SUCCESS THROUGH PARTNERSHIP

بنك الاستثمار الدولي
INTERNATIONAL INVESTMENT BANK

2010 ANNUAL REPORT

Contents

2 Profile   **3** Vision and Mission   **4** Five Year Financial Summary   **5** Summary of Principal Investment Structuring 2004-2010   **6** Board of Directors' Report   **8** Corporate Governance   **16** Chief Executive Officer's Review of Operations   **19** Investment Transactions in 2010   **20** Financial Review   **22** Capital Structure   **27** Risk Management   **32** Organization Structure   **33** Shari'ah Supervisory Board Report   **34** Financial Statements   **35** Independent Auditors' Report to the Shareholders   **36** Statement of Income   **37** Statement of Financial Position   **38** Statement of Changes in Equity   **39** Statement of Cash Flows   **40** Notes to the Financial Statements

بِسْمِ اللَّهِ الرَّحْمَٰنِ الرَّحِيمِ

﴿ قُلْ إِنَّ رَبِّي يَبْسُطُ الرِّزْقَ لِمَن يَشَاءُ مِنْ عِبَادِهِ وَيَقْدِرُ لَهُ
وَمَا أَنفَقْتُم مِّن شَيْءٍ فَهُوَ يُخْلِفُهُ وَهُوَ خَيْرُ الرَّازِقِينَ ﴾

صدق الله العظيم

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

	2010	2009	2008	2007	2006
EARNINGS (US$ MILLIONS)					
Total income	**3.5**	6.3	34.9	31.1	24.6
Total expenses	**6.7**	8.9	16.6	13.2	11.1
Operating profit (loss)	**(3.2)**	(2.6)	18.3	17.9	13.5
Share of profit (loss) of associate	**-**	(0.1)	(4.1)	3.2	-
Impairment losses, provisions and FX losses	**(17.5)**	(25.2)	(0.7)	-	-
Net income (loss)	**(20.7)**	(27.9)	13.5	21.1	13.5
Dividend (%) – cumulative 40%	**-**	-	7.0	15.0	10.0

FINANCIAL POSITION (US$ MILLIONS)					
Total assets	**160.2**	179.5	218.7	257.3	94.5
Cash and due from Financial Institutions	**33.4**	57.7	120.5	215.1	62.7
Investments	**83.9**	68.3	62.9	36.4	16.4
Due to Financial Institutions	**-**	-	-	-	20.0
Equity	**158.3**	176.5	210.7	216.4	61.4

RATIOS					
Profitability					
Return on average equity (%)	**(12.4)**	(14.4)	6.3	15.2	24.1
Return on average assets (%)	**(12.2)**	(14.0)	5.7	12.0	17.1
Earnings per share (cents)	**(19)**	(25)	12	19	31
Cost-to-income ratio (%)	**190.3**	141.3	47.6	42.4	45.1

Capital					
Capital adequacy ratio (regulatory minimum 12%)	**47**	59	87	126	134
Equity/total assets (%)	**98.8**	98.3	96.3	84.1	65.0

Liquidity and Other					
Investments/total assets (%)	**52.4**	38.1	28.8	14.1	17.4
Liquid assets/total assets (%)	**36.9**	32.1	55.1	83.6	66.3
Assets under management (US$ millions)	**497.3**	422.8	414.0	348.0	181.7
Number of employees (at year end)	**40**	47	50	55	40

Summary of Principal Investment Structurings 2004-2010

	Year	Investment Description	Location	Private Equity	Other Funds #	Total Transaction Size
				(US$ millions)	(US$ millions)	(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	Real estate 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	30.5	114.3	144.8
19	2009/10	Affordable housing development	Saudi Arabia	32.7	447.9	480.6
	Totals			**553.8**	**2,417.4**	2,971.2

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

Sector Summary

	Sector	Private Equity Raised	Other Funds	Total Transaction Size
		(US$ millions)	(US$ millions)	(US$ millions)
1	Real estate income generating	164.9	493.0	657.9
2	Real estate development	194.7	929.2	1,123.9
3	Private equity	175.6	976.7	1,152.3
4	Property fund	18.6	18.5	37.1
	Totals	**553.8**	**2,417.4**	**2,971.2**

Principal Bankers and Professional Advisors

Principal Bankers : Ahli United Bank, Bahrain,
Union National Bank, UAE
External Auditors : Ernst & Young, Bahrain
External Legal Counsel : Qays H. Zu'bi, Bahrain

Board of Directors' Report

Saeed Abdul Jalil Al Fahim
Chairman

Dear Shareholders,

The Board of Directors of International Investment Bank takes pleasure in presenting the Annual Report of the Bank together with the Financial Statements for the year ended 31 December 2010.

General Operating Environment

World Economy in 2010

As expected, 2010 has been a challenging year for the world economy and the financial markets. After a year of fragile and weak recovery, global economic growth started to decelerate on a broad front in mid-2010 and this slower growth is expected to continue into 2011 and 2012. Weaknesses in major developed economies continue to drag the global recovery and pose risks for world economic stability in the coming years. The unprecedented scale of the policy measures taken by Governments during the early stage of the crisis has undoubtedly helped stabilize financial markets and jump-start a recovery. Prospects in these economies, many of which were at the epicenter of the financial boom and bust, continue to be weighed down by banking-sector restructuring, high consumer debt and a right-sizing of economic sectors that grew unsustainably large during the boom period. (Sources: United Nations Report and World Bank)

Middle East Economy in 2010

The developing countries of the Middle East and North Africa region were less affected than other developing regions by the global recession. This is due in part to the region's limited financial integration, as well as its export mix, which is concentrated in products (such as oil, materials and light manufactures) that were not as sharply affected by the crisis as capital goods. Reflecting a muted upturn, the region's recovery in 2010 was also more subdued than that of the other developing regions. The upturn in 2010 reflected both an improved external environment and the ongoing effect of earlier stimulus measures. Higher oil prices tended to benefit oil exporters, while the growth rebound in the Euro Area and high-income Gulf Cooperation Council (GCC) helped boost remittances and exports in the region, particularly among the diversified economies. (Source: World Bank)

Bahrain Investment Banking in 2010

As anticipated, demand from regional investors for high return, longer maturity offerings in real estate and private equity continues to be very low. In addition, regional banks remain highly cautious in their financing of especially real estate development and private equity projects, as they continue to suffer from a lack of liquidity and higher provisions on loans and investments.

I am also pleased to state that despite the difficult conditions of 2010, the Bank and its investors fully exited from the Bahrain Property Fund, which was established in 2004 and has provided an attractive total return with the payment of quarterly dividends to its investors.

Investment Strategy

The Board's cautious investment philosophy of making very selective investments, preserving capital and maintaining the existing portfolio, first implemented during the second half of 2008 prior to the onset of the global economical and financial crisis, continued in 2010. Moreover, none of the new investment offerings reviewed by the bank during 2010 met our investment objectives and consequently, no significant investments were made during 2010.

Portfolio Exits

I am also pleased to state that despite the difficult conditions of 2010, the Bank and its investors fully exited from the Bahrain Property Fund, which was established in 2004 and has provided an attractive total return with the payment of quarterly dividends to its investors. The final distributions were made to investors in July 2010 and the total return of 9.12% IRR is close to the forecast returns at the time of the offering to investors. Although prevailing market conditions, especially those exacerbated by the ongoing political upheavals in the MENA region, are not supportive or conducive to making exits, the Bank is actively engaging with potential counterparties to achieve exits from some of the mature investments to further enhance liquidity of its esteemed investors.

Current Portfolio

The Bank has performed a comprehensive valuation as at 31 December 2010 of all investments made in previous years with the assistance of expert independent valuers and consultants. In line with the IFRS, unrealized gains and losses are reflected in Equity except when the investment is determined to be impaired, at which time the cumulative change is included in the Statement of Income for the period. Impairment is defined as an unrealized significant or prolonged decline in the fair value below its cost that is unlikely to reverse in the near future. The aggregate net unrealized losses recognized in Equity and the Statement of Income in 2010 were US$ 14.8 million, computed and booked in compliance with the relevant valuation rules and accounting standards.

Liquidity Management Strategy

As you are aware, liquidity enables the Bank to meet its payment obligations when they fall due under normal and stress circumstances. IIB monitors future cash flows and the liquidity required for working capital and investment acquisitions on an ongoing basis and maintains significant cash and cash equivalent balances. At year end 2010, the Bank had ample liquid funds as evidenced by 36.9% of Total Assets represented by cash, bank balances and short-dated murabaha placements plus a further 7.5% invested in regional listed equities, thereby maintaining 44.4% of the Total Assets in liquid and semi-liquid form. Most of its liquidity is held in low-risk murabaha placements with financially sound regional banks with an average tenor in 2010 of 40 days. Since 2007, IIB has relied solely on internal funding through its Shareholders' Equity and consequently has not resorted to any bank borrowings. This conservative policy of funding all assets only from Equity has resulted in the absence of any liquidity pressures from lending banks experienced by some of the leveraged counterparts of IIB in the region.

2010 Financial Performance

Whilst IIB has incurred a total loss of US$ 20.7 million for the year 2010, the Board would like to highlight that only US$ 3.2 million, constituting 15.5% of the total reported loss, is the realized operating loss. A major part of the loss, i.e., US$ 17.3 million (83.6% of total reported loss) arises largely from impairment provisions on investments available for sale. These losses are of unrealized nature and continue to retain the possibility of reversing in the years to come, should financial markets demonstrate a sustained recovery. The operating loss of US$ 3.2 million is higher by US$ 0.5 million than the 2009 operating loss mainly due to lower investment banking fees and an unrealized loss on investment property.

Total operating expenses at US$ 6.7 million in 2010 were lower (i.e. better) by US$ 2.2 million (24.7%) than in 2009, resulting from the Bank's ongoing strict cost control measures. Impairment losses and provisions reduced (i.e. improved) from US$ 25.2 million last year to US$ 17.3 million in 2010. The Capital Adequacy Ratio of 47% at 31 December 2010 continues to be strong and is about four times the minimum requirement of 12% mandated by the Central Bank of Bahrain. This demonstrates a strong and prudent approach by the Bank in managing its capital and allows for ample headroom to acquire future risk assets from a regulatory capital standpoint. Details of the Bank's financial position and performance are elaborated in the Financial Review section and the Financial Statements.

2010 Investment Offerings

From a review of numerous proposals received during the year that constitute the deal "pipeline", the Bank has decided not to acquire any assets for structuring and sale to investors during 2010, in accordance with its strategy of only investing in very carefully selected transactions that meet the Bank's strict criteria on risk and reward.

Outlook for 2011

Global confidence from investors in the financial markets in general remains weak and the management of liquidity and solvency on a day-to-day basis for many financial institutions continues to be challenging and is their number one priority.

The unprecedented events in the MENA region over the last two months have caused political tension and uncertainty, the effects of which continue to be felt across the entire region. This uncertainty, in turn, has not only impacted economic activity across all sectors of the regional economies but also resulted in diminished consumer confidence and lower consumer spending. These events have further caused investors to remain invested in cash and liquid assets and to avoid investments in real estate and private equity, the main asset classes offered by your Bank. Accordingly, the Board of Directors of IIB have strategized to continue to pursue only very selective and compelling new transactions and investment offerings in 2011. The Board also anticipates that in view of heightened risk aversion to regional markets, higher investment allocations would be made to the more stable developed markets of the West and Asia, further causing a decline in new investment banking activity for regional investment banks. IIB will continue to adopt a policy of maintaining high levels of liquidity and will seek to exit as many of its investments made in previous years as possible at attractive valuations. Taking into consideration the current economy and the rapidly changing political situation, we expect 2011 to be another challenging year for the investment banking sector.

Recommended Appropriations and Zakah

Following the Net Loss for the year, the Board has recommended that no dividend is paid for the year. As in the previous years, shareholders will directly pay their respective Zakah on their equity investments in the Bank.

