

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

**Basel II -Pillar III disclosures**

**30 JUNE 2010 (Unaudited)**

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

## Basel II -Pillar III disclosures

As at 30 June 2011

### 1 CAPITAL MANAGEMENT

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

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

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

		<b>Basel II</b> <b>30 June</b> <b>2011</b> <b>US\$ '000</b>	<b>Basel II</b> <b>31 December</b> <b>2010</b> <b>US\$ '000</b>
Regulatory capital base	1.1	122,925	125,320
Risk weighted assets	1.3	265,145	266,817
<b>Total capital adequacy ratio</b>		<b>46%</b>	<b>47%</b>
<b>Minimum regulatory ratio</b>		<b>12%</b>	<b>12%</b>

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

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As at 30 June 2011

### 1 CAPITAL MANAGEMENT (continued)

#### 1.1 Tier 1 Capital

	<i>Basel II</i> 30 June 2011 US\$ '000	<i>Basel II</i> 31 December 2010 US\$ '000
Share capital	109,996	109,996
Treasury shares	(6,798)	(6,798)
Share premium	72,050	72,050
Statutory reserve	5,588	5,588
Cumulative changes in fair value	(1,019)	(1,655)
Accumulated losses	(25,378)	(24,007)
<b>Core Tier 1 Capital</b>	<b>154,439</b>	<b>155,174</b>
Deductions	(16,326)	(15,623)
<b>Tier 1 Capital</b>	<b>138,113</b>	<b>139,551</b>
Negative balance of Tier 2 Capital	(15,188)	(14,231)
<b>Tier 1 and Tier 2 Capital</b>	<b>122,925</b>	<b>125,320</b>

#### 1.2 Tier 2 Capital

	30 June 2011 US\$ '000	31 December 2010 US\$ '000
Unrealised gains arising from fair valuing equities (45% only)	1,138	1,392
<b>Core Tier 2 Capital</b>	<b>1,138</b>	<b>1,392</b>
Deduction of excess amount over materiality thresholds	(16,326)	(15,623)
<b>Tier 2 Capital</b>	<b>(15,188)</b>	<b>(14,231)</b>

#### 1.3 Risk weighted assets

	<i>Basel II</i> 30 June 2011 US\$ '000	<i>Basel II</i> 31 December 2010 US\$ '000
Credit risk weight assets	170,924	175,421
Market risk weight assets	38,625	35,800
Operational risk weight assets	55,596	55,596
	<b>265,145</b>	<b>266,817</b>

#### *Credit risk-weighted assets*

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

#### *Market risk-weighted assets*

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

#### *Operational risk-weighted assets*

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

#### *Profile of risk-weighted assets and capital charge*

The Bank has adopted the "Standardised" approach for credit risk and market risk and the "Basic Indicator" approach for operational risk for regulatory reporting purposes.

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**As at 30 June 2011**

### **2 RISK MANAGEMENT**

#### **2.1 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.

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## Basel II -Pillar III disclosures

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### 2 RISK MANAGEMENT (continued)

#### 2.1 Introduction (continued)

##### a) Risk management structure (continued)

###### *Internal Audit*

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

##### b) Risk measurement and reporting systems

Currently, the Bank's assets mainly comprise cash and balances with banks, due from financial institutions and investments. Balances with banks and due from financial institutions represent deposits with GCC incorporated banks with investment grade credit ratings. Investments comprise mainly retentions in the Bank's investment offerings, which are unquoted and illiquid.

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

##### c) Excessive risk concentration

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

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

#### 2.2 Credit risk

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

The descriptions of the counterparty classes along with the risk weights to be used to derive the risk weighted assets are:

###### *Cash and balances with banks and Due from financial institutions*

Cash has a nil risk weighting. Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies but short term claims on locally incorporated banks (whether rated or unrated) are assigned a risk weighting of 20% where such claims have an original maturity of three months or less and are denominated and funded in either Bahraini Dinars or US Dollars. Claims on banks outside Bahrain with a credit rating of A+ to A- are assigned a 50% risk weighting.

###### *Receivables*

Receivables have a risk weighting of 100%. These include funding provided to an unrated entity on a corporate murabaha basis that is repayable within 12 months.

