success
through
partnership

annual
report
2011

بنك الاستثمار الدولي
INTERNATIONAL INVESTMENT BANK

Contents

بسم الله الرحمن الرحيم

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

صدق الله العظيم

Profile

International Investment Bank B.S.C. (c) (IIB) was incorporated as an Islamic investment bank on 6 October 2003, under commercial registration number 51867 as a Bahrain Joint Stock Company (closed). Operating under an Islamic wholesale banking licence issued by the Central Bank of Bahrain, IIB commenced investment activities on 13 October 2003.

IIB has an authorized capital of US$ 200 million and its paid-up capital was increased during 2007 from US$ 43 million to US$ 110 million, through a combined rights issue and private placement issue. The Bank's shareholders are high net worth individuals, business houses and institutions from the GCC states.

The core business activities of the Bank include investing on its own account and investment, underwriting and placement in real estate and private equity in conformity with Islamic Shari'ah. It aims to offer its clients an internationally diversified range of investments generated through its network of strategic partnerships.

Vision and Mission

Vision

To be a regional leader in private equity investments and real estate investments mainly through the provision and management of high-quality, globally-diversified investment offerings in accordance with the principles of Islamic Shari'ah; to maximize shareholder value; to generate superior risk-adjusted returns for clients; to provide excellent career opportunities to all employees and to deal fairly with all stakeholders.

Mission

To originate, manage and ultimately exit from a well-diversified range of innovative investment products in association with leading international strategic partners; to provide high-quality advisory services to clients; to operate in accordance with the highest standards of corporate governance, risk management, due diligence and ethical standards; and to attract and retain the best-qualified employees available.

Five Year Financial Summary

	2011	2010	2009	2008	2007
EARNINGS (US$ MILLIONS)					
Total income	3.1	3.5	6.3	34.9	31.1
Total expenses	5.6	6.7	8.9	16.6	13.2
Operating profit (loss)	(2.6)	(3.2)	(2.6)	18.3	17.9
Share of profit (loss) of associate	(3.4)	-	(0.1)	(4.1)	3.2
Impairment losses, provisions and FX losses	(3.4)	(17.5)	(25.2)	(0.7)	-
Net income (loss)	(9.4)	(20.7)	(27.9)	13.5	21.1
Dividend (%) – cumulative 40%	-	-	-	7.0	15.0
FINANCIAL POSITION (US$ MILLIONS)					
Total assets	148.5	160.2	179.5	218.7	257.3
Cash and due from Financial Institutions	61.5	33.4	57.7	120.5	215.1
Investments	75.9	83.9	68.3	62.9	36.4
Due to Financial Institutions	-	-	-	-	-
Equity	145.3	158.3	176.5	210.7	216.4
RATIOS					
Profitability					
Return on average equity (%)	(6.2)	(12.4)	(14.4)	6.3	15.2
Return on average assets (%)	(6.1)	(12.2)	(14.0)	5.7	12.0
Earnings per share (cents)	(9)	(19)	(25)	12	19
Cost-to-income ratio (%)	183.6	190.3	141.3	47.6	42.4
Capital					
Capital adequacy ratio (regulatory minimum 12%)	54	47	59	87	126
Equity/total assets (%)	97.8	98.8	98.3	96.3	84.1
Liquidity and Other					
Investments/total assets (%)	51.1	52.4	38.1	28.8	14.1
Liquid assets/total assets (%)	41.4	36.9	32.1	55.1	83.6
Assets under management (US$ millions)	294.8	323.5	422.8	414.0	348.0
Number of employees (at year end)	33	40	47	50	55

Summary of Principal Investment Structurings 2004-2011

	Year	Investment Description	Location	Private Equity (US$ millions)	Other Funds # (US$ millions)	Total Transaction Size (US$ millions)
1	2004	Property fund **	Bahrain	18.6	18.5	**37.1**
2	2004	Independent power producer ***	China	23.0	267.0	**290.0**
3	2005	Housing development company @	Bahrain	22.6	0.6	**23.2**
4	2005	Income generating property *	UK	14.8	290.6	**305.4**
5	2005	Tower development *	Dubai	20.5	73.6	**94.1**
6	2005	Islamic investment bank	UK	19.8	448.0	**467.8**
7	2005	Paper manufacturing company	Abu Dhabi	12.0	35.1	**47.1**
8	2006	Income generating properties	France	50.8	68.7	**119.5**
9	2006	Real estate development company	Saudi Arabia	21.0	85.8	**106.8**
10	2006	Office tower development	Dubai	25.0	75.2	**100.2**
11	2007	Steel reinforcement bar manufacturing plant	Bahrain	13.0	28.4	**41.4**
12	2007	Income generating properties	Germany	99.3	133.7	**233.0**
13	2007	Real estate investment company	Saudi Arabia	2.7	10.7	**13.4**
14	2007/8	Mixed use tower development @	Abu Dhabi	65.0	132.4	**197.4**
15	2007/8	Commercial bank	Azerbaijan	26.0	20.8	**46.8**
16	2008	Automobile dealership company	Tunisia	36.0	30.0	**66.0**
17	2008	Sugar manufacturing company	Bahrain	20.5	136.1	**156.6**
18	2009/11	Shopping centre / mixed use development	Bosnia	30.5	114.3	**144.8**
19	2009/11	Affordable housing development	Saudi Arabia	32.7	447.9	**480.6**
	Totals			**553.8**	**2,417.4**	**2,971.2**

* Realized in 2006
** Partial exits in 2006, 2007, 2009 with final exit in 2010
*** Realized in 2007
@ Partial exit in 2011
\# Comprises partners' contributions, borrowings and equity from IPO.

Sector Summary

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

Principal Bankers and Professional Advisors

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

Board of Directors' Report

Dear Shareholders,

The Board of Directors of International Investment Bank takes pleasure in presenting the Annual Report of the Bank together with the Financial Statements for the year ended 31 December 2011.

General Operating Environment

World Economy in 2011

The early days of 2011 looked positive, with analysts looking at slow but steady recovery across the board, and a further mellowing of the global economic crisis. This however, proved to be the calm before the storm, with the effects of the global economic crisis, which began to unfold in the second half of 2008, really taking hold in 2011. Specifically, the European Union (EU) began to realise the extent of its sovereign debt crisis and the likelihood of it spiralling out of control and spreading to the banking sector, which led to an especially challenging year for the entire EU. The United States (US) continued to see its economy deteriorate, with Wall Street taking the majority of the blame, while Japan's market was devastated by the tragic 2011 East Japan earthquake and tsunami, leading to a difficult year as the Japanese economy struggled to correct itself. Additionally, the Middle East and North Africa saw civil and social unrest spread throughout the region, causing volatile fluctuations in the region's markets. These successive concussions to the global markets were met with determination by governments around the world, who continued to design and implement policy measures - a more complex task than they originally expected - to try to stabilize the financial markets and encourage the steady but slow recovery of global economies. The year ended with further threats looming, the two most significant being the continuing crisis in the EU, and the possibility of it running beyond the control of policymakers to correct, and the possibility of the US economy suffering further blows exacerbated by deep political tensions during an election year, and the potential for a political impasse over planned fiscal consolidation.

(Sources: International Monetary Fund and Goldman Sachs)

Middle East Economy in 2011

The Middle East and North Africa (MENA) region experienced a nearly paralyzing wave of social and political unrest, dubbed the "Arab Spring", which caused massive shockwaves to roll through the regional economies, in some cases completely stalling them for months and restraining their expected growth rates for the year. Some of the countries thus afflicted were Egypt and Libya, where these effects are still fluctuating sharply, causing continuing uncertainty to permeate the markets, with roll-on effects felt in other regional economies. Economic and social impacts were substantial in their short term effects as production, trade, services and other elements of economic activity slipped; and fiscal revenues, tourism and FDI receipts came under increasing pressure. Consumers were further adversely affected as inflation heated up, tied among other factors to developments in oil and food prices.

(Source: World Bank)

"The turbulent and volatile market environment in 2011, exacerbated by the ongoing political upheavals in the MENA region are not supportive to making exits. Accordingly, no exits were made during the year 2011. However, the Bank continues to actively engage with potential counterparties to achieve exits from some of the mature investments to further enhance liquidity of its investors."

Bahrain Investment Banking in 2011

Bahrain was not immune to the Arab Spring, and in fact experienced a significant amount of social and political unrest at the beginning of 2011, which severely disrupted the local economy for the rest of the year as all sectors, including the financial sector, tried to catch up to previously predicted, though modest, growth trends. As expected, investors' confidence, which had already depleted to low levels, took a further serious hit due to the unrest, as did bank financing, which remained highly cautious in light of the continued lack of liquidity and higher provisions on loans and investments.

Investment Strategy And Portfolio Exits

In line with the Board's cautious investment philosophy of making very selective investments, stringent criteria were applied to evaluating new investment opportunities. None of the new investment offerings reviewed by the Bank during 2011 met our investment objectives and consequently, no significant investments were made during the year.

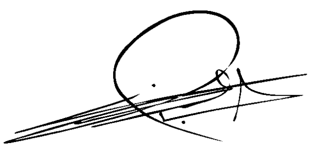
The turbulent and volatile market environment in 2011, exacerbated by the ongoing political upheavals in the MENA region are not supportive to making exits. Accordingly, no exits were made during the year 2011. However, the Bank continues to actively engage with potential counterparties to achieve exits from some of the mature investments to further enhance liquidity of its investors. Nonetheless, the slowdown in the global economy and the adverse political developments, present significant challenges to achieving exits. While engaging with potential counterparties, the Bank ensures that the balance between completing the exits and achieving right asset prices is maintained.

Current Portfolio

The Bank has performed a comprehensive valuation as at 31 December 2011 of all investments made in previous years with the assistance of highly reputable expert independent international valuers and consultants. In line with the IFRS, unrealized gains and losses are reflected in "Equity" except when the investment is determined to be impaired, at which time the cumulative change is included in the "Statement of Income" for the period. Impairment is defined as an unrealized significant or prolonged decline in the fair value below its cost that is unlikely to reverse in the near future. The aggregate net unrealized losses recognized directly in Equity and the Statement of Income in 2011 were US$ 7.0 million (2010: US$ 14.8 million), computed and booked in compliance with the relevant valuation rules and accounting standards.

Liquidity Management Strategy

As you are fully aware, liquidity enables the Bank to meet its payment obligations when they fall due under normal and stress circumstances. IIB monitors future cash flows and the liquidity required for working capital and investment acquisitions on an ongoing basis and maintains significant cash and cash equivalent balances. At year end 2011, the Bank had ample liquid funds as evidenced by 41.4% of Total Assets represented by cash, bank balances and short-dated



Saeed Abdul Jalil Al Fahim

Chairman

Board of Directors' Report (continued)

murabaha placements plus a further 5.8% invested in regional listed equities, thereby maintaining 47.2% of the Total Assets in liquid and semi-liquid form. Most of its liquidity is held in low-risk murabaha placements with financially sound regional banks with an average tenor in 2011 of 56 days.

Since 2007, IIB has relied solely on internal funding through its Shareholders' Equity and consequently has not resorted to any bank borrowings. This conservative policy of funding all assets only from Equity has shielded the Bank from liquidity pressures from lending banks, which is currently experienced by some of the leveraged counterparts of IIB in the region.

Total operating expenses reduced in 2011

16.3%

2011 Financial Performance

Whilst IIB has incurred a total loss of US$ 9.4 million for the year 2011, the Board would like to highlight that only US$ 2.6 million, constituting 27.7% of the total reported loss, is the actual realized "Operating Loss". A major part of the loss, i.e. US$ 6.7 million (71.3% of total reported loss), arises largely from impairment provisions on investments available for sale and unrealised share of losses from associates. These losses are of an unrealized nature and may reverse in the future should financial markets recover. Despite a reduction in 2011 of total income, lower total expenses has contributed to an operating loss of US$ 2.6 million that is US$ 0.6 million lower than the previous year.

Total expenses at US$ 5.6 million in 2011 are lower (i.e. better) by US$ 1.1 million (16.3%) than in 2010, resulting from the Bank's ongoing strict cost controls. Impairment losses and provisions reduced (i.e. improved) from US$ 17.3 million last year to US$ 3.3 million in 2011. The Capital Adequacy Ratio of 54% at 31 December 2011 continues to be very strong and is more than four times the minimum 12% required by the Central Bank of Bahrain. This demonstrates a strong and prudent approach by the Bank in managing its capital and allows for ample headroom to acquire future risk assets from a regulatory capital standpoint. Details of the Bank's financial position and performance are elaborated in the Financial Review section and the Financial Statements.

2011 Investment Offerings

From a review of numerous proposals received during the year that constitute the deal "pipeline", the Bank has decided not to acquire any assets for structuring and sale to investors during 2011, in accordance with its strategy of only investing in very carefully selected transactions that meet the Bank's strict criteria on risk and reward. This approach by IIB was carefully adopted given the political and economical uncertainties prevailing during 2011.

Outlook For 2012

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

The unprecedented events in the MENA region over the last year have caused political tension and uncertainty, the effects of which continue to be felt across the entire region. This uncertainty, in turn, has not only impacted economic activity across all sectors of the regional economies but also resulted in diminished consumer confidence and lower consumer spending. These events have further caused investors to remain highly invested in cash and liquid assets and to avoid investments in real estate and private equity, the main asset classes offered by your Bank. Accordingly, the Board of Directors of IIB has strategized to continue to pursue only very selective and compelling new transactions and investment offerings in 2012. The Board also anticipates that in view of heightened risk aversion to international markets, higher investment allocations would be made to select countries in the MENA region and, to a lower extent, in the more stable developed markets of the West and Asia.

IIB will continue to adopt a policy of maintaining high levels of liquidity and will seek to exit as many of its investments made in previous years as possible at attractive valuations. Taking into consideration the current economy and the rapidly changing political situation, we expect 2012 to be another challenging year for the investment banking sector.

Recommended Appropriations and Zakah

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

Board Membership

In March 2011, Mr. Aamer Abdul Jalil Al Fahim, Mr. Ebrahim Eshaq Abdulrahman and Mr. Fahad Fouad Bubshait retired by rotation and did not seek re-election. I would like to warmly thank them for helping to guide the Bank in its initial years of operations.

I have pleasure in welcoming Mr. Rashid Abdul Jalil Al Fahim and Mr. Fareed Bader to the Board and look forward to working with them as IIB continues to develop.

Acknowledgements

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

Saeed Abdul Jalil Al Fahim
Chairman

Corporate Governance

The Board of Directors is responsible for the overall governance of the Bank through continuous review and adherence to international best practice and standards. The Board determines the Bank's strategy, provides direction to the Executive Management, ensures that the control framework is functioning in accordance with best practice and monitors Executive Management's performance.

