

**SUCCESS THROUGH
PARTNERSHIP**

Annual Report

08

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

﴿ قُلْ إِنَّ رَبِّي يَبْسُطُ الرِّزْقَ لِمَنْ يَشَاءُ مِنْ عِبَادِهِ
وَيَقْدِرُ لَهُ وَمَا أَنْفَقْتُمْ مِنْ شَيْءٍ فَهُوَ يُخْلِفُهُ
وَهُوَ خَيْرُ الرَّازِقِينَ ﴾

صَدَقَ اللَّهُ الْعَظِيمُ

PROFILE, VISION AND MISSION

PROFILE

International Investment Bank (IIB) was incorporated as an Islamic investment bank on 6 October 2003, under commercial registration number 51867 as a Bahrain Joint Stock Company (closed). It started investment activity on 13 October 2003 and operates under an Islamic Wholesale Banking License issued by the Central Bank of Bahrain.

IIB has an authorized capital of US\$ 200 million and 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; 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

	2008	2007	2006	2005	2004
Earnings (US\$ millions)					
Total income	30.1	34.3	24.6	12.4	4.2
Total expenses	16.6	13.2	11.1	5.4	3.4
Net income	13.5	21.1	13.5	7.0	0.8
Dividend (%)	7.0	15.0	10.0	8.0	-
Financial Position (US\$ millions)					
Total assets	218.7	257.3	94.5	63.4	44.4
Due from Financial Institutions	118.3	211.4	53.5	26.2	28.0
Investments	62.9	36.4	16.1	13.7	14.1
Due to Financial Institutions	-	-	20.0	-	-
Equity	210.7	216.4	61.4	50.8	43.8
Ratios					
Profitability					
Return on average equity (%)	6.3	27.1	24.0	14.8	1.8
Return on average assets (%)	5.7	15.9	17.1	13.0	1.8
Earnings per share (cents)	12	44	31	16	2
Cost-to-income ratio (%)	55.1	38.4	45.1	43.5	81.0
Capital					
Capital adequacy (regulatory minimum 12%)	87	126	134	101	200
Equity/total assets (%)	96.3	84.1	65.0	80.1	98.6
Liquidity and Other					
Investments/total assets (%)	28.8	14.1	17.4	21.6	31.7
Liquid assets/total assets (%)	55.1	83.6	66.4	43.0	63.3
Assets under management (US\$ millions)	414.0	348.0	181.7	117.6	41.6
Number of employees	50	55	40	20	17

SUMMARY OF PRINCIPAL INVESTMENT OFFERINGS 2004-2008

Year	Investment Description	Location	Private Equity Raised (US\$ millions)	Other Funds # (US\$ millions)	Total Transaction Size (US\$ millions)	
1	2004	Property fund	Bahrain	18.6	18.5	37.1
2	2004	Independent power producer	China	23.0	267.0	290.0
3	2005	Housing development company	Bahrain	22.6	0.6	23.2
4	2005	Income generating property	UK	14.8	290.6	305.4
5	2005	Tower development	Dubai	20.5	73.6	94.1
6	2005	Islamic investment bank	UK	19.8	448.0	467.8
7	2005	Paper manufacturing company	Abu Dhabi	12.0	35.1	47.1
8	2006	Income generating properties	France	50.8	68.7	119.5
9	2006	Real estate development company	Saudi Arabia	21.0	85.8	106.8
10	2006	Tower development	Dubai	25.0	75.2	100.2
11	2007	Steel reinforcement bar manufacture	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	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 investment company	Tunisia	36.0	30.0	66.0
17	2008	Sugar manufacturing company	Bahrain	20.5	136.1	156.6
Totals			490.6	1,855.2	2,345.8	

Comprises partners' equity and borrowings.

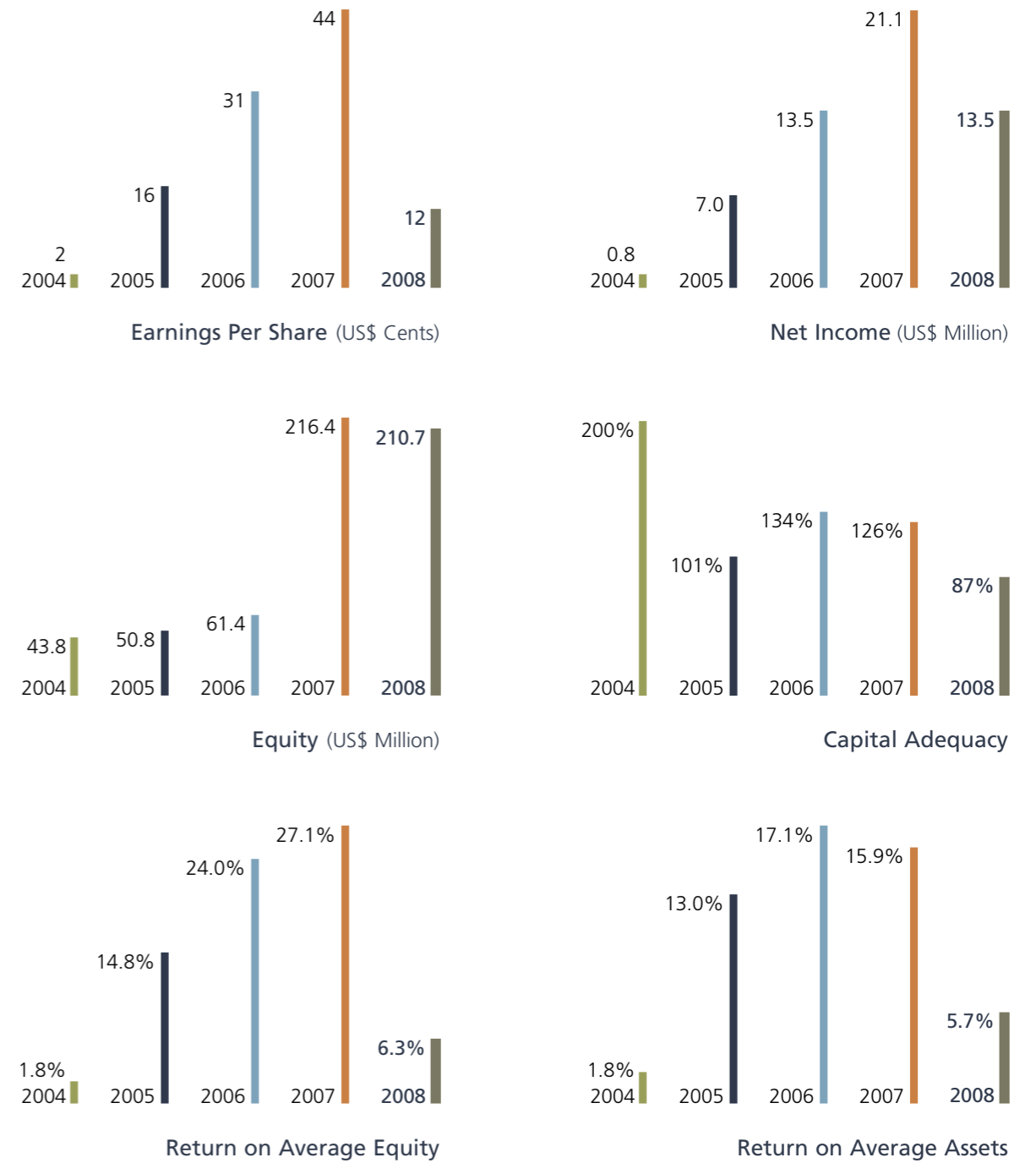
Sector Summary

Sector	Private Equity Raised (US\$ millions)	Other Funds (US\$ millions)	Total Transaction Size (US\$ millions)		
1	Real estate income generating	164.9	493.0	657.9	
2	Real estate development	131.5	367.0	498.5	
3	Private equity	175.6	976.7	1,152.3	
4	Property fund	18.6	18.5	37.1	
Totals			490.6	1,855.2	2,345.8

Principal Bankers and Professional Advisors

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

FINANCIAL HIGHLIGHTS



BOARD OF DIRECTORS' REPORT

Dear Shareholders,

2008 has indeed been an unprecedented and extraordinarily turbulent year for the world economy and financial markets with a decline in asset values across all asset classes and regions. The global financial crisis has caused an unexpected and unforeseen stalling of credit, the main lubricant of the world economy and trade flows.

Before I comment upon our Bank's financial performance for 2008 and our outlook and investing strategy for 2009, I wish to reassure our esteemed shareholders that our Bank has emerged relatively unharmed from the global financial crisis and the turbulence in its aftermath, especially that in the global investment banking sector.

This positive performance has been largely achieved by following prudent investing and liquidity management strategies.

**Investing Strategy**

Contrary to the general investing exuberance in the first half of 2008 when investing was the norm and liquidity spurned, IIB steadfastly continued to follow its rigorous, conservative and risk-based approach to investing. As you may recall, we have regularly reported in our various press releases that our deal flow, particularly that in 2008, is strong and attractive opportunities would be placed with investors. Notwithstanding our initial upbeat stance on deal flow and potential placements of opportunities with investors, the Bank chose not to make commitments to acquire, structure and place opportunities, especially in the second half of 2008, principally because of perceived valuation excesses and heightened business risks in the transactions under consideration, especially in the real estate and financial sectors. As a natural consequence of this conservatism, IIB has placed only two new investments in 2008. This has protected shareholder value and investing clientele's capital through avoidance of investments that are most likely to subsequently suffer an impairment given that no asset class or region has remained immune from the effects of the crisis.

You will also be pleased to note that IIB's policy of investing in regions not highly invested by the larger investment banks has also yielded positive results. For example, IIB, in late 2007 and early 2008, invested in Azerbaijan and Tunisia which continue to demonstrate strength and have been relatively unaffected by the global downturn, as stated in International Monetary Fund and World Bank releases.

Liquidity Management Strategy

As you are aware, the current global crisis is largely that of liquidity and the ability of financial institutions to navigate through and to manage their balance sheets effectively following the collapse and near collapse of several global and regional banks in 2008.

I am pleased to confirm that your Bank's asset and capital positions demonstrate core strength with 54% of Total Assets represented by murabaha short-dated placements with banks and a further 16% invested in regional listed equities. This strength enables IIB to take advantage, at a "measured pace", of new opportunities at attractive valuations as and when these arise, although the selection and profitable execution must be subject to heightened due diligence in the forecast market environment.

Your Bank has accorded the highest priority to capital protection in its liquidity management policy. Thus, IIB has chosen to retain most of its liquidity in low-risk murabaha placements with financially sound regional banks. IIB's Assets and Liabilities Committee has also diversified murabaha placements with the view to minimizing the credit risks, although profit yields have been very low, particularly in the second half of the year.

IIB chose to rely solely on internal funding through its shareholders' equity and consequently did not have to resort to any bank borrowings. This decision has yielded results in the form of balance sheet stability, compared to many regional institutions that have increased assets under management through the use of substantial borrowings. In addition, IIB has no significant commitments, no off-balance sheet exposures and no derivative or Collateralized Debt Obligations (CDO) positions.

BOARD OF DIRECTORS' REPORT

2008 Financial Performance

Net Income for the year has been lower at US\$ 13.5 million compared to US\$ 21.1 million in 2007, reflecting a decrease of US\$ 7.6 million. We are pleased to report that Investment Banking Fee income has remained unchanged at US\$ 22.7 million in 2008 relative to 2007, but Other Income has decreased from US\$ 11.5 million in 2007 to US\$ 7.4 million in 2008. The reasons for the reduction in Other Income are IIB's share of a loss incurred by an associate company, a modest investment impairment write down and the absence of income earned in 2007 of a non-recurring nature, principally a gain on sale of an investment property and currency exchange gains.

Reflecting the adverse 2008 economic and market environment, the 2008 Net Income represents a 12.3% return on Paid up Capital (ROC). The Capital Adequacy ratio at 31 December 2008 of 87% is over 7 times the minimum requirement of 12% by the Central Bank of Bahrain. This demonstrates a continuing prudent approach by the Bank in managing its capital.