###### *Investments*

Investments listed on a recognised stock exchange attract a risk weighting of 100%. Unlisted investments have a 150% risk weighting and holdings of real estate are assigned a risk weighting of 200%.

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## Basel II -Pillar III disclosures

As at 30 June 2011

### 2 RISK MANAGEMENT (continued)

#### 2.2 Credit risk (continued)

Credit exposure and risk weighted assets considered for Capital Adequacy Ratio calculations comprising of banking book exposures as at 30 June 2011 are as follows:

	30 June 2011		
	<i>Gross credit exposure</i>	<i>Credit risk weighted assets</i>	<i>Capital requirement</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Claims on banks - murabaha placements	33,819	16,304	2,038
Due from investee companies - murabaha	8,157	8,157	1,020
Equity investments - publicly held	9,248	9,248	1,156
Equity investments - privately held	1,433	2,148	269
Holding of real estate	64,036	128,072	16,009
Other assets	6,995	6,995	874
	<b>123,688</b>	<b>170,924</b>	<b>21,366</b>

Credit exposures and risk weighted assets of the Bank as at 31 December 2010 is as follows:

	31 December 2010		
	<i>Gross credit exposure</i>	<i>Credit risk weighted assets</i>	<i>Capital requirement</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Claims on banks - murabaha placements	33,404	15,943	1,993
Due from investee companies - murabaha	8,379	8,379	1,047
Equity investments - publicly held	10,243	10,243	1,280
Equity investments - privately held	1,316	1,974	247
Holding of real estate	64,999	129,998	16,250
Other assets	8,884	8,884	1,111
	<b>127,225</b>	<b>175,421</b>	<b>21,928</b>

The gross credit exposure is all funded exposure and is entirely funded by capital. The Bank holds no cash collateral or eligible guarantees to mitigate credit risk. Since the period end position is representative of the risk positions of the Bank during the period, average gross exposures are not disclosed separately.

The realised gains net of losses arising from investment sales or liquidations during the six month period ended 30 June 2011 were US\$ nil (six month period ended 30 June 2010: US\$ nil). The total net unrealised gains recognised in equity for the six month period ended 30 June 2011 aggregated to US\$ 0.05 million (six month period ended 30 June 2010: net losses US\$ 5.39 million).

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As at 30 June 2011

### 2 RISK MANAGEMENT (continued)

#### 2.2 Credit risk (continued)

*Risk concentrations of the maximum exposure to credit risk*

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

	<b>Gross credit exposure 30 June 2011 US\$ '000</b>	<b>Gross credit exposure 31 December 2010 US\$ '000</b>
Credit risk		
Murabaha with financial institutions	59,114	31,623
Murabaha with corporates	8,156	33,989
Murabaha with individuals	2,534	4,763
Other assets	239	223
<b>Total Credit Risk Exposure</b>	<b>70,043</b>	<b>70,598</b>

The above disclosure is considered to be reasonably representative of the level of credit risk of the Bank, as there has been no significant fluctuation in the credit risk assets during the period ended 30 June 2011.

#### (a) Geographical distribution of the gross funded exposures

The following table summarises the geographical distribution of exposure as of 30 June 2011, broken down into significant areas by major types of credit exposure:

	<i>Murabaha with financial institutions US\$ '000</i>	<i>Murabaha with corporates US\$ '000</i>	<i>Murabaha with individual US\$ '000</i>	<i>Other assets US\$ '000</i>	<i>Total US\$ '000</i>
Geographical region:					
Bahrain	29,590	2,457	2,534	239	34,820
Europe	-	5,699	-	-	5,699
Other GCC countries	29,524	-	-	-	29,524
Africa	-	-	-	-	-
Asia	-	-	-	-	-
	<b>59,114</b>	<b>8,156</b>	<b>2,534</b>	<b>239</b>	<b>70,043</b>

The following table summarises the geographic distribution of exposure as of 31 December 2010, broken down into significant areas by major types of credit exposure:

	<i>Murabaha with financial institutions US\$ '000</i>	<i>Murabaha with corporates US\$ '000</i>	<i>Murabaha with individual US\$ '000</i>	<i>Other assets US\$ '000</i>	<i>Total US\$ '000</i>
Geographical region:					
Bahrain	3,351	27,989	4,763	223	36,326
Europe	-	6,000	-	-	6,000
Other GCC countries	28,272	-	-	-	28,272
Africa	-	-	-	-	-
Asia	-	-	-	-	-
	<b>31,623</b>	<b>33,989</b>	<b>4,763</b>	<b>223</b>	<b>70,598</b>

Murabaha with corporates includes \$5,699 thousands (2009: \$6,000 thousands) representing past due and individually impaired

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As at 30 June 2011

### 2 RISK MANAGEMENT (continued)

#### 2.2 Credit risk (continued)

##### (a) Geographical distribution of the gross funded exposures (continued)

The geographical distribution of exposures, impaired assets and the related impairment provisions as analysed below:

Geographical region:	30 June 2011 (US\$ '000)			31 December 2010 (US\$ '000)		
	Gross funded credit exposure	Gross impaired exposures	Provision against exposures	Gross funded credit exposure	Gross impaired exposures	Provision against exposures
Bahrain	34,820	-	-	36,326	-	-
Europe	5,699	9,190	3,491	6,000	8,853	2,853
Other GCC countries	29,524	-	-	28,272	-	-
Africa	-	-	-	-	-	-
Asia	-	-	-	-	-	-
	<b>70,043</b>	<b>9,190</b>	<b>3,491</b>	<b>70,598</b>	<b>8,853</b>	<b>2,853</b>

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

##### (b) Industrial distribution of the gross funded exposures

The following table summarises the industrial distribution of funded exposure as of 30 June 2011, broken down by major types of credit exposures:

Industry sector:	Murabaha with financial institutions US\$ '000	Murabaha with corporates US\$ '000	Murabaha with individual US\$ '000	Other assets US\$ '000	Total US\$ '000
Real estate-development	-	-	-	-	-
Real estate-income generating	-	5,699	-	-	5,699
Banking and financial institutions	59,114	-	-	-	59,114
Insurance	-	-	-	-	-
Manufacturing	-	2,457	-	-	2,457
Automotive	-	-	-	-	-
Others	-	-	2,534	239	2,773
	<b>59,114</b>	<b>8,156</b>	<b>2,534</b>	<b>239</b>	<b>70,043</b>

The following table summarises the industrial distribution of funded exposure as of 31 December 2010, broken down by major types of credit exposures:

Industry sector:	Murabaha with financial institutions US\$ '000	Murabaha with corporates US\$ '000	Murabaha with individual US\$ '000	Other assets US\$ '000	Total US\$ '000
Real estate-development	-	-	-	-	-
Real estate-income generating	-	6,000	-	-	6,000
Banking and financial institutions	31,623	-	-	-	31,623
Insurance	-	-	-	-	-
Manufacturing	-	2,364	-	-	2,364
Automotive	-	-	-	-	-
Others	-	25,625	4,763	223	30,611
	<b>31,623</b>	<b>33,989</b>	<b>4,763</b>	<b>223</b>	<b>70,598</b>

Murabaha with corporates includes \$5,699 thousands (2009: \$6,000 thousands) representing part of individually impaired

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As at 30 June 2011

### 2 RISK MANAGEMENT (continued)

#### 2.2 Credit risk (continued)

##### (b) Industrial distribution of the gross funded exposures (continued)

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

	30 June 2011 (US\$ '000)			31 December 2010 (US\$ '000)		
	Gross funded credit exposure	Gross Impaired exposures	Provision against exposures	Gross funded credit exposure	Gross Impaired exposures	Provision against exposures
Industry sector:						
Real estate-development	-	-	-	-	-	-
Real estate-income generating	5,699	9,190	3,491	6,000	8,853	2,853
Banking and financial institutions	59,114	-	-	31,623	-	-
Insurance	-	-	-	-	-	-
Manufacturing	2,457	-	-	2,364	-	-
Automotive	-	-	-	-	-	-
Others	2,773	-	-	30,611	-	-
	<b>70,043</b>	<b>9,190</b>	<b>3,491</b>	<b>70,598</b>	<b>8,853</b>	<b>2,853</b>

#### 2.2.2 Single counterparty exposures

Protection against excessive credit risk is through country, industry and counterparty threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty exceeding 15% of the capital base.