Board of Directors

The Board meets regularly throughout the year in order to control strategic, financial, operational, internal control and compliance issues. It currently comprises one executive director, three non-executive directors and five Independent non-executive directors. Independent non-executive directors are: Mr. Ahmed Salem Al Bugshan, Mr. Abdul Wahab Mohammed Al Wazzan, Mr. Ali Hashim Sadiq Hashim, Dr. Bader Ibrahim Mohammad Bin Saedan and Mr. Fareed Bader

Corporate Governance (continued)

Board Members

Board Members

The Board of Directors comprised the following members as at 31 December 2011:

1. HE. Saeed Abdul Jalil Al Fahim

Chairman

Non Executive Director
Businessman with over 30 years' experience

Chairman - Al Fahim Group, UAE; Chairman - Mubarak & Brothers Property & Financial Investment, Abu Dhabi, UAE; Former Board Member - National Bank of Abu Dhabi, Abu Dhabi, UAE; Former Board Member - United Arab Bank, Sharjah, UAE.

2. Mr. Ahmed Salem Bugshan

Vice Chairman and Chairman Nomination & Remuneration Committee

Independent Non Executive Director
Businessman with over 25 years' experience

Chairman, President and Chief Executive Officer - Saudi Industrial Projects Co. (Sipco), Saudi Arabia; Chairman - Saudi Steel Profile Mfg. Co. Ltd., Saudi Arabia; Director - Savoy Hotel, Sharm El Sheikh, Egypt; Board Member - Tirana Tourism Investment Co., Cairo, Egypt; Chairman - Westville Group, UK; Chairman - BMC Al-Mahdar Co, Yemen.

3. Mr. Abdul Wahab Mohammed Al Wazzan

Chairman – Audit & Corporate Governance Committee

Independent Non Executive Director
Businessman with over 30 years' experience

Vice Chairman and Board Member - National International Holding Company; Second Vice Chairman – Kuwait Chamber of Commerce & Industry, Kuwait; Board Member - Kuwait Petroleum Corporation; Former Chairman - Kuwait Real Estate Bank (Kuwait International Bank), Kuwait.

4. Mr. Rashed Abdul Jalil Al Fahim

Chairman Executive Committee and Member Nomination & Remuneration Committee

Non executive Director
Businessman with over 10 years' experience

Managing Director - Al Fahim Group, UAE; Director and Audit Committee Member - Arkan Building Materials, UAE; Director - Big Bus Company, London, UK; Director - Emirates Float Glass, UAW; Director - Ras Al Khaima Cement Company, UAE; Director - Marjan Lighting Systems, UAE; Director - Dubai Pearl, UAE; and Director - Mada›in Properties, UAE.

5. Mr. Ali Hashim Sadiq Hashim

Member Nomination & Remuneration Committee and Member Executive Committee

Independent Non Executive Director
Businessman with over 20 years' experience

Chairman - Gulf Manufacturers, Egypt; Chairman - Rawasi Al Khaleej, Sharjah, UAE; Chairman – Tahweel Industries Co., UAE; Vice Chairman & CEO - Gulf Packaging Systems Co. Ltd., KSA; Vice Chairman & CEO – Prime Plastic Products, KSA; Vice Chairman & CEO – 3P Stretch Co., KSA; Vice Chairman & CEO – 3P Pipe Co., KSA; Director – Arabian Gulf Manufacturers, KSA; Director – Safra Co. Ltd., KSA; Jeddah Graphic, KSA; Director - Middle East Tele Communications, KSA.

6. Dr. Bader Ibrahim Mohammad Bin Saedan

Member Executive Committee

Independent Non executive Director
Businessman with over 20 years' experience

CEO & Board Member - Al Saedan Real Estate Company, KSA; Chairman - Saudi Maintenance Made Simple, KSA; Director - Tunisian Saudi Real Estate Co., Tunisia; Director – Mawten R.E., KSA; Director – Real Estate Committee in the Chamber of Commerce and Industry, Riyadh, KSA; Member - Young Arab leaders, KSA; Member - Saudi Council of Engineers, KSA; Member - Prince Salman Center for Social Affairs, KSA; Member - General Assembly of the Charitable Society for Orphans, KSA.

7. Mr. Ali Haider Suliman Al Haider

Member Audit & Corporate Governance Committee

Non Executive Director
Businessman with over 15 years' experience

Director - Suliman & Brothers Co W.L.L., Qatar; Director - Qatari German Medical Co., Qatar; Director - Salam Bounian, Qatar; Partner - Al Safa Trading Company, Qatar.

8. Mr. Fareed Bader

Member Audit & Corporate Governance Committee and Member Executive Committee

Independent Non Executive Director
Businessman with over 25 years' experience

Chairman & Managing Director - Bader Group of Companies, Bahrain; Chairman - Wafa IEI Middle East Property Investment, Bahrain; Vice Chairman - Universe Environment Bahrain B.S.C., Bahrain; Board Member - Rotary Club Manama, Bahrain; Board Member - Bahrain Italian Association. Bahrain; Member - Bahrain British Forum, Bahrain; Member - Bahrain French Forum, Bahrain; Member - Bahrain Engineering Society, Bahrain; Member - Bahrain Chamber of Commerce and Industry, Bahrain.

9. Mr. Aabed Al-Zeera

Chief Executive Officer and Board Secretary

Executive Director
Commercial and Investment Banker with over 30 years' experience

Deputy Chairman - European Islamic Investment Bank Plc, UK; Vice Chairman – Amrah Bank, Azerbaijan; Vice Chairman – Queenex Hygeine Paper Manufacturing Co., UAE; Director & Member Audit Committee – Artes S.A., Tunisia; Director – Arabian Sugar Company B.S.C., Bahrain; Director – Universal Rolling W.L.L., Bahrain; Director – Eqaan Global Residential Company, Bahrain; Director – Connection Real Estate LLC, UAE.

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Corporate Governance (continued)

Board Terms and Start Date of Current Term

All the current members of the Board of Directors were appointed on 30 March 2011. They hold their office for a term of three years.

Induction, Orientation and Training of New Directors

The Chairman of the Board ensures that each newly inducted director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. The induction process include:

a. Meetings with senior management;
b. Visits to the Bank facilities;
c. Presentations regarding strategic plans;
d. Significant financial, accounting and risk management issues;
e. Compliance programs;
f. Meeting with internal, external auditors and legal counsel (as required); and
g. Familiarisation of the Corporate Governance Guidelines

Written Code of Ethics and Business Conduct

The Bank has documented Code of Ethics and Business Conduct applicable to the Directors.

Election System of Directors

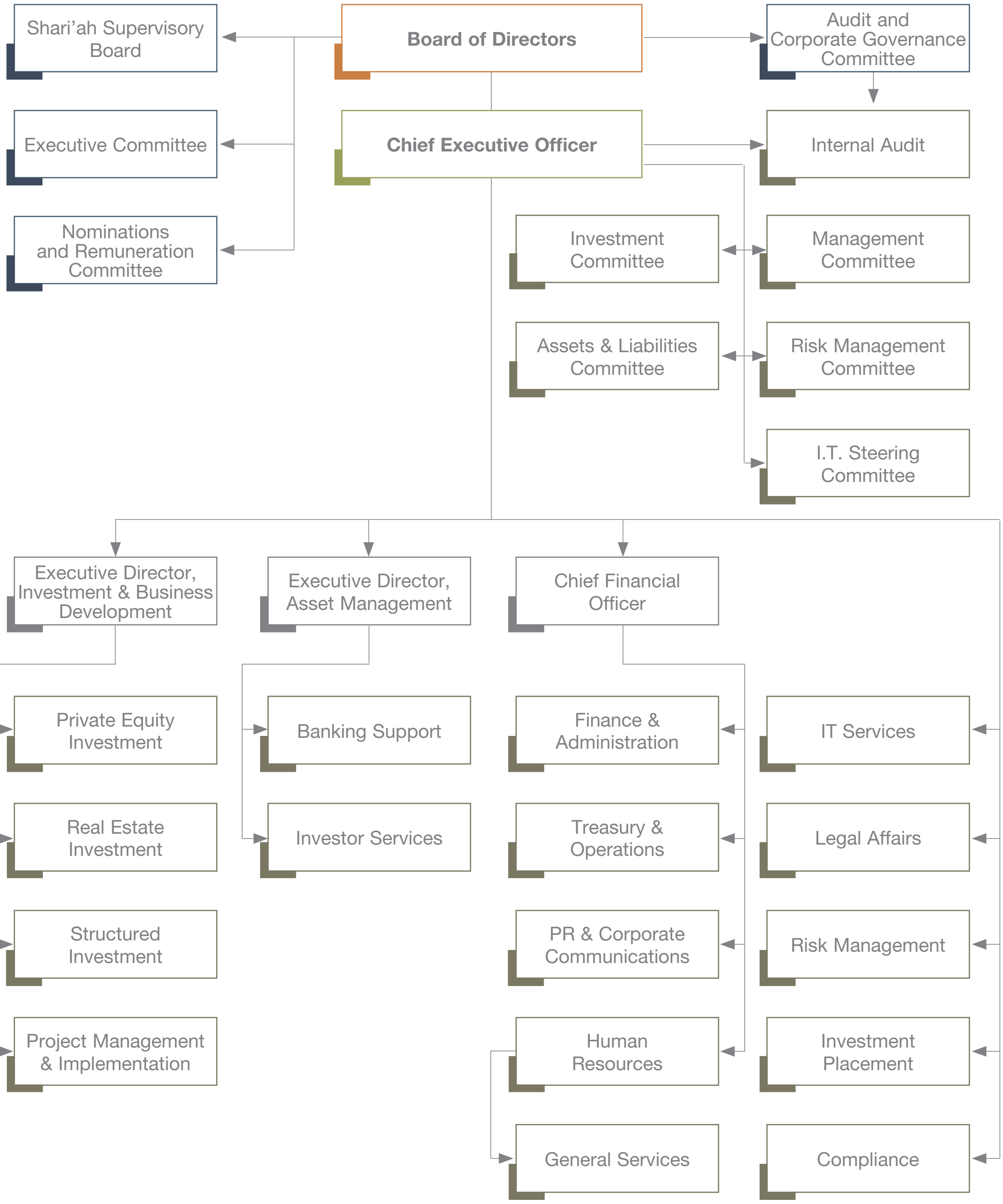
The new members are inducted to the Board of Directors through a nomination process. The new members are nominated by the Board who are later ratified/approved by the General Meeting of the Bank.

Material Transactions that Require Board Approval

Every investment and every funds transfer of US$ 50 million or above require the approval of the Board of Directors.

The Bank makes effective use of Internal and External Auditors and the Senior Management have put in place appropriate systems and controls. The Audit and Corporate Governance Committee exercises oversight over the audit functions and disclosures.

Organizational Structure



Corporate Governance (continued)

Board of Directors' Meetings

The Board of Directors of the Bank meet at least four times in a year either in person or via teleconference or video conference.

Following table shows the dates of the Board of Directors' meetings and the attendances during the year.

Date	Names of Directors attended in person or via tele/video conference	Names of Directors not attended
14-Mar-11	H. E. Mr. Saeed Abdul Jalil Al Fahim - Chairman	Mr. Aamer Abdul Jalil Al Fahim
	Mr. Ahmed Salem Bugshan - Vice Chairman	Dr. Bader Ebrahim Al Saedan
	Mr. Abdul Wahab Mohammed Al Wazzan	
	Mr. Fahad Fouad Bubshait	
	Mr. Ebrahim Eshaq Abdulrahman	
	Mr. Ali Hashim Sadiq Hashim	
	Mr. Ali Haider Al Haider	
	Mr. Aabed Al-Zeera - CEO	
30-Mar-11	H. E. Mr. Saeed Abdul Jalil Al Fahim - Chairman	Mr. Rashid Abdul Jalil Al Fahim
	Mr. Ahmed Salem Bugshan - Vice Chairman	Mr. Ali Hashim Sadiq Hashim
	Mr. Abdul Wahab Mohammed Al Wazzan	
	Dr. Bader Ebrahim Al Saedan	
	Mr. Ali Haider Al Haider	
	Mr. Fareed Bader	
	Mr. Aabed Al-Zeera - CEO	
02-Jun-11	H. E. Mr. Saeed Abdul Jalil Al Fahim - Chairman	Mr. Ali Hashim Sadiq Hashim
	Mr. Ahmed Salem Bugshan, Vice Chairman	
	Mr. Rashed Abdul Jalil Al Fahim	
	Mr. Abdul Wahab Mohammed Al Wazzan	
	Dr. Bader Ebrahim Al Saedan	
	Mr. Ali Haider Al Haider	
	Mr. Fareed Bader	
	Mr. Aabed Al-Zeera - CEO	
28-Dec-11	H. E. Mr. Saeed Abdul Jalil Al Fahim - Chairman	Mr. Abdul Wahab Mohammed Al Wazzan
	Mr. Ahmed Salem Bugshan, Vice Chairman	Mr. Ali Haider Al Haider
	Mr. Rashed Abdul Jalil Al Fahim	Mr. Ali Hashim Sadiq Hashim
	Dr. Bader Ebrahim Al Saedan	
	Mr. Fareed Bader	
	Mr. Aabed Al-Zeera - CEO	

Compliance with HC Module

The Bank monitors the compliance with the provisions of the High-Level Controls (H.C.) Module of the Rule book issued by the Central Bank of Bahrain on an ongoing basis on the roles and responsibilities of the Board of Directors, Board Committees and of the principles relating to Disclosure Requirements and Management Strategy. The Bank has complied with the HC module and amendments.

Directors' responsibility for AFS

The Board is responsible for causing the audited consolidated financial statements (AFS) to be prepared which accurately disclose the Bank's financial position. Although the Board has delegated the Audit and Corporate Governance Committee to ensure this objective is met, it has not delegated its ultimate responsibility for the consolidated financial statements.

The Bank makes effective use of Internal and External Auditors and the Senior Management have put in place appropriate systems and controls. The Audit and Corporate Governance Committee exercises oversight over the audit functions and disclosures.

The Audit and Corporate Governance Committee reviews the quarterly and the annual consolidated financial statements and the Board approves them.

