ANNUAL REPORT

2014

بنك الاستثمار الدولي

INTERNATIONAL INVESTMENT BANK

بسم الله الرحمن الرحيم

IIB'S INVESTMENT PHILOSOPHY ENTAILS ESTABLISHING STRATEGIC ALLIANCES WITH REGIONAL AND INTERNATIONAL INSTITUTIONS.

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

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.

FIVE-YEAR FINANCIAL SUMMARY

	2014	2013	2012	2011	2010
Earnings (US$ millions)					
Total income	3.9	10.7	14.2	3.1	3.5
Total expenses	6.0	6.1	6.4	5.7	6.7
Operating profit (loss)	(2.1)	4.7	7.8	(2.6)	(3.2)
Share of profit (loss) of associate	0.6	0.4	4.0	(3.4)	-
Impairment losses, provisions and FX	(6.6)	0.9	(3.6)	(3.4)	(17.5)
Net income (loss)	(8.1)	6.0	8.2	(9.4)	(20.7)
Financial Position (US$ millions)					
Total assets	271.4	174.8	165.3	148.5	160.2
Cash and due from financial institutions	62.6	37.9	35.5	61.5	33.4
Investments	204.6	124.1	106.9	75.9	83.9
Term finance and Wakala payable	98.0	-	-	-	-
Equity	160.1	164.4	155.0	145.3	158.3
Ratios					
Profitability					
Return on average equity (%)	(5.1)	3.8	5.5	(6.2)	(12.4)
Return on average assets (%)	(3.6)	3.5	5.2	(6.1)	(12.2)
Earnings per share (cents)	(8)	6	8	(9)	(19)
Cost-to-income ratio (%)	134.3	56.5	45.1	183.6	190.3
Capital					
Capital adequacy ratio (regulatory minimum 12%)	47	48	48	54	47
Equity/total assets (%)	62.7	98.2	98.0	97.8	98.8
Liquidity and Other					
Investments/total assets (%)	75.4	71.0	64.7	51.1	52.4
Liquid assets/total assets (%)	23.1	21.7	21.5	41.4	36.9
Assets under management (US$ millions)	311.4	323.7	324.3	294.8	325.5
Number of employees (at year end)	30	31	32	33	40

SUMMARY OF PRINCIPAL INVESTMENT STRUCTURINGS 2004-2014

	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	2009-10	Shopping centre / mixed use development	Bosnia	94.0	82.9	176.9
19	2009-10	Affordable housing development	Saudi Arabia	32.7	447.9	480.6
20	2013-14	Multi-family housing development	USA	25.7	207.1	232.8
21	2014	Commercial aircraft lease	Finland	9.1	70.0	79.1
	Totals			**652.1**	**2,663.1**	**3,315.2**

*Realized in 2006 ** Partial exits in 2006, 2007, 2009 with final exit in 2010 *** Realized in 2007
@Partial exits in 2011, 2012, 2013 and 2014 @@ Partial exit in 2011
#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	1156.0
3	Private equity	184.7	1,046.7	1,231.4
4	Property fund	18.6	18.5	37.1
	Totals	**652.1**	**2,663.1**	**3,315.2**

Principal Bankers and Professional Advisors

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

BOARD OF DIRECTORS' REPORT

H.E. SAEED ABDULL JALIL AL FAHIM/
Chairman of the Board of Directors

DEAR SHAREHOLDERS, ON BEHALF OF THE BOARD OF DIRECTORS, I AM PLEASED TO PRESENT THE ANNUAL REPORT AND THE CONSOLIDATED FINANCIAL STATEMENTS OF INTERNATIONAL INVESTMENT BANK ("IIB") FOR THE YEAR ENDED 31 DECEMBER 2014.

Note: Economic commentary in this report partly draws upon the World Economic Outlook, April 2015 published by the International Monetary Fund

The World Economy

The IMF has reported that overall world economic growth in 2014 was 3.4 percent which is the same as that achieved in 2013. However, the year saw divergent growth rates in advanced economies and those in the Emerging Markets. Whereas the headline growth rate of the advanced economies increased from 1.4 percent in 2013 to 1.8 percent in 2014, the corresponding growth rate for the Emerging Markets, whilst still absolutely higher than the growth rate of the advanced economies, reduced from 5.0 percent in 2013 to 4.6 percent in 2014.

The mature markets of the United States and the United Kingdom experienced significant economic momentum in the wake of improving labor markets and a continuing accommodative monetary policy that has been one of the key drivers of the economic growth of these economies. On the other hand, most economies of Asia and that of the Eurozone have experienced faltering recoveries as a result of the continued negative impact of the global financial crisis. Emerging markets have also experienced rather tepid growth patterns owing to weak external demand, domestic policy tightening and political uncertainties.

The MENA Economies

The Middle East & North Africa (MENA) region growth marginally increased from 2.3 percent in 2013 to 2.4 percent in 2014.

2014 has been a very challenging year for the regional oil exporting economies; a consequence largely of a sharp reduction in oil prices further underscoring the need for heightened economic reforms required in order to diversify these economies to achieve GDP growth not dependent on oil.

Evidently, the major producers have considered production cuts to partly contain the negative impact of falling oil prices. However, aggressive production cuts will limit these economies' ability to spend on infrastructure and the development of non-oil sectors, which is vital to longer term economic diversification objectives.

Kingdom of Bahrain Banking Sector

In spite of increased volatility in global oil markets, economic growth in Bahrain remained robust with significant infrastructure spending boosting the non-oil sector.

The Central Bank of Bahrain has announced plans to establish a Shari'ah Board that would oversee the Kingdom's Islamic finance sector. We believe that

BOARD OF DIRECTORS' REPORT (continued)

this is a positive step and will enable Bahraini Islamic banks to better compete with the regional leaders.

As of now, the Central Bank does have a Shari'ah board; but its scope is limited to vetting its own products. A country-level approach could help limit differences between products, speed the design of new financial instruments and products, and boost investors' confidence.

Financial Performance Review 2014

In the context of the challenging economic climate as described above, 2014 has been a very difficult year for IIB. With an increased risk aversion arising from the continued volatility in the global and regional markets, IIB could structure only one, of the many reviewed for potential investment and structuring, new investment during the year. As a result of the reduced investment banking activity, total income in 2014 reduced by US$ 6.9 million compared with the total income earned during 2013.

Moreover, the Bank provided an amount of US$ 5.8 million as provisions against certain impaired assets and provisions. Largely a result of reduced investment banking activity and asset provisioning, IIB reports a net loss of US$ 8.1 million in 2014, compared with 2013's net profit of US$6.0 million and 2012's net profit of US$ 8.2 million.

On the balance sheet side, I am pleased to state that total assets increased from US$174.8 million at the 2013 year end to US$ 271.4 million as at 31 December 2014, mainly reflecting the investment in an Ijarah asset during 2014. In order to strengthen the core recurring income base of the Bank, IIB has selectively invested in an income producing airline purchase and leaseback transaction that is expected to provide stable current income and cash flows.

Total equity of US$170.1 million was almost unchanged from the previous year end. IIB's Capital Adequacy Ratio remained strong at 47.3 percent on 31 December 2014 as compared to the 12 percent minimum required by the Central Bank of Bahrain. The liquid assets of US$62.6 million represented 23.1 percent of total assets at the end of 2014, underscoring the Bank's strong liquidity position.

The total investment portfolio was valued at US$204.6 million at 31 December 2014. While IIB's investment strategy remains cautious, we have successfully completed three investment acquisitions, including the airline transaction referred to earlier, during 2014, costing US$85.7 million. During the year, the Bank also exited, or partially exited from certain assets with total cash proceeds of US$12.8 million.

The Bank has performed a comprehensive valuation as at 31 December 2014 of all investments with the assistance of expert independent valuers and consultants. In line with the AAOIFI standards, net unrealized gains of US$3.8 million have been reflected in equity and net losses of US$3.4 million were charged to the income statement for the year.

2015 Outlook

Global growth in 2015 is expected to be slightly higher at 3.5 percent compared with the 2014 growth of 3.4 percent. Growth expectations of mature economies (2.4 percent growth in 2015 versus 1.8 percent in 2014) are likely to offset slower growth in emerging markets and developing countries (4.3 percent growth in 2015 versus 4.6 percent growth in 2014).

Low oil prices and commodity prices are expected to support global growth during 2015. Looking ahead to 2015, oil-importing countries should see a rise in growth, boosted in part by soft oil prices, a stronger U.S. economy, continued low global interest rates, and receding domestic headwinds in several large emerging markets. Emerging Markets are like to witness growth rate of 4.3 percent in 2015, compared with the 4.6 percent in 2014.

BOARD OF DIRECTORS' REPORT (continued)

The MENA economies are expected to be further affected by the decline in the oil prices which are widely expected to remain at lower levels, in the medium term. MENA growth is expected to be 2.7 percent in 2015 compared with the 2.4 percent growth achieved in 2014.

Compared with Bahrain and Oman, Qatar, KSA, Kuwait and the UAE are better equipped to cope with lower oil prices largely due to the presence of large and mature domestic banking systems, access to international markets and large sovereign wealth funds generating sufficient levels of recurring investment income. However, it is worth highlighting that although sovereign wealth funds may protect GCC countries from oil supply shock to some extent, downward pressure on fiscal spending may affect welfare and infrastructure projects which are equally important and consistent with the policy objectives of these countries.

CONCLUDING REMARKS

IIB Recommendations - Appropriations and Zakat

The Board has recommended that no dividend will be paid for the year as the Bank has incurred a net loss. 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 2014 is US$0.007 (2013: US$0.010 per share).

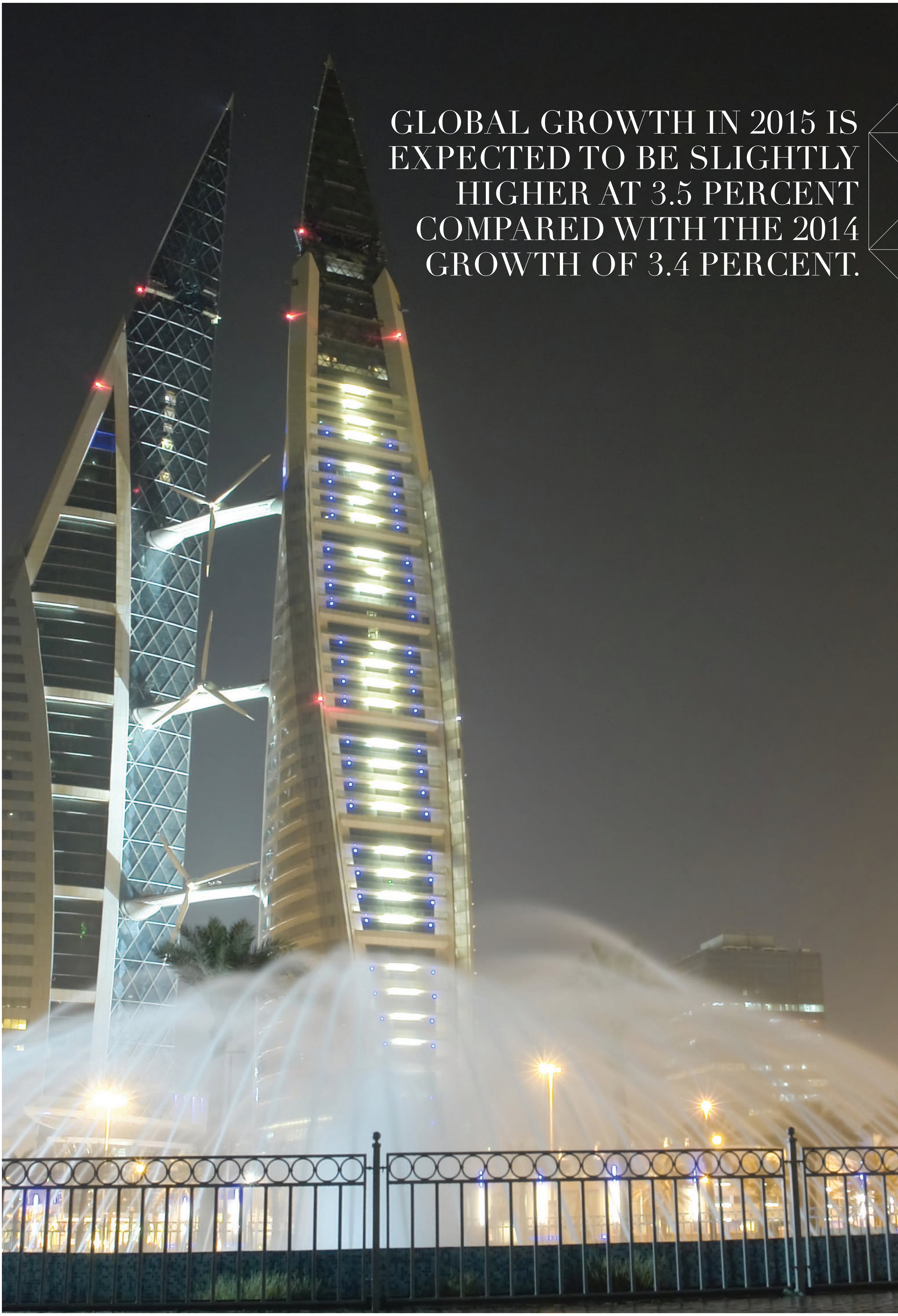
Board Membership

The only change in the membership of the Board of Directors during 2014 was the appointment of Mr. Daniel Taylor as a Director with effect from 30 June 2014.

Acknowledgments

The Board of Directors, on behalf of the shareholders, take this opportunity to thank our valued investors for their continued support, the Central Bank of Bahrain and Bahrain's Ministry of Industry and Commerce for their regulatory advice and guidance. We also thank our Shari'ah Supervisory Board, management team and staff for their dedicated service during the year.

