

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

FINANCIAL STATEMENTS

31 DECEMBER 2009

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 2009 and the statements of income, cash flows and changes in equity 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 Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the 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 Auditing Standards for Islamic Financial Institutions issued by the AAOIFI and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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' judgement, 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 controls. 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.

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

Auditors' Responsibility (Continued)

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 2009 and its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the AAOIFI and the Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

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 2009 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.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive, script font.

22 February 2010
Manama, Kingdom of Bahrain

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

STATEMENT OF INCOME

For the year ended 31 December 2009

	Notes	2009 US\$ '000	2008 US\$ '000
Income			
Investment banking fees	3	2,120	22,725
Income on due from financial institutions	4	2,564	5,292
Unrealised loss on available for sale securities		-	(130)
Gain on sale of investments, net		198	729
Unrealised gain on financial assets fair valued through statement of income		-	145
Unrealised gain on financial assets held for trading		-	5,496
Dividend income		679	667
Other income		735	27
TOTAL INCOME		6,296	34,951
Expenses			
Corporate expenses		2,231	4,416
Deal acquisition expenses		1,959	4,778
Selling expenses		1,455	3,301
Asset management expenses		728	1,179
General and administration expenses	6	2,572	2,930
TOTAL EXPENSES		8,945	16,604
OPERTAING (LOSS) / INCOME		(2,649)	18,347
Share of loss from associate	12	(77)	(4,096)
NET (LOSS) / INCOME BEFORE IMPAIRMENT AND FOREIGN EXCHANGE LOSSES		(2,726)	14,251
Impairment losses and provisions	9,10,12	(25,174)	(688)
Loss on foreign exchange		(3)	(45)
NET (LOSS) / INCOME FOR THE YEAR		(27,903)	13,518

The attached explanatory notes 1 to 25 form part of these financial statements

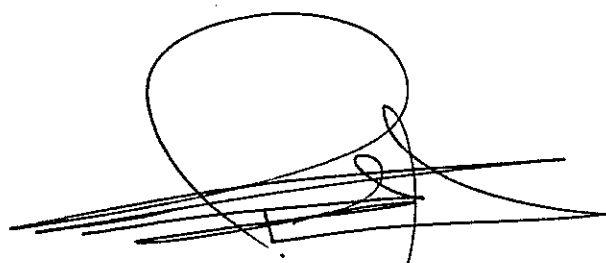
International Investment Bank B.S.C. (c)

BALANCE SHEET

At 31 December 2009

	Notes	2009 US\$ '000	2008 US\$ '000
ASSETS			
Cash and balances with banks	7	1,974	2,205
Due from financial institutions	8	55,702	118,268
Receivables	9	51,124	33,813
Investments	10	37,413	57,048
Assets classified as held for sale	11	26,880	-
Investment in associate	12	3,987	5,836
Other assets		423	595
Equipment		1,973	953
TOTAL ASSETS		179,476	218,718
LIABILITIES AND EQUITY			
Other liabilities	13	2,994	8,066
TOTAL LIABILITIES		2,994	8,066
EQUITY			
Share capital	14	109,996	109,996
Treasury shares	14	(6,798)	(6,798)
Share premium	14	72,050	72,050
Reserves	14	1,234	27,704
Proposed appropriations	15	-	7,700
TOTAL EQUITY		176,482	210,652
TOTAL LIABILITIES AND EQUITY		179,476	218,718

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 22 Feb 2010.



Saeed Abdul Jalil Al/Fahim
Chairman



Aabed Al Zeera
Chief Executive Officer

The attached explanatory notes 1 to 25 form part of these financial statements.