Board Committees

The Board has established four sub-committees and a Shari'ah Supervisory Board comprising expert, independent scholars to assist the Board in expeditiously and effectively discharging its responsibilities. This committee structure ensures appropriate oversight by the Board of Directors while permitting efficient day-to-day management of the Bank. The members as at 31 December 2011 and summary terms of reference are as follows:

Executive Committee

Mr. Rashed Abdul Jalil Al Fahim (Chairman)
Mr. Ali Hashim Sadiq Hashim, Member
Dr. Bader Ibrahim Mohammad Bin Saedan, Member
Mr. Fareed Bader, Member
Assists the Board with the review of the Bank's strategy, annual budget and forecasts, risk policies, management committees' activities and actions.

The following table shows dates and attendance details of the Executive Committee meetings during the year.

Date	Names of Directors Present in person or via tele/video conference	Names of Directors not attended
01-Jun-11	Mr. Rashed Abdul Jalil Al Fahim, Chairman	Mr. Ali Hashim Sadiq Hashim
	Dr. Bader Ibrahim Mohammed Bin Saedan	
	Mr. Fareed Bader	
28-Jun-11	Mr. Rashed Abdul Jalil Al Fahim, Chairman	Mr. Ali Hashim Sadiq Hashim
	Mr. Fareed Bader	Dr. Bader Ibrahim Mohammed Bin Saedan
25-Sep-11	Mr. Rashed Abdul Jalil Al Fahim, Chairman	
	Dr. Bader Ibrahim Mohammed Bin Saedan	
	Mr. Fareed Bader	
	Mr. Ali Hashim Sadiq Hashim	
15-Dec-11	Mr. Rashed Abdul Jalil Al Fahim, Chairman	
	Dr. Bader Ibrahim Mohammed Bin Saedan	
	Mr. Fareed Bader	
	Mr. Ali Hashim Sadiq Hashim	

Audit and Corporate Governance Committee

Mr. Abdul Wahab Mohammed Al-Wazzan (Chairman)
Mr. Ali Haider Suliman Al Haider, Member
Mr. Fareed Bader, Member

Assists the Board to review the integrity of the financial statements, compliance with legal and regulatory requirements, the Bank's internal audit function and the independent auditor's qualifications, independence and performance.

Corporate Governance (continued)

The following table shows dates and attendance details of the Audit and Corporate Governance Committee meetings during the year.

Meeting date	Members in attendance	Members not attended
16-May-11	Mr. Abdul Wahab M. Alwazzan, Chairman	
	Mr. Fareed Bader	
	Mr. Ali Haider Al Haider	
13-Jun-11	Mr. Abdul Wahab M. Alwazzan, Chairman	
	Mr. Fareed Bader	
	Mr. Ali Haider Al Haider	
11-Aug-11	Mr. Abdul Wahab M. Alwazzan, Chairman	Mr. Ali Haider Al Haider
	Mr. Fareed Bader	
22-Sep-11	Mr. Abdul Wahab M. Alwazzan, Chairman	
	Mr. Fareed Bader	
	Mr. Ali Haider Al Haider	
01-Nov-11	Mr. Abdul Wahab M. Alwazzan, Chairman	
	Mr. Fareed Bader	
	Mr. Ali Haider Al Haider	

Nominations and Remuneration Committee

Mr. Ahmed Salem Bugshan (Chairman)
Mr. Rashed Abdul Jalil Al Fahim, Member
Mr. Ali Hashim Sadiq Hashim, Member
Assists the Board in assessing candidates and recommending Board and management appointments, as well as to establish and update the remuneration policies and procedures including the level of remuneration paid to executive management.

The following table shows date and attendance details of the Nominations and Remuneration Committee meeting during the year.

Meeting date	Members in attendance	Members not attended
01-Jun-11	Mr Ahmed Salem Bugshan (Chairman)	
	Mr Rashed Abdul Jalil Al Fahim	
	Mr Ali Hashim Sadiq Hashim	

Independent Shari'ah Supervisory Board

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

Sheikh Nizam Yaquby

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

Sheikh Osama Mohammed Saad Bahar

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

Sh. Abdul Nasser Omar Al Mahmood

Sh. Abdul Nasser is a member of the Islamic supervisory board of International Investment Bank and Bahrain Development Bank and is a senior manager in Shari'ah audit department at Khaleeji Commercial Bank. He holds a Masters in Business Administration from the Gulf University working on a thesis in Shari'ah control and review in Islamic banks. He also holds a Bachelors degree in Shari'ah and Islamic Studies from Qatar University.

Investment and Business Development

The department is responsible for the investment and business development activities including origination, structuring and execution of investment programs and activities, obtaining the required internal and regulatory approvals and evaluating investments in quoted and unquoted equities. It develops investments and asset allocation strategies / activities and completes the detailed due diligence and documentation in conjunction with consultants, partners, accounting firms and law firms. It also develops strategic relationships and performs the detailed evaluation of potential divestments.

Asset Management

The department monitors the Bank's investments in private companies, real estate income generating properties and real estate development projects including effective record keeping relative to each investment to ensure efficient monitoring, cash inflow maximization and exit planning of investments.
It works closely with project sponsors to optimize the overall project implementation timetable; minimize project costs; and deliver project quality in order to ensure that planned project returns are achieved. The department arranges Shari'ah compliant corporate finance for projects designed to leverage equity funding, maximize free cash flows to equity and ROE. It executes planned exits in a timely and methodical manner to maximise investor returns.

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

Investment Placement

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

Support, Administration & Internal Controls

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

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

Corporate Governance (continued)

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

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

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

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

Compensation & Incentive Structures

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

Executive Management

Management Committees

The Board has established five management committees, namely the Management Committee, Investment Committee, Risk Management Committee, Assets & Liabilities Committee and IT Steering Committee. These committees comprise senior management and heads of departments who are best qualified to make decisions on such issues as funding, asset utilization, IT, investment purchase/sale and management of all types of risk, including market, credit, liquidity and operational risks. The members as at 31 December 2011 and the summary terms of reference are as follows:

Management Committee

Mr. Aabed Al-Zeera (Chairman)
Mr. Michael Ross-McCall, Member
Mr. Narayanan Ganapathy, Member
Mr. Fadi Al Qassim, Member
Mr. Alyas Al Meftah, Member

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

Investment Committee

Mr. Aabed Al-Zeera (Chairman)
Mr. Fadi Al Qassim, Member
Mr. Alyas Al Meftah, Member
Mr, Narayanan Ganapathy, Member

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

Assets & Liabilities Committee

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

Manages liquidity, the profit rate risk inherent in the Bank's asset and liability portfolio, capital adequacy and ensures the mix of assets and liabilities is appropriate.

Risk Management Committee

Mr. Michael Ross-McCall (Chairman)
Mr. Murtaza Ghulam, Member
Mr. Ninan Varkey, Member
Mr. Narayanan Ganapathy, Member

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

I.T. Steering Committee

Mr. Michael Ross-McCall (Chairman)
Mr. Murtaza Ghulam, Member
Mr. Said Itani, Member
Mr. Narayanan Ganapathy, Member

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

Chairman and Executive Managers

H.E. Saeed Abdul Jalil Al Fahim, Chairman

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

Corporate Governance (continued)

Aabed Al-Zeera, Chief Executive Officer

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

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

Chief Executive Officer (CEO) is responsible for preparing and submitting the business strategy to the Board of Directors, implementing the strategic goals and objectives of the Bank, providing direction and leadership towards the achievements of the Bank's annual goals and objectives in compliance with Shari'ah principles and all relevant regulatory and legal requirements, leading the annual operating budget preparation and implementing it, providing leadership and directions to all of Bank's Heads of Department including Business Development, Asset Management, Investment Placement, Risk Management, Finance and Human Resources, ensuring that the Bank's reputation and profile are maintained and enhanced. Member of the Board of Directors, Management Committee, Investment Committee, and other committees as directed by the Chairman; attend (as an observer) meeting of the Executive Committee and the Audit and Corporate Governance Committee.

Michael Ross-McCall, Chief Financial Officer

Mr. Ross-McCall heads the Finance and Administration Department with additional responsibility for Treasury, Operations, Human Resources, General Services and Corporate Communications. He holds a Law Degree from Edinburgh University and is a member of The Institute of Chartered Accountants of Scotland. Following several years employment with Ernst & Young and Price Waterhouse, he has over 20 years' experience in the banking sector, including senior positions at Wells Fargo Bank, Bank of Bahrain & Kuwait and Bahraini Saudi Bank. He joined IIB in 2007 and reports to the CEO.

Chief Financial Officer (CFO) is responsible for supervising the finance, treasury, operations, human resources, office administration and corporate communication functions; assists with risk management, Basel II compliance, corporate governance and IT issues; assisting the management to achieve the annual operating budget. Preparing the annual business plan, periodic financial projections during the year and 5 years' strategic plan, formulating the optimum future strategy connected to annual objectives for division heads. Ensuring that the policy and procedure manuals are prepared for activities under the CFO's control, periodically updated and carefully complied with. Remaining up-to-date with market developments including relevant government regulations and Accounting Standards changes and ensuring that the Bank is in compliance, providing general advice and "ad-hoc" financial reports as requested by the CEO. Maintaining required contact with the Bank's external parties. Member of the Management Committee, IT Steering Committee, Assets and Liabilities Committee and Risk Management Committee.

Narayanan Ganapathy, Director, Direct Investment and Business Development

Mr. Ganapathy is a director and Acting Head of the Direct Investment and Business Development Department. He is a CFA charter holder, a member of the Institute of Chartered Accountants of India and holds a Master's degree in Finance from London Business School. He has over twelve years of international banking and corporate finance experience that he gained at KPMG, Deutsche Bank, London and Investate Realty in Bahrain and IIB (Bahrain). He reports to the CEO.

The Director in Direct Investment and Business Development is responsible for originating and structuring the investment transactions, performing and managing the due diligence process, managing the transaction team members and ensuring that the deliverables are completed in accordance with agreed deadlines. Remaining up-to-date with current developments of the market including new products and relevant government regulations, keeping close links and liaising with local, regional and international investment communities and maintaining required contact with the Bank's external parties. Member of the Investment Committee, the Assets and Liabilities Committee, Management Committee, Risk Management Committee and IT Steering Committee.

Other Senior Officers

Alyas Al-Meftah, Director, Asset Placement

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

Head of Investment Placement is responsible for estimating the sales to investors for the purpose of preparing the annual budget and quarterly forecasts. Supervising and monitoring the Placement Team and supervising the preparation of the Placement Team Activity Report including analysis of investors by transaction and year to date sales. Providing advice and "ad-hoc" reports as requested by the CEO. Developing, maintaining the policy and procedure manuals, periodically updated and are fully complied with. Remaining up-to-date with current developments of the market including relevant government regulations, maintaining required contact with the Bank's external parties and investors', maintaining contact with brokers for use as sellers "of last resort". Member of the Investment Committee.

Ali Redha, Director, Internal Audit

Mr. Redha is a Certified Public Accountants (CPA) and a member of AICPA. He has over 14 years of experience in auditing and banking at KPMG , Daar Al-Maal Al-Islami (DMI Group), Shamil Bank, Ithmaar Bank and Bahraini Saudi Bank. He joined IIB in 2005 and reports to the Chairman of the Audit and Corporate Governance Committee.

Director of Internal Audit is responsible for preparing and reviewing the annual risk based Audit Plan. Developing and recording the Engagement Plan for each engagement, executing and conducting audit reviews in accordance with the risk-based plan. Conducting follow-up reviews. Carrying out special reviews requested by the Board, Audit and Corporate Governance Committee or the CEO. Ensuring that the policy and procedure manuals are prepared for all the Bank's activities, periodically updated and fully complied with, co-ordinating with the Bank's external auditors, assisting the Bank's management in the selection and implementation of banking systems. Secretary of the Audit and Corporate Governance Committee, guest at the Risk Management Committee, the Assets and Liabilities Committee and IT Steering Committee.

Fadi Al-Qassim, Director, Direct Investment

Mr. Al Qassim is a director in Direct Investment and Business Development Department. He holds a B.Sc. in Civil Engineering from the University of Bahrain. He has 17 years' experience in civil design, engineering and monitoring projects up to the hand-over to owners. He is a certified ISO 9000:2000 internal auditor and an active member of both the Bahrain Society of Engineers and the Project Management Institute. He joined IIB in 2006. He reports to the Head of the Direct Investment and Business Development Department.

Corporate Governance (continued)

The Director in Direct Investment and Business Development is responsible for originating and structuring the investment transactions. Performing and managing the due diligence process, managing the transaction team members and ensure deliverables are completed in accordance with agreed deadlines. Developing investment and asset allocation strategies. Ensuring that the policy and procedure manuals are prepared, periodically updated and are fully complied with. Remaining up-to-date with current developments of the market including government regulations. Maintaining required contact with the Bank's external parties. Member of the Investment Committee, the Assets and Liabilities Committee, Management Committee and the Shariah Supervisory Board.

Ninan Varkey, Head - Risk Management

Mr. Varkey holds a degree in Commerce and is a member of the Institute of Chartered Accountants of India. He carries over 20 years of experience in the financial services industry. He has held positions as President of Cochin Stock Exchange, India and Vice-President of leading financial services companies in India. He headed the risk management function at the commodity derivative business of Infrastructure Leasing Finance-Investsmart, India before joining IIB in 2007. He reports to the Executive Committee and administratively to the CEO.

Head of Risk Management is responsible for providing an independent risk perspective on proposed investments. Developing and implementing Risk Management Policies and Process, reviewing and updating the policies periodically, recommending exposure limits, monitoring compliance with limit structure and reporting of limit breaches. Capital Adequacy monitoring, overall management of Credit, Market and Operational risk and reporting of risks. Member of the Assets and Liabilities Committee and Risk Management Committee.

Said Itani, Head – IT

Mr. Itani has a diploma in systems programming, analysis, and design. He has more than 30 years' experience in the IT sector, latterly in Saudi Arabia and Bahrain. From 1995 to 2002 he was IT Division Manager at Bank Al-Jazira in Jeddah and from 2002 to 2006 he was Head of IT, Security and Property at UBS-Noriba Bank in Bahrain. He joined IIB in 2007 and reports to the CEO.

Head of Information Technology is responsible for recommending and selecting the Hardware, Software, preparing IT plan and Budget based on the Bank's Business plan. Preparing and updating the Business Continuity and Disaster Recovery Plans. In charge of the Disaster Recovery Site. In charge of all the Installations and implementations of the new systems, developing, implementing and complied with the Information Technology Policies and Procedures, reviewing and updating the policies periodically, monitoring the daily operations to ensure that all the systems are performing at high standards. Monitoring overall communication systems and operational problems and reporting of problems. Member/Secretary of the IT Steering Committee.

Charitable Contributions

The Bank made contributions and donations to Bahraini charities in 2011 aggregating to US$ 50,000 (2010: US$ 100,000). The beneficiaries comprised local charity funds registered with the Ministry of Social Development.

