exposure limit		
- Tier 1	(711,744)	-
- Tier 2	-	(711,744)
Net Available Capital	21,246,671	383,568
Total Eligible Capital		21,630,239

* The amount taken to this reserve relates to the Bank's "Properties fair value reserve" pertaining to investment in real estate.

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.

Risk Assets/ Categories	Risk Weighted Assets (RWA)	Capital Charge @ 12% of RWA
Credit Risk		
- Cash and balances with banks	825,240	99,029
- Investments at fair value through equity		
- Listed equities	4,257,897	510,948
- Unlisted equities	477,226	57,267
- Deferred payment sale receivables	2,566,461	307,975
- Investment in real estate	47,103,924	5,652,471
- Other assets	939,065	112,688
- Fixed assets	66,819	8,018
Total Credit Risk	56,236,632	6,748,396
Market Risk		
- Equity position risk	370,844	44,501
- Foreign exchange risk	1,922,714	230,726
Total Market Risk	2,293,558	275,227
Total Operational Risk	2,129,618	255,554
Total Risk Weighted Assets (a)	60,659,808	
Total Eligible Capital (b)	21,630,239	
Total Capital Adequacy Ratio [(b)/(a)]		35.66

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 subcommittee that is responsible for developing and monitoring the Bank's operations and policies across various functions including the risk management framework.

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

The Bank has established and implemented various exposure limits as well as set levels of risk that the Bank is willing to accept in relation to its available capital.

The limit structure includes single obligor level limits, large exposure limits, industry level limits, country level limits etc. All limits have been set as per CBB guidelines and Bank's internal limits and policy.

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

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:

Credit Risk Exposure		
	Own capital and current account	
Portfolios	Total gross credit risk exposure	Average gross credit exposure over the period *
Balances with banks	4,119,504	2,038,463
Due from a financial institution	-	1,990,370
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	893,572	921,550
Total	8,693,279	8,630,586

* These have been computed based on the average of the quarter end balances.

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.

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

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

	Banking and financial institutions	Investment Companies	Others	Total
Past due but not impaired Islamic financing contracts	887,733	3,680,203	-	4,567,936
Impaired financing contracts	16,088,102	6,125,125	11,267,312	33,480,539
Total	16,975,835	9,805,328	11,267,312	38,048,475

Aging of past due and impaired financing contracts:

	Banking and financial institutions	Investment Companies	Others	Total
Less than 3 months	-	-	-	-
3 months – 1 year	-	-	-	-
1 year – 3 years	-	-	9,312	9,312
Over 3 years	16,975,835	9,805,328	11,258,000	38,039,163
Total	16,975,835	9,805,328	11,267,312	38,048,475

Movement in specific provisions during the year:

	Banking and financial institutions	Investment Companies	Others	Total
Balance at the beginning of the year	16,088,102	6,125,125	11,267,312	33,480,539
Net provision for impairment for the year	-	-	-	-
Balance at the end of the year	16,088,102	6,125,125	11,267,312	33,480,539

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

The management of the Bank analyses its credit risk portfolio on a periodical basis to assess its recoverability. Impairment provisions for assets are based on the management's assessment of the expected realisations. Specific impairments are identified by the Bank based on the various specific factors, which include financial health of the investee and any expected cash for in kind settlements.

The Bank does not maintain any collective impairment provisions as of December 31, 2014.

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	4,115,042	4,462	-	4,119,504
Deferred payment sale receivables	3,680,203	-	-	3,680,203
Other assets	888,290	-	5,282	893,572
Total	8,683,535	4,462	5,282	8,693,279

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	4,119,504	-	-	4,119,504
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Other assets	887,733	-	5,839	893,572
Total	5,007,237	3,680,203	5,839	8,693,279

The Bank does not have any unfunded exposures.