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital		Treasury shares		Share premium		Reserves				Total reserves US\$ '000	Proposed appropriations US\$ '000	Total reserves US\$ '000
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	Statutory reserve US\$ '000	Cumulative changes in fair value reserve US\$ '000	Foreign currency translation reserve US\$ '000	Accumulated deficit / retained earnings US\$ '000			
Balance at 1 January 2009	109,996	(6,798)	-	-	72,050	-	5,588	(2,320)	-	24,436	27,704	7,700	210,652
Income recognised directly in equity	-	-	-	-	-	856	367	-	-	-	1,223	-	1,223
Net loss for the year	-	-	-	-	-	-	-	-	-	(27,903)	(27,903)	-	(27,903)
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(7,490)	(7,490)
Transfer to retained earnings relating to treasury shares	-	-	-	-	-	-	-	-	-	210	210	(210)	-
Balance at 31 December 2009	109,996	(6,798)	-	-	72,050	856	5,588	(1,953)	856	(3,257)	1,234	-	176,482
Balance at 1 January 2008	109,996	(113)	-	-	71,867	-	4,236	67	-	20,115	24,418	10,226	216,394
Loss recognised directly in equity	-	-	-	-	-	-	-	(2,532)	-	-	(2,532)	-	(2,532)
Net income for the year	-	-	-	-	-	-	-	-	-	13,518	13,518	-	13,518
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)	(7,700)	7,700	-
Proposed appropriation (note 15)	-	-	-	-	-	-	-	-	-	(7,700)	(7,700)	-	-
Balance at 31 December 2008	109,996	(6,798)	-	-	72,050	-	5,588	(2,320)	-	24,436	27,704	7,700	210,652

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 US\$ '000	2008 US\$ '000
OPERATING ACTIVITIES			
Net (loss) / income for the year		(27,903)	13,518
Adjustments for:			
Depreciation	6	543	347
Unrealised gain on financial assets fair valued through statement of income		-	(145)
Unrealised gain on financial assets held for trading		-	(5,496)
Unrealised loss on available for sale securities		-	130
(Gain) on sale of investments, net		(198)	(729)
Share of loss from associate	12	77	4,096
Impairment losses and provisions	9,10,12	25,174	688
		<u>(2,307)</u>	<u>12,409</u>
Changes in operating assets and liabilities:			
Receivables		(19,311)	(29,845)
Other assets		172	226
Other liabilities		(5,072)	(32,607)
Purchase of investments		(35,416)	(45,901)
Proceeds from disposal of investments		8,190	18,652
Net cash used in operating activities		<u>(53,744)</u>	<u>(77,066)</u>
INVESTING ACTIVITIES			
Investment made in an associate		-	(311)
Purchase of equipment		(1,563)	(234)
Net cash used in investing activities		<u>(1,563)</u>	<u>(545)</u>
FINANCING ACTIVITIES			
Purchase of treasury shares	14	-	(6,798)
Proceeds from sale of treasury shares		-	296
Dividends paid		(7,490)	(10,478)
Net cash used in financing activities		<u>(7,490)</u>	<u>(16,980)</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(62,797)	(94,591)
Cash and cash equivalents at beginning of the year		<u>120,473</u>	<u>215,064</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u>57,676</u>	<u>120,473</u>
Cash and cash equivalents comprise:			
Cash and balances with banks		<u>1,974</u>	<u>2,205</u>
Due from financial institutions		<u>55,702</u>	<u>118,268</u>
		<u>57,676</u>	<u>120,473</u>

The attached explanatory notes 1 to 25 form part of these financial statements

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

1 CORPORATE INFORMATION

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

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

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 ["US\$"] which is the Bank's functional currency.

Statement of compliance

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

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

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:

- (i) For investments quoted in an active market, fair value is determined by reference to quoted market prices.
- (ii) For investments in units in funds, fair value is determined based on the latest net asset value provided by the fund manager.
- (iii) For unquoted investments, the 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.

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

At 31 December 2009

2 ACCOUNTING POLICIES (continued)

b) Significant accounting judgments and estimates (continued)

Classification of investments

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

Impairment of 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) 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 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 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 held for trading and any directly attributable incremental costs of acquisition or issue.

At 31 December 2009

2 ACCOUNTING POLICIES (continued)

c) Summary of significant accounting policies (continued)

ii) Financial instruments – initial recognition and subsequent measurement (continued)

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.