Board Membership

There were no changes during 2010.

Acknowledgements

The Directors, on behalf of the shareholders, take this opportunity to express their gratitude and sincere appreciation to our management team and staff for their dedication and hard work, to our clients and to the Central Bank of Bahrain and the Ministry of Industry and Commerce for their regulatory advice and support.

Corporate Governance


1


2


3


4


5

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.

Board of Directors

The Board meets regularly throughout the year in order to control strategic, financial, operational, internal control and compliance issues. It currently comprises nine non-executive directors and one executive director. The independent non-executive director is Mr. Abdul Wahab Mohammed Al Wazzan.

Board Members

The Board of Directors comprised the following members as at 31 December 2010:

1. HE. Saeed Abdul Jalil Al Fahim
Chairman

Chairman of Al Fahim Group, UAE; President of Sh. Khalifa Excellence Award (Abu Dhabi Chamber of Commerce and Industry); Chairman of Mubarak & Brothers Property & Financial Investment - Abu Dhabi; Former Deputy President of Abu Dhabi Chamber of Commerce and Industry; Former Member of Board of National Bank of Abu Dhabi; Former Member of Board of United Arab Bank.

2. Mr. Ahmed Salem Bugshan
Vice Chairman

Chief Executive Officer - Saudi Industrial Projects Co.(Pepsi- Cola), Saudi Arabia; Chairman - Saudi Steel Profile Mfg. Co. Ltd., Saudi Arabia; Chairman - Savoy Sharm El Sheikh Hotel, Egypt; Board Member - Tirana Tourism Investment Cairo, Egypt.

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.

6

7

8

9

10

3. Mr. Aamer Abdul Jalil Al Fahim
Director

Managing Director - Al Fahim Group, UAE; Board Member - Al Wathba Insurance Company; Member - Federal National Council, UAE; Board Member - Abu Dhabi Chamber of Commerce and Industry; Board Member - Al Qudra Holdings; Board Member – Marriage Fund; Board Member – Abu Dhabi University Board of Trustees; Board Member- Al Rayan Investments; Chairman - Aradi Properties P.J.S.C.

4. Mr. Ebrahim Eshaq Abdulrahman
Director

Chairman, Union Gulf Investment Co. S.P.C.; Managing Director , Investment and Trading (Gulf) Enterprises, B.S.C.(C) Bahrain; Director, Bahrain Car Parks Co. B.S.C.; Director, United Gulf Investment Corporation B.S.C.; Founder Shareholder and former Managing Director, Bank of Bahrain and Kuwait.

5. Mr. Abdul Wahab Mohammed Al Wazzan, Director

Chairman of Kuwait Real Estate Bank; Vice Chairman of National International Holding Company; Deputy Treasurer – Kuwait Chamber of Commerce & Industry; Former Minister of Commerce & Industry, Kuwait; Former Minister of Social Affairs & Labour, Kuwait; Former Chairman of Social Development Office, Kuwait.

6. Mr. Fahad Fouad Bubshait
Director

CEO - Bareeka Ltd; Chairman - Audeo Maxima Holdings, UAE; Former Chairman - BubbleDeck Middle East LLC, UAE; Foreign Investments Advisor to Mr. Fouad Abdulla Fouad, President of Abdulla Fouad Holding Co. Ltd ; Former General Manager - Abdulla Fouad Holding Co. Ltd.

7. Mr. Ali Haider Suliman Al Haider
Director

Vice Chairman & Shareholder of Suliman & Brothers Co W.L.L.; Board Member of Qatar German Medical Co.; Board Member of Salam Bounian; Partner in Al Safa Trading Company; Shareholder of Sulian Hajj Haider & Sons.

8. Mr. Ali Hashim Sadiq Hashim
Director

President & CEO - Gulf United Investment, KSA; Chairman - Gulf Packaging Systems; KSA, Board Member - Middle East Telecom (METCO), KSA; Partner & Board Member – Arabian Gulf Manufacturer (AGM), Jeddah, KSA; Chairman – Prime Plastic Products (3P), Jeddah, KSA; President – Tahweel Investment, Ras Al-Khaimah, UAE; Chairman - Rawasy Al Khaleej Plastic Ind. Sharjah, UAE; Vice Chairman & CEO - Gulf Manufacturer (GM), Egypt; Board Member – Safra Petrochemical, Jeddah.

9. Dr. Bader Ibrahim Mohammad Bin Saedan, Director

General Manager – Al Saedan Real Estale Co , Saudi Arabia; Chairman - Saudi Maintenance Made Simple (SMMS), KSA; Board Member – Commodore International, U.K; Board Member—Saudi Tunisian Real Estate Co., Tunisia; Board Member – Mawten R.E. Co., Saudi Arabia; Member of the R. E. Committee – Riyadh Chamber of Commerce & Industry.

10. Mr. Aabed Al-Zeera
Director and Chief Executive Officer

Chief Executive Officer, IIB; Director, European Islamic Investment Bank Plc, United Kingdom; Vice-Chairman of AmrahBank, Azerbaijan; Director of several companies of IIB.

Board Committees

The Board has established four sub-committees and a Shari'ah Supervisory Board comprising expert, independent scholars to assist the Board in expeditiously and effectively discharging its responsibilities. This committee structure ensures appropriate oversight by the Board of Directors while permitting efficient day-to-day management of the Bank. The members as at 31 December 2010 and summary terms of reference are as follows:

Executive Committee

Mr. Aamer Abdul Jalil Al Fahim (Chairman)
Mr. Ebrahim Eshaq Abdulrahman, Member
Mr. Ali Hashim Sadiq Hashim, Member
Dr. Bader Ibrahim Mohammad Bin Saedan, Member

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

Audit Committee

Mr. Abdul Wahab Mohammed Al-Wazzan (Chairman)
Mr. Ali Haider Suliman Al Haider, Member
Mr. Fahad Fouad Bubshait, 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.

Nominations Committee

Mr. Ahmed Salem Bugshan (Chairman)
Mr. Aamer Abdul Jalil Al Fahim, Member
Mr. Ali Hashim Sadiq Hashim, Member

Assists the Board to assess candidates and to recommend Board and management appointments.

Remuneration Committee

Mr. Ali Hashim Sadiq Hashim (Chairman)
Mr. Aamer Abdul Jalil Al Fahim, Member
Mr. Ahmed Salem Bugshan, Member

Assists the Board to establish and update the remuneration policies and procedures including the level of remuneration paid to executive management.

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

Sheikh Nizam Yaquby

Sh. Yaquby is a member of the Islamic supervisory board of several Islamic institutions, including the Central Bank of Bahrain, AAIOFI, Islamic Rating Agency, IIFM and Dow Jones Islamic Index. His work has appeared in the following publications: Risalah Fi al-Tawbah, Qurrat al-'Ainayn fi Fada il Birr al-Walidayn, Irshad al-'Uqala'ila Hukun al-Qira'h min al-Mushaf fi al-Salah, Tahqia al-Amal fi Ikhraj Zakat al-Fitr bi al-Mal.

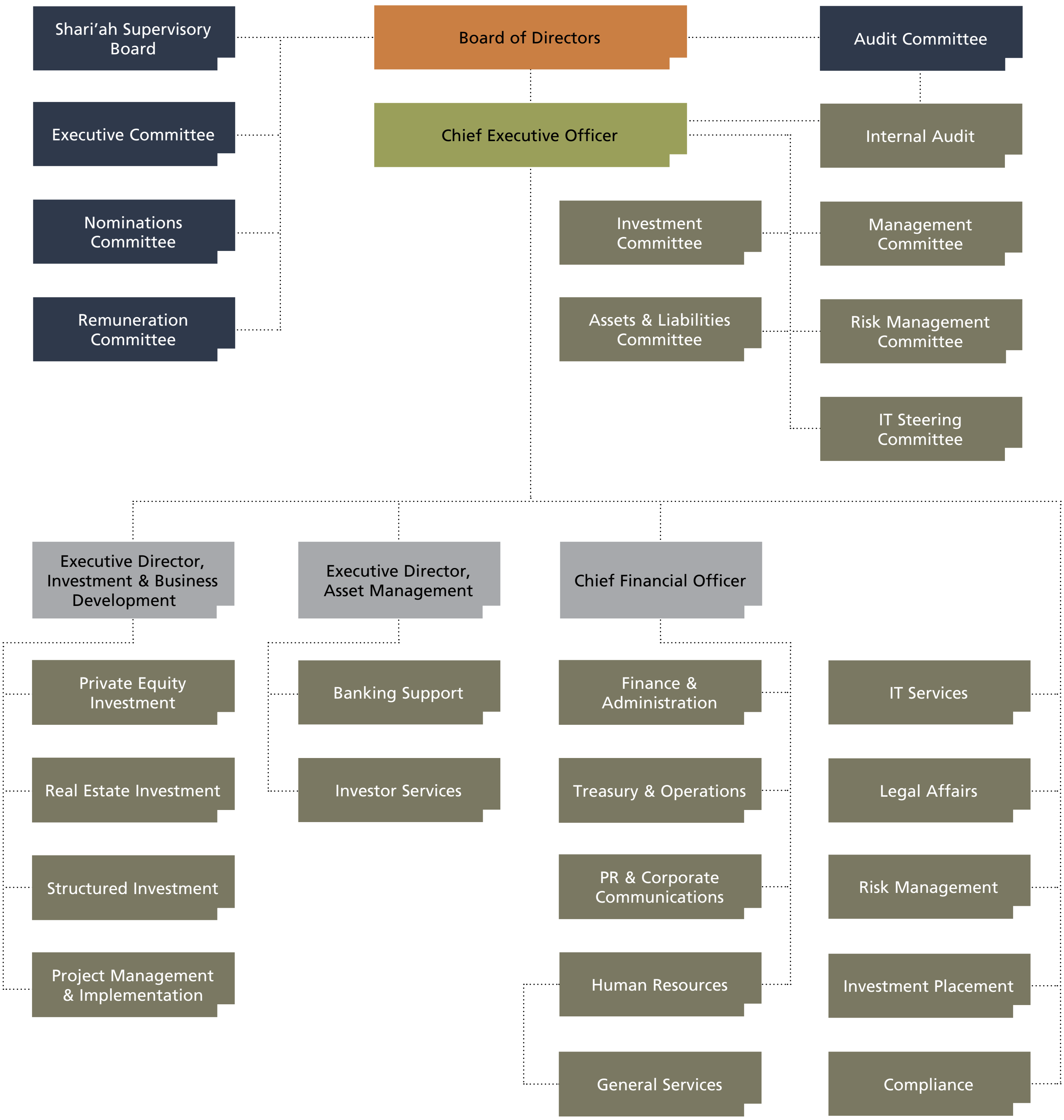
Sheikh Osama Mohammed Saad Bahar

Sh. Al Bahar holds a Bachelor's degree in Islamic Shari'ah and was an Associate Lecturer at the BIBF, Bahrain. He is a member of the Shari'ah Board of the National Investor Fund of Abu Dhabi and is a Shari'ah Advisor to Khaleej Finance and Investments. From 1994 to 2005, he was manager of the Shari'ah department at Shamil Bank, Bahrain. Since 2005, Sh. Osama has been Shari'ah compliance officer at ABC Islamic Bank, Bahrain and is currently Head of Shari'ah Compliance at First Energy Bank, Bahrain.

Sh.Abdul Nasser Omar Al Mahmood

Sh. Abdul Nasser is a member of the Islamic supervisory board of International Investment Bank and Bahrain Development Bank and is a 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 a Bachelors degree in Shari'ah and Islamic Studies from Qatar University.

Organizational Structure



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; maximize 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, maximize free cash flows to equity and ROE. It executes planned exits in a timely and methodical manner to deliver investor returns.

