Seera Investment Bank
2012 Annual Report

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MESSAGE FROM THE CHAIRMAN

It is my pleasure to present to you on behalf of the Board of Directors the 2012 annual report of Seera Investment Bank.

Overview

2012 was another profitable year for the Bank. I am pleased to report that Seera has achieved a net profit of $6.6 million.

Our earnings in 2012 have primarily been achieved from the aviation portfolio, investment fees, and treasury income. Seera's profitable results over the past several years reflect a positive and satisfactory performance in spite of the continuing challenging global economic environment. 2012 has also been very productive on several fronts, including closing of a successful new deal, further development of Seera's existing investment portfolio, and the return of excess capital to shareholders. Overall, we expect the Bank to benefit greatly in the future from work that was done in 2012.

During the year and in spite of the challenging market conditions, Seera completed a Shari'a compliant structured financing transaction for a new purpose built student housing project and commercial property in central London and was able to successfully place this transaction to its investors. In parallel, Seera has been working on building value in its investment portfolio and planning exits from some of its current investments. These exits are expected to take place in the short to midterm and are expected to generate positive returns for Seera and its investors.

The recommendation to release excess capital was approved in 2012, and the Bank returned to shareholders $146 million representing 50% of its paid-up capital of $291 million. It is worth mentioning that Seera's equity at the end of 2012, and after the return of capital to shareholders stood at $204 million, which is 70% of the original paid-up capital. This demonstrates that Seera has not only been able to safeguard shareholder capital but has also been able to grow its business, in the most challenging economic climate.

Seera also continues to benefit from disciplined liquidity management and an un-leveraged balance sheet, giving it room for future growth. Further contributing to a sound balance sheet is Seera's investment portfolio which is well diversified over a number of asset classes and industry sectors.

Although markets continue to be challenging, Seera still continues to grow albeit at a more modest rate, based on its prudent business strategy.

Financial Overview

Seera generated a net profit of $6.6 million. Gross income was $12.5 million which was primarily a result of lease income from Falak, the Bank's leased aircraft portfolio, fee based income from existing as well as new investments, and some income from treasury activity. Seera's core expenses continued to be tightly controlled and in spite of the increase in business activity, were almost 50% less than 3 years ago.

In terms of structure, the 50% paid-up capital reduction meant returning $146 million to shareholders during the year. This resulted in a reduction of shareholders equity to $204 million which also means that a positive growth in business was achieved, despite the difficult market conditions over the past few years.

Total assets stood at $360 million at the end of the year compared to the $527 million at the end of 2011. The reduction was mainly due to the return of capital to shareholders. The Bank's consolidated balance sheet includes Falak Ijara underlying assets, including liabilities of $141 million as a result of aircraft financing arrangements which are secured over each respective aircraft and have no recourse on Seera's balance sheet.

At the end of the year, Seera had $53.5 million of liquid assets which were held mainly in short-term Murabaha transactions. Seera's capital adequacy ratio stood at 30% compared with a minimum regulatory requirement of 12%.

Investment Portfolio

As previously mentioned, the Bank successfully completed a Shari'a compliant financing transaction in the UK student housing sector. This structured financing facility is underpinned by very favorable characteristics including the property's prime location, attractive investor returns, relatively short investment tenure of two and half years and a favorable risk profile. Given these characteristics, this deal has seen very healthy levels of investor interest and participation, well exceeding Seera's placement targets.

Falak's portfolio of leased commercial aircraft continues to generate income through steady lease payments from generally well known and established airlines. We have been successful in the placement of two ERJ's on a lease to own basis and are currently closing the transaction. Furthermore, efforts have started for the remarketing of other aircraft in the portfolio which are expected to come off lease within the next 12 months. This is an actively managed portfolio whereby, we continue to identify the best return path for each aircraft and to look for viable opportunities to sell or remarket the aircraft.

Kosan Crisplant (KC) is a world leader in providing filling solutions for Liquefied Petroleum Gas cylinders. The company ended 2012 with record levels of order intake, turnover and EBITDA, delivering its third successive year of growth. KC has been able to expand its market through the rollout of innovative new products and has a very healthy order pipeline along with strong go-forward earnings prospects. Given KC's strong performance, we expect the company to generate interest from the markets, and we will consider strategic initiatives whenever they are deemed favorable.

Outlook

Seera continues to follow its strategy which was revised to reflect the significant market changes and in spite of the macro economic issues, there are some factors which may help Seera and its investments. First, in the current low profit/interest rate environment, investors are still searching for opportunities to generate meaningful returns on their assets. Seera has proven through the student housing deal its ability to provide opportunities which meet investor risk/return appetite in the current market conditions. Second, private equity investments made in times of lower growth have historically provided higher levels of return over their investment cycle. Having said this, these new investments must be made with higher levels of scrutiny and with diligent risk management. These factors may translate to lower deal flow and to more investments in the lower risk/return category, however we believe this to be a more prudent approach in these economic times.

Although there has been some improvement in market sentiment, a higher level of uncertainty still persists in the current markets. The uncertainty mostly stems from some of the structural issues in the global economy including high levels of government debt in some of the world's largest economies, and the lack of political consensus on how to resolve these. This is contributing to recurring patterns of uncertainty which in turn are affecting investor sentiment and global growth levels.

Given the long term nature of these underlying problems, it would be unrealistic to expect a quick and sustained turnaround in the global economy in the short-term. 2012 however has witnessed more efforts to stabilize these issues and we are optimistic that with time, the problems will be addressed on a long term basis. We believe however that Seera needs to stay diligent in adjusting to market forces.

In terms of exits, Seera has been able to effectively manage its key investments in these difficult markets and to oversee their continued improvement in performance. A number of investments in Seera's portfolio are being positioned for a potential exit and are already seeing some positive interest in the market for a favorable sale in the short to medium term.

In spite of market risks, we still view difficult markets as an opportunity to acquire quality assets at attractive levels of valuation, and given Seera's position of strength, we believe that the Bank is well positioned to take advantage of these opportunities albeit with measured care.

Appreciations

On behalf of the Board of Directors, I would like to thank the Government of the Kingdom of Bahrain and the Central Bank of Bahrain for their support. I would also like to thank Seera's Shari'a Supervisory Board and all shareholders and investors for their continued confidence and support. Last but not least I wish to thank Seera's management and staff for their professionalism, contribution and continued commitment to the Bank.

Khalid Bin Nasser Al Nasser
Chairman of the Board

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Welcome to the 2012 Annual Report.

Seera had a productive 2012 ending the year with a profit for the third consecutive year. Seera also continued to build and strengthen its business, and work towards enhancing its future prospects. To this effect, Seera focused during the year on implementing its strategy of seeking investments with sound fundamentals and which are well suited to market conditions, while actively managing its existing portfolio, and while prudently managing its balance sheet.

In 2012, Seera closed an important transaction in the UK student housing sector. This investment brought to investors a transaction which provides sound recurring income while mitigating much of the current market risks. In the existing uncertain environment and given cautious investor sentiment, the transaction was able to attract better than expected investor interest. This was evidenced by the high level of investor participation in the deal.

Seera also saw the year as an opportunity to continue to position some of its investments on track for successful exits. In line with the Bank's direction to build value in its portfolio, the Bank pursued this strategy using a different approach for each respective investment. For some investments, the Bank sought to enhance their performance, boosting their returns over time. For other investments, Seera pursued re-structuring them in a way that takes advantage of market opportunities. These efforts are expected to result in more attractive returns for Seera and its investors at the time of exit. Although there were no exits in 2012, a number of assets within the investment portfolio are being positioned for an exit in the near future. We anticipate that with the right market conditions, Seera's portfolio will see some exit activity in the foreseeable future which would be expected to further enhance its income base.

Seera ended 2012 with a net profit of $6.6 million. Income realized during the year was derived primarily from recurring revenue sources such as yield payments from its aircraft portfolio, investment fees and Treasury income. Seera also continued to prudently manage its balance sheet ensuring that it is able to meet all of its obligations while undertaking new business activity. The Bank's capital adequacy ratio stood at 30% at the end of the year, well above the 12% minimum regulatory requirement.

Current Investments

Seera seeks to diversify its portfolio both geographically and asset-class wise. This strategy which was executed in a disciplined manner has been key to preserving the value of Seera's investments and to seeing its portfolio continue to improve in performance in spite of the difficult markets. Seera's current portfolio comprises investments in the aircraft leasing, industrial manufacturing, and more recently the UK student housing sectors, in addition to other smaller investments in several other asset classes.

In terms of aircraft leasing, Seera's aircraft portfolio Falak, comprises a number of different types of aircraft which are on lease to well known airlines. This portfolio continued to provide lease payments from the airlines. Given the diversity of the portfolio, we seek to optimize returns through a targeted remarketing strategy for each aircraft. This decision is taken for each aircraft independently depending on market demand and the best path for the particular aircraft, return wise. Accordingly, we are moving forward on a number of aircraft within the portfolio. It is expected that over the short to mid-term, this activity will come to fruition and that these aircraft will find suitable buyers or new lessees.

Seera acquired Kosan Crisplant (KC), a Danish company and the world's leader in filling solutions for Liquefied Petroleum Gas (LPG) cylinders. The company has been very effective in expanding its global footprint and in strengthening its dominant position through the introduction of new products and services. Its Flexspeed line, provides the world's only high speed filling solution and has been instrumental in gaining new orders globally in 2012. The company has also launched a new product, "Fill1" to address requirements for the low budget market. In terms of service, KC also made strides in providing integrated solutions for LPG filling through the launch of a new business line to this effect. 2012 has seen KC deliver record performance on almost all key parameters including profit.

Seera continues to seek investments which are well suited to current market conditions and investor appetite. Recently, this entailed securing investments which are seen as lower risk and which provide regular income to investors. In 2012, Seera made a new investment, a Shari'a compliant structured finance facility in the student housing sector. The facility is for a new student housing and commercial property development in central London. When completed in 2013, the property will offer 339 student rooms and 37,000 sq. feet of commercial space. The transaction has seen some very robust investor interest which was expected given its very attractive risk/return profile. The property is very well located in central London where purpose built student accommodation continues to be in short supply. This combined with the sector's resistance to negative market forces, provides a very reassuring outlook for this investment.

Corporate Governance

Since its start of operations, Seera worked towards establishing a robust corporate governance framework and towards ensuring that corporate governance will remain one of the Bank's strategic focus areas. Given that a great deal has changed since the foundation of the Bank especially with the changes to the banking environment and to regulatory requirements, Seera continued to update its practices and has managed to stay abreast of these changes. Practically speaking, this meant that in 2012, we continued to update our corporate governance framework and its elements, where required to keep them in line with changing conditions and regulatory requirements.

The benefits realized from these activities have been substantial and Seera's ability to protect shareholder interests was certainly enhanced through this commitment. The Bank has been effective in protecting shareholder capital, maintaining a strong oversight role by the Board, key committees and functions, and ensuring that the Bank's business will be conducted in a manner that protects the Bank over the long term. Our commitment to corporate governance has also been demonstrated by our continued investment in this very important area.

Business Go Forward

Seera continues to enjoy a healthy portfolio and a positive outlook. Given that the portfolio is quite diversified, we believe that exits from current investments will be taking place gradually starting in 2013 and continuing in the following years. These divestitures would enhance Seera's returns and free up capital for further investment activities, in line with the Bank's business model. Our recent investment activities indicate that we are able to generate healthy investor interest whenever an investment's risk/return profile is in line with those of investors'. Seera's current focus is on investments that have lower risk attributes and which have more visible income streams. Although these investments tend to generate overall lower returns when compared to more risky private equity transactions, we believe that they are more appropriate in today's markets and investment environment.

This means that although Seera follows a clear and well defined strategy, we are flexible in deciding which asset classes to focus on in order to continue to optimize returns and to provide investment opportunities which are attractive to investors. Our continued international focus will also ensure that we are capitalizing on growth opportunities globally while effectively managing investment risks. From a long term perspective, while we continue to focus on what can be achieved in the current markets, we also continue to position the Bank for accelerated growth once general economic and market conditions improve.