Investments

Investments are initially classified as "held for trading", "available for sale" or "held for sale".

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

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.

Held for sale

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

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.

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

At 31 December 2009

2 ACCOUNTING POLICIES (continued)

c) Summary of significant accounting policies (continued)

iii) Derecognition of financial assets and financial liabilities (continued)

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.

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.

At 31 December 2009

2 ACCOUNTING POLICIES (continued)

c) Summary of significant accounting policies (continued)

viii) Investment banking fees (continued)

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.

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 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.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

3 INVESTMENT BANKING FEES

	2009 US\$ '000	2008 US\$ '000
Acquisition, structuring and placement fees	1,406	21,789
Management fees	714	936
	<u>2,120</u>	<u>22,725</u>

4 INCOME ON DUE FROM FINANCIAL INSTITUTIONS

	2009 US\$ '000	2008 US\$ '000
Profit on commodity murabaha	2,555	4,952
Income from murabaha receivables from investee companies	9	340
	<u>2,564</u>	<u>5,292</u>

5 STAFF COSTS

	2009 US\$ '000	2008 US\$ '000
Salaries and other staff related costs	4,578	9,307
End of service benefits	435	313
	<u>5,013</u>	<u>9,620</u>

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

6 GENERAL AND ADMINISTRATION EXPENSES

	2009 US\$ '000	2008 US\$ '000
Depreciation	543	347
Rent and maintenance	446	497
Legal and professional	349	514
Directors' remuneration	300	500
Printing and advertisement	235	273
Donations	100	300
Shari'a committee	75	119
Communication	60	106
Others	464	274
	<u>2,572</u>	<u>2,930</u>

7 CASH AND BALANCES WITH BANKS

	2009 US\$ '000	2008 US\$ '000
Cash on hand	2	2
Balances with banks	1,972	2,203
	<u>1,974</u>	<u>2,205</u>

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

8 DUE FROM FINANCIAL INSTITUTIONS

	2009 US\$ '000	2008 US\$ '000
Commodity murabaha	55,713	118,394
Deferred income	(11)	(126)
	<u>55,702</u>	<u>118,268</u>

9 RECEIVABLES

	Notes	2009 US\$ '000	2008 US\$ '000
Advance paid for a deal	9.1	27,736	-
Receivables and prepayments	9.2	15,041	25,679
Due from investee companies	9.3	8,347	8,134
		<u>51,124</u>	<u>33,813</u>

9.1 Advance paid for a deal

The Bank has made an advance payment towards a future real estate related project in the Kingdom of Saudi Arabia. The legal formalities including preparation of the private placement memorandum and regulatory approvals of this project are still in progress.

	2009 US\$ '000	2008 US\$ '000
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9.2 Receivables and prepayments

Management fee receivables	1,449	940
Receivable from investee companies	1,287	3,258
Other receivables	12,305	21,481
	<u>15,041</u>	<u>25,679</u>

Included in "Other receivables" is an amount of US\$ 11.77 million (31 December 2008: US\$ 20.62 million) due on account of an abandoned real estate investment project in the Kingdom of Saudi Arabia. During the year, the Bank has entered into an agreement with the counter party for the repayment of amount over a period of fifteen months ending 30 July 2010. The Bank will receive quarterly installment with a profit rate of 6.33% per annum on the outstanding amount. Out of the total amount outstanding, US\$ 1.24 million has been received subsequent to the year end.

	2009 US\$ '000	2008 US\$ '000
9.3 Due from investee companies		
Commodity murabaha receivables	10,974	8,344
Deferred profit	(627)	(210)
	<u>10,347</u>	<u>8,134</u>
Provision	(2,000)	-
	<u>8,347</u>	<u>8,134</u>

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

10 INVESTMENTS

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

	Notes	2009 US\$ '000	2008 US\$ '000
<i>Carried at fair value through statement of income</i>			
Quoted		-	705
<i>Held for trading</i>			
Quoted		-	32,765
<i>Available for sale</i>			
Quoted		15,831	1,356
Unquoted	10.1	21,582	22,222
		37,413	57,048
Impairment on available for sale investments			
Quoted	10.2	20,351	688
Unquoted		1,051	-
		21,402	688

10.1 Included in unquoted investment above is an equity stake of 18% (2008: 18%) in EWAAN Capital, an asset management company which is being established in the Kingdom of Saudi Arabia. EWAAN Capital had not commenced its operations as at 31 December 2009.

