

International Investment Bank B.S.C. (c)
INTERIM CONDENSED FINANCIAL STATEMENTS

30 JUNE 2010 (Unaudited)

REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF INTERNATIONAL INVESTMENT BANK B.S.C. (c)

Introduction

We have reviewed the accompanying interim condensed financial statements of International Investment Bank B.S.C. (c) ('the Bank') as at 30 June 2010, comprising of the interim statement of financial position as at 30 June 2009 and the related interim statements of income, cash flows and changes in equity for the six months then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with note 2.



19 August 2010
Manama, Kingdom of Bahrain

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

INTERIM STATEMENT OF INCOME

For the six months ended 30 June 2010 (Unaudited)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Income				
Investment banking fees	161	468	324	1,587
Income on due from financial and other institutions	279	603	762	1,388
Income from investment property, net	101	-	101	-
Unrealised loss on financial assets fair valued through statement of income	-	-	-	(25)
Gain on sale of investment, net	-	198	-	198
Dividend income	285	458	327	495
Other income	220	185	478	185
	1,046	1,912	1,992	3,828
Expenses				
Corporate expenses	419	566	930	1,153
Deal acquisition expenses	256	451	563	1,229
Selling expenses	285	363	539	743
Asset management expenses	152	176	311	394
General and administration expenses	599	640	1,101	1,375
TOTAL EXPENSES	1,711	2,196	3,444	4,894
OPERATING LOSS BEFORE IMPAIRMENT AND FOREIGN EXCHANGE GAINS / LOSSES	(665)	(284)	(1,452)	(1,066)
Impairment losses	(5,739)	(201)	(6,708)	(317)
(Loss) / gain on foreign exchange	(281)	49	(441)	21
NET LOSS FOR THE PERIOD	(6,685)	(436)	(8,601)	(1,362)

The attached explanatory notes 1 to 15 form part of these interim condensed financial statements.

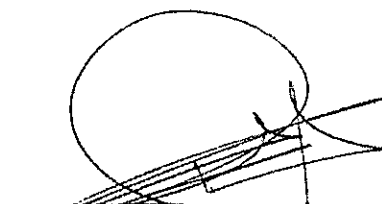
International Investment Bank B.S.C. (c)

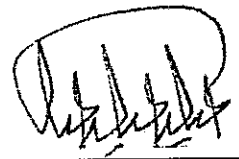
INTERIM STATEMENT OF FINANCIAL POSITION

At 30 June 2010

		(Unaudited) 30 June 2010 US\$ '000	(Audited) 31 December 2009 US\$ '000
ASSETS			
Cash and balances with banks		1,402	1,974
Due from financial institutions		27,547	55,702
Receivables	4	43,548	51,124
Investments	5	29,495	37,413
Investment property	6	5,285	-
Assets classified as held for sale	7	50,682	26,880
Investment in associate	8	3,987	3,987
Other assets		2,072	2,396
TOTAL ASSETS		164,018	179,476
LIABILITIES AND EQUITY			
Other liabilities	9	1,525	2,994
TOTAL LIABILITIES		1,525	2,994
EQUITY			
Share capital		109,996	109,996
Treasury shares		(6,798)	(6,798)
Share premium		72,050	72,050
Reserves		(12,755)	1,234
TOTAL EQUITY		162,493	176,482
TOTAL LIABILITIES AND EQUITY		164,018	179,476

The interim condensed financial statements were authorised for issue by the Board of Directors on 19 August 2010 and signed on their behalf by:


 Saeed Abdul Jalil Al Fahim
 Chairman


 Abed Al-Zeera
 Chief Executive Officer

The attached explanatory notes 1 to 15 form part of these interim condensed financial statements.

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

INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010 (Unaudited)