As required by CBB, the Bank must not incur an exposure to an individual counterparty or group of closely related counterparties, which exceeds 15% of the Bank's capital base without the prior written approval of the CBB. Also the Bank's shareholders with significant ownership of the Bank's capital are not allowed to obtain financing facilities from the Bank (i.e. a 0% limit). The Bank's concentrations of exposure to individual counterparties and group of closely related counterparties in excess of 15% and significant shareholders with limit exposure of greater than 0% are given below:

Concentration of risk	
Counterparties	Own capital
	Total exposure
Counterparty # 1 – Individual - Significant Shareholder – 0% limit	-
Counterparty # 2 – Individual – Individual Counterparty – 15% limit	3,680,203
Counterparty # 3 – Individual – Restricted Investment – 30% limit	-
Counterparties – Closely Related – Including Counterparties 2 & 3	4,881,545

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

Impaired exposures, Past Due exposures and allowances		
Own capital		
Geographic area	Past due and Impaired Islamic financing contracts	Specific impairment provision
Bahrain	10,874,745	6,306,809
Kuwait	25,890,194	25,890,194
Other countries	1,283,536	1,283,536
Total	38,048,475	33,480,539

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 December 31, 2014:

Particulars	20% decrease	20% increase
Investments at fair value through statement of income	(37,084)	37,084

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 as at December 31, 2014	Risk weighted assets (RWA) as at December 31, 2014	Capital requirements @ 12% of RWA as at December 31, 2014	Maximum capital requirement during the year	Minimum capital requirement during the year
Equity Position	185,422	370,844	44,501	70,539	44,501
Foreign Exchange Position	1,922,714	1,922,714	230,726	247,842	230,726

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 December 31, 2014:

Currency	(US\$ Equivalent)
Bahraini Dinar	31,137,828
Kuwaiti Dinar	1,922,714
United Arab Emirates Dirham	1,537,155

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 December 31, 2014:

Currency	5% decrease	5% increase
Kuwaiti Dinar	(96,136)	96,136

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

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 and identification of Key Risk Indicators.

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

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

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.

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 in accordance with Basel II risk categorization framework.

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

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	1,135,797	2,129,618	170,370

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	1,135,797
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:

- On March 7, 2004, the Bank entered into a sale and purchase agreement with a financial institution to purchase shares of a related party for a total consideration of US\$ 5,811,957 including six-month deferred payment costs of US\$ 141,755. Concurrently the Bank has entered into an agreement with another related party to sell the same shares for a total consideration of US\$ 5,821,958 including deferred payment costs of US\$ 151,755, payable on September 30, 2004.

In accordance with the terms of the agreement, the Bank pledged certain own equity investments in addition to subsequent dividend shares received, in favour of the financial institution, the carrying value of which as at December 31, 2014 amounted to US\$ 3,380,467 (US\$ 2,894,235 as at December 31, 2013) and dividends receivable up to 2006 totalling US\$ 887,733.

As the date of signature of both agreements, the net remaining amounts due to the financial institution and due from the related party amounted to US\$ 3,670,202 and US\$ 3,680,203 respectively (excluding deferred payment costs). No further settlements were made and the agreement was terminated by the financial institution, which retained the Bank's pledged shares. The Bank's management considered that the agreement was wrongfully terminated and pledged shares were unlawfully retained. The Bank has filed a legal case before the Courts of Bahrain against the financial institution for repossession of the pledged share, which are currently under the custody of the Court with the related dividends discussed above. Further a cheque in the amount of US\$ 3,680,203 representing the amount due to the Bank on the deferred sale of shares was drawn by that related party and deposited at the Court.

In the opinion of the Bank's management, no provision is required to be made in the financial statements against the pledged shares or against any contingent liabilities that might arise on the final settlement.

- In 2004, a related party entered into a Murabaha financing agreement with a financial institution against the pledged of 18,840,341 equity shares, of which 8,352,705 owned by the Bank with a carrying value at that time of US\$ 5,760,487, and the remaining 10,487,636 shares owned by the borrowing related party and another related party.

Also on November 1, 2004 the Bank obtained from the above related party a one year financing totalling US\$ 3,229,064 including financing cost of US\$ 134,295 by virtue of a Murabaha contract.