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

The quoted investment reclassified was carried at US\$ 32.77 million at 1 January 2009. The carrying value of quoted investment at 31 December 2009 is US\$ 12.73 million. During the year, the Bank has provided US\$ 20.03 million as impairment loss against the said investment.

11 ASSETS HELD FOR SALE

During the year 2009, the Bank established Istethmary Sarajevo City Centre-I Limited ["the Company"], a special purpose vehicle incorporated in Cayman Islands, which holds 100% equity stake in Istethmary Sarajevo City Centre-II Limited, a special purpose vehicle incorporated in Cayman Islands, which owns indirectly equity stake of 28.31% in Magros Veletrgovia d.d. Total assets and liabilities of the Company amounted to US\$ 28.67 million and nil (2008: nil) respectively and the non-controlling interest amounts to US\$ 1.79 million (2008: nil).

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12 INVESTMENT IN ASSOCIATE

	2009	2008
	US\$ '000	US\$ '000
Opening balance	5,836	12,288
Add: Investment made during the year	-	311
Less: Share of loss from associate	(77)	(4,096)
Less: Sale of investment	-	(266)
Less: Investment reclassified as available for sale	-	(2,401)
	<u>5,759</u>	<u>5,836</u>
Provision	<u>(1,772)</u>	-
	<u>3,987</u>	<u>5,836</u>

The Bank holds an investment in IIB UAE Investment Limited ("IIB-UAE"), a special purpose vehicle incorporated in Cayman Islands with limited liability. IIB Bay Tower Investment Limited, a subsidiary of IIB UAE Investment Limited, was established to own 65% of Bay Development Properties Limited. As on the balance sheet date, the Bank holds 27.32% (2008:27.32%) equity stake in IIB UAE.

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

	2009	2008
	US\$ '000	US\$ '000
Associates' balance sheet		
Assets	32,611	49,598
Liabilities	(119)	(16,636)
Net assets	<u>32,492</u>	<u>32,962</u>
Share of loss from associate	<u>(77)</u>	<u>(4,096)</u>

During 2007, Bay Development Properties Limited ("the Company"), in which IIB UAE Investments Limited owns approximately 65% equity, had entered into a conditional sale/purchase agreement with a buyer to sell the investment property. Later on the Company had terminated this sale/purchase agreement on the basis that the buyer had failed to fulfill his contractual obligation. The buyer has commenced a court action against the Company for i) the appointment of a receiver to preserve the property, ii) specific performance of the sale/purchase agreement and iii) the sum of AED 124 million (US\$ 33.77 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 but not the other reliefs sought by the buyer. The Company had appealed the Court of Appeal's decision to the Court of Cassation.

During 2009, the Court of Cassation dismissed the Company's appeal and affirmed the judgement of the Court of First Instance awarding specific performance of the sale/purchase agreement. The Company made an application to the Court of Cassation to rule that the order for specific performance of the sale/purchase agreement includes payment by the buyer to the Company of the balance of the purchase price stipulated in the sale/purchase agreement which was dismissed by the court.

Dubai Courts issued a notice to the parties of judgement awarding specific performance of the sale/purchase agreement to the buyer. Further, Dubai Properties issued a letter stating that they do not object to the transfer of the plot to the buyer and accordingly Dubai Land Department issued a title deed to the buyer.

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12 INVESTMENT IN ASSOCIATE (continued)

The Company filed a complaint with the Dubai Land Department which has led to a restrictive covenant stating that the plot can not be disposed of in any way, pending further notice from the Land Department.