Non-Sharia Income

Any income derived from any investment or business that does not conform to the Sharia principles is considered as Non- Sharia Income. Such Non Sharia Income is not recognized as the income of the Bank. If any such income arises in the course of the business, it is contributed to charity through Charitiable Institutions.

For the year 2011, there was no Non-Sharia income for the Bank.

Review of Internal Control Process and Procedures

The Board is fully aware that the system of internal control cannot totally eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an on-going process of managing significant risks faced by the Bank and reviewing the system of internal control for the year under review. The key elements are described below:

- Formal organisation structure that clearly defines the framework for the line of reporting and hierarchy of authority.
- Policies and Procedures Manual on key activities that lay down the objective, scope, policies and operating procedures for the Bank which are subject to regular review and improvement.
- Regular internal audit visits to departments within the Bank to ensure compliance with Bank's Policies and Procedures and to review effectiveness of internal control systems.
- Clearly defined authorisation limits at appropriate levels are set out for controlling and approving capital expenditure and expenses.
- Regular Senior Management meetings are held to discuss and resolve major issues arising from business operations.
- Quarterly meetings for Audit and Corporate Governance Committee and the Board are held to discuss internal audit reports, periodic financial statements and issues that warrant Audit and Corporate Governance Committee and Board attention.

In respect of risk management framework, a Risk Management Committee was established, to evaluate, monitor and manage the risks that may impede the achievements of the Bank's business objectives.

A number of minor internal control weaknesses were identified during the year of review. None of the weaknesses have resulted in any material losses, contingencies or uncertainties.

Nature and approval process of related party transactions

The balance with related parties mainly comprises investments in associates. These associates are the companies where the Bank holds 20% or more of the share capital by way of direct investment or investment through Special Purpose Vehicles in its ordinary course of business.

Such investments also go through the same approval processes as required for all investments of the Bank.

Transactions with related parties in 2011 mainly comprise of share of loss from associates and remuneration paid to the Sharia'a Supervisory board.

Changes in Organization Structure

Changes to the Organization Structure of the Bank during the year include:

- Merged the Nominations Committee and Remuneration Committee to a single committee namely, "Nominations and Remuneration Committee".
- Audit Committee broadened to "Audit and Corporate Governance Committee".
- Finance and Administration reorganized to Finance Function only.
- General Services changed to Administration and General Services.

Corporate Governance (continued)

Ownership Details of the Bank

The following table shows the distribution of ownership of the Bank by nationalities as on the reporting date.

Country	Number of shareholders	Number of shares	Percentage
Kingdom of Bahrain	7	2,406,158	2.19%
State of Kuwait	39	16,452,201	14.96%
State of Qatar	11	6,931,862	6.30%
Kingdom of Saudi Arabia	34	28,882,213	26.26%
United Arab Emirates	18	51,323,363	46.66%
British Virgin Islands	1	1,000,000	0.91%
Total	110	106,995,797	97.28%
Treasury shares	0	3,000,000	2.72%
Overall Total	**110**	**109,995,797**	**100.00%**

The following table shows the distribution of ownership by directors and senior managers of the bank as on the reporting date.

Name	Position	Number of shares	Percentage
Saeed A. Jalil Al Fahim	Chairman	26,374,704	23.98%
Rashid A. Jalil Al Fahim	Board Member	-	0.00%
Ahmed Salem Bugshan	Board Member	3,908,404	3.55%
Ali Hashem Sadeq	Board Member	3,908,404	3.55%
Bader Ebrahim Al Saedan	Board Member	1,650,000	1.50%
Ali Haider Al Haider	Board Member	1,627,907	1.48%
Abdulwahab Al Wazzan	Board Member	813,953	0.74%
Fareed G. Bader	Board Member	350,000	0.32%
Aabed A. R. Al Zeera	Board Member	162,791	0.15%
Total		**38,796,163**	**35.27%**

The following table shows the distribution of ownership by size of shareholding in the Bank as on the reporting date.

Shareholding size	Number of shareholders	Number of shares	Percentage
Above 5% ownership	1	26,374,704	23.98%
Less than 5% ownership	109	83,621,093	76.02%
Total	110	109,995,797	100.00%

The following table shows the trading in the Bank's shares by directors and senior managers of the Bank during the year.

Name	Position	Shares bought	Shares sold
Bader Ebrahim Al Saedan	Board Member	710,944	-
Total		**710,944**	

There are no shareholdings in the Bank by the Bahrain Government or any other Governments.

Remuneration to Board Members

No remunerations were paid to the Board members for the year 2011.

Fees paid to External Auditors

Audit fee paid to the external auditors for the year 2011, including quarterly reviews of interim financial statements, was USD 86.21 thousand. Other fees paid to the external auditors for non-audit services, including asset valuation reviews, quarterly review of prudential returns, PD disclosure reviews etc. for the year 2011 amounted to USD 84.88 thousand.

Communications Strategy

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

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

Inquiries are made to the relevant departments as follows:

Investments and partnerships: invest@iib-bahrain.com

Existing Investors inquiries: portfolio@iib-bahrain.com

New investors: placement@iib-bahrain.com

Financials and annual performance: enquiries@iib-bahrain.com

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

Additional Governance Controls

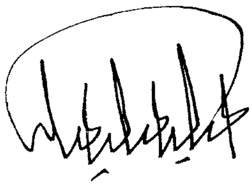
The Board has approved a number of policies, which are communicated to management and all staff. These cover subjects including risk management, anti-money laundering, ethical behaviours, personal conduct, financial control, human resources and business continuity.

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

Chief Executive Officer's Review of Operations

Notwithstanding the absence of new investment banking activity during the year, the overall financial health of your Bank continues to be robust as a result of due prudence demonstrated by its Executive Management in undertaking investments and placements. The regional and global markets are still encountering formidable headwinds following the US sovereign credit downgrading, the ongoing Eurozone crisis and the marked weakness in the Chinese growth, now a veritable contributor to the global growth engine, arising from a restraint on Government spending on new projects. Thus, surrounded by a multitude of confidence sapping risks, the regional investors have adopted a "wait and see" approach to making new investments, a strategy which your Bank has "mirrored" in deference to the regional sentiment.

Accordingly, IIB continues to follow an ultra-cautious three pronged investment philosophy of a) making only very compelling and selective investments; b) focusing on preserving capital rather than maximizing current income and finally c) intensive management of existing assets to ensure that future risks and potential losses are minimized.



Aabed Al-Zeera
Chief Executive Officer

Business Development

Reflecting the ultra-cautious investment philosophy adopted by the Board of Directors in order to preserve liquidity and avoid risks that are largely immeasurable in the current economic climate, the focus on Business Development during 2011 has been relatively limited. Although the Business Development team has reviewed several investment proposals across asset classes and regions, no new investments were finally concluded as none of the opportunities met with the investment objectives and risk tolerance guidelines enunciated by the Board of your Bank.

Driven by its strategy of retaining enough liquidity to be able to undertake compelling opportunities that may arise after some stabilization of the global economic outlook, IIB will, in 2012, maintain its policy of retaining higher levels of liquidity. Not only has this policy been vindicated by the relatively robust financial position of your Bank, post financial crisis, compared to that of its peers, large and small, it is also expected to provide "fire power" in the years to come as the investing climate returns to normalcy.

Investment Placement

Investment Placement, by definition, is an adjunct to Business Development initiatives of the Bank. Accordingly, with no new investments having been undertaken in 2011, there were no investment

placements during the year. In the meanwhile, as advised in my last year's report, IIB continues to manage, along with the project sponsors, the development of two investments that were made during 2009:

Sarajevo Project

This project comprises the construction of a real estate complex involving a hotel tower, a commercial office tower, a shopping mall and entertainment center in Sarajevo, the capital of Bosnia & Herzegovina (Eastern Europe). The construction of the project is moving rapidly; we believe that the investment will be ready for placement with select investors sometime during the third quarter of 2013.

Jeddah Project

This project comprises affordable housing units, commercial space and service amenities, over an area of approximately 1 million square meters strategically located north of Jeddah in the Dhahban district in the Kingdom of Saudi Arabia. The investment dynamics of the Jeddah project continue to be strong and with the project progressing well, the investment will be ripe for placement towards the first quarter of 2013.

The Bank has decided to warehouse both investments until such time as significant value enhancing initiatives currently underway come to fruition. Once these objectives are accomplished and when investors' sentiments improve, these investments will be offered to investors.

Asset Management

Driven by the unrelenting economic conditions prevalent globally and in each of the markets where IIB has existing assets under management as well as the relatively benign focus on Business Development, IIB Management has undertaken a heightened review of its suite of investments during the year with the view to identifying areas that need further attention.

As emphasized in my last report, equity value growth in the private equity asset class is now substantially a function of operational growth. The traditional sources of value growth, i.e. asset leverage and growth of exit multiples relative to the entry multiples now contribute minimally; principally because of the reduction in the levels of leverage available and the increased sophistication of the investing community which makes achieving "multiple" expansions or arbitrage very challenging to achieve.

Although many of the investments placed by your Bank are either at or have exceeded the planned investment horizons predicated at the time the investments were offered to its clients, the Board of your Bank and its Executive Management have continued to retain the investments as current exit "transaction" values are not consistent with the return expectations of your Bank. Hence, it is considered more prudent to better and intensely manage each asset for further value growth (rather than to attempt to exit in the current times) that is becoming increasingly challenging to achieve in the backdrop of the current global economic climate.

During 2011, further enhancements were also implemented to strengthen and improve the interface of the Bank with its investors. The Bank places utmost focus and importance to its relations with its investors in order to ensure their satisfaction, commitment, loyalty and continued patronage of the Bank.

Chief Executive Officer's Review of Operations (continued)

Financial Performance

Out of the total reported net loss of US$ 9.4 million for 2011, the operating loss is only US$ 2.6 million. The elements that comprise the "non-operating" loss of US$ 6.8 million are, substantially, unrealized impairment losses and provisions of US$ 3.3 million and share of loss from associates of US$ 3.4 million.

Whilst the investment banking industry in the recent years has experienced severe losses due to adverse market conditions, IIB has been able to minimize losses as a ratio of its balance sheet size, a result of the strategies initiated in 2008 and continued in the following years. The operating costs of the Bank in 2011 were US$ 5.6 million, a reduction of over 16% as compared to US$ 6.7 million in 2010, the result of the Bank's strict cost control strategy to tide over such challenging times.

Additionally, the Bank's core liquidity position also continues to be strong throughout the year with Liquid Assets at year end representing 41.4% of Total Assets. The strong liquidity and the absence of any borrowings make the balance sheet of IIB very strong and well positioned to capture opportunities that may arise from any potential recovery in the markets.

Information Technology

The Bank's Information Technology Department has been running the IT infrastructure and systems in the most efficient method by utilizing all available resources and at the least cost. To enforce our IT security, a Security Health Check process was performed by ISIT, a specialized firm in IT security. The recommendations were taken into consideration by IIB Management, and a series of actions was taken to implement them.

Investor Relations

During 2011, further enhancements were also implemented to strengthen and improve the interface of the Bank with its investors. The Bank places utmost focus and importance to its relations with its investors in order to ensure their satisfaction, commitment, loyalty and continued patronage of the Bank. Workshops and process audits of investor relation issues in the past were conducted with the view to devising solutions to achieve expedient and prompt resolution of investors' concerns.

Finally, as a mandatory requirement by the CBB, all relationship personnel attended and successfully passed an advanced program in Financial Advice and their fiduciary responsibilities in line with the Bank's commitment to each investor.

Human Resources

The Bank recognizes that the staff is its key asset and continued to provide the requisite training which covers all of the key areas of banking. The employees received during the year over 100 days of formal training through in-house and external training programs. The Bank's Management also focused on providing in-house training courses to increase awareness of anti-money laundering.

Disaster Recovery Centre (DRC)

DRC readiness was tested by the Bank's key staff to ensure that all required basic systems will be available to use in case of a disaster. The switchover was very smooth, and the results were satisfactory for the users. This DRC switchover testing is to be performed once every year according to the Bank's IT Policies & Procedures.

Corporate Events

IIB has again sponsored a stand at the renowned World Islamic Banking Conference (WIBC) that was held in November 2011 at the Gulf Convention Centre, Kingdom of Bahrain. Launched in 1994, the WIBC is the world's largest and most influential gathering of Islamic finance leaders, attracting a large audience of bankers, consultants and investors in the region.

Financial Review

During 2011, the Bank has recorded a net loss of US$ 9.4 million, compared to a net loss of US$ 20.7 million during 2010. Total assets at year-end 2011 aggregated to US$ 148.5 million and include cash and cash equivalents of US$ 61.5 million. Total equity at 31 December 2011 was US$ 146.8 million. Assets under management at the end of 2011 totaled US$ 294.8 million.

The Capital Adequacy Ratio at 31 December 2011 was 54% versus the minimum permitted by the Central Bank of Bahrain of 12%. The significantly higher level of Capital Adequacy is consistent with the strategy of prudence during the current and forecast uncertain and subdued economic conditions.

Financial Review (continued)

Income

The Bank's total income for 2011 was US$ 3.1 million compared with US$ 3.5 million in 2010 and mainly comprises investment management fees together with income on due from financial and other institutions.

Investment management fees in 2011 of US$ 0.6 million were generated from management fees earned on prior year transactions. Due to the difficult market conditions, IIB earned no income in the year from the structuring, underwriting and placement of new investments (2010: Nil).

Income on due from financial and other institutions, being the profit on commodity murabaha deposits, was US$ 1.6 million versus US$ 1.6 million in 2010. As in the year 2010, profit amounting to USD 0.7 million was suspended on facilities granted to an investee company.

Income from investment in real estate (net) was derived from a residential tower purchased in April 2010 and located in Manama, Kingdom of Bahrain. An unrealised fair value loss of US$ 0.16 million (2010: US$ 0.75 million) has been booked based on year end valuations. The gain on sale of investments in 2011 of US$ 0.02 million (2010: US$ 0.5 million) relates to the gains on buy back of shares by investee companies.

Dividend income in 2011 of US$ 0.13 million (2010: US$ 0.40 million) has been received from both IIB's investee companies and regionally listed equities. Other income of US$ 0.6 million (2010: US$ 0.9 million) mainly comprises the profit on a short-term financing provided to a non-related third party in respect of an aborted investment in a proposed real estate development project. In 2011 the Bank has consolidated two subsidiaries through which investments were made in real estate development projects in the Kingdom of Saudi Arabia as well as in Bosnia. As a result, share of loss in the associate companies through which the subsidiaries have invested had to be booked in IIB's Income Statements. Total share of a loss in associates taken into IIB's Income Statement in 2011 is US$ 3.4 million compared to US$ 0.03 million in 2010.