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

Investment Placement

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

Support, Administration & Internal Controls

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

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

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

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

Department Heads report to the Chief Executive Officer and the Head of Risk Management has a reporting "dotted line" to the Chairman of the Board Audit Committee to ensure objectivity and independence from executive management. Likewise, the Director, Internal Audit reports to the Chairman of the Board Audit Committee with a reporting "dotted line" to the Chief Executive Officer. The duties of all staff are clearly defined in detailed job descriptions which are reviewed from time to time to ensure conformity with the current requirements of the business.

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

Compensation & Incentive Structures

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

Executive Management

Management Committees

The Board has established five management committees, namely the Management Committee, Investment Committee, Risk Management Committee, Assets & Liabilities Committee and IT Steering Committee. These committees comprise senior management and heads of departments who are best qualified to make decisions on such issues as funding, asset utilization, IT, investment purchase/sale and management of all types of risk, including market, credit, liquidity and operational risks. The members as at 31 December 2010 and the summary terms of reference are as follows:

Management Committee

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

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

Investment Committee

Mr. Aabed Al-Zeera (Chairman)
Mr. Subhash Jalan, Member
Mr. Narayanan Ganapathy, Member

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

Risk Management Committee

Mr. Michael Ross-McCall (Chairman)
Mr. Mazar Jalal , Member
Mr. Ninan Varkey, Member
Mr. Narayanan Ganapathy, Member

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

Assets & Liabilities Committee

Mr. Subhash Jalan (Chairman)
Mr. Michael Ross-McCall, Member
Ms. Haleema Ebrahim , Member
Mr. Ninan Varkey, Member
Mr. Fadi Al-Qassim, 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.

I.T. Steering Committee

Mr. Michael Ross-McCall (Chairman)
Mr. Subhash Jalan, Member
Mr. Said Itani, Member
Mr. Narayanan Ganapathy, Member

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

Chairman and Executive Managers

H.E. Saeed Abdul Jalil Al Fahim, Chairman

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

Aabed Al-Zeera, Chief Executive Officer

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

Mr. Al-Zeera was one of the key promoters of IIB who, together with the Al Fahim Group, conceived and successfully set up the Bank. He is a board member of several companies of IIB and is the Deputy Chairman on the board of European Islamic Investment Bank Plc, London. He is also Vice-Chairman of AmrahBank in Azerbaijan.

Michael Ross-McCall, Chief Financial Officer

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

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 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.

Narayanan Ganapathy, Director

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

Other Senior Officers

Alyas Al-Meftah, Director, Investment Placement

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

Ali Redha, Director, Internal Audit

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

Fadi Al-Qassim, Director, Direct Investment

Mr Al Qassim is a director in Direct Investment and Business Development Department. He holds a B.Sc. in Civil Engineering from the University of Bahrain. He has 22 years' experience in civil design, engineering and monitoring projects up to the hand-over to owners. He is a certified ISO 9000:2000 internal auditor and an active member of both the Bahrain Society of Engineers and the Project Management Institute. He joined IIB in 2006.

Ninan Varkey, Head - Risk Management

Mr. Varkey holds a degree in Commerce and is a member of the Institute of Chartered Accountants of India. He carries over 20 years of experience in the financial services industry. He has held positions as President of Cochin Stock Exchange, India and Vice-President of leading financial services companies in India. He headed the risk management function at the commodity derivative business of Infrastructure Leasing Finance-Investsmart, India before joining IIB.

Said Itani, Head – IT

Mr. Itani has more than 25 years' experience in the IT sector, latterly in Saudi Arabia and Bahrain. From 1995 to 2002 he was IT Division Manager at Bank Al-Jazira in Jeddah and from 2002 to 2006 he was Head of IT, Security and Property at UBS-Noriba Bank in Bahrain.

Communications Strategy

A summary of the Bank's quarterly and annual financial statements is published in local and regional newspapers.

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

Inquiries are made to the relevant departments as follows:
Investments and partnerships: invest@iib-bahrain.com
Existing Investors inquiries: portfolio@iib-bahrain.com
New investors: placement@iib-bahrain.com
Financials and annual performance: enquiries@iib-bahrain.com

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

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 behaviours, personal conduct, financial control, human resources and business continuity.

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

Charitable Contributions

The Bank made contributions and donations to Bahraini charities in 2010 aggregating to US$ 100,000 (2009: US$ 100,000). The beneficiaries comprised local charity funds registered with the Ministry of Social Development and needy families who received coupons to purchase foodstuff and basic electrical appliances.

Chief Executive Officer's Review of Operations

Aabed Al-Zeera
Chief Executive Officer

Aabed Al-Zeera
Chief Executive Officer

Following the global economic slowdown in the fourth quarter of 2008 after the collapse of Lehman Brothers, the recent political events initially triggered by the uprisings in North Africa and spreading to some parts of the Arab World further amplify the systemic risks facing the MENA economies. The increased risk perception has severely jolted regional investors' appetite, one more time, for new private equity and real estate investments. As a result, most sophisticated individual and institutional investors continue to demonstrate a marked apathetic stance to taking on additional exposures to these asset classes, the principal product offerings of your Bank.

Mirroring the overall weak investment sentiment manifestly evident across the entire region and also as a measure of prudence adopted by the Board and Management, IIB continues to follow a cautious investment philosophy underpinned by three cardinal principles; a) making only very compelling and selective investments, b) focusing on preserving capital rather than seeking current income and finally, c) insulating existing assets under management from further downside risks.

Business Development

As stated in the Chairman's Report, the Bank has reviewed several investment proposals across asset classes and regions, and the deal flow continues to be strong.

Whilst a few of these many potential investment opportunities did substantially meet the investment objectives and risk tolerance parameters set by the Board of Directors, IIB Management, in consultation with the Board of Directors, chose not to acquire any of these investments; be it for its own proprietary books or for onward placement with sophisticated investors, largely a result of prudent and heightened risk aversion on the part of the investment teams of IIB.

During 2010, enhancements were introduced to the frequency and format of valuation and progress reports sent to investors.

2010 has been another challenging year for the investment banking sector due mainly to the continuing weak investor appetite for new investment offerings and availability of debt financing.

IIB will maintain its policy of retaining higher levels of liquidity. IIB's Board of Directors and Management believe that whilst the Bank may not reap the benefits of this policy in the short term, it will stand us in good stead in the long run.

Investment Placement

As stated in our 2009 Annual Report, IIB acquired two investments in 2009 with the intention to structure and offer these for sale to its investors. The first investment is a project to construct a real estate complex comprising a hotel tower, commercial office tower, a shopping mall and entertainment center in Sarajevo, the capital of Bosnia & Herzegovina (Eastern Europe). The second investment is a project comprising affordable housing units, commercial space and service amenities, over an area of approximately 1 million square meters strategically located north of Jeddah in the Dhahban district in the Kingdom of Saudi Arabia (KSA).

The Bank has decided to warehouse both investments, until such time as significant value enhancing initiatives currently underway come to fruition. Once these objectives are accomplished and when investors' sentiment improves, these investments will be offered to investors. The construction of the Sarajevo project is rapidly moving ahead; we believe that the investment will be ready for placement with select investors sometime during the second half of 2011. The investment dynamics of the Jeddah project continue to be strong and with the project progressing well, the investment will be ripe for placement towards the last quarter of 2011.

Asset Management

With almost US$ 500 million of capital invested across several Special Purpose Vehicles (SPVs), IIB Management and Boards of respective SPVs continue actively managing the underlying investee companies with a sharp focus on insulating the portfolio of investments from further downside risks particularly that the current economic and political backdrop of the MENA region is mired in structural uncertainties.

The Management and Board of IIB recognize that unlike in the distant past when value creation stemmed from a multitude of sources such as leverage, multiple expansion, multiple arbitrage and growth in operating income, the principal source of such value creation in Private Equity, presently, is growth in operating income which is also becoming harder to achieve in the wake of current unstable economic conditions, especially those in the MENA region following the recent political crisis.

Nevertheless, each asset continues to be monitored by a focused team of professionals charged with the responsibility of ensuring that appropriate processes are followed and initiatives undertaken to ensure that operating profits are maximized.

Concurrently, besides managing growth targets of portfolio companies, exits of maturing investments are also a key imperative of the Board and Management. IIB continually evaluates the appropriateness, suitability and relevance of exit of each investment; notwithstanding the time horizons planned envisaged at the time the investment offerings were made.

IIB is presently exploring potential exits of some of the investments; however, IIB will exit investments only if the opportunity is compelling and further improvements in exit valuations are unlikely to occur.

Chief Executive Officer's Review of Operations

Financial Performance

IIB has reported a net loss of US$ 20.7 million for 2010, comprising an operating loss of US$ 3.2 million, loss on foreign exchange of US$ 0.2 million and unrealised impairment losses and provisions of US$ 17.3 million.

Whilst the Investment Banking industry in the recent years has experienced severe losses due to adverse market conditions, IIB has been able to minimize losses as a ratio of its balance sheet size, a result of the strategies initiated in 2008 and continued in the following years.

Additionally, the Bank's core liquidity position also continues to be strong throughout the year with Liquid Assets at year end representing nearly 36.9% of Total Assets. The strong liquidity and the absence of any borrowings make the balance sheet of IIB very strong and well positioned to capture opportunities that may arise from any potential incipient recovery in the markets.

Information Technology

In continuation of its strategy of ensuring that appropriate and robust technology is in place to support the business development, asset management, placement, risk management and finance functions of the Bank, IIB has successfully achieved the full implementation and integration of iMAL, the core banking system supplied by Path Solutions, which commenced in 2009.

As typical of any new system development initiatives, the integration of various modules and the migration of data from legacy systems to the new system have proven to be very challenging yet these have now been successfully completed. The treasury, accounting, financial control and asset management functions are now managed on the new system and continual improvements and enhancements are underway. However, in large part, the Bank is now fully operational on the new core banking software.

Investor Relations

During 2010, a number of enhancements were also implemented to strengthen and improve the interface of the Bank with its investors. The Bank places utmost focus and importance to its relations with its investors in order to ensure their commitment, loyalty and continued patronage of the Bank.

Workshops and process audits of investor relation issues in the past were conducted with the view to devising solutions designed to achieve expedient and prompt resolution of investors' concerns.

Human Resources

Last year, the Bank implemented the RYTE HR system purchased from a local reputable supplier that has automated the key staff administration functions of payroll, visas, training records and leave records. In addition to the system initiatives, a number of HR processes, policies and procedures have been refined, honed and strengthened in order to ensure that all human resources aspects of the business are properly managed and dovetailed with the business imperatives of the Bank.

Disaster Recovery Centre (DRC)

Your Bank steadfastly endeavors to ensure that its operations are not affected by any catastrophic natural events, fires or other disruptive occurrences. In order to achieve this objective, the Bank signed a lease agreement in the fourth quarter of 2009 to establish a fully functioning back-up office comprising furniture, computers and communication equipment.

This centre, located in Hoora several kilometers from the head office, comprises a server that backs up the primary server in the Information Technology Department located in the head office on a real-time basis. Regular user testing of computers and communications takes place to ensure that the DRC can be used in an emergency as an office for designated employees at very short notice. Mock sessions in which staff replicated head office operations have been successfully conducted to ensure that should any eventuality materialize, key staff are able to actually perform their operations without significant disruption.

Conclusion

The Bank has consolidated its financial position and its underlying investments to the maximum possible extent feasible in the current economic conditions. Whilst the economic outlook continues to be grim, the Bank is pleased to report to its shareholders that key financial parameters and the financial position of the Bank continue to be strong and resilient, largely a result of key strategies adopted by the Board in the last two years.

Notwithstanding its strategy of investing very selectively, the Board of the Bank and its Management regularly scan the market for opportunities in order to strengthen the financial position of the Bank without compromising or risking the current portfolio under management. The economic landscape is indeed unrelentingly tough. Nonetheless, with perseverance, commitment and sharper focus, the Management is confident that your Bank would emerge unscathed in the years to come.