Market Conditions

Markets appear more stable now than they were over the last few years and we are hopeful that the worst part is behind us, however we cannot ignore the fact that structural issues remain and that certain risk factors have not been completely eliminated. Although it looks like some of the short-term issues have been mitigated, high levels of sovereign debt have not yet been resolved. These factors mean that Seera will still approach the current markets with a healthy degree of caution while looking to capitalize on the opportunities that the markets may bring. From an investment point of view, we generally continue to be in an environment where yield generating investments are viewed quite favorably. Businesses with strong underlying fundamentals and with robust business models also continue to generate healthy investor interest. We therefore take the view that current markets are opportunities to invest and that with the right investments, healthy returns can be realized for Seera and its investors over the long term.

Abdulla Saleh Janahi
Chief Executive Officer

BOARD OF DIRECTORS

MR. KHALID BIN NASSER AL NASSER
Chairman of the Board

H.R.H. PRINCE KHALID BIN ALWALEED BIN TALAL AL SAUD
Board Member

MR. MUBARAK MATAR AL HEMEIRI
Board Member

MR. ABDULLA RASHED OMRAN AL SHAMSI
Board Member

MR. MOHAMED HANI ABDULKADER AL BAKRI
Board Member

MR. WALEED KHALIFA AL FELAIJ
Board Member

MR. YOUSEF BIN NASSER AL NASSER
Board Member

MR. WALEED ABDULLA AL EISA
Board Member

SHARI'A SUPERVISORY BOARD

SHAIKH ESAM M ISHAQ
Chairman

DR. MOHAMMAD ALTABTABAEI
Member

DR. YOUSEF ABDULLAH ALSHUBAILY
Member

MANAGEMENT

We pride ourselves on the diversity of our team. Each member offers aligned yet complementary skill sets within the wider team structure. Collectively, our wealth of knowledge allows us to offer unrivalled expertise and acumen across a range of business lines and sectors. We offer a collaborative culture that welcomes original thinking and allows individual responsibility and freedom to maximize potential.

ABDULLA SALEH JANAHI	Chief Executive Officer
SHAHZAD IQBAL	Chief Operating Officer
SAMEER OUNDHAKAR	Head of Investment and Post Acquisition Management
SOHAIL TOHAMI	Head of Treasury and Acting Head of Placement
PRATEEK SHARMA	Head of Investment
AMR ELIMAM	Head of Strategic Planning and Corporate Communications
FULYA KOCH	Head of Risk Management
ISMAIL YOUNIS AHMED	Head of Human Resources & Administration
TAWFIQ AL-SARI	Head of Financial Control
AHMED ALKHAN	Head of Shari’a Compliance
MOHAMMED KAMAL	Head of Information Technology

INVESTMENTS

Seera focuses primarily on two business lines, Asset Based Investments and Corporate Investments. During previous years Seera made substantial investments in these business lines in the areas of aircraft leasing, industrial manufacturing, and specialty chemicals. Following the financial crisis, Seera worked closely with its portfolio companies to adjust their business plans and position them for rapid growth following the recovery. In 2011, the Bank started completing its full investment cycle through a successful exit from one of its major investments. This will likely continue through other exits in the short to mid-term. Seera's newest investment which was completed in 2012, is in the UK student housing sector.

Falak Aviation Fund

Falak owns a portfolio of narrow and wide body aircraft which are on long term leases with well known airlines such as Gulf Air, Cathay Pacific, British Airways, and Jet Airways. The portfolio has been set up to provide steady income from these leases and is actively managed in order to optimize portfolio return and to capitalize on exit or remarketing opportunities.

The portfolio continues to generate steady lease payments from the airlines. In 2012, Falak made significant progress in placing two of its smaller aircraft on a lease to own basis. All remaining aircraft in the portfolio are under lease agreements with airlines. These respective leases end in 2015, commencing with the end of the first lease in mid-2013. Marketing efforts for aircraft coming off lease within the next 12 months have already started through Seera's aviation partner and portfolio manager, Novus. Depending on the type of aircraft, a sale or lease decision is made bearing in mind market conditions, and the best returns that can be achieved.

Kosan Crisplant

Headquartered in Denmark, Kosan Crisplant (KC) is a world leader in providing filling solutions for Liquefied Petroleum Gas (LPG) cylinders. KC's market leading position is a result of its technological innovation, proximity to customers and a long and successful track record in the industry which spans several decades.

In 2012, KC delivered its third successive year of growth and ended the year with record levels of order intake, turnover and EBITDA. In parallel, KC continued to strengthen its market leadership position through the development of new products and has successfully launched an innovative new filling product "Fill1" which is targeted at the low-budget end of the market. KC was also successful this year in winning major contracts in South America, the Middle East and Asia utilizing its "Flexspeed" technology which has become the de facto standard for high volume operations. From a strategic point of view, KC launched a new business line "Prosupply" to enable KC to become a one-stop shop for all LPG related components and has completed two small acquisitions in Malaysia and Denmark, which will enable KC to take further strides in consolidating its leading position in these markets.

Overall KC's continued global dominance and strong performance provide a very good platform for its future prospects and exit potential.

Aldgate UK Student Accommodation

In 2012, Seera made an investment in the UK student housing sector. The transaction comprises a Shari'a compliant structured financing facility for a new purpose built student housing project and commercial property in central London. The property which is currently under development is expected to be completed in early 2013. The property will offer 339 student rooms and 37,000 sq. feet of commercial space near Aldgate East station in Central London in close proximity to several higher educational institutions.

The persistent shortage of purpose built student accommodation in the UK, London's special position as a destination for higher education, and the sector's resistance to negative market forces provide a very strong platform for this investment. This investment in particular is further underpinned by the property's prime location, regular and attractive yields, a relatively short investment tenure and a very attractive risk profile. These factors are in turn supporting a positive outlook for rental income and capital growth.

Some of the phases for the property have been completed and the investment has been providing steady yield payments in line with expectations.

CORPORATE GOVERNANCE

Seera is committed to effective corporate governance, as this is a key aspect of the Bank's strategic direction and encompasses the Bank's overall operating mission. More specifically:

- The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency; and maintaining compliance with the laws, rules and regulations that govern the Bank's business.
- A key doctrine of the Bank is good governance. In addition to its commitment towards meeting legal and regulatory governance requirements, the Bank seeks to establish and maintain good governance. The Bank is however aware that good corporate governance is not an end in itself, but that it facilitates the Bank's capacity to define and achieve its purposes.
- Corporate governance establishes how shareholders, Board of Directors and management interact in determining the direction and performance of the Bank. Good governance holds management accountable to the Board and the Board accountable to the owners and other stakeholders. The Board is ultimately responsible to ensure that an adequate, effective, comprehensive, and transparent corporate governance process is in place.
- The Bank's shareholders have entrusted the Board of Directors to provide central leadership to the Bank, establish its objectives and develop the strategies that direct the ongoing activities of the Bank to achieve these objectives. Directors shall determine the future of the Bank and protect its assets and reputation. They will consider how their decisions relate to "stakeholders" and the regulatory framework. Directors shall apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors shall be accountable to the shareholders of the Bank for the Bank's performance and can be removed from office by them.
- Management is responsible for implementing the direction set by the Board of Directors. Management will ensure that the Board of Directors are appropriately informed and involved in carrying out this mission.

Objectives

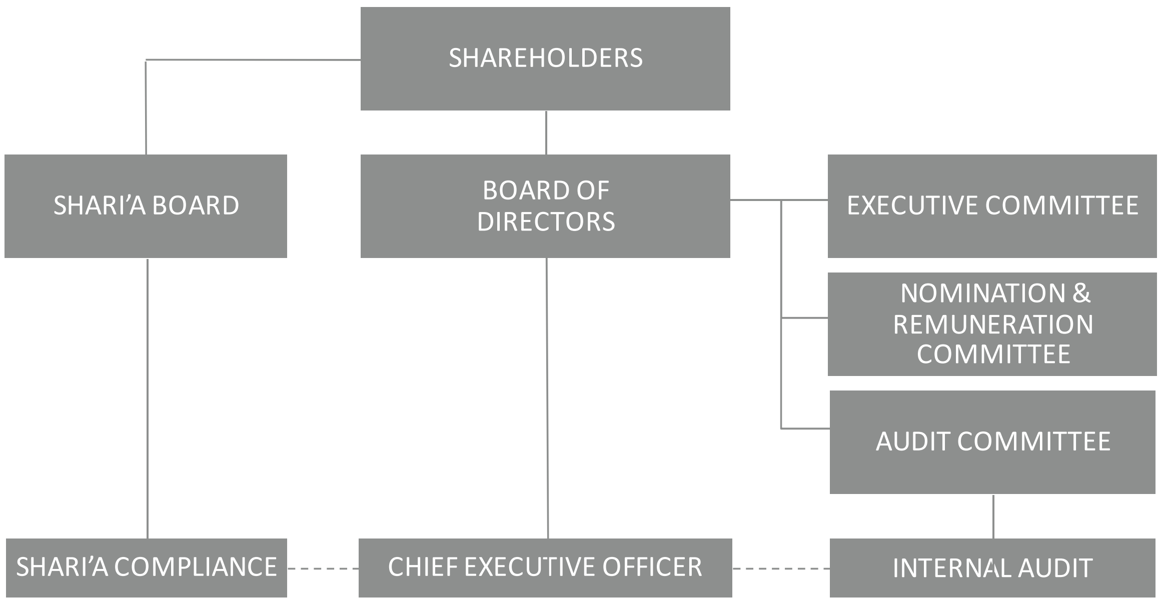
The primary objectives of the Bank's Corporate Governance Framework are to ensure that corporate governance:

- Forms an integral part of the Bank's strategic direction;
- Sets and enforces clear lines of responsibilities and accountability throughout the organization;
- Ensures that there is appropriate oversight by the Board of Directors and senior management;
- Safeguards the interests of stakeholders and other third parties;
- Ensures that the Bank's operations are effectively and efficiently managed;
- Fulfils regulatory requirements;
- Ensures that the Bank conducts its activities in a Shari'a compliant manner; and
- Enforces a high level of standards.

Effective corporate governance entails the deployment of several key instruments which govern the operations of the Banks. These include:

- Board of Directors and Board Committees
- Shari'a Supervisory Board
- Management Committees
- Key support roles such as Shari'a Compliance, Compliance and Internal Audit
- Policies and procedures

These elements are established in line with the Central Bank of Bahrain's Rule Book applicable to Wholesale Shari'a compliant financial institutions. The principles and rules outlined in each of the corporate governance elements are in line with those of the CBB. These have been addressed in more detail in the documents that relate to these elements.



Board of Directors

The Board of Directors is responsible for overseeing the management and business affairs of the Bank and making all major policy decisions. Its primary responsibility is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies, including its investors, business partners, employees, suppliers and local community. The Board's responsibilities include developing Seera's overall business objectives, strategies that direct ongoing activities of the Bank to achieve these objectives, as well as monitoring of the Bank's performance. The Board is also responsible for approving Seera's financial results, monitoring conflicts of interest, preventing abusive related party transactions, assuring equitable treatment of shareholders, and ensuring transparency and integrity in its reporting including the Bank's financial statements. Its responsibilities also include ensuring that the systems and controls framework of Seera, including the Board structure and organizational structure is appropriate for the Bank's business and associated risks.

Seera has in place charters which clearly define the role of the Board of Directors, its committees and the way they operate as well as the Chairman's role. The aim is to ensure that Seera is headed by an effective, collegial and informed Board of Directors. One of the key characteristics of this board is to have a sufficient presence of independent and non-executive directors to help ensure Board independence.

Upon joining the Board, Directors are provided with an induction package which includes key items such as the Bank's strategy, a description of the Bank and its business, its corporate governance framework and elements, governing policies and procedures along with Board and Board Committees' charters.

To facilitate the Board in carrying out its responsibilities, the Board established committees which focus on key aspects of governance. The Board of Directors has the following committees in place:

Executive Committee

Considers specific matters delegated to it by the Board and makes recommendations to the Board or decisions based on authorities specifically delegated by the Board. The committee meets on an "as needed" basis.

Audit Committee

In line with the requirement for the Board to have rigorous controls for financial audit and reporting, internal control, and compliance with the law, the Board has established an Audit Committee. The committee assists the Board in discharging its oversight responsibilities relating to the integrity of the Bank's financial statements, financial reporting process, the Bank's systems of internal accounting and financial controls, the annual independent audit of the Bank's financial statements and all matters related to external and internal auditors, compliance by the Bank with legal and regulatory requirements, and compliance with the Bank's code of conduct.