Expenses

Total expenses in 2011 aggregated to US$ 5.6 million, a decrease of US$ 1.1 million (16.4%) compared to 2010. Staff compensation and benefits decreased by 17.9% to US$ 3.2 million from 3.9 million last year as a result of a lower average number of employees and no transaction-based benefits.

Impairment losses and provisions

IIB has booked unrealised impairment losses in 2011 of US$ 2.2 million (2010: US$ 15.1 million) in respect of two quoted investments and four unquoted investments. The Bank has made no general provisions against investments in 2011 (2010: US$ 2.0 million). As a measure of prudence against possible future losses, the Bank has made specific provisions of US$ 1.1 million (2010: Nil) against two murabaha facilities.

Assets

Cash and cash equivalents at year-end 2011 are US$ 61.5 million and represent 41.4% of total assets. These comprise cash, balances with banks and due from financial institutions (including placements through an investee company of US$ 10.5 million) comprising commodity murabaha placements with financially sound banks rated BBB+ or higher and located in the GCC region. With the addition of investments in quoted equities, liquid assets aggregate to US$ 70.1 million or 47.2% of total assets.

Receivables at 31 December 2011 of US$ 9.8 million mainly comprise of short-term Shari'ah-compliant financing facilities of US$ 7.3 million (net of provisions) granted to two investee companies to assist with working capital requirements and management fee and other receivables from investee companies.

Total investments at 2011 year end decreased by US$ 7.9 million (9.5%) since 31 December 2010 to US$ 75.9 million. A subordinated loan of US$ 0.5 million given to an investee company in the Kingdom of Saudi Arabia was converted into equity during 2011. There were also capital repayments totaling US$ 0.4 million from two investee companies. In addition, there were net unrealised fair value losses in 2011 on listed equities of US$ 4.5 million (2010: US$ 3.9 million) and on unquoted investments of US$ 1.6 million (2010: US$ 9.4 million).

Investment in associates at the end of 2011 represents US$ 4.0 million (27.32% ownership) in IIB UAE Limited, US$ 24.7 million (32.98% ownership) in Al Shiddi International, Sarajevo and US$ 25.3 million (26.96% ownership) in Ewaan Al Fareeda in the Kingdom of Saudi Arabia reflecting the unfavorable market conditions, total assets under management have decreased to US$ 294.8 million from US$ 323.5 million last year.

Liabilities and equity

There are no borrowings on the balance sheet at the year end and no reverse murabaha liabilities classified as due to financial institutions since January 2007. Other liabilities of US$ 1.7 million (2010: US$ 1.9 million) mainly comprise accrued expenses, payables to investors and payables to suppliers.

Total equity has reduced by US$ 11.5 million to US$ 146.8 million at the 2011 year end. The reduction is comprised of the net loss for the year of US$ 9.4 million (2010: US$ 20.7 million) plus net fair value and foreign currency translation losses on investments of US$ 3.6 million taken directly into equity, less minority interests of US$ 1.5 million.

In 2011 the Bank has consolidated two subsidiaries through which investments were made in real estate development projects in the Kingdom of Saudi Arabia as well as in Bosnia.

Capital Structure

1. Capital Base

The Bank's capital base comprises of Tier 1 capital which includes nominal share capital, share premium, statutory reserve, accumulated deficit, current year net loss, unrealised gross losses arising from fair valuing equity securities less the cost of treasury shares, plus Tier 2 capital which consists of part of the unrealised gains arising from fair valuing equities less the aggregate amounts that exceed the regulatory large exposures limit.

The issued and paid up share capital of the Bank was US$ 109,995,797 at 31 December 2010 and 2011, comprising of 109,995,797 shares of US$ 1 each.

The Bank's regulatory capital base of US$ 129.5 million as at 31 December 2011 comprised Tier 1 capital of US$ 137.3 million and Tier 2 capital of negative US$ 7.9 million as disclosed in note 18 to the consolidated financial statements.

There have been no changes to the capital structures during the year.

There are no restrictions in distributing profits by the subsidiaries of the Bank. However, such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital.

2. Capital Adequacy

The purpose of capital management is to ensure the efficient utilization of capital in relation to business requirements and growth, risk profile and shareholders' returns. But the primary concern is capital protection from loss.

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

As compared to the minimum capital adequacy ratio ("CAR") of 12% prescribed by Central Bank of Bahrain (CBB), the Bank's ratio at year-end 2011 was 54% (2010: 47%), being over four times the minimum ratio of 12%.

The ratio is derived from guidelines issued by CBB which are compatible with the "Basel II" Accord issued by the Basel Committee on Banking Supervision. The CAR measures total qualifying capital held by an institution in relation to its risk-weighted assets. In common with other banks incorporated in Bahrain, IIB commenced the ongoing measurement of its capital adequacy under the "Basel II" rules from 1 January 2008. Please refer to note 18 Capital Management in the attached consolidated financial statements.

Given the CAR of the Bank as at 31 December 2011, it has ample capacity to record additional investments and still meet the minimum capital adequacy requirement of 12%. However, it plans to continue its conservative approach to liquidity and only modest investment purchases are planned for 2012.

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.

3. Profile of Risk-weighted Assets and Capital Charge

The Bank has adopted the "Standardised" approach for credit risk and market risk and "Basic Indicator" approach for operational risk for regulatory reporting purposes. IIB's risk-weighted capital requirement for credit, market and operational risks as at 31 December 2011 are as follows:

4. Credit risk

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

Cash and balances with banks and due from financial institutions

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

Receivables

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

Investments including assets held for sale and investment in associate

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

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

As at 31 December 2011

US$ '000	Gross credit exposure	Credit risk weighted assets	Capital requirement
Claims on banks - murabaha placements	50,878	10,955	1,369
Due from investee companies - murabaha	7,292	7,292	912
Equity investments - publicly held	8,463	8,463	1,058
Equity investments - privately held	877	1,315	164
Holding of real estate	59,925	119,849	14,981
Other assets	3,822	3,822	478
	131,257	151,696	18,962

As at 31 December 2010

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

Capital Structure (continued)

4. Credit risk (continued)

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 or buy back of shares by investee companies during the year ended 31 December 2011 were US$ 0.02 million (2010: US$ 0.5 million). The total net unrealised losses recognised in equity in 2011 aggregated to US$ 3.67 million (2010: gains of US$ 2.54 million).

Risk concentrations of the maximum exposure to credit risk

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

US$ '000	Gross credit exposure 2011	Gross credit exposure 2010
Credit risk items:		
Murabaha with financial institutions	60,764	31,623
Murabaha with corporates	7,273	33,988
Murabaha with individuals	-	4,764
Investments	75,945	83,880
Other assets	4,521	5,917
Total Credit Risk Exposure	148,503	160,172

The above disclosure is considered to be reasonably representative of the level of credit risk of the Bank, as there has been no significant fluctuation in the credit risk assets during the year ended 31 December 2011.

4.1 Geographical distribution of the gross funded exposures

The following table summarises the geographical distribution of exposure broken down into significant areas by major types of credit exposure:

US$ '000	Murabaha with financial institutions	Murabaha with corporates	Murabaha with individuals	Investments	Other assets	Total
As at 31 December 2011						
Geographical region:						
Bahrain	60,764	1,590	-	5,609	3,335	71,298
Europe	-	5,683	-	29,790	725	36,198
Other GCC countries		-	-	38,676	236	38,912
Africa	-	-	-	1,355	77	1,432
Asia	-	-	-	515	148	663
	60,764	7,273	-	75,945	4,521	148,503
As at 31 December 2010						
Geographical region:						
Bahrain	3,351	27,988	4,764	6,740	4,385	47,228
Europe	-	6,000	-	29,228	625	35,853
Other GCC countries	28,272	-	-	45,666	747	74,685
Africa	-	-	-	1,859	73	1,932
Asia	-	-	-	387	87	474
	31,623	33,988	4,764	83,880	5,917	160,172

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

US$ '000	Murabaha with financial institutions	Murabaha with corporates	Murabaha with individuals	Investments	Other assets	Total
As at 31 December 2011						
Industry sector:						
Real estate-development	-	-	-	57,629	214	57,843
Real estate-income generating	-	5,683	-	8,709	703	15,095
Banking and financial institutions	60,764	-	-	1,233	845	62,842
Manufacturing	-	1,590	-	7,019	1,399	10,008
Automotive	-	-	-	1,355	77	1,432
Others	-			-	1,283	1,283
	60,764	7,273	-	75,945	4,521	148,503
As at 31 December 2010						
Industry sector:						
Real estate-development	-	-	-	59,104	580	59,684
Real estate-income generating	-	6,000	-	9,516	637	16,153
Banking and financial institutions	31,623	-	-	951	1,887	34,461
Insurance	-	-	-	160	-	160
Manufacturing	-	2,364	-	13,506	1,060	16,930
Automotive	-	-	-	643	73	716
Others	-	25,625	4,763	-	1,680	32,068
	31,623	33,989	4,763	83,880	5,917	160,172

4.2 Single counterparty exposures

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

The Bank's exposure in excess of 15% of the obligor limit to individual counterparties based on regulatory "total available capital" at 31 December 2011 is shown below:

	2011			2010		
US$ '000	C.A.R Limit (15%)	On balance sheet exposure	Capital deduction	C.A.R Limit (15%)	On balance sheet exposure	Capital deduction
Counterparty A	21,929	35,838	(13,909)	23,485	53,362	(29,877)
Counterparty B	21,929	24,737	(2,808)	23,485	24,854	(1,369)
			(16,717)			(31,246)

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

There were no off-balance sheet exposures (2010: nil).

Capital Structure (continued)

5. Market risk

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

US$ '000	2011 Risk weighted assets	2011 Period end capital requirement	2010 Risk weighted assets	2010 Period end capital requirement
Foreign exchange risk	34,538	4,317	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.

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.

US$ '000	2011 Assets/ liabilities net	2010 Assets/ liabilities net
Euro	31,863	32,784
Pound Sterling	731	731
Others	1,944	2,285
	34,538	35,800

6. Operational risk

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

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

US$ '000	2011	2010
Indicator of operational risk:		
Average gross income multiplied by number of years	29,651	29,651
Eligible portion for the purpose of calculation	15%	15%
Multiplier	12.5	12.5
Operational risk weighted exposure	55,596	55,596
Capital requirement (12.5%)	6,950	6,950

Risk Management

The Board of Directors is charged with the overall responsibility for risk management. It approves and periodically reviews the risk policies and strategy of the Bank. It is assisted by the Executive Committee, Management Committee, Investment Committee and Audit and Corporate Governance Committee.

The Risk Management Committee has the overall responsibility for establishing the risk framework and strategy, principles, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. The Risk Management Department is responsible for implementing the appropriate risk management strategy and methodology for the Bank. It ensures that risks do not exceed the approved limits. The Risk Management Department also carries out internal capital adequacy assessments to determine the adequacy of overall capital in relation to the Bank's risk profile and formulates the strategy for maintaining the capital levels. The capital provides the Bank with a cushion to absorb losses without endangering client funds.

The various risks to which the Bank is exposed and the principal risk management techniques are summarized below. Further information on risk management is contained in Note 17 to the consolidated financial statements.

1. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The principle business of the Bank is Investment Banking. The process of managing the credit risk starts at the origination of the investment activity and compliance with investment criteria, guidelines and policies. The Bank manages credit risk by setting limits for individual counterparties, countries, regions and industry sectors. Limits are authorized by the Board of Directors based on management's recommendations, monitored by the Risk Management Department and reviewed regularly by the Risk Management Committee. Details of maximum exposure to credit risk by balance sheet components, geographical region, industry sector and credit rating are contained in Note 17.2 to the consolidated financial statements in accordance with the requirements of International Financial Reporting Standard (IFRS) 7.

Information disclosed in the annual report in respect of geographical region, industry sector and credit rating is prepared in accordance with the requirement of Prudential Information Report for Islamic Banks as at 31 December 2011. The disclosures are considered to be reasonably representative of the position during 2011 as there has been no significant fluctuation in the level of credit risk assets.

1.1. Credit risk concentrations and thresholds

Protection against excessive credit risk is through country, industry and counterparty threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty exceeding 15% of the capital base. Individual exposures are described at Capital Structure section 4.

The Risk Management Department is responsible for implementing the appropriate risk management strategy and methodology for the Bank. It ensures that risks do not exceed the approved limits.

Risk Management (continued)

1.2. Excessive risk concentration

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

1.3. Geographical distribution of exposures

The geographical distribution of exposures, impaired assets and the related impairment provisions as at 31 December 2011 are analyzed as follows:

US$ '000	Gross funded credit exposure	Impaired securities	Provision against securities
Bahrain	71,298	3,196	1,359
Europe	36,198	10,753	2,300
Other Gulf Cooperation Council (GCC) countries	38,912	6,758	3,272
Africa	1,432	-	-
Asia	663	636	71
Total	148,503	21,343	7,002

The impaired security is reflected at fair value based on the relevant closing stock market price as at 31 December 2011. The criteria used to allocate exposures to particular geographical areas is the country to which the funds were transferred.

1.4. Industrial sector analysis of the exposures

The industrial sector analysis of exposures, impaired assets and the related impairment provisions as at 31 December 2011 is as follows:

US$ '000	Gross funded credit exposure	Impaired securities	Provision against securities
Real estate – development	57,843	-	2,772
Real estate – income generating	15,095	10,035	2,300
Banking and financial institutions	62,842	1,354	71
Manufacturing	10,008	9,954	1,859
Automotive	1,432	-	-
Others	1,283	-	-
Total	148,503	21,343	7,002

The Bank has no unfunded exposures as at 31 December 2011.