Benchmarked against normal times, a bank with a CAR higher than the minimum requirements is viewed as "over capitalized". However, IIB's Board of Directors and Management, considering the onset of economic slow down, have consciously chosen to remain "prudently" capitalized during the current market conditions rather than to be "optimally" capitalized (CAR close to 12%) by being fully invested. This strategy has resulted in the avoidance of large credit losses experienced by other "optimally" capitalized banks and also positions IIB at an advantage arising from the potential of acquiring investment opportunities at lower valuations in recessionary periods.

2008 Investment Offerings

During 2008, the fifth year of full operations, IIB has concluded the sell down of two investment offerings that were carried over from 2007. These comprise the real estate development project located in Abu Dhabi and the purchase of a 49% stake in a leading commercial bank based in Azerbaijan. The Bank has structured four investment transactions in 2008, two of which were offered to investors and the remaining two have been carried forward to 2009. These will be offered to investors only if changes in the economic environment and market conditions in 2009 are consistent with the investment thesis of these offerings.

The first offering fully placed during the year was a 14.4% stake in ARTES, a major Renault and Nissan distributor located in Tunisia, being IIB's first investment both in Tunisia and in the car distribution sector. The second offering placed during 2008 is a 14.3% stake in the first sugar plant to be constructed in the Kingdom of Bahrain.

Outlook: 2009 & Beyond

Investors' risk appetite and sentiment continues to fluctuate with no firm direction. Their confidence remains fragile around corporate earnings and uncertainty surrounding forecast economic data. Most informed commentators are forecasting a continuation during 2009 of the depressed world markets and economies due to the current financial crisis. The MENA region's economies are also

expected to contract in 2009, though the economic fundamentals of these countries are, in general, still positive. The global financial meltdown has dealt a severe blow to regional investors' confidence. This has been further exacerbated by a liquidity crunch as banks have slowed down their lending activities; low oil prices that have impaired the potential of public spending programs announced by regional Governments; major losses at Sovereign Wealth Funds' investments that impacted their confidence in international investments and, finally, volatility of regional stock markets that may spread further uncertainty among investors.

In this market environment, IIB will continue to opt for the ultra-cautious investment philosophy of 2008 and focus on very selective investment purchases, capital preservation and maintenance of the existing portfolio. We are ready to invest from our deal pipeline in the right opportunities at attractive valuations. We do not anticipate a significant improvement in trading conditions before the third quarter of 2009.

Shareholders' Dividends and Zakah

The Board has proposed and shareholders have approved in the Annual General Meeting to distribute a cash dividend of 7% for 2008. The Bank has paid a cumulative 40% cash dividend (2005: 8%, 2006: 10%, 2007: 15% and 2008: 7%) in the past four years.

As in the previous years, shareholders will directly pay their respective Zakah on their equity investment in the Bank.

Board Membership

I have pleasure in welcoming Mr. Aabed Al-Zeera to the Board following his appointment in March 2008. Mr. Al-Zeera has been instrumental, with the assistance of the Board of Directors, in setting, implementing and enhancing the corporate vision and the strategic direction of the Bank since IIB's inception in 2003.

Appreciations

I would like to extend my thanks to my colleagues on the Board of Directors for their unremitting support and guidance, to our management team and staff for their valuable efforts and finally to the Central Bank of Bahrain and the Ministry of Industry and Commerce for their regulatory advice and support.

We look forward to continuing our mutually beneficial relationship in the years ahead.

Saeed Abdul Jalil Al Fahim
Chairman

CORPORATE GOVERNANCE

The Board of Directors is responsible for the overall governance of the Bank through continuous review of and adherence to international best practice and standards. The Board determines the Bank's strategy, provides direction to 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 provide a robust framework of corporate governance covering the strategic, financial, operational, internal control and compliance issues. It currently comprises nine non-executive directors and one executive director.

Board Members

The Board of Directors comprised the following members as at 31 December 2008

1. Mr. Saeed Abdul Jalil Al Fahim
Chairman

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

2. Mr. Ahmed Salem Bugshan
Vice Chairman

President, Saudi Industrial Projects Company (SIPCO), Saudi Arabia; Member of the Board, Pepsi Cola, Egypt; Chairman, Savoy Hotels, Sharm Al-Sheikh.

3. Mr. Aamer Abdul Jalil Al Fahim
Director

Managing Director of Al Fahim Group, UAE; Member of Federal National Council, UAE; Chairman of Aradi Properties PJSC, UAE; Board Member of Abu Dhabi Chamber of Commerce and Industry, UAE; Board Member of Abu Dhabi Commercial Bank, UAE; Board Member of Al Wathba Insurance Company, UAE; Board Member of Al Qudra Holdings, UAE; Board Member of Al Safwa Islamic Financial Services, UAE; Member of Executive Committee of Damas LLC, UAE.

4. Mr. Ebrahim Eshaq Abdulrahman
Director

Chairman, Union Gulf Investment Co. S.O.C.; Managing Director, Investment and Trading (Gulf) Enterprises, Bahrain; Director, Bahrain Car Park Co. B.S.C.; Director, United Gulf

Investment Corporation B.S.C.; Founder Shareholder and former Managing Director of Bank of Bahrain and Kuwait.

5. Mr. Abdul Wahab Mohammed Al Wazzan
Director

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

6. Mr. Fahad Fouad Bubshait
Director

Chairman & CEO of Audeo Maxima International Ltd., UAE; Chairman of BubbleDeck Middle East LLC, UAE; Foreign Investments Advisor of Abdulla Fouad Holding Co. Ltd.; Former General Manager of Mantech Real Estate & Fouad Travel Agency (Abdulla Fouad Holding Company Ltd.), Saudi Arabia.

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.

8. Mr. Ali Hashim Sadiq Hashim
Director

President & CEO - Gulf United Investment, Saudi Arabia; Chairman - Gulf Packaging Systems, Saudi Arabia; Board Member - Middle East Telecom (METCO), Saudi Arabia; Partner & Board Member - Arabian Gulf Manufacturer (AGM), Jeddah, KSA; Chairman - Prime Plastic Products (3P), Jeddah, KSA; President - Tahweel Investment, UAE; Vice Chairman & CEO - Gulf Manufacturer (GM), Egypt; Board Member - Safra Petrochemical, Jeddah.

9. Mr. Bader Ibrahim Mohammad Bin Saedan
Director

General Manager - Al Saedan Real Estate Co., Saudi Arabia; Board Member - Commodore International, U.K; Board Member - Saudi Tunisian Real Estate Co. - Tunisia; Board Member - Mautin 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.

CORPORATE GOVERNANCE



CORPORATE GOVERNANCE

All the above served as Directors of the Bank throughout 2008 with the exception of Mr. Aabed Al-Zeera, the Bank's Chief Executive Officer, who was appointed to the Board on 12 March 2008.

All Board members possess the requisite qualifications, knowledge and experience to execute their responsibilities. They act under formal letters of appointment that mandate their specific authorities and responsibilities. All the Directors own shares in IIB and several Directors also own shares in certain special purpose vehicle companies sponsored and managed by the Bank.

Board Committees

The Board has established four sub-committees and a Shari'ah 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 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
Mr. 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. It also performs the functions of the Finance Committee.

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. It also performs the functions of the Governance Committee.

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 Ikhray Zakat al-Fitr bi al-Mal.

Sheikh Abdul Sattar Abu Ghuddah

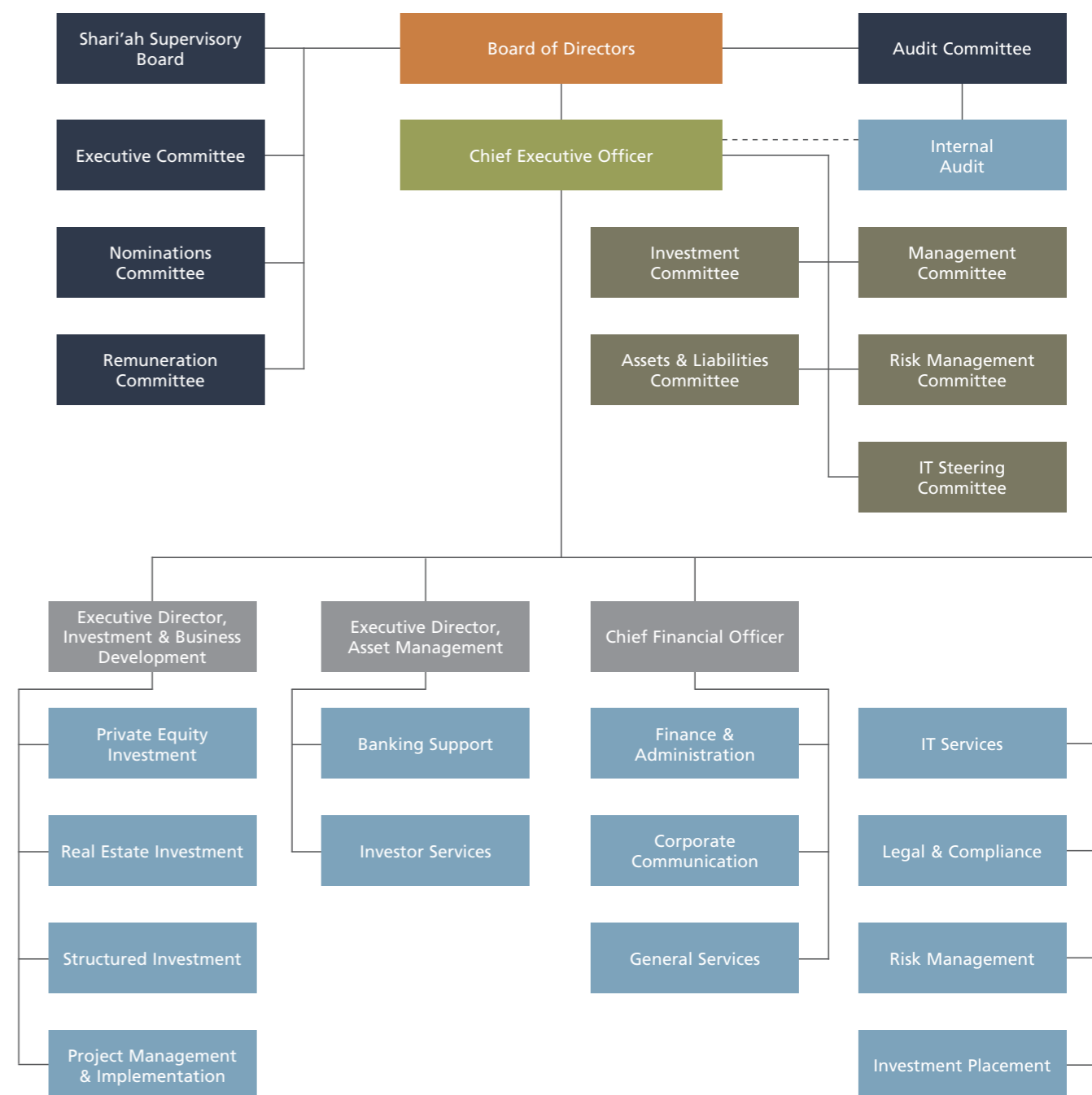
Sh. Abu Ghuddah holds a Ph.D. in Islamic law and comparative Fiqh from Al Azhar University Cairo, Egypt. He has taught at various institutes, including Imam Al Da'awa Institute (Riyadh), Religious Institute (Kuwait) and the Shari'ah College of the Law Faculty at Kuwait University.

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.

CORPORATE GOVERNANCE

Organizational Structure



CORPORATE GOVERNANCE

Organizational Structure (continued)**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; optimize 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 optimize 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.

An example, to ensure strong segregation of duties, the Bank's operations are structured to ensure that no employee can singly 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 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. During 2008, consultants performed a review of its activities and have confirmed that the Bank was Shari'ah compliant. During the year the Bank has not incurred any non - Shari'ah compliant earnings and expenditures.

