Annual Report 2013

الذكرى السنوية

CELEBRATING
10 YEARS OF SUCCESS
THROUGH PARTNERSHIP

بنك الاستثمار الدولي
INTERNATIONAL INVESTMENT BANK

بسم الله الرحمن الرحيم

Contents

Profile

International Investment Bank B.S.C. (c) (IIB) was incorporated as an Islamic investment bank on 6 October 2003, under commercial registration number 51867 as a Bahrain Joint Stock Company (closed). Operating under an Islamic wholesale banking licence issued by the Central Bank of Bahrain, IIB commenced investment activities on 13 October 2003. IIB has an authorized capital of US$ 200 million and its paid-up capital was increased during 2007 from US$ 43 million to US$ 110 million, through a combined rights issue and private placement issue. The Bank's shareholders are high net worth individuals, business houses and institutions from the GCC states. The core business activities of the Bank include investing on its own account and investment, underwriting and placement in real estate and private equity in conformity with Islamic Shari'ah. It aims to offer its clients an internationally diversified range of investments generated through its network of strategic partnerships.

Vision and Mission

Vision

To be a regional leader in private equity investments and real estate investments mainly through the provision and management of high-quality, globally-diversified investment offerings in accordance with the principles of Islamic Shari'ah; to maximize shareholder value; to generate superior risk-adjusted returns for clients; to provide excellent career opportunities to all employees and to deal fairly with all stakeholders.

Mission

To originate, manage and ultimately exit from a well-diversified range of innovative investment products in association with leading international strategic partners; to provide high-quality advisory services to clients; to operate in accordance with the highest standards of corporate governance, risk management, due diligence and ethical standards; and to attract and retain the best-qualified employees available.

ON THE 10 YEAR ANNIVERSARY OF IIB: A LETTER FROM OUR CHAIRMAN

Much has happened in the 10 years since International Investment Bank (IIB) was founded. Both globally and locally, investment climates have seen major "tectonic" shifts. The world has seen its greatest financial depression in several decades, the region has seen its greatest political upheaval in several decades, and the Kingdom of Bahrain has demonstrated considerable resilience in the face of significant social challenges. There have also been great highs of prosperity in the past 10 years, with oil prices boosting regional incomes to their highest level.

History has proven that these peaks and troughs, booms and busts, highs and lows, will continue to occur into the future. This is why we founded International Investment Bank on fundamental principles that are rooted in creating long-term value for its stakeholders and not compromised by shortsightedness or short-termism. Our vision has always been to be a regional leader in private equity and real estate investments by sourcing, selecting, structuring, placing and managing high-quality, globally- diversified investment offerings in accordance with the principles of Islamic Shari'ah; to maximise shareholder value; to generate superior risk-adjusted returns for clients; to provide excellent career opportunities to all employees and to deal fairly with all stakeholders.

These consistent foundations have ensured that IIB has survived through difficult periods, and prospered through successful times, what we believe is the true hallmark of robust and credible institutions. Now, at our 10-year anniversary we have learnt many lessons, which have made the Bank stronger and well-placed to capitalize on a slowly recovering global and regional economies. We have made a series of investments that not only comply with our vision, but also put the Bank on a secure platform of diversity from which to strike out in the next ten years. The future will have challenges; it will perhaps have as yet unforeseen lows, and equally unpredictable highs. However, IIB's first decade is testimony to the fact that whatever fluctuations lie in store, IIB will be as resilient, if not more, in the next decade.

ON THE 10 YEAR ANNIVERSARY OF IIB: A LETTER FROM OUR CEO

Since IIB was founded 10 years ago, everyone involved in its success has been keenly aware of the rule of trust and client service. IIB has carefully nurtured over the past 10 years a well-diversified range of innovative investment products in association with leading international strategic partners.

Operating under Shari'ah principles, IIB's operations have evolved over the last 10 years taking cognizance of the ever-changing investment landscape in global markets, more so over the recent four to five years. Whilst the basic principles of investments have largely remained the same, i.e., around the efficient frontier, IIB has made adjustments to its strategy to suit the needs of its clients and to cater to the changing demand for investment products.

With its high operating ethics, IIB has built a strong long lasting relationship with its partners, which has resulted in high quality deal flows from around the globe. The investment process has been continually upgraded and intensified with a view to identifying and addressing all material risks, prior to making an investment. True to its slogan "Success through Partnerships", the Bank, as part of the investment process, works with internationally renowned consultants who are experts in their respective fields, to provide value added advice to the Bank in making investment decisions.The transparency in our level of operations, has, over time, helped IIB retain all of its clients, who have supported us all through, particularly, during the tough times resulting from the financial crisis back in 2007.

Strong corporate governance and robust risk management have also contributed significantly to our client retention over the last 10 years.The conservative and prudent approach adopted by the Bank's Board of Directors in the past, and in particular, throughout the crisis period, has borne fruit resulting in the Bank enjoying a healthy current financial position.

During the 2008-2013 period, the Bank has been resilient and relentless in pursuing its prudent strategy unperturbed by aggressive strategies adopted by some of the regional banks. There has been a very positive start to our second decade, with the Bank embarking on interesting opportunities in the United States of America and potentially, the United Kingdom. With a financially healthy balance sheet, and a management team committed to implementing the strategy set by the Board, IIB has created a strong platform that would set the Bank on a path to sustained long term profitability and growth, and to becoming a leading institution in Islamic markets that all of its stakeholders can be proud of.

Financial Summary

Global confidence from investors in the financial markets was positive in the last year 2013, although IIB will continue to adopt a policy of cautious investment in 2014

Five Year Financial Summary

	2013	2012	2011	2010	2009
Earnings (US$ millions)					
Total income	10.7	14.2	3.1	3.5	6.3
Total expenses	6.1	6.4	5.7	6.7	8.9
Operating profit (loss)	4.7	7.8	(2.6)	(3.2)	(2.6)
Share of profit (loss) of associate	0.4	4.0	(3.4)	-	(0.1)
Impairment losses, provisions and FX	0.9	(3.6)	(3.4)	(17.5)	(25.2)
Net income (loss)	**6.0**	**8.2**	**(9.4)**	**(20.7)**	**(27.9)**
Financial Position (US$ millions)					
Total assets	174.8	165.3	148.5	160.2	179.5
Cash and due from financial institutions	37.9	35.5	61.5	33.4	57.7
Investments	124.1	106.9	75.9	83.9	68.3
Due to financial institutions	-	-	-	-	-
Equity	**164.4**	**155.0**	**145.3**	**158.3**	**176.5**
Ratios					
Profitability					
Return on average equity (%)	3.8	5.5	(6.2)	(12.4)	(14.4)
Return on average assets (%)	3.5	5.2	(6.1)	(12.2)	(14.0)
Earnings per share (cents)	6	8	(9)	(19)	(25)
Cost-to-income ratio (%)	**56.5**	**45.1**	**183.6**	**190.3**	**141.3**
Capital					
Capital adequacy ratio (regulatory minimum 12%)	48	48	54	47	59
Equity/total assets (%)	**98.2**	**98.0**	**97.8**	**98.8**	**98.3**
Liquidity and Other					
Investments/total assets (%)	71.0	64.7	51.1	52.4	38.1
Liquid assets/total assets (%)	21.7	21.5	41.4	36.9	32.1
Assets under management (US$ millions)	323.7	324.3	294.8	325.5	422.8
Number of employees (at year end)	**31**	**32**	**33**	**40**	**47**

Summary of Principal Investment Structurings 2004-2013

	Year	Investment Description	Location	Private Equity (US$ millions)	Other Funds # (US$ millions)	Total Transaction Size (US$ millions)
1	2004	Property fund **	Bahrain	18.6	18.5	37.1
2	2004	Independent power producer ***	China	23.0	267.0	290.0
3	2005	Housing development company @	Bahrain	22.6	0.6	23.2
4	2005	Income generating property *	UK	14.8	290.6	305.4
5	2005	Tower development *	Dubai	20.5	73.6	94.1
6	2005	Islamic investment bank	UK	19.8	448.0	467.8
7	2005	Paper manufacturing company	Abu Dhabi	12.0	35.1	47.1
8	2006	Income generating properties	France	50.8	68.7	119.5
9	2006	Real estate development company	Saudi Arabia	21.0	85.8	106.8
10	2006	Office tower development	Dubai	25.0	75.2	100.2
11	2007	Steel reinforcement bar manufacturing plant	Bahrain	13.0	28.4	41.4
12	2007	Income generating properties	Germany	99.3	133.7	233.0
13	2007	Real estate investment company	Saudi Arabia	2.7	10.7	13.4
14	2007/8	Mixed use tower development @	Abu Dhabi	65.0	132.4	197.4
15	2007/8	Commercial bank	Azerbaijan	26.0	20.8	46.8
16	2008	Automobile dealership company	Tunisia	36.0	30.0	66.0
17	2008	Sugar manufacturing company	Bahrain	20.5	136.1	156.6
18	2009/13	Shopping centre / mixed use development	Bosnia	94.0	82.9	176.9
19	2009/13	Affordable housing development	Saudi Arabia	32.7	447.9	480.6
20	2013	Multi-family housing development	USA	25.7	207.1	232.8
	Totals			643.0	2,593.1	3,236.1

*Realized in 2006 ** Partial exits in 2006, 2007, 2009 with final exit in 2010 *** Realized in 2007
@Partial exit in 2011 and 2012
#Comprises partners' contributions, borrowings and equity from IPO.

Sector Summary

	Sector	Private Equity Raised (US$ millions)	Other Funds (US$ millions)	Total Transaction Size (US$ millions)
1	Real estate income generating	190.6	700.1	890.7
2	Real estate development	258.2	897.8	1,156.0
3	Private equity	175.6	976.7	1,152.3
4	Property fund	18.6	18.5	37.1
	Totals	643.0	2,593.1	3,236.1

Principal Bankers and Professional Advisors

Principal Bankers	Ahli United Bank, Bahrain KFH, Bahrain Al Salam Bank, Bahrain Union National Bank, Abu Dhabi
External Auditors	Ernst & Young, Bahrain
External Legal Counsel	Zu'bi & Partners Attorneys & Legal Consultants, Bahrain

Dear Shareholders, On behalf of the Board of Directors, it is my privilege to present the Annual Report and the Consolidated Financial Statements of International Investment Bank ("IIB") for the year ended 31 December 2013. I would like to take this opportunity to express our profound sense of achievement and purpose on having completed a seminal decade of successful operations nurtured and developed with the partnerships that the Bank is proud of and the interaction amongst all stakeholders alike.

Operation background: an overview 2013

The World Economy

Global economic environment continued to improve in 2013 albeit at a subdued pace. While the advanced economies comprising the USA, the Eurozone, Japan, the UK, Canada and others gained momentum, the emerging market economies comprising Central & Eastern Europe, the CIS, BRICS and the MENA region slowed, although these economies continue to account for a bulk of the global growth. Nevertheless, by the end of the year the world economy was on a surer footing, on an overall trajectory trend giving an optimistic outlook for 2014, with global growth expected to increase from 3.1% in 2013 to 3.6% in 2014, as per the estimates of the International Monetary Fund.

Going into 2014, and perhaps beyond, the USA will be the principal catalyst to global growth as activity in the largest economy of the world is moving into a higher gear as fiscal consolidation eases and monetary conditions stay supportive. Following a sharp fiscal tightening in 2013, activity in the USA is already gaining momentum, helped by a recovering real estate sector, higher household wealth and easier bank lending conditions.

Despite the improved confidence in global markets, the markets remain cautious owing to the gradual tapering of the Fed's asset purchase program and the fiscal tightening that could affect growth in global markets.

Of the BRICS, Brazil and China recorded much lower growth than consensus forecasts. The latter's economy expanded at its slowest rate in 20 years, however this was still at an acceptable level of approximately 7.6%. India also recorded a growth of less than 4%, much lower than its long term growth potential.

In Europe, despite concerns over a triple dip in some countries, the economic situation is starting to look positive by countries like Germany leading the way. However, across the Mediterranean countries such as Cyprus, Greece, Spain, Italy and Portugal outlook is still not looking positive.

Middle East Economy

With the decrease in oil prices in 2013 and continued political challenges much of MENA saw weakened economic growth throughout the year.

In oil-exporting countries which saw steady growth, public spending continues to be high and essential for creating non-oil sector jobs. However, for much of the MENA, including the oil-exporting countries, private sector job creation and economic diversification remain to be pressing issues, which will continue to be so, unless the regional governments initiate and conclude long-term and structural reforms.

(Sources: Economic Intelligence Unit, IMF, Financial Times, World Bank).

Kingdom of Bahrain Banking Sector

2013 witnessed a continued push for economic diversification in the Kingdom and the added benefit of the $10 Billion GCC Support Program ensured a steady growth in Bahrain's economy. Bank mergers and combinations continued apace with National Bank of Bahrain acquiring a controlling stake in Bahrain Islamic Bank and the announced merger of Al Salam Bank with BMI Bank.

In the investment banking sector, there was a continued growth and recognition of the strengths of Islamic Banking. Confirming this success was the 20th anniversary celebration of the World Islamic Banking Conference in Manama in December 2013,

with a record breaking 1,500 visitors attending the 3 day event. IIB was a major sponsor of this prestigious event, which coincided with the Bank's anniversary entitled "10 Years of Success Through Partnership."

2014 Forecast

Global growth is projected to increase from 3.1 percent in 2013 to 3.6 percent in 2014 and 3.9 percent in 2015. Growth in the US is expected to be 2.1 percent in 2014, up from 1.8 percent in 2013. The Euro area is turning the corner from recession to recovery, with growth being projected to strengthen to 1.1 percent in 2014 and 1.4 percent in 2015, compared to an anemic rate of only 0.4% in 2013. Overall, growth in emerging markets and developing economies is expected to increase to 5.1 percent in 2014 and to 5.4 percent in 2015. (Source: IMF)

With these considerations in mind, the investment banking fraternity views 2014 with cautious optimism. In order to achieve a balanced and a diversified portfolio, the Board of Directors of IIB will continue to focus on acquisitions of recurring income-generating assets on the one hand and attractively valued private equity investment opportunities, requiring growth and expansion capital, in developing regions on the other. Alongside the above strategy with regard to new investments, the Bank will also actively seek to exit from mature investments.

Financial performance review 2013

Net Income and Capital Adequacy

IIB achieved a net profit of US$ 6.0 million for 2013, compared to 2012's net profit of US$ 8.2 million. The Bank's investment banking fee income increased by US$ 1.7 million to US$ 4.9 million as compared to the same period last year. However, total income fell by US$ 3.4 million to US$ 10.7 million as compared to 2012. This was largely due to a non-recurring gain in 2012 of US$ 8.7 million from an asset disposal in an associate, partly offset by higher investment banking fees in 2013.

Profit on due from financial institutions and receivables increased from US$ 1.2 million in 2012 to US$ 2.3 million for the year, which reflected the receipt of suspended profit on a corporate Murabaha of US$ 1.5 million. Gain on sale of investments in the current year of US$ 1.2 million was US$ 0.7 million higher than in 2012 mainly resulting from the sale of a UAE listed equity investment.

IIB's management continued to maintain strict control over expenses in 2013. This resulted in a US$ 0.3 million reduction in total expenses for 2013 to US$ 6.1 million compared to the 2012 total of US$ 6.4 million. This reduction was mostly due to lower net asset acquisition and placement expenses in 2013. Operating profit was US$ 4.7 million in 2013 compared to US$ 7.8 million in the previous year, largely a result of the non-recurring gain in 2012.

The share of profits from associates reduced from US$ 4.0 million in 2012 to US$ 0.4 million in 2013, mainly because 2012 contained a non-recurring profit from the sale of real estate assets in an associate company. Impairment losses and provisions decreased substantially from US$ 3.6 million in 2012 to US$ 1.1 million for the year, reflecting an improvement in valuations especially those of listed equities. These losses are unrealized and may reverse, should financial markets recover in the future. 2013 benefited from the write-back of provisions of US$ 1.8 million arising from the partial receipt of an overdue corporate Murabaha financing.

IIB's Capital Adequacy Ratio continues to be strong at 48.6 per cent on 31 December 2013, which is four times the minimum 12 per cent required by the Central Bank of Bahrain. The Bank follows a prudent approach in managing its capital, which provides the scope to acquire significant future risk assets from a regulatory capital standpoint. Details of the Bank's financial position and performance are provided in the Financial Review section and the Financial Statements.

Investments - Strategy and Outcomes

In the backdrop of an expected resurgence in global growth, albeit at moderate levels, IIB's investment strategy continues to remain cautious in line with that of the previous several years since the beginning of the financial contagion. With a strategy of sourcing and structuring only those offerings that meet the stringent due diligence criteria followed by the Bank, the Bank expects to offer to its sophisticated investors only selective offerings that have the potential of generating superior risk adjusted returns.

Accordingly, during 2013 the Bank increased its shareholding in two existing investments at a cost of US$ 1.2 million and invested equity of US$ 25.7 million in a new deal with a total enterprise value of approximately US$ 232 million. This new investment is in a group of multi-family residential properties located in the State of Texas, USA. In addition to attractive quarterly distributions expected from the net rental income of the portfolio, the Board considers that the new investment acquisition provides an opportunity for capital appreciation over a holding period of 5 years.

In 2013, IIB liquidated one shareholding in a UAE-listed equity and completed the partial disposal of three unlisted investments in the real estate sector located in France, Bahrain and Saudi Arabia. The Bank continued to actively market the mature investments under its management to potential investors, in order to achieve exits at attractive prices. The Bank also successfully concluded towards the end of the year a partial exit in respect of one of our portfolio companies located in the Republic of Azerbaijan. Although the transaction has been concluded with the counterparties by the year end including the financial terms of the transaction, IIB continued to seek further measures with IIB's partners in order to secure the long term returns of its investors.

Portfolio - Strategy and Management

IIB accords the highest level of regard to liquidity management, which it considers as the linchpin of long term and continued financial stability of the institution. Accordingly, IIB has continually monitored during 2013, as in previous years, future cash flows and the liquidity required to enable it to acquire new investments and also to meet its regular working capital requirements. The rigorous liquidity management policies followed by the Bank have enabled it to maintain sufficient liquidity evidenced by 21.6% of total assets represented by cash, bank balances and short-dated Murabaha / Wakala placements plus a further 4.8% invested in regional listed equities, thereby maintaining 26.4% of the total assets in liquid and semi-liquid form. The majority of IIB's liquidity has been held in low-risk Murabaha placements with financially sound regional banks with an average tenor of 49 days in 2013.

In conformity with its strategy of maintaining ample liquidity, IIB has always relied on internal funding through its Shareholders' Equity and consequently has not resorted to any bank borrowings. This conservative policy of funding all assets only from equity has resulted in protecting and strengthening the Bank from any liquidity pressures from lending banks and thus enabled management to focus on core operations.

Portfolio - Value and Outcome

The Bank has performed a comprehensive valuation as at 31 December 2013 of all investments made in previous years with the assistance of expert independent valuers and consultants. In line with the AAOIFI standards, unrealized gains and losses are reflected in equity except when the investment is determined to be impaired, at which time the cumulative change is included in the Consolidated Statement of Income for the period. Impairment is defined as an unrealized significant or prolonged decline in the fair value below its cost that is unlikely to reverse in the near future. The net unrealized gains on investments and receivables recognized in equity and the Consolidated Statement of Income aggregated to US$ 3.2 million for 2013 (2012: losses US$ 1.3 million), computed and booked in compliance with the relevant valuation rules and accounting standards.

Final remarks

IIB Recommendations - Appropriations and Zakat

The Board has recommended that no dividend will be paid for the year in order to retain its earnings and further strengthen the shareholders' equity to support future growth. As in the previous years, shareholders will directly pay their respective Zakat on their equity investments in the Bank. Using the Net Asset method of computation, the Zakat payable per share for 2013 is USD 0.010 (2012: USD 0.011 per share).

Board Membership

In March 2013, Mr. Rashed Abdul Jalil Al Fahim resigned from the Board due to his other official engagements. I would like to warmly thank him for his valuable contributions to the Bank during his tenor at the Bank which exceeded two years.

Acknowledgments

The Board of Directors extend their sincere thanks to our valued shareholders, investors and strategic partners for their loyal support and trust with which IIB has been able to successfully complete its first decade of operations despite the financial crisis and the ensuing upheavals in the global financial markets.

It is with this continued support and trust that IIB would step into its first year of the second decade, in which it hopes and expects to deliver better value to its stakeholders. I would also take this opportunity to thank our esteemed and eminent Shari'ah Supervisory Board, our executive management team and staff for their dedicated and committed service throughout the year. We also thank the Central Bank of Bahrain and Bahrain's Ministry of Industry and Commerce for their invaluable guidance and support.