1.5. Large exposures

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

The following are the large exposures of US$ 1,000,000 and over as of 31 December 2011:

Banks	Large exposure (banks) US$ '000	% of exposure to equity	Non-banks	Large exposure (non-banks) US$ '000	% of exposure to equity
Bank A	28,672	19.53%	Counterparty A	25,273	17.22%
Bank B	18,275	12.45%	Counterparty B	24,737	16.85%
			Counterparty C	10,565	7.20%
			Counterparty D	5,495	3.74%
			Counterparty E	4,383	2.99%
			Counterparty F	3,972	2.71%
			Counterparty G	3,919	2.67%
			Counterparty H	3,238	2.21%
			Counterparty I	2,897	1.97%
			Counterparty J	2,461	1.68%
			Counterparty K	2,404	1.64%
			Counterparty L	1,246	0.85%
			Counterparty M	1,150	0.78%
			Counterparty N	1,102	0.75%
			Counterparty O	1,092	0.74%

1.6. Exposure by external credit rating

The Bank uses ratings issued by Standard & Poor's, Moody's, Capital Intelligence and Fitch to derive the risk weightings under the CBB's Basel 2 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes. The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures as at 31 December 2011:

US$ '000	Gross credit exposure	Rated Exposure	Unrated exposure
Cash and claims on banks	61,461	31,693	29,768
Equity portfolio	71,571	-	71,571
Other exposures	15,471	-	15,471
Total	148,503	31,693	116,810

1.7. Intra-group transactions including exposures to related parties

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are on an arm's length basis and are identical to those applicable to transactions with all other parties. Exposures as at 31 December 2011 are as follows:

Risk Management (continued)

Exposures to related parties

US$ '000	Gross credit exposure
Claims on associates	53,961
Claims on investee companies	9,826
Total	63,787

Liabilities to related parties

US$ '000	Gross credit exposure
Deposit payable to shareholders	1,094
Total	1,094

1.8. Impairment of assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the statement of income.

Evidence of impairment may include indications that the investee company is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

Impairment is determined as follows:

a) for assets carried at amortised cost, impairment is based on the present value of estimated future cash flows discounted at the original effective profit rate;

b) for assets carried at fair value, impairment is the difference between cost and fair value; and

c) for assets carried at cost, impairment is based on the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

1.9. Impairment losses on financial assets

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

2. Liquidity Risk and Funding Management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under both normal and stress circumstances. The Assets & Liabilities Committee monitors future cash flows and liquidity required for working capital and investment acquisition. The Bank's investments generally have a long-term maturity and hence, as a matter of policy, the long-term investments are funded from IIB's own capital. The Bank maintains significant cash and cash equivalent balances and also has access to geographically diversified funding sources, although no deposit liabilities or long-term funding by external counterparties were booked during 2011. The ratio of liquid assets (defined as cash, balances with banks, due from financial institutions and quoted investments) to total assets at 31 December 2011 is 47.2%. Details of liquidity risk and funding management are contained in Note 17.3 to the consolidated financial statements.

The table below shows an analysis of financial assets and liabilities as at 31 December 2011 analysed according to when they are expected to be recovered or settled.

US$ '000	Within 1 month	1-3 months	3-6 months	6-12 months	Total within 12 months	1-5 years	Total
ASSETS							
Cash	-	-	-	-	-	-	-
Claims on banks	39,615	21,846	-	-	61,461	-	61,461
Receivables	27	4,454	1,703	1,257	7,441	2,385	9,826
Investment in quoted equities	-	-	-	-	-	8,659	8,659
Investment in unquoted equities	-	-	-	-	-	8,951	8,951
Investment property	-	-	-	-	-	4,374	4,374
Investment in associates	-	-	-	-	-	53,961	53,961
Other assets	46	142	30	-	218	1,053	1,271
Total assets	39,688	26,442	1,733	1,257	69,120	79,383	148,503
LIABILITIES							
Other liabilities	198	1,098	66	21	1,383	316	1,699
Total liabilities	198	1,098	66	21	1,383	316	1,699
Net gap	39,490	25,344	1,667	1,236	67,737	79,067	146,804

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

US$ '000	Within 1 month	1-3 months	3-6 months	6-12 months	Total within 12 months	1-5 years	Total
ASSETS							
Cash	-	-	-	-	-	-	-
Claims on banks	4,979	28,425	-	-	33,404	-	33,404
Receivables	8,394	19,031	5,192	3,563	36,180	5,028	41,208
Investment in quoted equities	-	-	-	-	-	11,944	11,944
Investment in unquoted equities	-	-	-	-	-	10,856	10,856
Investment property	-	-	-	-	-	4,533	4,533
Investment in associates	-	-	-	3,956	3,956	-	3,956
Assets classified as held for sale	-	-	-	52,591	52,591	-	52,591
Other assets	55	102	50	10	217	1,463	1,680
Total assets	13,428	47,558	5,242	60,120	126,348	33,824	160,172
LIABILITIES							
Other liabilities	392	59	-	1,183	1,634	270	1,904
Total liabilities	392	59	-	1,183	1,634	270	1,904
Net gap	13,036	47,499	5,242	58,937	124,714	33,554	158,268

Risk Management (continued)

3. Market Risk

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

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

Note 17.4 to the consolidated financial statements details the Bank's exposure to equity price risk, foreign currency risk and profit rate risk.

4. Operational Risk

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

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

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

5. Legal Risk

Legal Risk is the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise adversely affect the operations of the Bank. It has professional service arrangements with well-established local and international law firms. The policies and procedures of the Bank ensure that investments are made, funds are transferred, contracts are entered into, legal agreements are signed and any other binding arrangement is executed only after a rigorous legal due diligence has been performed either by the Legal and Compliance Departments or external legal counsel. IIB fully complied with all applicable laws and regulations during the year ended 31 December 2011 and accordingly was not subject to any penalties for non-compliance.

Organisation Structure

Chief Executive Officer

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

Direct Investment & Business Development

Narayanan Ganapathy, Director
Fadi Al-Qassim, Director and Acting Legal Officer
Atif Naveed, Associate
Marieta Cano, Executive Secretary

Investment Placement

Alyas Al-Meftah, Director
Bashar Al-Shaikh, Principal
Mona Mahmood Ghuloom, Coordinator
Bushra A.Hassan Al-Madhi, Coordinator

Asset Management

Murtaza Ghulam, Principal
Salah Hasan Habib, Associate, Investor Relations
Sadaf Gill, Analyst
Ruby Castro, Executive Secretary

Finance and Administration

Michael Ross-McCall, Chief Financial Officer (CFO)
Augustine Peter, Principal - Finance
Haleema Ebrahim, Associate - Treasury
Hassan Abbas, Officer
Hussain Ali Jassim, General Services Supervisor
Khulood Farhan, Receptionist & General Secretary

Information Technology

Said Itani, Head
Sayed Hussein Mahdi, Associate

Risk Management

Ninan Varkey, Head

Internal Audit

Ali Redha, Director

Human Resources

Sawsan Al-Ansari, Consultant

Corporate Communications & PR

Omar Shaheen, Principal

Compliance

Mohammed Juma Habib, Associate

Shari'ah Review

Mahmood Al-Qassab, Coordinator

Shari'ah Supervisory Board Report

On the audited Financial Statements for the year ending December 31, 2011
International Investment Bank

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

The Shari'ah Supervisory Board ("SSB") was presented with all the investment deals and transactions that were conducted by the International Investment Bank ("Bank") during the course of the year ending December 31, 2011. The SSB reviewed the principles and contracts relating to all these investments and transactions in order to issue an independent opinion on whether the Bank followed the principles of the Islamic Shari'ah, specific fatwas, and guidelines issued by the SSB, where the Bank's management is responsible for ensuring that its operations are carried out in compliance with SSB rulings. Furthermore, the SSB has reviewed the internal review and update reports issued by the Internal Shari'ah Reviewer. The SSB responsibility is to present an independent view of the Bank's operations and to communicate it to the shareholders.

In our opinion:

1. The Bank's contracts, transactions and deals for the year ending December 31, 2011 are in compliance with the rules and principles of the Islamic Shari'ah.
2. The Bank's allocation of profit and charging of losses relating to investment accounts are in compliance with the rules and principles of the Islamic Shari'ah.
3. Earnings that have been realized from sources that are non-Shari'ah compliant were donated to charity.
4. The Bank's calculation of Zakat is in compliance with the rules and principles of the Islamic Shari'ah.

We beseech the Almighty to grant us excellence and success.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sheikh Nizam Yaquby
Chairman

Dr. Osama Bahar
Member

Sh. Abdul Nasser Al-Mahmoud
Member

Financial Statements
31 December 2011

Independent Auditors' Report

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

We have audited the accompanying consolidated statement of financial position of International Investment Bank B.S.C. (c) ["the Bank"] and its subsidiaries ["the Group"] as of 31 December 2011, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2011 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Ernst & Young

5 March 2012
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 US$ '000	2010 US$ '000
ASSETS			
Cash and balances with banks		697	1,781
Due from financial institutions	5	60,764	31,623
Receivables	6	9,826	41,208
Investments	7	17,610	22,800
Investment in real estate	8	4,374	4,533
Assets classified as held for sale		-	52,591
Investment in associates	10	53,961	3,956
Equipment		1,049	1,457
Other assets		222	223
TOTAL ASSETS		148,503	160,172
LIABILITIES AND EQUITY			
Other liabilities	11	1,699	1,904
TOTAL LIABILITIES		1,699	1,904
OWNERS' EQUITY			
Share capital	12	109,996	109,996
Treasury shares	12	(6,798)	(6,798)
Share premium	12	72,050	72,050
Reserves	12	3,353	7,027
Accumulated deficit		(33,337)	(24,007)
		145,264	158,268
Non-controlling Interest		1,540	-
TOTAL EQUITY		146,804	158,268
TOTAL LIABILITIES AND EQUITY		148,503	160,172

Saeed Abdul Jalil Al Fahim
Chairman

Aabed Al Zeera
Chief Executive Officer

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

Consolidated Statement of Income

For the year ended 31 December 2011

	Notes	2011 US$ '000	2010 US$ '000
INCOME			
Income on due from financial institutions and receivables		1,644	1,592
Management fees		642	666
Income from investment in real estate, net		213	174
Dividend income		129	398
Gain on sale of investments, net		20	526
Unrealised fair value loss on investment in real estate	8	(159)	(751)
Other income		578	931
TOTAL INCOME		3,067	3,536
EXPENSES			
General and administration expenses	4	2,125	2,518
Corporate expenses		1,803	1,769
Selling expenses		743	964
Deal acquisition expenses		650	857
Asset management expenses		311	620
TOTAL EXPENSES		5,632	6,728
OPERATING LOSS		(2,565)	(3,192)
Share of loss from associates	10	(3,439)	(31)
NET LOSS BEFORE IMPAIRMENT LOSSES, PROVISIONS AND FOREIGN EXCHANGE LOSSES		(6,004)	(3,223)
Impairment losses and provisions	6,7	(3,303)	(17,339)
Loss on foreign exchange		(102)	(188)
NET LOSS FOR THE YEAR		(9,409)	(20,750)
Attributable to:			
Equity holders of the parent		(9,330)	(20,750)
Non controlling interest		(79)	-
		(9,409)	(20,750)

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 US$ '000	2010 US$ '000
OPERATING ACTIVITIES			
Net loss for the year		(9,409)	(20,750)
Adjustments for:			
Depreciation		598	683
Unrealised fair value loss on investment in real estate		159	751
Gain on sale of investments, net		(20)	(526)
Share of loss from associates		3,439	31
Impairment losses and provisions		3,303	17,339
		(1,930)	(2,472)
Changes in operating assets and liabilities:			
Receivables		4,153	(18,672)
Other assets		1	200
Other liabilities		(205)	(1,090)
Purchase of investments		-	(213)
Proceeds from disposal of investments		422	2,894
Net cash generated from (used in) operating activities		2,441	(19,353)
INVESTING ACTIVITIES			
Purchase of equipment		(190)	(166)
Purchase of investment in real estate		-	(4,753)
Net cash used in investing activities		(190)	(4,919)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,251	(24,272)
Cash and cash equivalents at beginning of the year		33,404	57,676
Cash and cash equivalents on conversion to subsidiary	9.3	25,806	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		61,461	33,404
Cash and cash equivalents comprise:			
Cash and balances with banks		697	1,781
Due from financial institutions with original maturities of three months or less		60,764	31,623
		61,461	33,404

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Reserves: Statutory reserve US$ '000	Reserves: Cumulative changes in fair value reserve US$ '000	Reserves: Foreign currency translation reserve US$ '000	Total reserves US$ '000	Accumulated deficit US$ '000	Non-controlling Interest US$ '000	Total US$ '000
Balance at 1 January 2011	109,996	(6,798)	72,050	5,588	2,661	(1,222)	7,027	(24,007)	-	158,268
Unrealised losses on re-										
measurement to fair value, net	-	-	-	-	(6,075)	(484)	(6,559)	-	-	(6,559)
Trasferred to statement of income										
on impairment	-	-	-	-	2,885	-	2,885	-	-	2,885
Non controlling interest acquired	-	-	-	-	-	-	-	-	1,619	1,619
Net loss for the year	-	-	-	-	-		-	(9,330)	(79)	(9,409)
Balance at 31 December 2011	109,996	(6,798)	72,050	5,588	(529)	(1,706)	3,353	(33,337)	1,540	146,804
Balance at 1 January 2010	109,996	(6,798)	72,050	5,588	(1,953)	856	4,491	(3,257)	-	176,482
Unrealised gains on re-										
measurement to fair value, net	-	-	-	-	2,862	-	2,862	-	-	2,862
Trasferred to statement of income										
on impairment	-	-	-	-	1,752	-	1,752	-	-	1,752
Unrealised translation losses on										
assets classified as held for sale	-	-	-	-	-	(2,078)	(2,078)	-	-	(2,078)
Net loss for the year	-	-	-	-	-	-	-	(20,750)	-	(20,750)
Balance at 31 December 2010	109,996	(6,798)	72,050	5,588	2,661	(1,222)	7,027	(24,007)	-	158,268

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

Notes to the Consolidated Financial Statements
At 31 December 2011

1 CORPORATE INFORMATION AND ACTIVITIES

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

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

The Bank and its subsidiaries (together the "Group") operate in the Kingdom of Bahrain and the Cayman Islands.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 5 March 2012.

2 ACCOUNTING POLICIES

a) Basis of preparation

These consolidated financial statements have been prepared under the historical cost basis except for investments and investment in real estate which have been measured at fair value.

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

b) Statement of compliance

These consolidated financial statements have been prepared in accordance with Financial Accounting Standards ["FAS"] issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"], the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards ["IFRS"] issued by the International Accounting Standards Board ["IASB"].

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2011. The financial information of the subsidiaries (including special purpose entities that the Bank consolidates) are prepared for the same reporting year as the Bank, using consistent accounting policies.

A subsidiary is an entity over which the Group has power to control, which is other than fiduciary in nature. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases to exist. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

All intra-group balances, transactions, income and expenses are eliminated in full.

