

Investors Bank B.S.C. (c)
UNIFIED SHARI'A SUPERVISORY BOARD REPORT,
REPORT OF THE BOARD OF DIRECTORS,
INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS

31 DECEMBER 2012

Ernst & Young

 **ERNST & YOUNG**

In the Name of Allah, The Beneficent, The Merciful

SHARI'A BOARD'S REPORT

To the Shareholders of Investors Bank

Assalam Alaikum Wa Rahmat Allah Wa Baraketuh

In compliance with the letter of appointment, we are required to submit the following report: We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Investors Bank during the period ended 31/12/2012.

We have also conducted our review to form an opinion as to whether the Bank has complied with Shari'a Rules and principles and also with the specific fatwas, rulings and guidelines issued by us.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Islamic Shari'a Rules and Principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

We conducted our review which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Islamic Shari'a Rules and Principles.

In our opinion:

- (1) the contracts, transactions and dealings entered into by the Bank during the year ended 31/12/2012 that we have reviewed are in compliance with the Islamic Shari'a Rules and Principles;
- (2) the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'a Rules and Principles;
- (3) the calculation of Zakah is in compliance with Islamic Shari'a Rules and principles.

We beg Allah the Almighty to grant us all the success and straight-forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

26th Rabia I, 1434 Hijri corresponding to 7th February 2013.

SHARI'A BOARD

Shaikh Dr. Abdul Sattar A.Karim Abu Ghuddah
Chairman of the Board

Shaikh Dr. Ali Mohieddin Al Quradaghi
Member

Shaikh Nedham Mohammed Saleh Yaqoobi
Member

**REPORT OF THE BOARD OF DIRECTORS
for the year ended 31 December 2012**

US dollars

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Muhammad.

Dear Shareholders

The Directors have pleasure to submit their report, together with the financial statements of Investors Bank B.S.C. (c) ("the Bank") for the year ended 31 December 2012.

Principal Activities

The Bank was established in the Kingdom of Bahrain as an exempt company on 26 October 1997 and operates under an Islamic Wholesale Bank license granted by the Central Bank of Bahrain (the "CBB"). The Bank commenced commercial operations on 15 June 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on 3 July 2005.

During the year 2012 new Board of Directors (BOD) has been elected in the AGM held on 29 April 2012 and a new Chief Executive Officer (CEO) has joined the Bank on 22 April 2012. The new BOD and the new CEO are keen to resolve all outstanding issues and problems facing the Bank where serious steps have been taken toward achieving the Bank objectives. In 2012 the Bank did not undertake any new major investment transaction. The Bank focused on generating liquidity through renting its buildings, exiting from certain investments and reducing its expenses. The bank has appointed a consultancy firm to assist the Bank with developing a three years business plan to support the continuation of the Bank and its mission.

The principal activities of the Bank include investment banking and financial activities, investment transactions, participating in equity investments in projects in conformity with the Islamic Shari'a.

Financial Position and Results

The detailed financial position of the Bank at 31 December 2012 and the results for the year then ended are set out in the accompanying financial statements.

Financial highlights	2012	2011
Total assets	40,403,761	42,522,921
Total owner's equity	32,807,301	34,983,480
Net loss for the year	(1,484,688)	(4,914,988)

Movement in accumulated losses	2012	2011
Balance at 1 January	(56,105,725)	(51,190,737)
Net loss for the year	(1,484,688)	(4,914,988)
Balance at 31 December	(57,590,413)	(56,105,725)

Dividends

The Board of Directors has not made any appropriations for dividends for the year ended 31 December 2012 (2011: nil).

Board of Directors

The following are the directors of the Bank as at 31 December 2012:

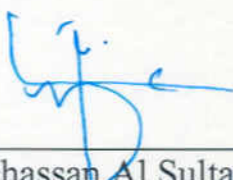
Name	Title
Mr. Ghassan Fahad Al Sultan	Chairman
Mr. Isa Abdulla Al Mannai	Vice-Chairman and Chairman of the Executive Committee
Mr. Ebrahim Abdulla Al Shaikh	Member and Chairman of the Audit Committee
Mr. Ahmed Shabib Al Dhahery	Member
Mr. Reyadh AbdulWahab Al Sharaf	Member
Mr. Jamal Hassan Naqi	Member
Mr. Mersal Saad Al Majedi	Member

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution proposing their appointment, as auditors of the Bank for the year ending 31 December 2013, will be submitted to the Annual General Meeting.

Thanks

We wish to express our gratitude and appreciation to His Majesty King Hamad Bin Isa Al Khalifa, The King of the Kingdom of Bahrain, to His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister and His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander, to Government of the Kingdom of Bahrain, the Minister of Industry and Commerce, the Central Bank of Bahrain, the Bahrain Bourse for their vision, guidance and continuous support and for the establishment of a distinguished Islamic Banking Centre in the Kingdom. Gratitude is also extended to the Sharia'a Supervisory Board for their support and valuable guidance, to our investors and to our members of staff, executives and employees.