The Company has made an application to the Dubai Court of Appeal requesting that the court reconsider the judgement that it rendered in 2008 on the basis that the buyer made fraudulent representations to the court. As at the reporting date the Court has not delivered its decision on the application.

The Company is also suing the buyer, Dubai Properties and Business Bay L.L.C. before the Dubai Court of First Instance (Case No. 111/2009) essentially for payment of the balance of the purchase price provided under the sale/purchase agreement. The amount claimed from the buyer as unpaid balance of the purchase price consists of the AED 17.44 million (US\$ 4.75 million) plus AED 60.31 million (US\$ 16.42 million) made up of three cheques which the buyer handed to the Company as payment but that the bank refused to cash in because the cheques were at least six months old by the time the Company presented them for payment. In the same case, the Company is also seeking payment of AED 26.16 million (US\$ 7.12 million) from Dubai Properties and Business Bay L.L.C. alleging that this is an overpayment made by or on behalf of the counterclaim against the Company seeking AED 250 million (US\$ 68.07 million) as compensation for alleged damages suffered by the buyer as a result of the Company's refusal to transfer ownership of the plot. As at the reporting date the Court has not delivered its decision on the application.

In addition to the two cases above, the Company has filed a complaint against the buyer's Principal, with the Dubai police authorities, the complaint is based on the three cheques amounting to AED 60.31 million (US\$ 16.42 millions).

At the reporting date, the legal title of the land is held in the name of the buyer. The sale and transfer of investment property is restricted by the Dubai Land Department pending further notice from the Land Department.

13 OTHER LIABILITIES

	2009 US\$ '000	2008 US\$ '000
Payable to investors	2,489	2,577
Brokerage payable	-	2,823
Accrued expenses	394	2,265
Other payables	111	401
	<u>2,994</u>	<u>8,066</u>

Other payables include earnings prohibited by Shari'a to be utilised exclusively for charitable purposes and amounts to US\$ 9 thousand (2008: nil).

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14 EQUITY

	2009 US\$ '000	2008 US\$ '000
Share capital		
Authorised: 200,000,000 ordinary shares of US\$ 1 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
109,996,000 ordinary shares (2008: 109,996,000) of US\$ 1 each	<u>109,996</u>	<u>109,996</u>

Treasury Shares

	2009		2008	
	Number of shares '000	Value US\$ '000	Number of shares '000	Value US\$ '000
At 1 January	3,000	6,798	100	113
Purchase of treasury shares during the year	-	-	3,000	6,798
Sale of treasury shares during the year	-	-	(100)	(113)
At 31 December	<u>3,000</u>	<u>6,798</u>	<u>3,000</u>	<u>6,798</u>

In the year 2008, the Bank sold 0.10 million treasury shares at a cost of US\$ 0.11 million, for a total sale price of US\$ 0.30 million. The Bank also purchased 3 million shares of its own equity from one of the investors at a total cost of US\$ 6.79 million. There has been no sale or purchase of treasury shares in the current year.

Share premium

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

Statutory reserve

The statutory reserve has been created in accordance with the Bahrain Commercial Companies Law. The Bank transfers 10% of its annual profits to its statutory reserve till such time as the reserve equals 50% of the issued share capital of the Bank. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain. As the Bank made a loss during the year, no transfers have been made during the year.

Cumulative changes in fair value reserve

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

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the non-monetary items denominated in foreign currencies.

15 PROPOSED APPROPRIATIONS

The Board of Directors of the Bank has not proposed any cash dividend (2008: 7%), owing to the fact that the Bank has incurred an operating loss in the year.