Saeed Abdul Jalil Al Fahim
Chairman



GLOBAL GROWTH IN 2015 IS EXPECTED TO BE SLIGHTLY HIGHER AT 3.5 PERCENT COMPARED WITH THE 2014 GROWTH OF 3.4 PERCENT.

BOARD MEMBERS

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 during the year in order to direct and control strategic, financial, operational, internal control and compliance matters. It currently comprises three Executive Directors and six Independent Non-Executive Directors.

The Independent Non-Executive Directors are: Mr. Ahmed Salem Al Bugshan, Mr. Abdul Wahab Mohammed Al Wazzan, Mr. Ali Hashim Sadiq Hashim, Dr. Bader Ibrahim Mohammad Bin Saedan, Mr. Fareed Bader and Mr. Ali Haider Suliman Al Haider.









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1. HE Mr. Saeed Abdul Jalil Al Fahim
Chairman

Executive Director
- Honorary Chairman - Al Fahim Group, UAE
- Chairman - Mubarak & Brothers Property & Financial Investment, Abu Dhabi, UAE
- President – Shaikh Khalifa Excellence Awards, SKEA (Abu Dhabi Chamber of Commerce and Industry), UAE
- Former Board Member - National Bank of Abu Dhabi, Abu Dhabi, UAE
- Former Board Member - United Arab Bank, Sharjah, UAE
- Former Deputy President - Abu Dhabi Chamber of Commerce and Industry

2. Mr. Ahmed Salem Bugshan
Vice Chairman and Chairman of Nomination & Remuneration Committee

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

3. Mr. Abdul Wahab Mohammed Al Wazzan
Chairman Audit & Corporate Governance Committee

Independent Non-Executive Director
- 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

4. 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 -Connection Real Estate LLC, UAE

5. Mr. Ali Hashim Sadiq Hashim
Chairman Executive Committee and Member Nomination & Remuneration Committee

Independent Non-Executive Director
- Vice Chairman & CEO – Hashim Industry, Jeddah, KSA
- 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
- Partner & Director - Arabian Gulf Manufacturers, KSA
- Partner & Director - Safra Co. Ltd., KSA
- Director - Jeddah Graphic, KSA

BOARD MEMBERS (continued)

6. 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 - TunisianSaudi 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.

7. Mr. Ali Haider Suliman Al Haider
Member Audit & Corporate Governance Committee

Independent 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.

8. 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;
- Vice Chairman - Universe Environment Bahrain B.S.C., Bahrain;
- Board Member - Rotary Club Manama, Bahrain;
- Member -Bahrain Engineering Society, Bahrain;
- Member and Advisor - Bahrain Chamber of Commerce and Industry, Bahrain
- Member – Bahrain Contractor Association, Bahrain
- Member – American Chamber of Commerce, Bahrain

9. Mr. Daniel Taylor
Executive Director

- CEO - Al Fahim Investments
- Director - B2B Hotels & Properties LLC;
- Director - B2B LLC
- Director - RMAL Hospitality PJSC
- Director - Marjan Geoservices LLC
- Committee of the Australian Business Group, Abu Dhabi, UAE

CORPORATE GOVERNANCE

Board Terms and Start Date of Current Term

All the current members of the Board of Directors were appointed on 27 March 2014, except for Mr. Daniel Taylor who was appointed on 30 June 2014. They hold their office for a term of three years.

Induction, Orientation and Training of New Directors

The Chairman of the Board ensures that each newly appointed 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. Presentations regarding strategic plans;
c. Significant financial, accounting and risk management issues;
d. Compliance programs;
e. Meeting with internal, external auditors and legal counsel (as required); and
f. Familiarisation of the Corporate Governance Guidelines

Written Code of Ethics and Business Conduct

The Bank has documented a Code of Ethics and Business Conduct, including a code 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 on a 3-year renewable term. The new members are nominated by the Board who are later ratified/approved by the General Assembly Meeting of the Bank. The Central Bank of Bahrain then approves the nominations for their term.

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.

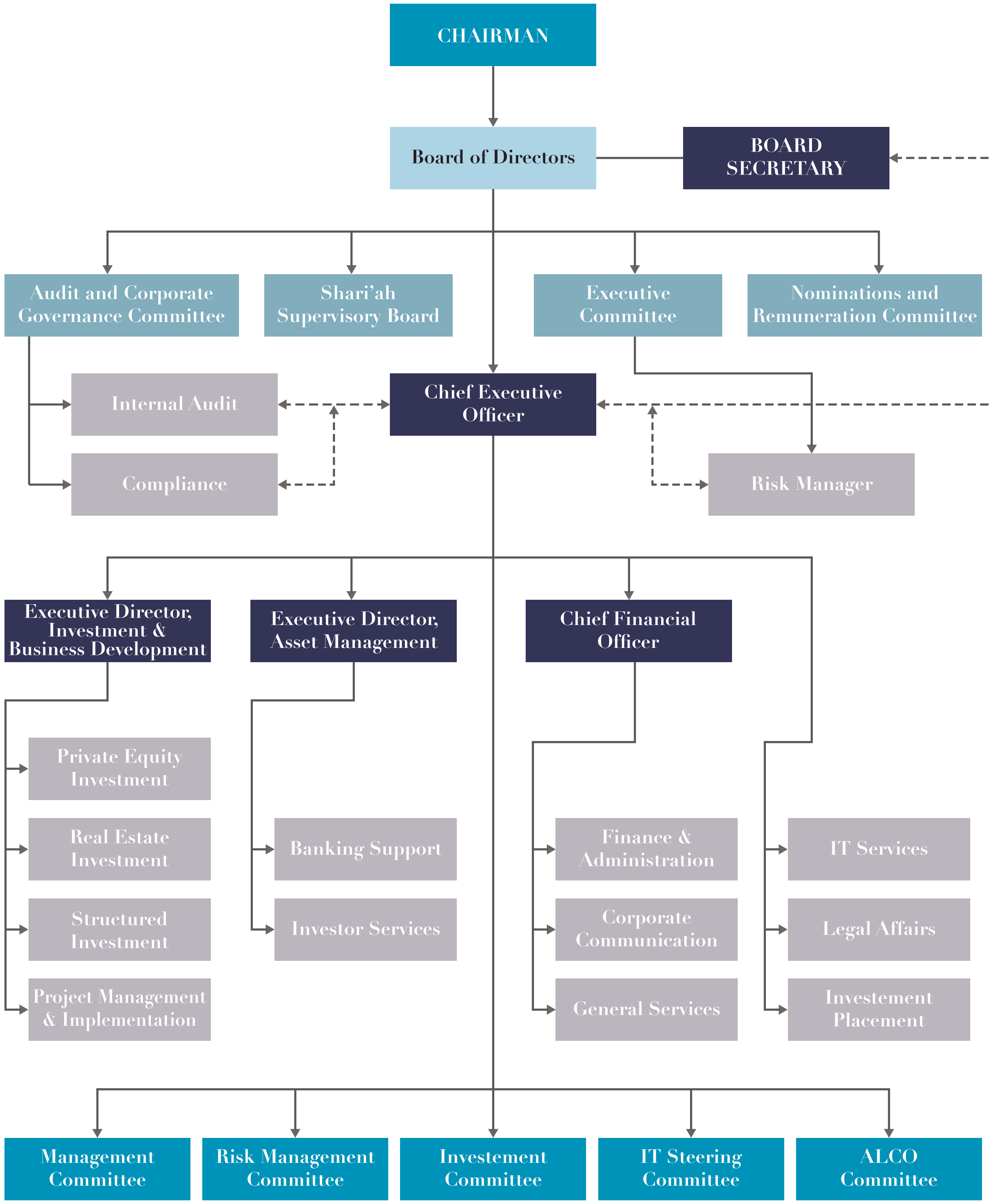
Assessment of Directors

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. Should any conflict of interest arise, the concerned member of the Board of Directors or senior management declares his interest in the matter under discussion and will absents himself from any vote on the matter.

ORGANIZATION STRUCTURE



CORPORATE GOVERNANCE (continued)

Board of Directors' Meetings

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

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

Meeting Date	Names of Attendees	Names of Non-attendees
11-Mar-2014	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. Aabed Al-Zeera Mr. Fareed Bader	
10-Sept-2014	H. E. Mr. Saeed Abdul Jalil Al Fahim - Chairman Mr. Ahmed Salem Bugshan - Vice Chairman Mr. Ali Hashim Sadiq Hashim Mr. Ali Haider Al Haider Dr. Bader Ebrahim Al Saedan Mr. Abdul Wahab Mohammed Al Wazzan Mr. Fareed Bader Mr. Aabed Al-Zeera Mr. Daniel Taylor	
12-Nov-2014	H. E. Mr. Saeed Abdul Jalil Al Fahim - Chairman Mr. Ahmed Salem Bugshan - Vice Chairman Mr. Ali Hashim Sadiq Hashim Mr. Ali Haider Al Haider Dr. Bader Ebrahim Al Saedan Mr. Fareed Bader Mr. Aabed Al-Zeera Mr. Daniel Taylor	Mr. Abdul Wahab Mohammed Al Wazzan
23-Dec-2014	H. E. Mr. Saeed Abdul Jalil Al Fahim - Chairman Mr. Abdul Wahab Mohammed Al Wazzan Mr. Ali Hashim Sadiq Hashim Mr. Ali Haider Al Haider Mr. Fareed Bader Mr. Daniel Taylor Mr. Aabed Al-Zeera	Mr. Ahmed Salem Bugshan - Vice Chairman Dr. Bader Ebrahim Al Saedan

Compliance with HC Module

The Bank regularly monitors the compliance with the provisions of the High-Level Controls (H.C.) Module of the Rulebook issued by the Central Bank of Bahrain relating to the roles and responsibilities of the Board of Directors, Board Committees, Disclosure Requirements and Management Strategy. The Bank has complied with the HC module and amendments during 2014 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 and the Bank has not complied with the requirements of chapter 5 of HC Module.

Directors' responsibility for Audited, Consolidated, Financial Statements (AFS)

The Board is responsible for the Audited Consolidated Financial Statements (AFS) which accurately disclose the Bank's financial position. The board has delegated the responsibility of preparation of accurate financial statements to the Audit and Corporate Governance Committee. In addition, the Bank has instituted appropriate systems and controls, including internal audit to ensure regular financial reporting, disclosures and monitoring.

Board Committees

The Board has established three sub-committees and a Shari'ah Supervisory Board, comprising expert independent Shari'ah 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 Board sub-committees is four per annum, except for Nomination and Remuneration Committee, which has a minimum of two meetings per annum.

The members as at 31 December 2014 and summary terms of reference are as follows:

Executive Committee

Mr. Ali Hashim Sadiq Hashim

Dr. Bader Ebrahim Al Saedan

Mr. Fareed Bader

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.

Meeting Date	Names of Attendees	Names of Non-attendees
21-Jan-2014	Mr. Ali Hashim Sadiq Hashim Dr. Bader Ebrahim Al Saedan	Mr. Fareed Bader
20-Apr-2014	Mr. Ali Hashim Sadiq Hashim Dr. Bader Ebrahim Al Saedan Mr. Fareed Bader	
11-Dec-2014	Mr. Ali Hashim Sadiq Hashim Dr. Bader Ebrahim Al Saedan Mr. Fareed Bader	
22-Dec-2014	Mr. Ali Hashim Sadiq Hashim Mr. Fareed Bader	Dr. Bader Ebrahim Al Saedan

CORPORATE GOVERNANCE (continued)

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.

Meeting Date	Names of Attendees	Names of Non-attendees
9-Mar-2014	Mr. Abdul Wahab Mohammed Al-Wazzan - Chairman Mr. Ali Haider Suliman Al Haider - Member Mr. Fareed Bader - Member	
11-May-2014	Mr. Abdul Wahab Mohammed Al-Wazzan - Chairman Mr. Ali Haider Suliman Al Haider - Member Mr. Fareed Bader - Member	
28-May-2014	Mr. Abdul Wahab Mohammed Al-Wazzan - Chairman Mr. Ali Haider Suliman Al Haider - Member Mr. Fareed Bader - Member	
24-Jul-2014	Mr. Abdul Wahab Mohammed Al-Wazzan - Chairman Mr. Ali Haider Suliman Al Haider - Member Mr. Fareed Bader - Member	
19-Nov-2014	Mr. Abdul Wahab Mohammed Al-Wazzan - Chairman Mr. Ali Haider Suliman Al Haider - Member Mr. Fareed Bader - Member	

Nominations & Remuneration Committee

Mr. Ahmed Salem Bugshan (Chairman)
Mr Ali Hashim Sadeq (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	Names of Attendees	Names of Non-attendees
29-Apr-2014	Mr. Ahmed Salem Bugshan - Chairman Mr Ali Hashim Sadeq - Member	
15-Jul-2014	Mr. Ahmed Salem Bugshan - Chairman Mr Ali Hashim Sadeq - Member	

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 Bahraini Islamic scholars who provide the Bank with pragmatic Islamic opinions. Brief biographies are as follows:

Sheikh Doctor Nizam Yaquby

Sh. Dr. Nizam 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 worldwide 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 Shari'ah 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, Sakana Holistic Housing Solutions, Reef (Real Estate Finance), Ithmaar Bank, International Tharawat, Family Bank and Alizz Islamic Bank(Oman).

Sheikh 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.

CORPORATE GOVERNANCE (continued)

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 return of equity. 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 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 and AML Department**
- **Risk Management Department**
- **Information Technology Department**
- **Internal Audit Department**
- **Human Resources & Administration Department**
- **Corporate Communications Department**

The Bank's operations and transactions are subject 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 such that no employee can solely 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 Officer. 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, whilst administratively reporting to the Chief Executive Officer; the Director of Internal Audit Department and Head of Compliance Department report to the Chairman of the Audit and Corporate Governance Committee with an administrative reporting 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 the Bank's 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, and 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 scheme is yet to be implemented.