Following the default of the related party, the case was brought to Court, which ruled in favour of the financial institution and ordered the settlement of the outstanding balance of BD 2,236,191 (US\$ 5,931,541) in addition to annual profit of 3% effective April 2011 and settlement of legal costs.

As no settlement was made by any of the parties that had pledged the shares in guarantee of the financing agreement as stated above, the Court appointed in 2013 a broker to auction all the 18,840,341 pledged shares in one bulk. A number of unsuccessful auctions were held at varying starting prices; however no potential buyers indicated their interest and the shares are yet to be sold.

In recognition of the Bank's liability, the management decided to write down to zero the value of its 8,352,705 pledged shares and valued the remaining same shares (2,912,950 shares) in its portfolio at BD 0.100 (US\$ 0.2652) per share, being the lowest bidding price up to the 2014 year end. Subsequent to the year end in April 2015, the 8,352,705 shares were liquidated at an auction price of BD 0.100 per share.

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

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

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 2014	Up to 1 month	1 to 3 months	3 months to 1 year	Total Within 1 year	1 to 3 years	No fixed maturity	Total
Assets							
Cash and balances with banks	4,120,830	-	-	4,120,830	-	-	4,120,830
Equity Investments	-	-	185,422	185,422	-	6,159,713	6,345,135
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	3,680,203
Investment in real estate	-	-	-	-	-	23,616,756	23,616,756
Other assets	5,282	-	45,495	50,777	-	901,553	952,330
Fixed assets	-	-	-	-	-	66,819	66,819
Total assets	7,806,315	-	230,917	8,037,232	-	30,744,841	38,782,073

Period 2014	Up to 1 month	1 to 3 months	3 Months to 1 year	Total Within 1 year	1 to 3 years	No fixed maturity	Total
Liabilities							
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	3,229,064
Provision against lease commitment	-	-	-	-	-	6,944,282	6,944,282
Other liabilities	52,567	62,916	413,088	528,571	-	17,513	546,084
Total liabilities	6,951,833	62,916	413,088	7,427,837	-	6,961,795	14,389,632
Cumulative Liquidity Gap	854,482	791,566	609,395	609,395	609,395	24,392,441	

Following are the key liquidity ratios as at December 31, 2014:

Description	Ratio
Short Term Assets : Total Assets	20.7%
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 Bank does not have any assets which are exposed to rate of return risk.

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 December 31, 2014:

Particulars	20% decrease	20% increase
Investments at fair value through equity	(1,146,207)	1,146,207

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 respective 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	5,731,036	428,677
Investment in managed funds	-	-
Total	5,731,036	428,677

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

Particulars	Amount
Cumulative realized gains (losses) arising from sales or liquidations in the reporting period	-
Total unrealized gains (losses) recognized in the statement of financial position but not through the statement of income	2,316,221
Unrealized gains (losses) included in Tier One Capital	-
Unrealized gains (losses) included in Tier Two Capital	1,042,300

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

Equity grouping	Risk weighted assets (RWA)	Capital requirements @ 12% of RWA
Investment in shares	4,735,123	568,215
Investment in managed funds	-	-
Total	4,735,123	568,215

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 December 31, 2014 net of provision:

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

* The Bank accepted certain funds from a related party in 1999 under a Mudaraba arrangement which were deployed in a Murabaha with a non-related party. The Murabaha was partially repaid and the balance amount has been impaired. 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 affect the transfer of the IIG shares to the restricted investment account holder.

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

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

*** Managed Portfolio

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

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

The Bank's Board of Directors had resolved to write down the value of these shares to zero in the latter part of 2013 based on the performance of these shares and / or the lack of information to support the carrying value of these shares.

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 December 31 comprise:

	2014	2013
Assets	4,881,545	4,881,545
Liabilities	3,277,993	3,373,546
Restricted Investment Accounts	-	-

Significant transactions with related parties include:

	2014	2013
Income	-	(1,715,715)
Expenses	84,462	60,953
Provision for impairment	-	44,110
Other comprehensive loss	-	(101)

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:

	2014	2013
Salaries, short term benefits and post-employment benefits	140,541	236,691