Non-controlling interest represents the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Group. Non-controlling interests are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from owners' equity. Any losses applicable to the non-controlling interest in excess of the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

For the purpose of investing in real estate development projects, the Bank formed Istethmary Sarajevo City Centre-I and Istethmary Petrochemical Holding Company B.S.C. (c) with the intention of selling equity stakes of these entities to investors. Accordingly in 2010, assets and liabilities of these entities were classified as "assets held for sale" in accordance with the requirements of IFRS 5, "Non Current Assets Held for Sale and Discontinued Operations" as disclosed in note 9. However, due to adverse market conditions, the management of the Bank decided in 2011 to hold the majority stake in these entities. Therefore, Istethmary Sarajevo City Centre-I and Istethmary Petrochemical Holding Company have been consolidated on a line by line basis during the year ended 31 December 2011 on a prospective basis. Comparative figures are on an unconsolidated basis.

Notes to the Consolidated Financial Statements

At 31 December 2011

2 ACCOUNTING POLICIES (continued)

c) Basis of consolidation (continued)

The following are the Group's subsidiaries as at 31 December 2011:

Name of subsidiary	Notes	Country of incorporation	Year of incorporation	Equity interest	Industry
Istethmary Sarajevo City Centre-I Limited	9.1	Cayman Islands	2009	93.77%	SPV for investment in real estate
Istethmary Petrochemical Holding Company B.S.C (c)	9.2	Kingdom of Bahrain	2008	100%	SPV for investment in real estate

d) Significant accounting judgments and estimates

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

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

Fair value

Fair value of unquoted investments at fair value through equity

Where the fair value of the Group's investment portfolio cannot be derived from an organised market, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment by management is required to establish fair values. The judgments include consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

Fair value of investment in real estate

The fair value of investment in real estate is determined by independent real estate valuation experts. The determination of the fair value of such assets requires the use of judgment and estimates by independent valuation experts that are based on local market conditions existing at the date of the statement of financial position.

Impairment

The Group treats investments classified as fair value through equity as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In making this judgment, the Group evaluates, among other factors, normal volatility in share price and duration and the extent to which the fair value of quoted equities is less than its cost and the future cash flows and the discount factors for unquoted equities.

The Group reviews its doubtful financial contracts on each reporting date to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Notes to the Consolidated Financial Statements
At 31 December 2011

e) New and amended standards and framework

The accounting policies are consistent with those of the previous year except for the following new and amended FAS and framework effective as of 1 January 2011:

- FAS 25 Investment in sukuk, shares and similar instruments

The adoption of the standards and conceptual framework is described below:

Conceptual Framework for Financial Reporting by Islamic Financial Institutions

The amended conceptual framework provides the basis for the Financial Accounting Standards issued by AAOIFI. The amended framework introduces the concept of substance and form, compared to the concept of form over substance. The framework states that it is necessary that information, transactions and other events are accounted for and presented in accordance with their substance and economic reality as well as the legal form. The adoption of the conceptual framework did not have any material impact on these consolidated financial statements.

FAS 25 Investment in sukuk, shares and similar instruments

The Group has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in sukuk, shares and similar investments that exhibit characteristics of debt or equity instruments made by Islamic financial institutions. The adoption of this standard did not have any material impact on the accounting policies, financial position or performance of the Group.

f) Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated 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 rates of exchange prevailing at the statement of financial position date. All differences are taken to the consolidated 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 initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined. Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on investments classified as fair value through equity.

Group companies

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency (US$) at the rate of exchange prevailing at the statement of financial position date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount recognised in other comprehensive income relating to that particular foreign subsidiary is recognised in the consolidated statement of income.

ii) Financial instruments

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 classified as fair value through equity are included in the cost of such investments.

Notes to the Consolidated Financial Statements
At 31 December 2011

2 ACCOUNTING POLICIES (continued)

f) Summary of significant accounting policies (continued)

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at their cost being the fair value of the consideration given plus any directly attributable incremental costs of acquisition or issue, except in the case of financial assets recorded at fair value through statement of income.

Due from financial institutions

Due from financial institutions comprise of commodity murabaha receivables and are stated net of deferred profit and provision for impairment, if any.

Murabaha receivables are sales on deferred terms. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the Murabeh over the agreed period.

Investments

Investments are initially designated as “fair value through equity”.

After initial recognition, investments are remeasured at fair value. Unrealised gains and losses are recognised directly in equity in the “Investments fair value reserve”. When the investment is disposed of or determined to be impaired, the cumulative gain or loss, previously transferred to the investments fair value reserve, is recognised in the consolidated statement of income. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a weighted average basis.

iii) Investment in real estate

Real estate held for rental or capital appreciation purposes, or both, is classified as investment in real estate. Investment in real estate is initially recognised at cost including transaction costs and subsequently re-measured at fair value with the resulting unrealised gains being recognised in the statement of changes in equity under “cumulative changes in fair value reserve”. Losses after adjusting any unrealised gain in equity, are taken to the consolidated statement of income. In the case of unrealised losses that have been recognised in the statements of income in previous periods, the unrealised gains related to the current financial period are recognised to the extent of crediting back such previous losses in the statement of income. Any excess of such gains over such prior-period losses are added to the “cumulative changes in fair value reserve” in the statement of financial position.

iv) Assets classified as 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 twelve 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.

v) 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 Group 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

Notes to the Consolidated Financial Statements
At 31 December 2011

- the Group 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.

  When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities

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

vi) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is 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 has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Investments

In the case of equity investments designated as fair value through equity, 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 recycled from fair value reserve 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.

vii) Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amounts reported in the statement of financial position when there is a legally enforceable or religious right to set off the recognised amounts and the Group intends to either settle these on a net basis, or intends to realise the asset and settle the liability simultaneously.

viii) Investment in associates

The Group's investments in associates are accounted for under the equity method of accounting. These are entities over which the Group exercises significant influence. Significant influence is presumed to exist if the Bank holds, directly or indirectly through its subsidiaries, 20% or more of the voting rights in an entity, unless it can be clearly demonstrated otherwise. Conversely, the significant influence may also exist through agreements with the entity's other shareholders or the entity itself regardless of the level of shareholding that the Bank has in the said entity.

Under the equity method, an investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised or individually tested for impairment.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been an income or expense recognised in the other comprehensive income of the associate, the Group recognises its share of any such income or expense, when applicable, directly in the equity. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of stake in the associate.

Notes to the Consolidated Financial Statements

At 31 December 2011

2 ACCOUNTING POLICIES (continued)

f) Summary of significant accounting policies (continued)

viii) Investment in associates (continued)

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

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in the consolidated statement of income.

ix) Equipment

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

x) Revenue recognition

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, placings with investors and arranging financing. These fees are recognised when earned, generally on receipt of cash and signed share purchase agreements by the Bank.

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

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

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

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

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

xi) 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.

xii) Zakah

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

xiii) Cash and cash equivalents

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

xiv) Fiduciary assets

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

Notes to the Consolidated Financial Statements

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xv) Proposed dividend

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

xvi) 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.

xvii) Treasury shares

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

3 STAFF COSTS

	2011 US$ '000	2010 US$ '000
Salaries and other staff related costs	3,153	3,790
End of service benefits	101	161
	3,254	3,951

The Bank classifies its expenses based on function and staff costs have been allocated to corporate, deal acquisition, selling and asset management expenses in the consolidated statement of income.

4 GENERAL AND ADMINISTRATION EXPENSES

	2011 US$ '000	2010 US$ '000
Depreciation	598	683
Rent and maintenance	407	508
Legal and professional	272	332
IT expenses	241	284
Printing and advertisement	136	138
Shari'a Supervisory Board remuneration	113	106
Donations	50	100
Communication	44	47
Others	264	320
	2,125	2,518

5 DUE FROM FINANCIAL INSTITUTIONS

	2011 US$ '000	2010 US$ '000
Commodity murabaha	60,830	31,721
Deferred income	(66)	(98)
	60,764	31,623

Notes to the Consolidated Financial Statements

At 31 December 2011

6 RECEIVABLES

	Notes	2011 US$ '000	2010 US$ '000
Receivables and prepayments	6.1	2,553	7,220
Due from investee companies	6.2	7,273	33,988
		9,826	41,208

6.1 Receivables and prepayments

	Note	2011 US$ '000	2010 US$ '000
Management fee receivables		2,059	1,493
Receivable from investee companies		581	1,060
Other receivables		10	4,764
		2,650	7,317
Provisions	6.3	(97)	(97)
		2,553	7,220

6.2 Due from investee companies

	Note	2011 US$ '000	2010 US$ '000
Commodity murabaha receivables		12,137	37,966
Deferred profit		(201)	(1,124)
		11,936	36,842
Provision / suspended profit	6.3	(4,663)	(2,854)
		7,273	33,988

6.3 Movement in provisions

	Receivables and prepayments 2011 US$ '000	Due from investee companies 2011 US$ '000	Total 2011 US$ '000	Total 2010 US$ '000
Opening	97	2,854	2,951	2,000
Charge during the year (including suspended profit)	-	1,809	1,809	951
	97	4,663	4,760	2,951

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7 INVESTMENTS

	2011 US$ '000	2010 US$ '000
Fair value through equity		
Quoted	8,659	13,160
Unquoted	8,951	9,640
	17,610	22,800

Impairment losses and provision on unquoted investments charged during the year

	2011 US$ '000	2010 US$ '000
Impairment losses:		
Quoted	1,265	7,046
Unquoted	905	8,025
	2,170	15,071
Provision on unquoted investments	-	2,000
	2,170	17,071

7.1 Quoted and unquoted investments include US$ 5,495 thousand (2010: US$ 9,304 thousand) and US$ 2,401 thousand (2010: US$ 2,400 thousand) respectively, held on behalf of the Bank, in the name of related parties for which risk and rewards are borne by the Bank.

8 INVESTMENT IN REAL ESTATE

	2011 US$ '000	2010 US$ '000
Opening balance	4,533	-
Acquired during the year	-	5,284
Fair value adjustment	(159)	(751)
	4,374	4,533

During 2010, the Bank purchased an eleven-storey residential tower from Bahrain Property Fund, managed by the Bank, with 23 apartments in the Kingdom of Bahrain. During the year the property has generated an average net monthly income of US$ 18 thousand (2010: US$ 22 thousand). The property is stated at fair value, determined based on valuations performed by two independent professional valuers as of 31 December 2011.

9 BUSINESS COMBINATION

9.1 During 2009, the Bank established Istethmary Sarajevo City Centre-I Limited ["the Company"], a special purpose vehicle incorporated in the Cayman Islands, which holds a 100% equity stake in Istethmary Sarajevo City Centre-II Limited, a special purpose vehicle incorporated in Cayman Islands, which owns indirectly an equity stake of 28.31% in Magros Veletrgovia d.d. As at 31 December 2010, the Bank had a 93.77% stake in the Company and the Bank remained committed to sell the investment and was actively marketing it at a price that was reasonable, given the changes in market conditions.

Istethmary Sarajevo City Centre-I Limited was previously classified under IFRS 5 as "assets classified as held for sale". As disclosed in note 2(c) the Group revised its plan to sell this investment effective 1 January 2011, and in line with the requirements of FAS 23 has consolidated all the assets and liabilities, and the net loss for the period up to 31 December 2011.

Notes to the Consolidated Financial Statements
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9 BUSINESS COMBINATION (continued)

9.2 In 2008, the Bank established a fully owned subsidiary, Istethmary Petrochemicals Holding Co. B. S. C. (c), a special purpose vehicle incorporated in the Kingdom of Bahrain, to invest in a wholly owned subsidiary Istethmary Al Fareeda Company B.S.C. (c) ("the Company"), another special purpose vehicle incorporated in the Kingdom of Bahrain which owns an equity stake of 26.96% in Ewaan Al Fareeda Company, a limited liability company in the Kingdom of Saudi Arabia.

Istethmary Petrochemicals Holding Co. B.S.C (c) was previously classified under IFRS 5 as "assets classified as held for sale". As disclosed in note 2(c) the Group revised its plan to sell this investment effective 1 Janaury 2011, and in line with the requirements of FAS 23 has consolidated all the assets and liabilities, and the net loss for the period up to 31 December 2011.

9.3 Management estimates that the fair value of identifiable assets and liabilities of consolidated subsidiaries as at 1 January 2011 were not materially different from their carrying value as disclosed below:

	Istethmary Sarajevo City Centre-I Limited US$ '000	Istethmary Petrochemicals Holding Co. B.S.C. (c) US$ '000	Total US$ '000
ASSETS			
Cash and cash equivalents	8	25,798	25,806
Investment in associate	25,627	26,712	52,339
	25,635	52,510	78,145
LIABILITIES			
Due to financial institution	-	26,395	26,395
Other liabilities	22	8	30
	22	26,403	26,425
Total net assets	25,613	26,107	51,720
Non controlling interest	1,596	-	1,596

10 INVESTMENT IN ASSOCIATES

	Ownership	Notes	2011 US$ '000	2010 US$ '000
IIB UAE Investments Limited	27.32%	10.1	5,728	5,759
Al Shiddi International	32.98%	10.2	27,754	-
Ewaan Al Fareeda	26.96%	10.3	27,456	-
Foreign exchange loss			(1,766)	-
Share of loss from associates			(3,439)	(31)
			55,733	5,728
Provision			(1,772)	(1,772)
			53,961	3,956

Following is the summarised financial information of the Group's investment in associates based on management accounts as at 31 December 2011:

Notes to the Consolidated Financial Statements

At 31 December 2011

	2011 US$ '000	2010 US$ '000
Total assets	229,210	32,353
Total liabilities	(15,921)	(17)
Net assets	213,289	32,336
Total income	511	18
Total expenses	6,971	(193)
Share of loss from associate	(3,439)	(31)

10.1 During 2007, Bay Development Properties Limited ("the Company"), in which IIB UAE Investments Limited owns 64.80% of the equity, entered into a conditional sale/purchase agreement with a buyer to sell the investment property. Subsequently, the Company terminated this sale/purchase agreement on the basis that the buyer failed to fulfill his contractual obligation. The buyer commenced a court action against the Company for specific performance of the sale/purchase agreement.

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

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

The Company has filed a case in the Court of First Instance to claim the remaining amount of the deal of AED 104 million (US$ 28 million). The Company has filed for an arrest warrant with the local police for the Managing Director of the buyer on the basis of issuing cheques without funds, after obtaining confirmation from the bank that funds were not sufficient to cover the cheque amounts issued to the Company worth AED 60 million (US$ 16.3 million). The buyer reacted by submitting a request to the Cheques Committee to disclaim the arrest warrant. Hearings with the Cheques Committee concluded in November 2010 and the Committee issued its final verdict. The Committee confirms that the amount of the cheques has not been paid by the buyer and instructed him to settle the amount by issuing court cheques of AED 10 million (US$ 2.7 million) for six consecutive months, and these have to be submitted to the court before the end of November 2011. The buyer did not do so, and the Committee has returned the case to the Public Prosecutor for criminal pursuit. The matter now is in progress.