The Bank's exposure in excess of 15% of the obligor limit to an individual counterparty at 30 June 2011 is shown below:

	C.A.R Limit (15%) US\$ '000	On balance sheet exposure US\$ '000	Capital deduction US\$ '000
Counterparty A	23,166	53,054	(29,888)
Counterparty B	23,166	25,929	(2,763)
			<b>(32,651)</b>

The Bank's exposure in excess of 15% of the obligor limit to an individual counterparty at 31 December 2010 is shown below:

	C.A.R Limit (15%) US\$ '000	On balance sheet exposure US\$ '000	Capital deduction US\$ '000
Counterparty A	23,485	53,362	(29,877)
Counterparty B	23,485	24,854	(1,369)
			<b>(31,246)</b>

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As at 30 June 2011

### 2 RISK MANAGEMENT (continued)

#### 2.2 Credit risk (continued)

##### 2.2.3 Large exposures

The Bank follows the CBB's guidelines with respect to definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

The following are the large exposures of US\$ 1,000,000 and over as of 30 June 2011:

US\$ '000	Banks			Non-banks		
	Counter party	Large exposure	% of exposure to equity	Counter party	Large exposure	% of exposure to equity
	Bank A	29,241	18.7%	Counterparty A	53,054	33.8%
	Bank B	3,794	2.4%	Counterparty B	25,929	16.5%
				Counterparty C	6,964	4.4%
				Counterparty D	4,826	3.1%
				Counterparty E	4,578	2.9%
				Counterparty F	3,976	2.5%
				Counterparty G	3,681	2.3%
				Counterparty H	3,237	2.1%
				Counterparty I	2,534	1.6%
				Counterparty J	2,533	1.6%
				Counterparty K	2,462	1.6%
				Counterparty L	1,399	0.9%
				Counterparty M	1,310	0.8%
				Counterparty N	1,036	0.7%

##### 2.2.4 Exposure by external credit rating

The Bank uses ratings issued by Standard & Poor's, Moody's, Capital Intelligence and Fitch to derive the risk weightings under the CBB's Basel 2 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes. The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures are as follows:

	30 June 2011 (US\$ '000)			31 December 2010 (US\$ '000)		
	Gross credit exposure US\$ '000	Rated exposure US\$ '000	Unrated exposure US\$ '000	Gross credit exposure US\$ '000	Rated exposure US\$ '000	Unrated exposure US\$ '000
Cash and claims on banks	60,149	59,380	769	33,404	32,696	708
Equity portfolio	83,021	-	83,021	83,880	-	83,880
Other exposures	15,151	-	15,151	42,888	-	42,888
	<u>158,321</u>	<u>59,380</u>	<u>98,941</u>	<u>160,172</u>	<u>32,696</u>	<u>127,476</u>

##### Intra-group transactions including exposures to related parties

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are on an arm's length basis and are identical to those applicable to transactions with all other parties. Exposures as at 30 June 2011 are as follows:

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### 2 RISK MANAGEMENT (continued)

#### 2.2 Credit risk (continued)

##### 2.2.5 Exposures to related parties

	<b>Gross credit exposure 30 June 2011 US\$ '000</b>	<b>Gross credit exposure 31 December 2010 US\$ '000</b>
<b>Assets to related parties</b>		
Claims on associates	58,604	3,956
Claims on investee companies	-	25,625
	<b>58,604</b>	<b>29,581</b>

##### Liabilities to related parties

	<b>Gross liability 30 June 2011 US\$ '000</b>	<b>Gross liability 31 December 2010 US\$ '000</b>
Deposit payable to a shareholder	1,091	1,088

#### 2.2.6 Aging of financial assets

As at 30 June 2011:

	<b>Neither past due nor impaired US\$ '000</b>	<b>Past due and individually impaired US\$ '000</b>	<b>Total US\$ '000</b>
Cash and balances with banks	1,035	-	1,035
Due from financial institutions	59,114	-	59,114
Receivables	7,942	5,699	13,641
Other assets	238	-	238
	<b>68,329</b>	<b>5,699</b>	<b>74,028</b>

As at 31 December 2010:

	<b>Neither past due nor impaired US\$ '000</b>	<b>Past due and individually impaired US\$ '000</b>	<b>Total US\$ '000</b>
Cash and balances with banks	1,781	-	1,781
Due from financial institutions	31,623	-	31,623
Receivables	35,059	6,000	41,059
Other assets	223	-	223
	<b>68,686</b>	<b>6,000</b>	<b>74,686</b>

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

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### 2 RISK MANAGEMENT (continued)

#### 2.3 Market risk

Market risk is the risk to earnings resulting from adverse movements in foreign currency rates, profit rate yield curves and equity prices. The Bank has no significant concentration of market risk and does not trade in investments or foreign currencies. To enable effective monitoring and managing of exposures, all market risks associated with the Bank's investments are managed and monitored using basic sensitivity analyses.

##### 2.3.1 Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. As at 30 June 2011, the Bank had Available for sale investments listed on overseas stock exchanges. Based on the values at 30 June 2011, a change in the quoted price of plus or minus 10% would change the value of these investments by plus or minus US\$ 0.975 million (31 December 2010: US\$ 1.194 million) with a corresponding increase or decrease in equity, except in case where impairment loss accrued which will result in decrease being taken to statement of income.

The Bank also has unquoted investments carried at fair value using either net asset value or valuation from independent valuer. Based on the values at 30 June 2011, a change in the valuation of 10% would change the value of these investments by plus or minus US\$ 1.264 million (31 December 2010: US\$ 1.286 million) with a corresponding increase or decrease in equity.

##### 2.3.2 Foreign currency risk

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

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

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

	30 June 2011	31 December 2010
Assets/ liabilities net US\$ '000	Assets/ liabilities net US\$ '000	Assets/ liabilities net US\$ '000
Euro	35,267	32,784
Pound Sterling	931	731
Others	2,427	2,285
	<b>38,625</b>	<b>35,800</b>

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

	30 June 2011		31 December 2010	
	Risk weighted assets US\$ '000	Period end capital requirement US\$ '000	Risk weighted assets US\$ '000	Period end capital requirement US\$ '000
Foreign exchange risk	38,625	4,828	35,800	4,475

The Bank has no exposure to profit rate risk, equity position risk or options risk, as the Bank does not maintain any trading book. However, equity price and profit rate risk has been disclosed in notes 2.3.1 and 2.3.4 respectively.

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As at 30 June 2011

### 2 RISK MANAGEMENT (continued)

#### 2.3 Market risk (continued)

##### 2.3.3 Sensitivity analysis

The following table demonstrates the sensitivity of the statement of income to a reasonable possible movement of the currency rates against the US Dollar (functional and reporting currency) based on the above positions as on 30 June 2011 and 31 December 2010 with all other variables held constant.

	<i>Change in exchange rate (+/-) %</i>	<i>Effect on net income 30 June 2011 US\$ '000</i>	<i>Effect on net income 31 December 2010 US\$ '000</i>
Euro	10%	332	306
Pound Sterling	10%	1	1
Others	10%	9	4

##### 2.3.4 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Bank currently has limited exposure to profit rate risk. The Bank's assets that are exposed to profit rate risk comprise of due from financial institutions and have repricing dates no longer than three months. During the six months ended 30 June 2011, a +/- 0.25% change in the profit rate, with all other variables constant, would have resulted in a +/- US\$ 74 thousand (30 June 2010: US\$ 79 thousand) impact on the statement of income.

##### 2.3.5 Legal risk

Legal Risk is the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise adversely affect the operations of the Bank. The Bank has mitigated its exposure to Legal Risk by establishing a Legal and Compliance Department headed by a qualified and experienced lawyer. In addition, it has professional service arrangements with well-established local and international law firms. The policies and procedures of the Bank ensure that investments are made, funds are transferred, contracts are entered into, legal agreements are signed and any other binding arrangement is executed only after a rigorous legal due diligence has been performed either by the Legal & Compliance Department or external legal counsel. The Bank fully complied with all applicable laws and regulations during the six month period ended 30 June 2011 and accordingly were not subject to any penalties for non-compliance.