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 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

CORPORATE GOVERNANCE

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.

Management Committee

Mr. Aabed Al-Zeera (Chairman)
Mr. Mohamed Hadi Mejai, Member
Mr. Michael Ross-McCall, Member
Mr. Subhash Jalan, 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. Mohamed Hadi Mejai, Member
Mr. Subhash Jalan, 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. Mohamed Hadi Mejai, Member
Mr. Nader Asad, Member
Mr. Ninan Varkey, 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
Mr. Nader Asad, 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. Mohamed Hadi Mejai, Member
Mr. Subhash Jalan, Member
Mr. Said Itani, Member

Ensures a first class IT and communication service to users, supervises the project to select and implement a core banking system, 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 twenty eight 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 a Non-Executive Director of European Islamic Investment Bank Plc, London, where he chairs the Board Executive Committee. He is also Vice-Chairman of AmrahBank in Azerbaijan.

CORPORATE GOVERNANCE

Chairman and Executive Managers (continued)**Mohamed Hadi Mejai, Executive Director**

Mr. Mejai heads Investment and Business Development. Prior to joining IIB in 2005, he spent several years with the Islamic Development Bank Group and affiliated investment companies and funds in the Kingdom of Saudi Arabia and UAE. He started his banking career in UK. Mr. Mejai's track record is mainly in acquisition structuring, monitoring and placement of investments. He holds a Masters of Science from the University of London, UK and completed his executive education at the Theseus International Institute, France, and the London Business School, UK. He is trilingual Arabic, French and English.

Michael Ross-McCall, Chief Financial Officer

Mr. Ross-McCall heads Finance and Administration with additional responsibility for Treasury, Operations, 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 Asset Management. 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.

Other Senior Officers**Eihab Ahmed, Director - Legal & Compliance**

Mr. Ahmed graduated in 1994 with a Law Degree from the University of Khartoum, following which he spent 6 years as Legal Consultant at the Ministry of Justice of Sudan. He was a Public Prosecutor and for four years a Legal Advisor at the Bank of Khartoum. He then worked as Legal Consultant at BDO Jawad Habib, Bahrain and most recently as Head of Legal

Department at Khaleej Finance & Investment Bank (Capinvest), Bahrain. Mr. Ahmed is also a Certified Compliance Officer from the American Academy of Financial Management.

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 20 years of experience in the financial services industry. He has held positions as President of Cochin Stock Exchange and Vice-President of leading financial services companies in India. He headed the risk management function at the commodity derivative business of Infrastructure Leasing Finance-Investsmart, India before joining IIB.

Ali Redha, Director, Internal Audit

Mr. Redha is a member of the American Institute of Certified Public Accountants (AICPA). He has over 11 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.

Hakan Gunay, Director

Mr. Gunay holds a B.Sc. degree in management from the Middle East Technical University in Turkey and obtained his MBA from Cass Business School, City University London as a British Council Chevening Scholar. He started his career at the Export Credit Bank of Turkey and worked in Turkey and Belgium for companies operating in the energy sector. He also worked at the Islamic Corporation for the Development of the Private Sector, part of the Islamic Development Bank Group, in Saudi Arabia. He has more than 15 years of experience in the appraisal, development and financing of mainly industrial and infrastructure projects in Europe, the Middle East, Africa and Central Asia.

Nader Asad, Director - Finance and Administration

Mr. Asad holds a B.Sc. degree in Accounting from University of Bahrain and an M.B.A. from Heriot-Watt University in Edinburgh, UK. His professional qualifications include CFA, CPA, CMA and CIA. He spent eight years providing audit and advisory services at PricewaterhouseCoopers and Arthur Andersen and before joining the Bank in 2005, he was Deputy Financial Controller at Bahrain Islamic Bank.

CORPORATE GOVERNANCE

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.

**Ghizlane Rahali, Associate -
Corporate Communications and PR**

Ms. Rahali obtained a B.Sc. degree in International Business Administration and Marketing from Old Dominion University, USA. She is responsible for IIB's Corporate Communications Department that includes media relations, PR, sponsorships and corporate publications. Prior to that, she was a sponsorship manager at the Bahrain International Circuit responsible for handling the sponsorship of several large regional companies and banks.

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 three years of annual financial data, 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 responds to the query and reviews the brief. 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 behavior, personal conduct, financial control, human resources and business continuity.

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

Charitable Contributions

The Bank made contributions and donations to Bahraini charities in 2008 aggregating to US\$ 200,000 (2007: US\$ 101,141). The beneficiaries comprised six local charity funds registered with the Ministry of Social Development and needy families who received coupons to purchase foodstuffs and basic electrical appliances such as air-conditioner, oven, fridge and freezer. In addition, the Bank has provided financial support to the Waqf Fund based in Bahrain for research, education and training in Islamic Financial Services.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS

Despite the massive disruption to world and regional markets post August 2008 and the ensuing liquidity crisis, I can assure all IIB's stakeholders that your Bank has been less affected than many of its regional competitors. The balance sheet strength arising from the robust liquidity position, lack of any borrowings or commitments and the absence of any significant asset impairment, beyond the amounts recorded in 2008, provide IIB's management with the ability to avail of investment opportunities which I believe will arise in the current market conditions.

Deal Flow

Supported by its network of strategic and financial partners, the Bank continues to develop a stream of investment opportunities, currently at various stages of due diligence, in private equity and real estate in the GCC region, North Africa and Europe. IIB will provide investors a steady flow of top quality investments during 2009 and beyond. During 2008, the Bank's Investment & Business Development Department carried out initial due diligence on a record 102 pipeline investment opportunities from which it selected a few for in-depth analysis.

Policies and Procedures

Continuing on the process initiated in 2007, your Bank has updated and completed several new policies and procedures manuals during the year under review. Those that were accomplished in 2007 and approved by the Board of Directors were successfully implemented during 2008. I am pleased to state the adoption of these policies and procedures has significantly improved and enhanced internal controls over a broad range of the Bank's operations.



CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS

Core Banking System

Following the detailed evaluation and short listing of potential vendors of the core banking system accomplished in 2007, the Bank has successfully selected a system, Path Solutions, in 2008. The Information Technology Steering Committee has outlined a detailed testing and implementation program, that I am pleased to report, is progressing according to plan. The complete adoption of the new system is scheduled for mid 2009. The implementation will automate a number of key processes, including accounting, financial control, risk management and client relationship management. It represents a major investment and commitment which will support IIB's long-term growth and development.

Investor Relations

The Bank has significantly improved "Investor Relations" during 2008 through systems, procedures and processes supported by enhanced computer applications. Additional staff have been employed in order to ensure that questions of our valued investors receive prompt attention and resolution. Each investor has been allocated a local country executive who visits the client on a regular basis and on specific investor requests from time to time. The executive is supported by a coordinator based in Bahrain who acts as a liaison point between the investor and his/her appointed executive. Each investor receives a printed investment update every six months with plans to enhance the communication further in 2009.

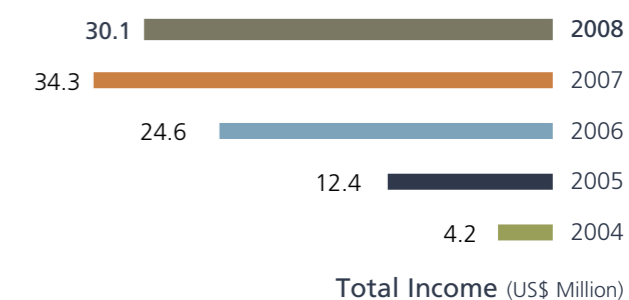
Corporate Governance

As part of its continuing initiatives to strengthen internal processes and controls, the Bank in 2007 established a number of management committees, namely the Investment Committee, Assets & Liabilities Committee, Risk Management Committee and IT Steering Committee. I am pleased to report that the full benefit of these committees was witnessed during the year and all committees are functioning within charters that are approved by the Board of Directors.

Corporate Events

I am pleased to state that IIB was the Platinum sponsor of two important exhibitions and conferences staged in Bahrain. The World Islamic Finance Conference took place in May 2008 and the World Islamic Banking Conference was held in November 2008, both of which attracted a large regional attendance of bankers, consultants and investors.

Aabed Al-Zeera
Chief Executive Officer



PHILOSOPHY

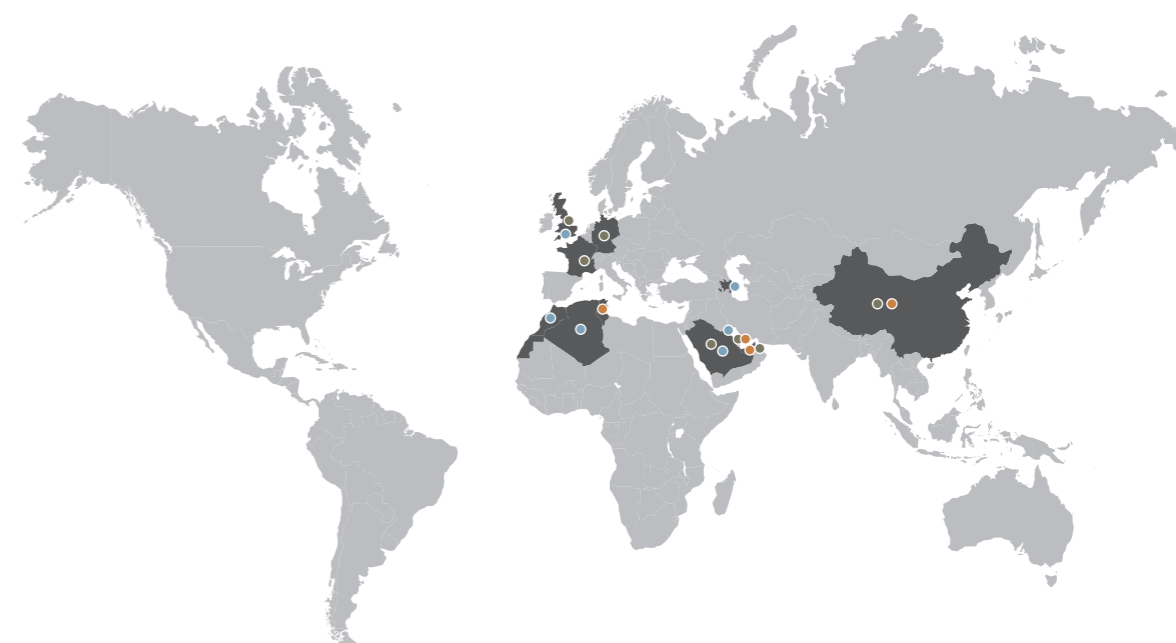
SUCCESS THROUGH PARTNERSHIP

An opportunistic dynamic investment bank based in Bahrain, operating internationally to provide value added ethical investment opportunities to its clients, while enhancing value for its shareholders and caring for its staff and community.



INVESTMENTS PORTFOLIO

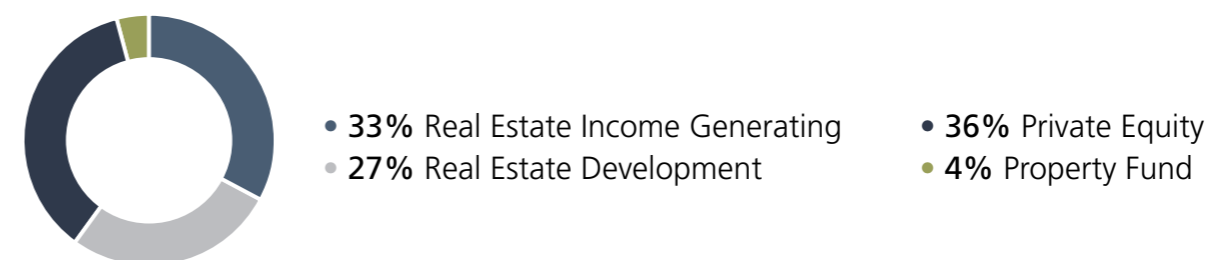
Your Bank's asset and capital positions demonstrate core strength with 54% of total assets represented by murabaha short-dated placements with banks and a further 16% invested in regional listed equities.