Saeed Abdul Jalil Al Fahim
Chairman

Corporate Governance

The Board of Directors is responsible for the overall governance of the Bank through continuous review and adherence to international best practice and standards. The Board determines the Bank's strategy, provides direction to the Executive Management, ensures that the control framework is functioning in accordance with best practice and monitors Executive Management's performance.

The Board meets regularly throughout the year in order to control strategic, financial, operational, internal control and compliance issues. It currently comprises one executive director, two Non-Executive Directors and five Independent Non-Executive Directors. Independent Non-Executive Directors are: Mr. Ahmed Salem Al Bugshan, Mr. Abdul Wahab Mohammed Al Wazzan, Mr. Ali Hashim Sadiq Hashim, Mr. Bader Ibrahim Mohammad Bin Saedan and Mr. Fareed Bader.

Board Members

HE Mr. Saeed Abdul Jalil Al Fahim

Chairman

Non-Executive Director
Chairman - Al Fahim Group, UAE; Chairman - Mubarak & Brothers Property & Financial Investment, Abu Dhabi, UAE; Former Board Member - National Bank of Abu Dhabi, Abu Dhabi, UAE; Former Board Member - United Arab Bank, Sharjah, UAE.

Mr. Ahmed Salem Bugshan

Vice Chairman and Chairman Nomination & Remuneration Committee

Independent Non-Executive Director
Chairman, President and Chief Executive Officer - Saudi Industrial Projects Co. (SIPCO),KSA; Chairman - Saudi Steel Profile Mfg. Co. Ltd., KSA; Director - Savoy Hotel, Sharm El Sheikh, Egypt; Board Member - Tirana Tourism Investment Co., Cairo, Egypt; Chairman - Westville Group, UK; Chairman - BMC Al-Mahdar Co, Yemen.

Mr. Aabed Al-Zeera

Chief Executive Officer

Executive Director
Vice Chairman - Amrahbank, Azerbaijan; Vice Chairman - Queenex Hygiene Paper Manufacturing Co., UAE; Director & Member Audit Committee - Artes S.A., Tunisia; Vice Chairman - Arabian Sugar Company B.S.C., Bahrain; Director - Universal Rolling W.L.L., Bahrain; Director - Ewaan Global Residential Company, KSA; Director - Connection Real Estate LLC, UAE.

Mr. Abdul Wahab Mohammed Al Wazzan

Chairman Audit & Corporate Governance Committee
Independent Non-Executive Director

Vice Chairman and Board Member - National International Holding Company, Kuwait; Second Vice Chairman - Kuwait Chamber of Commerce & Industry, Kuwait; Board Member - Kuwait Petroleum Corporation, Kuwait; Former Chairman - Kuwait Real Estate Bank (Kuwait International Bank), Kuwait.

Mr. Ali Hashim Sadiq Hashim

Member Nomination & Remuneration Committee and Member Executive Committee

Independent Non-Executive Director
Chairman - Gulf Manufacturers, Egypt; Chairman - Rawasi Al Khaleej, Sharjah, UAE; Chairman - Tahweel Industries Co., UAE; Vice Chairman & CEO - Gulf Packaging Systems Co. Ltd., KSA; Vice Chairman & CEO - Prime Plastic Products, KSA; Vice Chairman & CEO -3P Stretch Co., KSA; Vice Chairman & CEO - 3P Pipe Co., KSA; Director - Arabian Gulf Manufacturers, KSA; Director - Safra Co. Ltd., KSA; Shareholder - Jeddah Graphic, KSA; Shareholder - Tahweel Integrated Co. Ltd. KSA.

Dr. Bader Ibrahim Mohammad Bin Saedan

Member Executive Committee

Independent Non-Executive Director
CEO & Board Member - Al Saedan Real Estate Company, KSA; Chairman of the Board of Directors - Saudi Maintenance Made Simple, KSA; Chairman - Curzon Asset Management, UK; Director - Tunisian Saudi Real Estate Co., Tunisia; Director - Mawten R.E., KSA; Director - Real Estate Committee in the Chamber of Commerce and Industry, Riyadh, KSA; Member - Saudi Council of Engineers, KSA; Member - Young Arab Leaders, KSA; Member - Prince Salman Center for Social Affairs, KSA; Member - General Assembly of the Charitable Society for Orphans, KSA.

Mr. Ali Haider Suliman Al Haider

Member Audit & Corporate Governance Committee

Non-Executive Director
Vice Chairman - Suliman & Brothers Co W.L.L., Qatar; Vice Chairman - Salam Bounian, Qatar; Board Member - Salam International, Qatar; Board Member - Al Safa Trading Company, Qatar.

Mr. Fareed Bader

Member Audit & Corporate Governance Committee and Member Executive Committee

Independent Non-Executive Director
Chairman & Managing Director - Bader Group of Companies, Bahrain; Chairman - Wafa IEI Middle East Property Investment, Bahrain; Chairman - Gulf Membrane and Coating Industries, Bahrain; Chairman - Star Gate Telecommunications, Bahrain; Chairman - Group 7 Security, Bahrain; Vice Chairman - Universe Environment Bahrain B.S.C., Bahrain; Board Member - Rotary Club Manama, Bahrain; Board Member - Bahrain Italian Association, Bahrain; Member - Bahrain British Forum, Bahrain; Member - Bahrain French Forum, Bahrain; Member - Bahrain Engineering Society, Bahrain; Member - Bahrain Chamber of Commerce and Industry, Bahrain.

Board Terms and Start Date of Current Term

All the current members of the Board of Directors were appointed on 30 March 2011. They hold their office for a term of three years. At the next General Assembly Meeting, the Board will be renewed for another term.

Induction, Orientation and Training of New Directors

The Chairman of the Board ensures that each newly inducted director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. The induction process includes:

a. Meetings with senior management;
b. Visits to the Bank facilities;
c. Presentations regarding strategic plans;
d. Significant financial, accounting and risk management issues;
e. Compliance programs;
f. Meeting with internal, external auditors and legal counsel (as required); and
g. Familiarisation of the Corporate Governance Guidelines

Written Code of Ethics and Business Conduct

The Bank has documented a Code of Ethics and Business Conduct applicable to the Directors. The aforementioned documents are available with the management and can be provided to the shareholders on request.

Election System of Director

The new members are inducted to the Board of Directors through a nomination process. The new

members are nominated by the Board who are later ratified/approved by the General Meeting of the Bank.

Material Transactions that Require Board Approval

Every investment and every funds transfer of US$ 50 million or above requires the approval of the Board of Directors.

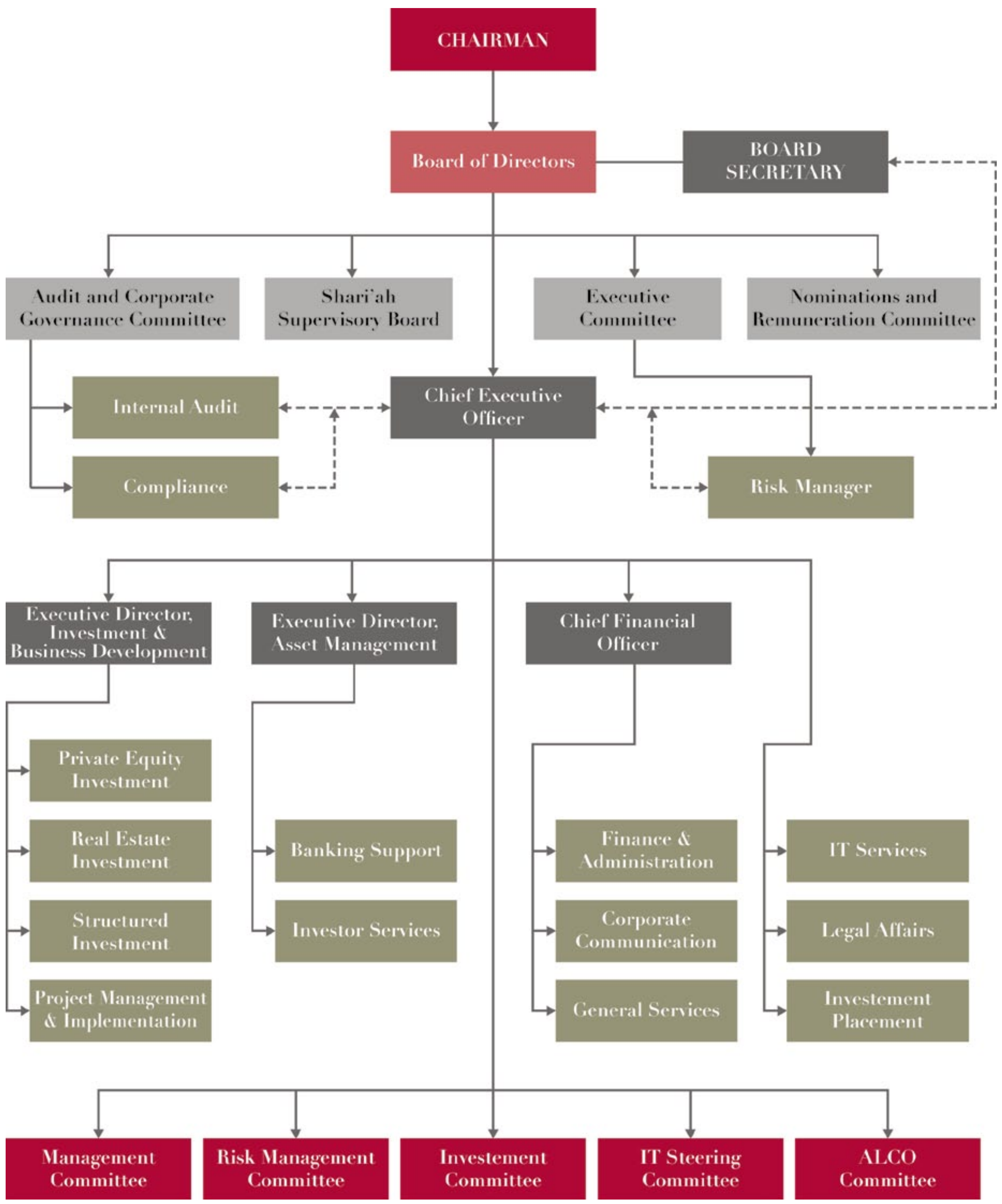
Assessment of Directors

The Board of Directors, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution.

Conflict of Interest

The Annual Disclaimers of potential conflict of interest have been received from the Board of Directors and senior management. In case any conflict of interest should arise, the concerned member of the Board of Directors or senior management will declare his interest in the matter under discussion and will absent himself from any vote on the matter.

Organizational Structure



Board of Directors' Meetings

The Board of Directors of the Bank meets at least four times in a year either in person or via teleconference or video conference.

The following table shows the dates of the Board of Directors' meetings and the attendances during the year.

Date of Meeting	Names of Directors attending in person or via tele/video conference	Names of Directors not attending
7-Mar-13	H. E. Mr. Saeed Abdul Jalil Al Fahim - Chairman Mr. Ahmed Salem Bugshan - Vice Chairman Mr. Abdul Wahab Mohammed Al Wazzan Mr. Ali Hashim Sadiq Hashim Mr. Ali Haider Al Haider Dr. Bader Ebrahim Al Saedan Mr. Fareed Bader Mr. Aabed Al-Zeera - CEO	
17-Jul-13	H. E. Mr. Saeed Abdul Jalil Al Fahim - Chairman Mr. Ahmed Salem Bugshan - Vice Chairman Mr. Abdul Wahab Mohammed Al Wazzan Mr. Ali Haider Al Haider Mr. Ali Hashim Sadiq Hashim Mr. Fareed Bader Mr. Aabed Al-Zeera - CEO	Dr. Bader Ebrahim Al Saedan
20-Nov-13	H. E. Mr. Saeed Abdul Jalil Al Fahim - Chairman Mr. Ahmed Salem Bugshan, Vice Chairman Mr. Ali Hashim Sadiq Hashim Mr. Abdul Wahab Mohammed Al Wazzan Dr. Bader Ebrahim Al Saedan Mr. Ali Haider Al Haider Mr. Fareed Bader Mr. Aabed Al-Zeera - CEO	
18-Dec-13	H. E. Mr. Saeed Abdul Jalil Al Fahim - Chairman Mr. Ali Haider Al Haider Dr. Bader Ebrahim Al Saedan Mr. Fareed Bader Mr. Ali Hashim Sadiq Hashim Mr. Aabed Al-Zeera - CEO	Mr. Ahmed Salem Bugshan, Vice Chairman Mr. Abdul Wahab Mohammed Al Wazzan

Compliance with HC Module

The Bank monitors the compliance with the provisions of the High-Level Controls (H.C.) Module of the Rulebook issued by the Central Bank of Bahrain ("CBB") on an ongoing basis on the roles and responsibilities of the Board of Directors, Board Committees and of the principles relating to Disclosure Requirements and Management Strategy. The Bank has complied with the HC module and amendments during 2013 except that the Chairman does not meet the definition of an "independent director" as required by clause HC-1.4.6 in the CBB Rulebook.

Directors' responsibility for AFS

The Board is responsible for causing the audited consolidated financial statements (AFS) to be prepared which accurately disclose the Bank's financial position. Although the Board has delegated the Audit and Corporate Governance Committee to ensure this objective is met, it has not delegated its ultimate responsibility for the consolidated financial statements. The Bank makes effective use of Internal and External Auditors and the Senior Management have put in place appropriate systems and controls. The Audit and Corporate Governance Committee exercises oversight over the audit functions and disclosures. The Audit and Corporate Governance Committee reviews the quarterly and the annual consolidated financial statements and the Board approves them.

Board Committees

The Board has established four sub-committees and a Shari'ah Supervisory Board comprising expert, independent scholars to assist the Board in expeditiously and effectively discharging its responsibilities. This committee structure ensures appropriate oversight by the Board of Directors while permitting efficient day-to- day management of the Bank. The minimum number of meetings for all Board sub-committees is four per annum. There were no significant issues arising during the year.

The members as at 31 December 2013 and summary terms of reference are as follows:

Executive Committee

Mr. Ali Hashim Sadiq Hashim, Chairman
Dr. Bader Ibrahim Mohammad Bin Saedan, Member
Mr. Fareed Bader, Member

Assists the Board with the review of the Bank's strategy, annual budget and forecasts, risk policies, management committees' activities and actions.

The following table shows dates and attendance details of the Executive Committee meetings during the year.

Date of Meeting	Names of Directors attending in person or via tele/video conference	Names of Directors not attending
27-Feb-13	Mr. Ali Hashim Sadiq Hashim, Chairman Dr. Bader Ebrahim Al Saedan Mr. Fareed Bader	
17-Apr-13	Mr. Ali Hashim Sadiq Hashim, Chairman Dr. Bader Ebrahim Al Saedan Mr. Fareed Bader	
16-Jun-13	Mr. Ali Hashim Sadiq Hashim, Chairman Dr. Bader Ebrahim Al Saedan Mr. Fareed Bader	
11-Dec-13	Mr. Ali Hashim Sadiq Hashim, Chairman Dr. Bader Ebrahim Al Saedan Mr. Fareed Bader	

Audit and Corporate Governance Committee

Mr. Abdul Wahab Mohammed Al-Wazzan (Chairman)
Mr. Ali Haider Suliman Al Haider, Member
Mr. Fareed Bader, Member

Assists the Board to review the integrity of the financial statements, compliance with legal and regulatory requirements, the Bank's internal audit function and the independent auditor's qualifications, independence and performance.

The following table shows dates and attendance details of the Audit and Corporate Governance Committee meetings during the year.

Date of meeting	Names of Directors attending in person or via tele/video conference	Names of Directors not attending
6-Mar-13	Mr. Abdul Wahab M. Alwazzan, Chairman Mr. Ali Haider Al Haider Mr. Fareed Bader	
9-May-13	Mr. Abdul Wahab M. Alwazzan, Chairman Mr. Ali Haider Al Haider Mr. Fareed Bader	
22-May-13	Mr. Abdul Wahab M. Alwazzan, Chairman Mr. Ali Haider Al Haider Mr. Fareed Bader	
10-Nov-13	Mr. Abdul Wahab M. Alwazzan, Chairman Mr. Ali Haider Al Haider Mr. Fareed Bader	

Nominations & Remuneration Committee

Mr. Ahmed Salem Bugshan (Chairman)
Mr. Ali Hashim Sadiq Hashim, Member

Assists the Board in assessing candidates and recommending Board and management appointments, as well as to establish and update the remuneration policies and procedures including the level of remuneration paid to executive management.

The following shows the date and attendance details of the Nominations and Remuneration Committee meeting during the year.

Meeting Date: 4th March 2013

Those present at the meeting were:

Mr Ahmed Salem Bugsham, Chairman

Mr Ali Hashim Sadeq

Independent Shari'ah Supervisory Board

Being an Islamic Bank, IIB's Shari'ah Supervisory Board regularly reviews all investment products and business activities to ensure compliance with Islamic Shari'ah principles, approves the Bank's financial statements and participates with management in the development of suitable investment products and services. IIB's Shari'ah Supervisory Board comprises three prominent GCC Islamic scholars who provide the Bank with pragmatic Islamic opinions. Brief biographies are as follows:

Sheikh Doctor Nizam Yaquby

Sh. Dr. Yaquby holds a Doctorate in Islamic studies and B.A degree in Economics from McGill University in Canada. He is also a member of many local and international Islamic Supervisory Board of Islamic institutions, including the Central Bank of Bahrain, AAIOFI, Bahrain Islamic Bank, Gulf Finance House, ABC Islamic Bank, HSBC Amanah, Abu Dhabi Islamic Bank, Islamic Rating Agency, IIFM and Dow Jones Islamic Index and many more. Sh. Dr. Yaquby has participated in many conferences world wide and is a very well-known Islamic scholar with many publications in both Arabic and English.

Sheikh Doctor Osama Mohammed Saad Bahar

Sh. Dr. Osama Bahar holds a Doctorate from Lahaye University in the Netherlands, a Master's Degree from Al Emam Al Awzae University in Lebanon and a Bachelor's degree in Islamic Sharia'a from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria. Currently, he is Head of Shari'ah Compliance at First Energy Bank. Also, he is a member of the Shari'ah Board of Global Banking Corporation, Sakan Holistic Housing Solutions, Reef (Real Estate Finance), Ithmaar Bank, International Tharawat, Family Bank and Alizz Islamic Bank(Oman).

Sh. Abdul Nasser Omar Al Mahmood

Sh. Abdul Nasser is a member of the Islamic Supervisory Board of International Investment Bank, Ebdaa Bank, Eskan Bank, Capinnova Investment Bank and Bahrain Development Bank. Also, he works as an Executive Senior manager in Shari'ah audit department at Khaleeji Commercial Bank. He holds a Masters in Business Administration from the Gulf University working on a thesis in Shari'ah Control and Review in Islamic banks. He also holds Bachelor's degree in Shari'ah and Islamic Studies from Qatar University and an Advanced Diploma in Islamic Commercial from Bahrain Institution of Banking Finance.

Direct Investment and Business Development

The department is responsible for the investment and business development activities including origination, structuring and execution of investment programs and activities, obtaining the required internal and regulatory approvals and evaluating investments in quoted and unquoted equities. It develops investments and asset allocation strategies / activities and completes the detailed due diligence and documentation in conjunction with consultants, partners, accounting firms and law firms. It also develops strategic relationships and performs the detailed evaluation of potential divestments.

Asset Management

The department monitors the Bank's investments in private companies, real estate income generating properties and real estate development projects including effective record keeping relative to each investment to ensure efficient monitoring, cash inflow maximization and exit planning of investments.

It works closely with project sponsors to optimize the overall project implementation timetable; minimize project costs; and deliver project quality in order to ensure that planned project returns are achieved. The department arranges Shari'ah-compliant corporate finance for projects designed to leverage equity funding and to maximize free cash flows to equity and ROE. It executes planned exits in a timely and methodical manner to deliver investor returns.

In addition, it is responsible for investor reporting and relations including the preparation of periodic investment status reports.

Investment Placement

The department is responsible for advising investors and placing IIB's investment offerings with sophisticated investors. Whilst mandated with the responsibility of maximizing investment placement, the department ensures that every investment placed with investors is consistent with the investment objectives and risk tolerance of investors. Moreover, in order to achieve best practice governance within the framework of the ethical and regulatory requirements of the Central Bank of Bahrain, investments are placed with only those investors who have provided the detailed "Know Your Customer" (KYC) documents and have otherwise complied with all legal formalities associated with the placement of each investment.