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## Basel II -Pillar III disclosures

As at 30 June 2011

### 2 RISK MANAGEMENT (continued)

#### 2.4 Operational risk

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

	<i>Gross income</i>		
	<i>2008</i>	<i>2007</i>	<i>2006</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Total gross income	<b>30,122</b>	<b>34,275</b>	<b>24,557</b>
		<i>30 June</i>	<i>31 December</i>
		<i>2011</i>	<i>2010</i>
		<i>US\$ '000</i>	<i>US\$ '000</i>
Indicator of operational risk			
Average gross income multiply by number of years		<b>29,651</b>	<b>29,651</b>
Eligible portion for the purpose of calculation		<b>15%</b>	<b>15%</b>
Multiplier		<b>12.5</b>	<b>12.5</b>
Operational risk weighted exposure		<b>55,596</b>	<b>55,596</b>
Period / year end capital requirement		<b>6,950</b>	<b>6,950</b>

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As at 30 June 2011

## 2 RISK MANAGEMENT (continued)

### 2.5 Liquidity risk and funding management

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

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

	Within 1 month US\$ '000	1-3 months US\$ '000	3-6 months US\$ '000	6-12 months US\$ '000	Total within 12 months US\$ '000	1-5 years US\$ '000	Total US\$ '000
<b>ASSETS</b>							
Claims on banks	4,578	48,705	6,866	-	60,149	-	60,149
Receivables	735	4,301	-	5,699	10,735	2,907	13,642
Investment in quoted equities	-	-	-	-	-	9,746	9,746
Investment in unquoted equities	-	-	-	-	-	10,639	10,639
Investment property	-	-	-	-	-	4,533	4,533
Investment in associates	-	-	-	58,103	58,103	-	58,103
Other assets	55	82	72	28	237	1,272	1,509
<b>Total assets</b>	<b>5,368</b>	<b>53,088</b>	<b>6,938</b>	<b>63,830</b>	<b>129,224</b>	<b>29,097</b>	<b>158,321</b>
<b>LIABILITIES</b>							
Other liabilities	106	1,123	-	74	1,303	270	1,573
<b>Total liabilities</b>	<b>106</b>	<b>1,123</b>	<b>-</b>	<b>74</b>	<b>1,303</b>	<b>270</b>	<b>1,573</b>
<b>Net gap</b>	<b>5,262</b>	<b>51,965</b>	<b>6,938</b>	<b>63,756</b>	<b>127,921</b>	<b>28,827</b>	<b>156,748</b>

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### Basel II - Pillar III disclosures

As at 30 June 2011

#### 2 RISK MANAGEMENT (continued)

##### 2.5 Liquidity risk and funding management (continued)

The maturity profile of assets and liabilities as at 31 December 2010 based on contractual maturity is as follows:

	Within 1 month US\$ '000	1-3 months US\$ '000	3-6 months US\$ '000	6-12 months US\$ '000	Total within 12 months US\$ '000	1-5 years US\$ '000	Total US\$ '000
<b>ASSETS</b>							
Claims on banks	4,979	28,425	-	-	33,404	-	33,404
Receivables	8,394	19,031	5,192	3,563	36,180	5,028	41,208
Investment in quoted equities	-	-	-	-	-	11,944	11,944
Investment in unquoted equities	-	-	-	-	-	10,856	10,856
Investment property	-	-	-	-	-	4,533	4,533
Investment in associates	-	-	-	3,956	3,956	-	3,956
Assets classified as held for sale	-	-	-	52,591	52,591	-	52,591
Other assets	55	102	50	10	217	1,463	1,680
<b>Total assets</b>	<b>13,373</b>	<b>47,558</b>	<b>5,242</b>	<b>60,120</b>	<b>126,348</b>	<b>33,824</b>	<b>160,172</b>
<b>LIABILITIES</b>							
Other liabilities	392	125	-	1,123	1,640	264	1,904
<b>Total liabilities</b>	<b>392</b>	<b>125</b>	<b>-</b>	<b>1,123</b>	<b>1,640</b>	<b>264</b>	<b>1,904</b>
<b>Net gap</b>	<b>12,981</b>	<b>47,433</b>	<b>5,242</b>	<b>58,997</b>	<b>124,708</b>	<b>33,560</b>	<b>158,268</b>

#### 3 SOCIAL RESPONSIBILITY

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

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