Nomination and Remuneration Committee

The Bank utilizes rigorous and transparent procedures for the appointment, training and evaluation of the Board and ensures that approved persons are remunerated fairly. The Nomination and Remuneration Committee is responsible for identifying individuals to become Board members, developing procedures for remuneration policy for the Board and senior management and leads the Board in its annual evaluation of Board performance. The Committee also evaluates the skills and expertise of directors and recommends changes and training accordingly.

Shari'a Compliance

In line with the Bank's mandate, Seera conducts its activities in compliance with Shari'a principles. The Shari'a Board, an independent body of specialized jurists in Islamic commercial jurisprudence, is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that the Bank is in compliance with Shari'a rules and principles. The Shari'a Board is responsible for forming and expressing an opinion on the extent to which the Bank's activities are in compliance with Shari'a, reviewing of contracts, policies and processes, products and Bank's

Memorandum and Articles of Association to ensure they are in line with the Shari'a principles and for monitoring and reviewing Shari'a Compliance Department's performance.

Seera has put in place a Shari'a Compliance function within the Bank that is responsible for carrying out the internal Shari'a review which is an integral part of the governance of the Bank. The Shari'a Compliance function operates under the policies established by the Bank. The Head of Shari'a Compliance works closely with the Bank's Shari'a Supervisory Board to provide guidance to the Bank on a day-to-day basis.

The Group is also committed to avoiding recognizing any income generated from non-Shari'a compliant sources. Accordingly, any non-Shari'a compliant income that might be inadvertently earned is credited to a charity account where the Group uses these funds for charitable means, closely coordinating on such matters with the Shari'a Board.

Management Committees

Seera has established key management committees to oversee particular aspects of the business. The membership of these committees typically includes senior managers from respective functions. Responsibilities of the committees are outlined in their charters. The key committees include:

Management Investment Committee

The committee is tasked to review and evaluate all major business transactions and decisions being considered by Seera including new investments, financing, exits or major strategic, operational or management changes for Seera's investment portfolio.

Asset, Liability and Risk Management Committee

The Asset, Liability and Risk Management Committee's mandate is to assist the Board of Directors in performing their risk management oversight function. The committee is responsible for management of risks associated with investment, credit, market, operational, liquidity and profit rate within the guidelines laid by the Board of Directors and regulatory requirements.

Management also forms other committees to address specific aspects of the business or initiatives.

Approval Authorities Guidelines

The Guidelines outline the process by which authorities are approved, administered, delegated, revised and communicated, and include a list of approved authorities and their associated limits allowing authority limits to be delegated to certain officers and committees to allow business processes to be executed effectively, efficiently and as per established procedures.

Internal Audit

Internal Audit provides independent and objective appraisal of all the activities of the Bank aiming to add value, improve operational efficiency, risk management, and internal control systems. Its approach is in line with the Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors. Internal Audit helps the Bank accomplish its objectives by evaluating and improving the effectiveness of risk management, control and governance processes, and by providing objective analyses and recommendations to improve the Bank's activities.

Compliance

Seera is committed to comply with all applicable regulatory provisions, to adopt industry best practices, and to have rigorous controls for compliance with the law. In this regards, Seera has established an Independent Compliance Department to act as a focal point for regulatory compliance and to ensure appropriate implementation of the Compliance Framework approved by the Board.

Anti-Money Laundering

Seera recognizes money laundering and terrorist financing as significant risks to the financial sector. The Bank therefore has adopted an Anti-Money Laundering & Combating Financing of Terrorism (AML & CFT) Program, based on Bahrain's AML & CFT Law and regulation and the FATF 40+9 Recommendations. This includes the appointment of a Money Laundering Reporting Officer (MLRO), approved AML & CFT policies and procedures manual, employee training programs, and independent audit of the program by Internal Audit. In addition, External Auditors also perform independent procedures on an annual basis to check Seera's AML & CFT compliance. The Bank's AML & CFT program is also inspected by the Central Bank of Bahrain.

Risk Management

Seera's activities involve the measurement, evaluation, acceptance and management of some degree of risk, or combination of risks. The most important risk categories that the Bank is exposed to are investment risk, credit risk, liquidity risk, market risk, operational, and reputational risks. Risk is inherent in banking and Seera will make choices about the amount of risk it will accept, keeping in mind the trade-off between risk and return. Therefore, the Bank will only accept risk when it perceives the probable rewards to be commensurate with the level of risk involved. The risk decisions made by Seera are primarily a function of policies and practices laid down by the Board of Directors, underpinned by the strength and clarity of the corporate culture, and the efficiency of internal control systems.

Code of Conduct

It is critical that all approved persons and employees have full loyalty to the Bank. To help ensure this, Seera has developed and implemented a Code of Conduct. The Code of Conduct outlines the principles, policies and laws that govern the Bank's activities. The Code addresses key areas of conduct for Board members, other approved persons, and employees and addresses areas of personal integrity, working to the letter and spirit of the law, protecting information and assets, dealing with conflict of interest and ensuring independent decision making, personal trading in securities and prohibition of insider trading, community involvement, and raising concerns.

Policies and Procedures

Seera has a broad range of policies and procedures that regulate key aspects of the Bank's business ranging from accounting and risk management to human resources and corporate communications.

Seera also discloses information related to its corporate governance. To this effect, Seera has a Public Disclosures policy. Other unique policies and procedures also enhance corporate governance such as the whistleblower policy and Board of Directors evaluation process.

Approval Process for Related Party Transactions

Procedures are in place to avoid situations that may involve conflict of interest. Additionally, each member of the Board and senior management is required to disclose at least on an annual basis their interests in other entities which may give rise to such conflicts. Furthermore, the Board of Directors in its charters has incorporated procedures to avoid such conflicts when making any decisions.

Management Structure

A clear, efficient, and Board approved management structure is maintained by the Bank. Seera's organization chart which is communicated to the CBB clearly defines the reporting lines and maintains segregation of duties between respective departments. Job descriptions are maintained for all staff members to ensure that responsibilities are clearly defined and an annual performance appraisal is conducted for all staff to ensure that responsibilities are met. The Bank's key positions are approved by the CBB as "Approved Persons".

Seera's Internal Control effectiveness including maintenance of adequate segregation of duties is regularly reviewed by independent audit parties and their findings are reported to the Board and/or its delegated Committees. The Compliance, Risk Management and Financial Reporting functions are independent of business lines and have reporting lines to the Board or its delegated Committees.

Compensation

Seera remunerates approved persons fairly and responsibly. Management compensation at Seera is through a pay and benefits system. A bonus system is in place and is based on both the business and individual performance.

Shari'a Board compensation is designed to reward the members for their valuable contribution to the business and involves an annual fixed component and a variable one which is linked to the Shari'a Board meetings attended.

Board compensation at Seera is primarily designed to cover Board member travel expenses associated with their role on the Board of Directors and the Board Committees that they serve on and is linked directly to attendance. Other remuneration is subject to shareholder approval and is more directly linked to Director's attendance, participation and contribution at meetings.

Public Disclosures

The Bank has a public disclosures policy which is intended to provide Bank stakeholders with relevant, accessible and accurate information on a timely basis. The information disclosed by the Bank is governed by this policy. Seera's website is a primary vehicle by which this is achieved. The Bank's website in both Arabic and English is updated on an ongoing basis with the latest public information such as financials and press releases. Financial information is maintained on the website for a minimum of 3 years.

Investor Relations

The Bank is committed to the highest level of service to its clients. In this regard, the Placement function interacts with investors to address their information requirements and to satisfy the Bank's Know Your Customer ("KYC") requirements. Investors are kept informed about the progress of their investments through regular reports on their performance. Investors may also contact the Post Acquisition Management Department of the Bank for any specific requests or questions.

Compliance with CBB's Corporate Governance Guidelines

Banks in Bahrain are obliged to comply with CBB's Rulebook High-Level Controls (HC) Module which contains applicable Rules and Guidance for the Bank. The Bank's Comply/Explain Report is a tool where non-compliance is explained to shareholders by means of an annual report. Accordingly, the Bank's Comply/Explain Report has been revised to incorporate the CBB's rulebook quarterly updates and all requirements were met as of December 2012.

Audit Fees Charged by the External Auditor

Fees paid to external auditors are based on market rates, taking into consideration the nature and complexity of transactions subject to audit. For the year ended 31st December 2012, total audit related expenses for the Bank amounted to USD 120,690.

Board and Board Committee Meeting Attendance

According to Board and Committee charters and in line with regulatory requirements, a minimum number of meetings must be held in each year. Each meeting cannot be valid unless the minimum required number of attendees is achieved. Below is a summary of 2012 Board and Committee meetings' attendance.

	Minimum Number of Meetings Per Year	Actual Number Held in 2012	Total Number of Members	Number Attended Per Meeting					
				16 Apr	9 May	16 Jun	20 Sep	28 Nov	20 Dec
Board of Directors	4	5	8	9*	8	5	7		7
Executive Committee	None	1	4					3	
Audit Committee	4	4	3	3		3	3		3
Nomination & Remuneration Committee	2	2	3				3		3

* Meeting held prior to reduction of Board from 10 to 8 members

Out of the 8 Board members making up the Board, one member has not met the 75% minimum attendance requirements. This issue has been discussed and is being directly addressed by the Board of Directors.

Board Evaluation

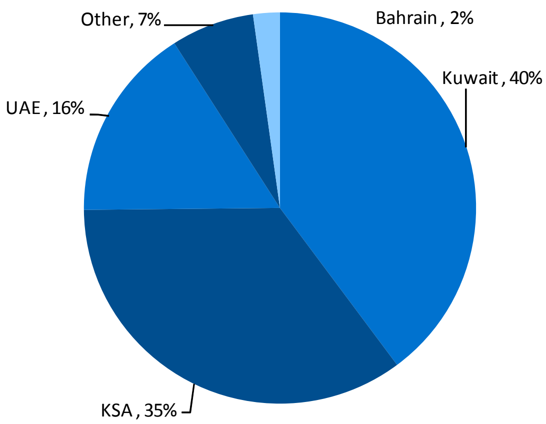
The Board of Directors has conducted its 2012 performance assessment of the Board and its committees. This was done through the completion of questionnaires covering the effectiveness of the Board and its committees and the contribution of each Director against their primary responsibilities on the Board and its committees. The Nomination and Remuneration Committee took the leadership role in this process and the findings were consolidated and presented to the Board of Directors. Findings confirm that Seera's Board and its committees continue to operate effectively, notwithstanding attendance requirements not being met by one Director as per above.

Director Elections

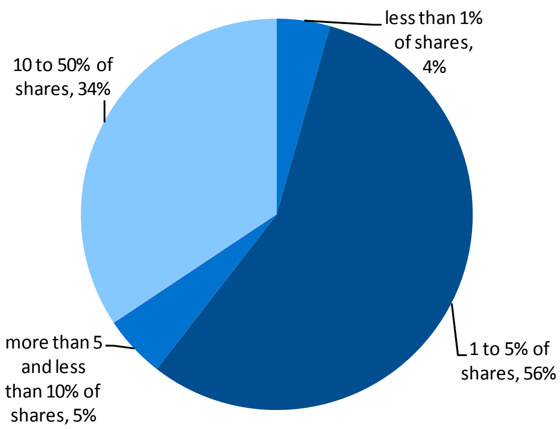
Board terms are generally three years. New Directors are elected by shareholders at annual general meetings by a majority of votes whereby shareholders have voting rights which correspond to their shareholdings. Shareholders with more than 10% of shares may appoint a Director for every 10% of their shareholdings. All Director appointments are subject to CBB approval. Directors may be removed by shareholders through a similar voting system and in line with the Bank's Memorandum and Articles of Association.

Shareholding

Seera has a diverse group of shareholders. Distributions of shareholdings are as per below:



SHARE OWNERSHIP
BY NATIONALITY



SHARE OWNERSHIP
BY SIZE OF SHAREHOLDING

Shareholders that have holdings above 5% of the Bank's shares are National Investments Company K.S.C (Closed) and Commercial Bank International P.L.C.

Shareholder Information

Seera is committed to communicating with shareholders, encourages their participation and respects their rights. Shareholders are encouraged to seek information about Seera and to actively participate in shareholder meetings. Shareholder requests for information are addressed by Shareholder Relations within the Placement function at the Bank.

