

Investors Bank BSC (c)
Public Disclosures Document
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(US\$)

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1 Capital Adequacy and Management

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

Investors Bank follows 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 CBB guidelines and include:

Tier 1: Core Capital - This includes issued and fully paid ordinary shares, statutory reserves, accumulated losses and 45% of the unrealised net gains recognised in income statement arising from fair valuing unlisted equities; and

Tier 2: Supplementary Capital - retained profits and 45% of the unrealised gains arising on the re-measurement of fair valuing equities classified as available for sale.

1.1 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	(56,632,863)	-
Less:		
Unrealized gross losses arising from valuing equity securities	(928)	-
Tier 1 Capital	30,775,724	-
Unrealized gross gains arising from fair valuing equities (45% only)	-	1,315,218
Tier 2 Capital	-	1,315,218
Total Available Capital	30,775,724	1,315,218
Deductions:		
Excess amount over maximum permitted large exposure limit		
- Tier 1	(16,263,403)	-
- Tier 2	-	(1,315,218)
Net Available Capital	14,512,321	-
Total Eligible Capital		14,512,321

1.2 Capital Adequacy

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

The Bank's policy is to maintain a capital adequacy ratio, at all times, in excess of the minimum required by CBB. The minimum capital adequacy ratio (CAR) requirement for the Bank has been increased from 12% (in 2008) to 15%. This increase in CAR has been stipulated by CBB as the Bank did not have three years' positive gross income required for operational risk capital charge calculation (the Bank had only one year of positive income during last five years). During 2012 the Bank has managed to secure three years of gross positive income as required. The Bank requested CBB to reconsider the previous enforcement. Accordingly, CBB has approved to reduce the minimum CAR back to normal of 12%.

Risk Assets/ Categories	Risk Weighted Assets (RWA)	Capital Charge @ 12% of RWA
Credit Risk		
- Cash and balances with banks	67,017	8,042
- Available for sale investments		
- Listed equities	4,924,180	590,902
- Unlisted equities	2,392,406	287,089
- Deferred payment sale receivables	1,249,233	149,908
- Investment properties	36,210,746	4,345,289
- Other assets	1,460,021	175,203
- Property and equipment	2,779,987	333,598
Total Credit Risk	49,083,590	5,890,031
Market Risk		
- Equity position risk	1,312,924	157,551
- Foreign exchange risk	3,681,810	441,817
Total Market Risk	4,994,734	599,368
Total Operational Risk	10,066,624	1,207,995
Total Risk Weighted Assets (a)	64,144,948	
Total Eligible Capital (b)	14,512,321	
Total Capital Adequacy Ratio [(b)/(a)]		22.62%

2 Risk Management

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

2.1 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 cash and balances with banks, deferred payment sale receivables and other assets.

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

The following table demonstrates Bank's credit risk exposure:

Credit Risk Exposure (all figures in US Dollars)		
Portfolios	Own capital and current account	
	Total gross credit risk exposure	Average gross credit exposure over the period *
Cash and balances with banks	336,411	271,089
Investments at fair value through equity	13,111,937	13,567,307
Deferred payment sale receivables	3,680,203	3,680,203
Investment properties	18,105,372	18,157,264
Other assets	1,479,438	1,532,039
Property and equipment	2,779,987	2,825,052
Total	39,493,348	40,032,954

* These have been computed based on a quarterly average.

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	2,107	4,570,043
Impaired financing contracts	16,088,102	6,125,125	11,255,891	33,469,118
Total	16,975,835	9,805,328	11,257,998	38,039,161

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	-	-	179,576	179,576
Over 3 years	16,975,835	9,805,328	11,078,422	37,859,585
Total	16,975,835	9,805,328	11,257,998	38,039,161

Movement in specific provisions during the year:

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

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

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

The Bank 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 are distributed over the following geographical areas and industry sectors:

Own capital

Asset category	Geographic area			
	Bahrain	Kuwait	Others countries	Total
Cash and balances with banks	320,931	15,480	-	336,411
Investments at fair value through equity	10,169,382	1,942,555	1,000,000	13,111,937
Deferred payment sale receivables	3,680,203	-	-	3,680,203
Investment properties	15,102,250	-	3,003,122	18,105,372
Other assets	995,126	9,312	475,000	1,479,438
Property and equipment	2,779,987	-	-	2,779,987
Total	33,047,879	1,967,347	4,478,122	39,493,348

Bank's Credit Risk exposures distribution by industry or counterparty is given below:

Own capital

Asset category	Industry sector			
	Banks and financial institutions	Investment companies	Others	Total
Funded				
Cash and balances with banks	336,411	-	-	336,411
Investments at fair value through equity	11,753,563	31,936	1,326,438	13,111,937
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment properties	-	-	18,105,372	18,105,372
Other assets	900,996	-	578,442	1,479,438
Property and equipments	-	-	2,779,987	2,779,987
Total	12,990,970	3,712,139	22,790,239	39,493,348

The Bank does not have any unfunded exposures.