Support, Administration & Internal Controls

The business departments and executive management of the Bank are supported by a network of well structured and staffed departments, as follows:

- **Financial Control Department, including Treasury, Operations and General Services**
- **Legal Department**
- **Compliance Department**
- **Risk Management Department**
- **Information Technology Department**
- **Internal Audit Department**
- **Human Resources & Administration Department**
- **Corporate Communications Department**

The Bank's operations and transactions are subjected to commensurate controls, checks and balances and segregation of duties to ensure that each transaction is originated, approved, executed and accounted for in conformity with not only Shari'ah standards but also best practice.

For example, to ensure strong segregation of duties, the Bank's operations are structured to ensure that no employee can originate, execute and account for a transaction. At least two individuals are involved in each transaction, including two signatories on every funds transfer. Each transfer is approved and executed in accordance with "Levels of Authority" approved by the Board of Directors.

Department Heads report to the Chief Executive. There are three exceptions to ensure objectivity and independence from executive management: the Head of Risk Management Department reports to the Chairman of the Executive Committee with an administrative reporting "dotted line" to the Chief Executive Officer; and the Director of Internal Audit Department and Head of Compliance Department report to the Chairman of the Board Audit and Corporate Governance Committee with an administrative reporting "dotted line" to the Chief Executive Officer. The duties of all staff are clearly defined in detailed job descriptions which are reviewed from time to time to ensure conformity with the current requirements of the business.

Being an Islamic bank, IIB must ensure that all its activities are in compliance with Shari'ah principles. Compliance is achieved through the adoption of policies and procedures that are Shari'ah compliant, through regular discussions with members of the Shari'ah Supervisory Board who review the documentation relating to the Bank's transactions. Consultants perform regular reviews of its activities and have confirmed that the Bank is Shari'ah compliant. The Bank donates all non - Shari'ah compliant earnings to charity.

Compensation & Incentive Structures

The Directors may recommend for themselves an annual retainer fee that is approved at the subsequent Annual General Meeting. In addition, they receive an attendance fee for each meeting attended plus reimbursement of their travel and accommodation expenses in connection with attending Board meetings. The members of the Shari'ah Supervisory Board receive a flat fee that the Board of Directors approves annually, plus a fee for each meeting attended and reimbursement of their actual travel and accommodation expenses. Executive management's salaries are set annually by the Remuneration Committee and the Chief Executive Officer agrees the annual salaries of all other employees. All staff are eligible to participate in the discretionary annual bonus pool which is awarded on the basis of achievement of both corporate and individual goals. Other benefits are payable to employees in line with normal industry practice and are approved in aggregate by the Board of Directors. An allocation for a staff stock option scheme was approved by the General Assembly. The details of the scheme are still under study.

Executive Management

Management Committees

The Board has established five management committees, namely the Management Committee, Investment Committee, Risk Management Committee, Assets & Liabilities Committee and IT Steering Committee. These committees comprise senior management and heads of departments who are best qualified to make decisions on such issues as funding, asset utilization, IT, investment purchase/sale and management of all types of risk, including market, credit, liquidity and operational risks. The members as at 31 December 2013 and the summary terms of reference are as follows:

Management Committee

Mr. Aabed Al-Zeera (Chairman)
Mr. Michael Ross-McCall, Member
Mr. Narayanan Ganapathy, Member
Mr. Subhash Jalan, Member
Mr. Fadi Al Qassim, Member
Mr. Alyas Al Meftah, Member

Monitors the execution of the strategic business plan, provides a forum to assimilate viewpoints and adopt best practices in the management of the Bank and provides guidelines to carry out the day-to-day affairs of the Bank, within the overall approved procedures laid down by the Board.

Investment Committee

Mr. Aabed Al-Zeera (Chairman)
Mr. Fadi Al Qassim, Member
Mr. Narayanan Ganapathy, Member
Mr. Subhash Jalan, Member
Mr. Alyas Al Meftah, Member

Manages the investment portfolio, makes recommendations on proposed investments and exits and approves the final share allocation to investors.

Assets & Liabilities Committee

Mr. Narayanan Ganapathy (Chairman)
Mr. Michael Ross-McCall, Member
Mr. Fadi Al-Qassim, Member
Ms. Haleema Ebrahim, Member

Manages liquidity, the profit rate risk inherent in the Bank's asset and liability portfolio, capital adequacy and ensures the mix of assets and liabilities is appropriate.

Risk Management Committee

Mr. Michael Ross-McCall (Chairman)
Mr. Narayanan Ganapathy, Member
Mr. Murtaza Ghulam, Member

Performs a risk review of new business deals to be underwritten by IIB, performs an annual review of existing business deals underwritten by IIB and monitors all types of risks faced by IIB including market, credit and operational risks.

I.T. Steering Committee

Mr. Michael Ross-McCall (Chairman)
Mr. Narayanan Ganapathy, Member
Mr. Said Itani, Member
Mr. Murtaza Ghulam, Member

Ensures a first class IT and communication service to users, supervises projects to select and implement new systems, provides IT strategic direction and ensures that a bank-wide disaster recovery plan is prepared and implemented.

Chairman and Executive Managers

H.E. Saeed Abdul Jalil Al Fahim, Chairman

H.E. Saeed Al Fahim is the Chairman of Al Fahim Group, one of the most successful group of companies in the UAE operating chiefly in the automotive dealership, hospitality and hotel, oil and gas, real estate and insurance sectors. He obtained a degree in Business Administration from Bowling Green University, USA and Shendi University in Sudan has awarded him an Honorary Doctorate in Business Administration in appreciation of his distinguished contribution to Sudan's rural development. He holds a number of company directorships.

Aabed Al-Zeera, Chief Executive Officer

Mr. Al-Zeera oversees the Executive Management team and chairs the Management Committee. He holds an OND in Business Studies from a UK body and has almost thirty years of international banking experience with major financial institutions in the Kingdom of Bahrain and the United Arab Emirates. They include American Express Banking Corporation, Arab Banking Corporation (ABC), Standard Chartered Bank and First Islamic Investment Bank (now Arcapita). He was instrumental in setting up ABC's Representative Office in Abu Dhabi in 1996, where he served as Vice President and Chief Representative.

Mr. Al-Zeera was one of the key promoters of IIB who, together with the Al Fahim Group, conceived and successfully set up the Bank. He is a board member of several companies of IIB and is Vice-Chairman of Amrahbank in Azerbaijan.

Michael Ross-McCall, Chief Financial Officer

Mr. Ross-McCall heads the Finance and Administration Department with additional responsibility for Treasury, Operations, Human Resources, General Services and Corporate Communications. He holds a Law Degree from Edinburgh University and is a member of The Institute of Chartered Accountants of Scotland. Following several years employment with Ernst & Young and Price Waterhouse, he has over 20 years' experience in the banking sector, including senior positions at Wells Fargo Bank, Bank of Bahrain & Kuwait and Bahraini Saudi Bank.

Narayanan Ganapathy, Executive Director

Mr. Ganapathy heads the Direct Investment and Business Development Department. He is a CFA charter holder, a member of the Institute of Chartered Accountants of India and holds a Master's degree in Finance from London Business School. He has over twelve years of international banking and corporate finance experience that he gained at KPMG, Deutsche Bank, London and Investate Realty in the Kingdom of Bahrain.

Subhash Jalan, Executive Director

Mr. Jalan heads the Asset Management Department. He is a CFA charter holder, a member of the Institute of Chartered Accountants of India and holds the CISA (Certified Information System Auditor) qualification from USA. He has substantial investment experience in private equity including venture capital funds, buyout funds, direct equity, mezzanine funds and real estate investments. His previous work experience includes Investments Director at Foulath in Bahrain, Vice President for manufacturing projects at Gulf Investment Corporation in Kuwait, Group Investment Manager at M H Alshaya Co. in Kuwait and Senior Investment Officer at Industrial Bank of Kuwait.

Other Senior Officers

Alyas Al-Meftah, Director, Asset Placement

Mr. Al-Meftah heads IIB's Asset Placement activity with particular emphasis on the western province of Saudi Arabia. Holding a degree in Business Administration and International Studies, he has held progressively more senior positions with international organizations over the last ten years. In particular, he was Sales Territory Manager with a leading logistics company as well as Marketing Manager with one of the region's leading real estate development projects. He joined IIB in 2005.

Ali Redha, Director, Internal Audit

Mr. Redha is a member of the American Institute of Certified Public Accountants (AICPA). He has over 13 years of experience in auditing and banking at KPMG, Daar Al-Maal Al-Islami (DMI Group), Shamil Bank, Ithmaar Bank and Bahraini Saudi Bank. He joined IIB in 2005 in order to establish the internal audit department and reports to the Chairman of the Board Audit Committee.

Fadi Al-Qassim, Director, Direct Investment

Mr Al Qassim is a director in Direct Investment and Business Development Department. He holds a B.Sc. in Civil Engineering from the University of Bahrain. He has 25 years' experience in project management, deal acquisition and structuring, asset management, civil design, industrial engineering and monitoring projects up to the hand-over to owners. He is a certified ISO 9000:2000 internal auditor and an active member of both the Bahrain Society of Engineers and the Project Management Institute. He joined IIB in 2006.

Augustine Peter - Director, Finance

Mr. Peter holds the position of Director, Finance, with the responsibility of the financial management of the group and of maintaining the financial records and preparation of financial statements of the Bank as well as its subsidiaries and special purpose vehicles. He holds a bachelor's degree from the University of Calicut, India, and is a Chartered Accountant. In the late eighties he had undergone extensive training in the IT field, including application programming and system administration and as a result he is well-versed in that field too. Prior to joining the Bank in 2007, he had extensive experience in the area of Financial Audit, Financial Management, MIS Management etc. both in India as well as in Bahrain. He has more than 20 years of experience that covers banks, investment companies, audit firms, stock exchanges, etc.

Said Itani, Head – IT

Mr. Itani has more than 33 years' experience in the IT sector, latterly in Saudi Arabia and the Kingdom of Bahrain. From 1995 to 2002 he was IT Division Manager at Bank Al-Jazira in Jeddah and from 2002 to 2006 he was Head of IT, Security and Property at UBS-Noriba Bank in the Kingdom of Bahrain.

Charitable Contributions

The Bank made contributions and donations to Bahraini charities in 2013 aggregating to US$ nil (2012: nil).

Non-Shari'ah Income

Any income derived from any investment or business that does not conform to the Shari'ah principles is considered as non-Shari'ah income. Such non-Shari'ah income is not recognized as the income of the Bank. If any such income arises in the course of the business, it is contributed to charity through charitable institutions.

For the year 2013, there was no non-Shari'ah income for the Bank.

Review of Internal Control Process and Procedures

The Board is fully aware that the system of internal control cannot totally eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an on-going process of managing significant risks faced by the Bank and reviewing the system of internal control for the year under review. The key elements are described below:

- Formal organisation structure that clearly defines the framework for the line of reporting and hierarchy of authority.
- Policies and Procedures Manual on key activities that lay down the objective, scope, policies and operating procedures for the Bank which are subject to regular review and improvement.
- Regular internal audit visits to departments within the Bank to ensure compliance with Bank's Policies and Procedures and to review effectiveness of internal control systems.
- Clearly defined authorisation limits at appropriate levels are set out for controlling and approving capital expenditure and expenses.
- Regular Senior Management meetings are held to discuss and resolve major issues arising from business operations.
- Quarterly meetings for Audit and Corporate Governance Committee and the Board are held to discuss internal audit reports, periodic financial statements and issues that warrant Audit and Corporate Governance Committee and Board attention.

In respect of risk management framework, a Risk Management Committee was established, to evaluate, monitor and manage the risks that may impede the achievement of the Bank's business objectives. A number of minor internal control weaknesses were identified during the year of review. None of the weaknesses have resulted in any material losses, contingencies or uncertainties.

Nature and Approval Process of Related Party Transactions

The balance with related parties mainly comprises investments in associates. These associates are the companies where the Bank holds 20% or more of the share capital by way of direct investment or investment through Special Purpose Vehicles in its ordinary course of business. Such investments also go through the same approval processes as required for all investments of the Bank. Transactions with related parties in 2013 mainly comprise of share of profit from associates and remuneration paid to the Shari'ah Supervisory Board.

Changes in Organization Structure

There were no changes to the Organization Structure of the Bank during the year.

Ownership Details of the Bank – as at 31 December 2013

Distribution of ownership by country:

Country	Number of shareholders	Number of shares	Percentage
Kingdom of Bahrain	7	2,406,158	2.19%
State of Kuwait	39	16,452,201	14.96%
State of Qatar	11	6,931,862	6.30%
Kingdom of Saudi Arabia	34	28,882,213	26.26%
United Arab Emirates	19	52,323,363	47.57%
Total	**110**	**106,995,797**	**97.28%**
Treasury shares		3,000,000	2.72%
Overall Total	**110**	**109,995,797**	**100.00%**

Distribution of ownership by directors and senior managers:

Name	Position	Number of shares	Percentage
Saeed A. Jalil Al Fahim	Chairman	26,374,704	23.98%
Ahmed Salem Bugshan	Board Member	3,908,404	3.55%
Ali Hashem Sadeq	Board Member	3,908,404	3.55%
Bader Ebrahim Al Saedan	Board Member	1,650,000	1.50%
Ali Haider Al Haider	Board Member	1,627,907	1.48%
Abdulwahab Al Wazzan	Board Member	813,953	0.74%
Fareed Bader	Board Member	350,000	0.32%
Aabed Al Zeera	Board Member	162,791	0.15%
Overall Total		**38,796,163**	**35.27%**

Distribution of ownership by size of shareholding:

Shareholding size	Number of shareholders	Number of shares	Percentage
Above 5% ownership	1	26,374,704	23.98%
Less than 5% ownership	109	83,621,093	76.02%
Overall Total	**110**	**109,995,797**	**100.00%**

There was no trading in the Bank's shares by Directors and senior managers of the Bank during the year. There are no shareholdings in the Bank by the Bahrain Government or any other Governments.

Remuneration to Board Members

The remuneration paid to Board members for the year 2013 was US$ 52,000 (2012: US$63,000).

Fees paid to External Auditors

Information relating to the fee paid to external auditors for audit and non-audit services including asset valuation reviews, quarterly review of prudential returns, PD disclosures reviews, etc are maintained at the Bank. This information is made available to shareholders on request.

Communications Strategy

A summary of the Bank's quarterly and annual financial statements is published in local and regional newspapers. The Bank maintains a website www.iib-bahrain.com which contains the last five years of annual financial data as at 31 December, together with summary financial data covering the interim quarterly financial statements. It also contains a profile of the Bank, details of the principal products and services, profiles of the senior managers and regular press releases concerning investment transactions and other developments.

Inquiries are made to the relevant departments as follows:

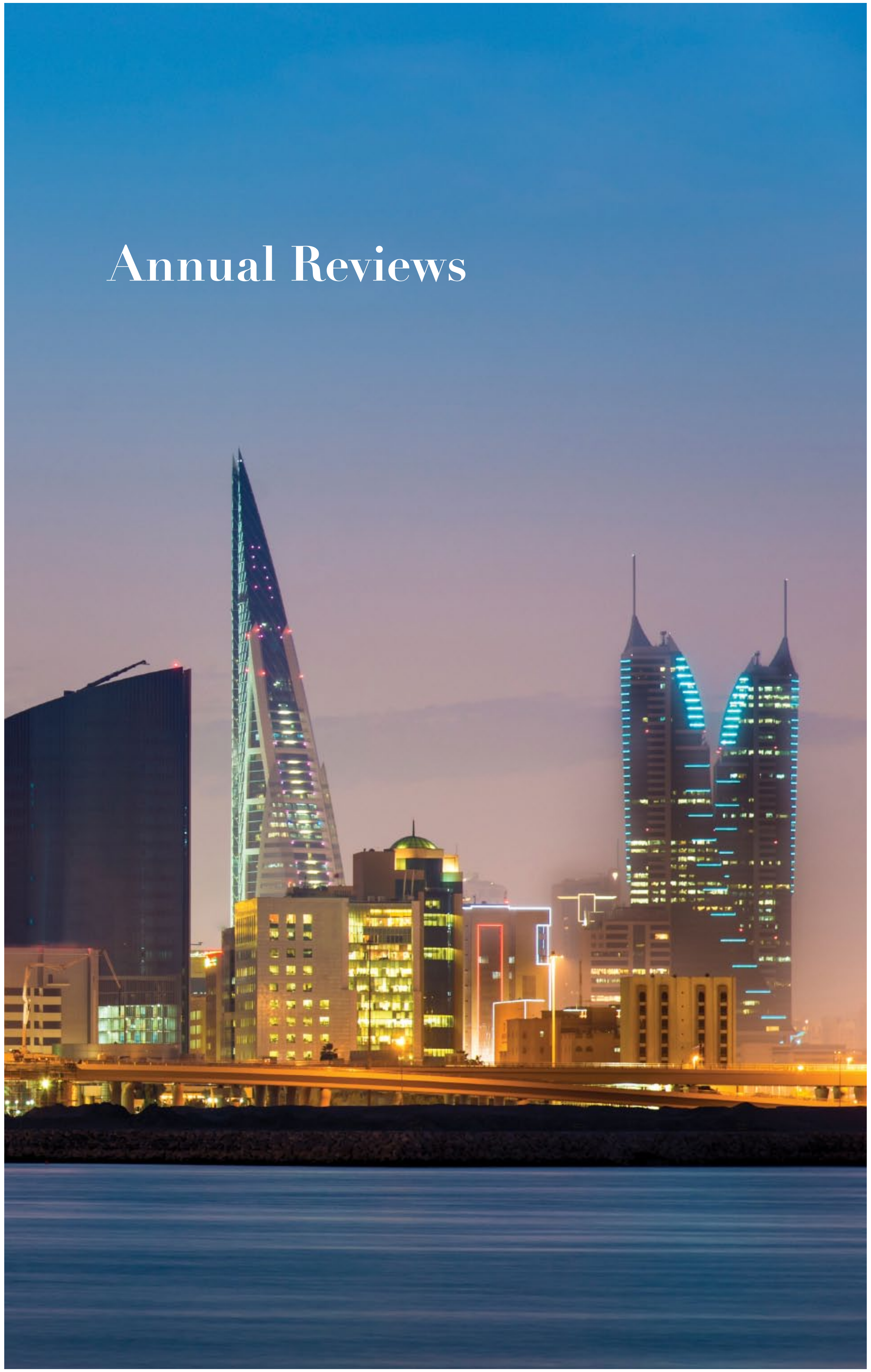
- Investments and partnerships: invest@iib-bahrain.com
- Existing Investors inquiries: portfolio@iib-bahrain.com
- New investors: placement@iib-bahrain.com
- Financials and annual performance: enquiries@iib-bahrain.com

The Bank's Asset Management Department has assigned a designated individual to maintain a log of the client queries / complaints. A brief of client inquiry / complaint is prepared and forwarded to the concerned Asset Manager, who prepares a draft response. Brief is then forwarded to the Head of Asset Management who approves the response, which is then forwarded to the client. An entry is made in the log of queries /complaints to record the Bank's response.

Additional Governance Controls

The Board has approved a number of policies which are communicated to management and all staff. These cover subjects including risk management, anti-money laundering, ethical behaviour, personal conduct, financial control, human resources and business continuity.

Corporate governance is also supported by the ongoing reviews performed by the Internal Audit Department and the External Auditors. The reviews confirm that the policies and internal control procedures conform to practice and are being fully complied with by management and staff.



Annual Reviews

As compared to 2012, the global and regional economies generally experienced positive growth in 2013. After incurring losses in 2009, 2010 and 2011 resulting from lower fair values attributable to our investment portfolio during the global financial crisis, I am very pleased to report that IIB's return to profit in 2012 has been sustained into 2013.

In order to further enhance the quality and diversify risk within the investment portfolio, the Bank made three investments during the year costing US$ 26.8 million, one of which was a new asset, with the remaining two being purchases of additional shares in the Bank's previous investments. The ongoing intensive management of existing assets continued during 2013 in order to minimise risks and potential losses while maximizing the opportunity to realise optimum returns at the time of exit.

Business Development

With a generally low to medium level of risk tolerance, the Bank continues to focus on acquiring and managing profitable income-producing private equity and real estate opportunities with strong operational history and a potential for capital growth. During 2013, the Direct Investment and Business Development team has reviewed several investment proposals across asset classes and regions and has concluded one new investment during the fourth quarter of 2013 costing USD 25.7 million.

The Bank's strategy of maintaining high reserves of liquid assets has allowed it to undertake compelling investment opportunities without having to obtain external financing. Accordingly, IIB has purchased a portfolio of 11 multi-family income-generating properties in the State of Texas, one of the highest growth markets in the US. The total purchase price (excluding acquisition costs) was USD 232 million. There was no impact on 2013's earnings from this acquisition but the Bank has created a corporate structure with an attractive IRR reflecting quarterly distribution of net rental income and intends to offer for sale to investors during the first half of 2014. Accordingly, IIB will initially receive dividend income in 2014 followed by structuring and placement fees from the planned sale of shares to investors.