TRANSACTIONS - Number by Sector



TRANSACTIONS - Funds Raised by Investment Type



NEW TRANSACTIONS 2008

REAL ESTATE

EcoTowers

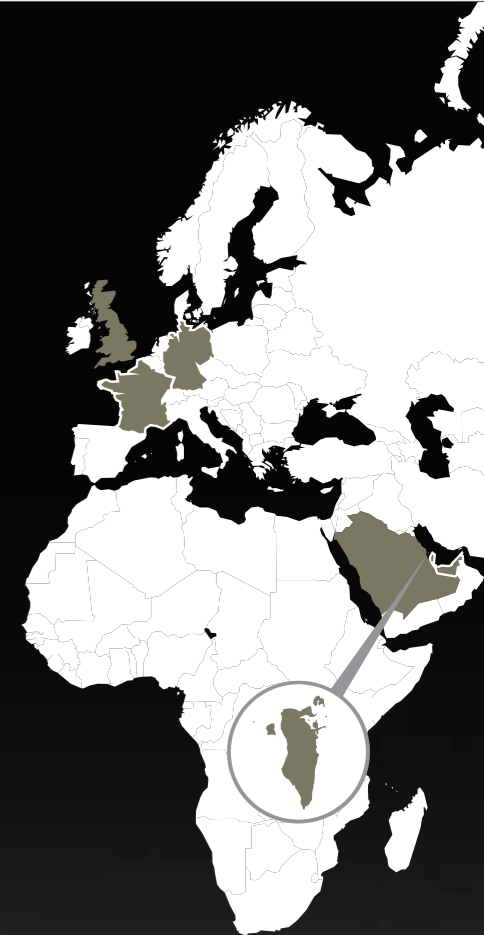
Total Transaction Size AED 725 million

In October 2008, Connections Real Estate, Abu Dhabi, officially launched AED 725 million environmentally friendly project "EcoTowers."

Connections Real Estate Company, Abu Dhabi, the developer of Eco Towers is a joint venture established by International Investment Bank and Abu Dhabi's United Friends Company and owned 66.7% and 33.3% respectively.

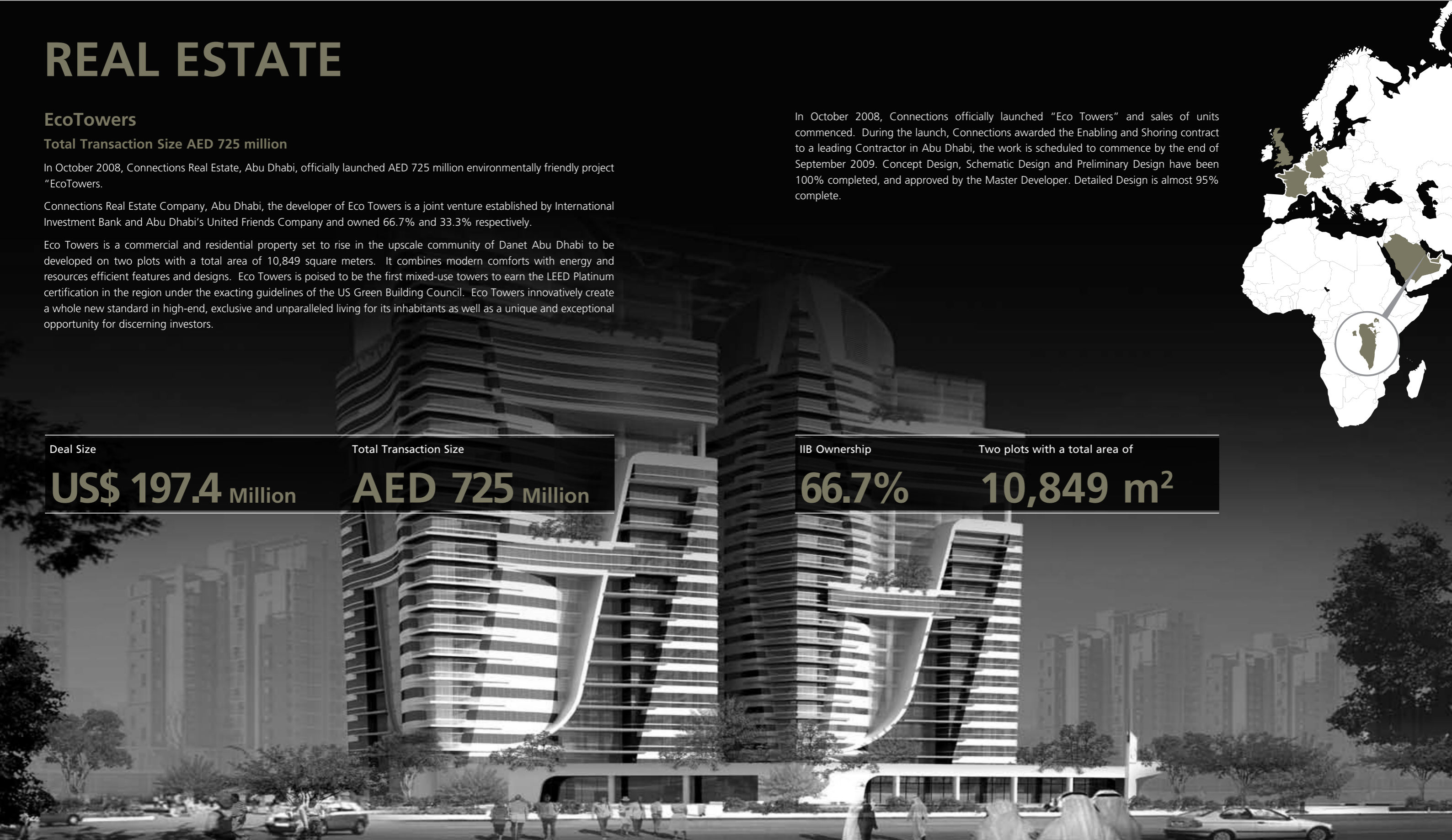
Eco Towers is a commercial and residential property set to rise in the upscale community of Danet Abu Dhabi to be developed on two plots with a total area of 10,849 square meters. It combines modern comforts with energy and resources efficient features and designs. Eco Towers is poised to be the first mixed-use towers to earn the LEED Platinum certification in the region under the exacting guidelines of the US Green Building Council. Eco Towers innovatively create a whole new standard in high-end, exclusive and unparalleled living for its inhabitants as well as a unique and exceptional opportunity for discerning investors.

In October 2008, Connections officially launched "Eco Towers" and sales of units commenced. During the launch, Connections awarded the Enabling and Shoring contract to a leading Contractor in Abu Dhabi, the work is scheduled to commence by the end of September 2009. Concept Design, Schematic Design and Preliminary Design have been 100% completed, and approved by the Master Developer. Detailed Design is almost 95% complete.



Deal Size	Total Transaction Size
US\$ 197.4 Million	AED 725 Million

IIB Ownership	Two plots with a total area of
66.7%	10,849 m²



NEW TRANSACTIONS 2008

INDUSTRIAL

IIB Automotive Limited

IIB acquired on behalf of its investors a combined 14.4% equity stake in ARTES, a company based in Tunis, Tunisia. A vibrant group of 4 companies, with an experienced management team and the largest distribution network in Tunisia, ARTES is the exclusive distributor for Renault, Nissan and Dacia automobiles in Tunisia. Renault has huge brand appeal and customer attractiveness in Tunisia. With a global tie-up with NISSAN, it plans to expand its presence in the market by launching newer and safer cars across all market segments (low-cost, mass market and luxury) in 2009 and beyond.

Following IIB's successful acquisition of the equity stake in April 2008, ARTES successfully accomplished an Initial Public Offering ("IPO") being the largest IPO on the Tunis Stock Exchange in the last 10 years. The IPO opened on the Bourse de Tunis (Tunis Stock Exchange) with share price of TD 13 (Nominal Value TD10) which rose to TD 14.37 on the same day, representing a 10% increase on the opening price.

Equity stake	Total Transaction Size
14.4%	66 US\$ Million

IIB Sugar Limited

The Bank acquired on behalf of its investors a 14.3% equity stake in a sugar refinery to be established in the Kingdom of Bahrain (Hidd industrial area). The refinery will be the first of its kind in the Kingdom and the third in the GCC. The sugar refinery, to be established at an estimated cost of US\$ 157 million, is expected to be operational in two years and will manufacture white sugar to be marketed in the Middle East and European markets. The refinery will have an annual production of 585,000 tons of white sugar. This acquisition marks IIB's second investment in the manufacturing sector in the Kingdom of Bahrain. In 2007, IIB acquired an equity stake in the first steel rebar manufacturing facility in Bahrain. As one of the regional market leaders, IIB strongly believes in investing in projects that not only earn a high return on investment but also strengthen the country's industrial base, contribute to employment generation and add to the overall economic growth of the Kingdom. IIB also recognizes the value proposition of investing in the sugar industry which will not only provide dividend returns to investors but also provide the opportunity for capital growth at the time of exit.

Equity stake	Establishing Estimated Cost
14.4%	157 US\$ Million



NEW TRANSACTIONS 2008

FINANCIAL

Istethmary Mortgage Finance

I am pleased to report that during 2008, IIB has launched a mortgage finance company in the Kingdom of Saudi Arabia. IIB and its investors will own 65% of the venture while 35% will be offered for subscription by a potential strategic partner that will act as a technical partner.

The new venture is mandated to offer Shari'ah compliant mortgage finance products and services in the Saudi market. With an initial paid-up capital of SAR 375.0 million which will be increased to SAR 562.5 million in year 3, it is one of the few finance companies in the country to specialize in housing mortgage finance services. This niche project represents a high-quality investment opportunity for our investors, and we intend to capitalize on the expected growth in the real estate sector in Saudi Arabia and in particular low-income housing. The new venture will offer Islamic mortgages that will be suited for multiple purposes including housing and land purchase as well as home improvements and extensions.

Although the world and the GCC region are witnessing very uncertain times, IIB continues to believe in the robustness of the investment thesis underlying this long-term, strategic and defensive sector for the following three key reasons:

1. With the high population growth rate of 2.45% and large increase in expatriate numbers, we see the potential for considerable growth in the mortgage finance sector.
2. It is estimated that by 2010 real estate activity in Saudi Arabia will reach US\$ 129 billion. Through 2020, a total of 2.62 million housing units are needed at an average rate of 163,750 units per annum which will involve new investment of US\$ 320 billion. The housing market itself constitutes around 75% of the total real estate activity in Saudi Arabia and

it is estimated that by 2020, US\$ 20 billion will be needed annually to meet the housing needs in Saudi Arabia.

3. The clearance of the draft Mortgage Finance Law by the Shoura Council augurs well for the sector. Hence, our launch is timely with this forward-looking strategy by the Saudi authorities to facilitate access to housing which is a basic need for every household, notwithstanding the ongoing crisis in the world and regional economies.

Following approval by the Central Bank of Bahrain (CBB), IIB commenced marketing the transaction to its investors in December 2008.

North Africa Real Estate Platform

During the last quarter of 2008, IIB decided to establish a US\$ 100 million investment vehicle to capitalize on the opportunities in the real estate sectors of three North African countries: Algeria, Morocco and Tunisia. An application has been made to the CBB to proceed with the establishment of the necessary legal structure and their consent is still pending.