Investment Transactions in 2010

Arising from the massive disruption to world and regional markets post August 2008 and the ensuing liquidity crisis, the Bank's ability to source, structure, co-finance and sell down new investment deals in 2010 has been severely restricted. Reflecting its cautious and meticulous approach to due diligence and underwriting, IIB only made two investment acquisitions in 2010 for its proprietary portfolio.

BAY VIEW TOWER, KINGDOM OF BAHRAIN

IIB has purchased an 11-storey residential tower comprising 23 flats in central Manama, Kingdom of Bahrain for US$ 5.3 million. The annual return when fully tenanted is expected to be approximately 6%.

IIB AUTOMOTIVE LIMITED

The Bank purchased additional shares costing US$ 0.2 million in IIB Automotive Limited, which in turn has invested in Automobile Reseau Tunisien & Services (ARTES), a leading auto distributor based in Tunisia and quoted on the Tunisian stock exchange.

Financial Review

The Bank continues to hold two real estate investments that it acquired in 2009 and has decided to carry over to 2011 for possible sale to investors.

During 2010, the Bank has recorded a net loss of US$ 20.7 million, compared to a net loss of US$ 27.9 million during 2009. Total assets at year-end 2010 aggregated to US$ 160.2 million and include cash and cash equivalents of US$ 59.0 million. Total equity at 31 December 2010 was US$ 158.3 million. The equity portion of assets under management at the end of 2010 totaled US$ 497.3 million.

The Capital Adequacy Ratio at 31 December 2010 was 47% versus the minimum permitted by the Central Bank of Bahrain of 12%. The significantly higher level of Capital Adequacy is consistent with the strategy of prudence during the current and forecast uncertain and subdued economic conditions.

Income

The Bank's total income for 2010 was US$ 3.5 million compared with US$ 6.3 million in 2009 and mainly comprises investment banking fees together with income on due from financial and other institutions.

Investment banking fees in 2010 of US$ 0.7 million were generated from management fees earned on investments structured and placed with investors in previous years. Owing to the challenging market conditions for the investment banking sector as a whole, IIB earned no income in the year from the structuring, underwriting and placement of new investments (2009: US$ 1.4 million). The Bank continues to hold two real estate investments that it acquired in 2009 and has decided to carry over to 2011 for possible sale to investors after accomplishment of significant value enhancing initiatives currently under implementation.

Income on due from financial and other institutions, being the profit on commodity murabaha deposits, was US$ 1.6 million versus US$ 2.6 million in 2009. The reduction reflects the lower average funds placed partly offset by a higher average profit rate during 2010, together with the suspension of profit on facilities granted to a IIB investee company.

Income from investment in real estate (net) of `US$ 0.2 million was derived from a residential tower purchased in April 2010 and located in Manama, Kingdom of Bahrain. An unrealised fair value loss of US$ 0.7 million has been booked in accordance with a year end valuation. The gain on sale of investments in 2010 of US$ 0.5 million relates to the sale of an indirect interest in land located in the Kingdom of Saudi Arabia and gains on the sale of shares in unquoted companies.

Dividend income in 2010 of US$ 0.4 million has been received from IIB's investee companies and regionally listed equities. Other income of US$ 0.9 million mainly comprises profit on a short-term financing provided to a non-related third party in respect of an aborted investment in a proposed real estate development project. The Bank has booked its share of a loss in one UAE-based associate company engaged in real estate investments of US$ 0.03 million (2009: loss US$ 0.08 million).

Expenses

Total expenses in 2010 aggregated to US$ 6.7 million, a decrease of US$ 2.2 million (24.7%) compared to 2009. Staff compensation and benefits decreased by 21.2% to US$ 4.0 million as a result of a smaller average number of employees and lower transaction-based benefits. Deal expenses including travel, legal fees and professional fees have also decreased significantly in 2010, as detailed due diligence costs were only incurred on a small number of potential investment transactions. Non-deal related expenses, in particular business travel and media/advertising costs, were also substantially lower in 2010 in line with the reduced business activity, but partly offset by higher IT and depreciation costs relating to the core banking system that went live in mid 2009.

Impairment losses and provisions

IIB has booked unrealised impairment losses in 2010 of US$ 17.3 million (2009: US$ 25.2 million) in respect of three quoted investments and seven unquoted investments. The 2010 total includes a general provision of US$ 2.0 million (2009: US$ 2.0 million) as a measure of prudence against possible future losses.

Assets

Liquid assets at year-end 2010 were US$ 59.0 million and represent 36.9% of total assets. These comprise cash, balances with banks and due from financial institutions (including placements through a subsidiary company of US$ 25.6 million reflected in Receivables) comprising commodity murabaha placements with financially sound banks rated A- or higher and located in the GCC region. With the addition of investments in quoted equities, liquid assets aggregate to US$ 71.0 million or 44.4% of total assets at the 2010 year end.

Receivables at 31 December 2010 of US$ 41.2 million mainly comprise three items. Short-term Shari'ah-compliant financing facilities of US$ 8.4 million (net of provisions) have been granted to three investee companies to assist with working capital requirements. Secondly, the Bank paid a deposit in 2008 to participate in a real estate project located in the Kingdom of Saudi Arabia. The project has subsequently been aborted and IIB has agreed to receive repayment of the remaining balance (US$ 4.8 million as at 31 December 2010) over a period of 18 months with the final payment due in August 2011. Finally, as referred to above, IIB has placed funds aggregating to US$ 25.6 million through a wholly-owned company in order to enhance the return.

Investments at 2010 year end increased by US$ 15.6 million (22.8%) since 31 December 2009 to US$ 83.9 million and include an asset of US$ 27.7 million classified as a "receivable" as at year end 2009, but transferred to "assets classified as held for sale" at at 31 December 2010. Purchases in 2010 totalled US$ 5.5 million and comprised shares in an investee company and a residential tower located in central Manama, Kingdom of Bahrain. Sales in the year were US$ 2.6 million, being shares on the final exit from the Bahrain Property Fund and land in the Kingdom of Saudi Arabia. In addition, there were net unrealised fair value losses in 2010 on listed equities of US$ 3.9 million and on unquoted investments of US$ 11.1 million including a general provision of US$ 2.0 million.

Assets classified as held for sale comprise a payment in 2009 of US$ 26.0 million to secure a stake in a real estate development in Sarajevo, Bosnia and Herzegovina. IIB has also purchased for US$ 27.8 million in 2009 a share in a real estate development project in the Kingdom of Saudi Arabia that is intended to provide affordable housing to Saudi nationals. Subject to obtaining the final regulatory approvals, IIB intends to sell down most of these investments to its investors after the accomplishments of the value enhancing initiatives.

Investment in associate at the end of 2010 represents a 27.32% shareholding of US$ 4.0 million in a company established in the UAE to purchase land for investment purposes. There is no longer an intention to develop the plot of land located in the Business Bay district of Dubai, which is now in the process of being sold. Other assets of US$ 1.7 million comprise equipment, prepaid expenses and sundry receivables.

Liabilities and equity

There were no borrowings on the balance sheet at the year end and no reverse murabaha liabilities classified as due to financial institutions since January 2007. Other liabilities of US$ 1.9 million mainly comprise accrued expenses, payable to an investor and payables to suppliers.

Equity has reduced by US$ 18.2 million to US$ 158.3 million at the 2010 year end. The reduction comprises the net loss for the year of US$ 20.7 million less net fair value and foreign currency translation gains on investments of US$ 2.5 million.

Capital Structure

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$ 109,995,797 at 31 December 2009 and 2010, comprising of 109,995,797 shares of US$ 1 each.

The Bank's regulatory capital base of US$ 125.3 million as at 31 December 2010 comprised Tier 1 capital of US$ 139.5 million and Tier 2 capital of –US$ 14.2 million as disclosed in note 19 of the financial statements.

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 Central Bank of Bahrain (CBB), the Bank's ratio at year-end 2010 was 47% (2009: 59%), being almost 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, IIB commenced the ongoing measurement of its capital adequacy under the "Basel II" rules from 1 January 2008. Please refer to note 19 Capital Management in the attached financial statements.

Given the Capital Adequacy Ratio of the Bank as at 31 December 2010, 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 2011.

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 2010 are as follows:

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.

1. CREDIT RISK

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 2010

US$ '000	Gross credit exposure	Credit risk weighted assets	Capital requirement
Claims on banks - murabaha placements	33,404	15,943	1,993
Due from investee companies - murabaha	8,379	8,379	1,047
Equity investments - publicly held	10,243	10,243	1,280
Equity investments - privately held	1,316	1,974	247
Holding of real estate	64,999	129,998	16,250
Other assets	8,884	8,884	1,111
	127,225	175,421	21,928

As at 31 December 2009

US$ '000	Gross credit exposure	Credit risk weighted assets	Capital requirement
Claims on banks - murabaha placements	57,677	26,254	3,282
Due from investee companies - murabaha	8,346	8,346	1,043
Equity investments - publicly held	16,798	16,798	2,100
Equity investments - privately held	3,975	5,963	745
Holding of real estate	46,292	92,584	11,573
Other assets	43,803	43,803	5,475
	176,891	193,748	24,218

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 period, average gross exposures are not disclosed separately.

The realised gains net of losses arising from investment sales or liquidations during the year ended 31 December 2010 were US$ 0.5 million (2009: US$ 0.2 million). The total net unrealised gains recognised in equity in 2010 aggregated to US$ 2.54 million (2009: US$ 1.22 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.

US$ '000	Gross credit exposure 2010	Gross credit exposure 2009
Credit risk:		
Murabaha with financial institutions	31,623	55,702
Murabaha with corporates	33,989	8,347
Murabaha with individuals	4,763	11,773
Investments	83,880	68,279
Other assets	5,917	35,375
Total Credit Risk Exposure	**160,172**	**179,476**

The above disclosure is considered to be reasonably representative of the level of credit risk of the Bank, as there has been no significant fluctuation in the credit risk assets during the year ended 31 December 2010.

1.1 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:

US$ '000	Murabaha with financial institutions	Murabaha with corporates	Murabaha with individual	Investments	Other assets	Total
As at 31 December 2010						
Geographical region:						
Bahrain	3,351	27,989	4,763	6,740	4,385	47,228
Europe	-	6,000	-	29,228	625	35,853
Other GCC countries	28,272	-	-	45,666	747	74,685
Africa	-	-	-	1,859	73	1,932
Asia	-	-	-	387	87	474
	31,623	**33,989**	**4,763**	**83,880**	**5,917**	**160,172**
As at 31 December 2009						
Geographical region:						
Bahrain	6,636	2,171	-	3,087	34,329	46,223
Europe	-	6,176	11,773	37,322	173	55,444
Other GCC countries	49,066	-	-	25,347	730	75,143
Africa	-	-	-	1,754	50	1,804
Asia	-	-	-	769	93	862
	55,702	**8,347**	**11,773**	**68,279**	**35,375**	**179,476**

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

US$ '000	Murabaha with financial institutions	Murabaha with corporates	Murabaha with individual	Investments	Other assets	Total
As at 31 December 2010						
Industry sector:						
Real estate-development	-	-	-	59,104	580	59,684
Real estate-income generating	-	6,000	-	9,516	637	16,153
Banking and financial institutions	31,623	-	-	951	1,887	34,461
Insurance	-	-	-	160	-	160
Manufacturing	-	2,364	-	13,506	1,060	16,930
Automotive	-	-	-	643	73	716
Others	-	25,625	4,763	-	1,680	32,068
	31,623	**33,989**	**4,763**	**83,880**	**5,917**	**160,172**
As at 31 December 2009						
Industry sector:						
Real estate-development	-	-	-	37,864	28,460	66,324
Real estate-income generating	-	6,176	-	9,533	1,331	17,040
Banking and financial institutions	55,702	-	-	1,447	2,066	59,215
Insurance	-	-	-	820	-	820
Manufacturing	-	2,171	-	16,483	748	19,402
Automotive	-	-	-	1,754	50	1,804
Others	-	-	11,773	378	2,720	14,871
	55,702	**8,347**	**11,773**	**68,279**	**35,375**	**179,476**

1.2. 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.