Investment Placement

The Investment Placement Department was active during 2013. It has placed shares with IIB's investors in a rights and private placement issue by an existing investee company. The Department continued to sell units in the Al Fareeda Residential Fund that was partially sold to investors in the fourth quarter of 2012. This project comprises affordable housing units, commercial space and service amenities over an area of approximately 1 million square meters strategically located north of Jeddah in the Dhahban district in the Kingdom of Saudi Arabia. The Placement team has also conducted soft-sell marketing programs with investors to gauge their interest in several proposed future share offers.

The Bank has the Sarajevo Project in the pipeline which will be due for placement shortly. This project comprises the construction of a real estate complex involving a hotel tower, a commercial office tower, a shopping mall and an entertainment center in Sarajevo, the capital of Bosnia & Herzegovina (Eastern Europe). The construction of the project has gained significant momentum and the opening of the shopping mall is expected in March 2014. Subject to market conditions, we believe that the investment will be ready for placement with select investors during the fourth quarter of 2014, when significant value enhancing initiatives currently underway are completed.

In conformity with the Central Bank of Bahrain's ("CBB") regulation, the Department performed the 3-year cycle to obtain all investor information and ensure that all Know Your Customer ("KYC") documentation is updated. In addition, the Department continued to improve the client data base and to update it with new potential target investors.

Asset Management

The Asset Management Department of the Bank has continued its detailed monitoring and management of the investment portfolio on behalf of its investors and the Bank. IIB has a fiduciary duty to carefully monitor and manage the portfolio of investments for the benefit of the investors with the objective of improving performance and positioning the assets for exit at the most opportune time.

The focus of the Department has continued during 2013 to be the achievement of value enhancement and maximization of exit proceeds. This strategy of equity value growth in the private equity and real estate asset classes is now substantially a function of operational growth and innovative management techniques. The pre-financial crisis sources of value growth, such as asset leverage and growth of exit multiples through general inflationary factors, are unlikely to contribute significantly to value accretion in the near term. The Asset Management Department is in constant discussions with potential buyers in order to achieve the maximum exit valuations for all investments. In addition, IIB's management through board representation on all major portfolio companies both in Bahrain and abroad attends regular board meetings that focus on the timely completion of projects and the maximization of operating results. The Department has also been actively liaising with the legal authorities and expert legal counsel in order to achieve a favorable outcome where legal disputes were in progress.

During 2013, the Department assumed responsibility for managing the three investments that were acquired during the fourth quarter of 2012. Firstly, the equity stake in Hungry Bunny, a fast food chain based in Saudi Arabia with actual and planned outlets throughout the region, has generated profits for the Bank in 2013 of USD 0.9 million. The management believes that the growth in the company's operations during the year creates enormous potential to generate a high return on investment, through regular dividends as well as value appreciation. Secondly, IIB's participation in an income-generating deal within the aircraft leasing sector has created a quarterly revenue stream, producing a 9% per annum cash yield. Lastly, the indirect 10% equity stake in Leeds United Football Club, an English Football club playing in the Championship, is expected to result in the sale at a profit to a strategic investor.

Financial Performance

A detailed analysis is provided in the Financial Review section. Total income in 2013 was US$ 10.7 million as compared with US$ 14.2 million for 2012. In addition, the Bank earned net profit from associates of US$ 0.4 million and benefited from the reversal of provisions on receivables of US$ 1.8 million. The main contributors to total income earned in 2013 were: a structuring fee of US$ 3.9 million relating to a rights issue by an investee company; release of suspended profit and provision against principal of US$ 3.2 million following receipt of a corporate financing; and gain on sale of investments of US$ 1.2 million. 2012 reflected non-recurring gains relating to the Al Fareeda Residential Fund in Saudi Arabia that aggregated to US$ 13.0 million.

Total expenses were US$ 0.3 million (4.7%) lower than the previous year at US$ 6.1 million. The operating profit for 2013 was US$ 4.7 million and impairment losses on investments declined to US$ 0.6 million from the level of US$ 2.9 million in 2012, derived from the rigorous year-end valuation process applied to all investments and other assets in accordance with the regulatory and accounting rules. The provisions are unrealized and may reverse should market values improve. The net profit for 2013 was US$ 6.0 million.

The Bank's core liquidity position continued to be strong throughout the year with liquid and semi-liquid assets at year end 2013 representing 26.5% of total assets, of which 21.7% was in cash and cash equivalents. The strong liquidity and the absence of any borrowings, commitments or contingencies make the balance sheet of IIB very strong and well positioned to capture investment opportunities that are expected to arise.

For 2014, the Bank's focus will be to maintain adequate liquidity; to continue to diversify the investment portfolio (sectors, regions, currencies); to provide investors with superior risk-adjusted returns; to continue to actively manage assets under management to maintain or increase investor value; and to maintain a strong Capital Adequacy Ratio comfortably in excess of the CBB's minimum requirement.

Information Technology

The Bank's Information Technology ("IT") Department is responsible for providing the best IT infrastructure and communications in the most efficient and cost-effective manner. During 2013, the IT team completed a major review of the existing IT infrastructure to identify the possibility of the enhancement or replacement of outdated systems. After detailed discussions with local vendors, IIB decided to execute a major systems upgrade to replace the key servers and provide the users with the latest technology including an enhanced secured network. In addition, the Bank has replaced the aging users' workstations (desktops and laptops) with new ones. The systems upgrade will be implemented during the second quarter of 2014.

Disaster Recovery Centre (DRC)

An environment monitoring system was installed in the DRC office and a DRC IT checklist to enhance preparedness was established. It includes regular visits by IT personnel and tests on the DRC's readiness by the Bank's key staff to ensure that all required basic systems will be available to use in case the Head Office is not available or the IT systems located there become non-operative. The DRC is governed by the business continuity plan and disaster recovery plan, which are regularly updated and approved by IIB's Board of Directors.

Legal Department

The existing controls were further strengthened during 2013 by the implementation of the Governance Framework prepared in 2012 covering all the Bank's special purpose vehicles, associates and subsidiaries. Following approval of IIB's Board of Directors, the new policy introduced formal enhanced corporate governance and accountability, including high standards for internal control, ethical practices, transparency and external reporting.

Corporate Governance

The annual review of all Policies and Procedures used in the Bank was performed during the year. The Annual Disclaimers of potential conflict of interest have been received from the approved persons and a performance evaluation for the Board of Directors was performed. As required by the CBB, all governance boards and committees are well established, including seven non-executive directors of which five are "independent". Updated charters were adopted for all committees.

Compliance Department

International Investment Bank has established a strong and independent Compliance department to assist the senior management of the Bank in effectively managing its compliance risk, overseeing the Bank's compliance program, and for ensuring that the Bank's policies, procedures and operations are in line with all applicable rules and regulations. It also assists senior management in educating staff and increasing awareness regarding compliance issues. The Department reports functionally to the Audit and Corporate Governance Committee.

Risk Management Department

During 2013, existing policies, procedures and limit structures were reviewed and updated as required, including the introduction of a Strategic Risk Management policy. The Department started to compute the Basel III ratios and report them on a quarterly basis to the CBB. The appropriate risk environment within the Bank was strengthened through the Department acting in an advisory role to highlight risk perspectives to be considered in business decision-making. MIS reports that promote informed business decisions were further upgraded and Liquidity Stress Tests were performed periodically during the year to foresee any likely strains.

Internal Audit Department

A risk-based Audit Plan for 2013 as per best practice was approved by the Board and audits were conducted covering all departments in accordance with the plan. Most audits were performed on a co-sourced basis with local expert consultants who verified that policies, procedures, rules and regulations were adhered to during the year. The Department continued to promote strong controls within the Bank by making recommendations in the audit reports and conducting follow-up reviews to ensure prompt implementation.

Shari'ah Supervisory Board

The Shari'ah Supervisory Board implemented the procedure manual for the internal Shari'ah reviews of the Bank's transactions and balances, including the provision of training to an IIB employee for the role of Internal Shari'ah Reviewer. In addition to conducting regular board meetings at least once every quarter, the Shari'ah Supervisory Board performed a full year-end Shari'ah review on all the transactions & deals concluded by the Bank during 2013 to ensure full Shari'ah compliance. An in-house short training program conducted by the Shari'ah Supervisory Board Scholars for all Bank staff was introduced during 2013.

Project Summary

In 2006, IIB acquired a 90% stake in a portfolio of commercial real estate properties in France comprising five office buildings located in Paris and one warehouse in Saint Quentin Fallavier, Lyon at a total cost of approximately Euro 81.3 million.

IIB acquired the portfolio in partnership with a renowned asset manager who owns the balance of 10% and has extensive experience in the structuring and managing of Sharia'ah compliant real estate investments in Europe.

Spotlight on the Project

In 2013, despite the persisting challenges faced by the Eurozone, IIB with the support of the asset manager concluded the sale of two of five commercial real estate properties as well as the warehouse. These assets were purchased by a Canadian Real Estate Investment Trust for a gross consideration of approximately EUR 57.9 million.

The two commercial properties had an occupancy rate of 93% and 100% respectively with long term leases with the tenants. The high occupancy rates coupled with the fact that heavy capital expenditure ('capex') had been incurred to improve the condition of the properties in previous years, resulted in successful completion of the sale at attractive prices relative to current unfavorable market conditions. The sale proceeds from two commercial properties were utilized to pay off the outstanding debt and other outstanding liabilities and balance was distributed to investors as capital repayment.

Project Overview

The Sarajevo City Centre Project is a partnership between IIB and Saudi-based business group Al Shiddi Group, specialists in construction, and is shortly due for placement.

The project has major competitive advantages being the first of its kind. It is a complete hybrid complex in Sarajevo, the capital of Bosnia & Herzegovina (Eastern Europe) and located in the main commercial and administrative hub of the city. The Sarajevo City Center (SCC) project comprises of four separate yet complementary functional areas: five star hotel, commercial office space, shopping mall, entertainment complex and a parking garage that will service the whole complex.

The construction of the project has gained significant momentum and reached advanced stages, with the shopping mall having its soft opening to the public on March 20, 2014. At the time of the soft opening approximately 87% of the total lease space was signed. Construction work is in progress on the commercial tower and expected completion is Q2 2014. The hotel is expected to be opened by Q4 2014. Subject to market conditions, IIB believe that the investment will be ready for placement with select investors during the Q1 of 2015, when the value of the investment will be significantly enhanced after the opening of the commercial and hotel towers, and when investor sentiment is expected to improve.

Spotlight on Sarajevo City Centre

The Sarajevo City Centre real estate project recently reached 100% completion on the shopping mall and car park, and 80% on the commercial tower. The shopping mall & entertainment complex consist of ground plus four floors with a total constructed area of approximately 49,500 m2, including allocation of both retail and support services areas, with a strong focus on international brands. Wide variety of shops including a hypermarket, electronics, fashion & footwear, services and so on will be present at the mall. The third and fourth floors are dedicated to the food court and entertainment, making it the only dedicated Family Entertainment Center in Bosnia & Herzegovina. The gaming arcade alone is almost 4,000 m2.

The luxury hotel will have 224 rooms and a total constructed area of approximately 21,000 m2 and will be operated by a recognized international hotel operator. The commercial tower will provide access to business premises of various sizes and purposes, and can be accessed from three entrances. The main entrance leads from the main square, which is directly facing the BiH Parliament and Government buildings located directly adjacent to the Sarajevo City Center complex, and has approximately 6,500 m2 of constructed area.

The parking area is designed with over 1,100 parking spaces and is organized on four underground levels. Parking lots are personalized by category of visitors, meaning that lots for mothers and children, and ladies are designed around the cores with elevators and staircases. Each level is individualized by characteristic pastel color sets and free arranged pattern of lighting systems.

Fareeda Case Study

Project Summary

The fund was successfully launched and closed in 2012 and IIB raised SAR 101 million from GCC investors and institutions. The Al Fareeda Residential Fund is a Shari'ah compliant closed-ended fund established in accordance with the Investment Funds Regulations issued by the Capital Market Authority (CMA) in Saudi Arabia.

The Alfareeda Residential project comprises the development and sale of middle income housing on 1.1 million square meters of land located 20 km north of Jeddah in Dhahban. Al Fareeda aims to create an advanced residential environment with integrated services that meet requirements and affordability of Saudi nationals. The project consists of 1,756 villas divided into four distinct Zones, with a total project value of approximately SAR 2.6 billion.

Project Highlights

1. **Comprehensive Project Offerings:** The Project, upon completion, provides all necessary facilities including retail outlets, as well as a wide range of community facilities comprising mosques, schools, community centers, health centers and recreational spaces. Thus, the overall project is well positioned to meet the expectations of middle-income Saudis for an advanced residential environment with integrated services.

2. **Excellent Location:** The project is only a 15 minute drive from King Abdul Aziz International Airport, and 20 minutes from landmark Hera Street.

3. **Robust Project Progress:** During 2013, significant progress was made on the project. However a development hiatus did occur resulting from a tightening of labour laws. Construction of the Zone 1 and Zone 2 villas are 91% and 92% respectively by December 2013. In Q1 2014, approximately 45 villas from first batch of Zone 1 villas have been handed over to the end users. The remaining villas handling is in progress. Zone 2 villas are planned to be handed over in Q3 2014. Moreover, Zone 3 villas of approximately 76% have been sold and construction is in progress with planned time for handing over is in Q2 2015.

Spotlight on the Project Company

Alfareeda Residential Fund has acquired a 100% equity stake in Ewaan Al Fareeda LLC, a Saudi Arabian real estate project development company for the purpose of developing a landmark residential community for middle income Saudi nationals, with expected returns being realized through the sale of residential units over the duration of the project.

Board members of Alfareeda Residential comprise of the representatives from the shareholders who are investors in the fund with 32.74%; the Islamic Corporation for the Development of the Private Sector (ICD) with 33.3%; Ewaan Global Residential Company (EGRC) with 15.83% and Istethmary Al Fareeda (IAF) with 18.13%.

During 2013, the Bank recorded a net profit of US$ 6.0 million, compared to a net profit of US$ 8.2 million during 2012. Total assets at year-end 2013 aggregated to US$ 174.8 million and included cash and cash equivalents of US$ 37.9 million. Total equity at 31 December 2013 was US$ 171.7 million. Assets under management at the end of 2013 amounted to US$ 323.7 million.

The Capital Adequacy Ratio at 31 December 2013 was 48.6 % versus the minimum permitted by the Central Bank of Bahrain of 12%. The significantly higher level of capital adequacy is consistent with the strategy of prudence and provides ample scope for future investments from a regulatory standpoint.

Consolidated Statement of Income

Income

The Bank's total income for 2013 was US$ 10.7 million compared with US$ 14.2 million in 2012. Investment banking fees in 2013 of US$ 4.9 million (2012: US$ 3.2 million) were generated from a restructuring fee relating to an existing investment (US$ 3.9 million), placement fees of US$ 0.3 million plus management fees earned on prior year transactions (US$ 0.7 million).

Income on due from financial and other institutions was US$ 2.3 million versus US$ 1.2 million in 2012, being the profit on commodity murabaha and wakala deposits with well-capitalised regional banks, together with a release of suspended prior-year profit on the part-repayment of a murabaha financing to a IIB-managed investee company.

Gain on sale of investments of US$ 1.2 million mainly arose from the sale of two investments during 2013, one a listed UAE equity holding and the other comprised units in an unlisted residential fund in the Kingdom of Saudi Arabia. Gain on conversion of associate to investment at fair value through equity in 2012 of US$ 8.7 million (2013: nil) was related to the sale by this associate of its net assets and liabilities to a real estate fund in Saudi Arabia and resultant conversion from an associate to an available-for-sale investment.

Income from investment carried at amortised cost of US$ 0.9 million (2012: nil) was earned on an investment in an aircraft lease with a leading regional airline that was acquired at the end of 2012. Reversal of unrealized fair value losses on investment in real estate of US$ 0.8 million plus income from investment in real estate of US$ 0.4 million were both derived from a residential tower purchased in April 2010 and located in Manama, Kingdom of Bahrain, giving a combined return on original cost for 2013 of 22.2%.

Dividend income in 2013 of US$ 0.19 million (2012: US$ 0.14 million) was received from both IIB's investee companies and MENA-listed equities. Other income of US$ 0.04 million mainly arose from gains on the sale of surplus equipment.

Share of Profit from Associates

The 2013 total of US$ 0.4 million was from the associate companies located in Bosnia, Saudi Arabia and the UAE that are all in the real estate development sector, plus share of profit from an associate in the fast food sector based in Saudi Arabia. 2012's total of US$ 4.0 million included a non-recurring gain from a partial sale of assets owned by a former associate in Saudi Arabia.

Expenses

Total expenses in 2013 aggregated to US$ 6.1 million, a reduction of US$ 0.3 million (4.7%) compared to 2012. Deal acquisition expenses were higher than in 2012 from due diligence and other acquisition costs (travel, legal and professional fees) for actual and proposed investment purchases during 2013 associated with IIB's "pipeline" of potential deals. Selling expenses were lower as a result of reduced transaction-related costs as fewer investments were sold in 2013. Asset management costs include costs relating to the structuring and sale of investments. Reductions were achieved in 2013 in depreciation and IT expenses as compared with the previous year, but sponsorship increased due to the Bank's participation at the World Islamic Banking Conference in Manama, Bahrain in December 2013 that included the celebration of the Bank's 10th anniversary.

Impairment and Provisions

IIB booked unrealised impairment losses on investments in 2013 of US$ 0.6 million in the consolidated statement of income (2012: US$ 2.9 million) in respect of three quoted investments and two unquoted investments. Provisions on receivables for 2013 of credit US$ 1.3 million (2012: expense US$ 0.7 million) was represented by a release of US$ 1.8 million following the part repayment of a murabaha financing to an investee company, less a specific provision against a corporate murabaha receivable of US$ 0.5 million (2012: nil).

Consolidated Statement of Financial Position

Assets

Cash and cash equivalents at year-end 2013 were US$ 37.9 million and represented 21.7% of total assets. These were cash, balances with banks and due from financial institutions comprising commodity murabaha and wakala placements with financially-sound banks rated BBB+ or higher and located in the GCC region with a maximum maturity period of 90 days. With the addition of investments in quoted equities, liquid and semi-liquid assets aggregated to US$ 46.4 million or 26.5% of total assets.

Receivables at 31 December 2013 of US$ 11.8 million (2012: US$ 22.1 million) mainly comprised net murabaha financings to two IIB-managed unquoted entities to assist with working capital requirements (US$ 1.9 million) and to part-purchase an investment (US$ 0.5 million); a convertible loan to an associate of US$ 3.9 million; a structuring fee plus management fees receivable from IIB-managed investee companies (net of provisions) that totaled US$ 4.6 million; and other receivables from IIB-managed companies of US$ 0.9 million.

Total investments at 2013 year end increased by US$ 17.2 million (16.1%) since 31 December 2012 to US$ 124.1 million. The Bank made three investments in 2013 costing US$ 26.3 million, one new investment in the USA which is classified as a Musharaka financing and two further investments in existing holdings located in Saudi Arabia and the UK. There were five sales and partial exits with a book value aggregating to US$ 16.2 million, mainly comprising the sale of units in a real estate fund in Saudi Arabia and shares in a listed stock in UAE. In addition, there were net unrealised fair value gains in 2013 of US$ 3.8 million. A US$ 0.5 million general provision has been retained as a measure of prudence against possible future losses, representing approximately 1% of the quoted and unquoted investments that total US$ 48.5 million.

Included in total investments are the Bank's investment in associates which were US$ 45.4 million at year end 2013 and comprised four investments - three are located in the GCC region and one is located in Europe. Total assets under management, computed on the year end valuation of the equity invested by the Bank and its investors, decreased slightly to US$ 323.7 million from US$ 324.3 million last year, mainly due to a part exit from a French portfolio and the sale of investments in Saudi Arabia and the UAE.

Liabilities and Equity

The Bank funds its activities wholly from its own equity and has had no borrowings since January 2007. Other liabilities of US$ 3.1 million (2012: US$ 3.4 million) mainly comprised accrued expenses, funds held on a temporary basis on behalf of an associate and payables to suppliers.

Total equity increased by US$ 9.8 million to US$ 171.7 million at the 2013 year end. The increase comprised of the net profit for the year of US$ 6.0 million plus the net gain from movements in fair values and foreign currency translation in 2013 on investments of US$ 3.8 million booked directly in equity.

1. Capital Base

The Bank's capital base comprises of Tier 1 capital which includes nominal share capital, share premium, statutory reserve, accumulated deficit, current year net loss, unrealised gross losses arising from fair valuing equity securities less the cost of treasury shares, plus Tier 2 capital which consists of part of the unrealised gains arising from fair valuing equities less the aggregate amounts that exceed the regulatory large exposures limit.