	30 June 2010 US\$ '000	30 June 2009 US\$ '000
OPERATING ACTIVITIES		
Net loss for the period	(8,601)	(1,362)
Adjustments for:		
Depreciation	348	208
Unrealised loss on financial assets fair valued through statement of income	-	25
Impairment losses	6,708	317
	<u>(1,545)</u>	<u>(812)</u>
Changes in operating assets and liabilities:		
Receivable	(20,723)	1,830
Other assets	143	-
Other liabilities	(1,469)	(4,217)
Purchase of investments	(213)	(27,761)
Proceeds from disposal of investments	-	2,628
	<u>(23,807)</u>	<u>(28,332)</u>
INVESTING ACTIVITIES		
Purchase of equipment	(166)	(22)
Purchase of Investment property	(4,754)	-
	<u>(4,920)</u>	<u>(22)</u>
FINANCING ACTIVITIES		
Dividends paid	-	(7,367)
	<u>-</u>	<u>(7,367)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(28,727)	(35,721)
Cash and cash equivalents at beginning of the period	<u>57,676</u>	<u>120,473</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>28,949</u>	<u>84,752</u>
Cash and cash equivalents comprise of:		
Cash and balances with banks	1,402	2,740
Due from financial institutions	27,547	82,012
	<u>28,949</u>	<u>84,752</u>

The attached explanatory notes 1 to 15 form part of these interim condensed financial statements.

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

INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 (Unaudited)

	Share capital US\$ '000	Treasury shares US\$ '000	Share premium US\$ '000	Reserves				Total reserves appropriations US\$ '000	Proposed appropriations US\$ '000	Total US\$ '000
				Statutory reserve US\$ '000	Cumulative changes in fair value reserve US\$ '000	Foreign currency translation reserve US\$ '000	Retained earnings US\$ '000			
Balance at 1 January 2010	109,996	(6,798)	72,050	5,588	(1,953)	856	(3,257)	1,234	-	176,482
Loss recognised directly in equity	-	-	-	-	(1,421)	(3,967)	-	(5,388)	-	(5,388)
Net loss for the period	-	-	-	-	-	-	(8,601)	(8,601)	-	(8,601)
Balance at 30 June 2010	109,996	(6,798)	72,050	5,588	(3,374)	(3,111)	(11,858)	(12,755)	-	162,493
Balance at 1 January 2009	109,996	(6,798)	72,050	5,588	(2,320)	-	24,436	27,704	7,700	210,652
(Loss) / gain recognised directly in equity	-	-	-	-	(8,972)	328	-	(8,644)	-	(8,644)
Net loss for the period	-	-	-	-	-	-	(1,362)	(1,362)	-	(1,362)
Transfer of fair value loss to reserve	-	-	-	-	(25)	-	25	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(7,490)	(7,490)
Transfer to retained earnings related to treasury shares	-	-	-	-	-	-	210	210	(210)	-
Balance at 30 June 2009	109,996	(6,798)	72,050	5,588	(11,317)	328	23,309	17,908	-	193,156

The attached explanatory notes 1 to 15 form part of these interim condensed financial statements

At 30 June 2010

1 INCORPORATION AND ACTIVITIES

Incorporation

International Investment Bank B.S.C. (c) ["the Bank"] operates under a Wholesale Islamic Banking License issued by the Central Bank of Bahrain. The core business activities of the Bank include investing on its own account and investment, underwriting and placements 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 Al Moayyed Tower, PO Box 11616, Manama, Kingdom of Bahrain.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

These interim condensed financial statements have been prepared using accounting policies which are in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"] and the Shari'ah rules and principles as determined by the Shari'a Supervisory Board of the Bank as at 31 December 2009. For matters for which no AAOIFI standards exist, including interim financial reporting, the Bank uses the relevant International Financial Reporting Standard ["IFRS"] issued by the International Accounting Standards Board.

In addition, the results for the six month period ended 30 June 2010 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2010. These interim condensed financial statements are presented in US dollars, which is the functional currency of the Bank. All values are rounded to US Dollar thousands unless otherwise indicated.

Significant accounting policies

These interim condensed financial statements have been prepared using accounting policies which are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2009.

During 2009, the Bank adopted to prepare interim condensed financial statements in accordance with Financial Accounting Standards issued by AAOIFI.

Investment property

Real estate held for rental or capital appreciation purposes, or both, is classified as investment property. These are initially recognised at cost including transaction 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 until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in the statement of income. The fair value of the investment property is determined based on valuation made by an independent valuers.

Rental income

Rental income from investment property 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 property.

Income on due from financial and other institutions

Income on due from financial and other 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 period.

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.

At 30 June 2010

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**Foreign exchange translation of foreign operations**

The assets and liabilities of foreign operations are translated at the rate of exchange prevailing at the date of statement of financial position. Exchange differences arising on translation are taken directly to statement of equity as a separate component. On disposal of foreign operation, cumulative foreign exchange differences recognised in equity is taken to statement of income.