IIB and its investors own	Paid-up capital
65%	375 SAR Million

Target Capital Cost
100 US\$ Million

1 857,44
658,12
1 654,32

894,27
1 683,85
895,63
1 749,23
258,36
257,95

8,56
2,57
9,25
-0,23
-1,25
2 59

FINANCIAL REVIEW

Overview

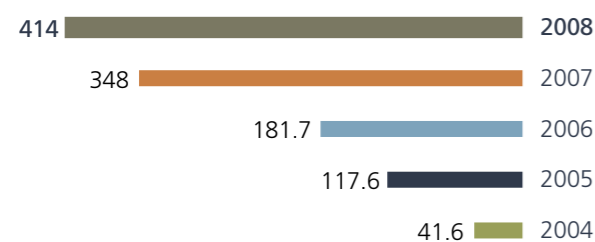
During 2008, the Bank has recorded a net income of US\$ 13.5 million, compared to US\$ 21.1 million during 2007. Total assets at year-end 2008 aggregate to US\$ 218.7 million and include cash and cash equivalents of US\$ 120.5 million. Total equity at 31 December 2008 is US\$ 210.7 million. Assets under management have increased during the year by 19.0% to US\$ 414.0 million at the end of 2008.

The return on average equity for 2008 is 6.3%, while return on average assets is 5.7%. The Capital Adequacy Ratio at 31 December 2008 is 87% versus the minimum permitted by the Central Bank of Bahrain of 12%. As stated in the Board of Directors' Report, the significantly higher level of Capital Adequacy is consistent with the strategy of prudence adopted by the IIB Board of Directors and Management, taking into account the current and forecast uncertain and turbulent economic environment.

Income

The Bank's total income for 2008 is US\$ 30.1 million, mainly derived from investment banking fees generated from the structuring, underwriting and placement of new investments, despite the difficult market conditions. IIB has concluded the sell down of two investment offerings that were carried over from 2007. These comprise the real estate development project located in Abu Dhabi and the stake in a leading commercial bank based in Azerbaijan. In addition, IIB has placed two investment offerings with investors during the year, being a significant stake in ARTES, a leading Nissan/Renault vehicle distributor located in Tunisia and a stake in a green-field sugar plant to be constructed in the Kingdom of Bahrain.

Income on due from financial institutions, being the profit on commodity murabaha deposits, is US\$ 5.3 million versus US\$ 4.3 million in 2007, reflecting the higher average funds placed during 2008. The gain on sale of investments in 2008 of US\$ 0.7 million relates to the sale of several, mainly regional, shareholdings. IIB has recorded fair value gains on GCC-listed shares held for trading of US\$ 5.5 million (2007: nil). Non-recurring income recorded in 2007 includes a gain on investment property of US\$ 1.4 million related to the sale of a plot of land in the Seef district of the Kingdom of Bahrain and foreign exchange gains of US\$ 2.2 million arising from holding net assets unhedged in mainly Euro and Pounds Sterling. The Bank has booked its 2008 share of a loss in one UAE-based associate company engaged in real estate investments of US\$ 4.1 million (2007: gain US\$ 3.2 million). Also reflected in 2008 income is an impairment loss relating to shares held in a UK-listed financial institution.



Assets under Management (US\$ Million)

FINANCIAL REVIEW

Expenses

Total expenses in 2008 aggregate to US\$ 16.6 million, an increase of US\$ 3.4 million compared to 2007. Staff compensation and benefits increased in line with the higher average number of staff. Deal expenses including travel, legal fees and professional fees increased significantly in 2008 arising from the costs of due diligence from evaluating a larger number of potential investment transactions. The Cost-to-Income Ratio increased in 2008 to 55.1% but compares favourably with regional and international investment banks.

Assets

Cash and cash equivalents at year-end 2008 are US\$ 120.5 million and represent 55% of total assets. These comprise cash, balances with banks and due from financial institutions comprising commodity murabaha placements with financially sound banks rated A- or higher and located in the GCC region. With the addition of investments in listed equities, liquid assets are 71% of total assets.

Receivables at 31 December 2008 include murabaha profit receivable, management fees receivable and other receivables from several investee companies. In addition, the Bank has paid a deposit of US\$ 20.6 million to participate in a real estate project located in the Kingdom of Saudi Arabia. The project has subsequently been aborted and IIB expects to receive this balance during 2009. Finally, IIB has granted a short-term Shari'ah-compliant financing facility of US\$ 8.0 million to an investee company to assist it to refurbish its revenue generating real estate investment.

Investments have increased in 2008 by US\$ 26.5 million or 72.8% to US\$ 62.9 million, represented by the Bank's net retention in three investment offerings to investors, three other purchases and three sale transactions during the year. IIB purchased shares in listed companies in Tunisia and the GCC, together with land for possible future development in the Kingdom of Saudi Arabia.

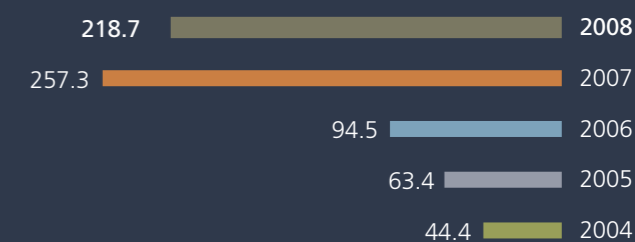
Investment in associates at the end of 2008 represents a 27.32% shareholding of US\$ 5.8 million in a company established in the UAE to purchase land for investment purposes. Included in opening balance of investment in associates is an asset management company which is being established in the Kingdom of Saudi Arabia. Company has not commenced its operations as at 31 December 2008. Bank's stake in the Company has reduced during the year following the exercise of a call option by the investee Company. Consequently, the investment is reclassified as available for sale.

Other assets of US\$ 0.6 million mainly comprise prepaid expenses and sundry receivables. Reflecting the new investment offerings in 2008, assets under management have increased by 19.0% from US\$ 348.0 million to US\$ 414.0 million.

Liabilities and Equity

There are 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\$ 8.1 million mainly comprise accrued expenses, payables to investors and brokerage payable.

Equity has reduced from US\$ 216.4 million to US\$ 210.7 million at the 2008 year end. The principal reason is a share buy-back at a cost of US\$ 6.8 million that is deducted from equity. Reserves have increased by US\$ 3.3 million to US\$ 27.7 million, resulting from the 2008 retained profit less a net charge to the fair value reserves of US\$ 2.3 million. Proposed appropriations reflect the 7% dividend of US\$ 7.7 million, which is approved by the shareholders in the annual general meeting.



Total Assets (US\$ Million)

CAPITAL STRUCTURE

Capital Base

The Bank's capital base comprises Tier 1 capital which includes nominal share capital, share premium, statutory reserve, retained earnings, current year net income and certain unrealised fair value reserves, and Tier 2 capital which consists of cumulative changes in fair value reserves.

The issued and paid up share capital of the Bank was US\$ 109,995,797 at 31 December 2007 and 2008, comprising of 109,995,797 shares of US\$ 1 each.

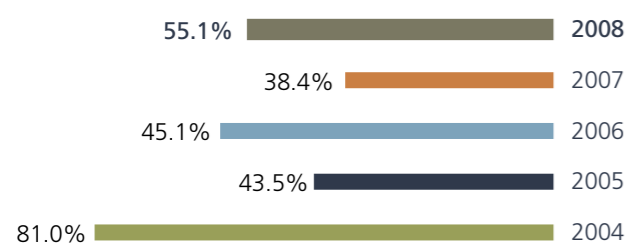
The Bank's regulatory capital base of US\$ 200.4 million as at 31 December 2008 comprises Tier 1 capital of US\$ 201.4 million and Tier 2 capital of (US\$ 1.0 million) as disclosed in note 21 of the financial statements.

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 2008 is 87%, being over 7 times of the minimum ratio of 12%. Last year's CAR ratio of the Bank using Basel II requirements is 126% as against the minimum required ratio of 12%.



Cost/Income Ratio

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. Consistent 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 21 Capital Management in the attached financial statements.

Given the Capital Adequacy Ratio of the Bank as at 31 December 2008, it has ample capacity to make additional investments and still meet the minimum capital adequacy requirement of 12%. However, it plans to continue its conservative approach to liquidity and very modest investment purchases are planned for 2009.

Profile of Risk-weighted Assets and Capital Charge

The Bank has adopted the "Standardized" approach for credit risk and market risk and "Basic Indicator" approach for operational risk for regulatory reporting purposes. IIB's risk-weighted capital requirements for credit, market and operational risks are as follows:

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.

Credit exposures and risk weighted assets are disclosed as follows:

US\$ '000	Gross credit exposure	Risk weighted assets	Capital charge
Claims on banks –			
Murabaha Placements	120,271	39,112	4,691

CAPITAL STRUCTURE

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. The following are the gross credit exposures and risk weights assigned for capital adequacy purposes:

US\$ '000	Gross credit exposure	Risk weighted assets	Capital charge
Due from investee companies –			
Murabaha	8,134	8,134	976

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

US\$ '000	Gross credit exposure	Risk weighted assets	Capital charge
Investment in listed equities	34,940	32,618	3,914
Investment in un-listed equities	27,944	52,046	6,246
Total	62,884	84,664	10,160

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 year end position is representative of the risk positions of the Bank during the period, average gross exposures are not disclosed separately.

The realized gains net of losses arising from investment sales or liquidations during 2008 were US\$ 0.7 million. The total net unrealized losses recognized in equity for 2008 aggregated to US\$ 2.5 million.

Market Risk

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

US\$ '000	Risk weighted assets	Year end capital charge
Foreign exchange risk	14,516	1,161
Total market risk	14,516	1,161

IIB has no exposure to profit rate risk, equity position risk or options risk, as Bank does not maintain any trading book. However, equity price and profit rate risk has been disclosed in note 20 of the financial statements in accordance with International Financial Reporting (IFRS) 7.

Operational Risk

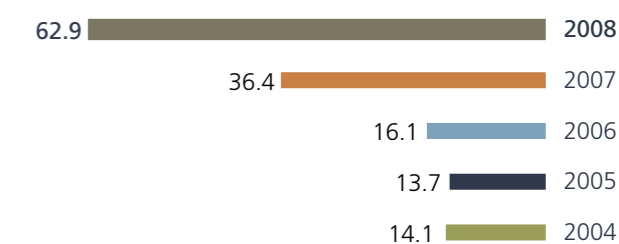
In accordance with the Basic Indicator approach methodology, the capital charge is computed by multiplying the latest three-year average gross income by a pre-defined beta factor as follows:

US\$ '000	Risk weighted assets	Capital charge
Based on 2006-8 average gross income	55,596	6,671
Total operational risk	55,596	6,671

Capital Management

The Bank aims to maintain sufficient capital to enable it to pursue strategies that build long-term shareholder value, whilst always exceeding minimum regulatory ratio requirements. In addition, it maintains capital as a buffer for unexpected losses and seeks to maximize the annual return on capital.

To assist it to implement an effective capital management framework, the Bank has implemented an internal capital adequacy assessment process (ICAAP). The purpose of the ICAAP framework is to document the ongoing assessment of the Bank's overall capital adequacy in relation to its risk profile and its capital management strategy. The ICAAP outlines the Bank's risk strategy, capital objectives, methodology and assumptions used to measure internal capital.



Investments (US\$ Million)

RISK MANAGEMENT

The Board of Directors has 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 20 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 20.2 to the Financial Statements in accordance with the requirements of International Financial Reporting (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 2008. We believe the disclosures to be reasonably representative of the position during 2008 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 regulatory capital base.

As at 31 December 2008, the Bank's exposure in excess of 15% of the obligor limit to an individual counterparty is shown below:

US\$ '000	On balance sheet exposure	Off balance sheet exposure	Total exposure
Counterparty A	32,765	-	32,765

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 are analyzed as follows:

US\$ '000	Gross funded credit exposure	Impaired securities	Specific provision impaired securities
Bahrain	99,998	-	-
Europe	19,126	837	688
Other Gulf Cooperation Council (GCC) countries	97,486	-	-
Africa	1,339	-	-
Asia	769	-	-
Total	218,718	837	688

The impaired security is reflected at fair value based on the relevant closing stock market price as at 31 December 2008. 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 is as follows:

US\$ '000	Gross funded credit exposure	Impaired securities	Specific provision impaired securities
Real estate – development	31,547	-	-
Real estate – income generating	18,255	-	-
Banking and financial institutions	126,501	837	688
Insurance	1,491	-	-
Manufacturing	36,104	-	-
Automotive	1,438	-	-
Others	3,382	-	-
Total	218,718	837	688

The Bank has no unfunded exposures as at 31 December 2008.