The issued and paid up share capital of the Bank was US$ 109,996 thousand at 31 December 2012 and 2013, comprising of 109,996 thousand shares of US$ 1 each.

The Bank's regulatory capital base of US$ 147.2 million as at 31 December 2013 (31 December 2012: US$ 127.5 million) comprised Tier 1 capital of US$ 155.9 million (31 December 2012: US$ 143.6 million) and Tier 2 capital of negative US$ 8.7 million (31 December 2012: negative US$ 16.2 million) as disclosed in note 21 of the annual consolidated financial statements.

There have been no changes to the capital structures during the year.

There are no restrictions in distributing profits by the subsidiaries of the Bank. However, such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital.

2. Capital Adequacy

The purpose of capital management is to ensure the efficient utilization of capital in relation to business requirements and growth, risk profile and shareholders' returns. But the primary concern is capital protection from loss.

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 issue ordinary shares, buy back ordinary shares or adjust the amount of dividend payment to shareholders. No changes have been made in the objectives, policies and processes from the previous years.

As compared to the minimum capital adequacy ratio ("CAR") of 12% prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at year-end 2013 was 48.56% (2012: 48.18%), being over four times the minimum ratio of 12%.

The ratio is derived from guidelines issued by CBB which are compatible with the "Basel II" Accord issued by the Basel Committee on Banking Supervision. The CAR measures total qualifying capital held by an institution in relation to its risk-weighted assets. In common with other banks incorporated in Bahrain, the Bank commenced the ongoing measurement of its capital adequacy under the "Basel II" rules from 1 January 2008. Please refer to note 21 Capital Management in the attached annual consolidated financial statements.

Given the Capital Adequacy Ratio of the Bank as at 31 December 2013, it has ample capacity to record additional investments and still meet the minimum capital adequacy requirement of 12%. However, it plans to continue its conservative approach to liquidity and only modest investment purchases are planned for 2014.

3. Profile of Risk-weighted Assets and Capital Charge

The Bank has adopted the "Standardised" approach for credit risk and market risk and "Basic Indicator" approach for operational risk for regulatory reporting purposes. IIB's risk-weighted capital requirement for credit, market and operational risks as at 31 December 2013 are as follows:

4. Credit risk weighted assets

The descriptions of the counterparty classes along with the risk weights to be used to derive the risk weighted assets are:

Cash and balances with banks and due from financial institutions

Cash has a nil risk weighting. Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies but short term claims on locally incorporated banks (whether rated or unrated) are assigned a risk weighting of 20% where such claims have an original maturity of three months or less and are denominated and funded in either Bahraini Dinars or US Dollars. Claims on banks outside Bahrain with a credit rating of A+ to A- are assigned a 50% risk weighting.

Receivables

Receivables have a risk weighting of 100%. These include funding provided to an unrated entity on a corporate murabaha basis that is repayable within 12 months.

Investments including assets held for sale and investment in associate

Investments listed on a recognised stock exchange attract a risk weighting of 100%. Unlisted investments have a 150% risk weighting and holdings of real estate are assigned a risk weighting of 200%.

Credit exposure and risk weighted assets considered for Capital Adequacy Ratio calculations comprising of banking book exposures are as follows:

	Gross credit exposure US$ '000	Credit risk weighted assets US$ '000	Capital requirement US$ '000
As at 31 December 2013			
Claims on banks murabaha placements	9,950	2,181	273
Due from investee companies - murabaha	27,615	27,615	3,452
Equity Investments publicly held	6,604	6,604	826
Equity Investments privately held	33,238	49,857	6,232
Holding of real estate	66,442	132,884	16,611
Other assets	6,451	6,451	806
	150,300	**225,592**	**28,200**
As of 31 December 2012			
Claims on banks murabaha placements	17,565	7,393	924
Due from investee companies - murabaha	18,908	18,908	2,364
Equity Investments publicly held	8,184	8,184	1,023
Equity Investments privately held	29,941	44,912	5,614
Holding of real estate	40,607	81,212	10,152
Other assets	15,643	15,643	1,955
	130,848	**176,252**	**22,032**

4. Credit risk weighted assets (continued)

The gross credit exposure is all funded exposure and is entirely funded by capital. The Bank holds no cash collateral or eligible guarantees to mitigate credit risk. Since the period end position is representative of the risk positions of the Bank during the year, average gross exposures are not disclosed separately.

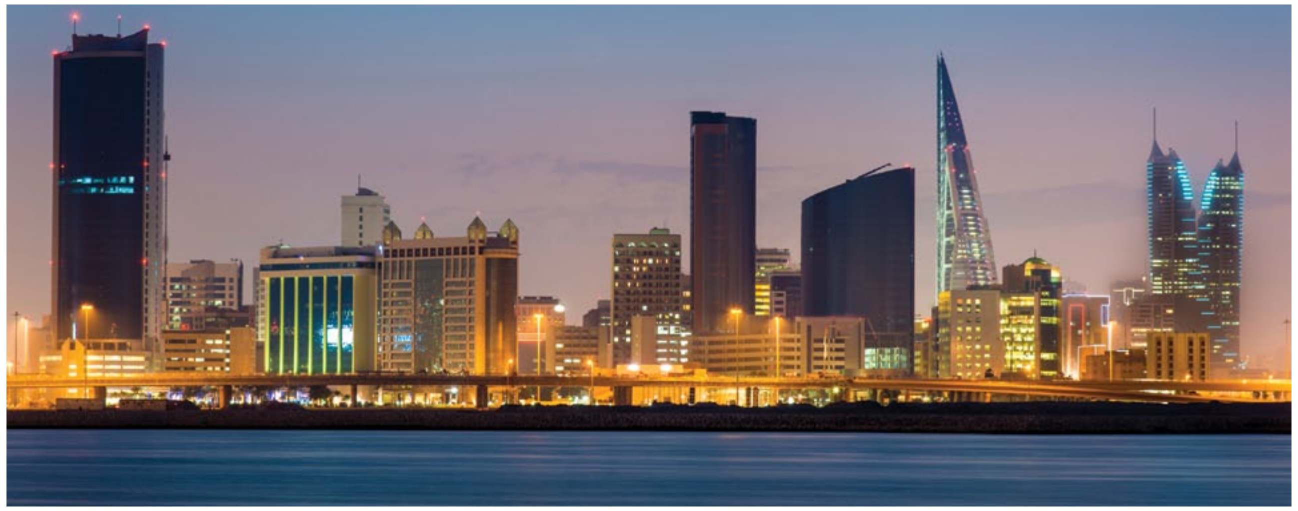
The Bank holds all its investments with the expectation of capital gains. The realised gains net of losses arising from investment sales or liquidations or buy back of shares by investee companies during the year ended 31 December 2013 were US$ 1.19 million (2012: US$ 0.54 million). The total net unrealised gains recognised in equity in 2013 aggregated to US$ 3.184 million (2012: US$ 0.151 million).

Risk concentrations of the maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the balance sheet components. There is no unfunded exposure and no significant use of master netting and collateral agreements.

	Gross credit exposure 2013 US$ '000	Gross credit exposure 2012 US$ '000
Credit risk		
Murabaha with financial institutions	36,012	28,089
Murabaha with corporates	2,410	7,192
Musharaka financing	25,144	-
Investments	98,996	106,907
Other assets	12,192	23,086
Total Credit Risk Exposure	**174,754**	**165,274**

The above disclosure is considered to be reasonably representative of the level of credit risk of the Bank during the year, as there has been no significant fluctuation in the credit risk assets during the year ended 31 December 2013.



4.1 Credit risk weighted assets (continued)

4.1 Distribution of the gross funded exposures

(a) Geographical distribution of the gross funded exposures

The following table summarises the geographical distribution of exposure broken down into significant areas by major types of credit exposure:

	Murabaha with financial institutions US$ '000	Murabaha with corporates US$ '000	Investments US$ '000	Other assets US$ '000	Total US$ '000
As at 31 December 2013					
Geographical region:					
Bahrain	36,012	474	8,278	2,861	47,625
Europe	-	1,424	34,393	4,618	40,435
North America	-	513	25,144	3	25,660
Other GCC countries	-	-	54,545	4,305	58,850
Africa	-	-	1,267	136	1,403
Asia	-	-	513	268	781
	36,012	**2,411**	**124,140**	**12,191**	**174,754**
As at 31 December 2012					
Geographical region:					
Bahrain	17,965	1,492	16,733	9,367	45,557
Europe	-	5,700	32,903	861	39,464
Other GCC countries	10,124	-	55,318	12,568	78,010
Africa	-	-	1,437	65	1,502
Asia	-	-	516	225	741
	28,089	**7,192**	**106,907**	**23,086**	**165,274**

4. Credit risk weighted assets (continued)

4.1 Distribution of the gross funded exposures (continued)

(b) Industrial distribution of the gross funded exposures

The following table summarises the industrial distribution of funded exposure broken down by major types of credit exposure:

	Murabaha with financial institutions US$ '000	Murabaha with corporates US$ '000	Investments US$ '000	Other assets US$ '000	Total US$ '000
As at 31 December 2013					
Industry sector:					
Real estate-development	-	-	47,872	4,011	51,883
Real estate-income Generating	-	1,937	34,269	685	36,891
Banking and financial institutions	36,012	-	1,204	2,153	39,369
Manufacturing	-	473	9,874	245	10,592
Automotive	-	-	1,267	136	1,403
Others	-	-	29,654	4,962	34,616
	36,012	2,410	124,140	12,192	174,754
As at 31 December 2012					
Industry sector:					
Real estate-development	-	-	56,543	12,540	69,083
Real estate-income generating	-	5,700	8,878	683	15,261
Banking and financial institutions	28,089	-	3,248	7,683	39,020
Insurance	-	-	-	131	131
Manufacturing	-	1,492	8,608	1,216	11,316
Automotive	-	-	1,437	65	1,502
Others	-	-	28,193	768	28,961
	28,089	7,192	106,907	23,086	165,274

4.2 Single counterparty exposures

Protection against excessive credit risk is through country, industry and counterparty threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty exceeding 15% of the capital base.

4. Credit risk weighted assets (continued)

4.2 Single counterparty exposures (continued)

The Bank's exposure in excess of 15% of the obligor limit to individual counterparties based on regulatory "total available capital" at 31 December 2013 is shown below:

	2013			2012		
	C.A.R Limit (15%) US$ '000	On balance sheet exposure US$ '000	Capital deduction US$ '000	C.A.R Limit (15%) US$ '000	On balance sheet exposure US$ '000	Capital deduction US$ '000
Counterparty A	25,350	42,816	(17,466)	24,166	57,029	(32,863)
Counterparty B	25,350	29,347	(3,997)	24,166	24,956	(790)
Counterparty C	25,350	25,657	(307)	-	-	-
			(21,770)			(33,653)

Capital deduction is equally deducted from Tier 1 and Tier 2.

There were no off-balance sheet exposures (2012:nil)

4.3 Aging of financial assets

	Neither past due nor impaired US$ ' 000	Past due but not impaired US$ '000	Past due and individually impaired US$ '000	Total US$ '000
As at 31 December 2013				
Balances with banks	1,883	-	-	1,883
Due from financial institutions	36,012	-	-	36,012
Receivables	9,837	-	1,978	11,815
Other assets	612	-	-	612
	48,344	-	1,978	50,322
As at 31 December 2012				
Balances with banks	7,442	-	-	7,442
Due from financial institutions	28,089	-	-	28,089
Receivables	13,815	-	8,254	22,069
Other assets	110	-	-	110
	49,456	-	8,254	57,710

Past due and individually impaired are overdues of more than 1 year but less than 3 years. Past due and individually impaired are exposures to manufacturing, real estate and banking and financial institutions located in the Kingdom of Bahrain, Europe and Asia amounting to US$ 382 thousand, US$ 1,425 thousand and US$ 171 thousand respectively.

5. Market risk

The Bank's capital charge in respect of market risk in accordance with the Standardized Approach is as follows:

	2013		2012	
	Risk weighted assets US$ '000	Period end capital requirement US$ '000	Risk weighted assets US$ '000	Period end capital requirement US$ '000
Foreign exchange risk	42,150	5,269	38,925	4,866

The Bank has no exposure to profit rate risk, equity position risk or options risk, as the Bank does not maintain any trading book.

Positions are monitored on a quarterly basis to ensure they are maintained within established limits. The Bank's exposure in foreign currencies consists of exposures from banking activities, as it does not have a trading book in foreign currencies.

	2013 Assets/ liabilities net US$ '000	2012 Assets/ liabilities Net US$ '000
Euro	34,606	32,434
Pound Sterling	5,764	4,527
Others	1,780	1,964
Market risk weighted exposure	42,150	38,925

6. Operational risk

In accordance with the Basic Indicator approach methodology, operational risk and related capital requirements are as follows:

	Gross income		
	2013 US$ '000	2012 US$ '000	2008 US$ '000
Total gross income	12,084	14,569	30,122

	2013 US$ '000	2012 US$ '000
Indicator of operational risk		
Average gross income multiply by number of years	18,925	26,322
Eligible portion for the purpose of calculation	15%	15%
Multiplier	12.5	12.5
Operational risk weighted exposure	35,484	49,354
Capital requirement (12.5%)	4,436	6,169

The operational risk has been calculated by the Bank by considering the total gross income of the years in which it has earned gross profits. Since, the Bank suffered gross losses during the years 2009 to 2011, therefore, those have been excluded from the calculation of operational risk.

The Board of Directors is charged with the overall responsibility for risk management. It approves and periodically reviews the risk policies and strategy of the Bank. It is assisted by the Executive Committee, Management Committee, Investment Committee and Audit & Corporate Governance Committee.

The Risk Management Committee has the overall responsibility for establishing the risk framework and strategy, principles, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. The Risk Management Department is responsible for implementing the appropriate risk management strategy and methodology for the Bank. It ensures that risks do not exceed the approved limits. The Risk Management Department also carries out internal capital adequacy assessments to determine the adequacy of overall capital in relation to the Bank's risk profile and formulates the strategy for maintaining the capital levels. The capital provides the Bank with a cushion to absorb losses without endangering client funds.

The various risks to which the Bank is exposed and the principal risk management techniques are summarized below. Further information on risk management is contained in Note 20 to the annual consolidated financial statements.

1. Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The principle business of the Bank is Investment Banking. The process of managing the credit risk starts at the origination of the investment activity and compliance with investment criteria, guidelines and policies. The Bank manages credit risk by setting limits for individual counterparties, countries, regions and industry sectors. Limits are authorized by the Board of Directors based on management's recommendations, monitored by the Risk Management Department and reviewed regularly by the Risk Management Committee. Details of maximum exposure to credit risk by balance sheet components, geographical region, industry sector and credit rating are contained in note 20.2 to the annual consolidated financial statements in accordance with the requirements of International Financial Reporting Standard (IFRS) 7.

Information disclosed in the annual report in respect of geographical region, industry sector and credit rating is prepared in accordance with the requirement of Prudential Information Report for Islamic Banks as at 31 December 2013. The disclosures are considered to be reasonably representative of the position during 2013 as there has been no significant fluctuation in the level of credit risk assets.

1.1. Credit risk concentrations and thresholds

Protection against excessive credit risk is through country, industry and counterparty threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty exceeding 15% of the capital base. Individual exposures are described at Capital Structure section 1.4.

1.2. Excessive risk concentration

Bank policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio.

1.3 Geographical distribution of exposures

The geographical distribution of exposures, impaired assets and the related impairment provisions are analyzed as follows:

1. Credit Risk (continued)

1.3. Geographical distribution of exposures (continued)

	31 December 2013			31 December 2012		
	Gross funded credit exposures US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000	Gross funded credit exposures US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000
Geographical region:						
Bahrain	47,625	6,909	3,321	45,557	3,973	1,590
Europe	40,435	7,634	1,836	39,464	10,210	4,510
North America	25,660	-	-	-	-	-
Other GCC countries	58,850	9,383	500	78,010	-	-
Africa	1,403	1,267	-	1,502	-	-
Asia	781	755	71	741	242	71
	174,754	25,948	5,728	165,274	14,425	6,171

The impaired security is reflected at fair value based on the relevant closing stock market price as at 31 December 2013. The criteria used to allocate exposures to particular geographical areas is the country to which the funds were transferred.

1.4. Industrial sector analysis of the exposures

The industrial sector analysis of exposures, impaired assets and the related impairment provisions is as follows:

	31 December 2013			31 December 2012		
	Gross funded credit exposures US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000	Gross funded credit exposures US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000
Industry sector:						
Real estate-development	51,883	2,444	500	69,083	-	-
Real estate-income generating	36,891	6,945	1,836	15,261	10,210	4,510
Banking and financial institutions	39,369	1,445	71	39,020	242	71
Insurance	-	-	-	131	-	-
Manufacturing	10,592	13,847	3,321	11,316	3,973	1,590
Automotive	1,403	1,267	-	1,502	-	-
Others	34,616	-	-	28,961	-	-
	174,754	25,948	5,728	165,274	14,425	6,171

The Bank has no unfunded exposures as at 31 December 2013.

1. Credit Risk (continued)

1.5. Large exposures

The Bank follows the CBB's guidelines with respect to definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

The following are the large exposures of US$ 1,000,000 and over as of 31 December 2013:

BANKS	Large exposure (banks) US$' 000	% of exposure to equity	NON-BANKS	Large exposure (non banks) US$ '000	% of exposure to equity
Bank A	8,506	5.78%	Counterparty A	29,347	19.93%
Bank B	1,243	0.84%	Counterparty B	27,971	19.00%
			Counterparty C	25,657	17.43%
			Counterparty D	15,206	10.33%
			Counterparty E	14,271	9.69%
			Counterparty F	10,140	6.89%
			Counterparty G	6,529	4.43%
			Counterparty H	5,172	3.51%
			Counterparty I	4,948	3.36%
			Counterparty J	4,288	2.91%
			Counterparty K	4,027	2.74%
			Counterparty L	3,889	2.64%
			Counterparty M	2,820	1.92%
			Counterparty N	2,072	1.41%
			Counterparty O	1,425	0.97%
			Counterparty P	1,050	0.71%

1.6. Exposure by external credit rating

The Bank uses ratings issued by Standard & Poor's, Moody's, Capital Intelligence and Fitch to derive the risk weightings under the CBB's Basel 2 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes. The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures:

	31 December 2013			31 December 2012		
	Gross credit exposure US$ '000	Rated exposure US$ '000	Unrated exposure US$ '000	Gross credit exposure US$ '000	Rated exposure US$ '000	Unrated exposure US$ '000
Cash and claims on banks	37,897	27,901	9,996	28,089	13,537	14,552
Equity portfolio	124,140	-	124,140	106,907	-	106,907
Other exposures	12,717	-	12,717	30,278	-	30,278
	174,754	27,901	146,853	165,274	13,537	151,737

1. Credit Risk (continued)

1.7 Intra-group transactions including exposures to related parties

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are on an arm's length basis and are identical to those applicable to transactions with all other parties. Exposures as at 31 December 2013 are as follows:

	2013	2012
	Gross credit exposure US$ '000	Gross credit exposure US$ '000
Exposures to related parties:		
Claims on associates	45,352	43,934
Claims on investee companies	7,922	22,066
	53,274	66,000
Liabilities to related parties:		
Deposit payable to shareholders	-	1,448

1.8. Impairment of assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Evidence of impairment may include indications that the investee company is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

Impairment is determined as follows:

a) for assets carried at amortised cost, impairment is based on the present value of estimated future cash flows discounted at the original effective profit rate;

b) for assets carried at fair value, impairment is the difference between cost and fair value; and

c) for assets carried at cost, impairment is based on the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

1.9. Impairment losses on financial assets

On a quarterly basis, the Bank assesses whether any provision for impairment should be recorded in the statement of income. Considerable judgement 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 necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ resulting in future changes in such provisions.

2. Liquidity Risk and Funding Management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under both normal and stress circumstances. The Assets & Liabilities Committee (ALCO) monitors future cash flows and liquidity required for working capital and investment acquisition. The Bank's investments generally have a long-term maturity and hence, as a matter of policy, the long-term investments are funded from IIB's own capital. The Bank maintains significant cash and cash equivalent balances and also has access to geographically diversified funding sources, although no deposit liabilities or long-term funding by external counterparties were booked during 2013. The ratio of liquid assets (defined as cash, balances with banks, due from financial institutions and quoted investments) to total assets at 31 December 2013 is 26.5% (2012: 26.5%). Details of liquidity risk and funding management are contained in Note 20.3 to the annual consolidated financial statements.