Mr. Ghassan Al Sultan
Chairman



Mr. Ebrahim Al Shaikh
Director

14 February 2013

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTORS BANK B.S.C. (c)

We have audited the accompanying statement of financial position of Investors Bank B.S.C. (c) ["the Bank"] as of 31 December 2012, and the related statements of income, cash flows, changes in owners' equity, changes in off-balance sheet equity of investment accountholders and sources and uses of charity fund for the year then ended and a summary of significant accounting policies and other explanatory information. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for Qualified Opinion

As explained in note 20, the Bank holds an equity investment, with a carrying value of US\$ 5,760,487 as at 31 December 2012, pledged in respect of a financing obtained by a related party from a financial institution. Following the default by the related party, the financial institution had filed a legal case in court and the court ruled in favor of the financial institution as set out in note 20. Since, the claim that could be made on the Bank is uncertain and dependent on the selling price of the pledged shares, we are unable to determine the adjustment that maybe required to these financial statements, if any.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012, the results of its operations, its cash flows, changes in owners' equity, changes in off-balance sheet equity of investment accountholders and sources and uses of charity fund for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

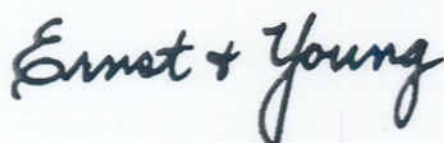
**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
INVESTORS BANK B.S.C. (c) (continued)**

Other Matters

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

- a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith; and
- b) the financial information contained in the Report of the Board of Directors is consistent with the financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2012 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive, stylized font.

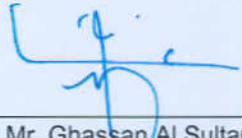
14 February 2013
Manama, Kingdom of Bahrain

Investors Bank B.S.C.(c)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 US\$	2011 US\$
ASSETS			
Cash and balances with banks	4	993,440	158,912
Investments	5	14,252,457	15,859,440
Deferred payment sale receivables	19	3,680,203	3,680,203
Investment properties	6	17,436,112	18,474,757
Other assets	7	1,403,831	1,385,874
Property and equipment	8	2,637,718	2,963,735
TOTAL ASSETS		40,403,761	42,522,921
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Due to a financial institution	19	3,670,202	3,670,202
Murabaha payable		3,229,064	3,229,064
Other liabilities		697,194	640,175
Total liabilities		7,596,460	7,539,441
Owners' Equity			
Share capital	9	80,000,000	80,000,000
Statutory reserve		7,409,515	7,409,515
Investments fair value reserve		2,988,199	3,679,690
Accumulated losses		(57,590,413)	(56,105,725)
Total owners' equity		32,807,301	34,983,480
TOTAL LIABILITIES AND OWNERS' EQUITY		40,403,761	42,522,921
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDERS		16,440,667	16,546,150


 Mr. Ghassan Al Sultan
 Chairman


 Mr. Ebrahim Al Shaikh
 Director

The attached notes 1 to 23 form part of these financial statements

Investors Bank B.S.C.(c)
STATEMENT OF INCOME
For the year ended 31 December 2012

	Notes	2012 US\$	2011 US\$
Gain on disposal of investments at fair value through equity		-	21,904
Fair value loss on investments at fair value through statement of income		(4,921)	(404,662)
Other income, net	10	1,552,200	716,332
Operating income		1,547,279	333,574
EXPENSES			
Staff cost		898,764	982,181
Administrative and general expenses	11	566,263	590,352
Depreciation		786,369	799,038
Operating expenses		2,251,396	2,371,571
Net loss before provision for impairment, net		(704,117)	(2,037,997)
Provision for impairment, net	12	(780,571)	(2,876,991)
NET LOSS FOR THE YEAR		(1,484,688)	(4,914,988)


Mr. Ghassan Al Sultan
Chairman


Mr. Ebrahim Al Shaikh
Director

The attached notes 1 to 23 form part of these financial statements

Investors Bank B.S.C.(c)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Note	2012 US\$	2011 US\$
OPERATING ACTIVITIES			
Net loss for the year		(1,484,688)	(4,914,988)
Adjustments for non-cash items:			
Depreciation		786,369	799,038
Provision for impairment, net	12	780,571	3,111,923
Gain on disposal of investments at fair value through equity		-	(21,904)
Fair value loss on investments at fair value through statement of income		4,921	404,662
Gain on disposal of investment property	10	(164,850)	-
Loss on disposal of equipment	10	57,560	-
Operating loss before changes in operating assets and liabilities:		(20,117)	(621,269)
Working capital adjustments:			
Other assets		(17,957)	28,772
Other liabilities		57,019	174,991
Net cash from / (used in) operating activities		18,945	(417,506)
INVESTING ACTIVITIES			
Proceeds from disposal of investments at fair value through equity		-	170,291
Redemption of investments at fair value through equity		130,000	-
Proceeds from disposal of investment property		793,737	-
Purchase of equipment	8	(156,695)	(5,317)
Proceeds from disposal of equipment		48,541	-
Net cash from investing activities		815,583	164,974
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		834,528	(252,532)
Cash and cash equivalents at 1 January		158,912	411,444
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4	993,440	158,912

The attached notes 1 to 23 form part of these financial statements

Investors Bank B.S.C.(c)

STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2012

	Share capital US\$	Statutory reserve US\$	Investments fair value reserve US\$	Accumulated losses US\$	Total US\$
Balance at 1 January 2012	80,000,000	7,409,515	3,679,690	(56,105,725)	34,983,480
Net loss for the year	-	-	-	(1,484,688)	(1,484,688)
Other comprehensive loss during the year (note 5.1.3)	-	-	(691,491)	-	(691,491)
Balance as at 31 December 2012	80,000,000	7,409,515	2,988,199	(57,590,413)	32,807,301
Balance at 1 January 2011	80,000,000	7,409,515	2,644,604	(51,190,737)	38,863,382
Net loss for the year	-	-	-	(4,914,988)	(4,914,988)
Other comprehensive income during the year (note 5.1.3)	-	-	1,035,086	-	1,035,086
Balance as at 31 December 2011	80,000,000	7,409,515	3,679,690	(56,105,725)	34,983,480

STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT

ACCOUNTHOLDERS

For the year ended 31 December 2012

	Balance at 1 January 2012			Movements during the year		Balance at 31 December 2012		
	No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	Revaluations US\$	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd	-	-	317,689	-	-	-	-	317,689
Investments in International								
Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	-	12,887	0.44	5,670,202
Portfolio managed by the Bank								
(Gulf Monetary Group shares)	142,059	0.074	10,558,259	-	(105,483)	142,059	0.073	10,452,776
			16,546,150	-	(105,483)			16,440,667

	Balance at 1 January 2011			Movements during the year		Balance at 31 December 2011		
	No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	Revaluations US\$	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd	-	-	317,689	-	-	-	-	317,689
Investments in International								
Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	-	12,887	0.44	5,670,202
Portfolio managed by the Bank								
(Gulf Monetary Group shares)	142,059	0.073	10,436,264	-	121,995	142,059	0.074	10,558,259
			16,424,155	-	121,995			16,546,150

1 Off -balance sheet investment accounts represent amounts received from and transactions entered on behalf of related parties.

2. On the instructions of an off-balance sheet investment account holder, a related party, the Bank has 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 off-balance sheet investment account holder for sale of the these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of IIG shares to the off-balance sheet investment account holder (note 19).

Investors Bank B.S.C.(c)

STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December 2012

	2012 US\$	2011 US\$
Sources of charity fund		
Non-Islamic income	-	-
Total sources	-	-
Uses of charity fund		
Contributions to charitable organisations	-	-
Total uses	-	-
Excess of uses over sources	-	-
Undistributed charity fund at 1 January	35,285	35,285
Undistributed charity fund at 31 December	35,285	35,285

The attached notes 1 to 23 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

1 INCORPORATION AND ACTIVITIES

Investors Bank B.S.C. (c) ["the Bank"] was established in the Kingdom of Bahrain as an exempt company on 26 October 1997 and operates under an investment banking license [Wholesale Bank (Islamic principles)] granted by the Central Bank of Bahrain ["the CBB"]. The Bank commenced commercial operations on 15 June 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on 3 July 2005. The postal address of the registered office of the Bank is Seef Star Building, Seef District, PO Box 11818, Manama, Kingdom of Bahrain.

The Bank's activities are regulated by the CBB and supervised by a Religious Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank include investment banking and financial activities, investment transactions, participating in equity investments in projects in conformity with the Islamic Shari'a. The Bank may, in particular, carry on the following business activities:

- (a) Providing investment account facilities;
- (b) Accepting restricted or unrestricted investment funds commingling the same with those of the Bank and investing them in accordance with the Shari'a;
- (c) Managing the investment of third party funds as an agent for a fixed fee or as a Mudarib and any other banking activities not contravening the provisions of the Shari'a;
- (d) Industrial, commercial and agricultural business activities, either directly or through companies which the Bank may establish, or in which the Bank may acquire shares; and
- (e) Purchasing, leasing and constructing buildings, and the renting thereof.

The Bank has not undertaken any new significant business activity since 2009 on account of losses, termination of key management staff and over all downturn in the global economies.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 14 February 2013.

2 BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention as modified for the re-measurement of investments at fair value through statement of income and certain investments at fair value through equity.

The financial statements have been presented in United States Dollars ["US\$"], being the functional currency of the Bank.

The Bank incurred a net loss of US\$ 1,484,688 during the year ended 31 December 2012 (2011: US\$ 4,914,988) and as of that date, the Bank's accumulated losses amounted to US\$ 57,590,413 (2011: US\$ 56,105,725). The shareholders are confident that the Bank will generate positive results in the future and, hence, the financial statements have been prepared on a going concern basis.

Statement of Compliance

These financial statements have been prepared in accordance with the Financial Accounting Standards ["FAS"] issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"] the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law ["BCCL"], the CBB's regulations (as contained in volume II of the CBB rulebook) and directives and Financial Institutions Law. In accordance with the requirement of AAOIFI, for matters for which no AAOIFI standards exist, the Bank uses the relevant International Financial Reporting Standards ["IFRS"] issued by the International Accounting Standards Board ["IASB"].

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are consistent with those of the previous year.

3.1 Significant accounting judgments and estimates

The application of the accounting policies requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant judgments and estimates are discussed below:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of investment properties

The fair value of investment properties is determined by independent real estate valuation experts. The determination of the fair value for such assets requires the use of judgment and estimates by the independent valuation experts that are based on local market conditions existing at the date of the statement of financial position.

Useful life of property and equipment

The Bank's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset and physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimate.

Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event(s) have an impact on the estimated future cash flows of the asset or the group of the assets that can be reliably estimated.

The Bank treats investments at fair value through equity as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Impairment provisions against receivables

The Bank reviews its receivables at each reporting date to assess whether an impairment provision should be recorded in the financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

3.2 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Investments

These are classified as either investments at fair value through statement of income or investments at fair value through equity.

Initial recognition

All investments are initially recognised at cost, being the fair value of the consideration on acquisition including related direct expenses. Direct expenses are transaction costs and include fees and commissions paid to agents, advisors and consultants, levies by regulatory agencies and transfer taxes and duties.

Investments at fair value through statement of income

Subsequent to initial recognition investments that are classified as investments at fair value through statement of income are carried at fair value. The fair value changes of investments at fair value through statement of income are reported in the statement of income.

Investments at fair value through equity

Subsequent to initial recognition, investments that are classified as "investments at fair value through equity" are measured at fair value. The fair value changes of investments at fair value through equity are reported in statement of changes in owners' equity under "investments fair value reserve" until such time the investments are sold, realized or deemed to be impaired, at which time the realized gain or loss is reported in the statement of income.

The losses arising from impairment of such investments are recognized in the statement of income in "provision for impairment, net" and removed from the "investments fair value reserve". Impairment losses recognised in the statement of income for an equity instrument classified as investments at fair value through equity are not reversed through the statement of income.

3.4 Deferred payment sale receivables

Receivables arising from deferred payment sale are recognised at the time of contracting and stated at their cost less impairment.

3.5 Investment properties

Investment properties are held to earn rentals or for capital appreciation. They are initially recorded at cost, including acquisition charges associated with the properties.

Subsequent to initial recognition, buildings classified as investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on the straight line method at rates intended to write-off the cost of the assets over their estimated useful lives. Freehold land is subsequently measured at cost less accumulated impairment losses, if any.

Expenditure for maintenance and repairs is expensed as incurred. An item of investment property is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income.

The residual values, useful lives and methods of depreciation for investment properties are reviewed, and adjusted if appropriate, at each financial year end.

3.6 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on the straight line method at rates intended to write-off the cost of the assets over their estimated useful lives.

Freehold land is not depreciated. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Building	25 years
Others	3-5 years

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Property and equipment (continued)

Expenditure for maintenance and repairs is expensed as incurred. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income.

The residual values, useful lives and methods of depreciation for property and equipment are reviewed, and adjusted if appropriate, at each financial year end.

3.7 Due to financial institutions

Amounts due to financial institutions are initially recognised at cost, being the fair value of consideration received plus accrued profit less amount repaid.

3.8 Off-balance sheet equity investment accounts

Off-balance sheet equity investment accounts represents assets acquired by funds provided by holders of off-balance sheet equity investment accounts and their equivalent and managed by the Bank as an investment manager based on either a Mudaraba contract or agency contract. The off-balance sheet equity investment accounts are exclusively restricted for investment in specified investment instruments as directed by the off-balance sheet equity of investment accountholders. Assets that are held in such capacity are not included as assets of the Bank in the financial statements.

Off-balance sheet equity investments in quoted securities are valued at their market bid price. Off-balance sheet equity investments in securities for which there are no quoted market prices or other appropriate methods from which to derive fair values, are stated at cost less impairment allowances, if any.

3.9 Employees' end of service benefits

The Bank makes contributions to the Social Insurance Organisation (SIO) scheme for its national employees calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due. For Bahrainis with basic salaries above a certain threshold, the Bank recognises leaving indemnity in line with the requirements of the Labor Law.

The Bank also provides for end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

3.10 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

Dividend income

Dividend income from investments is recognized when the right to receive the dividend is established.

Rental income

Rental income is recognised on the basis of contractual amounts receivable on a time apportioned basis.

3.11 Earnings prohibited by Shari'a

The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, non-Islamic income, if any, is credited to a charity account where the Bank uses these funds for charitable means.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Derecognition of financial instruments

Financial instruments consist of cash and balances with banks, due from financial institutions, non-trading investments and receivables.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- (i) the right to receive cash flows from the asset has expired;
- (ii) the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- (iii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

3.13 Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non monetary items carried at fair value are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. All differences are taken to equity as "investments fair value reserve."

3.14 Fair values

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the statement of financial position date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on an assessment of the value of future cash flows.

3.15 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

3.16 Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position, if and only if there is a legally enforceable or religious right (as determined by Shari'a) to set off the recognised amounts and the Bank intends to settle on a net basis.

3.17 Zakah

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

4 CASH AND BALANCES WITH BANKS

	2012	2011
	US\$	US\$
Cash in hand	1,326	1,326
Cash at banks	992,114	157,586
	993,440	158,912

5 INVESTMENTS

	2012	2011
	US\$	US\$
Investments at fair value through statement of income	1,799,439	1,804,360
Investments at fair value through equity	12,453,018	14,055,080
	14,252,457	15,859,440

5.1 Investments at fair value through equity

	2012	2011
	US\$	US\$
Quoted equity securities	11,154,341	12,267,250
Unquoted equity securities (at cost)	1,298,677	1,787,830
	12,453,018	14,055,080

The movement of investments carried at fair value through equity during the year is as follows:

	2012	2011
	US\$	US\$
At 1 January	14,055,080	14,468,548
Fair value changes	(1,472,062)	(270,232)
Disposal	-	(143,236)
Return of capital	(130,000)	-
At 31 December	12,453,018	14,055,080

5.1.1 As at 31 December, investments with a carrying value of US\$ 1,898,618 (2011: US\$ 1,921,772) are under dispute and in the custody of the court as more fully explained in note 19. In addition investments with a carrying value of US\$ 5,760,487 (2011: US\$ 5,760,487) are pledged, on behalf of a related party, against amounts due to a financial institution.