FINANCIAL HIGHLIGHTS

US$ MILLIONS	2012	2011	2010	2009	2008	2007*
TOTAL INCOME	12.5	85.0	16.5	7.0	18.2	29.7
TOTAL EXPENSES	5.9	11.6	10.3	11.0	15.7	15.2
UNREALISED LOSSES AND PROVISIONS	Nil	(12.0)	1.0	(31.0)	(16.2)	6.4
NET (LOSS) / INCOME	6.6	61.4	7.2	(35.1)	(13.8)	20.9
TOTAL ASSETS	360.3	526.8	417.7	306.8	376.7	383.4
TOTAL EQUITY	204.4	343.0	300.9	276.0	312.0	318.7

KEY RATIOS

Islamic Financing to Equity Ratio (leverage)	0.7	0.5	0.3	0.1	0.2	0.2
Capital Adequacy	30.0%	61.5%	61.1%	56.7%	52.7%	68.3%
Return on Average Assets **	1.5%	15.5%	1.7%	-1.2%	0.7%	4.3%
Return on Average Equity **	2.4%	22.8%	2.2%	-1.4%	0.8%	4.8%
Cost to Income	47.3%	13.7%	62.1%	157.1%	86.3%	51.2%

*2007 results reflect a 17 month period between 5th August 2006 and 31st December 2007

**Before unrealized losses and gains

AUDITORS REPORT

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

We have audited the accompanying consolidated statement of financial position of Seera Investment Bank B.S.C. (c) ("the Bank") and its subsidiaries (together the "Group”) as of 31 December 2012, and the related consolidated statements of income, cash flows and changes in owners' equity for the year then ended and a summary of significant accounting policies and other explanatory information. 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 2012, the results of its operations, its cash flows and changes in owners' equity for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SEERA INVESTMENT BANK B.S.C. (c) (continued)

Other Matters

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 having occurred during the year ended 31 December 2012 that might have had a material adverse effect on the business of the Bank or on its 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

10th February 2013
Manama, Kingdom of Bahrain

SHARI’A SUPERVISORY BOARD REPORT

SHARI’A SUPERVISORY BOARD REPORT ON THE ACTIVITIES OF SEERA INVESTMENT BANK FOR THE PERIOD ENDED 31 DECEMBER 2012

In the name of Allah, the most beneficent, the most merciful

Prayers and Peace be Upon the Last Apostle and Messenger, Our prophet Mohammed, His Relatives and Comrades,

The Shari’a Board of Seera Investment Bank, an Investment Bank, have reviewed the Bank’s investment activities and compared them with the previously issued fatwas and rulings during the period ended 31st December 2012 and found them compatible with the already issued fatwas and rulings.

The Shari’a Board believes that it has expressed its opinion in respect of the activities carried on by the Bank and it is the responsibility of the management to ensure the implementation of such decisions. It is the duty of the Shari’a Board to express an independent opinion, review Bank’s operations and to prepare a report about them.

A representative of the Bank’s management explained and clarified the contents of consolidated Balance Sheet, attached notes and Consolidated Statement of Income for the period ended on 31st December 2012 to our satisfaction. The report of the Shari’a Board has been prepared based on the contents provided by the Bank.

The Shari’a Board is satisfied that the investment activities and banking services are generally in compliance with the Glorious Islamic Shari’a.

We pray that Allah may grant all of us further success and prosperity,

Shaikh Esam M. Ishaq
Chairman

Dr. Yousef A. Alshubaily
Member

Dr. Mohammad A. Altabtabaei
Member

Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 US$ '000	2011 US$ '000
ASSETS			
Cash and balances with banks	4	**8,242**	12,045
Due from banks and financial institutions	5	**45,255**	197,271
Murabaha receivables	6	**7,716**	-
Non-trading investments	7	**17,573**	18,752
Investment in ijarah assets	8	**244,590**	260,597
Net assets of disposal group classified as held for sale	9	**14,942**	14,630
Investment property	10	**10,476**	10,476
Other assets	11	**5,093**	6,017
Property and equipment	12	**6,374**	7,008
TOTAL ASSETS		**360,261**	526,796
LIABILITIES AND OWNERS' EQUITY			
LIABILITIES			
Term financing	13	**141,483**	164,104
Other liabilities	14	**14,424**	19,644
TOTAL LIABILITIES		**155,907**	183,748
OWNERS' EQUITY			
Share capital	15	**145,643**	291,286
Reserves	15	**9,908**	9,009
Retained earnings		**31,846**	26,896
Equity attributable to shareholders of the parent		**187,397**	327,191
Non-controlling interest		**16,957**	15,857
TOTAL OWNERS' EQUITY		**204,354**	343,048
TOTAL LIABILITIES AND OWNERS' EQUITY		**360,261**	526,796

Khalid Al Nasser
Chairman

Mubarak Al Hemeiri
Board Member

Abdulla Janahi
Chief Executive Officer

The attached notes 1 to 29 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2012

	Notes	2012 US$ '000	2011 US$ '000
Rental income from investment in ijarah assets		**36,106**	35,906
Depreciation on investment in ijarah assets	8	**(16,007)**	(16,007)
Management fees relating to ijarah assets		**(1,057)**	(1,265)
Financing cost relating to term financing obtained to purchase ijarah assets		**(8,320)**	(9,187)
Other operating expenses relating to ijarah assets		**(2,347)**	(1,302)
Net income from investment in ijarah assets		**8,375**	8,145
Profit on amounts due from banks and financial institutions		**1,069**	1,185
Profit on amounts due to banks and financial institutions		**-**	(227)
Profit on murabaha receivables		**634**	-
Net funding income		**1,703**	958
Realised gain on disposal of an investment		**-**	76,048
Income from non-trading investments		**104**	126
Fee and other income		**1,112**	632
Net foreign exchange gain / (loss)		**1,225**	(932)
TOTAL INCOME		**12,519**	84,977
Expenses			
Staff expenses		**3,977**	7,973
General and administration expenses	17	**1,283**	2,195
Depreciation on property and equipment	12	**659**	1,433
TOTAL EXPENSES		**5,919**	11,601
NET INCOME FOR THE YEAR BEFORE PROVISIONS		**6,600**	73,376
Provisions		**-**	(12,000)
NET PROFIT FOR THE YEAR		**6,600**	61,376
Attributable to:			
Shareholders of the parent		**5,500**	60,325
Non-controlling interest		**1,100**	1,051
		6,600	61,376

Khalid Al Nasser
Chairman

Mubarak Al Hemeiri
Board Member

Abdulla Janahi
Chief Executive Officer

The attached notes 1 to 29 form part of these consolidated financial statements

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 US$ '000	2011 US$ '000
OPERATING ACTIVITIES			
Net profit for the year		**6,600**	61,376
Adjustments for:			
Provision for employees' end of service benefits	14	**246**	246
Depreciation on investment in ijarah assets	8	**16,007**	16,007
Depreciation on property and equipment	12	**659**	1,433
Gain on disposal of equipment		**-**	(1)
Provisions		**-**	12,000
Realised gain on disposal of an investment		**-**	(74,713)
		23,512	16,348
Changes in operating assets and liabilities:			
Due to banks and financial institutions		**-**	(14,973)
Murabaha receivables		**(7,716)**	-
Other assets		**396**	1,487
Other liabilities		**(3,722)**	4,094
Net cash from operating activities		**12,470**	6,956
INVESTING ACTIVITIES			
Proceeds from disposal of investment		**-**	182,358
Proceeds from disposal of non-trading investments		**-**	509
Proceeds from disposal of equipment		**-**	7
Purchase of equipment	12	**(25)**	(11)
Net cash (used in) from investing activities		**(25)**	182,863
FINANCING ACTIVITIES			
Reduction of share capital		**(145,643)**	-
Repayment of term financing		**(22,621)**	(19,110)
Dividend received		**-**	126
Net movement in non-controlling interest		**-**	(487)
Net cash used in financing activities		**(168,264)**	(19,471)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**(155,819)**	170,348
Cash and cash equivalents at beginning of the year		**209,316**	52,772
Cash and cash equivalents of investment sold		**-**	(13,804)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	**53,497**	209,316

The attached notes 1 to 29 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2012

	Equity attributable to shareholders of the parent								
	Share capital US$ '000	*Statutory reserve US$ '000*	*Investment fair value reserve US$ '000*	*Foreign currency translation reserve US$ '000*	*Retained earnings US$ '000*	*Proposed dividend US$ '000*	*Total US$ '000*	*Non-controlling interest US$ '000*	*Total owners' equity US$ '000*
Balance at 1 January 2012	291,286	8,590	419	-	26,896	-	327,191	15,857	343,048
Net income for the year	-	-	-	-	5,500	-	5,500	1,100	6,600
Reduction in share capital (note 15)	(145,643)	-	-	-	-	-	(145,643)	-	(145,643)
Transferred to statutory reserve	-	550	-	-	(550)	-	-	-	-
Unrealised gain on re-measurement to fair value	-	-	349	-	-	-	349	-	349
Proposed dividend (note 16)	-	-	-	-	(4,275)	4,275	-	-	-
Balance at 31 December 2012	**145,643**	**9,140**	**768**	**-**	**27,571**	**4,275**	**187,397**	**16,957**	**204,354**
Balance at 1 January 2011	291,286	2,557	351	1,657	(27,396)	-	268,455	32,477	300,932
Net income for the year	-	-	-	-	60,325	-	60,325	1,051	61,376
Dividends paid by a subsidiary	-	-	-	-	-	-	-	(487)	(487)
Disposal of an investment	-	-	-	(1,657)	-	-	(1,657)	(17,184)	(18,841)
Transferred to statutory reserve	-	6,033	-	-	(6,033)	-	-	-	-
Unrealised gain on re-measurement to fair value	-	-	68	-	-	-	68	-	68
Balance at 31 December 2011	291,286	8,590	419	-	26,896	-	327,191	15,857	343,048

The attached notes 1 to 29 form part of these consolidated financial statements

1 INCORPORATION AND ACTIVITIES

Seera Investment Bank B.S.C. (c) ["the Bank"] was incorporated on 5th of August 2006, under commercial registration number 62003 as a Bahrain Joint Stock Company (closed). The Bank's registered office is Building 2431, Road 2831, Block 428, Seef, Kingdom of Bahrain.

The Bank operates under an Islamic Wholesale Banking License issued by the Central Bank of Bahrain ["the CBB"]. The Bank and its subsidiaries ["the Group"] aim to provide a full range of investment banking products and services that are compliant with Shari'a principles.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 10 February 2013.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for investment property, and certain investments classified as "non-trading investments" that have been measured at fair value.

The consolidated financial statements have been presented in United States Dollar ["US$"], being the functional currency of the Group. All values are rounded to the nearest thousand ["US$ '000"] except when indicated otherwise.

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, 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 Bank uses the relevant International Financial Reporting Standards ["IFRS"] issued by the International Accounting Standards Board ["IASB"].

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December each year. A subsidiary is an entity over which the Bank has power to control, which is other than fiduciary in nature. The financial information of the subsidiaries is prepared using consistent accounting policies.

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. 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. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. The results of a subsidiary acquired or disposed off during the year 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 resulting from intra-group transactions are eliminated in full.

2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The following is the Group's significant subsidiary as at 31 December 2012:

Name of subsidiary	*Country of incorporation*	*Equity interest*
Falak Aviation Fund B.S.C. (c)	Kingdom of Bahrain	86%

Non-controlling interest represents the portion of net income and net assets not held, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and within owners' equity in the consolidated statement of financial position, separately from parent shareholders' equity.

3 ACCOUNTING POLICIES

3.1 Significant accounting judgments and estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The most significant uses of 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.

Revaluation of equity securities, investment property and property and equipment

Where the fair values of the Group's unquoted equity securities cannot be derived from an active market, they are derived using a variety of valuation techniques. Judgment by management is required to establish fair values through the use of appropriate valuation models, consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

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

Impairment provisions against financing contracts and investment in ijarah assets

The Group reviews its financing contracts and investment in ijarah assets at each reporting date to assess whether an impairment provision should be recorded in the consolidated financial statements. In particular, judgment 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 based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

In addition to specific provisions, the Group also makes a general provision against exposures which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

3 ACCOUNTING POLICIES (continued)

3.1 Significant accounting judgments and estimates (continued)

Impairment provisions against financing contracts and investment in ijarah assets (continued)
The general provision reflects estimated losses affecting these exposures attributable to unknown events that may have already occurred at the date of the consolidated financial statements, and not estimated losses attributable to future events. These provisions are reversed through the consolidated statement of income, if the balance exceeds the required level.