3 CYCLICALITY OF OPERATIONS

Operations of the Bank follow the investment cycle, commencing from investment sourcing to acquisition and ultimately exit. Reported results of the Bank are affected by the cyclicity of its operations, and hence acquisition, placement and exit income, management fee and some of the staff benefits for the interim period is not indicative of the Bank's financial performance for the whole of the financial period.

4 RECEIVABLES

		<i>(Unaudited)</i>	<i>(Audited)</i>
		30 June	31 December
		2010	2009
	<i>Notes</i>	US\$ '000	US\$ '000
Advance paid for a deal	4.1	-	27,736
Receivables and prepayments	4.2	10,962	15,041
Due from investee companies	4.3	32,586	8,347
		43,548	51,124

4.1 Advance paid for a deal

During 2009, the Bank made an advance payment towards a future real estate related project in the Kingdom of Saudi Arabia. The legal formalities including preparation of the private placement memorandum and regulatory approvals of this project are still in progress. The Bank, at 30 June 2010, has reclassified the investment as asset held for sale (Note 7.2).

4.2 Receivables and prepayments

	<i>(Unaudited)</i>	<i>(Audited)</i>
	30 June	31 December
	2010	2009
	US\$ '000	US\$ '000
Management fee and rental income receivables	1,595	1,449
Receivable from investee companies	1,042	1,287
Other receivables	8,325	12,305
	10,962	15,041

Included in "Other receivables" is an amount of US\$ 8.06 million (31 December 2009: US\$ 11.77 million) due on account of an abandoned real estate investment project in Kingdom of Saudi Arabia. During the period, the Bank has entered into a restructuring agreement for the remaining principal of US\$ 10.34 million over a period of eighteen months starting from 25 February 2010 at 8.5% profit rate per annum.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2010

4 RECEIVABLES (continued)

4.3 Due from investee companies

		<i>(Unaudited)</i> 30 June 2010 US\$ '000	<i>(Audited)</i> 31 December 2009 US\$ '000
Commodity murabaha receivables		35,501	10,974
Deferred profit		(744)	(627)
		<u>34,757</u>	<u>10,347</u>
Provision	4.4	(2,171)	(2,000)
		<u>32,586</u>	<u>8,347</u>

4.4 Movement in provision

		<i>(Unaudited)</i> 30 June 2010 US\$ '000	<i>(Audited)</i> 31 December 2009 US\$ '000
Opening		2,000	-
Change during the period		171	2,000
		<u>2,171</u>	<u>2,000</u>

At 30 June 2010, the Bank made provision on profit due from investee companies amounting to US\$ 171 thousand (31 December 2009: nil).

5 INVESTMENTS

		<i>(Unaudited)</i> 30 June 2010 US\$ '000	<i>(Audited)</i> 31 December 2009 US\$ '000
Available for sale			
Quoted		9,350	15,831
Unquoted	5.1	20,145	21,582
		<u>29,495</u>	<u>37,413</u>

Impairment on available for sale investments

Quoted	5.2	6,664	20,351
Unquoted		44	1,051
		<u>6,708</u>	<u>21,402</u>

5.1 Included in unquoted investment above is an equity stake of 18% (31 December 2009: 18%) in Ewaan Capital, an asset management company which is being established in the Kingdom of Saudi Arabia. Ewaan Capital had not commenced its operations as at 30 June 2010.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2010

5 INVESTMENTS (continued)

- 5.2 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\$ 32.77 million at 1 January 2009. The carrying value of this investment at 30 June 2010 is US\$ 6.91 million (31 December 2009: US\$ 12.73 million). During the period, the Bank has provided US\$ 5.82 million (31 December 2009: 20.03 million) as impairment loss against the said investment. The remaining impairment loss of US\$ 0.84 million relates to a directly acquired quoted investment.

6 INVESTMENT PROPERTY

During the period, 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 Hooraa, Kingdom of Bahrain. As on the statement of financial position date, 20 apartments were leased. From the date of acquisition the property has generated an average net monthly income, of US\$ 33.67 thousand (30 June 2009: nil). The building was acquired during the period and has been carried at cost being the fair value as at 30 June 2010.