5.1.2 These investments are carried at cost as their fair value could not be reliably measured.

5.1.3 Other comprehensive loss in investments fair value reserve of US\$ 691,491 represents fair value loss on investments classified at fair value through equity

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

6 INVESTMENT PROPERTIES

		2012		
		Freehold land US\$	Buildings US\$	Total US\$
Cost:				
At 1 January 2012		18,742,649	13,557,902	32,300,551
Disposals		-	(928,120)	(928,120)
At 31 December 2012		<u>18,742,649</u>	<u>12,629,782</u>	<u>31,372,431</u>
Depreciation and impairment:				
At 1 January 2012		9,657,768	4,168,026	13,825,794
Charge for the year		-	409,758	409,758
Disposals		-	(299,233)	(299,233)
At 31 December 2012		<u>9,657,768</u>	<u>4,278,551</u>	<u>13,936,319</u>
Net carrying values:				
At 31 December 2012		<u>9,084,881</u>	<u>8,351,231</u>	<u>17,436,112</u>
		2011		
		Freehold land US\$	Buildings US\$	Total US\$
Cost:				
At 1 January 2011		18,742,649	13,488,761	32,231,410
Reversal of disposals		-	69,141	69,141
At 31 December 2011		<u>18,742,649</u>	<u>13,557,902</u>	<u>32,300,551</u>
Depreciation and impairment:				
At 1 January 2011		8,464,134	3,746,831	12,210,965
Impairment		1,193,634	-	1,193,634
Charge for the year		-	421,195	421,195
At 31 December 2011		<u>9,657,768</u>	<u>4,168,026</u>	<u>13,825,794</u>
Net carrying values:				
At 31 December 2011		<u>9,084,881</u>	<u>9,389,876</u>	<u>18,474,757</u>

The fair value of investment properties at the year end was US\$ 19,580,047 (2011: US\$ 19,557,287) determined based on valuations performed by independent professional valuers at 31 December.

7 OTHER ASSETS

		2012 US\$	2011 US\$
Dividends receivable (note 19)	7.1	887,733	887,733
Other receivables		489,531	475,000
Statutory deposit with CBB		13,263	13,263
Prepaid expenses		9,565	5,034
Qard Hassan		2,108	3,213
Refundable deposit		1,631	1,631
		<u>1,403,831</u>	<u>1,385,874</u>

7.1 These dividends have been pledged against amounts due to a financial institution along with the pledged shares as disclosed in note 19 and are in custody of the court.

Investors Bank B.S.C.(c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

8 PROPERTY AND EQUIPMENT

	2012					Total US\$
	Freehold land US\$	Building US\$	Motor vehicles US\$	Office equipment & furniture US\$	Fixtures US\$	
Cost:						
At 1 January 2012	3,535,847	3,793,497	58,045	842,840	1,349,246	9,579,475
Additions	-	-	-	107,936	48,759	156,695
Disposals	-	-	(58,045)	(106,101)	-	(164,146)
At 31 December 2012	3,535,847	3,793,497	-	844,675	1,398,005	9,572,024
Depreciation and impairment:						
At 1 January 2012	1,921,518	2,778,123	58,045	781,589	1,076,465	6,615,740
Charge for the year	-	45,635	-	60,566	270,410	376,611
Disposals	-	-	(58,045)	-	-	(58,045)
At 31 December 2012	1,921,518	2,823,758	-	842,155	1,346,875	6,934,306
Net carrying values:						
At 31 December 2012	1,614,329	969,739	-	2,520	51,130	2,637,718

The property and equipment mainly represents land and building in the Kingdom of Bahrain. The impairment charge is based on valuations performed by independent professional valuers at 31 December.

Investors Bank B.S.C.(c)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2012

8 PROPERTY AND EQUIPMENT (continued)

	2011					
	Freehold land US\$	Building US\$	Motor vehicles US\$	Office equipment & furniture US\$	Fixtures US\$	Total US\$
Cost:						
At 1 January 2011	3,535,847	3,793,497	58,045	839,778	1,346,991	9,574,158
Additions	-	-	-	3,062	2,255	5,317
At 31 December 2011	3,535,847	3,793,497	58,045	842,840	1,349,246	9,579,475
Depreciation and impairment:						
At 1 January 2011	1,413,831	2,732,489	58,045	719,001	806,844	5,730,210
Charge for the year	-	45,634	-	62,588	269,621	377,843
Impairment	507,687	-	-	-	-	507,687
At 31 December 2011	1,921,518	2,778,123	58,045	781,589	1,076,465	6,615,740
Net carrying values:						
At 31 December 2011	1,614,329	1,015,374	-	61,251	272,781	2,963,735

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

9 OWNERS' EQUITY

Share capital

	2012 US\$	2011 US\$
Authorised:		
303,030,303 ordinary shares of US\$ 0.33 each	100,000,000	100,000,000
Issued and fully paid up		
As at the beginning and end of the year		
242,424,242 shares of US\$ 0.33 each	80,000,000	80,000,000

Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year is transferred to the statutory reserve until such time the reserve reaches 50% of the Bank's paid-up share capital. This reserve is not available for distribution, but can be utilised as security for the purpose of distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations. No transfer was made during the year as the Bank incurred a loss.