Executive Management
Management Committees

The Board has established five governance 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 issues such as funding, asset utilization, IT, investment purchase/ sale and management of all types of risks, including market, credit, liquidity and operational risks. The members as at 31 December 2014 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, adopts 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.

CORPORATE GOVERNANCE (continued)

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
Mr. Murtaza Ghulam
Mr. Ninan Varkey
Mr. Subhash Jalan

Performs a risk review of new business deals to be underwritten by IIB, performs a 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 Honorary Chairman of Al Fahim Group, one of the most successful groups of companies in the UAE operating mainly 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. 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 directorships a number of companies.

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 thirty years of international banking experience with major financial institutions in the Kingdom of Bahrain and the United Arab Emirates, namely, 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 established the Bank. He is a board member of several portfolio companies of IIB.

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 15 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, Investment Placement

Mr. Al-Meftah heads IIB's Investment 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 10 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.

Ali Redha, Director, Internal Audit

Mr. Redha is a member of the American Institute of Certified Public Accountants (AICPA). He has over 17 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 and Business Development

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.

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 those of its subsidiaries and special purpose vehicles. He holds a bachelor's degree from the University of Calicut, India, and is a Chartered Accountant. He has extensive experience in the IT field, including application programming and system administration. Prior to joining the Bank in 2007, he had extensive experience in the area of Financial Audit, Financial Management and MIS Management both in India as well as in Bahrain. He has more than 20 years of experience that covers banks, investment companies, audit firms and stock exchanges.

Said Itani, Head – IT

Mr. Itani has more than 35 years of experience in the IT sector, mostly in Saudi Arabia and the Kingdom of Bahrain. Mr. Itani was appointed as Head of IT in some of the high reputable companies in Saudi Arabia such as: Saudi Amoudi Group,; ICS Control Systems, Abdullah Said Bugshan & Bros., and Bank Al-Jazira in Jeddah. In the year 2002, he was hired as Head of IT, Security and Property at Noriba Bank in the Kingdom of Bahrain before joining IIB in 2007.

Mr. Ninan Varkey, Head - Risk Management

Mr. Varkey is a member of the Institute of Chartered Accountants of India and holds a degree in Commerce. He carries over 25 years of experience in the financial services industry. He has held positions as President of Cochin Stock Exchange and Vice-President of leading financial services companies in India, during his career in financial services. He was heading risk management in Commodity Derivative business of Infrastructure Leasing Finance-Investsmart, Mumbai, India before joining IIB.

Mr. Mohammed Juma Habib, Head - Compliance

Mr. Mohammed heads the Compliance Department and is IIB's MLRO and Board Secretary. He is a Certified Compliance Professional (CCP), a member of the International Academy of Financial Management and holds a B.S.c in Banking and Finance from the University of Bahrain. He is also a certified anti-money laundering specialist and holds a CAMS credential issued by the Association of Certified Anti-Money Laundering Specialists (ACAMS). Prior joining IIB, he worked at Bahrain Islamic Bank ("BisB") and Bank of Bahrain and Kuwait ("BBK").

CORPORATE GOVERNANCE (continued)

Charitable Contributions

The Bank made contributions and donations to Bahraini charities in 2014 aggregating to US$ nil (2013: US$ nil).

Non-Shari'ah Income

Any income derived from any investment or business that does not conform to 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 2014, 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 eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material mis-statements or losses.

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. Minor internal control weaknesses were identified during the year of review. None of the weaknesses has 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. Associates are 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 are required for all investments of the Bank. Transactions with related parties in 2014 mainly comprise share of profits or losses from associates.

Changes in Organization Structure

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

ORGANIZATION STRUCTURE

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

Anne Uson,
Executive Secretary

Direct Investment & Business Development
Narayanan Ganapathy,
Executive Director

Fadi Al-Qassim,
Director and Coordinator - Legal Affairs and Shari'ah Supervisory Board Secretary

Atif Naveed,
Principal

Marieta Cano,
Executive Secretary

Investment Placement
Alyas Al-Meftah,
Director

Bashar Al-Shaikh,
Principal

Omar Shaheen
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

Risk Management
Ninan Varkey,
Head of Risk

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

Corporate Communications & PR
Omar Shaheen,
Principal

Compliance
Mohammed Juma Habib,
Associate

Shari'ah Review
Mahmood Al-Qassab,
Coordinator

CORPORATE GOVERNANCE (continued)

Ownership Details of the Bank – as at 31 December 2014

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**	**97.23%**
Treasury shares	1	3,000,000	2.72%
Overall Total	**111**	**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%
Daniel Taylor	Board Member	-	-
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	110	83,621,093	76.02%
Overall Total	**111**	**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 2014 was US$62,000. (2013: US$52,000).

Fees paid to External Auditors

Information relating to the fee paid to external auditors for audit and non-audit services including quarterly review of prudential returns, Public Disclosures reviews are maintained at the Bank. This information is 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 management and regular press releases concerning investment transactions and other developments.

Enquiries 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**

Client Enquiries and Complaints

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 best practice and are being fully complied with by management and staff.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS

MR. AABED AL-ZEERA/
Chief Executive Officer

IN CONTINUATION OF IIB'S STRATEGY OF DIVERSIFYING ITS ASSETS UNDER MANAGEMENT, THE BANK HAS SUCCESSFULLY CONCLUDED THREE INVESTMENTS DURING THE YEAR COSTING US$ 85.7 MILLION.

Overview

Following the return to profitability in 2012 and 2013, IIB has regrettably incurred a net loss of US$ 8.1 million in 2014. In this context, I would like to state that a major portion of the loss is unrealized and is mainly the result of: (a) IIB following a cautious and prudent investment strategy as a result of which investment banking fees are lower by US$ 3.4 million than in 2013 and (b) IIB, as a measure of conservatism, providing against the unrealized value loss of US$ 5.8 million on certain investments and 2014 adverse exchange rate movements.

In continuation of IIB's strategy of diversifying its assets under management, the Bank has successfully concluded three investments during the year costing US$ 85.7 million. One of these investments is a new Ijarah asset, with the remaining two being purchases of additional shares in the Bank's current investments. The ongoing management of existing assets continued during 2014 and certain assets were sold for aggregate sale proceeds of US$ 12.8 million.

Business Development

With a generally low to medium level of risk tolerance, the Bank continued to focus on acquiring and managing profitable income-producing private equity and real estate opportunities. During 2014, the Direct Investment and Business Development team has reviewed numerous investment proposals across various sectors and regions. However, based on its cautious investment strategy of investing in only very compelling assets, the Bank decided to acquire only one new investment during the second quarter of 2014 costing US$ 77.8 million in the airline sector, being the purchase and leaseback transaction with Finland's national carrier Finnair for an Airbus A330-300 aircraft. The contractual duration of the lease is 12 years and the Bank earns an attractive coupon, paid quarterly in arrears, which comfortably exceeds the quarterly repayments to the two banks providing the US$ 68.0 million of term finance. The transaction is profiled in more detail in the case study later in this report.

The remaining two acquisitions represented the purchase of additional shares in existing investments. These comprise a direct investment in a recently commissioned sugar refinery in the Kingdom of Bahrain and an indirect further investment in a commercial bank located in Baku, Azerbaijan.

Investment Placement

The Investment Placement Department has placed shares with IIB's investors in a portfolio comprising 11 multi-family income-generating properties located in the State of Texas, one of the highest growth markets in the United States.

In conformity with the Central Bank of Bahrain's regulations, the Investment Placement Department obtained the required investor information and ensured that all (KYC) documentation was updated. In addition, the Department continued to enhance the client database through the ongoing update with 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 the Bank and its investors. 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 during 2014 has continued to be the achievement of value enhancement and maximization of exit proceeds. The Asset Management Department is in regular 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, attends regular board meetings that focus on the timely completion of projects and the improvement 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 in respect of the ongoing litigation on one of the investments of IIB.

Financial Performance

Whilst the fuller and detailed analysis is provided in the Financial Review section, we would like to stress that the Bank's core liquidity position continued to be strong throughout the year with liquid and semi-liquid assets at year end 2014 representing 26.2% of total assets, of which 23.1% was in cash and cash equivalents and the remaining 3.1% in other semi liquid assets.

For 2015, the Bank's focus will be to return to profitability, 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 investment value and to maintain a strong Capital Adequacy Ratio comfortably in excess of the CBB's minimum requirement of 12%.

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 2014, the IT team completed a major infrastructure upgrade by replacing most of the key servers with new ones, upgrading some of the existing servers' hardware and operating system, implementing virtual servers' concept on most of the key servers, implementing Microsoft latest Exchange Server (2013), upgrading most of the users' laptops to the latest Microsoft operating system and using Microsoft Office 2013, and replacing the Microsoft ISA server with a new security gateway from McAfee. All upgrades were executed according to plan and were successfully implemented without any disruption to the Bank's ongoing day-to-day operations that depend on the IT infrastructure and systems. During 2015, no major IT activities are required to be performed as most of the pro-active IT strategies were implemented during 2014. The monitoring and fine tuning of the newly implemented systems will continue and the old internet connections will be replaced with enhanced broadband and the latest internet technology available in the market.

Disaster Recovery Centre (DRC)

During the 4th quarter of 2014, the Bank's Business Continuity Plan ("BCP") testing was jointly organized by the Business Continuity Manager and the IT Department. The test was successfully carried out by key staff members who performed their main daily tasks as a proof that the systems were available at the DRC office and functioning according to best practice. In addition, the functionality of the DRC Office was also tested and found to be in working order and ready for use.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS (continued)

Legal Department

The existing controls were further strengthened during 2014 by the introduction of Legal Affairs Policy and Procedure Framework to implement the Governance Framework prepared and approved by the Board of Directors in 2009 covering all the Bank's special purpose vehicles, associates and subsidiaries. This Framework will serve as a basis for preparing Policy and Procedure Manuals, which are currently under preparation.

Corporate Governance

IIB has maintained sound corporate governance structure as an integral part of the Bank's culture that includes the compliance with all applicable laws, rules and regulations. The Bank's Board of Directors and Board Committees oversee and supervise the governance structure to ensure compliance by IIB's management.

Compliance Department

The Compliance Department is an independent control function which reports directly to the Audit and Corporate Governance Committee. In order to maintain independence in performing its duties, this function is not assigned any executive responsibilities. The Compliance Department is responsible for ensuring that the Bank adheres to all applicable rules and regulations issued by regulators. Accordingly, it plays a vital role through implementing and interpreting all rules and regulations and disseminating them to the business units.

Risk Management Department

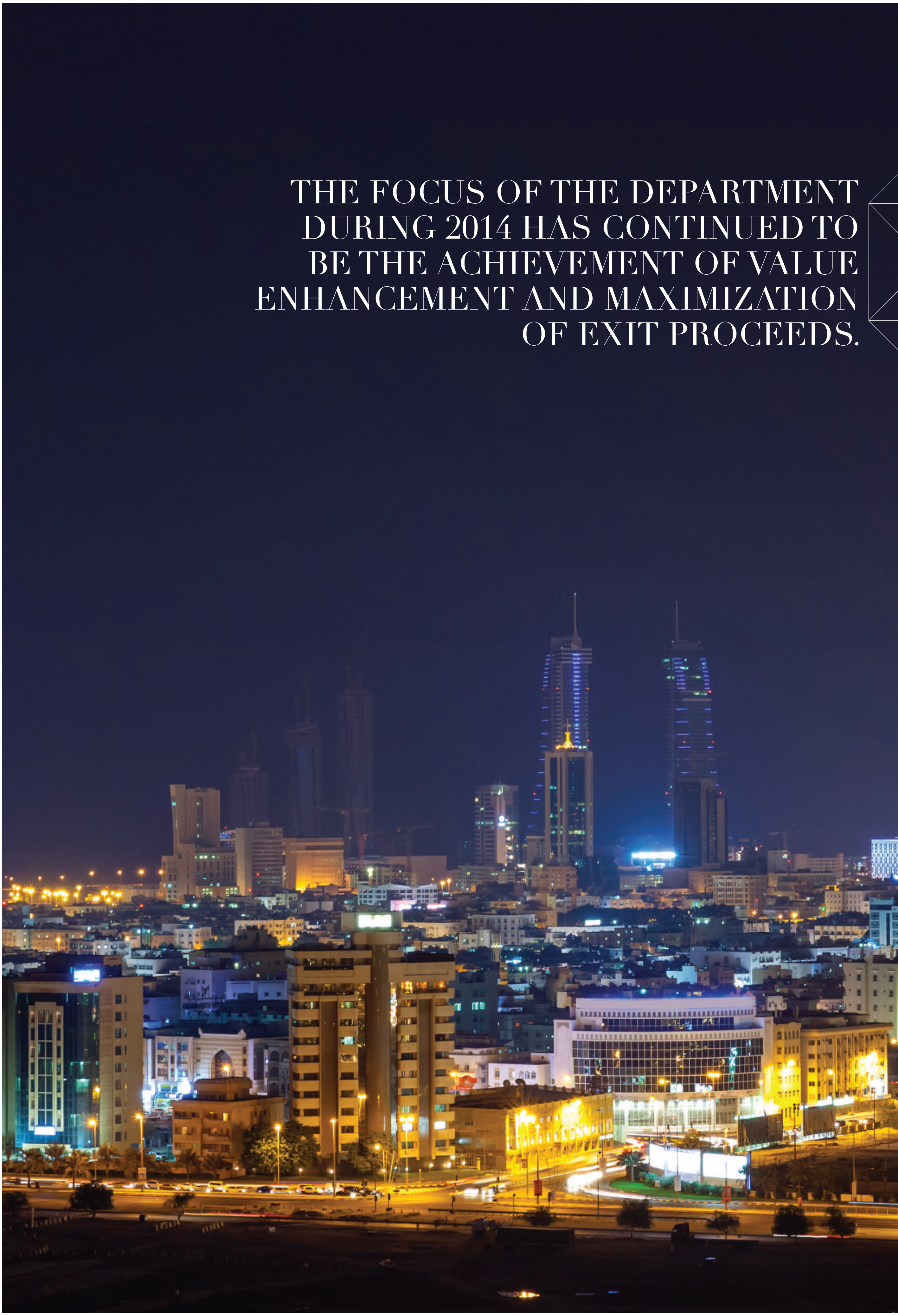
For the year 2014, existing policies, procedures and limit structures were reviewed and updated as required. The Department continued to compute the Basel III ratios for reporting on a quarterly basis to the CBB. The appropriate risk environment within the Bank was strengthened further through the active participation of the Risk Manager in an advisory role to highlight risk perspectives for consideration in business decision-making. Management Information System ("MIS") reports that promote informed business decisions were further upgraded and Liquidity Stress Tests were performed periodically during the year to foresee any areas of business that warrant increased levels of control.