In the same case the buyer has filed a counterclaim against the Company seeking AED 250 million as compensation for the 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.

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 them. The Board of Directors and management of the Bank are confident of a favourable outcome of the legal proceedings and therefore, no further provision has been made.

10.2 Al Shiddi International has a controlling shareholding stake in a subsidiary which is being accounted for as unregistered capital by the subsidiary due to pending legal formalities and requirements of the Privatization Commission in Bosnia. However, based on the substance of the transaction, the subsidiary has been consolidated in Al Shiddi International.

10.3 Ewaan Al Fareeda purchased a plot of land from a related party for onward development. The beneficial ownership and possession of the land has been transferred to Ewaan Al Fareeda and development has been initiated. However, the legal title of this land is still with the seller pending legal formalities.

Notes to the Consolidated Financial Statements
At 31 December 2011

11 OTHER LIABILITIES

	2011 US$ '000	2010 US$ '000
Payable to a shareholder	1,094	1,088
Accrued expenses	515	524
Other payables	90	292
	1,699	1,904

12 EQUITY

	2011 US$ '000	2010 US$ '000
Share capital		
Authorised: 200,000,000 ordinary shares of US$ 1 each	200,000	200,000
Issued and fully paid: 109,996,000 ordinary shares of US$ 1 each	109,996	109,996

Treasury Shares	2011		2010	
	Number of shares '000	Value US$ '000	Number of shares '000	Value US$ '000
At 31 December	3,000	6,798	3,000	6,798

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 until such time as the reserve equals 50% of the issued share capital of the Bank. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain. As the Bank made a loss for the year, no transfers have been made at the year end.

Cumulative changes in fair value reserve

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

Foreign currency translation reserve

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

13 PROPOSED APPROPRIATIONS

The Board of Directors of the Bank has not proposed any cash dividend (2010: US$ Nil), owing to the fact that the Bank has incurred an operating loss in the year.

14 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.

Notes to the Consolidated Financial Statements

At 31 December 2011

The significant balances with related parties were as follows:

	Shareholders/ directors US$ '000	Others US$ '000	Total 2011 US$ '000	2010 US$ '000
ASSETS				
Investments	-	973	973	1,333
Assets classified as held for sale	-	-	-	52,591
Investment in associate	-	53,961	53,961	3,956
Receivable from investee companies	-	11	11	25,625
LIABILITIES				
Other liabilities - payable to a shareholder	1,094	-	1,094	1,088

Transactions with related parties during the year as follows:

	Notes	Shareholders/ directors US$ '000	Others US$ '000	Total 2011 US$ '000	2010 US$ '000
ASSET					
Investment in real estate	8	-	-	-	5,284
INCOME					
Share of loss from					
associates	10	-	(3,439)	(3,439)	(31)
Dividend income		-	-	-	14
Investment banking fees		-	-	-	91
Directors' remuneration		-	-	-	-
Shari'a Supervisory Board remuneration		-	113	113	106

Compensation of key management personnel was as follows:

	2011 US$ '000	2010 US$ '000
Short term employee benefits	1,961	2,360
End of service benefits	191	265
	2,152	2,625

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15 COMMITMENTS

	2011 US$ '000	2010 US$ '000
Operating lease relating to rented premises		
Expiring within one year	244	202
Expiring in one to three years	294	-
	538	202

16 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 18.3 "Liquidity risk and funding management" for the Bank's contractual undiscounted repayment obligations.

As at 31 December 2011

	Up to 3 months US$ '000	3 to 12 months US$ '000	Subtotal less than 12 months US$ '000	1 to 3 years US$ '000	Undated US$ '000	Total US$ '000
Cash and balances with banks	697	-	697	-	-	697
Due from financial institutions	60,764	-	60,764	-	-	60,764
Receivables	4,481	2,960	7,441	2,385	-	9,826
Investments	-	-	-	17,610	-	17,610
Investment in real estate	-	-	-	4,374	-	4,374
Investment in associate	-	-	-	53,961	-	53,961
Other assets (including equipments)	187	31	218	4	1,049	1,271
Total assets	66,129	2,991	69,120	78,334	1,049	148,503
Other liabilities	1,296	87	1,383	315	1	1,699
Total liabilities	1,296	87	1,383	315	1	1,699
Net gap	64,833	2,904	67,737	78,019	1,048	146,804

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At 31 December 2011

As at 31 December 2010

	Up to 3 months US$ '000	3 to 12 months US$ '000	Subtotal less than 12 months US$ '000	1 to 3 years US$ '000	Undated US$ '000	Total US$ '000
ASSETS						
Cash and balances with banks	1,781	-	1,781	-	-	1,781
Due from financial institutions	3,198	28,425	31,623	-	-	31,623
Receivables	31,967	6,834	38,801	2,407	-	41,208
Investments	-	-	-	22,800	-	22,800
Investment in real estate	-	-	-	4,533	-	4,533
Assets classified as held for sale	-	52,591	52,591	-	-	52,591
Investment in associates	-	-	-	3,956	-	3,956
Other assets (including equipments)	164	59	223	-	1,457	1,680
Total assets	37,110	87,909	125,019	33,696	1,457	160,172
LIABILITIES						
Other liabilities	451	1,183	1,634	270	-	1,904
Total liabilities	451	1,183	1,634	270	-	1,904
Net gap	36,659	86,726	123,385	33,426	1,457	158,268

17 RISK MANAGEMENT

17.1 Introduction

Risk is inherent in the Bank's 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, operational risk and legal risk.

a) Risk management structure

Board of Directors

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

Shari'a Supervisory Board

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

Executive Committee

The Executive Committee comprising of the Board members considers and approves requests to purchase and sell individual investments up to the limit imposed by the Board.

Notes to the Consolidated Financial Statements

At 31 December 2011

17 RISK MANAGEMENT (continued)

17.1 Introduction (continued)

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 initiate detailed due diligence procedures.

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

Internal Audit

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

b) Risk measurement and reporting systems

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

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

c) Excessive risk concentration

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

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

Notes to the Consolidated Financial Statements

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17.2 Credit risk

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

a) Risk concentrations of the maximum exposure to credit risk

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

	Notes	Gross credit exposure 2011 US$ '000	Gross credit exposure 2010 US$ '000
Credit risk items:			
Balances with banks		695	1,779
Due from financial institutions	5	60,764	31,623
Receivables	6	9,826	41,208
Other assets		222	223
Total Credit Risk Exposure		71,507	74,833

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

b) Geographic distribution of the gross funded exposures

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

As at 31 December 2011

	Balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Other assets US$ '000	Total US$ '000
Geographical region:					
Bahrain	695	60,764	2,957	222	64,638
Europe	-	-	6,408	-	6,408
Other GCC countries	-	-	236	-	236
Africa	-	-	77	-	77
Asia	-	-	148	-	148
	695	60,764	9,826	222	71,507
As at 31 December 2010					
Geographical region:					
Bahrain	1,616	3,350	33,832	223	39,021
Europe	-	-	6,632	-	6,632
Other GCC countries	163	28,273	584	-	29,020
Africa	-	-	73	-	73
Asia	-	-	87	-	87
	1,779	31,623	41,208	223	74,833

Notes to the Consolidated Financial Statements

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17 RISK MANAGEMENT (continued)

17.2 Credit risk (continued)

c) Industry distribution of the gross funded exposures

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

As at 31 December 2011

	Balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Other assets US$ '000	Total US$ '000
Industry sector:					
Real estate-development	-	-	206	-	206
Real estate-income generating	-	-	6,383	-	6,383
Banking and financial institutions	695	60,764	159	-	61,618
Manufacturing	-	-	2,992	-	2,992
Automotive	-	-	77	-	77
Others	-	-	9	222	231
	695	60,764	9,826	222	71,507

As at 31 December 2010

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

Notes to the Consolidated Financial Statements
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d) Credit quality per class of financial assets

The Group uses the ratings assigned by External Credit Assessment Institutions ["ECAI"] to ascertain credit quality of financial assets. ECAI considered by the Group are Standard and Poor's, Moody's and Fitch. The counterparties for which a rating is not available are classified under "unrated". The table below analyses the credit quality of the Bank's maximum credit exposure as per the credit ratings of the counterparties:

	2011 US$ '000	2010 US$ '000
Credit rating:		
A+ and better	28,838	28,436
A and A-	-	4,259
BB+ and better	2,855	-
Unrated	39,814	42,138
	71,507	74,833

e) Aging of financial assets

As at 31 December 2011	Neither past due nor impaired US$ '000	Past due and individually impaired US$ '000	Total US$ '000
Balances with banks	695	-	695
Due from financial institutions	60,764	-	60,764
Receivables	1,072	8,754	9,826
Other assets	222	-	222
	62,753	8,754	71,507

As at 31 December 2010	Neither past due nor impaired US$ '000	Past due and individually impaired US$ '000	Total US$ '000
Balances with banks	1,779	-	1,779
Due from financial institutions	31,623	-	31,623
Receivables	35,059	6,149	41,208
Other assets	223	-	223
	68,684	6,149	74,833

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

Notes to the Consolidated Financial Statements
At 31 December 2011

17 RISK MANAGEMENT (continued)

17.2 Credit risk (continued)

f) Rescheduled receivables

Receivables amounting to US$ 6,972 thousand (2010: US$ 8,000 thousand) have been rescheduled during the year.

g) 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 2011 was US$ 29,766 thousand (2010: US$ 28,436 thousand).

17.3 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.

All other liabilities of the Bank are payable on demand.

17.4 Market risk

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

a) Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Bank has fair value through equity investments quoted on overseas stock exchanges. Based on the values at 31 December 2011, a change in the quoted price of plus or minus 10% would change the value of these investments by plus or minus US$ 866 thousand (2010: US$ 1,194 thousand) with a corresponding increase or decrease in equity, except in case where impairment loss accrued which will result in decrease being taken to statement of income.

The Bank also has unquoted investments carried at fair value using either net asset values or valuations from independent valuers. Based on the values at 31 December 2011, a change in the valuation of 10% would change the value of these investments by plus or minus US$ 895 thousand (2010: US$ 1,286 thousand) with a corresponding increase or decrease in equity.

b) Foreign currency risk

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

b) Foreign currency risk (continued)

The Bahraini Dinar (BHD), Saudi Riyal (SAR) and UAE Dirham (AED) are pegged to the US$ and resultantly positions in these currencies are not considered to represent significant currency risk. The Bank had the following net foreign currency exposures at 31 December 2011:

	2011 US$ '000	2010 US$ '000
Euro	3,023	3,058
Others	64	43
	3,087	3,101

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Sensitivity Analysis

The following table demonstrates the sensitivity to a reasonably possible movement of currency rates against the US$ (functional and reporting currency) based on the above positions as on 31 December, with all other variables held constant.

		2011	2010
	Change in exchange rate (+/-) %	Effect on net income/equity (+/-) US$ '000	Effect on net income/equity (+/-) US$ '000
Euro	10%	302	306
Others	10%	6	4

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 2011, a +/- 0.25% change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 164 thousand (2010: US$ 143 thousand) impact on the consolidated statement of income.

d) Legal risk

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise adversely affect the operations of the Bank. The Bank has mitigated its exposure to legal risk by entering into professional service arrangements with well-established local and international law firms. The policies and procedures of the Bank ensure that investments are made, funds are transferred, contracts are entered into, legal agreements are signed and any other binding arrangement is executed only after a rigorous legal due diligence has been performed either by the Legal and Compliance Department or external legal counsel.

18 CAPITAL MANAGEMENT

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

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

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

For the purposes of comparison, the proforma capital position as at 31 December, regulatory capital and risk weighted assets have been calculated in accordance with Basel II requirements as adopted by the CBB.

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18 CAPITAL MANAGEMENT (continued)

18.1 Capital adequacy ratio

	Notes	2011 US$ '000	2010 US$ '000
Regulatory capital			
Tier 1 capital	18.2	129,474	125,320
Total regulatory capital		129,474	125,320
Risk weighted assets	18.3	241,830	266,817
Total capital adequacy ratio		53.54%	46.97%
Minimum regulatory ratio		12%	12%

18.2 Tier 1 Capital

	2011 US$ '000	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 reserve	(3,347)	(1,655)
Accumulated deficit	(33,337)	(24,007)
Minority interest	1,540	-
Core Tier 1 Capital	145,692	155,174
Deductions	(8,359)	(15,623)
Tier 1 Capital before adjustments for negative balance of Tier 2	137,333	139,551
Negative balance of Tier 2	(7,859)	(14,231)
Tier 1 Capital net of negative Tier 2 Capital	129,474	125,320

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.

18.3 Risk weighted assets

	Basel II 2011 US$ '000	Basel II 2010 US$ '000
Credit risk weight assets	151,696	175,421
Market risk weight assets	34,538	35,800
Operational risk weight assets	55,596	55,596
	241,830	266,817

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Credit risk-weighted assets

The Bank uses the standardised approach, which requires banks to use external credit ratings to combine them into categories to which standardized risk weightings are applied. For regulatory purposes, credit risk-weighted assets include investments and receivables.

Market risk-weighted assets

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

Operational risk-weighted assets

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

19 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:

	2011			
	Level 1	Level 2	Level 3	Total
	US$ '000	US$ '000	US$ '000	US$ '000
Non-trading investments				
Quoted	8,659	-	-	8,659
Unquoted	-	5,118	3,833	8,951
	8,659	5,118	3,833	17,610

	2010			
	Level 1	Level 2	Level 3	Total
	US$ '000	US$ '000	US$ '000	US$ '000
Non-trading investments				
Quoted	13,160	-	-	13,160
Unquoted	-	5,526	4,114	9,640
	13,160	5,526	4,114	22,800

There has been no transfers from level 1 and level 2 to level 3 during the years 2011 and 2010.

Financial instruments recorded at fair value

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

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Financial Investments - fair value through equity

Fair value through equity 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 which are recorded at fair value:

	Unquoted 2011 US$ '000	Unquoted 2010 US$ '000
Balance at 1 January	4,114	5,610
Impairment losses recorded in consolidated statement of income	(344)	(1,496)
Fair value loss recorded in equity	(489)	-
Purchases, sales and settlements, net	552	-
Balance at 31 December	3,833	4,114

For the above financial instruments categorised as level 3, the Bank has used reasonably possible alternative assumptions and adjusted the discount rate by 10% as a key unobservable model input. The effect of this will result in +/- US$ 383 thousand (31 December 2010: US$ 411 thousand) adjustment in the carrying value of level 3 investments and related cumulative fair value change.

20 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.

21 SOCIAL RESPONSIBILITY

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

22 COMPARATIVES

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