Exposure by external credit rating

The Bank uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk weightings under the CBB's Basel II capital adequacy framework. Where ratings vary between rating agencies, the higher rating from the lowest two ratings is used to represent

RISK MANAGEMENT

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.

US\$ '000	Gross credit exposure	Rated exposure	Unrated exposure
Cash and claims on banks	120,471	110,319	10,152
Equity portfolio	62,884	-	62,884
Other exposures	35,363	-	35,363
Total	218,718	110,319	108,399

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 to related parties

US\$ '000	Gross credit exposure
Claims on shareholders	7,841
Claims on associates	5,836
Claims on investee companies	2,573
Claims on directors	-
Total	16,250

Liabilities to related parties

US\$ '000	Gross liability
Deposits payable to shareholders	2,577
Total	2,577

Maturity analysis of funded exposures

Residual contractual maturity of the Bank's major types of funded credit exposures based on expected maturities 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 over 12 months	Total
Cash	2	-	-	-	2	-	-	2
Claims on banks	120,471	-	-	-	120,471	-	-	120,471
Investment in quoted equities	-	-	-	-	-	34,826	34,826	34,826
Investment in unquoted equities	-	-	-	-	-	22,222	22,222	22,222
Investment in associate	-	-	-	5,836	5,836	-	-	5,836
Receivables	-	-	4,622	3,512	8,134	25,679	25,679	33,813
Other assets & equipment	36	312	196	-	544	1,004	1,004	1,548
	120,509	312	4,818	9,348	134,987	83,731	83,731	218,718

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 recognized 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-organization 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:

- for assets carried at amortized cost, impairment is based on the present value of estimated future cash flows discounted at the original effective profit rate;
- for assets carried at fair value, impairment is the difference between cost and fair value; and
- 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.

RISK MANAGEMENT

2. Liquidity Risk

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 2008.

The ratio of liquid assets (defined as cash, balances with banks, due from financial institutions and quoted investments held for trading) to total assets at 31 December 2008 is 71%. Details of liquidity risk and funding management are contained in Note 20.3 to the Financial Statements.

The Bank groups all assets and liabilities into specific maturity time buckets and monitors the mismatches between the inflows and outflows against approved limits. The maturity analysis of assets and liabilities based on expected recovery or settlement dates is contained in Note 19 to the Financial Statements.

3. Market Risk

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

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

Note 20.4 to the 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 premises 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 loss events were identified.

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. IIB 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. IIB fully complied with all applicable laws and regulations during the year ended 31 December 2008 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

Investment & Business Development

Mohamed Hadi Mejai, Executive Director
Hakan Gunay, Director
Fadi Al-Qassim, Project Manager
Hari Janardhanan, Principal
Bishayer Al-Khaja, Associate
Suad Emad Almoayed, Associate
Moh'd Maher Mannai, Associate
Atif Naveed, Associate
Marieta Cano, Executive Secretary

Investment Placement

Alyas Al-Meftah, Director
Daajj Al-Khalifa, Principal
Fawzan Al-Naser, Principal
Jassim Al-Shaikh, Principal
Bashar Al-Shaikh, Principal
Omar Shaheen, Principal
Salah Hasan Habib, Associate
Mohammed Juma Habib, Associate
Nawar Al-Alawi, Coordinator
Huda Al-Gallaf, Coordinator
Mona Mahmood Ghuloom, Coordinator
Mohammed Ebrahim Janahi, Coordinator
Bushra A.Hassan Al-Madhi, Coordinator

Asset Management

Subhash Jalan, Executive Director
Murtaza Ghulam, Principal
Mazar Jalal, 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)
Nader Ghuloom Asad, Director - Finance and Administration
Augustine Peter, Principal - Finance
Haleema Ebrahim, Associate - Treasury
Ghizlane Rahali, Associate - Corporate Communications & PR
Marivic J. Ruiz, Administration Officer
Hussain Ali Jassim, General Services Supervisor
Khulood Farhan, Receptionist & General Secretary

Information Technology

Said Itani, Head
Sayed Hussein Mahdi, Associate
Hassan Abbas, Officer

Legal and Compliance

Eihab Ahmed, Director

Risk Management

Ninan Varkey, Head

Internal Audit

Ali Redha, Director

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:

We have reviewed the principles and contracts relating to the transactions conducted by International Investment Bank B.S.C. (c) (the "Bank") during the course of the year ending December 31, 2008. Our 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 Shari'ah Supervisory Board. The Bank's management is responsible for ensuring that its operations are carried out in compliance with our rulings. It is our responsibility to present an independent view of the Bank's operations and to communicate it to the shareholders.

Our review included a detailed analysis of each type of transaction with its relevant documentation and procedures adopted by the Bank.

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, 2008 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.

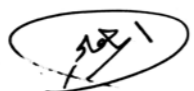
- Earnings that have been realized from sources that are non-Shari'ah compliant were donated to charity.
- The Bank's calculation of Zakat is in compliance with the rules and principles of the Islamic Shari'ah

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

21 Safar 1430
16 February 2009

FINANCIAL STATEMENT 2008

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

We have audited the accompanying financial statements of International Investment Bank B.S.C. (c) ("the Bank") which comprise the balance sheet as at 31 December 2008 and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with both the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, to operate in accordance with Islamic Shari'a and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In addition the Board of Directors is responsible for the Bank's undertaking to operate in accordance with Islamic Shari'a Rules and Principles.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with both the Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we comply with the relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Islamic Shari'a Rules and Principles as determined by Shari'a Supervisory Board of the Bank.

In addition, in our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Regulatory 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 2008 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 license.



16 February 2009
Manama, Kingdom of Bahrain

STATEMENT OF INCOME

For the year ended 31 December 2008

	Notes	2008 US\$ '000	2007 US\$ '000
INCOME			
Investment banking fees	3	22,725	22,776
Income on due from financial institutions	4	5,292	4,307
Unrealised loss on available for sale securities		(130)	(283)
Gain/ (loss) on sale of investments, net		729	(14)
Gain on investment property		-	1,368
Unrealised gain on financial assets fair valued through statement of income		145	456
Unrealised gain on financial assets held for trading		5,496	-
Dividend income		667	326
Other income		27	-
TOTAL INCOME		34,951	28,936
EXPENSES			
Corporate expenses		4,416	3,256
Deal acquisition expenses		4,778	2,031
Selling expenses		3,301	4,378
Asset management expenses		1,179	946
General and administration expenses	6	2,930	2,465
Expense on due to financial institutions		-	90
TOTAL EXPENSES		16,604	13,166
OPERATING INCOME		18,347	15,770
Share of (loss)/profit from associate	12	(4,096)	3,177
NET INCOME BEFORE IMPAIRMENT AND FOREIGN EXCHANGE GAINS AND LOSSES			
		14,251	18,947
Provision for impairment	7	(688)	-
(Loss)/gain on foreign exchange		(45)	2,162
NET INCOME FOR THE YEAR		13,518	21,109

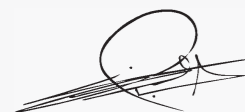
The attached explanatory notes 1 to 24 form part of these financial statements

BALANCE SHEET

At 31 December 2008

	Notes	2008 US\$ '000	2007 US\$ '000
ASSETS			
Cash and balances with banks	8	2,205	3,668
Due from financial institutions	9	118,268	211,396
Receivables	10	33,813	3,968
Investments	11	57,048	24,113
Investment in associates	12	5,836	12,288
Other assets		595	821
Equipment		953	1,066
TOTAL ASSETS		218,718	257,320
LIABILITIES AND EQUITY			
Other liabilities	13	8,066	40,926
TOTAL LIABILITIES		8,066	40,926
EQUITY			
Share capital	14	109,996	109,996
Treasury shares	14	(6,798)	(113)
Share premium	14	72,050	71,867
Reserves	14	27,704	24,418
Proposed appropriations	15	7,700	10,226
TOTAL EQUITY		210,652	216,394
TOTAL LIABILITIES AND EQUITY		218,718	257,320

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 16 February 2009.



Saeed Abdul Jalil Al Fahim
Chairman



Aabed Al-Zeera
Chief Executive Officer

The attached explanatory notes 1 to 24 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Reserves						Total US\$ '000			
	Share capital US\$ '000	Treasury shares US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000	Cumulative changes in fair value reserve US\$ '000	Investment fair value reserve US\$ '000		Retained earnings US\$ '000	Proposed appropriations US\$ '000	Total US\$ '000
Balance at 1 January 2008	109,996	(113)	71,867	4,236	-	67	20,115	24,418	10,226	216,394
Cumulative changes in fair value	-	-	-	-	(2,532)	-	-	(2,532)	-	(2,532)
Income recognised directly in equity	-	-	-	-	(2,532)	-	-	(2,532)	-	(2,532)
Net income for the year	-	-	-	-	-	-	13,518	13,518	-	13,518
Total income and expenses for the year	-	-	-	-	(2,532)	-	13,518	10,986	-	10,986
Transfer of fair value gain to reserve	-	-	-	-	-	145	(145)	-	-	-
Purchase of treasury shares at premium	-	(6,798)	-	-	-	-	-	-	-	(6,798)
Sale of treasury shares at premium	-	113	183	-	-	-	-	-	-	296
Dividend paid	-	-	-	-	-	-	-	-	(10,226)	(10,226)
Transfer to statutory reserve	-	-	-	1,352	-	-	(1,352)	-	-	-
Proposed appropriation (note 15)	-	-	-	-	-	-	(7,700)	(7,700)	7,700	-
Balance at 31 December 2008	109,996	(6,798)	72,050	5,588	(2,532)	212	24,436	27,704	7,700	210,652
Balance at 1 January 2007	43,000	(113)	-	2,125	703	304	11,106	14,238	4,290	61,415
Cumulative changes in fair value	-	-	-	-	(703)	-	-	(703)	-	(703)
Transfer to retained earnings on realisation	-	-	-	-	-	(304)	304	-	-	-
Income recognised directly in equity	-	-	-	-	(703)	(304)	304	(703)	-	(703)
Net income for the year	-	-	-	-	-	-	21,109	21,109	-	21,109
Total income and expenses for the year	-	-	-	-	(703)	(304)	21,413	20,406	-	20,406
Transfer of fair value gain to reserve	-	-	-	-	-	67	(67)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(4,290)	(4,290)
Transfer to statutory reserve	-	-	-	2,111	-	-	(2,111)	-	-	-
Proceeds from issue of share capital	-	-	-	-	-	-	-	-	-	-
net of share issue expenses (note 14)	66,996	-	71,867	-	-	-	-	-	-	138,863
Proposed appropriation (note 15)	-	-	-	-	-	-	(10,226)	(10,226)	10,226	-
Balance at 31 December 2007	109,996	(113)	71,867	4,236	-	67	20,115	24,418	10,226	216,394

The attached explanatory notes 1 to 24 form part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2008

	Notes	2008 US\$ '000	2007 US\$ '000
OPERATING ACTIVITIES			
Net income for the year		13,518	21,109
Adjustments for:			
Depreciation		347	365
Unrealised gain on financial assets fair valued through statement of income		(145)	(456)
Unrealised gain on financial assets held for trading		(5,496)	-
Unrealised loss on available for sale securities		130	283
(Gain)/loss on sale of investments, net		(729)	14
(Gain) on sale of investment property		-	(1,368)
Share of loss/(profit) of associate	12	4,096	(3,177)
Provision for impairment	7	688	-
		12,409	16,770
Changes in operating assets and liabilities:			
Receivables		(29,845)	-
Other assets		226	9,807
Other liabilities		(32,607)	27,797
Purchase of investments		(45,901)	(14,230)
Proceeds from disposal of investments		18,652	2,730
Net cash (used in) from operating activities		(77,066)	42,874
INVESTING ACTIVITIES			
Purchase of investment in associate		(311)	(9,111)
Proceeds from sale of investment property		-	4,652
Purchase of equipment		(234)	(659)
Net cash used in investing activities		(545)	(5,118)
FINANCING ACTIVITIES			
Purchase of treasury shares	14	(6,798)	-
Proceeds from sale of treasury shares		296	-
Proceeds from issue of shares, net		-	138,863
Dividends paid		(10,478)	(4,278)
Due to financial institutions		-	(20,000)
Net cash (used in) from financing activities		(16,980)	114,585
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(94,591)	152,341
Cash and cash equivalents at beginning of the year		215,064	62,723
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		120,473	215,064
Cash and cash equivalents comprise:			
Cash and balances with banks		2,205	3,668
Due from financial institutions		118,268	211,396
		120,473	215,064

The attached explanatory notes 1 to 24 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

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 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 Moayed Tower, PO Box 11616, Manama, Kingdom of Bahrain.