The Bank's exposure in excess of 15% of the obligor limit to individual counterparties based on regulatory "total available capital" at 31 December 2010 is shown below:

	2010			2009		
US$ '000	**C.A.R Limit (15%)**	**On balance sheet exposure**	**Capital deduction**	C.A.R Limit (15%)	On balance sheet exposure	Capital deduction
Counterparty A	23,485	53,362	(29,877)	26,367	26,880	(513)
Counterparty B	23,485	24,854	(1,369)	26,367	27,737	(1,370)
			(31,246)			**(1,883)**

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

There were no off-balance sheet exposures (2009: nil).

2. MARKET RISK

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

	2010		2009	
US$ '000	**Risk weighted assets**	**Period end capital requirement**	Risk weighted assets	Period end capital requirement
Foreign exchange risk	35,800	4,475	43,638	5,455

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 an ongoing 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.

US$ '000	**2010 Assets/ liabilities net**	2009 Assets/ liabilities net
Euro	32,784	38,915
Pound Sterling	731	1,499
Kuwaiti Dinar	-	701
Others	2,285	2,523
	35,800	**43,638**

3. OPERATIONAL RISK

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

	Gross income		
US$ '000	2008	2007	2006
Total gross income	30,122	34,275	24,557

US$ '000	**2010**	2009
Indicator of operational risk:		
Average gross income multiply by number of years	29,651	29,651
Eligible portion for the purpose of calculation	15%	15%
Multiplier	12.5	12.5
Operational risk weighted exposure	55,596	55,596
Capital requirement (12.5%)	6,950	6,950

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 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 18 to the Financial Statements.

1. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The principle business of the Bank is Investment Banking. The process of managing the credit risk starts at the origination of the investment activity and compliance with investment criteria, guidelines and policies. The Bank manages credit risk by setting limits for individual counterparties, countries, regions and industry sectors. Limits are authorized by the Board of Directors based on management's recommendations, monitored by the Risk Management Department and reviewed regularly by the Risk Management Committee. Details of maximum exposure to credit risk by balance sheet components, geographical region, industry sector and credit rating are contained in Note 18.2 to the 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 2010. The disclosures are considered to be reasonably representative of the position during 2010 as there has been no significant fluctuation in the level of credit risk assets.

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 1.2.

Excessive risk concentration

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

Geographical distribution of exposures

The geographical distribution of exposures, impaired assets and the related impairment provisions as at 31 December 2010 are analysed as follows:

US$ '000	Gross funded credit exposure	Impaired securities	Provision against securities
Bahrain	47,228	257	-
Europe	35,853	8,148	3,000
Other Gulf Cooperation Council (GCC) countries	74,685	8,481	2,772
Africa	1,932	-	-
Asia	474	453	-
Total	**160,172**	**17,339**	**5,772**

The impaired security is reflected at fair value based on the relevant closing stock market price as at 31 December 2010. The criteria used to allocate exposures to particular geographical areas is the country to which the funds were transferred.

Industrial sector analysis of the exposures

The industrial sector analysis of exposures, impaired assets and the related impairment provisions as at 31 December 2010 is as follows:

US$ '000	Gross funded credit exposure	Impaired securities	Provision against securities
Real estate – development	59,685	1,000	2,772
Real estate – income generating	16,153	7,153	1,000
Banking and financial institutions	34,461	617	-
Insurance	160	661	-
Manufacturing	16,930	7,366	-
Automotive	716	-	-
Others	32,067	542	2,000
Total	**160,172**	**17,339**	**5,772**

The Bank has no unfunded exposures as at 31 December 2010.

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 2010:

US$ '000	Large exposure (banks)	% of exposure to equity		Large exposure (non-banks)	% of exposure to equity
Bank A	28,435	18.0%	Counterparty A	53,362	33.7%
Bank B	4,064	2.6%	Counterparty B	24,854	15.7%
			Counterparty C	9,304	5.9%
			Counterparty D	4,749	3.0%
			Counterparty E	4,551	2.9%
			Counterparty F	4,416	2.8%
			Counterparty G	3,965	2.5%
			Counterparty H	3,525	2.2%
			Counterparty I	3,441	2.2%
			Counterparty J	2,953	1.9%
			Counterparty K	2,590	1.6%
			Counterparty L	1,433	0.9%
			Counterparty M	1,333	0.8%
			Counterparty N	1,289	0.8%

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 as at 31 December 2010.

US$ '000	Gross credit exposure	Rated exposure	Unrated exposure
Cash and claims on banks	33,404	32,696	708
Equity portfolio	83,880	-	83,880
Other exposures	42,888	-	42,888
Total	160,172	32,696	127,476

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 2010 are as follows:

Exposures to related parties

US$ '000	**Gross credit exposure**
Claims on shareholders	-
Claims on associates	3,956
Claims on investee companies	25,625
Claims on directors	-
Total	**29,581**

Liabilities to related parties

US$ '000	**Gross liability**
Deposit payable to a shareholder	1,088
Total	**1,088**

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 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.

Impairment losses on financial assets

On a quarterly basis, the Bank assesses whether any provision for impairment should be recorded in the statement of income. Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ resulting in future changes in such provisions.

2. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under both normal and stress circumstances. The Assets & Liabilities Committee (ALCO) monitors future cash flows and liquidity required for working capital and investment acquisition. The Bank's investments generally have a long-term maturity and hence, as a matter of policy, the long-term investments are funded from IIB's own capital. The Bank maintains significant cash and cash equivalent balances and also has access to geographically diversified funding sources, although no deposit liabilities or long-term funding by external counterparties were booked during 2010. The ratio of liquid assets (defined as cash, balances with banks, due from financial institutions and quoted investments) to total assets at 31 December 2010 is 44%. Details of liquidity risk and funding management are contained in Note 18.3 to the Financial Statements.

The table below shows an analysis of financial assets and liabilities as at 31 December 2010 analysed according to when they are expected to be recovered or settled.

US$ '000	Within 1 month	1-3 months	3-6 months	6-12 months	Total within 12 months	1-5 years	Total
ASSETS							
Claims on banks	**4,979**	**28,425**	**-**	**-**	**33,404**	**-**	**33,404**
Receivables	**8,394**	**19,031**	**5,192**	**3,563**	**36,180**	**5,028**	**41,208**
Investment in quoted equities	**-**	**-**	**-**	**-**	**-**	**11,944**	**11,944**
Investment in unquoted equities	**-**	**-**	**-**	**-**	**-**	**10,856**	**10,856**
Investment property	**-**	**-**	**-**	**-**	**-**	**4,533**	**4,533**
Investment in associates	**-**	**-**	**-**	**3,956**	**3,956**	**-**	**3,956**
Assets classified as held for sale	**-**	**-**	**-**	**52,591**	**52,591**	**-**	**52,591**
Other assets	**55**	**102**	**50**	**10**	**217**	**1,463**	**1,680**
Total assets	**13,428**	**47,558**	**5,242**	**60,120**	**126,348**	**33,824**	**160,172**
LIABILITIES							
Total liabilities	**392**	**125**	**-**	**1,123**	**1,640**	**264**	**1,904**
Net gap	**13,036**	**47,433**	**5,242**	**58,997**	**124,708**	**33,560**	**158,268**

The maturity profile of assets and liabilities as at 31 December 2009 based on contractual maturity is as follows:

US$ '000	Within 1 month	1-3 months	3-6 months	6-12 months	Total within 12 months	1-5 years	Total
ASSETS							
Claims on banks	57,676	-	-	-	57,676	-	57,676
Receivables	5,216	4,308	4,125	6,555	20,204	30,920	51,124
Investment in quoted equities	-	-	-	-	-	15,831	15,831
Investment in unquoted equities	-	-	-	-	-	21,582	21,582
Investment in associates	-	-	-	3,987	3,987	-	3,987
Assets classified as held for sale	-	-	26,880	-	26,880	-	26,880
Other assets	207	131	51	34	423	1,973	2,396
Total assets	**63,099**	**4,439**	**31,056**	**10,576**	**109,170**	**70,306**	**179,476**
LIABILITIES							
Total liabilities	1,535	92	1,138	-	2,765	229	2,994
Net gap	**61,564**	**4,347**	**29,918**	**10,576**	**106,405**	**70,077**	**176,482**

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 18.4 to the Financial Statements details the Bank's exposure to equity price risk, foreign currency risk and profit rate risk.

4. OPERATIONAL RISK

Operational Risk is the risk of direct or indirect loss resulting from breaches in internal controls, processing errors, inadequate information systems, fraud, or external events. Its impact can be in the form of a financial loss, loss of reputation or loss of competitive position. Operational risk is inherent in all business activities and can never be eliminated entirely but can only be mitigated or minimized. The Bank minimizes its exposure to such risk by ensuring that appropriate management control mechanisms, infrastructure, systems, internal controls and human resources are in place. IIB has developed an operational risk framework, reviewed by experienced external consultants, that provides for identification, measurement, monitoring and control of potential risk events. A number of processes are used throughout the Bank including risk and control self-assessments, key risk indicators (KRIs), event management, new product review / approval procedures and business continuity plans.

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

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

5. LEGAL RISK

Legal Risk is the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise adversely affect the operations of the Bank. It has professional service arrangements with well-established local and international law firms. The policies and procedures of the Bank ensure that investments are made, funds are transferred, contracts are entered into, legal agreements are signed and any other binding arrangement is executed only after a rigorous legal due diligence has been performed either by the Legal & Compliance Department or external legal counsel. IIB fully complied with all applicable laws and regulations during the year ended 31 December 2010 and accordingly was not subject to any penalties for non-compliance.

Organization Structure

Chief Executive Officer
Aabed Al- Zeera, Chief Executive Officer (CEO)
Anne Uson, Executive Secretary

Direct Investment & Business Development
Narayanan Ganapathy, Director
Fadi Al-Qassim, Director
Atif Naveed, Associate
Marieta Cano, Executive Secretary

Investment Placement
Alyas Al-Meftah, Director
Jassim Al-Shaikh, Principal
Bashar Al-Shaikh, Principal
Omar Shaheen, Principal
Salah Hasan Habib, Associate
Mohammed Juma Habib, Associate
Nawar Al-Alawi, Coordinator
Mohammed Ebrahim Janahi, Coordinator
Mona Mahmood Ghuloom, Coordinator
Bushra A.Hassan Al-Madhi, Coordinator

Asset Management
Subhash Jalan, Executive Director
Murtaza Ghulam, Principal
Fatima Al Aradi, Investors Relations Officer
Sadaf Gill, Analyst
Mahmood Al-Qassab, Coordinator
Ruby Castro, Executive Secretary

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

Risk Management
Ninan Varkey, Head

Internal Audit
Ali Redha, Director

Human Resources
Sawsan Al-Ansari, Consultant

Compliance
Mazar Jalal, Head of Compliance & MLRO

Shari'ah Supervisory Board Report

To the Shareholders of International Investment Bank B.S.C. (c)

Asslam Alaikum Wa Rahmat Allah Wa Barakatuh

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

The Sharia Supervisory Board ("SSB") has reviewed the principles and contracts relating to the transactions conducted by the International Investment Bank ("Bank") during the course of the year ending December 31, 2010. Their review was conducted in order to judge whether the Bank followed the principles of the Islamic Shari'ah, specific fatwas, and guidelines issued by the SSB. The Bank's management is responsible for ensuring that its operations are carried out in compliance with SSB rulings.

The SSB responsibility is to present an independent view of the Bank's operations and to communicate it to the shareholders.

The review was planned and performed so as to obtain all necessary information and explanations to provide sufficient evidence proving that the Bank has not violated any rules and principles of the Islamic Shari'ah.