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16 ASSETS UNDER MANAGEMENT

Total assets under management as at 31 December 2009 were:

	2009 US\$ '000	2008 US\$ '000
Proprietary	68,280	62,884
Client	354,470	351,131
	<u>422,750</u>	<u>414,015</u>

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 2009 US\$ '000	2008 US\$ '000
Assets				
Investment	6,052	1,981	8,033	10,267
Investment in associates	-	3,987	3,987	5,836
Receivable from investee companies	-	735	735	147
Liabilities				
Other liabilities	2,489	-	2,489	2,577

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:

	Shareholders/ directors US\$ '000	Others US\$ '000	Total 2009 US\$ '000	2008 US\$ '000
Income				
Investment banking fees	-	76	76	1,732
Unrealised gain on items fair valued through statement of income	-	-	-	145
Share of loss from associate	-	(77)	(77)	(4,096)
Provision (note 12)	-	(1,772)	(1,772)	-
Dividend income	-	30	30	48
Expenses				
Directors' remuneration	300	-	300	500
Shari'a Supervisory Board remuneration	-	70	70	119

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17 TRANSACTIONS WITH RELATED PARTIES (continued)

Compensation of key management personnel was as follows:

	2009	2008
	US\$ '000	US\$ '000
Short term employee benefits	3,020	5,896
End of service benefits	204	121
	<u>3,224</u>	<u>6,017</u>

Investments amounting to US\$ 15.13 million (2008: US\$ 35.17 million) are held in the name of related parties on behalf of the Bank.

18 COMMITMENTS

		2009	2008
	<i>Notes</i>	US\$ '000	US\$ '000
Operating lease	18.1	<u>335</u>	<u>968</u>

18.1 At 31 December 2009, the Bank has commitments of non-cancelable operating leases of US\$ 0.33 million (2008: US\$ 0.72 million) relating to leasehold premises. Of the commitments, US\$ 0.23 million (2008: US\$ 0.39 million) expire within one year and the remaining expire within one to two years.

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NOTES TO THE FINANCIAL STATEMENTS

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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.

	<i>Up to 3 months US\$ '000</i>	<i>3 to 12 months US\$ '000</i>	<i>Subtotal less than 12 months US\$ '000</i>	<i>1 to 3 years US\$ '000</i>	<i>Undated US\$ '000</i>	<i>Total US\$ '000</i>
ASSETS						
Cash and balances with banks	1,974	-	1,974	-	-	1,974
Due from financial institutions	55,702	-	55,702	-	-	55,702
Receivables	9,524	12,681	22,205	3,183	-	25,388
Investments	-	589	589	64,560	-	65,149
Investment in associates	-	-	-	3,987	-	3,987
Other assets	338	85	423	-	-	423
Equipment	-	-	-	-	1,973	1,973
Assets classified as held for sale	-	26,880	26,880	-	-	26,880
Total assets	67,538	40,235	107,773	71,730	1,973	181,476
LIABILITIES						
Other liabilities	1,627	1,138	2,765	229	-	2,994
Total liabilities	1,627	1,138	2,765	229	-	2,994
Net gap	65,911	39,097	105,008	71,501	1,973	178,482

The maturity profile of assets and liabilities as at 31 December 2008 based on contractual undiscounted repayment obligations is as follows.

	<i>Up to 3 months US\$ '000</i>	<i>3 to 12 months US\$ '000</i>	<i>Subtotal less than 12 months US\$ '000</i>	<i>1 to 3 years US\$ '000</i>	<i>Undated US\$ '000</i>	<i>Total US\$ '000</i>
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
Other assets	405	190	595	-	-	595
Equipment	-	-	-	-	953	953
Total assets	120,878	8,324	129,202	88,563	953	218,718
LIABILITIES						
Other liabilities	1,399	1,178	2,577	5,489	-	8,066
Total liabilities	1,399	1,178	2,577	5,489	-	8,066
Net gap	119,479	7,146	126,625	83,074	953	210,652

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.

At 31 December 2009

20 RISK MANAGEMENT (continued)**20.1 Introduction (continued)****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 2009 was US\$ 49.1 million (2008: US\$ 55.8 million).

l) 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.