Internal Audit Department

A risk-based Audit Plan for 2014 as per best practice was approved by the Audit and Corporate Governance Committee and audits were conducted covering all departments in accordance with the plan. 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 an 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 and deals concluded by the Bank during 2014 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 and continued to be implemented in 2014. Furthermore, the Shari'ah Supervisory Board has started conducting internal Shari'ah compliance audits on different areas in the Bank to ensure that all operations are in line with the guidelines of the Shari'ah principles and fatwas.


THE FOCUS OF THE DEPARTMENT DURING 2014 HAS CONTINUED TO BE THE ACHIEVEMENT OF VALUE ENHANCEMENT AND MAXIMIZATION OF EXIT PROCEEDS.

CASE STUDY – PROPTEX

In 2013, IIB and its investors completed the acquisition of a $250 million, 2,400 unit multifamily residential portfolio with US based Atlas Residential. The substantially Class A portfolio was acquired from Dallas-based Pillar Income Asset Management. An existing senior debt of $ 144 million for the portfolio, which is insured by US Department of Housing and Urban Development (HUD) was assumed during the transaction, with Macquarie Bank Limited providing $71 million in mezzanine financing.

The 11-property portfolio is primarily located in Dallas, Texas but includes assets in Houston, Midland/Odessa and El Paso. The IIB / Atlas venture was created to acquire, improve and operate these assets to capitalize upon their long-term fundamentals. Atlas Residential Management will provide asset management for each of the properties and will effect the cosmetic enhancement and physical upgrades planned for each of the properties.

CASE STUDY – FINNAIR

In May 2014, IIB acquired a significant stake in a 2009 Airbus 330-300 aircraft through a purchase and leaseback transaction. The Aircraft has been leased to Finnair by IIB on a non-cancellable lease of 12 years. At the end of IIB's anticipated investment holding period of 5 years, the aircraft will have seven remaining years of lease – attractive for a potential buyer. Novus, a professional aviation firm specializing in aircraft portfolio management, aircraft trading, consulting and financing aircraft transactions has been engaged as the lease manager and the remarketing agent for this transaction.

Finnair is majority-owned by a AAA-rated sovereign entity (58% Government of Finland) with another 11% by semi-government entities and the remaining owned by other shareholders (including the public). The investment has an attractive cash yield of 9.5% p.a. for IIB.

THE AIRCRAFT HAS BEEN LEASED TO FINNAIR BY IIB ON A NON-CANCELLABLE LEASE OF 12 YEARS.

CASE STUDY – SARAJEVO CITY CENTRE

In 2014, IIB accomplished the successful substantial completion of its largest and high-end real estate project, "Sarajevo City Centre (SCC)", in Bosnia & Herzegovina, a country that is transitioning towards an emerging economy in the Balkan region of Eastern Europe. Working alongside its eminent partner, the Al Shiddi Group of Saudi Arabia, IIB completed this iconic project, which is now regarded as a veritable landmark not only in the capital city of Sarajevo, but also in the entire East Europe.

Located on a single large and strategic location with excellent connectivity to all arterial roads in the capital Sarajevo, that connect with Europe, the Sarajevo City Centre project, with a gross built area of more than 117,000 square meters and built to the highest and rigorous construction standards, will result in a total paradigm shift in the retail, office, entertainment and luxury hotel landscape of the Balkan region.

After months of efforts to locate the best, the SCC project management has also signed, in 2014, a Memorandum of Understanding (MOU) with a leading hotel operator for its state of the art 5 star luxury hotel of 227 rooms. The hotel, scheduled to be opened in June 2016 will be operated under a leading brand in conformity with the principles of Shari'ah. Shari'ah compliance will be a key differentiator of the hotel in a country that is largely devoid of Shari'ah hotel offerings and yet has a significant Muslim resident and tourist population.

The completion of the Sarajevo project is testimony to IIB's commitment to investing in quality projects that produce superior risk adjusted returns for its investors. Within months of the opening in March 2014, more than 85% of its total retail space is occupied by not only home grown brands but also international well-known brands such as Zara, Massimo Dutti, Tissot, Konzum, Swarovski, L' Occitane and Nike to name just a few of the stylish brands at the high end Shopping Mall and Entertainment Centre. The rapid leasing of the retail space validates not only confirms the high quality of retail space at the project but also the insatiable and increasing demand for such space in the country that has record tourism during most parts of the year. Moreover, the project management has successfully overcome certain teething challenges, typical of any development project and now looks forward to realizing the true potential of the project in the years to come.

IIB and Al Shiddi Group are proud to have created a significant platform to support the local and regional economy by not only filling a void in the retail, hotel, entertainment and commercial office space but also by generating employment for over 1,700 Bosnians since the project commenced.

With the country on track to gaining accession to the European Union, the partners, IIB and Al Shiddi Group, envisage a surge in the expected business across each of the several enviable components of the project.

CASE STUDY – ARABIAN SUGAR COMPANY

Bahrain's Arabian Sugar Company, in which IIB, together with its investors, has a combined 25.66% stake - commenced commercial operations in February 2014. Since commencement, the company has gained strong traction across its markets, the result of the company's unrelenting and persistent commitment to quality production and timely delivery. ASC meets a portion of the Bahrain's local consumption and exports the bulk of its production to Saudi Arabia, Iraq, Qatar, Kuwait and Jordan. ASC sources all its raw sugar from Brazil, one of the largest exporting countries of quality raw sugar. ASC has secured off take agreements of around 300,000 tons p.a. supply of white sugar (which is around 50% of the total refinery annual production).

ASC is well positioned to capture a significant market share of high quality white sugar in the years to come. A significant portion of the regional demand is being met from imports. The commissioning of this state of the art refinery will enable the region to substitute imports with the local production within the GCC. Moreover, given that the company is strategically poised to increase capacity as most of the commercial enablers to result in increased capacity were positioned at the time of the original concept, IIB expects that ASC will be a substantial and formidable player in this industry segment. Thus, IIB expects ASC to provide its investors with superior risk adjusted returns in the years to come.

FINANCIAL REVIEW

The financial position of the Bank remains strong despite the Bank recording a net loss of US$ 8.1 million for 2014, compared to a net profit of US$ 6.0 million in 2013 and a net profit of US$8.2 million in 2012. Total assets at year-end 2014 aggregated to US$ 271.4 million and included cash and cash equivalents of US$ 62.6 million. Total equity as at 31 December 2014 was US$ 170.1 million. Assets under management at the end of 2014 amounted to US$ 311.4 million.

The Capital Adequacy Ratio on 31 December 2014 was 47.3 % compared to the minimum of 12% required by the Central Bank of Bahrain. 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 2014 was US$ 3.9 million compared to US$ 10.7 million in 2013. Investment banking fees in 2014 of US$ 1.5 million were US$ 3.4 million lower than in the previous year as fewer investments were structured and placed with investors. Income on "due from financial and other institutions" reduced in 2014 by US$ 1.9 million to US$ 0.3 million. The reduction of US$1.9 million is largely owing to the non-recurring recovery of suspended profit of US$1.5 million with the remaining reduction of US$0.4 million attributed to lower cash balances and lower profit rates prevailing in 2014.

Share of profit (loss) from Associates

The net share of profit in 2014 of US$ 0.6 million was derived from the associate companies located in Bosnia & Herzegovina, 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.

Expenses

Total expenses in 2014 aggregated to US$ 6.03 million, a reduction of US$ 0.04 million compared to US$ 6.07 million in 2013. Staff costs accounted for 53% of the total expenses and deal acquisition plus asset management costs accounted for a further 17% with the remaining 30% being attributed to occupancy, depreciation, and general operating costs.

Impairment, Provisions and Foreign Exchange

IIB booked unrealized impairment losses on investments in 2014 of US$ 1.4 million in the consolidated statement of income (2013: US$ 0.6 million) in respect of three unquoted investments, together with a provision of US$ 2.0 million (2013: US$ Nil), relating to an investment in an associate, located in Bosnia & Herzegovina, due to a combination of foreign exchange and fair value changes.

Provisions totaling US$ 2.4 million were recorded in 2014 against receivables due from four unquoted investee companies (2013: US$ 0.5 million). The year 2013 benefitted from a non-recurring release of

US$ 1.8 million following the partial repayment of a murabaha financing due from an investee company.

The Bank incurred a foreign exchange loss of US$ 0.8 million in 2014, mainly from receivables and bank balances denominated in Euro and Sterling Pound.

Consolidated Statement of Financial Position

Assets

Cash and cash equivalents at year-end 2014 were US$ 62.6 million and represented 23.1% of total assets. The total amount includes cash, balances with banks, and due from financial institutions comprising commodity murabaha, and wakala placements with financially sound banks located in the GCC region, with a maximum maturity period of 90 days. With the addition of investments in quoted equities valued at US$ 8.5 million, liquid and semi-liquid assets aggregated to US$ 71.1 million or 26.2% of total assets demonstrating a very strong liquidity position of the Bank

Receivables at 31 December 2014 of US$ 2.6 million (2013: US$ 11.8 million) comprised net murabaha financing of US$ 1.9 million to two IIB-managed unquoted entities injected as quasi-capital to assist with working capital requirements and other receivables of US$ 0.7 million from IIB-managed companies.

Total investments increased from US$ 124.2 million in 2013 to US$ 204.6 million at 2014 end reflecting a 64.8% increase of US$ 80.4 million The Bank successfully concluded three investments in 2014 costing US$ 85.7 million; one new investment in a Finnish aircraft purchase and leaseback costing US$ 77.8 million which is classified as an investment in ijarah, plus two further investments in existing holdings; one located in Bahrain, and the other in Azerbaijan. Certain assets located in Bahrain, Saudi Arabia, and USA were sold or placed with investors generating sale proceeds of US$ 12.8 million.

Included in total investments are the Bank's investment in associates which are valued at US$ 47.9 million at year end 2014, and comprised four investments - three are located in the GCC region (KSA and UAE) and one is located in Europe (Bosnia & Herzegovina). Total assets under management, computed on the year end value of the total equity provided by IIB and its investors, reduced from US$ 323.7 at year end 2013 to US$ 311.4 million at 2014 end, mainly due to exits and changes in asset valuations.

Liabilities and Equity

In December 2014, the Bank successfully obtained a US$ 30.0 million financing in the form of a wakala, to augment the funds available for future investment activities. With a bullet repayment due in 2019 (with an option in favour of IIB to pre-pay at any time without any prepayment expense) the wakala financing represents the first ever external financing obtained by the Bank.

Term finance of US$ 68.0 million comprised funds obtained from two financial institutions that partly financed the purchase of the Finnair aircraft. Repayments are spread over a 12-year period and are adequately covered by the rental income receivable. Other liabilities of US$ 3.3 million mainly comprised accrued expenses, funds held on a temporary basis on behalf of an associate and payables to suppliers.

Total equity reduced marginally from US$ 171.7 million to US$ 170.1 million at 2014 year end. The change in 2014 included the net loss for the year of US$ 8.1 million, the net gain from unrealized movements in fair values, foreign currency translation in 2014 on investments amounting to US$ 3.8 million booked directly in equity and an increase in non-controlling interest of US$ 2.7 million mainly from the sale of shares in a US-based subsidiary.