In our opinion:

- The Bank's contracts, transactions and deals for the year ending December 31, 2010 are in compliance with the rules and principles of the Islamic Shari'ah.
- 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.
- Earnings that have been realized from sources that are non-Shari'ah compliant were donated to charity.
- The Bank's calculation of Zakat is in compliance with the rules and principles of the Islamic Shari'ah.

We beseech the Almighty to grant us excellence and success.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sheikh Nizam Yaquby
Chairman, Shari'ah Supervisory Board

Sheikh Osama Bahar
Member, Shari'ah Supervisory Board

Sh. Abdul Nasser Al-Mahmoud
Member, Shari'ah Supervisory Board

9 Rabia 1432
14 March 2011

Financial Statements
31 December 2010

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

We have audited the accompanying statement of financial position of International Investment Bank B.S.C. (c) ["the Bank"] as of 31 December 2010, and related statements of income, cash flows and changes in equity for the year then ended. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Other Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the financial statements, and the contents of the Report of the Board of Directors relating to these financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2010 that might have had a material adverse effect on the business of the Bank or on its financial position and that the Bank has complied with the terms of its banking licence and has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Ernst + Young

14 March 2011
Manama, Kingdom of Bahrain

Statement of Income

For the year ended 31 December 2010

	Notes	2010 US$ '000	2009 US$ '000
Income			
Investment banking fees	3	666	2,120
Income on due from financial and other institutions		1,592	2,564
Income from investment in real estate, net		174	-
Unrealised fair value loss on investment in real estate	9	(751)	-
Gain on sale of investments, net		526	198
Dividend income		398	679
Other income		931	735
TOTAL INCOME		3,536	6,296
Expenses			
Corporate expenses		1,769	2,231
Deal acquisition expenses		857	1,959
Selling expenses		964	1,455
Asset management expenses		620	728
General and administration expenses	5	2,518	2,572
TOTAL EXPENSES		6,728	8,945
OPERATING LOSS		(3,192)	(2,649)
Share of loss from associate	11	(31)	(77)
NET LOSS BEFORE IMPAIRMENT AND FOREIGN EXCHANGE LOSSES		(3,223)	(2,726)
Impairment losses and provisions	7,8,11	(17,339)	(25,174)
Loss on foreign exchange		(188)	(3)
NET LOSS FOR THE YEAR		(20,750)	(27,903)

The attached explanatory notes 1 to 22 form part of these financial statements.

Statement of Financial Position

At 31 December 2010

	Notes	2010 US$ '000	2009 US$ '000
ASSETS			
Cash and balances with banks		1,781	1,974
Due from financial institutions	6	31,623	55,702
Receivables	7	41,208	51,124
Investments	8	22,800	37,413
Investment in real estate	9	4,533	-
Assets classified as held for sale	10	52,591	26,880
Investment in associate	11	3,956	3,987
Other assets		1,680	2,396
TOTAL ASSETS		160,172	179,476
LIABILITIES AND EQUITY			
Other liabilities	12	1,904	2,994
TOTAL LIABILITIES		1,904	2,994
EQUITY			
Share capital	13	109,996	109,996
Treasury shares	13	(6,798)	(6,798)
Share premium	13	72,050	72,050
Reserves	13	7,027	4,491
Accumulated deficit		(24,007)	(3,257)
TOTAL EQUITY		158,268	176,482
TOTAL LIABILITIES AND EQUITY		160,172	179,476

Saeed Abdul Jalil Al Fahim
Chairman

Aabed Al Zeera
Chief Executive Officer

The attached explanatory notes 1 to 22 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2010

	Share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Reserves: Statutory reserve US$ '000	Reserves: Cumulative changes in fair value reserve US$ '000	Reserves: Foreign currency translation reserve US$ '000	Total reserves US$ '000	Accumulated deficit US$ '000	Proposed appropriations US$ '000	Total US$ '000
Balance at 1 January 2010	109,996	(6,798)	72,050	5,588	(1,953)	856	4,491	(3,257)	-	176,482
Unrealised gains on re- measurement to fair value, net	-	-	-	-	2,862	-	2,862	-	-	2,862
Transferred to statement of income on impairment	-	-	-	-	1,752	-	1,752	-	-	1,752
Unrealised translation losses on assets classified as held for sale	-	-	-	-	-	(2,078)	(2,078)	-	-	(2,078)
Net loss for the year	-	-	-	-	-		-	(20,750)	-	(20,750)
Balance at 31 December 2010	**109,996**	**(6,798)**	**72,050**	**5,588**	**2,661**	**(1,222)**	**7,027**	**(24,007)**	**-**	**158,268**
Balance at 1 January 2009	109,996	(6,798)	72,050	5,588	(2,320)	-	3,268	24,436	7,700	210,652
Unrealised gains on re- measurement to fair value, net	-	-	-	-	367	-	367	-	-	367
Unrealised translation gains on assets classified as held for sale	-	-	-	-	-	856	856	-	-	856
Net loss for the year	-	-	-	-	-	-	-	(27,903)	-	(27,903)
Dividend paid	-	-	-	-	-	-	-	-	(7,490)	(7,490)
Transfer to retained earnings relating to treasury shares	-	-	-	-	-	-	-	210	(210)	-
Balance at 31 December 2009	109,996	(6,798)	72,050	5,588	(1,953)	856	4,491	(3,257)	-	176,482

The attached explanatory notes 1 to 22 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2010

	2010 US$ '000	2009 US$ '000
OPERATING ACTIVITIES		
Net loss for the year	(20,750)	(27,903)
Adjustments for:		
Depreciation	683	543
Unrealised fair value loss on investment in real estate	751	-
Gain on sale of investments, net	(526)	(198)
Share of loss from associate	31	77
Impairment losses and provisions	17,339	25,174
	(2,472)	(2,307)
Changes in operating assets and liabilities:		
Receivables	(18,672)	(19,311)
Other assets	200	172
Other liabilities	(1,090)	(5,072)
Purchase of investments	(213)	(35,416)
Proceeds from disposal of investments	2,894	8,190
Net cash used in operating activities	(19,353)	(53,744)
INVESTING ACTIVITIES		
Purchase of equipment	(166)	(1,563)
Purchase of investment in real estate	(4,753)	-
Net cash used in investing activities	(4,919)	(1,563)
FINANCING ACTIVITY		
Dividends paid	-	(7,490)
Net cash used in financing activity	-	(7,490)
DECREASE IN CASH AND CASH EQUIVALENTS	(24,272)	(62,797)
Cash and cash equivalents at beginning of the year	57,676	120,473
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	33,404	57,676
Cash and cash equivalents comprise:		
Cash and balances with banks	1,781	1,974
Due from financial institutions	31,623	55,702
	33,404	57,676

The attached explanatory notes 1 to 22 form part of these financial statements.

1 CORPORATE INFORMATION

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 financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 14 March 2011.

2 ACCOUNTING POLICIES

a) Basis of preparation

These financial statements have been prepared under the historical cost convention except as modified by the fair valuation of investments available for sale.

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

Statement of compliance

The financial statements of the Bank are prepared in accordance with Financial Accounting Standards ["FAS"] issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"], the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. For matters which are not covered by AAOIFI standards, the Bank uses the relevant International Financial Reporting Standards ["IFRS"] issued by the International Accounting Standards Board ["IASB"].

During 2009, the Bank adopted to prepare financial statements in accordance with Financial Accounting Standards issued by AAOIFI only. Previously the Bank was applying both International Financial Reporting Standards and AAOIFI in preparing financial statements. Due to such a change in the adoption of accounting standards, investment previously carried at fair value through statement of income have been reclassified as "available for sale" (Note 8).

b) Significant accounting judgements and estimates

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

Fair value

The determination of fair value is done for each investment individually in accordance with the valuation policies set out below:

(i) For investments quoted in an active market, fair value is determined by reference to quoted market prices.

(ii) For investments in units in funds, fair value is determined based on the latest net asset value provided by the fund manager.

(iii) For unquoted investments, the fair value of the Bank's investment portfolio is determined using a variety of valuation techniques. These techniques rely on market observable data where possible. Judgement by management is required to establish fair values through the use of appropriate valuation models. The judgements include consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

(iv) For investment in real estate, the fair value 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 statement of financial position.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as "held for trading" or "available for sale".

Impairment of available for sale investments

The Bank treats available for sale investments 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 addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty

The Bank reviews its doubtful financial contracts and investments on each reporting date to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgement 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.

2 ACCOUNTING POLICIES (continued)

c) Summary of significant accounting policies

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

i) Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using rate of exchange prevailing at the date of statement of financial position. All differences are taken to 'Gain / (loss) on foreign exchange' in the 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 the 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 investment available for sale.

ii) Financial instruments – initial recognition and subsequent measurement

Financial instruments comprise financial assets and financial liabilities.

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

Incremental transaction costs associated with the acquisition of investments available for sale are included in the cost of such investments.

Initial recognition of financial instruments
The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at their cost being the fair value of the consideration given plus any directly attributable incremental costs of acquisition or issue.

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.

Investments
Investments are initially classified as "available for sale".

After initial recognition, investments are remeasured to fair value depending on their classification as follows:

Available for sale
Fair value changes are reported as a separate component of equity until the investment is derecognised, or the investment is determined to be impaired, at which time the cumulative change is included in the statement of income. The losses arising from impairment of such investments are recognised in the statement of income and are excluded from the statement of changes in equity. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

iii) Initial recognition and subsequent measurement of investment in real estate and investment held for sale

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 and subsequently re-measured at fair value with the resulting unrealised gains/ losses being recognised in the statement of changes in equity under 'cumulative changes in fair value reserve'. Incase such losses exceed the available reserve balance, the unrealised losses are recognised in the statement of income. Incase there are unrealised losses that have been recognised in the statements of income in a previous period, the unrealised gains related to the current financial period are recognised to the extent of crediting back such previous losses in the statement of income. Any excess of such gains over such prior-period losses are added to the "cumulative changes in fair value reserve" in the statement of financial position.

Held for sale
Assets are classified as held for sale if the carrying amount is to be recovered principally through a sale transaction planned to occur within 12 months, rather than through continuing use. Assets held for sale are measured at the lower of carrying amount or fair value less costs to sell.

iv) Derecognition of financial assets and financial liabilities

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 right to receive cash flows from the asset has expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank 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.

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

v) Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be 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 have occurred after the initial recognition of the asset. If such evidence exists, any impairment loss is recognised in statement of income.

Investments
In the case of equity investments classified as available for sale, 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 removed from equity 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.

vi) Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amounts reported in the statement of financial position when there is a legally enforceable or religious right to set off the recognised amounts and the Bank 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 Bank's investments in associates are accounted for under the equity method of accounting. These are entities over which the Bank 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 shareholders that the Bank has in the said entity.

Under the equity method, the investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the Bank's share of net assets of the associate. The Bank recognises in the statement of income its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commences until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Bank's share in the associate arising from changes in its equity that have not been recognised in the associate's profit or loss. The Bank's share of those changes is recognised directly in equity. Profits and losses resulting from transactions with an associate are eliminated to the extent of the Bank's share in the associate.

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

The Bank determines at each statement of financial position date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Bank calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognises the amount in the statement of income.

viii) Equipment

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

2 ACCOUNTING POLICIES (continued)

ix) Investment banking fees

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

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

x) Exit income

Exit income comprises performance fees representing the fee earned by the Bank for exceeding pre-determined hurdle rates. Exit income is recognised when a binding and definitive sale agreement or contract is signed.

xi) Income on due from financial institutions

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 over due by 90 days or more is excluded from the income of the year.

Murabaha income is recognised when it is quantifiable or when right to receive payment is established, whereas the losses are charged to income when advised by the Mudarib.