7 ASSETS HELD FOR SALE

		<i>(Unaudited)</i>	<i>(Audited)</i>
		<i>30 June</i>	<i>31 December</i>
		<i>US\$ '000</i>	<i>US\$ '000</i>
	<i>Notes</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Istethmary Sarajevo City Centre-I Limited	7.1	22,893	26,880
Istethmary Al Fareedha Company B.S.C (c)	7.2	27,789	-
		50,682	26,880

- 7.1 During 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. Total assets and liabilities of the Company amounted to US\$ 24.42 million and nil (31 December 2009: US\$ 28.67 million and nil) respectively and the non-controlling interest amounted to US\$ 1.52 million (31 December 2009: US\$ 1.79 million).
- 7.2 During 2009, 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\$ 51.80 million and US\$ 23.98 million (31 December 2009: US\$ 27.74 and nil) respectively. The Company is fully owned by the Bank.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2010

8 INVESTMENT IN ASSOCIATE

	<i>(Unaudited)</i> 30 June 2010 US\$ '000	<i>(Audited)</i> 31 December 2009 US\$ '000
Opening balance	3,987	5,836
Less: Share of loss from associate	-	(77)
Less: Provision	-	(1,772)
	<u>3,987</u>	<u>3,987</u>

8.1 Movement in provision

	<i>(Unaudited)</i> 30 June 2010 US\$ '000	<i>(Audited)</i> 31 December 2009 US\$ '000
Opening	1,772	-
Change during the period	-	1,772
	<u>1,772</u>	<u>1,772</u>

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% (31 December 2009:27.32%) equity stake in IIB UAE.

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.

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.

9 OTHER LIABILITIES

	<i>(Unaudited)</i> 30 June 2010 US\$ '000	<i>(Audited)</i> 31 December 2009 US\$ '000
Payable to investors	1,085	2,489
Accrued expenses	354	394
Other payables	86	111
	<u>1,525</u>	<u>2,994</u>

Other payables include earnings prohibited by Shari'a to be utilised exclusively for charitable purposes and amounts to US\$ 9 thousand (31 December 2009: US\$ 9 thousand).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2010

10 TRANSACTION WITH RELATED PARTIES

Related parties comprise major shareholders, directors, key management personnel and Shari'a Supervisory board of the Bank and the entities controlled, jointly controlled or significantly influenced by them and companies where the Bank holds more than 10% of the voting power. These transaction have been carried out on an arm's length basis in a manner similar to transactions with a third party.

The significant balances with related parties were as follows:

	<i>Shareholders/ directors</i>	<i>Others</i>	<i>Total 30 June 2010</i>	<i>31 December 2009</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Assets				
Investments	-	1,982	1,982	8,033
Investment in associate	-	3,987	3,987	3,987
Receivables	-	24,206	24,206	735
Liabilities				
Payable to Investors	1,085	-	1,085	2,489

The Directors believe that no provision is required in respect of balances due from related parties except for investment in associate.

Investments amounting to US\$ 9.31 million (31 December 2009: US\$ 15.13 million) are held in the name of related parties on behalf of the Bank.

Transactions with related parties are as follows:

	<i>Shareholders/ directors</i>	<i>Others</i>	<i>Total 30 June 2010</i>	<i>Total 30 June 2009</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Assets				
Investment property (Note 6)	-	5,285	5,285	-
Income				
Investment banking fees	-	3	3	19
Unrealised loss on items fair valued through statement of income (Bahrain Property Fund)	-	-	-	(25)
Dividend Income	-	14	14	15
Other income	18	-	18	-
Expense				
Directors' remuneration	-	-	-	300
Shari'a Supervisory Board remuneration	-	(49)	(49)	28

11 COMMITMENTS

	<i>2010 US\$ '000</i>	<i>2009 US\$ '000</i>
Operating lease	198	335

At 30 June 2010, the Bank has commitments of non-cancelable operating leases of US\$ 0.20 million (31 December 2009: US\$ 0.33 million) relating to leasehold premises. Of the commitments, US\$ 0.19 million (31 December 2009: US\$ 0.23 million) expire within one year and the remaining expire within one to two years.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2010

12 DIVIDENDS

At the annual general meeting of the shareholders held on 29 March 2010, no cash dividend was approved for the year ended 31 December 2009 (31 December 2008: 7%), as the Bank had reported an operating loss in that year.

13 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.

14 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 period, 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 periods.