Impairment of investments at fair value through equity
The Group treats investments carried at fair value through equity as impaired when there is 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 judgment.

3.2 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

3.2.1 Cash and cash equivalents
Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash and balances with banks and due from banks and financial institutions with original maturities of ninety days or less.

3.2.2 Murabaha receivables
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. Promise made in the murabaha to the purchase orderer is not obligatory upon the customer.

Murabaha receivables are stated net of deferred profits and provision for impairment, if any.

3.2.3 Wakala receivables
Wakala receivables are stated at cost less provision for impairment, if any.

3.2.4 Non-trading investments
These are classified as investments designated at fair value through equity.

Initial recognition
All investments are recognised initially at their fair value plus transaction costs, on acquisition.

Re-measurement to fair value
After initial measurement, investments at fair value through equity are subsequently measured at fair value. Unrealised gains and losses are recognised in the consolidated statement of income and then transferred to the investment fair value reserve' in the consolidated statement of changes in equity. When the investment is disposed of or determined to be impaired, the cumulative gain or loss, previously transferred to the available for sale reserve, is recognised in the consolidated statement of income.

Impairment losses recognised in the consolidated statement of income for an equity instrument classified as fair value through equity are not reversed through the consolidated statement of income.

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

3.2.5 Investment in ijarah assets

Investments in ijarah assets are stated at cost less accumulated depreciation and accumulated impairment at the consolidated level. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of ijarah assets to their residual values over their lease terms.

Ijarah assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the ijarah asset (calculated as the difference between the net disposal proceeds and the carrying amount of the ijarah asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

3.2.6 Net assets of disposal group classified as held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Net assets of a disposal group classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for the held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

3.2.7 Investment property

Investment property is held to earn rental income, for capital appreciation or both. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the date of the consolidated statement of financial position. The Group engages independent valuation specialists to determine fair value.

Gains or losses arising from changes in the fair values of investment property are included in the consolidated statement of income in the year in which they arise and in the case of gains these are appropriated to the investment revaluation reserve in the consolidated statement of changes in equity in accordance with the requirements of AAOIFI. When the investment property is disposed of the cumulative gain previously transferred to the investment fair value reserve, is transferred to retained earnings.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the consolidated statement of income in the year of retirement or disposal.

3.2.8 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Freehold land is not depreciated.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	20 years
Others	3-5 years

Expenditure for maintenance and repairs is expensed as incurred.

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

3.2.8 Property and equipment (continued)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognised.

The residual values, useful lives and methods of depreciation for property and equipment are reviewed, and adjusted if appropriate, at each financial year end.

3.2.9 Recognition of income

(i) Income recognition

Rental income from investment in ijarah assets
Rental income from investment in ijarah assets is recognised on the basis of contractual amounts receivable on a time apportioned basis.

Profit on amounts due from banks and financial institutions and murabaha receivables
Profit on amounts due from banks and financial institutions is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

Dividends
Dividend revenue is recognised when the Group's right to receive the dividend is established.

Fee income
Fee income is recognised when earned.

3.2.10 Derecognition of financial instruments

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(i) the right to receive cash flows from the asset has expired;

(ii) 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

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

3.2.11 Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the consolidated 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 a foreign currency are translated using the exchange rates as at the dates of the initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange gains and losses on non-monetary items classified as "fair value through equity" are taken to the consolidated statement of comprehensive income.

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

3.2.12 Impairment

The Group assesses at each statement of financial position date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event(s) have an impact on the estimated future cash flows of the asset or the group of the assets that can be reliably estimated.

3.2.13 Employees' end of service benefits

Provision is made for indemnity payable under the Bahraini Labor Law applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation ("SIO") as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due. For Bahrainis with basic salaries above a certain threshold, the Bank recognizes indemnity in line with the requirements of the Labor Law.

3.2.14 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

- For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market price prevailing on the date of consolidated statement of financial position;
- For private equity investments, fair value is determined using recent buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to valuation models, including net present value of estimated future cash flows, and based on earnings before financing cost, tax, depreciation and amortization (“EBITDA”) multiples;
- For equity investments which are primarily set up to invest in real estate, fair value is determined by revaluing the underlying real estate properties of these companies based on the valuation performed by independent valuers; and
- Investments in funds, unit trusts, or similar investment entities are carried at the latest net asset valuation provided by the fund administrators.

3.2.15 Provisions

Provisions are recognised when the Group 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.

3.2.16 Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position, if and only if there is a legally enforceable or religious right (as determined by Shari'a) to set off the recognised amounts and the Group intends to settle on a net basis.

3.2.17 Zakah

In the absence of appointment of the Bank to pay zakah on behalf of shareholders, the responsibility of payment of zakah is on individual shareholders of the Group.

4 CASH AND BALANCES WITH BANKS

	2012 US$ '000	2011 US$ '000
Cash in hand	3	1
Balances with banks	8,239	12,044
	8,242	12,045

5 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2012 US$ '000	2011 US$ '000
Commodity murabaha	45,261	137,402
Deferred income	(6)	(142)
	45,255	137,260
Wakala receivables	-	60,011
	45,255	197,271

6 MURABAHA RECEIVABLES

	2012 US$ '000	2011 US$ '000
Gross murabaha receivables	7,720	-
Deferred income	(4)	-
Net murabaha receivables	7,716	-

Murabaha receivables represent a 2.5 year shari'a compliant facility provided to ADGL (Guernsey), which matures on 2 February 2015. Profit is receivable on a quarterly basis.

7 NON-TRADING INVESTMENTS

	Note	2012 US$ '000	2011 US$ '000
Investments designated at fair value through equity			
Quoted investment designated at fair value through equity	7.1	1,502	1,465
Unquoted investments designated at fair value through equity	20	21,266	20,633
Specific provision	18	(5,195)	(3,346)
Unquoted investments designated at fair value through equity, net		16,071	17,287
		17,573	18,752

7.1 This represents an investment quoted on the Kuwait Stock Exchange.

8 INVESTMENT IN IJARAH ASSETS

Investments in ijarah assets represent aircraft indirectly acquired through an equity investment in Falak Aviation Fund B.S.C.(c) a Collective Investment Unit regulated by the Central Bank of Bahrain (the CBB). These aircraft have been leased to various commercial airline companies.

	Cost at 1 January 2012 US$ '000	Accumulated Depreciation 1 January 2012 US$ '000	Depreciation charge US$ '000	Net book value at 31 December 2012 US$ '000	Net book value at 31 December 2011 US$ '000
Falak Fin One Limited	**39,739**	**1,484**	**1,484**	**36,771**	38,255
Falak Fin Two Limited	**40,042**	**1,404**	**1,404**	**37,234**	38,638
Falak Fin Three Limited	**41,965**	**1,748**	**1,748**	**38,469**	40,945
Falak Fin Four Limited	**36,599**	**1,619**	**1,619**	**33,361**	34,980
Falak Fin Seven Limited	**43,666**	**2,180**	**2,180**	**39,306**	42,179
Falak Fin Eight Limited	**34,269**	**3,077**	**3,077**	**28,115**	29,771
Falak Fin Nine Limited	**5,046**	**1,631**	**1,631**	**1,784**	3,415
Falak Fin Ten Limited	**5,526**	**1,438**	**1,438**	**2,650**	4,088
Falak Fin Eleven Limited	**37,752**	**1,426**	**1,426**	**34,900**	36,326
	284,604	**16,007**	**16,007**	**252,590**	268,597
General provision				**(8,000)**	(8,000)
				244,590	260,597

9 NET ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

The disposal group is a company incorporated in the Cayman Islands which has a stake of 92.02% in a Danish operator that is a global leader in the provision of systems and solutions for filling and reconditioning of liquefied petroleum gas cylinders. As at 31 December 2012, the Group has retained a 21.5% stake in this Danish company and management remains committed to sell the investment and is actively marketing its share at a price that is reasonable. As at 31 December 2012, the total assets and liabilities of the company amounted to US$ 93,754 thousand and US$ 30,160 thousand respectively (31 December 2011: US$ 91,231 thousand and US$ 29,824 thousand respectively).

10 INVESTMENT PROPERTY

	2012 US$ '000	2011 US$ '000
Balance as at the beginning and end of the year	**10,476**	10,476

The investment property represents a land in the Kingdom of Bahrain. It is stated at fair value, determined based on valuations performed by three independent professional valuers as at 31 December 2012 and 31 December 2011.

11 OTHER ASSETS

	2012 US$ '000	2011 US$ '000
Accrued income	**2,937**	2,340
Prepaid expenses	**513**	1,181
Others	**1,643**	2,496
	5,093	6,017

12 PROPERTY AND EQUIPMENT

	Freehold land US$ '000	Building US$ '000	Others US$ '000	Total US$ '000
Cost:				
At 1 January 2012	3,162	4,079	5,341	12,582
Additions	-	-	25	25
At 31 December 2012	**3,162**	**4,079**	**5,366**	**12,607**
Accumulated depreciation:				
At 1 January 2012	-	1,036	4,538	5,574
Charge for the year	-	204	455	659
At 31 December 2012	**-**	**1,240**	**4,993**	**6,233**
Net book value				
At 31 December 2012	**3,162**	**2,839**	**373**	**6,374**
At 31 December 2011	3,162	3,043	803	7,008

13 TERM FINANCING

	2012 US$ '000	2011 US$ '000
Falak Fin One Limited	**20,141**	22,752
Falak Fin Two Limited	**20,366**	22,962
Falak Fin Three Limited	**22,865**	25,358
Falak Fin Four Limited	**15,345**	19,362
Falak Fin Seven Limited	**21,310**	23,837
Falak Fin Eight Limited	**19,239**	21,861
Falak Fin Nine Limited	**-**	3,013
Falak Fin Ten Limited	**2,428**	3,013
Falak Fin Eleven Limited	**19,789**	21,946
	141,483	164,104

The above financing has been obtained to purchase ijarah assets at profit rates between 3.3% and 6.8%, and matures between 2013 and 2015. There is no recourse on the Bank for term financing.

14 OTHER LIABILITIES

	2012 US$ '000	2011 US$ '000
Accrued expenses	**2,944**	6,099
Provision for employees end of service benefits	**1,292**	1,089
Legal and professional fees payable related to investment in ijarah assets	**1,025**	1,033
Unearned rental income	**827**	1,423
Others	**8,336**	10,000
	14,424	19,644

14 OTHER LIABILITIES (continued)

The movement in provision for employees end of service benefits during the year is as follows:

	2012 US$ '000	*2011 US$ '000*
Opening balance	**1,089**	843
Charge for the year	**246**	246
Utilised and paid during the year	**(43)**	-
Closing balance	**1,292**	1,089

15 OWNERS' EQUITY

15.1 Share capital

Following approval of the Bank's shareholders at an Extraordinary General Meeting (EGM) held on 16 April 2012, the Bank reduced its authorised capital from US$ 2,500 million to US$ 1,250 million. The Bank also reduced its issued and fully paid up share capital from US$ 291,286 thousand to US$ 145,643 thousand by reducing the par value of its ordinary shares from US$ 1 per share to US$ 0.5 per share.

	2012 US$ '000	*2011 US$ '000*
Authorised :		
2,500,000,000 Ordinary shares of US$ 0.5 each (2011: US$ 1 each)	**1,250,000**	2,500,000
Issued and fully paid up		
At beginning of the year		
291,286,000 Ordinary shares of US$ 1 each	**291,286**	291,286
Reduction in share capital	**(145,643)**	-
At end of the year		
291,286,000 Ordinary shares of US$ 0.5 each (2011: US$ 1 each)	**145,643**	291,286

15.2 Statutory reserve

In accordance with the Bahrain Commercial Companies Law ("BCCL") and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. This reserve is not distributable, but can be utilised as security for the purpose of distribution in such circumstances as stipulated in the BCCL and other applicable statutory regulations.