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2014

SHARI'AH SUPERVISORY BOARD REPORT

ON THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDING DECEMBER 31, 2014

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, 2014. 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 Shari'ah internal audit review and update reports issued by the Acting 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, 2014 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 0.007 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

Building a better working world

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C.R. No. 6700

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

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 2014, 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 2014, 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 2014 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

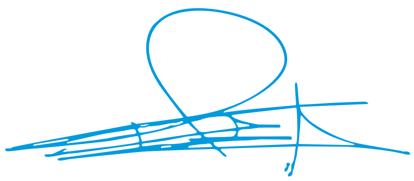
Partner's registration no: 121
2 April 2015
Manama, Kingdom of Bahrain

International Investment Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	2014 US$ '000	2013 US$ '000
ASSETS			
Cash and balances with banks		**3,560**	1,885
Due from financial institutions	4	**59,075**	36,012
Receivables	5	**2,609**	11,815
Investments	6	**50,554**	48,472
Investment in ijarah asset, net of depreciation	7	**75,612**	-
Investment in real estate	8	**5,412**	5,172
Musharaka	9	**25,144**	25,144
Investment in associates	10	**47,858**	45,352
Other assets		**1,405**	612
Equipment and vehicles		**194**	290
TOTAL ASSETS		**271,423**	174,754
LIABILITIES AND EQUITY			
LIABILITIES			
Term finance	11	**68,019**	-
Wakala payable	12	**30,000**	-
Other liabilities	13	**3,327**	3,072
TOTAL LIABILITIES		**101,346**	3,072
OWNERS' EQUITY			
Share capital	14	**109,996**	109,996
Treasury shares	14	**(6,798)**	(6,798)
Share premium	15	**51,240**	72,050
Reserves	14	**13,824**	9,984
Accumulated deficit		**(8,210)**	(20,810)
Total equity attributable to equity holders of the parent		**160,052**	164,422
Non-controlling interest		**10,025**	7,260
TOTAL EQUITY		**170,077**	171,682
TOTAL LIABILITIES AND EQUITY		**271,423**	174,754



Saeed Abdul Jalil Al Fahim
Chairman of the Board of Directors

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

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

International Investment Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2014

	Note	2014 US$ '000	2013 US$ '000
Income			
Investment banking fees	16	**1,511**	4,946
Net income from investment in ijarah asset	17	**480**	-
Gain on sale of investments	6.3	**503**	1,192
Income from investment carried at amortised cost	6.3	**450**	912
Income from investment in real estate		**414**	377
Income on due from financial institutions		**327**	2,274
Reversal of unrealised fair value losses on investment in real estate	8	**113**	798
Dividend income		**69**	194
Other income		**2**	44
TOTAL INCOME		**3,869**	10,737
Expenses			
Corporate expenses		**1,929**	2,173
General and administration expenses	19	**1,591**	1,772
Deal acquisition expenses		**1,480**	863
Selling expenses		**545**	783
Asset management expenses		**485**	479
TOTAL EXPENSES		**6,030**	6,070
OPERATING (LOSS) / PROFIT		**(2,161)**	4,667
Share of profit from associates	10	**622**	404
NET (LOSS) / PROFIT BEFORE IMPAIRMENT, PROVISION AND FOREIGN EXCHANGE (LOSS) / GAIN		**(1,539)**	5,071
Provision against impairment on investments	6	**(1,360)**	(551)
Provision against investment in associate	10	**(2,000)**	-
(Provision) / reversal on receivables and prepayments	5.3	**(2,440)**	1,322
(Loss) / gain on foreign exchange		**(786)**	172
NET (LOSS) / PROFIT FOR THE YEAR		**(8,125)**	6,014
Attributable to:			
Equity holders of the parent		**(8,210)**	5,717
Non-controlling interest		**85**	297
		(8,125)	6,014

Saeed Abdul Jalil Al Fahim
Chairman of the Board of Directors

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

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

International Investment Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 US$ '000	2013 US$ '000
OPERATING ACTIVITIES			
Net (loss) / profit for the year		(8,125)	6,014
Adjustments for:			
Depreciation	19	2,424	386
Reversal of unrealised fair value losses on investment in real estate	8	(113)	(798)
Gain on sale of investments		(503)	(1,192)
Share of profit from associates	10	(622)	(404)
Provision against impairment on investments	6	1,360	551
Provision against investment in associate	10	2,000	-
Provision / (reversal) on receivables and prepayments	5	2,440	(1,322)
Operating (loss) / profit before changes in operating assets and liabilities		(1,139)	3,235
Changes in operating assets and liabilities:			
Receivables		(4,429)	10,110
Other assets		(793)	(502)
Other liabilities		255	(323)
Net cash (used in) / generated from operating activities		(6,106)	12,520
INVESTING ACTIVITIES			
Net cash outflow on acquisition of a subsidiary	3	(7,739)	-
Purchase of investments		(4,025)	(775)
Proceeds from disposal of investments		12,798	15,784
Musharaka		-	(25,144)
Purchase of equipment and vehicles		(190)	(20)
Net cash generated from / (used in) investing activities		844	(10,155)
FINANCING ACTIVITY			
Wakala payable		30,000	-
Net cash generated from financing activities		30,000	-
INCREASE IN CASH AND CASH EQUIVALENTS		24,738	2,365
Cash and cash equivalents at beginning of the year		37,897	35,532
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		62,635	37,897
Cash and cash equivalents comprise:			
Cash and balances with banks		3,560	1,885
Due from financial institutions with original maturities of ninety days or less		59,075	36,012
		62,635	37,897

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

International Investment Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

				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 2014	109,996	(6,798)	72,050	6,980	3,729	(725)	9,984	(20,810)	7,260	171,682
Unrealised gain on re-measurement to fair value, net	-	-	-	-	6,051	-	6,051	-	-	6,051
Exchange differences on translation of foreign operations	-	-	-	-	-	(2,211)	(2,211)	-	(157)	(2,368)
Retained loss adjustment (note 15)	-	-	(20,810)	-	-	-	-	20,810	-	-
Net (loss) / profit for the year	-	-	-	-	-	-	-	(8,210)	85	(8,125)
Non-controlling interest acquired	-	-	-	-	-	-	-	-	2,837	2,837
Balance at 31 December 2014	**109,996**	**(6,798)**	**51,240**	**6,980**	**9,780**	**(2,936)**	**13,824**	**(8,210)**	**10,025**	**170,077**
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

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

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 2 April 2015.

2 ACCOUNTING POLICIES

a) Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention except for equity-type 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, unless otherwise indicated.

b) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank, 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. For matters not covered by FAS, 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 2014. 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. A change in the Group's ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

International Investment Bank B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2014

2 ACCOUNTING POLICIES (continued)

c) Basis of consolidation (continued)
All intra-group balances, transactions, income and expenses are eliminated in full.

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. Transaction with the non controlling interest are handled in the same way as transactions with external parties.

The following are the Group's subsidiaries as at 31 December 2014:

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 Al Fareeda 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%	
IIB Aircraft Lease SPC Limited *	Cayman Islands	2014	100.00%	SPVs for investment in aircraft lease

* The Bank incorporated IIB Aircraft Lease SPC Limited (a wholly owned SPV) during the year 2014 to invest in an aircraft. Please refer note 7 for further details.

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 management 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.

International Investment Bank B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2014

2 ACCOUNTING POLICIES (continued)

d) Significant accounting judgements and estimates (continued)

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 or income statement
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.

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.

Impairment provisions against investment in ijarah assets
At the end of each reporting period an assessment is made to determine whether any evidence of impairment exists in the Group's investment in ijarah assets by comparing the carrying amount to the recoverable amount. The recoverable amount is determined by independent valuation experts with specific expertise in the valuation of such assets. Judgment is applied by the independent valuation experts in determining the cash flows, discount rates and in identification of assets comparable to the asset being valued.

Useful life of an aircraft
Management assigns useful lives to aircrafts based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives differing from initial estimates.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

2 ACCOUNTING POLICIES (continued)

d) Significant accounting judgements and estimates (continued)

Provision of other receivables

An aging analysis is prepared for all other receivable balances reflecting the period between the initial income recognition date and the reporting date. Reflecting the age of each receivable, a provision is booked in accordance with the definitions and percentages in the following table:

Period since initial recognition	Status	Minimum Provision
Under 12 months	Regular	0%
Over 12 months	Sub-standard	25%
Over 24 months	Doubtful	50%
Over 36 months	Loss	100%

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

The consolidated financial statements are presented in United States Dollar, which is the Group's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

2 ACCOUNTING POLICIES (continued)

e) Summary of significant accounting policies (continued)

ii) Financial instruments

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 and subsequent measurement 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.

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
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 is recognised 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 is measured at the date of consolidated statement of financial position at historical cost. Profits in respect of the Group's share in musharaka transactions are recorded to the extent the profits are distributed and declared and losses are recognised to the extent that such losses are being deducted from the Group's share of musharaka capital.

Investments
Investments are classified as follows:

- Investments at fair value through equity
- Investments at amortised cost
- Investments at fair value through statement of income

International Investment Bank B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2014

2 ACCOUNTING POLICIES (continued)

e) Summary of significant accounting policies (continued)

ii) 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 amortising it using the effective profit rate method. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

Fair value through statement of income
Investments at fair value through statement of income include investments designated upon initial recognition as investments at fair value through statement of income. Financial assets carried at fair value through statement of income are recognised at fair value, with transaction costs recognised in the consolidated statement of income.

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

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

2 ACCOUNTING POLICIES (continued)

e) Summary of significant accounting policies (continued)

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.

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.

International Investment Bank B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2014

2 ACCOUNTING POLICIES (continued)

e) Summary of significant accounting policies (continued)

v) Impairment of financial assets (continued)

Investments carried at amortised cost (continued)
The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate. If a financial asset has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

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.

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.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

2 ACCOUNTING POLICIES (continued)

e) Summary of significant accounting policies (continued)

ix) Investment in ijarah assets

Investment in ijarah assets are stated at cost less accumulated depreciation and accumulated impairment. Changes in expected useful lives are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of ijarah assets to their residual values over their ijarah terms.

Ijarah assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the ijarah asset (calculated as the difference between the net disposal proceeds and the carrying amount of the ijarah asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

x) Wakala payable

Wakala payable is recorded at amortised cost including the transaction cost, if any. There is no restriction on the Group for the use of funds received under wakala agreement. Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

xi) Revenue recognition

The Group 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 Group.

Management fees represent a recurring fee earned by the Group 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.

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.

Rental income from investment in ijarah assets is recognised on the basis of contractual amounts receivable on a time apportioned basis.

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

Income on musharaka is recognised when the right to receive payment is established or on distribution by the musharek.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

2 ACCOUNTING POLICIES (continued)

e) Summary of significant accounting policies (continued)

xii) Employees' end of service benefits

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

Bahraini employees of the Group are covered by contributions made to the General Organisation of Social Insurance Scheme (GOSI) as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due. Provision for leaving indemnity is also made for Bahraini employees having salary above the limit prescribed by Bahrain Labour Law.

xiii) Zakat

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

xiv) 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.

xv) 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 Group.

xvi) Proposed dividend

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

xvii) Provisions

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

xviii) 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 Group's own equity instruments. No dividends are paid on treasury shares.

xix) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). CODM is a person or group that allocates resources to and assesses the performance of the operating segments of the entity. The Group has determined the Chief Executive Officer as its CODM.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

3 BUSINESS COMBINATION

On 22 May 2014, the Group acquired 95% of the voting shares in IIBN Aircraft Lease 1 Limited which is a limited liability special purpose company registered in Cayman Islands. The Group made the investment in order to indirectly acquire an aircraft and lease it as an Ijarah asset. The consolidated financial statements include the result of IIBN Aircraft Lease 1 Limited from the acquisition date.

	IIBN Aircraft Lease 1 Limited US$ '000
Assets	
Cash and cash equivalent	992
Property, plant an equipment	77,361
Other assets	1,286
	79,639
Liabilities	
Term Finance	69,733
Current liabilities	720
	70,453
Total net assets	9,186
Non-controlling interest	455
Consideration settled in cash	8,731
Cash and cash equivalents in the subsidiary company acquired	(992)
Cash outflow on acquisition	7,739

4 DUE FROM FINANCIAL INSTITUTIONS

	2014 US$ '000	2013 US$ '000
Commodity murabaha	59,086	36,023
Deferred income	(11)	(11)
	59,075	36,012

These represent short term placements entered with financial institutions carrying profit rate ranging from 0.45% to 0.75% (2013: 0.6% to 2.5%) per anum and maturities up to February 2015.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

5 RECEIVABLES

	Note	2014 US$ '000	2013 US$ '000
Receivables and prepayments	5.1	672	9,405
Due from investee companies	5.2	1,937	2,410
		2,609	11,815

5.1 Receivables and prepayments

	Note	2014 US$ '000	2013 US$ '000
Structuring fee receivable	5.1.1	-	3,889
Receivable from investee companies		1,204	4,958
Management fee receivables		3,140	2,262
Other receivables		3	4
		4,347	11,113
Provisions	5.3	(3,675)	(1,708)
		672	9,405

5.1.1 During the year, the Bank purchased shares of IIB Caspian Investment Ltd. which holds equity in Amrah Bank (incorporated in Republic of Azerbaijan) from an investor as in kind settlement for the structuring fee receivable. The Bank, through its SPVs, now hold 5.43% in Amrah Bank.

5.2 Due from investee companies

	Note	2014 US$ '000	2013 US$ '000
Commodity murabaha receivables		5,930	5,931
Deferred profit		-	(1)
		5,930	5,930
Provisions / suspended profit	5.3	(3,993)	(3,520)
		1,937	2,410

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

5 RECEIVABLES (continued)

5.3 Movement in provisions

	Receivables and prepayments 2014 US$ '000	Due from investee companies 2014 US$ '000	Total 2014 US$ '000	Total 2013 US$ '000
As at 1 January	1,708	3,520	5,228	6,171
Transfer from general provision against investment (note 6)	-	-	-	1,500
Charge during the year	1,967	473	2,440	500
Reversal due to repayment	-	-	-	(1,822)
	1,967	473	2,440	(1,322)
Reversal of suspended profit on payment	-	-	-	(1,461)
Suspended profit during the year	-	-	-	340
As at 31 December	3,675	3,993	7,668	5,228

* This represents provision amounting to US$ 3,090 thousand (2013: US$ 1,708 thousand) against management fee receivables and US$ 585 thousand (2013: Nil) against receivable from investee companies.

6 INVESTMENTS

	Note	2014 US$ '000	2013 US$ '000
Equity Type			
Fair value through equity			
Quoted	6.1	8,514	8,487
Unquoted	6.1	39,465	30,485
		47,979	38,972
Fair value through profit and loss			
Unquoted	6.2	4,025	-
Provision held against unquoted equity investments		(1,450)	(500)
Debt Type			
At amortised cost			
Unquoted	6.3	-	10,000
		50,554	48,472

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

6 INVESTMENTS (continued)

Movement in provision against unquoted equity investments

	2014 US$ '000	2013 US$ '000
As at 1 January	**500**	2,000
Transfer to provision against receivables and prepayments (note 5.3)	**-**	(1,000)
Transfer to provision against due from investee companies (note 5.3)	**-**	(500)
Provision during the year	**1,360**	551
Provision written-off against investment	**(410)**	(551)
As at 31 December	**1,450**	500

6.1 Quoted and unquoted investments include US$ 6,529 thousand (2013: US$ 6,529 thousand) and US$ 2,068 thousand (2013: 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.