		<i>Basel II</i>	<i>Basel II</i>
		<i>30 June</i>	<i>31 December</i>
		<i>2010</i>	<i>2009</i>
	<i>Notes</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Regulatory capital base	14.1	134,842	173,896
Risk weighted assets	14.3	288,589	292,982
Total capital adequacy ratio		47%	59%
Minimum regulatory ratio		12%	12%

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2010

14 CAPITAL MANAGEMENT (continued)

14.1 Tier 1 Capital

	<i>Basel II</i> 30 June 2010 US\$ '000	<i>Basel II</i> 31 December 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	(6,891)	(2,373)
Retained earnings	(11,858)	(3,257)
	<u>162,087</u>	<u>175,206</u>
Core Tier 1 Capital		175,206
Deductions	(13,714)	(942)
Tier 1 Capital	148,373	174,264
Negative balance of Tier 2 Capital (note 14.2)	(13,531)	(368)
Tier 1 and Tier 2 Capital	134,842	173,896

14.2 Tier 2 Capital

	<i>(Unaudited)</i> 30 June 2010 US\$ '000	<i>(Audited)</i> 31 December 2009 US\$ '000
Unrealised gains arising from fair valuing equities (45% only)	183	574
Core Tier 2 Capital	183	574
Deduction of excess amount over materiality thresholds	(13,714)	(942)
Tier 2 Capital	(13,531)	(368)

14.3 Risk weighted assets

		<i>Basel II</i> 30 June 2010 US\$ '000	<i>Basel II</i> 31 December 2009 US\$ '000
Credit risk weight assets	15.2	195,243	193,748
Market risk weight assets	15.3	37,750	43,638
Operational risk weight assets	15.4	55,596	55,596
		<u>288,589</u>	<u>292,982</u>

Credit risk-weighted assets

The Bank uses the standardized approach, which requires banks to use external credit ratings to combine them into categories to which standardized risk weightings are applied. For regulatory purposes, all assets are subject to credit risk weight.

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' gross income.

At 30 June 2010

14 CAPITAL MANAGEMENT (continued)

14.3 Risk weighted assets (continued)

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.

15 RISK MANAGEMENT

15.1 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, specific fatwas and guidelines issued by the Board.

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.

At 30 June 2010

15 RISK MANAGEMENT (continued)

15.1 Introduction (continued)

a) Risk management structure (continued)

Internal Audit

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

b) Risk measurement and reporting systems

Currently, the Bank's assets mainly comprise cash and balances with banks, due from financial institutions and investments. 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 unquoted and 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.

15.2 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.

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

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%.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2010

15 RISK MANAGEMENT (continued)

15.2 Credit risk (continued)

Credit exposure and risk weighted assets considered for Capital Adequacy Ratio calculations comprising of banking book exposures as at 30 June 2010 are as follows:

	30 June 2010 (Reviewed)		
	Gross credit exposure US\$ '000	Credit risk weighted assets US\$ '000	Capital requirement US\$ '000
Claims on banks - murabaha placements	28,949	13,767	1,721
Due from investee companies - murabaha	8,619	8,619	1,077
Equity investments - publicly held	9,235	9,235	1,154
Equity investments - privately held	4,969	7,454	932
Holding of real estate	71,573	143,146	17,893
Other assets	13,022	13,022	1,628
	136,367	195,243	24,405

Credit exposures and risk weighted assets of the Bank as at 31 December 2009 is as follows:

	31 December 2009 (Audited)		
	Gross credit exposure US\$'000	Credit risk weighted assets US\$'000	Capital requirement US\$'000
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 six month period ended 30 June 2010 were US\$ nil (six month period ended 30 June 2009: US\$ 0.2 million). The total net unrealised losses recognised in equity for the six month period ended 30 June 2010 aggregated to US\$ 5.39 million (six month period ended 30 June 2009: US\$ 8.64 million).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2010

15 RISK MANAGEMENT (continued)

15.2 Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

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

	Gross credit exposure 30 June 2010 US\$ '000	Gross credit exposure 31 December 2009 US\$ '000
Credit risk		
Murabaha with financial institutions	27,547	55,702
Murabaha with corporates	32,586	8,347
Murabaha with individuals	8,325	12,305
Investments	89,449	68,280
Other assets	6,111	34,842
Total Credit Risk Exposure	164,018	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 period ended 30 June 2010.