15.3 Investment fair value reserve

Unrealised gains on 'investment property' and certain 'investments carried at fair value through statement of income' are appropriated to the 'investment fair value reserve' in equity and are not available for distribution. Upon disposal of such assets, the related cumulative gains or losses are transferred to retained earnings and become available for distribution.

16 PROPOSED DIVIDEND

The Bank has proposed a dividend of US$ 4,275 thousand (US$ 0.01467 per share) for the year ended 31 December 2012. The proposed dividend will be submitted for approval of the Bank's shareholders at the Annual General Meeting subject to necessary regulatory approvals.

17 GENERAL AND ADMINISTRATION EXPENSES

	2012 US$ '000	2011 US$ '000
Rent and maintenance	**250**	242
Legal and professional	**222**	122
Communication charges	**181**	244
Board of Directors and Board Committees attendance allowances	**94**	69
Shari'a Spervisory Board attendance allowances	**58**	51
Travel expenses	**55**	61
Marketing and advertisement	**25**	29
Other expenses	**398**	1,377
	1,283	2,195

18 PROVISIONS

	2012			
	Specific		General	Total
	Non-trading investments US$ '000	Other investments US$ '000	US$ '000	Total US$ '000
Balance at beginning of the year	**3,346**	**-**	**18,000**	**21,346**
Transfer	**1,744**	**-**	**(1,744)**	**-**
Foreign exchange translations	**105**	**-**	**-**	**105**
Balance at the end of the year	**5,195**	**-**	**16,256**	**21,451**

	2011			
	Specific		General	Total
	Non-trading investments US$ '000	Other investments US$ '000	US$ '000	Total US$ '000
Balance at beginning of the year	1,346	10,000	8,000	19,346
Transfer	-	(10,000)	10,000	-
New provisions made	2,000	-	-	2,000
Balance at the end of the year	3,346	-	18,000	21,346

19 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	2012 US$ '000	2011 US$ '000
Cash and balances with banks	**8,242**	12,045
Due from banks and financial institutions (with original maturity of 90 days or less)	**45,255**	197,271
	53,497	209,316

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing financial assets by valuation technique:

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 instruments recorded at fair value by level of the fair value hierarchy at 31 December:

	2012			
	Level 1 US$ 000	Level 2 US$ 000	Level 3 US$ 000	Total US$ 000
Non-trading investments	**1,502**	**-**	**4,932**	**6,434**
	1,502	**-**	**4,932**	**6,434**

The other investment with a carrying value of US$ 11,139 thousand is carried at cost less impairment.

	2011			
	Level 1 US$ 000	Level 2 US$ 000	Level 3 US$ 000	Total US$ 000
Non-trading investment	1,465	-	-	1,465
	1,465	-	-	1,465

The other investments with a carrying value of US$ 17,287 thousand are carried at cost less impairment.

21 CAPITAL MANAGEMENT

The adequacy of the Bank's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the CBB.

The primary objectives of the Bank's capital management are to ensure that the Group complies with externally imposed capital requirements and maintains healthy capital ratios in order to support its business and maximise shareholder value.

Regulatory capital consists of Tier 1 Capital, which comprises principally of share capital, statutory reserve, retained earnings and non controlling interest. The other component of regulatory capital, Tier 2 Capital, consists of investment fair value reserves. Certain adjustments are made to these balances as prescribed by the CBB. Risk-weighted assets are calculated in accordance with the prudential rules laid down by the CBB.

The Bank maintains an actively managed capital base to cover risks inherent in the business.

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.

21 CAPITAL MANAGEMENT (continued)

Regulatory capital

	Note	2012 US$'000	2011 US$'000
Tier 1 capital	21.1	**158,436**	311,285
Tier 2 capital	21.2	**(44,805)**	(31,155)
Total capital base (a)		**113,631**	280,130
Risk weighted assets (b)	21.3	**378,611**	455,509
Capital adequacy (a/b x 100)		**30.01%**	61.50%
Minimum requirement		**12.0%**	12.0%

21.1 Tier 1 Capital

	2012 US$'000	2011 US$'000
Share capital	**145,643**	291,286
Statutory reserve	**9,140**	8,590
Others	**4,275**	419
Retained earnings	**27,571**	26,896
Non-controlling interest	**16,957**	15,857
Core Tier 1 Capital	**203,586**	343,048
Deductions	**(45,150)**	(31,763)
Tier 1 Capital	**158,436**	311,285
Negative balance of Tier 2	**(44,805)**	(31,155)
Tier 1 Capital net of negative Tier 2 Capital	**113,631**	280,130

21.2 Tier 2 Capital

	2012 US$ '000	2011 US$ '000
Unrealised gains arising from fair valuing equities (45%)	**345**	189
Core Tier 2 Capital	**345**	189
Deductions	**(45,150)**	(31,344)
Tier 2 Capital	**(44,805)**	(31,155)

21.3 Risk weighted assets

	2012 US$ '000	2011 US$ '000
Credit risk weighted assets	**228,464**	296,478
Market risk weighted assets	**42,863**	35,838
Operational risk weighted assets	**107,284**	123,193
	378,611	455,509

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 standardised risk weightings are applied. For regulatory purposes, credit risk-weighted assets include investments and receivables.

21 CAPITAL MANAGEMENT (continued)

21.3 Risk weighted assets (continued)

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

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.

21.4 Tier 1 Capital Adequacy Ratio

	2012	2011
Capital Adequacy on Tier 1 Capital	**41.85%**	68.34%

22 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on the nature of their operations and services. The Group has two reportable segments being geographical segment and industrial segment.

Geographical segment
The geographical segment is a distinguishable component that is engaged in providing an individual product or service or a group of related products or services within a particular economic environment which may have risks and returns that may be different from the components operating in other economic environments.

Industrial segment
The industrial segment is a distinguishable component that is engaged in providing an individual product or service or a group of related product or services which may have risks and returns that may be different from those of other business segments.

	2012		2011	
	Assets US$'000	Liabilities US$'000	Assets US$'000	Liabilities US$'000
Geographical segment:				
Bahrain	**168,304**	**11,072**	246,320	16,170
Europe	**104,923**	**144,683**	135,571	166,490
Others	**87,034**	**152**	144,905	1,088
	360,261	**155,907**	526,796	183,748
Industrial segment:				
Banking and financial institutions	**56,220**	**141,486**	211,489	166,104
Aviation	**245,247**	**2,118**	262,255	2,772
Real estate	**29,331**	**-**	21,380	-
Utilities	**4,932**	**-**	6,380	-
Manufacturing	**16,743**	**-**	16,163	-
Others	**7,788**	**12,303**	9,129	14,872
	360,261	**155,907**	526,796	183,748

22 SEGMENTAL INFORMATION (continued)

Segment total operating income, net operating expenses and net income / (loss) for the year were as follows:

	2012			2011		
	Total operating income US$'000	Net operating expenses US$'000	Net income / (loss) US$'000	Total operating income US$'000	Net operating expenses US$'000	Net income (loss) US$'000
Geographical segment:						
Bahrain	13,938	(11,677)	2,261	13,142	(30,471)	(17,329)
Europe	13,914	(9,945)	3,969	88,456	(9,945)	78,511
Others	1,796	(1,426)	370	1,620	(1,426)	194
	29,648	(23,048)	6,600	103,218	(41,842)	61,376
Industrial segment:						
Banking and financial institutions	1,173	(7,041)	(5,868)	1,084	(23,835)	(22,751)
Aviation	26,729	(16,007)	10,722	25,454	(16,007)	9,447
Real estate	1,212	-	1,212	-	(2,000)	(2,000)
Utilities	-	-	-	-	-	-
Manufacturing	534	-	534	76,680	-	76,680
Others	-	-	-	-	-	-
	29,648	(23,048)	6,600	103,218	(41,842)	61,376

23 RELATED PARTIES

Related parties comprise Shareholders of the Group, Directors of the Group, Shari'a Supervisory Board members, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Group. These transactions have been carried out on an arm's length basis in manner similar to transactions with a third party. For the year ended 31 December 2012, the Group has not made any provision related to amounts owed by related parties (2011: Nil).

The transactions with related parties included in the consolidated statement of financial position and consolidated statement of income are as follows:

	2012				2011
	Shareholders	Directors	Others	Total	Total
Consolidated statement of financial position					
Assets					
Other assets	544	-	-	544	427
Income					
Fee income	500	-	-	500	115
Expenses					
Board of Directors and Board Committees attendance allowances	-	94	-	94	69
Shari'a Supervisory Board attendance allowances	-	-	58	58	51
Fees	-	-	-	-	1

23 RELATED PARTIES (continued)

Key management personnel are those that possess significant decision making and direction setting responsibilities within the Bank. Staff costs attributable to key management personnel of the Bank is as follows:

	2012 US$'000	2011 US$'000
Short term employee costs	**1,253**	1,315
Termination costs	**204**	205
	1,457	1,520

24 COMMITMENTS

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash flow requirements.

The Bank has the following commitments.

	Less than 1 year US$ '000	*Total US$ '000*
At 31 December 2012		
Capital and other commitments	**116**	**116**
	116	**116**
At 31 December 2011		
Capital and other commitments	525	525
	525	525

25 SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board consists of three scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Shari'a principles.

26 RISK MANAGEMENT

Risk management plays a critical role in the Group’s decision making process. It is managed through a Management Investment Committee and the Asset Liability and Risk Management Committee. Both committees comprise of senior management drawn from key areas of the Group in implementing risk strategy and policies, monitoring and managing the key risks to which the bank is exposed. The Group is exposed to credit risk, concentration risk, profit rate risk, liquidity risk, equity price risk, foreign currency risk and operational risk.

Although management responsible for the key areas of the Bank are accountable for the risks that arise within their respective areas, the Risk Management Department independently identifies, measures, monitors and recommends appropriate steps to manage each type of risk. The Risk Management Department has independent access to the Board of Directors and updates them on the overall risk profile of the Group on a regular basis.

26.1 Risk management structure

Board of Directors
The Board of Directors is ultimately responsible for the overall risk management approach and for approving risk strategies, risk policies and procedures.

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 of the Board considers and approves proposals to purchase and sell individual investments up to the limit accorded by the Board.

Management Investment Committee
One of the key risks the Group is exposed to, is the underwriting of investments and proprietary investments. It is the role of the Management Investment Committee to approve or disapprove such investments based on risks highlighted by the Risk Management Department and the relevant mitigating factors presented by the relevant business team.

Asset Liability and Risk Management Committee
The Asset Liability and Risk Management Committee’s responsibility is to manage all risks including liquidity, rate of return, credit, market and operational risks within the Policy framework of the Bank and regulatory requirements. It recommends liquidity limits and concentration limits to the Board of Directors.

Risk Management Department
The Risk Management Department is responsible for developing and implementing appropriate risk management strategies and methodologies for the Group. It ensures that there are adequate control procedures in place such that the risks exposed to are within the approved limits.

Risk management and reporting systems
The Risk Management Department is responsible for managing and monitoring risk exposures. The Risk Management Department measures risk through the use of risk models and provides reports to the Asset Liability and Risk Management Committee. Monitoring and controlling risks are managed through limits set by the Board. The Risk Management Department presents reports to the Board of Directors, Asset Liability and Risk Management Committee and other relevant departments as required. These reports include analysis of capital adequacy, credit exposure, investment exposure, and foreign currency exposures.

26 RISK MANAGEMENT (continued)

26.2 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 Group manages credit risk by setting limits for individual counterparties. Counterparty limits are set by the Board of Directors and monitored by the Risk Management Department and reviewed regularly.

The Group does not engage in commercial or retail banking. Its exposure to credit risk arises largely through placement of liquid funds in banks accounts, murabaha contracts, wakala contracts and receivables. The Group deploys excess funds in a conservative manner, targeting highly rated financial institutions locally and regionally.

Credit risk is managed by the Group through limits for each counterparty approved by the Board of Directors and monitored on a daily basis by the Risk Management Department. Any exception or deviation to the approved terms and conditions requires senior management approval and such exceptions are reported to the Board. The Group makes use of an internal rating system, covering a wide range of qualitative and quantitative factors, in assessing the creditworthiness of counterparties. The ratings generated by the internal rating system are compared, where applicable, against the ratings assigned by External Credit Assessment Institutions ["ECAI"] to ensure consistency between the ratings of the internal system and those of ECAI. ECAI considered by the Group are Standard & Poor's and Moody's and Fitch.