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

xiii) Dividends

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

xiv) Employees' end of service benefits

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

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

xv) Zakah

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

xvi) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and due from financial institutions with original maturities of three months or less.

xvii) Fiduciary assets

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

xviii) Proposed dividend

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

xix) Provisions

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

xx) Treasury shares

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

3 INVESTMENT BANKING FEES

	2010 US$ '000	2009 US$ '000
Acquisition, structuring and placement fees	-	1,406
Management fees	666	714
	666	2,120

4 STAFF COSTS

	2010 US$ '000	2009 US$ '000
Salaries and other staff related costs	3,790	4,578
End of service benefits	161	435
	3,951	5,013

The Bank classifies its expenses based on function and hence the staff cost has been allocated to Corporate, Deal acquisition, Selling and Asset Management functions.

5 GENERAL AND ADMINISTRATION EXPENSES

	2010 US$ '000	2009 US$ '000
Depreciation	683	543
Rent and maintenance	508	446
Legal and professional	332	349
IT expenses	284	152
Printing and advertisement	138	235
Shari'a Supervisory Board remuneration	106	75
Donations	100	100
Communication	47	60
Directors' remuneration	-	300
Others	320	312
	2,518	2,572

6 DUE FROM FINANCIAL INSTITUTIONS

	2010 US$ '000	2009 US$ '000
Commodity murabaha	31,721	55,713
Deferred income	(98)	(11)
	31,623	55,702

7 RECEIVABLES

	Notes	2010 US$ '000	2009 US$ '000
Advance paid for a deal	7.1	-	27,736
Receivables and prepayments	7.2	7,220	15,041
Due from investee companies	7.3	33,988	8,347
		41,208	51,124

7 RECEIVABLES (continued)

7.1 Advance paid for a deal

In 2009 the Bank made an advance payment towards a real estate related project in the Kingdom of Saudi Arabia. The Bank, at 30 June 2010, has reclassified the investment as asset held for sale (Note-10).

7.2 Receivables and prepayments

	Note	2010 US$ '000	2009 US$ '000
Management fee receivables		1,493	1,449
Receivable from investee companies		1,060	1,287
Other receivables		4,764	12,305
		7,317	15,041
Provisions	7.4	(97)	-
		7,220	15,041

Included in "Other receivables" is an amount of US$ 4,764 thousand (2009: US$ 11,777 thousand) due on account of an abandoned real estate investment project in Kingdom of Saudi Arabia. During the year, the Bank has entered into a restructuring agreement for the remaining principal of US$ 10,345 thousand over a period of eighteen months starting from 25 February 2010 at 8.5% profit rate per annum.

7.3 Due from investee companies

	Note	2010 US$ '000	2009 US$ '000
Commodity murabaha receivables		37,966	10,974
Deferred profit		(1,124)	(627)
		36,842	10,347
Provision / suspended profit	7.4	(2,854)	(2,000)
		33,988	8,347

7.4 Movement in provisions

	Receivables and prepayments 2010 US$ '000	Due from investee companies 2010 US$ '000	Total 2010 US$ '000	Total 2009 US$ '000
Opening	-	2,000	2,000	-
Charge during the year / suspended profit	97	854	951	2,000
	97	2,854	2,951	2,000

8 INVESTMENTS

The Bank has investments in various equity instruments, which are as under:

	2010 US$ '000	2009 US$ '000
Available for sale		
Quoted	11,944	15,831
Unquoted	10,856	21,582
	22,800	37,413

Impairment losses and provisions on available for sale investments

	Note	2010 US$ '000	2009 US$ '000
Impairment losses:			
Quoted	8.1	7,046	20,351
Unquoted		8,025	1,051
		15,071	21,402
Provision on unquoted investments		2,000	-
		17,071	21,402

8.1 **Investment reclassified**

Effective from 1 January 2009, the Bank has changed its intention regarding investment categorised as held for trading since the Bank no longer wishes to realise short term gains from market price movements and intends to hold this investment as strategic in nature. Therefore investment has been reclassified as "Available for sale (AFS)" with effect from 1 January 2009 at fair value. Subsequent to reclassification, the fair value gains or losses are recognised in statement of changes in equity except in case of losses arising from impairment or derecognition of investment which are recognised in statement of income.

The quoted investment reclassified was carried at US$ 32,767 thousand at 1 January 2009. The carrying value of this investment at 31 December 2010 is US$ 9,304 thousand (2009: US$ 12,732 thousand). During the year, the Bank provided US$ 6,039 thousand (2009: US$ 20,034 thousand) as impairment loss against the said investment.

8.2 Quoted and unquoted investments include US$ 9,304 thousand (2009: 12,732 thousand) and US$ 2,400 thousand (2009: US$ 2,400 thousand) respectively, held on behalf of the Bank, in the name of related parties for which risk and rewards are borne by the Bank.

9 INVESTMENT IN REAL ESTATE

	2010 US$ '000	2009 US$ '000
Acquired during the year	5,284	-
Fair value adjustment	(751)	-
	4,533	-

During the year, the Bank purchased an eleven-storey residential tower from Bahrain Property Fund, managed by the Bank, with 23 apartments in the up-market area of Hoora, Kingdom of Bahrain. As on the statement of financial position date, 17 apartments were leased. From the date of acquisition the property has generated an average net monthly income of US$ 22 thousand (2009: nil). The building was acquired during the year and it is stated at fair value, determined based on valuations performed by two independent professional valuers as of 31 December 2010.

10 ASSETS HELD FOR SALE

	Notes	2010 US$ '000	2009 US$ '000
Istethmary Sarajevo City Centre-I Limited	10.1	24,854	26,880
Istethmary Al Fareedha Company B.S.C (c)	10.2	27,737	-
		52,591	26,880

10.1 During the year 2009, the Bank established Istethmary Sarajevo City Centre-I Limited ["the Company"], a special purpose vehicle incorporated in Cayman Islands, which holds 100% equity stake in Istethmary Sarajevo City Centre-II Limited, a special purpose vehicle incorporated in Cayman Islands, which owns indirectly equity stake of 28.31% in Magros Veletrgovia d.d. As at 31 December 2010, the Bank has retained a 93.77% stake in the Company and the Bank remains committed to sell the investment and is actively marketing at a price that is reasonable, given the changes in market conditions. Total assets and liabilities of the Company amounted to US$ 26,506 thousand and nil (2009: US$ 28,670 thousand and nil) respectively and the non-controlling interest amounted to US$ 1,652 thousand (2009: US$ 1,790 thousand).

10 ASSETS HELD FOR SALE (continued)

10.2 The Bank established Istethmary Al Fareeda Company B.S.C. (c) ("the Company"), a special purpose vehicle incorporated in the Kingdom of Bahrain which owns an equity stake of 26.96% in Ewaan Al Fareeda Company, a limited liability company in the Kingdom of Saudi Arabia. Total assets and liabilities of the Company amounted to US$ 53,321 thousand and US$ 25,584 thousand respectively. The Company is fully owned by the Bank.

11 INVESTMENT IN ASSOCIATE

	2010 US$ '000	2009 US$ '000
Opening balance	5,759	5,836
Share of loss from associate	(31)	(77)
	5,728	5,759
Provision	(1,772)	(1,772)
	3,956	3,987

The Bank holds an investment in IIB UAE Investment Limited ("IIB-UAE"), a special purpose vehicle incorporated in Cayman Islands with limited liability. IIB Bay Tower Investment Limited, a subsidiary of IIB UAE Investment Limited, was established to own 65% of Bay Development Properties Limited. As on the statement of financial position date, the Bank holds 27.32% (2009: 27.32%) equity stake in IIB UAE.

The following table summarises financial information of the Bank's investment in associate:

	2010 US$ '000	2009 US$ '000
Associates' statements of financial position		
Total assets	32,353	32,633
Total liabilities	(17)	(122)
Net assets	32,336	32,511
Total income	18	36
Total expenses	(193)	(475)
	(175)	(439)
Share of loss from associate	(31)	(77)

During 2007, Bay Development Properties Limited ("the Company"), in which IIB UAE Investments Limited owns approximately 65% equity, had entered into a conditional sale/purchase agreement with a buyer to sell the investment property. Later on the Company had terminated this sale/purchase agreement on the basis that the buyer had failed to fulfill his contractual obligation. The buyer has commenced a court action against the Company for specific performance of the sale/purchase agreement.

The Court of First Instance and the Court of Appeal required both parties to execute the sale/purchase agreement. The Company appealed to the Court of Cessation to reconsider the decision to the Court of Appeal.

The Court of Cessation upheld the verdict of the Court of Appeal. Therefore, the Company then filed a case in the Court of Appeal to reconsider the Company's appeal in February 2009. Based on the evidence submitted by the Company showing that the buyer has misrepresented to the Court stating that the buyer deposited AED 17 million (US$ 4.6 million) in court, the Court of Appeal has rejected the Company's request on the basis of form, however, recognized that the buyer did not in fact submit any payment in the Court's Treasury. The buyer received an execution order from the court and the ownership of the plot of land was registered in their name in the Dubai Land Department.

The Company has filed a case in the Court of First Instance to claim the remaining amount of the deal of AED 104 million (US$ 28 million). Based on the above the Company has made a provision amounting to US$ 11.09 million. The Company has filed for an arrest warrant with the local police for the Managing Director of the buyer on the basis of issuing cheques without funds, after obtaining confirmation from the bank that funds were not sufficient to cover the cheque amounts issued to the Company worth AED 60 million (US$ 16.3 million). The buyer reacted by submitting a request to the Cheques Committee to disclaim the arrest warrant. Hearings with the Cheques Committee have concluded in November 2010 and issued its final verdict. The Committee confirms that the amount of the cheques has not been paid by the buyer and instructed him to settle the amount by issuing court cheques AED 10 million (US$ 2.7 million) for six consecutive months, and these have to be submitted to court before the end of November 2010. The buyer did not do so, and the Committee has returned the case to the Public Prosecutor for criminal pursuit. The matter now is in progress.

Based on the verdict of the Cheques Committee the case in the Court of First Instance was reopened for final verdict and hearings resumed on 13 February 2011 where the counter party, upon court instructions, submitted a response at the hearing on 13 March 2011. The court then instructed BDPL to submit their response to the documents submitted by the counter party at the next hearing which is scheduled for 17th April 2011.

At the reporting date, Court proceedings are ongoing. The legal title of the land is held in the name of the buyer but the sale and transfer of investment property is restricted by the Dubai Land Department. The Board of Directors and management of the Bank are confident on favourable outcome of legal proceedings and therefore, no further provision has been made.

12 OTHER LIABILITIES

	2010 US$ '000	2009 US$ '000
Payable to a shareholder	1,088	2,489
Accrued expenses	524	394
Other payables	292	111
	1,904	2,994

Other payables include earnings prohibited by Shari'a to be utilised exclusively for charitable purposes and amounts to nil (2009: US$ 9 thousand).

13 EQUITY

	2010 US$ '000	2009 US$ '000
Share capital		
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

Treasury Shares

	2010		2009	
	Number of shares '000	Value US$ '000	Number of shares '000	Value US$ '000
At 1 January	3,000	6,798	3,000	6,798
At 31 December	**3,000**	**6,798**	3,000	6,798

Share premium

Amounts collected in excess of the par value of the issued share capital, net of share issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law.

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 till 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. As the Bank made a loss for the year, no transfers have been made at the year end.

13 EQUITY (continued)

Cumulative changes in fair value reserve

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

Foreign currency translation reserve

This represents unrealised losses on translation of assets classified as held for sale denominated in foreign currencies.

14 PROPOSED APPROPRIATIONS

The Board of Directors of the Bank has not proposed any cash dividend (2009: nil), owing to the fact that the Bank has incurred an operating loss in the year.