15.2.1 Geographic distribution of the gross funded exposures

The following table summarises the geographic distribution of exposure as of 30 June 2010, broken down into significant areas by major types of credit exposure:

	<i>Murabaha with financial institutions US\$ '000</i>	<i>Murabaha with corporates US\$ '000</i>	<i>Murabaha with individual US\$ '000</i>	<i>Investments US\$ '000</i>	<i>Other assets US\$ '000</i>	<i>Total US\$ '000</i>
Geographical region:						
Bahrain	3,162	26,246	8,325	8,332	4,724	50,789
Europe	-	6,340	-	32,016	548	38,904
Other GCC countries	24,385	-	-	46,739	664	71,788
Africa	-	-	-	1,593	45	1,638
Asia	-	-	-	769	130	899
	27,547	32,586	8,325	89,449	6,111	164,018

The following table summarises the geographic distribution of exposure as of 31 December 2009, broken down into significant areas by major types of credit exposure:

	<i>Murabaha with financial institutions US\$ '000</i>	<i>Murabaha with corporates US\$ '000</i>	<i>Murabaha with individual US\$ '000</i>	<i>Investments US\$ '000</i>	<i>Other assets US\$ '000</i>	<i>Total US\$ '000</i>
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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2010

15 RISK MANAGEMENT (continued)

15.2 Credit risk (continued)

15.2.1 Geographic distribution of the gross funded exposures (continued)

The following table summarises the industrial distribution of funded exposure as of 30 June 2010, broken down by major types of credit exposures:

	<i>Murabaha with financial institutions</i>	<i>Murabaha with corporates</i>	<i>Murabaha with individual</i>	<i>Investments</i>	<i>Other assets</i>	<i>Total</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Industry sector:						
Real estate-development	-	-	-	61,676	674	62,350
Real estate-income generating	-	6,340	-	13,824	791	20,955
Banking and financial institutions	27,547	23,979	-	1,498	1,530	54,554
Insurance	-	-	-	776	-	776
Manufacturing	-	2,267	-	10,082	934	13,283
Automotive	-	-	-	1,593	45	1,638
Others	-	-	8,325	-	2,137	10,462
	27,547	32,586	8,325	89,449	6,111	164,018

The following table summarises the industrial distribution of funded exposure as of 31 December 2009, broken down by major types of credit exposures:

	<i>Murabaha with financial institutions</i>	<i>Murabaha with corporates</i>	<i>Murabaha with individual</i>	<i>Investments</i>	<i>Other assets</i>	<i>Total</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
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

15.2.2 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 an individual counterparty at 30 June 2010 is shown below:

	<i>C.A.R Limit (15%) US\$ '000</i>	<i>On balance sheet exposure US\$ '000</i>	<i>Capital deduction US\$ '000</i>
Counterparty A	24,341	51,768	(27,427)

At 30 June 2010

15 RISK MANAGEMENT (continued)**15.2 Credit risk (continued)****15.2.2 Single counterparty exposures (continued)**

The Bank's exposure in excess of 15% of the obligor limit to an individual counterparty at 31 December 2009 is shown below:

	C.A.R Limit (15%) US\$ '000	On balance sheet exposure US\$ '000	Capital deduction US\$ '000
Counterparty A	26,367	26,880	(513)
Counterparty B	26,367	27,737	(1,370)

15.2.3 Credit quality per class of financial assets

The credit rating analysis of the Bank's financial assets having credit risk exposure is as follows:

	(Unaudited 30 June 2010 US\$ '000	(Audited) 31 December 2009 US\$ '000
Credit rating:		
A+ (by Fitch)	24,386	49,066
A- (by Fitch)	4,450	7,903
Unrated	135,182	122,507
	<u>164,018</u>	<u>179,476</u>

15.3 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 trade in investments or foreign currencies. 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.

15.3.1 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. As at 30 June 2010, the Bank had Available for sale investments listed on overseas stock exchanges. Based on the values at 30 June 2010, a change in the quoted price of plus or minus 10% would change the value of these investments by plus or minus US\$ 0.935 million (31 December 2009: US\$ 1.583 million) 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 30 June 2010, a change in the valuation of 10% would change the value of these investments by plus or minus US\$ 2.015 million (31 December 2009: US\$ 2.158 million) with a corresponding increase or decrease in equity.