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

Concentration of risk	
Counterparties	Own capital
	Total exposure
Counterparty # 1 – Individual – Significant Shareholder – 0% limit	5,673,179
Counterparty # 2 – Individual – Individual Counterparty – 15% limit	7,771,808
Counterparty # 3 – Individual – Restricted Investment – 30% limit	10,501,875
Counterparties – Closely Related – Including Counterparties 2 & 3	24,502,532

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

Impaired exposures, Past Due exposures and allowances		
Own capital		
Geographic area	Past due Islamic financing contracts	Specific impairment provision
Bahrain	4,749,619	179,576
Kuwait	32,006,007	32,006,007
Others countries	1,283,535	808,535
Total	38,039,161	32,994,118

2.2 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 following table demonstrates the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's income statement based on the balance sheet position as of 30 June:

Particulars	20% decrease	20% increase
Investments at fair value through statement of income	(359,021)	359,021

Bank's capital requirements for Market Risk using the Standardised measurement method

Particulars	Gross exposure	Risk weighted assets (RWA)	Capital requirements @ 12% of RWA	Maximum capital requirement during the year	Minimum capital requirement during the year
Equity Position	1,795,107	1,312,924	157,551	161,265	157,551
Foreign Exchange Position	3,681,810	3,681,810	441,817	552,789	441,817

2.2.1 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 30 June 2012:

Currency	(USD Equivalent)
Bahraini Dinar	29,405,568
Kuwaiti Dinar	3,681,810
United Arab Emirates Dirham	3,012,434

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 income statement based on the balance sheet position as of 30 June:

Currency	5% decrease	5% increase
Kuwaiti Dinar	(184,091)	184,091

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

2.3 Operational Risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events which includes but is not limited to legal risk and Shari'a compliance risk. This definition excludes strategic and reputational risk.

The Bank has implemented an operational risk framework of the Basic Indicator Approach ["BIA"], as defined by the CBB guidelines. This framework includes measuring, monitoring and managing operational risk across the Bank. This framework uses tools like Risk and Control Self Assessment, identification of Key Risk Indicators etc.

2.3.1 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	5,368,866	10,066,624	805,330

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	5,368,866
Amount of non-Shari'a-compliant income*	None
Number of Shari'a violations that were identified and reported during the financial period	None

As per 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

2.3.2 Legal Risk – Current Litigations and Claims

The Bank has an internal legal counsel that prepares and reviews all the legal documents. The Bank has appointed external legal advisor(s) for advice on various legal issues including legal documentation.

The current litigations and claims of the Bank are given below:

- In 2004, the Bank entered into a sale and purchase agreement with a financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution as 30th June 2012 is US\$ 3,670,202 (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\$ 2,083,849 as at 30 June 2012 (31 December 2011: US\$ 1,921,772) in addition to dividends received on these shares amounting to US\$ 887,733 as at 30 June 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.

The related party (GMG) 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.

- On 20 December 2006 Investors Bank (IB) has signed a mortgage agreement with The Arab Investment Company (TAIC) in order to pledge number of 8,352,705 from the shares of Takaful Insurance company – Bahrain in favour of and as security of the facility Murabaha US\$ 10,000,000 provided to International Investment Group- Kuwait (IIG) from TAIC. IIG was not able to meet its obligations and debt has been rescheduled to IIG for several times. As a result of no payment from IIG to TAIC, on 17 February 2009 TAIC has sent a legal notice to IIG whereby TAIC will direct all actions and measures provided by law to recover the debt owed to IIG, including revoking of the mortgage agreement, IB has come to know that TAIC has already begun to take legal proceedings in selling IB pledge shares to TAIC. IB took the decision to take its legal action against TAIC in order to protect its interest as soon as possible but the Bahrain chamber for dispute resolution has decline the case. Lately TAIC had run a commercial case against IIG, IB and GMG in order to force them jointly pay the amount of BD 2,226,761/360. TAIC won the case of the Bahrain Chamber for Dispute against the three parties and TAIC is working on the execution of the judgment in order to sell the pledged shares of Takaful International – Bahrain. Investors Bank with the other related parties have challenged the judgment before the cassation court and the appeal has been rejected.
- There are Four labour cases running against the bank 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.