6.2 During the year, the Bank acquired 3.5 million shares at a price US$ 1.15 per share. These shares are classified as fair value through profit and loss.

6.3 During the year, the Bank disposed off it's investment carried at amortised cost and realised a capital gain of US$ 472 thousand. Prior to disposal, the Bank also earned US$ 450 as yield on investment.

7 INVESTMENT IN IJARAH ASSET, NET OF DEPRECIATION

The investment in Ijarah asset represents aircraft indirectly acquired, during 2014, through an equity investment in IIB Aircraft Lease SPC Limited (a subsidiary of the Bank).

	2014 US$ '000
Cost:	
At 1 January	**-**
Additions	**77,750**
At 31 December	**77,750**
Depreciation:	
At 1 January	**-**
Charges during the period	**2,138**
At 31 December	**2,138**
Net book value:	
At 31 December	**75,612**

In May 2014, an aircraft with a carrying value of US$ 77,750 thousand (31 December 2013: Nil) was leased by IIBN Aircraft Lease I Ltd, a Cayman entity in which IIB has an indirect stake of 95% through IIB Aircraft Lease SPC Ltd, a Cayman registered company. This aircraft is subleased to Finnair Aircraft through IIBN Aircraft Lease I (Dublin) Ltd, an entity registered in Ireland. The lease is a 12 year non-cancellable lease.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

8 INVESTMENT IN REAL ESTATE

	2014 US$ '000	2013 US$ '000
Original cost	**5,285**	5,285
Fair value reserve	**127**	(113)
Carrying value	**5,412**	5,172

Investment in real estate comprises of an eleven-storey residential tower, in Kingdom of Bahrain, with 23 apartments. During the year the property has generated an average net monthly income of US$ 31 thousand (2013: US$ 31 thousand). The property is stated at fair value, determined based on valuations performed by two independent professional valuers as of 31 December 2014, resulting in reversal of unrealised fair value loss amounting to US$ 113 thousand (2013: US$ 798 thousand) in the consolidated statement of income.

9 MUSHARAKA

This represents equity participation by the Bank through Shari'a compliant debt and equity structure entities. 11 USCOs, which are based in United States of America (USA), entered into an economic interest agreement with Atlas Multifamily three LLC (the "Company") based on which it has 95% economic interest in the Company. The management of the Bank believes that the economic interest agreement in substance is a Musharaka arrangement.

10 INVESTMENT IN ASSOCIATES

	Note	2014 US$ '000		2013 US$ '000	
		Ownership	Carrying value	Ownership	Carrying value
Al Shiddi International	10.1	**32.98%**	**27,783**	32.98%	25,492
Hungry Bunny WLL	10.2	**49.00%**	**16,716**	49.00%	15,206
IIB UAE Investments Limited	10.3	**27.32%**	**6,476**	27.32%	5,744
Ewaan Al Fareeda	10.4	**26.96%**	**655**	26.96%	682
			51,630		47,124
Provisions			**(3,772)**		(1,772)
			47,858		45,352

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

10 INVESTMENT IN ASSOCIATES (continued)

Following is the summarised financial information of the Group's investment in associates based financial information as at 31 December 2014:

	Al Shiddi International 2014 US$ '000	Hungry Bunny WLL 2014 US$ '000	IIB UAE Investments Limited 2014 US$ '000	Ewaan Al Fareeda 2014 US$ '000	Total 2014 US$ '000	Total 2013 US$ '000
Total assets	106,627	21,508	35,521	2,503	166,159	104,557
Total liabilities	(36,215)	(9,470)	(3,016)	(74)	(48,775)	(33,911)
Net assets	70,412	12,038	32,505	2,429	117,384	70,646
Total income	-	16,432	12,054	3	28,489	15,227
Total expenses	2,195	15,124	561	101	17,981	14,883
Net (loss) / income	(2,195)	1,308	11,493	(98)	10,508	344
Share of (loss) / profit from associates	(724)	641	731	(26)	622	404

10.1 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 has developed a real estate project that comprises of a shopping mall, an office tower, hotel tower and a parking garage. This real estate project is being held and managed 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.

10.2 During 2012, the Bank acquired an equity stake in Hungry Bunny WLL through Bahrain Bunny Shares and Securities W.L.L., a subsidiary of the Bank. Hungry Bunny is a fast food restaurant with most of its outlets located in Kingdom of Saudi Arabia (KSA).

10.3 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 and a master developer to sell an investment property. Subsequently, the Company terminated this sale/purchase agreement on the basis that the buyer and the master developer failed to fulfill their contractual obligations. The parties then commenced a court action against the Company for specific performance of the sale/purchase agreement.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

10 INVESTMENT IN ASSOCIATES (continued)

10.3 (continued)

Since 2007, there have been a number of Court and Appeal Court hearings and decisions. On 28 January 2015, the Court of Cassation gave its final verdict on the case, in which the Court of Cassation decided on two matters as follows:

(a) Ordered the master developer to pay an amount of AED 42 million (US$ 11.44 million);

(b) Ordered the re-trial by the Court of Appeals for the payment of AED 130 million from the buyer (USD 35.34 million).

Subsequently, the Court issued a cheque amounting to AED 42 million (US$ 11.44 million) on 19 March 2015 which has been received by the Company. The retrial process has been started by the Court of Appeals on the above mentioned re-trial case. On the basis of the past history of the case and the assessment of legal experts, the Company is confident that the Court of Appeals will decide in favour of the Company in respect of the re-trial.

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.

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

11 TERM FINANCE

	2014 US$ '000	2013 US$ '000
Balance at beginning of the year	-	-
Funds acquired during the year	70,000	-
Repayments	(1,981)	-
	68,019	-

The above financings have been obtained by the Bank's subsidiary to purchase ijarah assets (note 7). The financing comprises of two components, a senior loan and a mezzanine loan. The profit on these financings ranges between 4.34% to 6.50% and these financings mature on 22 July 2026. There is no recourse to the Bank on these financings.

12 WAKALA PAYABLE

During December 2014, the Bank has obtained wakala financing on an unsecured basis from a ministry in the Kingdom of Bahrain. The maturity of wakala is in December 2018 and it carries a fixed profit rate of 6% per anum.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

13 OTHER LIABILITIES

	2014 US$ '000	2013 US$ '000
Employee related accruals	632	493
Advance rent received	542	69
Accrued expenses	158	787
Other payables	1,995	1,723
	3,327	3,072

14 OWNERS' EQUITY

14.1 Share capital

	2014 US$ '000	2013 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

14.2 Treasury Shares

	2014		2013	
	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

14.3 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.

14.4 Cumulative changes in fair value reserve

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

14.5 Foreign currency translation reserve

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

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

15 SHARE PREMIUM

During the year, the Bank has offset its share premium amounting to US$ 20,810 thousand against its accumulated deficit of US$ 20,810 thousand as at 1 January 2014. For this purpose, the approval from CBB was obtained on 1 June 2014. The shareholders gave their approval in an extra ordinary general meeting held on 27 May 2014.

16 INVESTMENT BANKING FEES

	2014 US$ '000	2013 US$ '000
Structuring fees	-	3,889
Management fees	1,022	775
Placement fees	489	282
	1,511	4,946

17 NET INCOME FROM INVESTMENT IN IJARAH ASSET

	2014 US$ '000	2013 US$ '000
Rental income from investment in ijarah asset	4,931	-
Other ijarah operational expenses	(189)	-
Financing cost of investment in ijarah asset	(2,124)	-
Depreciation on ijarah asset	(2,138)	-
	480	-

18 STAFF COSTS

	2014 US$ '000	2013 US$ '000
Salaries and other staff related costs	3,044	3,528
End of service benefits	139	117
	3,183	3,645

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.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

19 GENERAL AND ADMINISTRATION EXPENSES

	2014 US$ '000	2013 US$ '000
Legal and professional	352	271
Depreciation	286	386
Rent and maintenance	275	299
Printing and advertisement	117	233
Shari'a Supervisory Board remuneration	109	126
Directors' expenses	50	75
IT expenses	46	53
Communication	36	40
Others	320	289
	1,591	1,772

20 PROPOSED APPROPRIATIONS

The Board of Directors of the Bank has not proposed any dividends for 2014 (2013: US$ Nil).

21 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank, the Bank's Shari'a Supervisory Board and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties arise from the ordinary course of business.

The significant balances with related parties are as follows:

	Shareholders/ directors US$ '000	Others US$ '000	Total 2014 US$ '000	Total 2013 US$ '000
Assets				
Investments	-	77	77	261
Musharaka	-	25,144	25,144	25,144
Investment in associates	-	47,858	47,858	45,352
Receivable from investee companies	-	6,118	6,118	3,884

Transactions with related parties during the year are as follows:

	Shareholders/ directors US$ '000	Others US$ '000	Total 2014 US$ '000	Total 2013 US$ '000
Income				
Share of profit from associates	-	622	622	404
Expenses				
Directors' remuneration	62	-	62	75
Shari'a Supervisory Board remuneration	-	109	109	126

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

21 BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

Compensation of key management personnel was as follows:

	2014 US$ '000	2013 US$ '000
Short term employee benefits	2,169	2,558
End of service benefits and social service benefits	242	215
	2,411	2,773

22 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 Group'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 Group'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 and equity management unit manages the Group'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.

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

a) Income and expenditure

	Investment banking & placement 2014 US$ '000	Investment management 2014 US$ '000	Treasury & equity management 2014 US$ '000	Total 2014 US$ '000
Income	489	2,271	323	3,083
Expenses	(2,062)	(503)	(1,904)	(4,469)
Operating profit	(1,573)	1,768	(1,581)	(1,386)
Share of profit from associates	-	622	-	622
Impairment and provisions	-	(5,800)	-	(5,800)
Unallocated expenses	-	-	-	(1,561)
Net profit / (loss)	(1,573)	(3,410)	(1,581)	(8,125)

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

22 SEGMENT INFORMATION (continued)

a) Income and expenditure

The table below shows the segmental details of income and expenditure for the year 2013.

	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)
	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 / (loss)	2,507	3,197	2,056	6,014

b) Assets and liabilities

Segmental information of the assets and liabilities of the group, based on the income streams, for the year 2014 is given below:

	Investment banking & placement 2014 US$ '000	Investment management 2014 US$ '000	Treasury & equity management 2014 US$ '000	Total 2014 US$ '000
Assets	25,144	181,305	64,974	271,423
Liabilities	-	68,019	-	68,019
Unallocated liabilities	-	-	-	33,327

Segmental details 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

Liabilities amounting to US$ 33,327 thousand (2013: US$ 3,072 thousand) are considered as unallocated on the basis that these do not relate to any of the reportable segment.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

22 SEGMENT INFORMATION (continued)

c) Geographical segment information

Segmental details of the assets and liabilities of the group, between domestic and overseas, for the year 2014 is given below:

	Domestic 2014 US$ '000	Overseas 2014 US$ '000	Total 2014 US$ '000
Assets	74,970	196,453	271,423
Liabilities	33,327	68,019	101,346

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

23 COMMITMENTS

	2014 US$ '000	2013 US$ '000
Operating lease relating to rented premises		
Expiring within one year	213	51
Expiring in one to three years	471	-
	684	51

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

24 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 25.3 “Liquidity risk and funding management” for the Bank’s contractual undiscounted repayment obligations.

As at 31 December 2014	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	3,560	-	3,560	-	-	-	3,560
Due from financial institutions	59,075	-	59,075	-	-	-	59,075
Receivables	76	1,592	1,668	428	513	-	2,609
Investments	-	-	-	50,554	-	-	50,554
Investment in ijarah asset, net of depreciation	-	-	-	-	75,612	-	75,612
Investment in real estate	-	-	-	5,412	-	-	5,412
Investment in associate	-	-	-	47,858	-	-	47,858
Musharaka	-	-	-	-	25,144	-	25,144
Other assets (including equipment)	1,352	47	1,399	3	3	194	1,599
Total assets	64,063	1,639	65,702	104,255	101,272	194	271,423
LIABILITIES							
Term finance	874	2,677	3,551	11,657	52,811	-	68,019
Wakala payable	-	-	-	-	30,000	-	30,000
Other liabilities	2,629	66	2,695	632	-	-	3,327
Total liabilities	3,503	2,743	6,246	12,289	82,811	-	101,346
Net gap	60,560	(1,104)	59,456	91,966	18,461	194	170,077

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

24 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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 associates	-	-	-	30,146	15,206	-	45,352
Musharaka	-	-	-	-	25,144	-	25,144
Other assets (including equipment)	549	61	610	-	2	290	902
Total assets	43,304	1,258	44,562	79,037	50,865	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	(891)	41,983	78,544	50,865	290	171,682

25 RISK MANAGEMENT

25.1 Introduction

Risk is inherent in the Group'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 Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The main risks to which the Group 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 Group to judge whether it followed the principles of the Islamic Shari'a and specific fatwas, rulings and guidelines issued.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

25 RISK MANAGEMENT (continued)

25.1 Introduction (continued)

a) Risk management structure (continued)

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 Group. 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 Group, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Internal Audit

Risk management processes throughout the Group 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 Group'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 Group's assets mainly comprise cash and balances with banks, due from financial institutions, receivables and investments (including investment in real estate, investment in ijarah asset 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 Group as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Group also monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

25 RISK MANAGEMENT (continued)

25.1 Introduction (continued)

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 Group's performance to developments affecting a particular industry or geographical location.

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

25.2 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 Group 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.