The table below shows an analysis of financial assets and liabilities as at 31 December 2013 analysed according to when they are expected to be recovered or settled.

	Within 1 month US$ '000	1-3 months US$ '000	3-6 months US$ '000	6-12 months US$ '000	Total within 12 months US$ '000	1-5 years US$ '000	Total US$ '000
ASSETS							
Cash and claims on banks	28,342	9,555	-	-	37,897	-	37,897
Receivables	749	4,109	1,075	122	6,055	5,760	11,815
Investment in quoted equities	-	-	-	-	-	8,487	8,487
Investment in unquoted equities	-	-	-	-	-	39,985	39,985
Investment property	-	-	-	-	-	5,172	5,172
Investment in associates	-	-	-	-	-	45,352	45,352
Musharaka financing	-	-	-	-	-	25,144	25,144
Other assets	208	340	24	37	609	293	902
Total assets	**29,299**	**14,004**	**1,099**	**159**	**44,561**	**130,193**	**174,754**
LIABILITIES							
Other liabilities	253	177	615	1,534	2,579	493	3,072
Total liabilities	253	177	615	1,534	2,579	493	3,072
Net gap	**29,046**	**13,827**	**484**	**(1,375)**	**41,982**	**129,700**	**171,682**

2. Liquidity Risk and Funding Management (continued)

The table below shows an analysis of financial assets and liabilities as at 31 December 2012 analysed according to when they are expected to be recovered or settled.

	Within 1 month US$ '000	1-3 months US$ '000	3-6 months US$ '000	6-12 months US$ '000	Total within 12 months US$ '000	1-5 years US$ '000	Total US$ '000
ASSETS							
Cash and claims on banks	35,532	-	-	-	35,532	-	35,532
Receivables	12,287	82	5,862	1,523	19,754	2,315	22,069
Investment in quoted equities	-	-	-	-	-	8,336	8,336
Investment in unquoted equities	-	-	-	-	-	50,263	50,263
Investment property	-	-	-	-	-	4,374	4,374
Investment in associates	-	-	-	-	-	43,934	43,934
Other assets	45	52	5	2	104	662	766
Total assets	47,864	134	5,867	1,525	55,390	109,884	165,274
LIABILITIES							
Other liabilities	247	1,517	1,219	-	2,983	412	3,395
Total liabilities	247	1,517	1,219	-	2,983	412	3,395
Net gap	47,617	(1,383)	4,648	1,525	52,407	109,472	161,879

3. Market Risk

Market risk is the risk to earnings resulting from adverse movements in foreign currency rates, profit rate yield curves and equity prices. The Bank has no significant concentration of market risk and does not have a significant trading portfolio of equities or foreign currencies. It is exposed to market risk from currency rate fluctuations on its foreign currency denominated assets and liabilities.

To enable effective monitoring and managing of exposures, all market risks associated with the Bank's investments are managed and monitored using basic sensitivity analyses reflecting such factors as volatility, liquidity and concentration. The investments in unquoted equities, comprising the Bank's retentions in its investment offerings and selective participations in private placements, are generally illiquid without a ready market to effect an exit.

Note 20.4 to the annual consolidated financial statements details the Bank's exposure to equity price risk, foreign currency risk and profit rate risk.

4. Operational Risk

Operational Risk is the risk of direct or indirect loss resulting from breaches in internal controls, processing errors, inadequate information systems, fraud, or external events. Its impact can be in the form of a financial loss, loss of reputation or loss of competitive position. Operational risk is inherent in all business activities and can never be eliminated entirely but can only be mitigated or minimized. The Bank minimizes its exposure to such risk by ensuring that appropriate management control mechanisms, infrastructure, systems, internal controls and human resources are in place. IIB has

4. Operational Risk (continued)

developed an operational risk framework, reviewed by experienced external consultants, that provides for identification, measurement, monitoring and control of potential risk events. A number of processes are used throughout the Bank including risk and control self-assessments, key risk indicators (KRIs), event management, new product review / approval procedures and business continuity plans.

In addition, Internal Audit Department issues regular reports including an annual organization-wide risk assessment and the external auditors make recommendations on internal controls and processes. Business units are responsible for managing the operational risks relevant to their activities, supported by a disaster recovery program covering computer backup, data recovery and business continuity.

Head of Risk Management maintains a risk register for capturing loss event data and events. On a quarterly basis matters logged are discussed with the departmental heads. During the current year no significant loss events occurred.

5. Legal Risk

Legal Risk is the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise adversely affect the operations of the Bank. It has professional service arrangements with well-established local and international law firms. The policies and procedures of the Bank ensure that investments are made, funds are transferred, contracts are entered into, legal agreements are signed and any other binding arrangement is executed only after a rigorous legal due diligence has been performed either by the Legal and Compliance Departments or external legal counsel. The Bank fully complied with all applicable laws and regulations during the year ended 31 December 2013.

The Bank has the following subsidiaries, namely:

Name of the subsidiary	Located in	Currency		2013	2012
Istethmary Petrochemicals Holding Co. B.S.C. (c)	Kingdom of Bahrain	SAR SAR	Net assets Net profit	112,415,495 2,648,664	110,543,651 50,503,443
Istethmary Sarajevo City Centre-I Ltd.	Cayman Islands	Euro	Net assets Net loss	19,000,312 (376,725)	18,841,618 (240,156)
Bahrain Bunny Shares and Securities W.L.L.	Kingdom of Bahrain	SAR SAR	Net assets Net profit	57,204,074 3,338,599	53,865,475 -

The Bank is not exposed to currency risk in the case of investment in Istethmary Petrochemicals Holding Co. B.S.C. (c) and Bahrain Bunny Shares and Securities W.L.L. as these are denominated in SAR which is pegged to US$.

The effect of 10% change in foreign exchange rate on the Bank's statement of equity in respect of Istethmary Sarajevo City Centre-I Ltd. amounts to US$ 2,616 thousand (2012: US$ 2,490 thousand) and on the Bank's statement of income amounts to US$ 50 thousand (2012: US$ 32 thousand), which has also been included in sensitivity analysis shown in note 20.4 to the annual consolidated financial statements.

The Bank does not make use of any foreign currency hedges to hedge against the movement in foreign exchange rates of investment in foreign subsidiaries.

Organisation Structure

Chief Executive Officer
Aabed Al- Zeera,
Chief Executive Officer (CEO)

Anne Uson,
Executive Secretary

Direct Investment & Business Development
Narayanan Ganapathy, Executive
Executive Director

Fadi Al-Qassim,
Director and Coordinator - Legal Affairs

Atif Naveed,
Principal

Marieta Cano,
Executive Secretary

Investment Placement
Alyas Al-Meftah,
Director

Bashar Al-Shaikh,
Principal

Mona Mahmood Ghuloom,
Coordinator

Bushra A.Hassan Al-Madhi,
Coordinator

Asset Management
Subhash Jalan,
Executive Director

Murtaza Ghulam,
Principal

Sadaf Gill,
Associate

Ruby Castro,
Executive Secretary

Finance and Administration
Michael Ross-McCall,
Chief Financial Officer (CFO)

Augustine Peter,
Director - Finance

Haleema Ebrahim,
Associate - Treasury

Hassan Abbas,
Officer

Hussain Ali Jassim,
General Services Supervisor

Khulood Farhan,
Receptionist & General Secretary

Information Technology
Said Itani,
Head

Sayed Hussein Mahdi,
Associate

Internal Audit
Ali Redha,
Director

Human Resources
Sawsan Al-Ansari,
Consultant

Corporate Communications & PR
Omar Shaheen,
Principal

Compliance
Mohammed Juma Habib,
Associate

Shari'ah Review
Mahmood Al-Qassab,
Coordinator

Shari'ah Supervisory Board Report

On the audited Financial Statements for the year ending December 31, 2013

International Investment Bank

In compliance with the terms of our letter of appointment, we are required to report as follows:

The Shari'ah Supervisory Board ("SSB") was presented with all the investment deals and transactions that were conducted by the International Investment Bank ("Bank") during the course of the year ending December 31, 2013. The SSB reviewed the principles and contracts relating to all these investments and transactions in order to issue an independent opinion on whether the Bank followed the principles of the Islamic Shari'ah, specific fatwas, and guidelines issued by the SSB, where the Bank's management is responsible for ensuring that its operations are carried out in compliance with SSB rulings. Furthermore, the SSB has reviewed the internal review and update reports issued by the Internal Shari'ah Reviewer. The SSB responsibility is to present an independent view of the Bank's operations and to communicate it to the shareholders.

In our opinion:

1. The Bank's contracts, transactions and deals for the year ending December 31, 2013 are in compliance with the rules and principles of the Islamic Shari'ah.

2. The Bank's allocation of profit and charging of losses relating to investment accounts are in compliance with the rules and principles of the Islamic Shari'ah.

3. No earnings have been realized from non-Shari'ah compliant sources during the fiscal year.

4. The Bank's calculation of Zakat is in compliance with the rules and principles of the Islamic Shari'ah and has been calculated as USD 0.010 per share in accordance with the Net Asset Method described in the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards and it is the responsibility of the shareholders to pay their Zakat allocation.

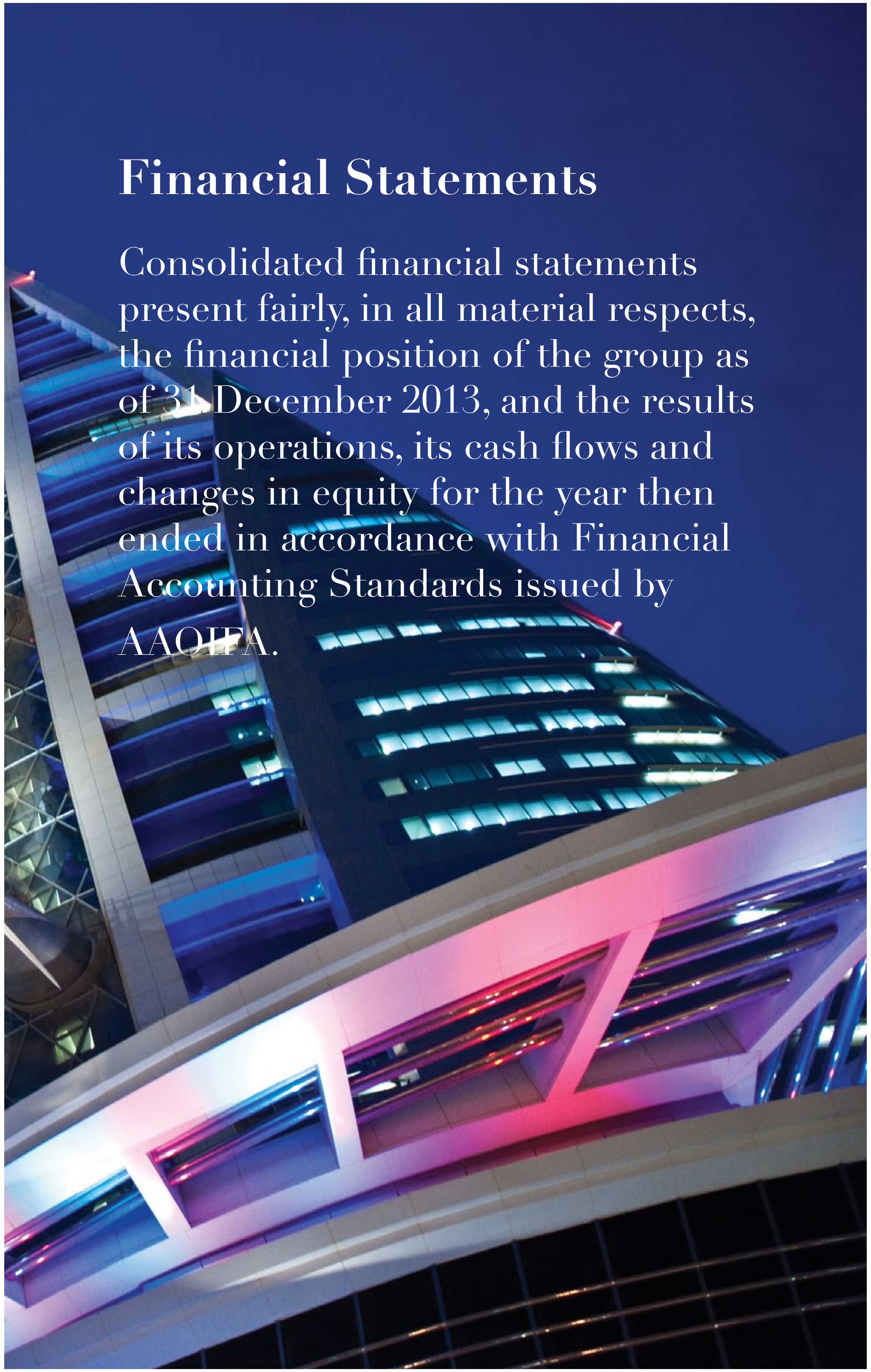
We beseech the Almighty to grant us excellence and success.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sh. Nizam Yabouby
Chairman

Sh. Abdul Nasser Al-Mahmoud
Member

Dr. Osama Bahar
Member



Financial Statements

Consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2013, and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with Financial Accounting Standards issued by AAOIFA.

Independent Auditors' Report to the Shareholders of International Investment Bank B.S.C. (c)

EY
Building a better working world

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Kingdom of Bahrain

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C.R. No. 6700

We have audited the accompanying consolidated statement of financial position of International Investment Bank B.S.C. (c) ["the Bank"] and its subsidiaries [together"the Group"] as of 31 December 2013, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements and the Group'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 consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

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 consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated 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 2013 that might have had a material adverse effect on the business of the Bank or on its consolidated 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.

Ernst & Young

11 March 2014

Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position
At 31 December 2013

	Note	2013 US$ '000	2012 US$ '000
ASSETS			
Cash and balances with banks		1,885	7,443
Due from financial institutions	3	36,012	28,089
Receivables	4	11,815	22,069
Investments	5	48,472	58,599
Investment in real estate	6	5,172	4,374
Musharaka financing	7	25,144	-
Investment in associates	8	45,352	43,934
Equipment		290	656
Other assets		612	110
TOTAL ASSETS		174,754	165,274
LIABILITIES AND EQUITY			
LIABILITIES			
Other liabilities	9	3,072	3,395
TOTAL LIABILITIES		3,072	3,395
OWNERS' EQUITY			
Share capital	10	109,996	109,996
Treasury shares	10	(6,798)	(6,798)
Share premium		72,050	72,050
Reserves	10	9,984	5,733
Accumulated deficit		(20,810)	(25,955)
Total equity attributable to equity holders of the parent		164,422	155,026
Non-controlling interest		7,260	6,853
TOTAL EQUITY		171,682	161,879
TOTAL LIABILITIES AND EQUITY		174,754	165,274

Saeed Abdul Jalil Al Fahim
Chairman of the Board of Directors

Aabed Al Zeera
Chief Executive Officer
and member of the Board of Directors

Consolidated Statement of Income
For the year ended 31 December 2013

	Note	2013 US$ '000	2012 US$ '000
Income			
Investment banking fees	11	4,946	3,218
Income on due from financial institutions and receivables		2,274	1,233
Gain on sale of investments, net		1,192	542
Gain on conversion of associate to investment at fair value through equity		-	8,731
Income from investment carried at amortised cost		912	-
Reversal of unrealised fair value losses on investment in real estate	6	798	-
Income from investment in real estate, net		377	243
Dividend income		194	136
Other income		44	47
TOTAL INCOME		10,737	14,150
Expenses			
Corporate expenses		2,173	2,302
General and administration expenses	13	1,772	1,753
Deal acquisition expenses		863	782
Selling expenses		783	992
Asset management expenses		479	557
TOTAL EXPENSES		6,070	6,386
OPERATING PROFIT		4,667	7,764
Share of profit from associates	8	404	3,962
NET PROFIT BEFORE IMPAIRMENT, PROVISION AND FOREIGN EXCHANGE GAIN		5,071	11,726
Impairment on investments	5	(551)	(2,857)
Reversal of / (provision) on receivables	4.3	1,322	(731)
Gain on foreign exchange		172	45
NET PROFIT FOR THE YEAR		6,014	8,183
Attributable to:			
Equity holders of the parent		5,717	8,202
Non-controlling interest		297	(19)
		6,014	8,183

Saeed Abdul Jalil Al Fahim
Chairman of the Board of Directors

Aabed Al Zeera
Chief Executive Officer
and member of the Board of Directors

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 US$ '000	2012 US$ '000
OPERATING ACTIVITIES			
Net profit for the year		6,014	8,183
Adjustments for:			
Depreciation	13	386	421
Gain on conversion of associate to investment at fair value through equity		-	(8,731)
Unrealised fair value gain on investment in real estate	6	(798)	-
Gain on sale of investments, net		(1,192)	(542)
Share of profit from associates	8	(404)	(3,962)
Impairment on investments	5	551	2,857
(Reversal of) / provision on receivables	4	(1,322)	731
Operating profit / (loss) before changes in operating assets and liabilities		**3,235**	**(1,043)**
Changes in operating assets and liabilities:			
Receivables		10,110	(2,291)
Other assets		(502)	112
Other liabilities		(323)	1,696
Purchase of investments		(775)	(15,363)
Proceeds from disposal of investments		15,784	-
Musharaka financing		(25,144)	-
Net cash generated from / (used in) operating activities		**2,385**	**(16,889)**
INVESTING ACTIVITIES			
Cash outflow on acquisition of subsidiary		-	(9,012)
Purchase of equipment		(20)	(28)
Net cash used in investing activities		**(20)**	**(9,040)**
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		2,365	(25,929)
Cash and cash equivalents at beginning of the year		35,532	61,461
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**37,897**	**35,532**
Cash and cash equivalents comprise:			
Cash and balances with banks		1,885	7,443
Due from financial institutions with original maturities of ninety days or less		36,012	28,089
		37,897	**35,532**

Consolidated Statement of Changes In Equity

For the year ended 31 December 2013

				Reserves						
	Share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Cumulative changes in fair value reserve US$ '000	Foreign Currency Translation Reserve US$ '000	Total reserves US$ '000	Accumulated deficit US$ '000	Non-controlling Interest US$ '000	Total US$ '000
Balance at 1 January 2013	109,996	(6,798)	72,050	6,408	545	(1,220)	5,733	(25,955)	6,853	161,879
Unrealised gain on re-measurement to fair value, net	-	-	-	-	3,184	(539)	2,645	-	-	2,645
Exchange differences on translation of foreign operations	-	-	-	-	-	1,034	1,034	-	110	1,144
Net profit for the year	-	-	-	-	-	-	-	5,717	297	6,014
Transferred to statutory reserve	-	-	-	572	-	-	572	(572)	-	-
Balance at 31 December 2013	**109,996**	**(6,798)**	**72,050**	**6,980**	**3,729**	**(725)**	**9,984**	**(20,810)**	**7,260**	**171,682**
Balance at 1 January 2012	109,996	(6,798)	72,050	5,588	(529)	(1,706)	3,353	(33,337)	1,540	146,804
Unrealised gain on remeasurement										
to fair value, net	-	-	-	-	151	399	550	-	-	550
Transferred to statement of income on impairment	-	-	-	-	923	-	923	-	-	923
Exchange differences on translation of foreign operations	-	-	-	-	-	87	87	-	31	118
Non-controlling interest acquired	-	-	-	-	-	-	-	-	5,301	5,301
Net profit / (loss) for the year	-	-	-	-	-	-	-	8,202	(19)	8,183
Transferred to statutory reserve	-	-	-	820	-	-	820	(820)	-	-
Balance at 31 December 2012	**109,996**	**(6,798)**	**72,050**	**6,408**	**545**	**(1,220)**	**5,733**	**(25,955)**	**6,853**	**161,879**

1. Corporate Information and Activities

International Investment Bank B.S.C. (c) ["the Bank"] operates under a Wholesale Islamic Banking License issued by the Central Bank of Bahrain ["the CBB"]. The core business activities of the Bank include investing on its own account and investment, underwriting and placement in real estate and private equity and corporate finance in conformity with Islamic Shari'a.

The Bank was incorporated on 6 October 2003, under commercial registration number 51867 as a Bahrain Joint Stock Company (closed). The Bank's registered office is at 37th floor, Al Moayyed Tower, PO Box 11616, Manama, Kingdom of Bahrain.

The Bank and its subsidiaries (together the "Group") operate in the Kingdom of Bahrain and the Cayman Islands.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 11 March 2014.

2. Accounting Policies

a) Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention except for investments and investment in real estate which have been measured at fair value.

The consolidated financial statements are presented in United States Dollar ["US$"] which is the Bank's functional currency. All values are rounded to nearest thousand dollar, except when otherwise indicated.

b) Statement of compliance

These consolidated financial statements have been prepared in accordance with 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 ["SSB"] of the Bank, the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards ["IFRS"] issued by the International Accounting Standards Board ["IASB"].