	<i>Notes</i>	Gross maximum exposure 2009 US\$ '000	Gross maximum exposure 2008 US\$ '000
Credit risk items:			
Balances with banks	7	1,972	2,203
Due from financial institutions	8	55,702	118,268
Receivables	9	51,124	33,813
Other assets		423	595
Total Credit Risk Exposure		109,221	154,879

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NOTES TO THE FINANCIAL STATEMENTS

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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 2009 is as follows:

	<i>Banking activities US\$ '000</i>	<i>Others US\$ '000</i>	<i>Total US\$ '000</i>
Geographical region:			
Bahrain	8,609	44,327	52,936
Europe	-	8,349	8,349
Other Gulf Cooperation Council (GCC) countries	49,066	728	49,794
Africa	-	50	50
Asia	-	92	92
	57,675	53,546	111,221

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

	<i>Banking activities US\$ '000</i>	<i>Others US\$ '000</i>	<i>Total US\$ '000</i>
Geographical region:			
Bahrain	120,471	24,287	144,758
Europe	-	8,792	8,792
Other Gulf Cooperation Council (GCC) countries	-	1,187	1,187
Africa	-	100	100
Asia	-	42	42
	120,471	34,408	154,879

III) The industry sector analysis of the Bank's financial assets having credit risk exposure as at 31 December 2009 is as follows:

	<i>Banking activities US\$ '000</i>	<i>Others US\$ '000</i>	<i>Total US\$ '000</i>
Industry sector:			
Real estate	-	38,224	38,224
Banking and financial institutions	57,675	92	57,767
Manufacturing	-	2,847	2,847
Automotive	-	50	50
Others	-	12,333	12,333
	57,675	53,546	111,221

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At 31 December 2009

20 RISK MANAGEMENT (continued)

20.2 Credit risk (continued)

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 2008 is as follows:

	<i>Banking activities</i> US\$ '000	<i>Others</i> US\$ '000	<i>Total</i> 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
	<u>120,471</u>	<u>34,408</u>	<u>154,879</u>

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 2009 is as follows:

	<i>Banking activities</i> US\$ '000	<i>Others</i> US\$ '000	<i>Total</i> US\$ '000
Credit rating:			
A+ (by Fitch)	7,903	-	7,903
A- (by Fitch)	49,066	-	49,066
Unrated	706	53,546	54,252
	<u>57,675</u>	<u>53,546</u>	<u>111,221</u>

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

	<i>Banking activities</i> US\$ '000	<i>Others</i> US\$ '000	<i>Total</i> 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
	<u>120,471</u>	<u>34,408</u>	<u>154,879</u>

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 2009

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 2009 based on contractual undiscounted repayment obligations. Note 19 (Maturity analysis of assets and liabilities) shows the expected maturities of these liabilities.

	<i>On demand</i> US\$ '000	<i>Less than 3 months</i> US\$ '000	<i>3 months to 1 year</i> US\$ '000	<i>1 to 5 years</i> US\$ '000	<i>Total</i> US\$ '000
Other liabilities	-	1,627	1,138	229	2,994
Total undiscounted financial liabilities	-	1,627	1,138	229	2,994

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2008 based on contractual undiscounted repayment obligations.

	<i>On demand</i> US\$ '000	<i>Less than 3 months</i> US\$ '000	<i>3 months to 1 year</i> US\$ '000	<i>1 to 5 years</i> US\$ '000	<i>Total</i> US\$ '000
Other liabilities	-	1,399	1,178	5,489	8,066
Total undiscounted financial liabilities	-	1,399	1,178	5,489	8,066

20.4 Market risk

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

a) Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. As at 31 December 2009, the Bank had available for sale investments listed on overseas stock exchanges. Based on the values at 31 December 2009, a change in the quoted price of plus or minus 10% would change the value of these investments by plus or minus US\$ 1.58 million (2008: US\$ 3.56 million) with a corresponding increase or decrease in equity, except in case where impairment loss accrued which will result in decrease being taken to statement of income.