15.3.2 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.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2010

15 RISK MANAGEMENT (continued)

15.3 Market risk (continued)

15.3.2 Foreign currency risk (continued)

The Bahraini Dinar (BHD), Saudi Riyal (SAR) and UAE Dirham (AED) are pegged to the US Dollar and therefore positions in these currencies are not considered to represent currency risk. The Bank's foreign currency exposures is as follows:

	<i>(Unaudited)</i> 30 June 2010	<i>(Audited)</i> 31 December 2009
	<i>Assets/ liabilities net</i>	<i>Assets/ liabilities net</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Euro	33,479	38,919
Pound Sterling	1,510	1,499
Kuwaiti Dinar	373	701
Others	2,391	2,523
	<u>37,753</u>	<u>43,642</u>

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

	<i>30 June 2010</i> <i>(Reviewed)</i>		<i>31 December 2009</i> <i>(Audited)</i>	
	<i>Risk weighted assets</i>	<i>Period end capital requirement</i>	<i>Risk weighted assets</i>	<i>Period end capital requirement</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Foreign exchange risk	<u>37,750</u>	<u>4,719</u>	<u>43,638</u>	<u>5,455</u>

The Bank has no exposure to profit rate risk, equity position risk or options risk, as the Bank does not maintain any trading book. However, equity price and profit rate risk has been disclosed in notes 15.3.1 and 15.3.4 respectively of these financial statements.

15.3.3 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 Dollar (functional and reporting currency) based on the above positions as on 30 June 2010 and 31 December 2009 with all other variables held constant.

	<i>Change in exchange rate (+/-)</i>	<i>Effect on net income</i> 30 June 2010	<i>Effect on net income</i> 31 December 2009
	<i>%</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Euro	10%	297	301
Pound Sterling	10%	1	17
Kuwaiti Dinar	10%	-	32
Others	10%	3	-

At 30 June 2010

15 RISK MANAGEMENT (continued)**15.3 Market risk (continued)****15.3.4 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 the six months ended 30 June 2010, a +/- 0.25% change in the profit rate, with all other variables constant, would have resulted in a +/- US\$ 79 thousand (31 December 2009: US\$ 59 thousand) impact on the statement of income.

15.3.5 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. The Bank has mitigated its exposure to Legal Risk by establishing a Legal and Compliance Department headed by a qualified and experienced lawyer. In addition, 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. The Bank fully complied with all applicable laws and regulations during the six month period ended 30 June 2010 and accordingly were not subject to any penalties for non-compliance.

15.4 Operational risk

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

	<i>Gross income</i>		
	<i>2008</i>	<i>2007</i>	<i>2006</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Total gross income	30,122	34,275	24,557
		<i>30 June</i>	<i>31 December</i>
		<i>2010</i>	<i>2009</i>
		<i>US\$ '000</i>	<i>US\$ '000</i>
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
Period / year end capital requirement		6,950	6,950

International Investment Bank B.S.C. (c)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2010

15 RISK MANAGEMENT (continued)

15.5 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.

i) The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled.

	Within 1 month US\$ '000	1-3 months US\$ '000	3-6 months US\$ '000	6-12 months US\$ '000	Total within 12 months US\$ '000	1-5 years US\$ '000	Total US\$ '000
ASSETS							
Claims on banks	27,864	1,085	-	-	28,949	-	28,949
Receivables	3,813	22,282	4,519	7,840	38,454	5,094	43,548
Investment in quoted equities	-	-	-	-	-	9,350	9,350
Investment in unquoted equities	-	-	-	-	-	20,145	20,145
Investment property	-	-	-	-	-	5,285	5,285
Investment in associates	-	-	-	3,987	3,987	-	3,987
Assets classified as held for sale	-	-	-	50,682	50,682	-	50,682
Other assets	67	100	74	33	274	1,798	2,072
Total assets	31,744	23,467	4,593	62,542	122,346	41,672	164,018
LIABILITIES							
Other liabilities	70	40	2	1,161	1,273	252	1,525
Total liabilities	70	40	2	1,161	1,273	252	1,525
Net gap	31,674	23,427	4,591	61,381	121,073	41,420	162,493

International Investment Bank B.S.C. (c)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2010

15 RISK MANAGEMENT (continued)

15.5 Liquidity risk and funding management (continued)

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

	Within 1 month US\$ '000	1-3 months US\$ '000	3-6 months US\$ '000	6-12 months US\$ '000	Total within 12 months US\$ '000	1-5 years US\$ '000	Total US\$ '000
ASSETS							
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							
Other liabilities	1,535	92	1,138	-	2,765	229	2,994
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