	Note	Gross credit exposure 2014 US$ '000	Gross credit exposure 2013 US$ '000
Credit risk items:			
Balances with banks		3,558	1,883
Due from financial institutions	4	59,075	36,012
Receivables	5	2,609	11,815
Musharaka	9	25,144	25,144
Other assets		1,405	612
Total Credit Risk Exposure		**91,791**	75,466

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

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

25 RISK MANAGEMENT (continued)

25.2 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 2014	**Balances with banks US$ '000**	**Due from financial institutions US$ '000**	**Receivables US$ '000**	**Musharaka US$ '000**	**Other assets US$ '000**	**Total US$ '000**
Geographical region:						
Bahrain	**2,495**	**59,075**	**192**	**-**	**157**	**61,919**
Europe	**800**	**-**	**1,571**	**-**	**1,248**	**3,619**
Other GCC countries	**263**	**-**	**130**	**-**	**-**	**393**
Africa	**-**	**-**	**101**	**-**	**-**	**101**
Asia	**-**	**-**	**102**	**-**	**-**	**102**
North America	**-**	**-**	**513**	**25,144**	**-**	**25,657**
	3,558	**59,075**	**2,609**	**25,144**	**1,405**	**91,791**

As at 31 December 2013	Balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Musharaka 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	25,144	-	25,660
	1,883	36,012	11,815	25,144	612	75,466

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

25 RISK MANAGEMENT (continued)

25.2 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 2014	Balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Musharaka US$ '000	Other assets US$ '000	Total US$ '000
Industry sector:						
Real estate development	-	-	232	-	-	232
Real estate-income generating	-	-	2,084	25,144	-	27,228
Banking and financial institutions	3,558	59,075	143	-	-	62,776
Manufacturing	-	-	55	-	-	55
Automotive	-	-	69	-	-	69
Others	-	-	26	-	1,405	1,431
	3,558	59,075	2,609	25,144	1,405	91,791

As at 31 December 2013	Balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Musharaka US$ '000	Other assets US$ '000	Total US$ '000
Industry sector:						
Real estate development	-	-	4,014	-	-	4,014
Real estate income generating	-	-	2,623	25,144	-	27,767
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	25,144	612	75,466

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

25 RISK MANAGEMENT (continued)

25.2 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:

	2014 US$ '000	2013 US$ '000
Credit rating:		
A- and better	2,313	26,559
BB+ and better	4,676	1,342
Unrated	84,802	22,421
	91,791	50,322

e) Ageing of financial assets

As at 31 December 2014	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	3,558	-	-	3,558
Due from financial institutions	59,075	-	-	59,075
Receivables	1,184	-	1,425	2,609
Musharaka	25,144	-	-	25,144
Other assets	1,405	-	-	1,405
	90,366	-	1,425	91,791

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
Musharaka	25,144	-	-	25,144
Other assets	612	-	-	612
	73,488	-	1,978	75,466

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

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

25 RISK MANAGEMENT (continued)

25.2 Credit risk(continued)

f) Rescheduled receivables

Receivables amounting to US$ Nil (2013: 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 2014 was US$ 54,936 thousand (2013: US$ 26,457 thousand).

25.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management arranges diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Contractual maturities of undiscounted cash flows of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations as 31 December 2014. Repayments which are subject to notice are treated as if notice were to be given immediately.

As at 31 December 2014	**On demand US$ '000**	**Less than 3 months US$ '000**	**3 to 12 months US$ '000**	**1 to 5 years US$ '000**	**Total US$ '000**
Term finance	-	-	-	68,097	68,097
Wakala payable	-	-	-	30,000	30,000
Other liabilities	3,327	-	-	-	3,327
Total undiscounted liabilities	3,327	-	-	98,097	101,424

As at 31 December 2013	On demand US$ '000	Less than 3 months US$ '000	3 to 12 months US$ '000	1 to 5 years US$ '000	Total US$ '000
Other liabilities	3,072	-	-	-	3,072
Total undiscounted liabilities	3,072	-	-	-	3,072

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

25 RISK MANAGEMENT (continued)

25.4 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 Group has fair value through equity investments quoted on overseas stock exchanges. Based on the values at 31 December 2014, a change in the quoted price of plus or minus 10% would change the value of these investments by plus or minus US$ 851 thousand (2013: US$ 849 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 Group 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 2014, a change in the valuation of 10% would change the value of these investments by plus or minus US$ 4,155 thousand (2013: US$ 3,892 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 Group had the following net foreign currency exposures at 31 December 2014:

	2014 US$ '000	2013 US$ '000
Euro	3,691	4,557
GBP	4,311	5,638
AZN (Azerbaijani Manat)	4,406	513
Others	1,384	1,267
	13,792	11,975

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

25 RISK MANAGEMENT (continued)

25.4 Market risk (continued)

b) Foreign currency risk (continued)

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.

	Change in exchange rate (+/-) %	2014 Effect on net loss/equity (+/-) US$ '000	2013 Effect on net income/ equity (+/-) US$ '000
Euro	**10%**	**369**	456
GBP	**10%**	**431**	564
AZN (Azerbaijani Manat)	**10%**	**441**	51
Others	**10%**	**138**	127

Subsequent to the year ended 31 December 2014, the value of Azerbaijani Manat (AZN) depreciated by 30% against US$. Had the depreciation would have been accounted for on 31 December 2014, the adverse effect on net loss / equity would have been US$ 1,322 thousand.

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 Group currently has limited exposure to profit rate risk. The Group'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 2014, a +/- 0.25% change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 78 thousand (2013: +/- US$ 113 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.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

26 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.

26.1 Capital adequacy ratio

	Note	2014 US$ '000	2013 US$ '000
Regulatory capital base:			
Tier 1 capital	26.2	**101,103**	147,230
Total regulatory capital		**101,103**	147,230
Risk weighted assets	26.3	**213,571**	303,223
Total capital adequacy ratio		**47.34%**	48.56%
Minimum regulatory ratio		**12%**	12%

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

26 CAPITAL MANAGEMENT (continued)

26.2 Tier 1 Capital

	2014 US$ '000	2013 US$ '000
Share capital	**109,996**	109,996
Treasury shares	**(6,798)**	(6,798)
Share premium	**51,240**	72,050
Statutory reserve	**6,980**	6,980
Cumulative changes in fair value reserve	**(3,825)**	(1,872)
Accumulated deficit	**(8,210)**	(20,810)
Non controlling interest	**10,025**	7,260
Core Tier 1 Capital	**159,408**	166,806
Deductions	**(31,553)**	(10,885)
Tier 1 Capital before adjustments for negative balance of Tier 2	**127,855**	155,921
Negative balance of Tier 2	**(26,752)**	(8,691)
Tier 1 Capital net of negative Tier 2 Capital	**101,103**	147,230

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.

26.3 Risk weighted assets

	Basel II 2014 US$ '000	Basel II 2013 US$ '000
Credit risk weight assets	**133,687**	225,592
Market risk weight assets	**44,400**	42,146
Operational risk weight assets	**35,484**	35,485
	213,571	303,223

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.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

As at 31 December 2014	**Cost / Amortised cost US$ '000**	**Fair value through income statement US$ '000**	**Fair value through equity US$ '000**	**Total US$ '000**
Financial assets:				
Due from financial institutions	**59,075**	**-**	**-**	**59,075**
Receivables	**2,609**	**-**	**-**	**2,609**
Investments	**-**	**4,025**	**46,529**	**50,554**
Musharaka financing	**25,144**	**-**	**-**	**25,144**
Other assets	**208**	**-**	**-**	**208**
Total	**87,036**	**4,025**	**46,529**	**137,590**
Financial liabilities:				
Term finance	**68,019**	**-**	**-**	**68,019**
Wakala payable	**30,000**	**-**	**-**	**30,000**
Other liabilities	**3,327**	**-**	**-**	**3,327**
Total	**101,346**	**-**	**-**	**101,346**

As at 31 December 2013	Cost / 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
Musharaka financing	25,144	-	25,144
Other assets	612	-	612
Total	83,583	38,472	122,055
Financial liabilities:			
Other liabilities	3,072	-	3,072
Total	3,072	-	3,072

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy

The Group 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.

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

	2014			
	Level 1 US$ '000	**Level 2 US$ '000**	**Level 3 US$ '000**	**Total US$ '000**
Non-trading investments				
Quoted	**8,514**	**-**	**-**	**8,514**
Unquoted	**-**	**30,015**	**12,025**	**42,040**
	8,514	**30,015**	**12,025**	**50,554**

	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

There has been no transfers from level 1 and level 2 to level 3 during the years 2013 and 2014.

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 Group'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.

International Investment Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2014

27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Movements in level 3 financial instruments measured at fair value

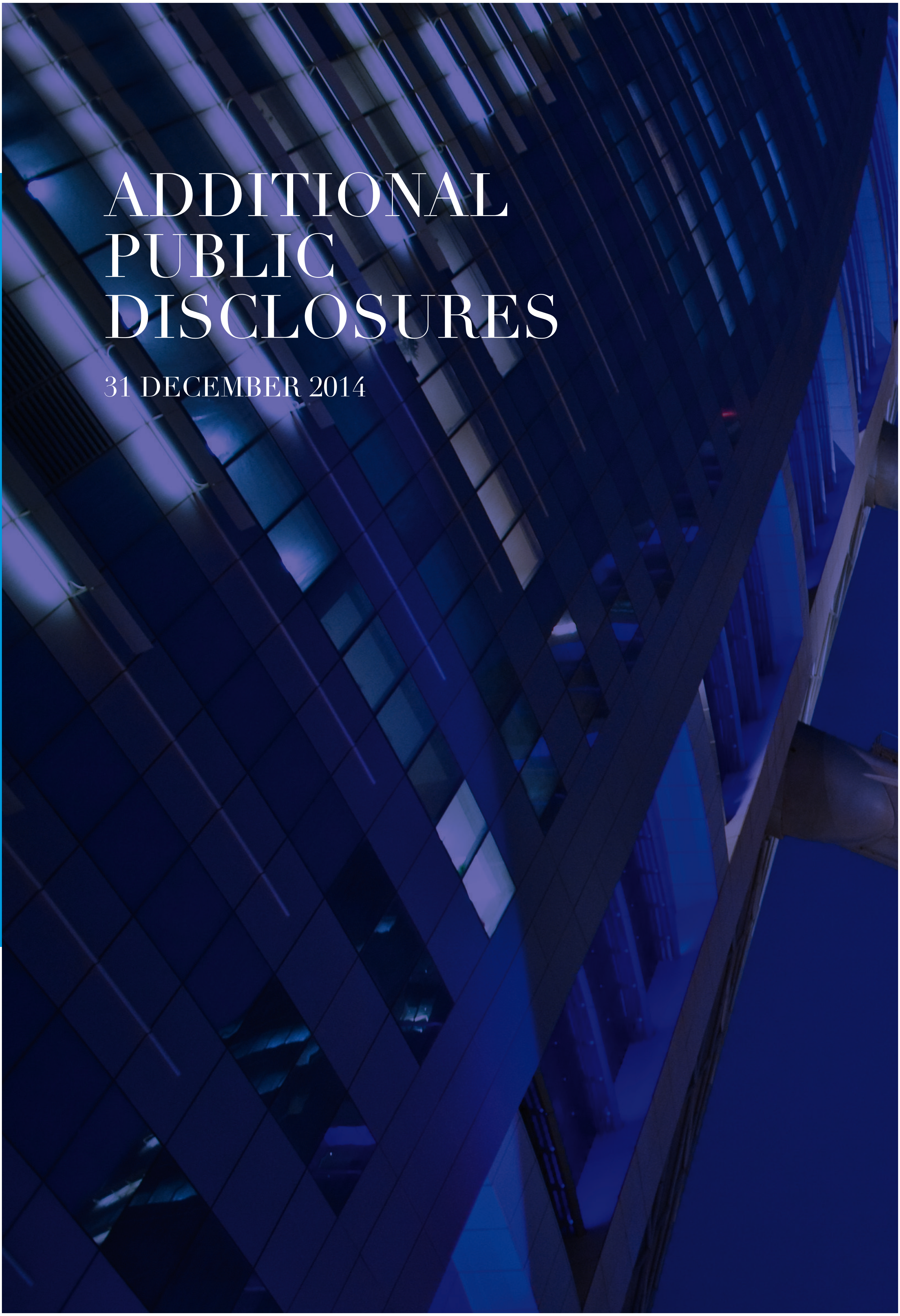
The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value:

	Unquoted 2014 US$ '000	Unquoted 2013 US$ '000
Balance at 1 January	**9,990**	9,054
Fair value gain recorded in income statement	**-**	-
Fair value (loss) / gain recorded in equity	**(971)**	161
Provision against unquoted investment	**(1,019)**	-
Purchases, sales and settlements, net	**4,025**	775
Balance at 31 December	**12,025**	9,990

For the above financial instruments categorised as level 3, the Group 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$ 1,423 thousand (31 December 2013: +/- US$ 910 thousand) adjustment in the carrying value of level 3 investments and related cumulative fair value change.

28 SOCIAL RESPONSIBILITY

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



ADDITIONAL PUBLIC DISCLOSURES

31 DECEMBER 2014

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES

31 December 2014

1 CAPITAL STRUCTURE

1.1 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 2013 and 2014, comprising of 109,996 thousand shares of US$ 1 each.

The Bank's regulatory capital base of US$ 101.1 million as at 31 December 2014 (31 December 2013: US$ 147.2 million) comprised Tier 1 capital of US$ 127.9 million (31 December 2013: US$ 155.9 million) and Tier 2 capital of negative US$ 26.8 million (31 December 2013: negative US$ 8.7 million) as disclosed in note 26 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.

1.2 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 2014 was 47.34% (2012: 48.56%), 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 26 Capital Management in the attached annual consolidated financial statements.