2.4 Liquidity Risk

Liquidity risk is defined as the risk that funds will not be available to meet liabilities as they fall due.

The maturity profile of 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 June 2012	Up to 1 month	1 to 3 months	3 months to 1 year	Within 1 year	1 to 3 years	No fixed maturity	Total
Assets							
Cash and balances with banks	336,411	-	-	336,411	-	-	336,411
Investments	-	-	1,795,107	1,795,107	-	13,111,937	14,907,044
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	3,680,203
Investment properties	-	-	-	-	-	18,105,372	18,105,372
Other assets	2107	42,469	57,232	101,808	-	1,377,630	1,479,438
Property & equipment	-	-	-	-	-	2,779,987	2,779,987
Total assets	4,018,721	42,469	1,852,339	5,913,529	-	35,374,926	41,288,455

Period June 2012	Up to 1 month	1 to 3 months	3 Months to 1 year	Within 1 year	1 to 3 years	No fixed maturity	Total
Liabilities							
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	3,229,064
Other liabilities	172,035	98,412	384,612	655,059	-	35,700	690,759
Total liabilities	7,071,301	98,412	384,612	7,554,325	-	35,700	7,590,025
Cumulative Liquidity Gap	(3,052,580)	(3,108,523)	(1,640,796)	(1,640,796)	(1,640,796)	33,698,430	

Following are the key liquidity ratios as at 30 June 2012:

Description	Ratio
Short Term Assets : Total Assets	11.3%
Short Term Assets : Short Term Liabilities (Times)	7.1

Ratio name	June 2012	Dec 2011	Dec 2010	Dec 2009	Dec 2008
ROAE	-1.54	-13.31	-51.58	-27.45	-32.08
ROAA	-1.26	-11.08	-45.28	-25.07	-30.06

2.5 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 cash and cash equivalents. The cash and cash equivalents amount as on 31st December 2011 is USD 158,912. The Bank does not have significant rate of return risk sensitivity due to the short-term nature of its cash and cash equivalents.

2.6 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 available-for-sale 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 balance sheet position as of 30 June:

Particulars	20% decrease	20% increase
Investments at fair value through equity	(2,265,067)	2,265,067

2.6.1 Equity based financing

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

Types And Nature of Investments		
	Publicly traded	Privately held
Investment in shares	11,328,315	1,783,622
Investment in managed funds	-	-
Total	11,328,315	1,783,622

Additionally the Bank has following cumulative realized gains or losses arising from sales or liquidations, total unrealized gains and losses recognized in the balance sheet but not through the profit and loss statement, 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 balance sheet but not through P&L	2,921,778
Unrealized gains (losses) included in Tier One Capital	(928)
Unrealized gains (losses) included in Tier Two Capital	1,315,218

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	7,316,586	877,991
Investment in managed funds	-	-
Total	7,316,586	877,991

2.7 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.

3 Restricted Investment Accounts

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

Balance as of 30 June 2012 net of provision:

Exposures	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd	-	-	317,689
Investments in International Investment Group K.S.C.C. *	12,887	0.44	5,670,202
Portfolio managed by the Bank **	142,059	0.0739	10,501,875
Total			16,489,766

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

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

** Managed Portfolio

During 2009, 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.

4 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties also include directors and shareholders of the Bank and companies in which they have an ownership interest.

A significant portion of the Bank's income arises from transactions with related parties. 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 Board of Directors and a prior approval from CBB is also required.

Significant balances with related parties at 30 June 2012 comprise:

	30 June 2012	31December 2011
Assets	14,003,633	14,007,800
Liabilities	3,426,418	3,403,263
Restricted Investment Accounts	16,172,077	16,228,461

Significant transactions with related parties include:

	30 June 2012	30 June 2011
Income	(9,255)	57,338
Expenses	21,139	15,604

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 the Board of Directors and 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:

	30 June 2012	30 June 2011
Salaries, short term benefits and post employment benefits	42,618	48,054