Investments fair value reserve

Unrealised gains and losses resulting from investments carried at fair value through equity, if not determined to be impaired, are recorded in the investments fair value reserve and not available for distribution. Upon disposal of such assets, the related cumulative gains or losses are transferred to retained earnings and become available for distribution.

10 OTHER INCOME

	2012 US\$	2011 US\$
Gain on disposal of investment property	164,850	-
Loss on reversal of disposal of investment property	-	(79,945)
Rental income	1,411,753	796,044
Dividend income	33,157	233
Loss on disposal of equipment	(57,560)	-
	1,552,200	716,332

11 ADMINISTRATIVE AND GENERAL EXPENSES

	2012 US\$	2011 US\$
Maintenance	96,489	110,226
Consultancy and legal expenses	95,171	135,866
Electricity and municipality	78,404	66,266
Professional fees	57,560	79,576
License and registration	40,754	36,147
Office service and cleaning	37,159	39,151
Board of Directors and Board Committees attendance allowances	11,900	14,700
Shari'a Supervisory Board remuneration and attendance allowances	31,565	27,851
Business development	17,331	4,703
Advertising and promotion	13,545	14,874
Communication	12,039	12,052
Foreign exchange loss	5,360	460
Others	68,986	48,480
	566,263	590,352

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

12 PROVISION FOR IMPAIRMENT

	2012 US\$	2011 US\$
Investments at fair value through equity (note 5.1.3)	780,571	1,300,167
Investment properties	-	1,193,634
Other assets	-	179,576
Property & equipment	-	507,687
Provision written back	-	(304,073)
Provision for impairment, net	780,571	2,876,991

13 CONTINGENCIES AND COMMITMENTS

	2012 US\$	2011 US\$
Lease commitment (note 13.1)	4,596,919	3,423,237
	4,596,919	3,423,237

- 13.1** During 2006, the Bank entered into a lease agreement for the lease of a land on behalf of a related party of the Bank for term of 29 years, with a grace period of 2.5 years. The Bank also entered into a back to back agreement with the related party in which it has been agreed that the related party will make such lease payments to the Bank who in turn will settle the lease payments to the lessor. The related party had defaulted on its lease payments due to the delay in the execution of the planned project on the leased land. As at the reporting date, the lease commitment amounted to the lease payments outstanding as at that date. Based on an independent lawyers opinion, the Bank could include the related party as a defendant, if the lessor files a case against the Bank in case of default, where the related party would be liable to any settlement in accordance with the court ruling.

14 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Bank's quoted equity investments with a carrying value of US\$ 12,953,780 (2011: US\$ 14,071,610) fall under level 1 of the fair value hierarchy. The Bank does not have financial instruments qualifying for Level 2 or Level 3. The other investments at fair value through equity are carried at cost less impairment, if any.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

15 CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or return capital to shareholders. No changes were made in the objectives, policies and processes from the previous years.

The Bank's capital structure is primarily made up of its paid up capital, including reserves. From a regulation's perspective, the significant amount of the Bank's capital is in tier 1 form as defined by the CBB, i.e., most of the capital is of permanent nature.

The classification of the Bank's capital in accordance with the regulatory requirements is as follows:

	2012 US\$	2011 US\$
Tier 1 Capital		
Issued and fully paid ordinary shares	80,000,000	80,000,000
Legal / statutory reserves	7,409,515	7,409,515
Accumulated losses	(57,590,413)	(56,105,725)
Unrealised gross losses arising from valuing equity securities	-	(688)
	29,819,102	31,303,102
Excess amount over maximum permitted large exposure limit	(16,159,268)	(15,676,895)
Total Tier 1 Capital	13,659,834	15,626,207
Tier 2 Capital		
Unrealised gross gains arising from fair valuing equities (45% only)	1,344,690	1,656,170
	1,344,690	1,656,170
Excess amount over maximum permitted large exposure limit	(1,344,690)	(1,656,170)
Total Tier 2 Capital	-	-
Total Eligible Capital	13,659,834	15,626,207

To assess its capital adequacy requirements in accordance with the CBB requirements, the Bank adopts the Standardised approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. The Capital requirements for these risks are as follows:

Credit Risk Weighted Exposures	47,003,946	50,002,447
Market Risk Weighted Exposures	4,681,065	6,133,112
Operational Risk Weighted Exposures	1,436,329	41,130,394
Total Risk Weighted Exposures	53,121,340	97,265,953
Capital Adequacy Ratio	25.71%	16.07%

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

16 RELATED PARTY TRANSACTIONS AND BALANCES

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.