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2013. The financial information of the subsidiaries (including special purpose entities that the Bank consolidates) are prepared for the same reporting year as the Bank, using consistent accounting policies.

A subsidiary is an entity over which the Group has power to control, which is other than fiduciary in nature. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases to exist. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

All intra-group balances, transactions, income and expenses are eliminated in full.

2. Accounting Policies (continued)

c) Basis of consolidation (continued)

Non-controlling interest represents the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Group. Non-controlling interests are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from owners' equity. Any losses applicable to the non-controlling interest in excess of the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

The following are the Group's subsidiaries as at 31 December 2013:

Name of subsidiary	Country of incorporation	Year of Incorporation	Equity interest	Industry
Istethmary Sarajevo City Centre-I Limited	Cayman Islands	2009	93.77%	SPV for investment in real estate
Istethmary Petrochemical Holding Company B.S.C (c)	Kingdom of Bahrain	2008	100.00%	SPV for investment in real estate
Bahrain Bunny Shares & Securities Co. W.L.L.	Kingdom of Bahrain	2012	63.10%	SPV for investment in fast food industry
Multifamily Residential Ltd-I ("MR-I") *	Cayman Islands	2013	100.00%	SPVs for investment in real estate
Multifamily Residential Ltd-II ("MR-II") *	Cayman Islands	2013	100.00%	

* The bank incorporated MR-I and MR-II during 2013 as special purpose vehicles in order to carry out a musharaka financing transaction as explained in note 7.

d) Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgements and estimates are as follows:

Going concern

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

Fair value

Fair value is the price that would be received upon the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of unquoted investments at fair value through equity

Where the fair value of the Group's investment portfolio cannot be derived from an organised market, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement by management is required to establish fair values. The judgements include consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

2. Accounting Policies (continued)

d) Significant accounting judgments and estimates (continued)

Fair value of investment in real estate

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

Impairment

Investment at fair value through equity

The Group treats investments classified as 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. In making this judgment, the Group evaluates, among other factors, normal volatility in share price and duration and the extent to which the fair value of quoted equities is less than its cost and the future cash flows and the discount factors for unquoted equities.

Financial instruments at amortised cost

The Group reviews its doubtful financial contracts on each reporting date to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

e) Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below:

i) Foreign currency translation

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using rates of exchange prevailing at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates at the dates of initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined. Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on investments classified as fair value through equity.

Group companies

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency (US$) at the rate of exchange prevailing at the consolidated statement of financial position date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognised directly in equity. On disposal of a foreign subsidiary, the cumulative amount recognised in equity relating to that particular foreign subsidiary is recognised in the consolidated statement of income.

2. Accounting Policies (continued)

e) Summary of significant accounting policies (continued)

ii) Financial instruments

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and balances with banks, due from financial institutions, investments and other assets. Financial liabilities consist of other liabilities.

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument.

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at their cost being the fair value of the consideration given plus any directly attributable incremental costs of acquisition or issue, except in the case of financial assets recorded at fair value through statement of income. In case of financial assets carried at fair value through statement of income, the incremental costs of acquisition or issue are immediately expensed in the consolidated statement of income.

Subsequent measurement of financial instruments

Cash and balances with banks

Cash and balances with banks are carried at amortised cost in the consolidated statement of financial position.

Due from financial institutions

Due from financial institutions comprise of commodity murabaha receivables and are stated net of deferred profit and provision for impairment, if any.

Murabaha receivables are sales on deferred terms. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the Murabeh over the agreed period.

Musharaka Financing

Musharaka is a form a partnership between the Bank and its clients / investors whereby each party contributes to the capital in partnership in equal or varying degrees to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have his due share of profits. However, losses are shared in proportion to the contributed capital.

Musharaka financing is recognized at the amount paid or made available, when it is paid to the partner or made available to him on account of the musharaka. The Group's share in the musharaka capital is measured at the date of consolidated statement of financial position at historical cost. Profits in respect of the Group's share in musharaka financing transactions is recorded to the extent the profits are distributed and losses are recognized to the extent that such losses are being deducted from the Group's share of musharaka capital.

Investments

Investments are initially designated as "fair value through equity" or "amortised cost".

2. Accounting Policies (continued)

e) Summary of significant accounting policies (continued)

ii) Financial instruments (continued)

Subsequent measurement of financial instruments (continued)

Fair value through equity

After initial recognition, investments designated as fair value through equity are remeasured at fair value. Unrealised gains and losses are recognised directly in equity in the 'fair value reserve'. When the investment is disposed of or determined to be impaired, the cumulative gain or loss, previously transferred to the fair value reserve, is recognised in the consolidated statement of income. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a weighted average basis.

Amortised cost

These instruments are managed on a contractual yield basis and are not held for trading and have not been designated at fair value through statement of income. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition and using the effective profit rate method. Any gain or loss on such investments is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

iii) Derecognition of financial instruments

Financial assets

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

- the rights to receive cash flows from the asset has expired; or
- the Group 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
- the Group has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities

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

iv) Investment in real estate

Real estate held for rental or capital appreciation purposes, or both, is classified as investment in real estate. Investment in real estate is initially recognised at cost including transaction costs and subsequently re-measured at fair value with the resulting unrealised gains being recognised in the statement of changes in equity under fair value reserve. Losses after adjusting any unrealised gain in equity, are taken to the consolidated statement of income. In the case of unrealised losses that have been recognised in the statements of income in previous periods, the unrealised gains related to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated statement of income. Any excess of such gains over such prior-period losses are added to the "fair value reserve" in the consolidated statement of financial position.

2. Accounting Policies (continued)

e) Summary of significant accounting policies (continued)

v) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial 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 has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Investments classified as fair value through equity

In the case of equity investments designated as fair value through equity, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income) is recycled from fair value reserve and recognised in the statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognised directly in equity.

Investments carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated statement of income.

vi) Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amounts reported in the consolidated statement of financial position when there is a legally enforceable or religious right to set off the recognised amounts and the Group intends to either settle these on a net basis, or intends to realise the asset and settle the liability simultaneously.

2. Accounting Policies (continued)

e) Summary of significant accounting policies (continued)

vii) Investment in associates

The Group's investments in associates are accounted for under the equity method of accounting. These are entities over which the Group exercises significant influence. Significant influence is presumed to exist if the Bank holds, directly or indirectly through its subsidiaries, 20% or more of the voting rights in an entity, unless it can be clearly demonstrated otherwise. Conversely, the significant influence may also exist through agreements with the entity's other shareholders or the entity itself regardless of the level of shareholding that the Bank has in the said entity.

Under the equity method, an investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised or individually tested for impairment.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been income or expense recognised in the other comprehensive income of the associate, the Group recognises its share of any such income or expense, when applicable, directly in equity. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of stake in the associate.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in the consolidated statement of income.

viii) Equipment

Equipment is recorded at cost, less accumulated depreciation. Depreciation is provided on a straight line basis over the estimated useful lives of the equipment.

ix) Revenue recognition

The Bank earns acquisition, structuring, placement and brokerage fees during the acquisition and placement process for rendering services including: structuring of transactions, acquiring and leasing properties, placements with investors and arranging financing. These fees are recognised when earned, generally on receipt of cash and signed share purchase agreements by the Bank.

Management fees represent a recurring fee earned by the Bank for rendering management and administrative services. Management fees are recognised as and when services are rendered.

Income on due from financial institutions represents income from murabaha receivables. Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding. Income that is overdue by 90 days or more is excluded from the income of the year.

2. Accounting Policies (continued)

e) Summary of significant accounting policies (continued)

ix) Revenue recognition (continued)

Rental income from investment in real estate is recognised on the basis of contractual amounts receivable on a time apportioned basis and recorded on a net basis in the statement of income as income from investment in real estate.

Dividends are recognised when the right to receive payment is established.

x) Employees' end of service benefits

Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees based upon accumulated periods of service at the balance sheet date.

Bahraini employees of the Bank are covered by contributions made to the General Organisation of Social Insurance Scheme (GOSI) as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

xi) Zakat

In accordance with its Articles of Association, the Bank is not required to pay Zakat on behalf of its shareholders.

xii) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and amounts due from financial institutions with original maturities of ninety days or less.

xiii) Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated statement of financial position, as they are not the assets of the Bank.

xiv) Proposed dividend

Proposed dividends are included as part of equity and only recognised as liabilities when approved by the shareholders.

xv) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

xvi) Treasury shares

Own equity instruments which are acquired (treasury shares) are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase and sale of the Bank's own equity instruments. No dividends are paid on treasury shares.

f) New standard adopted during the year

The Group has adopted following standard issued by AAOIFI during 2013:

FAS 26 Investment in Real Estate

The Group has adopted FAS 26 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in real estate that is required for the purposes of earning periodical income or held for future capital appreciation or both. The adoption of this standard did not have any impact on the accounting policies, financial position or performance of the Group.

3. Due From Financial Institutions

	2013 US$ '000	2012 US$ '000
Commodity murabaha	36,023	28,116
Deferred income	(11)	(27)
	36,012	**28,089**

These represent short term placements entered with financial institutions carrying profit rate ranging from 0.6% to 2.5% (2012: 0.59% to 2.25%) per anum and maturities upto February 2014.

4. Receivables

	Note	2013 US$ '000	2012 US$ '000
Receivables and prepayments	4.1	9,405	14,877
Due from investee companies	4.2	2,410	7,192
		11,815	**22,069**

4.1 Receivables and prepayments

	Note	2013 US$ '000	2012 US$ '000
Structuring fee receivable (note 'a')		3,889	-
Receivable from investee companies		4,958	13,221
Management fee receivables		2,262	2,361
Other receivables		4	3
		11,113	15,585
Specific provisions	4.3	(1,708)	(708)
		9,405	14,877

a) This represents structuring fees receivable against issue of share capital by one of the investee companies. This amount is considered fully recoverable.

4. Receivables (continued)

4.2 Due from investee companies

	Note	2013 US$ '000	2012 US$ '000
Commodity murabaha receivables		5,931	12,848
Deferred profit		(1)	(193)
		5,930	12,655
Provision / suspended profit	4.3	(3,520)	(5,463)
		2,410	**7,192**

4.3 Movement in specific provisions

	Receivables and prepayments 2013* US$ '000	Due from investee companies 2013 US$ '000	Total 2013 US$ '000	Total 2012 US$ '000
As at 1 January	708	5,463	6,171	4,760
Transfer from general provision against investment	1,000	500	1,500	-
Charge during the year	-	500	500	731
Reversal due to repayment	-	(1,822)	(1,822)	-
	-	(1,322)	(1,322)	731
Reversal of suspended profit on payment	-	(1,461)	(1,461)	-
Suspended profit during the year	-	340	340	680
As at 31 December	**1,708**	**3,520**	**5,228**	**6,171**

* This represents specific provision amounting US$ 1,440 thousand (2012: US$ 708 thousand) against management fee receivables and US$ 268 thousand (2012: US$ Nil) against receivable from investee companies.

5. Investments

	2013 US$ '000	2012 US$ '000
Fair value through equity		
Equity instruments		
Quoted	8,487	8,336
Unquoted	16,214	16,141
Closed end mutual fund		
Unquoted	14,271	26,122
	38,972	50,599
At amortised cost		
Unquoted	10,000	10,000
General provision held against unquoted equity investments	(500)	(2,000)
	48,472	58,599

Impairment losses on investments charged during the year

	2013 US$ '000	2012 US$ '000
Impairment losses:		
Quoted	532	2,380
Unquoted	19	477
	551	2,857

Movement in general provision against equity investments

	2013 US$ '000	2012 US$ '000
As at 1 January	2,000	2,000
Transfer to provision against receivables and prepayments	(1,000)	-
Transfer to provision against due from investee companies	(500)	-
As at 31 December	500	2,000

Quoted and unquoted investments include US$ 6,529 thousand (2012: US$ 3,754 thousand) and US$ 2,068 thousand (2012: US$ 2,096 thousand) respectively, held on behalf of the Bank, in the name of related parties for which risk and rewards are borne by the Bank.

6. Investment In Real Estate

	2013 US$ '000	2012 US$ '000
Original cost	5,285	5,285
Unrealised loss	(113)	(911)
Fair value	5,172	4,374

Investment in real estate comprises of an eleven-storey residential tower, managed by the Bank, with 23 apartments in the Kingdom of Bahrain. During the year the property has generated an average net monthly income of US$ 31 thousand (2012: US$ 20 thousand). The property is stated at fair value, determined based on valuations performed by two independent professional valuers as of 31 December 2013, resulting in reversal of unrealised fair value loss amounting to US$ 798 thousand in the consolidated statement of income.

7. Musharaka Financing

This represents musharaka financing transaction carried out by the Group through its wholly owned subsidiaries MR-I and MR-II. The Group's contribution represents 95% share in the musharaka capital and its profits. Musharaka capital has been used to acquire a portfolio of investment properties in the United States of America.

8. Investment in Associates

		2013 US$ '000		2012 US$ '000	
	Note	Ownership	Carrying value	Ownership	Carrying value
Al Shiddi International	8.1	32.98%	25,492	32.98%	24,956
Hungry Bunny WLL	8.2	49.00%	15,206	49.00%	14,313
IIB UAE Investments Limited	8.3	27.32%	5,744	27.32%	5,718
Ewaan Al Fareeda	8.4	26.96%	682	26.96%	719
			47,124		45,706
Provision			(1,772)		(1,772)
			45,352		43,934

8. Investment in Associates (Continued)

Following is the summarised financial information of the Group's investment in associates based on management accounts as at 31 December 2013:

	2013 US$ '000	2012 US$ '000
Total assets	104,557	99,545
Total liabilities	(33,911)	(5,243)
Net assets	**70,646**	**94,302**
Total income	15,227	53,580
Total expenses	14,883	6,294
Share of profit from associates	404	3,962

8.1 The Bank made an investment in its associate, Al Shiddi International ("Al Shiddi") incorporated in Bosnia and Herzegovina through an indirect subsidiary Istethmary Sarajevo City Centre-I Limited during 2007. Al Shiddi is developing a shopping complex which will also include an office tower, hotel tower and a parking garage. This shopping complex is being held by Magros Veletrogovina ("Magros"), a subsidiary of Al Shiddi. As at the date of consolidated statement of financial position, the share capital invested by Al Shiddi in Magros is not registered in its name pending legal formalities and requirements of the Privatization Commission in Bosnia and Herzegovina. However, as per substance of the transaction, Al Shiddi has consolidated Magros in its financial statements. The Bank has recorded its share of results from Al Shiddi on the same basis.

8.2 During 2012, the Bank acquired an equity stake in Hungry Bunny WLL through its subsidiary. As at the date of the statement of financial position the shares had not been registered in the name of the subsidiary due to pending legal formalities in the Kingdom of Saudi Arabia.

8.3 During 2007, Bay Development Properties Limited ("the Company"), in which IIB UAE Investments Limited owns 64.80% of the equity, entered into a conditional sale/purchase agreement with a buyer to sell an investment property. Subsequently, the Company terminated this sale/purchase agreement on the basis that the buyer failed to fulfill its contractual obligation. The buyer then commenced a court action against the Company for specific performance of the sale/purchase agreement.

Since 2007, there have been a number of Court and Appeal Court hearings and decisions. On 4 July 2012, the Court of First Instance issued a verdict in favour of the Company, which the buyer has appealed in the Court of Appeals. The Appeal was held in 2012 and an expert was appointed by the court on 18 April 2013 to verify payments made and outstanding balances of each party. The expert submitted report to the court in favour of the Company on 3 July 2013. The buyer objected to the report submitted by the expert and requested for an appointment of a new expert. The court appointed new expert who submitted his report to the court in favour of the Company. The next hearing date has been set for 15 April 2014. The Company is confident that the Court of Appeals will decide in favour of the Company.

The legal title of the land is still held in the name of the buyer but the sale and transfer of investment property is restricted by the Dubai Land Department.

8.4 The Bank made an investment in its associate, Ewaan Al Fareeda ("EAF") through a wholly owned subsidiary Istethmary Petrochemical Holding B.S.C. (c) ("IPH") during 2008. EAF's assets comprise of receivables pertaining to projects which had been transferred to another entity.

9. Other Liabilities

	2013 US$ '000	2012 US$ '000
Accrued expenses	1,349	1,839
Payable to a shareholder	-	1,448
Other payables	1,723	108
	3,072	3,395

10. Owners' Equity

10.1 Share Capital

	2013 US$ '000	2012 US$ '000
Authorised: 200,000,000 ordinary shares of US$ 1 each	200,000	200,000
Issued and fully paid: 109,996,000 ordinary shares of US$ 1 each	109,996	109,996

10.2 Treasury Shares

	2013		2012	
	Number of shares '000	Value US$ '000	Number of shares '000	Value US$ '000
At 31 December	**3,000**	**6,798**	**3,000**	**6,798**

10.3 Statutory reserve

The statutory reserve has been created in accordance with the Bahrain Commercial Companies Law. The Bank transfers 10% of its annual profits to its statutory reserve until such time as the reserve equals 50% of the issued share capital of the Bank. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

10.4 Cumulative changes in fair value reserve

This represents unrealised fair valuation gains or losses on investments. This reserve is distributable upon value realisation, which takes place at the time of actual exit or derecognition.

10.5 Foreign currency translation reserve

This represents unrealised losses on translation of assets classified as fair value through equity and subsidiaries denominated in foreign currencies.

11. Investment Banking Fees

	2013 US$ '000	2012 US$ '000
Structuring fees	3,889	2,391
Management fees	775	509
Placement fees	282	318
	4,946	3,218

12. Staff Co sts

	2013 US$ '000	2012 US$ '000
Salaries and other staff related costs	3,528	4,060
End of service benefits	117	96
	3,645	4,156

The Bank classifies its expenses based on function and staff costs have been allocated to corporate, deal acquisition, selling and asset management expenses in the consolidated statement of income.

13. General and Administration Expenses

	Note	2013 US$ '000	2012 US$ '000
Depreciation		386	421
Rent and maintenance		299	303
Legal and professional		271	291
Printing and advertisement		233	100
Shari'a Supervisory Board remuneration		126	107
Directors' expenses		75	65
IT expenses		53	147
Communication		40	37
Others	13.1	289	282
		1,772	1,753

13. General and Administration Expenses (continued)

13.1 During the year the Central Bank of Bahrain had imposed on the Bank a financial penalty of US$ 53 thousand for late submission of the audited financial statements of subsidiary companies of the Bank.

14. Proposed Appropriations

The Board of Directors of the Bank has not proposed any dividends for 2013 (2012: US$ Nil).

15. Zakat

In the absence of appointment of the Bank to pay zakat on behalf of shareholders, the responsibility of payment of zakat is on individual shareholders of the Group. The amount of zakat payable by shareholders is US$ 0.010 per share (2012: US$ 0.011 per share) calculated under net assets method and approved by the Shari'a Supervisory Board of the Bank.

16. Balances and Transactions with Related Parties

Related parties comprise major shareholders, directors, key management personnel and the Shari'a Supervisory Board of the Bank and entities controlled, jointly controlled or significantly influenced by them.

The significant balances with related parties are as follows:

	Shareholders/ directors US$ '000	Others US$ '000	Total 2013 US$ '000	2012 US$ '000
Assets				
Investments	-	261	261	685
Musharaka financing	-	25,144	25,144	-
Investment in associates	-	46,081	46,081	43,934
Receivable from investee companies	-	3,884	3,884	15
Liabilities				
Other liabilities - payable to a shareholder	-	-	-	1,448

16. Balances and Transactions with Related Parties (continued)

Transactions with related parties during the year are as follows:

	Shareholders/ directors US$ '000	Others US$ '000	Total 2013 US$ '000	2012 US$ '000
Income				
Share of profit from associates	-	404	404	3,962
Investment banking fees	-	-	-	2,629
Expenses				
Directors' remuneration	75	-	75	65
Shari'a Supervisory Board remuneration	-	126	126	107

Compensation of key management personnel was as follows:

	2013 US$ '000	2012 US$ '000
Short term employee benefits	2,558	2,666
End of service benefits and social service benefits	215	182
	2,773	2,848

17. Segment Information

For management purposes, the Group is organized into business units based on the nature of their operations and services, which are all conducted from the Bank's head office in the Kingdom of Bahrain. The three business units comprise of investment banking, investment management and treasury & equity management.

The investment banking unit mainly originates, structures, packages and sells down investments in real estate (both development and revenue generating assets) and private equity sectors. It earns structuring and placement fees through placement of investment. Its expenses comprises of due diligence and structuring fees paid to lawyers, consultants, accountants and other professional advisors.