15 TRANSACTIONS WITH RELATED PARTIES

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

The significant balances with related parties were as follows:

	Shareholders/ directors US$ '000	Others US$ '000	Total 2010 US$ '000	2009 US$ '000
Assets				
Investments	-	1,333	1,333	8,033
Assets classified as held for sale	-	52,591	52,591	26,880
Investment in associate	-	3,956	3,956	3,987
Receivable from investee companies	-	25,625	25,625	735
Liabilities				
Other liabilities - payable to a shareholder	1,088	-	1,088	2,489

Transactions with related parties during the year as follows:

	Notes	Shareholders/ directors US$ '000	Others US$ '000	Total 2010 US$ '000	2009 US$ '000
Asset					
Investment in real estate	9	-	5,284	5,284	-

Transactions with related parties included in the statement of income were as follows:

	Notes	Shareholders/ directors US$ '000	Others US$ '000	Total 2010 US$ '000	2009 US$ '000
Income					
Investment banking fees		18	73	91	76
Share of loss from associate	11	-	(31)	(31)	(77)
Provision	11	-	-	-	(1,772)
Dividend income		-	14	14	30
Expenses					
Directors' remuneration		-	-	-	300
Shari'a Supervisory Board remuneration		-	106	106	70

The Directors believe that no further provision is required in respect of balances due from related parties.

Compensation of key management personnel was as follows:

	2010 US$ '000	2009 US$ '000
Short term employee benefits	2,360	3,020
End of service benefits	265	204
	2,625	3,224

16 COMMITMENTS

	2010 US$ '000	2009 US$ '000
Operating lease		
Expiring within one year	202	230
Expiring in one to two years	-	105
	202	335

17 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 18.3 "Liquidity risk and funding management" for the Bank's contractual undiscounted repayment obligations.

	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	Undated US$ '000	Total US$ '000
ASSETS						
Cash and balances with banks	1,781	-	1,781	-	-	1,781
Due from financial institutions	3,198	28,425	31,623	-	-	31,623
Receivables	31,967	6,834	38,801	2,407	-	41,208
Investments	-	-	-	22,800	-	22,800
Investment in real estate	-	-	-	4,533	-	4,533
Assets classified as held for sale	-	52,591	52,591	-	-	52,591
Investment in associate	-	-	-	3,956	-	3,956
Other assets	164	59	223	-	1,457	1,680
Total assets	37,110	87,909	125,019	33,696	1,457	160,172
LIABILITIES						
Other liabilities	451	1,183	1,634	270	-	1,904
Total liabilities	451	1,183	1,634	270	-	1,904
Net gap	36,659	86,726	123,385	33,426	1,457	158,268

17 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The maturity profile of assets and liabilities as at 31 December 2009 based on contractual undiscounted repayment obligations is as follows.

	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	Undated US$ '000	Total US$ '000
ASSETS						
Cash and balances with banks	1,974	-	1,974	-	-	1,974
Due from financial institutions	55,702	-	55,702	-	-	55,702
Receivables	37,260	10,681	47,941	3,183		51,124
Investments	-	589	589	36,824	-	37,413
Assets classified as held for sale	-	26,880	26,880	-	-	26,880
Investment in associates	-	-	-	3,987	-	3,987
Other assets	338	85	423	-	1,973	2,396
Total assets	95,274	38,235	133,509	43,994	1,973	179,476
LIABILITIES						
Other liabilities	1,627	1,138	2,765	229	-	2,994
Total liabilities	1,627	1,138	2,765	229	-	2,994
Net gap	93,647	37,097	130,744	43,765	1,973	176,482

18 RISK MANAGEMENT

18.1 Introduction

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

a) Risk management structure

Board of Directors

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

Shari'a Supervisory Board

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

Executive Committee

The Executive Committee of the Board 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 incur detailed due diligence expenditure.

Risk Management Committee

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

Risk Management Department

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

Assets & Liabilities Committee

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

Audit Committee

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

Internal Audit

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

b) Risk measurement and reporting systems

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

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

c) Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

18.2 Credit risk

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

a) Risk concentrations of the maximum exposure to credit risk

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

	Notes	Gross credit exposure 2010 US$ '000	Gross credit exposure 2009 US$ '000
Credit risk items:			
Cash and balances with banks		1,779	1,972
Due from financial institutions	6	31,623	55,702
Receivables	7	41,208	51,124
Other assets		223	423
Total Credit Risk Exposure		74,833	109,221

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

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 2010

	Cash and balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Other assets US$ '000	Total US$ '000
Geographical region:					
Bahrain	1,616	3,350	33,832	223	39,021
Europe	-	-	6,632	-	6,632
Other GCC countries	163	28,273	584	-	29,020
Africa	-	-	73	-	73
Asia	-	-	87	-	87
	1,779	31,623	41,208	223	74,833

As at 31 December 2009

	Cash and balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Other assets US$ '000	Total US$ '000
Geographical region:					
Bahrain	1,972	6,636	15,273	423	24,304
Europe	-	-	6,925	-	6,925
Other GCC countries	-	49,066	28,784	-	77,850
Africa	-	-	50	-	50
Asia	-	-	92	-	92
	1,972	55,702	51,124	423	109,221

c) Industrywise distribution of the gross funded exposures

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

As at 31 December 2010

	Cash and balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Other assets US$ '000	Total US$ '000
Industry sector:					
Real estate-development	-	-	26,219	-	26,219
Real estate-income generating	-	-	6,619	-	6,619
Banking and financial institutions	1,779	31,623	93	-	33,495
Manufacturing	-	-	3,423	-	3,423
Automotive	-	-	73	-	73
Others	-	-	4,781	223	5,004
	1,779	31,623	41,208	223	74,833

As at 31 December 2009

	Cash and balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Other assets US$ '000	Total US$ '000
Industry sector:					
Real estate-development	-	-	29,472	-	29,472
Real estate-income generating	-	-	6,753	-	6,753
Banking and financial institutions	1,972	55,702	92	-	57,766
Manufacturing	-	-	2,847	-	2,847
Automotive	-	-	50	-	50
Others	-	-	11,910	423	12,333
	1,972	55,702	51,124	423	109,221

d) **Credit quality per class of financial assets**

The table below analyses the Bank's maximum credit exposure where the credit quality is reflected by Standard and Poor's, Moody's and Fitch credit ratings where relevant of the counterparties:

	2010 US$ '000	2009 US$ '000
Credit rating:		
A+	**28,436**	7,903
A	**19**	-
A-	**4,240**	49,066
Unrated	**42,138**	52,252
	74,833	109,221

e) **Aging of financial assets**

As at 31 December 2010:

	Neither past due nor impaired US$ '000	Past due and individually impaired US$ '000	Total US$ '000
Cash and balances with banks	1,779	-	1,779
Due from financial institutions	31,623	-	31,623
Receivables	35,059	6,149	41,208
Other assets	223	-	223
	68,684	6,149	74,833

As at 31 December 2009:

Cash and balances with banks	1,972	-	1,972
Due from financial institutions	55,702	-	55,702
Receivables	45,124	6,000	51,124
Other assets	423	-	423
	103,221	6,000	109,221

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

f) 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 2010 was US$ 28,436 thousand (2009: US$ 49,066 thousand).

18.3 Liquidity risk and funding management

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

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. Note 19 (Maturity analysis of assets and liabilities) shows the expected maturities of these liabilities.

As at 31 December 2010

	Less than 3 months US$ '000	3 months to 1 year US$ '000	1 to 5 years US$ '000	Total US$ '000
Other liabilities	451	1,183	270	1,904
Total undiscounted financial liabilities	451	1,183	270	1,904

As at 31 December 2009

	Less than 3 months US$ '000	3 months to 1 year US$ '000	1 to 5 years US$ '000	Total US$ '000
Other liabilities	1,627	1,138	229	2,994
Total undiscounted financial liabilities	1,627	1,138	229	2,994

18.4 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 analyses.

a) Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Bank has available for sale investments quoted on overseas stock exchanges. Based on the values at 31 December 2010, a change in the quoted price of plus or minus 10% would change the value of these investments by plus or minus US$ 1,194 thousand (2009: US$ 1,583 thousand) with a corresponding increase or decrease in equity, except in case where impairment loss accrued which will result in decrease being taken to statement of income.

The Bank also has unquoted investments carried at fair value using either net asset value or valuation from independent valuer. Based on the values at 31 December 2010, a change in the valuation of 10% would change the value of these investments by plus or minus US$ 1,286 thousand (2009: US$ 2,158 thousand) with a corresponding increase or decrease in equity.

b) Foreign currency risk

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

The Bahraini Dinar (BHD), Saudi Riyal (SAR) and UAE Dirham (AED) are pegged to the US$ and resultantly positions in these currencies are not considered to represent significant currency risk. The Bank had the following foreign currency exposures at 31 December 2010:

	2010 Assets/liabilities net US$ '000	2009 Assets/liabilities net US$ '000
Euro	3,058	3,095
Kuwaiti Dinar	-	323
Others	43	144
	3,101	3,562

Sensitivity Analysis

The following table demonstrates the sensitivity of the statement of income to a reasonable possible movement of the 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 (+/-) %	2010 Effect on net income (+/-) US$ '000	2009 Effect on net income (+/-) US$ '000
Euro	10%	306	310
Kuwaiti Dinars	10%	-	32
Others	10%	4	14

c) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Bank currently has limited exposure to profit rate risk. The Bank's assets that are exposed to profit rate risk comprise of due from financial institutions and have repricing dates no longer than three months. During 2010, a +/- 0.25% change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 143 thousand (2009: +/- 0.25% resulted in US$ 230 thousand) impact on the 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.

19 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 the Basel II as adopted by the CBB.

19 CAPITAL MANAGEMENT (continued)

19.1 Capital adequacy ratio

	Notes	Basel II 2010 US$ '000	Basel II 2009 US$ '000
Regulatory capital			
Tier 1 capital	19.2	125,320	173,896
Total regulatory capital		125,320	173,896
Risk weighted assets	19.3	266,817	292,982
Total capital adequacy ratio		47%	59%
Minimum regulatory ratio		12%	12%

19.2 Tier 1 Capital

	Basel II 2010 US$ '000	Basel II 2009 US$ '000
Share capital	109,996	109,996
Treasury shares	(6,798)	(6,798)
Share premium	72,050	72,050
Statutory reserve	5,588	5,588
Cumulative changes in fair value reserve	(1,655)	(2,373)
Retained earnings	(24,007)	(3,257)
Core Tier 1 Capital	155,174	175,206
Deductions	(15,623)	(942)
Tier 1 Capital before adjustments for negative balance of Tier 2	139,551	174,264
Negative balance of Tier 2	(14,231)	(368)
Tier 1 Capital net of negative Tier 2 Capital	125,320	173,896

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.

19.3 Risk weighted assets

	Basel II 2010 US$ '000	Basel II 2009 US$ '000
Credit risk weight assets	175,421	193,748
Market risk weight assets	35,800	43,638
Operational risk weight assets	55,596	55,596
	266,817	292,982

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.

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

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

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

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

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

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

	2010			
	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
Non-trading investments				
Quoted	11,944	-	-	11,944
Unquoted	-	6,742	4,114	10,856
	11,944	6,742	4,114	22,800

	2009			
	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
Non-trading investments				
Quoted	15,831	-	-	15,831
Unquoted	-	15,972	5,610	21,582
	15,831	15,972	5,610	37,413

There has been no transfers from level 1 and level 2 to level 3 during the years 2010 and 2009.

Financial instruments recorded at fair value

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

Financial Investments - available for sale

Available-for-sale 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.

20 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 and liabilities which are recorded at fair value:

	Unquoted 2010 US$ '000	Unquoted 2009 US$ '000
Balance at 1 January	5,610	6,912
Impairment losses recorded in statement of income	(1,496)	(671)
Fair value loss recorded in equity	-	(18)
Purchases, sales and settlements, net	-	(613)
Balance at 31 December	4,114	5,610

For the above financial instruments categorised as level 3, the Bank has used reasonably possible alternative assumption and adjusted the discount rate by 10% as a key unobservable model input. The effect of this will result in +/- US$ 411 thousand (31 December 2009: US$ 561 thousand) adjustment in the carrying value of level 3 investments and related cumulative fair value change.

21 SEGMENTAL INFORMATION

The activities of the Bank are all related to investment banking activities. The Bank operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

22 SOCIAL RESPONSIBILITY

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