2 ACCOUNTING POLICIES**a) Basis of preparation**

These financial statements have been prepared under the historical cost convention except as modified by the revaluation of investments carried at fair value through statement of income, held for trading and available for sale investment at fair value.

The financial statements are presented in United States Dollars which is the Bank's functional currency.

Statement of compliance

The financial statements of the Bank are prepared in accordance with both International Financial Reporting Standards ("IFRS") and Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), and are in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

b) Significant accounting judgments 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:

- For investments quoted in an active market, fair value is determined by reference to quoted market prices.
- For investments in units in funds, fair value is determined based on the latest net asset value provided by the fund manager.
- For unquoted investments, the Bank establishes fair value by using an appropriate valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable willing parties, if available, and reference to recent valuation multiples of other comparable entities that are substantially the same.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as "carried at fair value through statement of income", "held for trading" or "available for sale". Investments are classified as carried at fair value through statement of income when they are designated as at fair value on initial recognition.

Impairment of 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.

c) Changes in accounting policies and disclosures

Change in accounting standard adopted in the current year

On 30 October 2008, AAOIFI issued a guidance statement on accounting for investments and amendment in Financial Accounting Standard 17 Investments. This amendment allows Islamic Financial Institutions to carry unrealised losses from re-measurement of investments in shares in the statement of equity under the cumulative changes in fair value reserve. Previously, any net negative unrealised losses were to be taken to the statement of income. The amendment is effective from 1 July 2008 and has been adopted by the Bank.

As a result of the application of the revised standard, negative fair value of US\$ 688 thousand relating to investments is initially taken to changes in fair value reserve in the statement of changes in equity. However, as this decline in value of investment is considered significant, entire amount is charged to statement of income as impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

Standards and Interpretations issued at 31 December 2008 but not effective

Following are the relevant FAS, IFRS and International Financial Reporting Interpretation Committee ("FRIC") interpretations that have been issued during the year, to be applied to financial statements for financial years commencing on or after the following dates:

- IAS 1 – Presentation of financial statements (Revised), 1 January 2009;
- IFRS 8 – Operating segments, 1 January 2009;

The directors do not anticipate that the adoption of these standards and interpretations to have a material impact on the financial statements in the year of initial application.

d) 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 balance sheet date. 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 transactions. 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 (other than those carried at fair value through statement of income and held for trading) 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. Transaction cost incurred for investment carried at fair value through statement of income and held for trading is expensed out immediately.

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, in the case of financial assets and financial liabilities not at fair value through statement of income and held for trading, 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.

Mudaraba investments are partnerships where the Bank ("Rabb-ul-Maal") gives money to another ("Mudarib") for investing in a commercial enterprise for a definite period of time.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

2. ACCOUNTING POLICIES (continued)

d) Summary of significant accounting policies (continued)

Investments

Investments are initially classified as "carried at fair value through statement of income", "held for trading" or "available for sale".

After initial recognition, investments are remeasured to fair value as below:

Carried at fair value through statement of income

Realised gains and losses, dividends and unrealised gains and losses arising from the re-measurement to fair value, are included in the statement of income.

In accordance with AAOIFI unrealised gains or losses are appropriated to an investment fair value reserve and are transferred to retained earnings only when realised.

Held for trading

Realised gains and losses, dividends and unrealised gains and losses arising from the re-measurement to fair value, are included in the statement of income.

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 for the period. 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) 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.

iv) Impairment of financial assets

An assessment is made at each balance sheet 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

v) Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amounts reported in the balance sheet 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.

vi) Investment in associates

The Bank's investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture represented by an interest between 20% and 50% in the voting capital.

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.

vii) 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.

viii) 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.

ix) 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.

x) 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.

xi) Dividends

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

xii) 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

2. ACCOUNTING POLICIES (continued)

d) Summary of significant accounting policies (continued)

xiii) Zakah

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

xiv) Cash and cash equivalents

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

xv) Fiduciary assets

Assets held in a fiduciary capacity are not reported in the balance sheet, as they are not the assets of the Bank.

xvi) Proposed dividend

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

xvii) Provisions

Provisions are recognised when the 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.

xviii) 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

	2008 US\$ '000	2007 US\$ '000
Acquisition, structuring and placement fees	21,789	22,776
Management fees	936	-
	<u>22,725</u>	<u>22,776</u>

4. INCOME ON DUE FROM FINANCIAL INSTITUTIONS

	2008 US\$ '000	2007 US\$ '000
Profit on commodity murabaha	4,952	4,293
Income on investment in mudaraba	-	14
Income from murabaha receivables from investee companies	340	-
	<u>5,292</u>	<u>4,307</u>

5. STAFF COSTS

	2008 US\$ '000	2007 US\$ '000
Salaries and other staff related costs	9,517	6,750
End of service benefits	103	167
	<u>9,620</u>	<u>6,917</u>

The Bank classifies its expenses based on function and hence the staff cost has been allocated to Business Development, Placement, Post Acquisition and Asset Management functions.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

6. GENERAL AND ADMINISTRATION EXPENSES

	2008 US\$ '000	2007 US\$ '000
Rent and maintenance	497	489
Legal and professional	514	405
Printing and advertisement	273	357
Communication	106	106
Shari'a committee	119	104
Directors' remuneration	500	330
Depreciation	347	365
Donations	300	101
Others	274	208
	<u>2,930</u>	<u>2,465</u>

7. PROVISION FOR IMPAIRMENT

	2008 US\$ '000	2007 US\$ '000
Impairment on available for sale investment	688	-

8. CASH AND BALANCES WITH BANKS

	2008 US\$ '000	2007 US\$ '000
Cash on hand	2	2
Balances with banks	2,203	3,666
	<u>2,205</u>	<u>3,668</u>

9. DUE FROM FINANCIAL INSTITUTIONS

	2008 US\$ '000	2007 US\$ '000
Commodity murabaha	118,394	211,534
Deferred income	(126)	(138)
	<u>118,268</u>	<u>211,396</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

10. RECEIVABLES

	Notes	2008 US\$ '000	2007 US\$ '000
Receivables and prepayments	10.1	25,679	3,968
Due from investee companies	10.2	8,134	-
		<u>33,813</u>	<u>3,968</u>

10.1. Receivables and prepayments

Management fee receivables	940	54
Receivable from investee companies	3,258	3,914
Other receivables	21,481	-
	<u>25,679</u>	<u>3,968</u>

Included in Other receivables is an amount of US\$ 20.623 million (2007: nil) due on account of an abandoned real estate investment project in Kingdom of Saudi Arabia.

10.2. Due from investee companies

Commodity murabaha receivables	8,344	-
Deferred profit	(210)	-
	<u>8,134</u>	<u>-</u>

11. INVESTMENTS

	2008 US\$ '000	2007 US\$ '000
The Bank has investments in various equity instruments, which are as under:		
<i>Carried at fair value through statement of income</i>		
Quoted	705	560
<i>Held for trading</i>		
Quoted	32,765	-
<i>Available for sale</i>		
Quoted	1,356	1,654
Unquoted	22,222	21,899
	<u>57,048</u>	<u>24,113</u>

Included in unquoted above is an equity stake of 18% (2007: 20%) in EWAN Capital, an asset management company which is being established in the Kingdom of Saudi Arabia. EWAN Capital had not commenced its operations as at 31 December 2008. IIB's equity stake in EWAAN capital is reduced during the year following the exercise of a call option by EWAAN. Consequently, the investment is reclassified as available for sale.

12. INVESTMENT IN ASSOCIATE

	2008 US\$ '000	2007 US\$ '000
Opening balance	12,288	-
Add: Investment made during the year	311	9,111
Add: Share of (loss)/profit from associate	(4,096)	3,177
Less: Sale of investment	(266)	-
Less: investment reclassified as available for sale	(2,401)	-
	<u>5,836</u>	<u>12,288</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

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 balance sheet date, the Bank holds 27.32% (2007:26%) equity stake in IIB UAE.

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

	2008 US\$ '000	2007 US\$ '000
Associates' balance sheet		
Assets	49,598	71,639
Liabilities	(16,636)	(8,204)
Net assets	32,962	63,435
Share of (loss)/profit from associate	(4,096)	3,177

During 2007, Bay Development Properties Limited ("the Company") in which IIB UAE Investment Limited owns approximately 65% of the equity, had entered into a conditional sale/purchase agreement with a buyer to sell its investment property. Later on, the Company terminated this sale/purchase agreement on the basis that the buyer failed to fulfill his contractual obligation. The buyer has commenced a court action against the Company for i) the appointment of a receiver to reserve the property, ii) specific performance of the sale/purchase agreement and iii) the sum of US\$ 33.8 million (AED 124 million), being the amount agreed for the plot of land pursuant to the sale/purchase agreement.

During 2008, The Court of First Instance and The Court of Appeal awarded the buyer with specific performance of the sale/purchase agreement. The Company had appealed the Court of Appeal's decision to the Court of Cessation. As at the balance sheet date the Court of Cessation has not delivered its decision on the application for Cessation.

Based on the above the Company has conservatively made a provision amounting to US\$ 11.090 million. Share of loss from associate includes provision for legal case and devaluation effect of investment property.

At the balance sheet date, the title of the land is held in the name of Business Bay LLC, Master Developer as nominee in trust and for the benefit of the Company. The sale and transfer of investment property is subject to the consent and approval of the Master Developer.

The Company was formed to develop a plot of land into a state of art commercial building in Dubai, United Arab Emirates. During 2007, the shareholders of the Company resolved to sell the plot of land on which the project was under progress instead of continuing with the development project.

13. OTHER LIABILITIES

	2008 US\$ '000	2007 US\$ '000
Brokerage payable	2,823	-
Payable to investors	2,577	15,349
Accrued expenses	2,265	3,174
Other payables	401	-
Payable for deals	-	20,161
Payable to investee company	-	1,989
Dividends payable	-	253
	8,066	40,926

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

14. EQUITY

	2008 Number of shares '000	2007 Number of shares '000
Authorized share capital		
Ordinary Shares of US\$ 1 each	200,000	200,000

Ordinary Shares

	2008		2007	
	Number of shares '000	Value US\$ '000	Number of shares '000	Value US\$ '000
Issued and fully paid				
At 1 January	109,996	109,996	43,000	43,000
Ordinary shares of US\$ 1 issued in cash	-	-	66,996	66,996
At 31 December	109,996	109,996	109,996	109,996

Treasury Shares

	2008		2007	
	Number of shares '000	Value US\$ '000	Number of shares '000	Value US\$ '000
At 1 January	100	113	-	-
Purchase of treasury shares during the year	3,000	6,798	100	113
Sale of treasury shares during the year	(100)	(113)	-	-
At 31 December	3,000	6,798	100	113

During the year, the Bank has sold 0.10 million treasury shares at a cost of USD 0.113 million, for a total sale price of USD 0.184 million. The Bank has also purchased 3 million shares of its own equity from one of the investors at a total cost of USD 6.798 million.