Given the Capital Adequacy Ratio of the Bank as at 31 December 2014, 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 2015.

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

1 CAPITAL STRUCTURE (continued)

1.3 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 2014 are as follows:

1.4 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:

As at 31 December 2014	Gross credit exposure US$ ‘000	Credit risk weighted assets US$ ‘000	Capital requirement US$ ‘000
Claims on banks - murabaha placements	59,988	12,787	1,598
Due from investee companies - murabaha	6,016	6,016	752
Equity investments - publicly held	6,620	6,620	828
Equity investments - privately held	38,806	58,209	7,276
Holding of real estate	23,892	47,784	5,973
Other assets	2,271	2,271	284
	137,593	133,687	16,711

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

1 CAPITAL STRUCTURE (continued)

1.4 Credit risk weighted assets (continued)

As at 31 December 2013	Gross credit exposure US$ '000	Credit risk weighted assets US$ '000	Capital requirement US$ '000
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

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 2014 were US$ 0.50 million (2013: US$ 1.19 million). The total net unrealised gains recognised in equity in 2014 aggregated to US$ 6.05 million (2013: US$ 3.18 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.

As at 31 December 2014	**Gross credit exposure 2014 US$ '000**	Gross credit exposure 2013 US$ '000
Credit risk items:		
Murabaha with financial institutions	**59,075**	36,012
Murabaha with corporates	**1,937**	2,410
Musharaka	**25,144**	25,144
Investments	**103,824**	98,996
Ijarah asset	**75,612**	-
Other assets	**5,831**	12,192
Total Credit Risk Exposure	**271,423**	174,754

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 2014.

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

1 CAPITAL STRUCTURE (continued)

1.4 Credit risk weighted assets (continued)

1.4.1 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:

As at 31 December 2014	Murabaha with financial institutions US$ '000	Murabaha with corporates US$ '000	Investments US$ '000	Musharaka US$ '000	Ijarah asset US$ '000	Other assets US$ '000	Total US$ '000
Geographical region:							
Bahrain	59,075	-	12,065	-	-	2,996	74,136
Europe	-	1,424	33,418	-	75,612	2,221	112,675
North America countries	-	513	-	25,144	-	-	25,657
Other GCC	-	-	52,551	-	-	476	53,027
Africa	-	-	1,384	-	-	57	1,441
Asia	-	-	4,406	-	-	81	4,487
	59,075	1,937	103,824	25,144	75,612	5,831	271,423

As at 31 December 2013	Murabaha with financial institutions US$ '000	Murabaha with corporates US$ '000	Investments US$ '000	Musharaka US$ '000	Other assets US$ '000	Total US$ '000
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	98,996	25,144	12,191	174,754

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

1 CAPITAL STRUCTURE (continued)

1.4 Credit risk weighted assets (continued)

1.4.1 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 exposures:

As at 31 December 2014	**Murabaha with financial institutions US$ '000**	**Murabaha with corporates US$ '000**	**Investments US$ '000**	**Musharaka US$ '000**	**Ijarah asset US$ '000**	**Other assets US$ '000**	**Total US$ '000**
Industry sector:							
Real estate development	-	-	61,447	-	-	162	61,609
Real estate-income generating	-	1,937	8,313	25,144	-	140	35,534
Banking and finance	59,075	-	4,406	-	-	3,641	67,122
Manufacturing	-	-	23,963	-	-	163	24,126
Airline / Automotive	-	-	907	-	75,612	1,314	77,833
Others	-	-	4,788	-	-	411	5,199
	59,075	1,937	103,824	25,144	75,612	5,831	271,423

As at 31 December 2013	Murabaha with financial institutions US$ '000	Murabaha with corporates US$ '000	Investments US$ '000	Musharaka US$ '000	Other assets US$ '000	Total US$ '000
Industry sector:						
Real estate-development	-	-	47,872	-	4,011	51,883
Real estate-income generating	-	1,937	9,125	25,144	685	36,891
Banking and financial institutions	36,012	-	1,204	-	2,153	39,369
Manufacturing	-	473	9,874	-	245	10,592
Airline / Automotive	-	-	1,267	-	136	1,403
Others	-	-	29,654	-	4,962	34,616
	36,012	2,410	98,996	25,144	12,192	174,754

1.4.2 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.

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

1 CAPITAL STRUCTURE (continued)

1.4 Credit risk weighted assets (continued)

1.4.2 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 2014 is shown below:

	2014			2013		
	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	**24,631**	**25,783**	**(1,152)**	25,350	42,816	(17,466)
Counterparty B	**24,631**	**25,657**	**(1,026)**	25,350	29,347	(3,997)
Counterparty C				25,350	25,657	(307)
			(2,178)			(21,770)

Capital deduction is equally deducted from Tier 1 and Tier 2.
There were no off-balance sheet exposures (2013: nil).

1.4.3 Ageing of financial assets

As at 31 December 2014	**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	**3,558**	**-**	**-**	**3,558**
Due from financial institutions	**59,075**	**-**	**-**	**59,075**
Receivables	**1,184**	**-**	**1,425**	**2,609**
Musharaka	**25,144**	**-**	**-**	**25,144**
Other assets	**1,405**	**-**	**-**	**1,405**
	90,366	**-**	**1,425**	**91,791**

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
Musharaka	25,144	-	-	25,144
Other assets	612	-	-	612
	73,488	-	1,978	75,466

Past due and individually impaired are overdues of more than 1 year but less than 3 years. Past due and individually impaired exposure pertains to Bank›s real estate exposure in Europe.

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

1 CAPITAL STRUCTURE (continued)

1.5 Market risk weighted assets

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

	2014		2013	
	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	**44,397**	**5,550**	42,150	5,269

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.

	2014 Assets/ liabilities net US$ '000	2013 Assets/ liabilities net US$ '000
Euro	33,299	34,606
Pound Sterling	5,309	5,764
Others	5,789	1,780
Market risk weighted exposure	**44,397**	42,150

1.6 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**

	2014 US$ '000	2013 US$ '000
Indicator of operational risk		
Average gross income multiply by number of years	18,925	18,925
Eligible portion for the purpose of calculation	15%	15%
Multiplier	12.5	12.5
Operational risk weighted exposure	35,484	35,484
Capital requirement (12.5%)	4,436	4,436

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

1 CAPITAL STRUCTURE (continued)

1.6 Operational risk (continued)

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 in the years 2014, 2011, 2010 and 2009 therefore, those have been excluded from the calculation of operational risk.

2 RISK MANAGEMENT

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 25 to the annual consolidated financial statements.

2.1 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 2014. The disclosures are considered to be reasonably representative of the position during 2014 as there has been no significant fluctuation in the level of credit risk assets.

2.1.1 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.

2.1.2 Excessive risk concentration

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

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

2 RISK MANAGEMENT (continued)

2.1 Credit Risk (continued)

2.1.3 Geographical distribution of exposures

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

	31 December 2014			31 December 2013		
	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000
Geographical region:						
Bahrain	74,136	7,802	5,174	47,625	6,909	3,321
Europe	112,675	39,854	5,012	40,435	7,634	1,836
North America	25,657	-	-	25,660	-	-
Other GCC countries	53,027	17,101	2,326	58,850	9,383	500
Africa	1,441	1,399	15	1,403	1,267	-
Asia	4,487	4,769	363	781	755	71
	271,423	70,925	12,890	174,754	25,948	5,728

The impaired security is reflected at fair value based on the relevant closing stock market price as at 31 December 2014. The criteria used to allocate exposures to particular geographical areas is the country to which the funds were transferred.

2.1.4 Industrial sector analysis of the exposures

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

	31 December 2014			31 December 2013		
	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000
Industry sector:						
Real estate development	61,609	47,191	5,380	51,883	2,444	500
Real estate-income generating	35,534	3,888	487	36,891	6,945	1,836
Banking and financial institutions	67,122	4,769	363	39,369	1,445	71
Manufacturing	24,126	8,397	5,675	10,592	13,847	3,321
Automotive / Airline	77,833	926	19	1,403	1,267	-
Others	5,199	5,754	966	34,616	-	-
	271,423	70,925	12,890	174,754	25,948	5,728

The Bank has no unfunded exposures as at 31 December 2014.

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

2 RISK MANAGEMENT (continued)

2.1 Credit Risk (continued)

2.1.5 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 2014:

Banks	Large exposure (banks) US$ '000	% of exposure to equity	Non-banks	Large exposure (non-banks) US$ '000	% of exposure to equity
Bank A	57,137	56.51%	Counterparty A	25,783	25.50%
Bank B	1,744	1.72%	Counterparty B	25,657	25.38%
			Counterparty C	20,404	20.18%
			Counterparty D	16,733	16.55%
			Counterparty E	8,857	8.76%
			Counterparty F	6,529	6.46%
			Counterparty G	5,412	5.35%
			Counterparty H	4,772	4.72%
			Counterparty I	4,025	3.98%
			Counterparty J	3,889	3.85%
			Counterparty K	3,710	3.67%
			Counterparty L	3,075	3.04%
			Counterparty M	2,646	2.62%
			Counterparty N	2,602	2.57%
			Counterparty O	2,086	2.06%
			Counterparty P	1,424	1.41%
			Counterparty Q	1,235	1.22%
			Counterparty R	1,008	1.00%

2.1.6 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 2014			31 December 2013		
	Gross credit exposure US$ '000	Rated exposures US$ '000	Unrated exposures US$ '000	Gross credit exposure US$ '000	Rated exposures US$ '000	Unrated exposures US$ '000
Cash and claims on banks	62,635	6,989	55,646	37,897	27,901	9,996
Equity portfolio	128,968	-	128,968	124,140	-	124,140
Other exposures	79,820	-	79,820	12,717	-	12,717
	271,423	6,989	264,434	174,754	27,901	146,853

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

2 RISK MANAGEMENT (continued)

2.1 Credit Risk (continued)

2.1.7 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 2014 are as follows:

	2014 Gross credit exposure US$ '000	2013 Gross credit exposure US$ '000
Claims on associates	47,858	45,352
Claims on investee companies	2,606	7,922
	50,464	53,274

2.1.8 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.

2.1.9 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.

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

2 RISK MANAGEMENT (continued)

2.2 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 2014. The ratio of liquid assets (defined as cash, balances with banks, due from financial institutions and quoted investments) to total assets at 31 December 2014 is 23.08% (2013: 26.5%). Details of liquidity risk and funding management are contained in Note 25.3 to the annual consolidated financial statements.

The table below shows an analysis of financial assets and liabilities as at 31 December 2014 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	1-5 years US$ '000	Above 5 years US$ '000	Total US$ '000
ASSETS							
Cash and claims on banks	62,635	-	-	-	-	-	62,635
Receivables	-	102	1,515	50	942	-	2,609
Investment in quoted equities	-	-	-	-	8,514	-	8,514
Investment in unquoted equities	-	-	-	-	42,040	-	42,040
Investment property	-	-	-	-	5,412	-	5,412
Investment in Ijarah asset	-	-	-	-	-	75,612	75,612
Investment in associates	-	-	-	-	47,858	-	47,858
Musharaka	-	-	-	-	25,144	-	25,144
Other assets	140	41	44	81	616	677	1,599
Total assets	62,775	143	1,559	131	130,526	76,289	271,423
LIABILITIES							
Term finance	511	1,022	1,533	3,067	25,147	36,739	68,019
Wakala payable	-	-	-	-	30,000	-	30,000
Other liabilities	697	130	67	1,800	633	-	3,327
Total liabilities	1,208	1,152	1,600	4,867	55,780	36,739	101,346
Net gap	61,567	(1,009)	(41)	(4,736)	74,746	39,550	170,077

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

2 RISK MANAGEMENT (continued)

2.2 Liquidity Risk and Funding Management (continued)

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 withing 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	-	-	-	-	-	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

2.3 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 25.4 to the annual consolidated financial statements details the Bank's exposure to equity price risk, foreign currency risk and profit rate risk.

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

2 RISK MANAGEMENT (continued)

2.4 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 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.

2.5 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 2014.

International Investment Bank B.S.C. (c)

ADDITIONAL PUBLIC DISCLOSURES (continued)

31 December 2014

3 INVESTMENT IN SUBSIDIARIES

The Bank has the following subsidiaries, namely:

Name of the subsidiary	Located in	Currency		2014	2013
Istethmary Al Fareeda Company B.S.C. (c)	Kingdom of Bahrain	SAR	Net assets	88,978,372	151,600,722
			Net profit	975,061	2,661,694
Istethmary Sarajevo City Centre	Cayman Islands	Euro	Net assets	21,512,000	21,801,000
			Net loss	(2,205,000)	(376,725)
Bahrain Bunny Shares and Securities W.L.L.	Kingdom of Bahrain	SAR	Net assets	59,914,469	57,204,074
			Net profit	2,390,846	3,338,599
Multifamily Residential Cayman Ltd-I ("MR-I")	Cayman Islands	USD	Net assets	9,350,420	-
			Net profit	-	-
Multifamily Residential Ltd-II ("MR-II")	Cayman Islands	USD	Net assets	17,365,067	-
			Net profit	-	-
IIB Aircraft Lease SPC Limited	Cayman Islands	USD	Net assets	9,437,000	-
			Net profit	427,000	-

The Bank is not exposed to currency risk in the case of investment in Istethmary Al Fareeda Company B.S.C. ©, Bahrain Bunny Shares and Securities W.L.L, MR-I, MR-II and IIB Aircraft Lease I Limited as these are denominated in SAR and USD.

The effect of 10% change in foreign exchange rate on the Bank›s statement of equity in respect of Istethmary Sarajevo City Centre amounts to US$ 2,151 thousand (2013: US$ 2,180 thousand) and on the Bank›s statement of income amounts to US$ 221 thousand (2013: US$ 38 thousand), which has also been included in sensitivity analysis shown in note 25.4 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.