Significant balances with related parties at 31 December comprise:

	2012 US\$	2011 US\$
Assets		
Investments at fair value through statement of income	1,715,715	1,733,030
Investments at fair value through equity	8,235,384	8,594,567
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	9,312	-
Liabilities		
Murabaha payables	3,229,064	3,229,064
Other Liabilities	158,386	174,199
OFF-BALANCE SHEET ITEMS:		
EQUITY OF INVESTMENT ACCOUNTHOLDERS	16,122,978	16,228,461

The income and expenses with related parties included in the financial statements are as follows:

	2012 US\$	2011 US\$
Income		
Fair value loss on investments at fair value through statement of income	(17,315)	(342,575)
Other income	-	2,122
Expenses		
Provision for impairment	332,336	203,562
Board of Directors and Board Committees attendance allowances	11,900	14,700
Shari'a Supervisory Board remuneration and attendance allowances	31,565	27,851
Other comprehensive loss	(26,847)	(284)

Key management personnel of the Bank comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. The key management personnel compensation is as follows:

	2012 US\$	2011 US\$
Salaries and other short-term benefits	149,969	126,038
Post employment benefits	11,034	11,034
	<u>161,003</u>	<u>137,072</u>

17 SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board consists of three scholars who review the Bank's compliance with general Shari'a principles and specific fatwa's, rulings and guidelines issued. Their review includes examination of the documentation and procedures adopted by the Bank to ensure that its activities are conducted in accordance with Shari'a principles.

18 RISK MANAGEMENT

The Bank is exposed to credit risk, liquidity risk and market risk 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, which is responsible for developing and monitoring the Bank's operations and policies across various functions including the risk management policies. The Executive Committee consists of three non-executive directors of the Bank along with the Chief Executive Officer ["CEO"] as an attendee. The Executive Committee reviews and approves the CEO's recommendations for investment strategies, investment proposals, various products and services and where deemed necessary, also refers decisions to the Board of Directors.

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 an outsourced Internal Audit function.

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.

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

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

The Bank's maximum exposure to credit risk at 31 December was as follows:

	2012 US\$	2011 US\$
Balances with banks	992,114	157,586
Deferred payment sale receivables	3,680,203	3,680,203
Other assets	1,381,003	1,367,577
Maximum exposure to credit risk	6,053,320	5,205,366

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

18 RISK MANAGEMENT (continued)

Credit risk (continued)

Analysis of the Bank's exposure to credit risk:

	2012				
	Balances with banks US\$	Receivables from sale of investments US\$	Deferred payment sale receivables US\$	Other financial assets US\$	Total US\$
Neither past due nor impaired	992,114	-	-	6,850	998,964
Past due but not impaired	-	-	3,680,203	899,153	4,579,356
Individually impaired					
Gross amount	-	16,786,726	-	16,682,392	33,469,118
Provision for impairment	-	(16,786,726)	-	(16,207,392)	(32,994,118)
Net	-	-	-	475,000	475,000
Total exposure to credit risk	992,114	-	3,680,203	1,381,003	6,053,320

	2011				
	Balances with banks US\$	Receivables from sale of investments US\$	Deferred payment sale receivables US\$	Other financial assets US\$	Total US\$
Neither past due nor impaired	157,586	-	-	4,844	162,430
Past due but not impaired	-	-	3,680,203	887,733	4,567,936
Individually impaired					
Gross amount	-	16,786,726	-	16,682,392	33,469,118
Provision for impairment	-	(16,786,726)	-	(16,207,392)	(32,994,118)
Net	-	-	-	475,000	475,000
Total exposure to credit risk	157,586	-	3,680,203	1,367,577	5,205,366

Investors Bank B.S.C.(c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

18 RISK MANAGEMENT (continued)

Concentration risk

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

	2012			
	Banks and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
Assets				
Cash and balances with banks	993,440	-	-	993,440
Investments	11,353,019	31,936	2,867,502	14,252,457
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment properties	-	-	17,436,112	17,436,112
Other assets	900,996	-	502,835	1,403,831
Property and equipment	-	-	2,637,718	2,637,718
Total assets	13,247,455	3,712,139	23,444,167	40,403,761
Liabilities				
Due to a financial institution	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064
Other liabilities	35,395	-	661,799	697,194
Total liabilities	6,934,661	-	661,799	7,596,460
OFF-BALANCE SHEET ITEMS:				
EQUITY OF INVESTMENT ACCOUNTHOLDERS	5,670,202	10,452,776	317,689	16,440,667

Investors Bank B.S.C.(c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

18 RISK MANAGEMENT (continued)

Concentration risk (continued)

	2011			
	Banks and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
Assets				
Balances with banks	158,912	-	-	158,912
Investments	12,767,796	31,936	3,059,708	15,859,440
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment properties	-	-	18,474,757	18,474,757
Other assets	900,996	-	484,878	1,385,874
Property and equipment	-	-	2,963,735	2,963,735
Total assets	13,827,704	3,712,139	24,983,078	42,522,921
Liabilities				
Due to a financial institution	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064
Other liabilities	69,751	-	570,424	640,175
Total liabilities	6,969,017	-	570,424	7,539,441
OFF-BALANCE SHEET ITEMS:				
EQUITY OF INVESTMENT ACCOUNTHOLDERS	5,670,202	10,558,259	317,689	16,546,150

Geographical concentration

Assets and liabilities of the Bank as at 31 December 2012 and 31 December 2011 are primarily concentrated in the Middle East region.