The Group does not have collateral for any of its credit risk exposures. In placing short-term funds with financial institutions the Group performs a credit analysis of each counterparty (including consideration of external credit rating if any), sets limits and monitors such limits.

The following table analyses the geographical and counterparty type concentrations of the Group's maximum exposure to credit risk:

(i) Maximum exposure to credit risk

	2012 US$'000	2011 US$'000
Balances with banks	**8,239**	12,044
Due from banks and financial institutions	**45,255**	197,271
Murabaha receivables	**7,716**	-
Other assets	**4,581**	4,833
	65,791	214,148

Exposures by geographical region

As at 31 December 2012:

	Bahrain US$'000	Europe US$'000	Other GCC countries US$'000	Other Middle East & Asia US$'000	North America US$'000	Total US$'000
Balances with banks	6,304	1,635	55	-	245	8,239
Due from banks and financial institutions	35,755	-	9,500	-	-	45,255
Murabaha receivables	-	7,716	-	-	-	7,716
Other assets	414	573	2,937	657	-	4,581
	42,473	9,924	12,492	657	245	65,791

26 RISK MANAGEMENT (continued)

26.2 Credit risk (continued)

Exposures by geographical region

	Bahrain US$'000	Europe US$'000	Other GCC countries US$'000	Other Middle East & Asia US$'000	North America US$'000	Total US$'000
As at 31 December 2011:						
Balances with banks	1,563	4,959	58	-	5,464	12,044
Due from banks and financial institutions	112,259	-	85,012	-	-	197,271
Other assets	835	-	2,340	1,658	-	4,833
	114,657	4,959	87,410	1,658	5,464	214,148

Exposure by industry:

As at 31 December 2012:

	Aviation US$'000	**Banking and finance US$'000**	**Manufacturin US$'000**	**Other US$'000**	**Total US$'000**
Balances with banks	**-**	**8,239**	**-**	**-**	**8,239**
Due from banks and financial institutions	**-**	**45,255**	**-**	**-**	**45,255**
Murabaha receivables	**-**	**-**	**-**	**7,716**	**7,716**
Other assets	**657**	**2,723**	**299**	**902**	**4,581**
	657	**56,217**	**299**	**8,618**	**65,791**

As at 31 December 2011:

	Aviation US$'000	Banking and finance US$'000	Manufacturing US$'000	Other US$'000	Total US$'000
Balances with banks	-	12,044	-	-	12,044
Due from banks and financial institutions	-	197,271	-	-	197,271
Other assets	1,658	2,172	67	936	4,833
	1,658	211,487	67	936	214,148

26.3 Market Risk

Market risk is the risk that arises from fluctuations in market risk factors that include profit rate risk, currency risk and equity price risk and will have a negative impact on the Group income and/or will decrease the value of its portfolios.

Profit rate risk

Profit rate risk is combination of the rate of return risk and the risk of exposure due to the mismatch in the Group's profit-sensitive assets and liabilities caused by variations in the market reference rate, which would result in a decrease of the Group's net present value.

The Group currently has limited exposure to profit rate risk. The Group’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 2012, a +/- 200bp change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 2,849 thousand (31 December 2011: +/-200bp resulted in +/- US$ 1,778 thousand) impact on the consolidated statement of income.

26 RISK MANAGEMENT (continued)

26.3 Market risk (continued)

Currency risk
Currency risk represents fluctuations in exposures held by the Group in currencies other than the US$. The Group may engage, in the normal course of business, in transactions denominated in currencies other than its functional currency. The Bank risk management policy regulates such exposure by hedging currency exposures with Shari'a compliant instruments. Currency exposure is monitored daily by Risk Management Department and reported on a monthly basis to the Asset Liability and Risk Management Committee.

The Group has the following significant foreign currency exposures at the consolidated statement of financial position date:

		2012	
	Assets US$'000	***Liabilities US$'000***	***Net US$'000***
Danish Krone	**14,942**	**-**	**14,942**
Kuwaiti Dinars	**1,527**	**-**	**1,527**
Great Britain Pounds	**12,916**	**(697)**	**12,219**
Euro	**14,084**	**-**	**14,084**

		2011	
	Assets US$'000	*Liabilities US$'000*	*Net US$'000*
Danish Krone	14,630	-	14,630
Kuwaiti Dinars	1,494	-	1,494
Great Britain Pounds	6,423	-	6,423
Euro	13,273	-	13,273

The table below indicates the impact of reasonably possible changes in exchange rates on the Group's net foreign currency exposure. The impact has been calculated using the net foreign currency exposure as at the balance sheet date and calculating the impact of the change in exchange rate.

	Change in exchange rates (+/-) %	***Net income and equity (+/-) US$'000***
Danish Krone	**10**	**1,494**
Kuwaiti Dinars	**10**	**153**
Great Britain Pounds	**10**	**1,222**
Euro	**10**	**1,408**

Equity price risk
Equity price risk is the risk that the fair value of investments designated at fair vale through equity decreases due to fluctuations in the respective stock market indices.

26 RISK MANAGEMENT (continued)

26.3 Market risk (continued)

Equity price risk (continued)
As at 31 December 2012 the Group had investment in quoted equity on the Kuwait Stock Exchange. The table below reflects the sensitivity of the investment to changes in these inputs. The sensitivity of investment is calculated by considering the impact of reasonably expected changes in the capitalisation rate.

	Change in equity price (+/-)	*Effect on net equity (+/-)*
	%	US$'000
Kuwait Stock Exchange	**10**	**150**

The Group also has unquoted investments carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted, or when a third party transaction in the investment gives a reliable indication of fair value which will be reflected in equity.

The total market risk weighted assets and regulatory capital requirements related to market risk are as follows:

	2012 *US$ '000*	*2011* *US$ '000*
Foreign exchange risk	**42,863**	35,838
Regulatory capital requirement (multiple of 12.5)	**3,429**	2,867

During the year, the maximum capital requirement as per standardized method was US$ 4,842 thousand while the minimum capital requirement was US$ 2,816 thousand.

26.4 Operational risk

Operational risk is the risk of loss arising from human error, fraud, and control or system failure which may cause legal, regulatory and financial loss. The Group has implemented a strong corporate governance framework and control mechanism to prevent such potential operational risks. The Bank's internal audit function performs regular independent audits of each critical area and reports to the Board Audit Committee on a regular basis.

The Group has in place an operational risk policy that set guidelines to manage the Group's exposure to loss and protects its assets and outlines the principles of the Group's operational risk management framework. This policy is supplemented by specific operational risk management procedures. The operational risk management framework provides directives associated with the operational risk in terms of identification, assessment, monitoring and reporting, mitigation and control of operational risks.

The policy also sets out the responsibility and accountability of all parties related to the operational risk represented by the Board of Directors, Audit Committee, Asset Liability and Risk Management Committee, Risk Management Department, staff, contractors and Internal Audit.

26 RISK MANAGEMENT (continued)

26.4 Operational risk (continued)

The risk appetite is defined by the Group as the amount of risk that is acceptable to the Group. The operational risk appetite is determined by Risk Management Department on an ongoing basis based on a bottom-up approach following discussion with other lines of business. Operational risk appetite is approved by the Asset Liability and Risk Management Committee, ratified by the Board and documented and communicated via the Board-approved policy. The Group adopts qualitative and quantitative criteria in measuring its risk appetite.

The Group, based on the operational risk management framework, has implemented a strong governance framework and control mechanism to manage this risk and reduce potential operational risks. The controls in place include segregation of duties, access controls, authorisation, approval and reconciliation procedures, staff education and appraisal processes.

The Group measures and allocates capital to its operational risk using the Basic Indicator Approach. The total operational risk weighted assets and regulatory capital requirements related to the operational risk are as follows:

	2012	*2011*
	US$ '000	*US$ '000*
Average gross income	**57,218**	65,703
Operational risk weighted assets	**107,284**	123,193
Regulatory capital requirement (at 12%)	**12,874**	14,783

27 SOCIAL RESPONSIBILITY

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

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Group's financial instruments are not significantly different from their book values as at the consolidated statement of financial position date.

29 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group has not received any income or incurred any expenses which was non shari'a compliant as at 31 December 2012 (31 December 2011: nil).

1 CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The adequacy of the Bank's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the CBB.

Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.14 & 1.3.15)

	31 Dec 2012	
	Tier 1 US$ '000	Tier 2 US$ '000
Deduction		
Large exposure	45,150	45,150
Total Deductions	**45,150**	**45,150**

Table – 2. Capital requirement for different type of risks (PD - 1.3.18, 1.3.19)
The following table summarises the capital requirements for credit risk, market risk and operational risk as of:

	31 Dec 2012	
	Risk weighted assets US$ '000	Minimum capital requirement US$ '000
Credit Risk	228,464	27,416
Market Risk	42,863	5,144
Operational Risk	107,284	12,874
	378,611	**45,434**

Table – 3. Capital requirement by type of Islamic financing contracts (PD-1.3.17)
The following table summarises the capital requirements by type of Islamic financing contracts as of:

	31 Dec 2012	
	Risk weighted assets US$ '000	Minimum capital requirement US$ '000
Islamic financing contracts		
Murabaha financing	16,767	2,012
Ijarah Assets	123,287	14,794
	140,054	**16,806**

2 RISK MANAGEMENT

Risk management plays a critical role in the Group's decision making process. It is managed through a Management Investment Committee and the Asset Liability and Risk Management Committee. Both committees comprise of senior management drawn from key areas of the Group in implementing risk strategy and policies, monitoring and managing the key risks to which the Group is exposed. The Group is exposed to credit risk, concentration risk, profit rate risk, liquidity risk, equity price risk, foreign currency risk and operational risk.

a) Liquidity risk

Liquidity risk is inherent in all banking institutions and arises mainly from mismatching of timing in the cash flows and can be affected by a range of institution specific and market-wide events including credit events, mergers and acquisitions and economic shocks. Liquidity is monitored regularly by the Asset Liability and Risk Management Committee ["AL&RMCO"].

The Group policies and procedures lay out guidelines that will optimise use of excess liquidity and ensure availability of funds to meet the Group's obligations when they fall due. The Group's funding guidelines include: 1) The mobilisation and placement of short term funds through placements and murabaha transactions by Treasury, 2) All funding objectives should be aligned to the strategic objectives of the Group, 3) The composition, characteristics and diversification of the Group's funding structure will be monitored by AL&RMCO and executed by Treasury, Treasury will maintain the counterparty relationships to obtain the necessary lines of funding, 4) AL&RMCO will monitor the concentration of funding sources across products and counterparties and effect measures to mitigate undue concentrations, 5) Treasury will implement the deals within the approved guidelines, including the approved products and the counterparties.

Table – 4. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios as of:

	31-Dec 2012
Short term assets to short term liabilities	**21.40**
Liquid assets to total assets	**0.15**

Table – 5. Residual Contractual Maturity Breakdown (PD-1.3.23(g), PD-1.3.24(a) & PD-1.3.38)

The table on the next page summarises the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date.