The Bank also has unquoted investments carried at fair value using either net asset value or valuation from independent valuer. Based on the values at 31 December 2009, a change in the valuation of 10% would change the value of these investments by plus or minus US\$ 2.56 million (2008: US\$ 2.14 million) with a corresponding increase or decrease in equity.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

20 RISK MANAGEMENT (continued)

20.4 Market risk (continued)

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 resultant positions in these currencies are not considered to represent currency risk. The Bank had the following foreign currency exposures at 31 December 2009:

	<i>Assets</i> US\$ '000	<i>Liabilities</i> US\$ '000	<i>Net</i> US\$ '000
Euro	38,919	-	38,919
Pound Sterling	1,499	-	1,499
Kuwaiti Dinar	701	-	701
Others	2,523	-	2,523
	<u>43,642</u>	<u>-</u>	<u>43,642</u>

The Bank had the following foreign currency exposures at 31 December 2008:

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

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.

	<i>Change in</i> <i>exchange</i> <i>rate (+/-)</i> %	<i>2009</i> <i>Effect on</i> <i>net income</i> <i>(+/-)</i> US\$ '000	<i>2008</i> <i>Effect on</i> <i>net income</i> <i>(+/-)</i> US\$ '000
Euro	10%	2,997	44
Kuwaiti Dinars	10%	32	34

At 31 December 2009

20 RISK MANAGEMENT (continued)**20.4 Market risk (continued)****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 2009, a +/- 0.25% change in the profit rate, with all other variables constant, would have resulted in a +/- US\$ 0.23 million (2008: +/- 0.25% resulted in US\$ 0.29 million) impact on the statement of income.

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 2009. For the purposes of comparison, the proforma capital position as at 31 December 2009, regulatory capital and risk weighted assets have been recalculated in accordance with the Basel II.

		Basel II 2009	Basel II 2008
	<i>Notes</i>	US\$ '000	US\$ '000
Regulatory capital base:			
Tier 1 capital	21.1	173,896	200,348
Total regulatory capital		173,896	200,348
Risk weighted assets	21.2	292,982	229,318
Total capital adequacy ratio		59%	87%
Minimum regulatory ratio		12%	12%

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

21 CAPITAL MANAGEMENT (continued)

	<i>Basel II</i> 2009 US\$ '000	<i>Basel II</i> 2008 US\$ '000
21.1 Tier 1 Capital		
Share capital	109,996	109,996
Treasury shares	(6,798)	(6,798)
Share premium	72,050	72,050
Statutory reserve	5,588	5,588
Cumulative changes in fair value reserve	(2,373)	(2,736)
Retained earnings	(3,257)	24,436
Core Tier 1 Capital	<u>175,206</u>	<u>202,536</u>
Deductions	(942)	(1,161)
Tier 1 Capital before adjustments for negative balance of Tier 2	<u>174,264</u>	<u>201,375</u>
Negative balance of Tier 2	(368)	(1,027)
Tier 1 Capital net of negative Tier 2 Capital	<u><u>173,896</u></u>	<u><u>200,348</u></u>

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

	<i>Basel II</i> 2009 US\$ '000	<i>Basel II</i> 2008 US\$ '000
21.2 Risk weighted assets		
Credit risk weight assets	193,748	159,206
Market risk weight assets	43,638	14,516
Operational risk weight assets	55,596	55,596
	<u><u>292,982</u></u>	<u><u>229,318</u></u>

Credit risk-weighted assets

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

At 31 December 2009

22 FAIR VALUE OF FINANCIAL INSTRUMENTS**Determination of fair value and fair value hierarchy**

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

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

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

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

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

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

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

Financial instruments recorded at fair value

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

Financial Investments - available for sale

Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities.

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

Movements in level 3 financial instruments measured at fair value

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

	<i>Unquoted 2009 US\$ '000</i>
Balance at 1 January	6,912
Impairment loss recorded in statement of income	(671)
Fair value loss recorded in equity	(18)
Purchases, sales and settlements, net	(613)
Balance at 31 December	5,610

At 31 December 2009

22 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

23 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.

24 SOCIAL RESPONSIBILITY

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

25 COMPARATIVE

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect the previously reported net income for the year or total equity.