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.

Investment fair value reserve

This represents unrealized revaluation gains on investment carried at fair value through statement of income as required by AAOIFI. This reserve is distributable upon value realization, which takes place at the time of actual exit or derecognition.

Cumulative changes in fair value reserve

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

15. PROPOSED APPROPRIATIONS

The directors have proposed a cash dividend of 7% (2007: 15%) based on the outstanding number of shares at year end. This will be submitted for formal approval at the Annual General Meeting.

16. ASSETS UNDER MANAGEMENT

Total assets under management as at 31 December 2008 were:

	2008 US\$ '000	2007 US\$ '000
Proprietary	62,884	36,401
Client	351,131	311,592
	414,015	347,993

Proprietary assets are included in the balance sheet, while clients' assets, which are managed in fiduciary capacity without recourse to the Bank, are not included in the balance sheet.

17. 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 2008 US\$ '000	2007 US\$ '000
Assets				
Investment	7,841	2,426	10,267	1,909
Investment in associates	-	5,836	5,836	12,288
Receivable from investee companies	-	147	147	54
Liabilities				
Payable to investors	2,577	-	2,577	15,349

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

	Shareholders/ directors US\$ '000	Others US\$ '000	Total 2008 US\$ '000	2007 US\$ '000
Income				
Investment banking fees	1,638	94	1,732	10,227
Unrealised gain on items fair valued through statement of income	-	145	145	456
Share of (loss)/profit from associate	-	(4,096)	(4,096)	3,177
Dividend income	-	48	48	101
Expenses				
Underwriting fees	-	-	-	2,223
Directors' remuneration	500	-	500	330
Shari'a Supervisory Board remuneration	-	119	119	104

Compensation of key management personnel was as follows:

	2008 US\$ '000	2007 US\$ '000
Short term employee benefits	5,896	4,172
End of service benefits	121	122
	6,017	4,294

18. COMMITMENTS

	Notes	2008 US\$ '000	2007 US\$ '000
Investment related		-	20,000
Operating lease	18.1	968	1,390
		968	21,390

18.1 At 31 December 2008, the Bank has commitments of non-cancelable operating leases relating to leasehold premises. Of the commitments, US\$ 0.39 million (2007: US\$ 0.39 million) expire within one year and the remaining expire within two to three years.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

19. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	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	Total US\$ '000
ASSETS					
Cash and balances with banks	2,205	-	2,205	-	2,205
Due from financial institutions	118,268	-	118,268	-	118,268
Receivables	-	8,134	8,134	25,679	33,813
Investments	-	-	-	57,048	57,048
Investment in associates	-	5,836	5,836	-	5,836
Other assets	-	-	-	595	595
Total assets	120,473	13,970	134,443	83,322	217,765
LIABILITIES					
Other liabilities	-	8,066	8,066	-	8,066
Total liabilities	-	8,066	8,066	-	8,066
Net gap	120,473	5,904	126,377	83,322	209,699

The maturity profile of assets and liabilities as at 31 December 2007 based on contractual maturity 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	Total US\$ '000
ASSETS					
Cash and balances with banks	3,668	-	3,668	-	3,668
Due from financial institutions	211,396	-	211,396	-	211,396
Receivables	-	3,968	3,968	-	3,968
Investments	-	-	-	24,113	24,113
Investment in associates	-	12,288	12,288	-	12,288
Other assets	-	-	-	821	821
Total assets	215,064	16,256	231,320	24,934	256,254
LIABILITIES					
Other liabilities	-	40,926	40,926	-	40,926
Total liabilities	-	40,926	40,926	-	40,926
Net gap	215,064	(24,670)	190,394	24,934	215,328

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

20. RISK MANAGEMENT

20.1. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

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.

20.2 Credit risk

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

a) Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty. The maximum credit exposure to any client or counterparty as of 31 December 2008 was US\$ 55.8 million (2007: US\$ 159.3 million).

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

	Notes	Gross maximum exposure 2008 US\$ '000	Gross maximum exposure 2007 US\$ '000
Credit risk items:			
Balances with banks	8	2,203	3,666
Due from financial institutions	9	118,268	211,396
Receivables	10	33,813	3,968
Other assets		595	821
Total Credit Risk Exposure		154,879	219,851

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

20. RISK MANAGEMENT (continued)

20.2. Credit risk (continued)

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

II) The analysis of the Bank's financial assets having credit risk exposure as at 31 December 2008 is as follows:

	Banking activities US\$ '000	Others US\$ '000	Total US\$ '000
Geographical region:			
Bahrain	70,471	24,287	94,758
Europe	-	8,792	8,792
Other Gulf Cooperation Council (GCC) countries	50,000	1,187	51,187
Africa	-	100	100
Asia	-	42	42
	120,471	34,408	154,879

The analysis by geographical region of the Bank's financial assets having credit risk exposure as at 31 December 2007 is as follows:

	Banking activities US\$ '000	Others US\$ '000	Total US\$ '000
Geographical region:			
Bahrain	215,062	775	215,837
Other Gulf Cooperation Council (GCC) countries	-	3,772	3,772
Europe	-	222	222
Asia	-	20	20
	215,062	4,789	219,851

III) The industry sector analysis of the Bank's financial assets having credit risk exposure as at 31 December 2008 is as follows:

	Banking activities US\$ '000	Others US\$ '000	Total US\$ '000
Industry sector:			
Real estate	-	30,700	30,700
Banking and financial institutions	120,471	1,718	122,189
Manufacturing	-	437	437
Automotive	-	100	100
Others	-	1,453	1,453
	120,471	34,408	154,879

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At 31 December 2008

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

The industry sector analysis of the Bank's financial assets having credit risk exposure as at 31 December 2007 is as follows:

	Banking activities US\$ '000	Others US\$ '000	Total US\$ '000
Industry sector:			
Banking and financial institutions	215,062	-	215,062
Real estate	-	4,068	4,068
Others	-	721	721
	215,062	4,789	219,851

b) Credit quality per class of financial assets

The credit rating analysis of the Bank's financial assets having credit risk exposure as at 31 December 2008 is as follows:

	Banking activities US\$ '000	Others US\$ '000	Total US\$ '000
Credit rating:			
A+ (by Fitch)	105,945	-	105,945
A- (by Fitch)	4,374	-	4,374
Unrated	10,152	34,408	44,560
	120,471	34,408	154,879

The credit rating analysis of the Bank's financial assets having credit risk exposure as at 31 December 2007 is as follows:

	Banking activities US\$ '000	Others US\$ '000	Total US\$ '000
Credit rating:			
A- (by Standard & Poor's)	215,062	-	215,062
Unrated	-	4,789	4,789
	215,062	4,789	219,851

20.3 Liquidity risk and funding management

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

20. RISK MANAGEMENT (continued)

20.3 Liquidity risk and funding management (continued)

l) The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2008 based on contractual undiscounted repayment obligations. Note 19 (Maturity analysis of assets and liabilities) shows the expected maturities of these liabilities.

	On demand US\$ '000	Less than 3 months US\$ '000	3 months to 1 year US\$ '000	1 to 5 years US\$ '000	Total US\$ '000
Other liabilities	-	-	8,066	-	8,066
Total undiscounted financial liabilities	-	-	8,066	-	8,066

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations.

	On demand US\$ '000	Less than 3 months US\$ '000	3 months to 1 year US\$ '000	1 to 5 years US\$ '000	Total US\$ '000
Other liabilities	-	-	40,926	-	40,926
Total undiscounted financial liabilities	-	-	40,926	-	40,926

20.4 Market risk

Market risk is the risk to earnings resulting from adverse movements in foreign currency rates, profit rate yield curves and equity prices. 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 analysis.

a) Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. As at 31 December 2008, the Bank had Available for sale investments listed on overseas stock exchanges. Based on the values at 31 December 2008, a change in the quoted price of plus or minus 10% would change the value of these investments by plus or minus US\$ 0.218 million (2007: US\$ 0.165 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.

Further, the Bank held investments classified as Carried at fair value through statement of income and Held for trading as at 31 December 2008. A change in asset prices of plus or minus 10% would change the value of the investments by US\$ 3.346 million (2007: US\$ 0.056 million) with a corresponding increase or decrease in 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 2008, a change in the valuation of 10% would change the value of these investments by plus or minus US\$ 2.140 million (2007: US\$ 2.190 million) 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.

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.

The Bahraini Dinar (BHD), Saudi Riyal (SAR) and UAE Dirham (AED) are pegged to the US Dollar and resultantly positions in these currencies are not considered to represent currency risk. The Bank had the following foreign currency exposures at 31 December 2008:

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

	Assets US\$ '000	Liabilities US\$ '000	Net US\$ '000
Euro	9,453	212	9,241
Pound Sterling	2,328	-	2,328
Kuwaiti Dinar	738	-	738
Others	521	-	521
	13,040	212	12,828

The Bank had the following foreign currency exposures at 31 December 2007:

	Assets US\$ '000	Liabilities US\$ '000	Net US\$ '000
Euro	4,971	1,989	2,982
Pound Sterling	5,691	2,170	3,521
Kuwaiti Dinar	372	-	372
	11,034	4,159	6,875

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 31 December, with all other variables held constant.

	Change exchange rate (+/-) %	2008 Effect on net income (+/-) US\$ '000	2007 Effect on net income (+/-) US\$ '000
Euro	10%	44	13
Kuwaiti Dinar	10%	34	-
Pound Sterling	10%	-	1

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 2008, a +/- 0.25% change in the profit rate, with all other variables constant, would have resulted in a +/- US\$ 0.291 million (2007: +/- 1% resulted in US\$ 0.53 million) impact on the statement of income.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

21 CAPITAL MANAGEMENT

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

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new capital. No changes were made in the objectives, policies and processes from the previous years.

Basel II as adopted by CBB became applicable from 1 January 2008. For the purposes of comparison, the proforma capital position as at 31 December 2007, regulatory capital and risk weighted assets have been recalculated in accordance with the Basel II.

	Notes	Basel II 2008 US\$ '000	Basel II 2007 US\$ '000
Regulatory capital base:	21.1		
Tier 1 capital		200,348	203,463
Total regulatory capital		200,348	203,463
Risk weighted assets	21.2	229,318	161,288
Total capital adequacy ratio		87%	126%
Minimum regulatory ratio		12%	12%

21.1 Tier 1 Capital

	Basel II 2008 US\$ '000	Basel II 2007 US\$ '000
Share capital	109,996	109,996
Treasury shares	(6,798)	(113)
Share premium	72,050	71,867
Statutory reserve	5,588	4,236
Cumulative changes in fair value reserve	(2,833)	-
Investment fair value reserve	95	-
Retained earnings	24,438	20,115
Core Tier 1 Capital	202,536	206,101
Deductions	(1,161)	(1,334)
Tier 1 Capital	201,375	204,767
Negative balance of Tier 2	(1,027)	(1,304)
Tier 1 Capital net of negative Tier 2 Capital	200,348	203,463

Tier 1 capital comprises: share capital; share premium; statutory reserve; foreign currency translation reserve; retained earnings, including current year profit; minority interests less accrued dividends and goodwill. Certain adjustments are made to IFRS based results and reserves, as prescribed by the Central Bank of Bahrain. Tier 2 capital comprises of positive fair value reserves minus capital deduction for large exposure.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

21.2 Risk weighted assets

	Basel II 2008 US\$ '000	Basel II 2007 US\$ '000
Credit risk weight assets	159,206	108,207
Market risk weight assets	14,516	6,875
Operational risk weight assets	55,596	46,206
	229,318	161,288

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, credit risk-weighted assets include investments and receivables.

Market risk-weighted assets

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

Operational risk-weighted assets

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

22 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.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments are not materially different from their carrying values except for investments mentioned in note 11 as of 31 December 2008 and 2007.

24 SOCIAL RESPONSIBILITY

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

www.iib-bahrain.com

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