The investment management unit supervises and manages the portfolio of structured assets on behalf of the investors together with the Bank's portfolio of listed and unlisted direct investments. It earns annual management fees on the structured assets during the life of the investment plus fees at exit provided that the stipulated internal rate of return is achieved, together with dividends and gains / losses at the time of disposal.

The treasury & equity management unit manages the Bank's liquid assets, cash flow forecasting and assets and liabilities, together with the profit rate, foreign exchange and market risks. It earns profit from short term placements to corporate and banking entities based on murabaha and wakala principles.

17. Segment Information (continued)

The following tables show the segmental information of the Group's income and expenses:

a) Income and expenditure

	Investment banking & placement 2013 US$ '000	Investment management 2013 US$ '000	Treasury & equity management 2013 US$ '000	Total 2013 US$ '000
Income	4,171	4,248	2,490	10,909
Expenses	(1,664)	(501)	(2,159)	(4,324)
Operating profit	**2,507**	**3,747**	**331**	**6,585**
Share of profit from associates	-	404	-	404
Impairment and provisions	-	(954)	1,725	771
Unallocated expenses	-	-	-	(1,746)
Net profit	**2,507**	**3,197**	**2,056**	**6,014**

The table below shows the segmental details of income and expenditure for the year 2012.

	Investment banking & placement 2012 US$ '000	Investment management 2012 US$ '000	Treasury & equity management 2012 US$ '000	Total 2012 US$ '000
Income	2,709	10,161	1,326	14,196
Expenses	(1,774)	(594)	(2,308)	(4,676)
Operating Profit	935	9,567	(982)	9,520
Share of profit from associates	-	3,962	-	3,962
Impairment and provisions	-	(3,468)	(120)	(3,588)
Unallocated expenses	-	-	-	(1,711)
Net profit	935	10,061	(1,102)	8,183

17. Segment Information (continued)

b) Assets and liabilities

Segmental information of the assets and liabilities of the group, based on the income streams, for the year 2013 is given below:

	Investment banking & placement 2013 US$ '000	Investment management 2013 US$ '000	Treasury & equity management 2013 US$ '000	Total 2013 US$ '000
Assets	-	138,866	35,888	174,754
Unallocated liabilities	-	-	-	3,072

Segmental details of the assets and liabilities of the group, based on the income streams, for the year 2012 is given below:

	Investment banking & placement 2012 US$ '000	Investment management 2012 US$ '000	Treasury & equity management 2012 US$ '000	Total 2012 US$ '000
Assets	-	109,276	55,998	165,274
Unallocated liabilities	-	-	-	3,395

Liabilities amounting to US$ 3,072 thousand (2012: US$ 3,395 thousand) are considered as unallocated on the basis that these do not relate to any of the reportable segment.

17. Segment Information (continued)

c) Geographical segment information

Segmental details of the assets and liabilities of the group, between domestic and overseas, for the year 2013 is given below:

	Domestic 2013 US$ '000	Overseas 2013 US$ '000	Total 2013 US$ '000
Assets	42,962	131,792	174,754
Liabilities	3,072	-	3,072

Segmental details of the assets and liabilities of the group, between domestic and overseas, for the year 2012 is given below:

	Domestic 2012 US$ '000	Overseas 2012 US$ '000	Total 2012 US$ '000
Assets	46,661	118,613	165,274
Liabilities	3,395	-	3,395

18. Commitments

	2013 US$ '000	2012 US$ '000
Operating lease relating to rented premises		
Expiring within one year	51	244
Expiring in one to three years	-	51
	51	295

19. Maturity Analysis Of Assets And Liabilities

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. See note 20.3 "Liquidity risk and funding management" for the Bank's contractual undiscounted repayment obligations.

As at 31 December 2013

	Up to 3 months US$ '000	3 to 12 months US$ '000	Subtotal less than 12 months US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	Undated US$ '000	Total US$ '000
ASSETS							
Cash and balances with banks	1,885	-	1,885	-	-	-	1,885
Due from financial institutions	36,012	-	36,012	-	-	-	36,012
Receivables	4,858	1,197	6,055	5,247	513	-	11,815
Investments	-	-	-	38,472	10,000	-	48,472
Investment in real estate	-	-	-	5,172	-	-	5,172
Investment in associate	-	-	-	30,146	15,206	-	45,352
Musharaka financing	-	25,144	25,144	-	-	-	25,144
Other assets (including equipment)	549	61	610	-	2	290	902
Total assets	**43,304**	**26,402**	**69,706**	**79,037**	**25,721**	**290**	**174,754**
LIABILITIES							
Other liabilities	430	2,149	2,579	493	-	-	3,072
Total liabilities	**430**	**2,149**	**2,579**	**493**	**-**	**-**	**3,072**
Net gap	**42,874**	**24,253**	**67,127**	**78,544**	**25,721**	**290**	**171,682**

19. Maturity Analysis Of Assets And Liabilities (continued)

As at 31 December 2012

	Up to 3 months US$ '000	3 to 12 months US$ '000	Subtotal less than 12 months US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	Undated US$ '000	Total US$ '000
ASSETS							
Cash and balances with banks	7,443	-	7,443	-	-	-	7,443
Due from financial institutions	28,089	-	28,089	-	-	-	28,089
Receivables	12,948	2,783	15,731	6,338	-	-	22,069
Investments	-	-	-	48,599	10,000	-	58,599
Investment in real estate	-	-	-	4,374	-	-	4,374
Investment in associates	-	-	-	43,934	-	-	43,934
Other assets (including equipment)	97	7	104	3	-	659	766
Total assets	48,577	2,790	51,367	103,248	10,000	659	165,274
LIABILITIES							
Other liabilities	2,893	91	2,984	411	-	-	3,395
Total liabilities	2,893	91	2,984	411	-	-	3,395
Net gap	45,684	2,699	48,383	102,837	10,000	659	161,879

20. Risk Management

20.1 Introduction

Risk is inherent in the Bank's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The main risks to which the Bank is exposed are credit risk, liquidity risk, market risk, operational risk and legal risk.

a) Risk management structure

Board of Directors

The Board of Directors ["the Board"] is responsible for the overall risk management approach and for approving the risk strategies and principles.

Shari'a Supervisory Board

The Shari'a Supervisory Board reviews the principles and contracts relating to the transactions conducted by the Bank to judge whether it followed the principles of the Islamic Shari'a and specific fatwas, rulings and guidelines issued.

Executive Committee

The Executive Committee comprising of the Board members considers and approves requests to purchase and sell individual investments up to the limit imposed by the Board.

Investment Committee

Potential deals are presented to the Investment Committee and Risk Management Committee for consideration and those worthy of further evaluation are forwarded to the Executive Committee for initial approval to initiate detailed due diligence procedures.

Risk Management Committee

The Risk Management Committee has the overall responsibility for establishing the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management Department

The Risk Management Department is responsible for implementing the appropriate risk management strategy and methodology for the Bank. It ensures that there are adequate control procedures in place such that the risks exposed to are within the approved limits.

Assets & Liabilities Committee

The Assets & Liabilities Committee is responsible for monitoring liquidity risk, profit rate risk, foreign currency limits/exposures, capital adequacy and the overall asset/liability mix.

Audit Committee

The Audit Committee is appointed by the Board and consists of three non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Bank, the measurement system of risk assessment and relating these to the Bank's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

20. Risk Management (continued)

20.1 Introduction (continued)

a) Risk management structure (continued)

Internal Audit

Risk management processes throughout the Bank are audited at least annually by the Internal Audit Department, based on the risk-based audit plan approved by the Audit Committee. Audit staff examine both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, then reports its findings and recommendations to the Audit Committee.

b) Risk measurement and reporting systems

Currently, the Bank's assets mainly comprise cash and balances with banks, due from financial institutions, receivables and investments (including investment in real estate and investment in associates). Balances with banks and due from financial institutions represent deposits with GCC incorporated banks with investment grade credit ratings. Investments comprise mainly retentions in the Bank's investment offerings, which are illiquid.

Monitoring and controlling risks is primarily performed based on limits approved by the Board. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Bank also monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

c) Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical 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. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include guidelines to maintain a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

20.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank manages credit risk by setting limits for individual counterparties. Counterparty limits are set by the Board of Directors, monitored by the Risk Management Department and reviewed regularly.

a) Risk concentrations of the maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of statement of financial position. There is no unfunded exposure and no significant use of master netting and collateral agreements.

20. Risk Management (continued)

20.2 Credit risk (continued)

a) Risk concentrations of the maximum exposure to credit risk (continued)

	Note	Gross credit exposure 2013 US$ '000	Gross credit exposure 2012 US$ '000
Credit risk items:			
Balances with banks		1,883	7,442
Due from financial institutions	4	36,012	28,089
Receivables	5	11,815	22,069
Other assets		612	110
Total Credit Risk Exposure		**50,322**	**57,710**

The above disclosure is considered to be reasonably representative of the level of credit risk of the Bank, as there has been no significant fluctuation in the credit risk assets during the year.

20. Risk Management (continued)

20.2 Credit risk (continued)

b) Geographic distribution of the gross funded exposures

The following table summarises the geographical distribution of exposures broken down into significant areas by major types of credit exposure as follows:

As at 31 December 2013

	Balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Other assets US$ '000	Total US$ '000
Geographical region:					
Bahrain	1,781	36,012	727	603	39,123
Europe	-	-	5,965	9	5,974
Other GCC countries	102	-	4,203	-	4,305
Africa	-	-	136	-	136
Asia	-	-	268	-	268
North America	-	-	516	-	516
	1,883	**36,012**	**11,815**	**612**	**50,322**

As at 31 December 2012

	Balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Other assets US$ '000	Total US$ '000
Geographical region:					
Bahrain	7,442	17,965	2,650	110	28,167
Europe	-	-	6,561	-	6,561
Other GCC countries	-	10,124	12,568	-	22,692
Africa	-	-	65	-	65
Asia	-	-	225	-	225
	7,442	**28,089**	**22,069**	**110**	**57,710**

20. Risk Management (continued)

20.2 Credit risk (continued)

c) Industry distribution of the gross funded exposures

The following table summarises the industry distribution of exposures broken down into significant areas by major types of credit exposures as follows:

As at 31 December 2013

	Balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Other assets US$ '000	Total US$ '000
Industry sector:					
Real estate-development	-	-	4,014	-	4,014
Real estate-income generating	-	-	2,623	-	2,623
Banking and financial institutions	1,883	36,012	270	-	38,165
Manufacturing	-	-	718	-	718
Automotive	-	-	136	-	136
Others	-	-	4,054	612	4,666
	1,883	**36,012**	**11,815**	**612**	**50,322**

As at 31 December 2012

	Balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Other assets US$ '000	Total US$ '000
Industry sector:					
Real estate-development	-	-	12,540	-	12,540
Real estate-income generating	-	-	6,383	-	6,383
Banking and financial institutions	7,442	28,089	240	-	35,771
Manufacturing	-	-	2,708	-	2,708
Automotive	-	-	65	-	65
Others	-	-	133	110	243
	7,442	**28,089**	**22,069**	**110**	**57,710**

20. Risk Management (continued)

20.2 Credit risk (continued)

d) Credit quality per class of financial assets

The Group uses the ratings assigned by External Credit Assessment Institutions ["ECAI"] to ascertain credit quality of financial assets. ECAI considered by the Group are Standard and Poor's, Moody's and Fitch. The counterparties for which a rating is not available are classified under "unrated". The table below analyses the credit quality of the Bank's maximum credit exposure as per the credit ratings of the counterparties:

	2013 US$ '000	2012 US$ '000
Credit rating:		
A- and better	26,559	10,040
BB+ and better	1,342	3,497
Unrated	22,421	44,173
	50,322	57,710

e) Ageing of financial assets

As at 31 December 2013	Neither past due nor impaired US$ '000	Past due but not impaired US$ '000	Past due and individually impaired US$ '000	Total US$ '000
Balances with banks	1,883	-	-	1,883
Due from financial institutions	36,012	-	-	36,012
Receivables	9,837	-	1,978	11,815
Other assets	612	-	-	612
	48,344	**-**	**1,978**	**50,322**

As at 31 December 2012	Neither past due nor impaired US$ '000	Past due but not impaired US$ '000	Past due and individually impaired US$ '000	Total US$ '000
Balances with banks	7,442	-	-	7,442
Due from financial institutions	28,089	-	-	28,089
Receivables	12,115	1,590	8,364	22,069
Other assets	110	-	-	110
	47,756	1,590	8,364	57,710

Past due represents amount overdue for 90 days or more. These are real estate exposures located mainly in Europe.

20. Risk Management (continued)

20.2 Credit risk (continued)

f) **Rescheduled receivables**

Receivables amounting to US$ Nil (2012: US$ Nil) have been rescheduled during the year.

g) **Maximum exposure to credit risk**

Concentration of risk is managed by client/counterparty. The maximum credit exposure to any client or counterparty as of 31 December 2013 was US$ 26,457 thousand (2012: US$ 17,766 thousand).

20.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. It monitors future cash flows and liquidity required for working capital and investment acquisition on a quarterly basis and maintains significant cash and cash equivalent balances.

All other liabilities of the Bank are payable on demand.

20.4 Market risk

Market risk is the risk to earnings resulting from adverse movements in foreign currency rates, profit rate yield curves and equity prices. To enable effective monitoring and managing of exposures, all market risks associated with the Bank's investments are managed and monitored using basic sensitivity analysis.

a) **Equity price risk**

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Bank has fair value through equity investments quoted on overseas stock exchanges. Based on the values at 31 December 2013, a change in the quoted price of plus or minus 10% would change the value of these investments by plus or minus US$ 849 thousand (2012: US$ 834 thousand) with a corresponding increase or decrease in equity, except in case where impairment loss accrued which will result in decrease being taken to statement of income.

The Bank also has unquoted investments carried at fair value using either net asset values or valuations from independent valuers. Based on the values at 31 December 2013, a change in the valuation of 10% would change the value of these investments by plus or minus US$ 3,049 thousand (2012: US$ 4,226 thousand) with a corresponding increase or decrease in equity.

b) **Foreign currency risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign currency rates. Certain investments and other financial assets and liabilities are in other currencies and give rise to foreign currency risk.

The Bahraini Dinar (BHD), Saudi Riyal (SAR) and UAE Dirham (AED) are pegged to the US$ and resultantly positions in these currencies are not considered to represent significant currency risk. The Bank had the following net foreign currency exposures at 31 December 2013:

20. Risk Management (continued)

20.4 Market risk (continued)

b) **Foreign currency risk (continued)**

	2013 US$ '000	2012 US$ '000
Euro	4,557	3,100
Others	135	15
	4,692	3,115

Sensitivity Analysis

The following table demonstrates the sensitivity to a reasonably possible movement of currency rates against the US$ (functional and reporting currency) based on the above positions as on 31 December, with all other variables held constant.

		2013	2012
	Change in exchange rate (+/-) %	Effect on net income/ equity (+/-) US$ '000	Effect on net income/ equity (+/-) US$ '000
Euro	10%	456	310
Others	10%	14	2

c) **Profit rate risk**

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Bank currently has limited exposure to profit rate risk. The Bank's assets that are exposed to profit rate risk comprise of due from financial institutions and have repricing dates no longer than three months. During 2013, a +/- 0.25% change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 113 thousand (2012: US$ 135 thousand) impact on the consolidated statement of income.

d) **Legal risk**

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise adversely affect the operations of the Bank. The Bank has mitigated its exposure to legal risk by entering into professional service arrangements with well-established local and international law firms. The policies and procedures of the Bank ensure that investments are made, funds are transferred, contracts are entered into, legal agreements are signed and any other binding arrangement is executed only after a rigorous legal due diligence has been performed either by the Legal and Compliance Department or external legal counsel.

21. Capital Management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the Central Bank of Bahrain.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with regulatory capital requirements and that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholders' value. During the past year, the Bank has complied in full with all its externally imposed capital requirements.

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, return capital to shareholders or issue new capital. No changes were made in the objectives, policies and processes from the previous years.

For the purposes of comparison, the proforma capital position as at 31 December, regulatory capital and risk weighted assets have been calculated in accordance with Basel II requirements as adopted by the CBB.

21.1 Capital adequacy ratio

	Note	2013 US$ '000	2012 US$ '000
Regulatory capital base:			
Tier 1 capital	21.2	147,230	127,453
Total regulatory capital		147,230	127,453
Risk weighted assets	21.3	303,223	264,531
Total capital adequacy ratio		48.56%	48.18%
Minimum regulatory ratio		12%	12%

21. Capital Management (continued)

21.2 Tier 1 Capital

	2013 US$ '000	2012 US$ '000
Share capital	109,996	109,996
Treasury shares	(6,798)	(6,798)
Share premium	72,050	72,050
Statutory reserve	6,980	6,408
Cumulative changes in fair value reserve	(1,872)	(2,079)
Accumulated deficit	(20,810)	(25,955)
Non controlling interest	7,260	6,853
Core Tier 1 Capital	166,806	160,475
Deductions	(10,885)	(16,827)
Tier 1 Capital before adjustments for negative balance of Tier 2	**155,921**	**143,648**
Negative balance of Tier 2	(8,691)	(16,195)
Tier 1 Capital net of negative Tier 2 Capital	**147,230**	**127,453**

Tier 1 capital comprises: share capital; share premium; statutory reserve; foreign currency translation reserve and retained earnings, including current year profit. Tier 2 capital comprises of positive fair value reserves minus capital deduction for large exposure.

21.3 Risk weighted assets

	Basel II 2013 US$ '000	Basel II 2012 US$ '000
Credit risk weight assets	225,592	176,252
Market risk weight assets	42,146	38,925
Operational risk weight assets	35,485	49,354
	303,223	**264,531**

21. Capital Management (continued)

21.3 Risk weighted assets (continued)

Credit risk-weighted assets

The Bank uses the standardised approach, which requires banks to use external credit ratings to combine them into categories to which standardized risk weightings are applied. For regulatory purposes, credit risk-weighted assets include investments and receivables.

Market risk-weighted assets

The Bank does not maintain a trading book and, as a result, market risk-weighted assets result from the net foreign currency positions of the Bank.

Operational risk-weighted assets

In calculating operational risk-weighted assets, the Bank uses the basic indicator approach which calculates operational risk-weighted assets as a proportion of the average of three years' revenues.

22. Fair Value of Financial Instruments

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by the Group:

31 December 2013	Amortised cost US$ '000	Fair value through equity US$ '000	Total US$ '000
Financial assets:			
Due from financial institutions	36,012	-	36,012
Receivables	11,815	-	11,815
Investments	10,000	38,472	48,472
Other assets	612	-	612
Musharaka financing	25,144	-	25,144
Total	83,583	38,472	122,055
Financial liabilities:			
Other liabilities	3,072	-	3,072
Total	3,072	-	3,072

22. Fair Value of Financial Instruments (continued)

31 December 2012	Amortised cost US$ '000	Fair value through equity US$ '000	Total US$ '000
Financial assets:			
Due from financial institutions	28,089	-	28,089
Receivables	22,069	-	22,069
Investments	10,000	48,599	58,599
Other assets	110	-	110
Total	60,268	48,599	108,867
Financial liabilities:			
Other liabilities	3,395	-	3,395
Total	3,395	-	3,395

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing fair value of financial assets and liabilities:

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.

22. Fair Value of Financial Instruments (continued)

Determination of fair value and fair value hierarchy (continued)

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy for the current year:

	2013			
	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
Non-trading investments				
Quoted	8,487	-	-	8,487
Unquoted	-	19,995	9,990	29,985
	8,487	**19,995**	**9,990**	**38,472**

	2012			
	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
Non-trading investments				
Quoted	8,336	-	-	8,336
Unquoted	-	31,209	9,054	40,263
	8,336	**31,209**	**9,054**	**48,599**

There has been no transfers from level 1 and level 2 to level 3 during the years 2012 and 2013.

Financial instruments recorded at fair value

The following is a description of the determination of fair value of financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing instruments.

Financial Investments at fair value through equity

Fair value through equity financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

22. Fair Value of Financial Instruments (continued)

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value:

	Unquoted 2013 US$ '000	Unquoted 2012 US$ '000
Balance at 1 January	9,054	3,833
Impairment losses recorded in consolidated statement of income	-	-
Fair value loss recorded in equity	161	(292)
Purchases, sales and settlements, net	775	5,513
Balance at 31 December	**9,990**	**9,054**

For the above financial instruments categorised as level 3, the Bank has used reasonably possible alternative assumptions and adjusted the discount rate by 10% as a key unobservable model input. The effect of this will result in +/- US$ 910 thousand (31 December 2012: US$ 1,932 thousand) adjustment in the carrying value of level 3 investments and related cumulative fair value change.

23. Social Responsibility

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