Investors Bank B.S.C.(c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

18 RISK MANAGEMENT (continued)

Maturity Profile

The table below summarizes the maturity profile of the Bank's financial assets and liabilities based on contractual cash flows. The other balances have been presented based on expected cash flows:

	Up to 1 month US\$	1 to 3 months US\$	3 months to 1 year US\$	2012			No fixed maturity US\$	Total US\$
				1 year US\$	1 to 3 years US\$	Total Within 1 year US\$		
Assets								
Cash and balances with banks	993,440	-	-	993,440	-	-	-	993,440
Investments	-	-	1,799,439	1,799,439	-	12,453,018	-	14,252,457
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	-	3,680,203
Investment properties	-	-	-	-	-	17,436,112	-	17,436,112
Other assets	7,327	9,312	9,565	26,204	-	1,377,627	-	1,403,831
Property and equipment	-	-	-	-	-	2,637,718	-	2,637,718
Total assets	4,680,970	9,312	1,809,004	6,499,286	-	33,904,475	-	40,403,761
Liabilities								
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	-	3,229,064
Other liabilities	121,018	83,893	255,144	460,055	201,854	35,285	-	697,194
Total liabilities	7,020,284	83,893	255,144	7,359,321	201,854	35,285	-	7,596,460
Net	(2,339,314)	(74,581)	1,553,860	(860,035)	(201,854)	33,869,190	-	-

Investors Bank B.S.C.(c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

18 RISK MANAGEMENT (continued)

Maturity Profile (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 months to 1 year US\$	2011		No fixed maturity US\$
				Total	Within 1 year US\$	
Assets						
Cash and balances with banks	158,912	-	-	158,912	-	-
Investments	-	-	1,804,360	1,804,360	-	14,055,080
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-
Investment properties	-	-	-	-	-	18,474,757
Other assets	-	-	8,246	8,246	-	1,377,628
Property and equipment	-	-	-	-	-	2,963,735
Total assets	3,839,115	-	1,812,606	5,651,721	-	36,871,200
Liabilities						
Due to a financial institution	3,670,202	-	-	3,670,202	-	-
Murabaha payable	3,229,064	-	-	3,229,064	-	-
Other liabilities	198,333	118,306	267,098	583,737	-	56,438
Total liabilities	7,097,599	118,306	267,098	7,483,003	-	56,438
Net	(3,258,484)	(118,306)	1,545,508	(1,831,282)	-	36,814,762

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

18 RISK MANAGEMENT (continued)

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 the form of liquid assets such as investments at fair value through statement of income and investments at fair value through equity.

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 has the following significant exposures in a foreign currency at the date of statement of financial position:

	2012		
	Assets US\$	Liabilities US\$	Net US\$
Kuwaiti Dinar	3,329,991	-	3,329,991
	2011		
	Assets US\$	Liabilities US\$	Net US\$
Kuwaiti Dinar	4,796,387	-	4,796,387

Sensitivity Analysis:

The following table demonstrate the sensitivity to a reasonable possible change in foreign exchange rates, with all other variables held constant, of the Bank's statement of income for balances as of 31 December:

	Change in rate	Effect on net income for the year	
		2012 US\$	2011 US\$
Kuwaiti Dinar	5%	166,500	239,819

The decrease in rate will have an opposite impact on net income.

Equity price risk

Equity price risk is the risk that Bank's 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 statement of income and investments at fair value through equity portfolio. The price movement of these exposures are monitored by the Bank on a daily basis.

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

18 RISK MANAGEMENT (continued)

Equity price risk (continued)

Sensitivity Analysis:

Particulars	Change in price	Effect on net income for the	
		year	
		2012	2011
		US\$	US\$
Investments at fair value through statement of income	20%	359,888	360,872
Investments at fair value through equity	20%	2,230,868	2,453,450

The decrease in rate will have an opposite impact on net income.

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, preparation of operational loss database 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 of the employees, and internal checks and balances including internal audit and compliance.

19 LITIGATION AND CLAIMS

In 2004, the Bank entered into a sale and purchase agreement with a financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution was US\$ 3,670,202 as at 31 December 2012 (31 December 2011: US\$ 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain equity shares with a carrying value of US\$ 1,898,618 as at 31 December 2012 (31 December 2011: US\$ 1,921,772) in addition to dividends received on these shares amounting to US\$ 887,733 as at 31 December 2012 (31 December 2011: US\$ 887,733). Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged investments have been retained by the financial institution. In the opinion of the Bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the courts of Bahrain against the financial institution for possession of the Bank's investments.

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

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

Investors Bank B.S.C (c)

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

The borrower defaulted on the financing and the financial institution had filed a case in the court and during the current year the court ruled in favour of the financial institution. The court has ordered the borrower to settle the outstanding balance of US\$ 5,906,529 plus an annual profit of 3% from the date of the claim, being 10 April 2011, to the date of full payment in addition to legal expenses. The obligation of the Bank and the other related party is limited to the pledged shares.

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

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

21 SEGMENTAL INFORMATION

The Bank operates solely in the Middle East region and no geographic segment information has been presented.

22 SOCIAL RESPONSIBILITY

The Bank discharges its social responsibilities through donations to charitable causes and organisations.

23 COMPARATIVES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported income or shareholders' equity.