2 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

Table – 5. Residual Contractual Maturity Breakdown (PD-1.3.23(g), PD-1.3.24(a) & PD-1.3.38) (continued)

The consolidated maturity profile at 31 December 2012 was as follows:

	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000	6 months to 1 year US$	1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	10 to 20 years US$	20 years and above US$ '000	Undated US$ '000	Total US$ '000
ASSETS											
Cash and balances with banks	8,242	-	-	-	-	-	-	-	-	-	8,242
Due from banks and financial instit	45,255	-	-	-	-	-	-	-	-	-	45,255
Murabaha Receivables	-	-	-	-	7,716	-	-	-	-	-	7,716
Non-trading investments	-	-	-	-	-	-	-	-	-	17,573	17,573
Investments in ijarah assets	-	-	-	-	-	-	-	-	-	244,590	244,590
Net assets of disposal group classified as held for sale	-	-	-	-	-	-	-	-	-	14,942	14,942
Investment property	-	-	-	-	-	-	-	-	-	10,476	10,476
Property and equipment	-	-	-	-	-	-	-	-	-	5,093	5,093
Other assets	-	-	-	-	-	-	-	-	-	6,374	6,374
Total Assets	53,497	-	-	-	7,716	-	-	-	-	299,048	360,261
LIABILITIES											
Term financing	2,428	-	61,817	15,345	61,893	-	-	-	-	-	141,483
Due to banks and financial institutio	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	97	-	-	-	-	-	-	-	-	14,327	14,424
Total Liabilities	2,525	-	61,817	15,345	61,893	-	-	-	-	14,327	155,907
Net liquidity gap	50,972	-	(61,817)	(15,345)	(54,177)	-	-	-	-	284,721	204,354
Cumulative net liquidity gap	50,972	50,972	(10,845)	(26,190)	(80,367)	(80,367)	(80,367)	(80,367)	(80,367)	204,354	

2 RISK MANAGEMENT (continued)

b) Credit risk

Table - 6. Gross funded and unfunded exposure (PD-1.3.23(a))

As at 31 December 2012:

	Average credit exposures US$ '000	*Gross funded credit exposures US$ '000*	*Credit risk weighted exposures US$ '000*	*Regulatory capital requirements US$ '000*
Balances with banks	**8,909**	**8,239**	**8,239**	**989**
Due from banks and financial institutions	**121,072**	**45,255**	**45,255**	**5,431**
Murabaha receivables	**14,192**	**7,716**	**7,716**	**926**
Other assets	**4,576**	**4,581**	**4,581**	**550**
	148,749	**65,791**	**65,791**	**7,896**

The average credit exposures have been calculated based on the quarterly balances.

Table - 7. Geographic distribution of the credit exposure (PD-1.3.23(b))

Net funded credit exposures by geographical region

As at 31 December 2012:

	Balances with banks	***Murabaha receivable US$ '000***	***Islamic Financing US$ '000***	***Other US$ '000***	***Total US$ '000***
Europe	**1,635**	**-**	**7,716**	**573**	**9,924**
Bahrain	**6,304**	**35,755**	**-**	**414**	**42,473**
Other GCC Countries	**55**	**9,500**	**-**	**2,937**	**12,492**
Other Middle East and Asia		**-**	**-**	**657**	**657**
North America	**245**	**-**	**-**	**-**	**245**
	8,239	**45,255**	**7,716**	**4,581**	**65,791**

The geographical segregation is based on the location of the assets.

Table - 8. Exposure by counterparty type (PD-1.3.23(c))

Net funded credit exposures by counterparty

As at 31 December 2012:

	Balances with banks US$'000	***Murabaha receivable US$'000***	***Islamic Financing US$'000***	***Other US$'000***	***Total US$'000***
Claims on banks	**8,239**	**45,255**	**-**	**2,723**	**56,217**
Claims on corporates	**-**	**-**	**7,716**		**7,716**
Others	**-**	**-**	-	**1,858**	**1,858**
	8,239	**45,255**	**7,716**	**4,581**	**65,791**

2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Analysis of exposure to credit risk by external credit ratings

The table below analyses the Group's maximum credit exposure where the credit quality is reflected by Standard and Poor's, Moody's and Fitch credit ratings where relevant of the counterparties:

	31 December 2012 US$ '000
Credit rating:	
AAA to AA-	**58**
A+ to A-	**24,013**
BBB+ to BBB-	**14,339**
BB+ to B-	**13,295**
Unrated	**14,086**
	65,791

The distribution of assets and liabilities by geographical region was as follows:

	31 December 2012	
	Assets US$'000	*Liabilities US$'000*
Geographical region:		
Bahrain	**168,304**	**11,072**
Other Gulf Cooperation Council (GCC) Countries	**13,994**	**152**
Europe	**104,923**	**144,683**
Other Middle East and Asia	**72,795**	**-**
North America	**245**	**-**
	360,261	**155,907**

Table-9. Large Credit Exposure (PD - 1.3.23 (f))

The Group 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.

As at 31 December 2012, the Group's exposures in excess of 15% of Capital base for obligor limits to individual counterparties is shown below:

	Large exposure US$ '000	*% of exposure to capital*
Counterparty A	**108,912**	**53.30%**
Counterparty B	**38,061**	**18.63%**
Counterparty C	**33,795**	**16.54%**
Counterparty D	**32,304**	**15.81%**

2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table -10. Specific provisions by counterparty type (PD-1.3.23 (h), 1.3.24 (d))

The following table summarises the total specific provisions disclosed by counterparty type as of 31 December 2012:

	Specific provisions			
	Opening Balance US$ '000	Charges during the period US$ '000	FX translation US$ '000	Balance at the end of the period US$ '000
Investment - Energy	1,346	1,744	63	3,153
Investment - Real estate	2,000	-	42	2,042
	3,346	**1,744**	**105**	**5,195**

Table -11. General provisions movement (PD-1.3.23 (h), 1.3.24 (d))

The following table summarises the movement of general provisions during the period ended:

	31 December 2012 US$ '000
Opening Balance	18,000
Charges during the period	(1,744)
Balance at the end of the period	**16,256**

This represents collective provision against exposures which, although not specifically identified, have a greater risk

The Group does not have any past due and non-performing Islamic financing contracts. In accordance with the Group's policy and Central Bank of Bahrain guidelines financing facilities on which payment of profit or repayment of principal are 90 days past due, are defined as non-performing. (PD-1.3.23(i), PD-1.3.24(b), PD-1.3.24(c))

Table - 12 (PD-1.3.23 (j), (k), (l), PD-1.3.25(b) & (c))

The Group has no obligations with respect to renegotiated islamic financing contracts.

The Group has no obligations with respect to recourse transaction.

The Group has not imposed any material penalties on customers for defaults.

The Group does not make use of eligible collaterals and guarantees in its credit risk analysis.

2 RISK MANAGEMENT (continued)

c) Market risk

Market risk is the risk that arises from fluctuations in market risk factors that include profit rate risk, currency risk and equity price risk and will have a negative impact on the Group income and/or will decrease the value of its portfolios.

Table – 13. Market Risk Capital Requirements (PD-1.3.27 (b), PD-1.3.40)

The following table summarises the capital requirement for each category of market risk as of:

	31 Dec 2012 Foreign exchange risk US$ '000
Risk weighted exposure (RWE) (Foreign Exchange)	**42,863**
Capital requirements (12%)	**3,429**
Maximum value of RWE	**4,842**
Minimum value of RWE	**2,816**

Displaced Commercial Risk

The Group does not accept deposits from outside parties and is not exposed to displaced commercial risk.

Equity price risk

Equity price risk is the risk that the fair value of investments designated at fair vale thorugh equity decreases due to fluctuations in the respective stock market indices. As at 31 December 2012 the Group had investments in quoted equities on the Kuwait Stock Exchange. The table below reflects the sensitivity of the investment portfolio to changes in these inputs. The sensitivity of trading investments is calculated by considering the impact of reasonably expected changes in the capitalisation rate.

Equity positions in the Grouping book

Investments	*31 Dec 2012*		
	Total gross exposure US$'000	*Average gross exposure US$'000*	*Regulatory capital requirement US$'000*
Non trading investments			
Quoted	**1,502**	**1,516**	**180**
Unquoted	**16,071**	**17,077**	**1,929**
	17,573	**18,593**	**2,109**

2 RISK MANAGEMENT (continued)

Table – 14. Equity gains or losses in banking book (PD-1.3.31 (d) and (e))

The following table summarises the cumulative realised and unrealised gains or losses during the period ended:

	31 Dec 2012 US$ '000
Cumulative realised gains arising from sales or liquidations in the reporting year	-
Total unrealized losses recognised in the consolidated statement of financial positions but not through consolidated statement of income	456
Unrealised gross losses included in Tier 1 Capital	-
Unrealised gains included in Tier 1 Capital (45% only)	-
Unrealised gains included in Tier 2 Capital (45% only)	345

Table - 15. Operational risk exposure (PD-1.3.30 (a), (b) & (c))

The Group measures and allocates capital to its operational risk using the Basic Indicator Approach. The total operational risk weighted assets and regulatory capital requirements related to the operational risk are as follows:

	Gross income		
	2012 US$ '000	2011 US$ '000	2010 US$ '000
Total Gross Income	**40,249**	112,965	18,441

	December 2012
Indicators of operational risk	
Average Gross income (US$ '000)	57,218
Multiplier	12.5
	715,225
Eligible Portion for the purpose of the calculation	15%
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US$ '000)	**107,284**

The Group has no material legal contingencies including pending legal action.

BOARD OF DIRECTORS COMPOSITION

MR. KHALID BIN NASSER AL NASSER

Chairman of the Board and Executive Committee
Independent Non-Executive Board Member
Elected on 2nd August, 2006 and reelected for second term on 5th May, 2010

Mr. Al Nasser has more than 15 years of experience in the fields of real estate and investments. Mr. Al Nasser is the Chairman of Khalid Al Nasser & Sons Company-Riyadh and the Chairman of Future Cities for Real Estate Development Company-Riyadh. He also serves as the Chairman at Tejoori Investment Company in Dubai. Mr. Al Nasser holds a Masters in Business Administration from Marylhurst College, USA.

H.R.H. PRINCE KHALID BIN ALWALEED BIN TALAL AL SAUD

Independent Non-Executive Board Member
Member of the Executive Committee
Elected on 2nd August, 2006 and reelected for second term on 5th May, 2010

Prince Khalid is the Chairman of Levant Capital Dubai; a regulated investment manager which focuses on advising clients on the acquisition of established mid-cap family or management-owned private companies operating in Turkey, the GCC, the Levant and North Africa. Prince Khalid holds a Bachelors degree from the University of New Haven in Connecticut, USA.

MR. MUBARAK MATAR AL HEMEIRI

Independent Non-Executive Board Member
Chairman of the Nomination & Remuneration Committee and member of the Executive Committee
Elected on 5th May, 2010

Mr. Al Hemeiri is currently the Managing Director of Royal Group, UAE. He holds a Bachelors degree from the USA and has over 20 years of experience in the in the investments industry, including portfolio management, private equity, real estate and risk management. He has practical experience in the field of international investments where he was responsible for overseeing the operations and management of the investment portfolio at the Private Department of H.H. Sheikh Zayed Bin Sultan Al Nahyan. Mr. Al Hemeiri is also the Chairman and board member of several listed and unlisted companies across the GCC.

MR. ABDULLA RASHED OMRAN AL SHAMSI

Independent Non-Executive Board Member
Member of the Audit Committee
Elected on 5th May, 2010

Mr. Al Shamsi has over 25 years of Banking experience. Mr. Al Shamsi worked for Industrial Bank in Dubai and he held several managerial positions in governmental and semi-government entities. He is currently the Managing Director and Board Member of Commercial Bank International. Mr. Al Shamsi also serves as a Board member in several companies including International Financial Brokerage and Takamul Real Estate where he is the Vice Chairman. Mr. Al Shamsi holds a Bachelors degree in Management from Boston University, USA.

MR. MOHAMED HANI ABDULKADER AL BAKRI

Independent Non-Executive Board Member
Member of the Audit Committee
Elected on 2nd August, 2006 and reelected for second term on 5th May, 2010

Mr. Al Bakri is the Chairman of Allied Cooperative Insurance Group (ACIG) of Bahrain and of The Card Company of Bahrain. Mr. Al Bakri serves as a Board Member for numerous companies and financial institutions and has over 25 years of broad experience in industry, development and finance. He is also a Board Member of the North of England Protection and Indemnity Club of New Castle; a mutual insurance entity covering the possible liabilities of ship owners with reserves of over $600 million. Mr. Al Bakri is a Board Member of A.K. Bakri Al Bakri & Sons Holding, A.K. Bakri & Sons Ltd & Subsidiaries, Bakri International Energy Co. Ltd & Subsidiaries, Bakri Navigation Company Ltd & Subsidiaries, Al Khomasia Shipping & Maintenance Co. & Subsidiaries, Red Sea Marine Services Ltd & Subsidiaries and of Allied Cooperative Insurance Group (ACIG) of Saudi Arabia. Mr. Al Bakri is also a Member of the Technical Committee of the Classification Society Bureau, Veritas and has served as the Head of Jeddah Chamber of Commerce Maritime Committee. Mr. Al Bakri holds a Bachelors degree in Nuclear Engineering from King Abdul-Aziz University, KSA.

MR. WALEED KHALIFA AL FELAIJ

Independent Non-Executive Board Member
Member of the Executive and Nomination and Remuneration Committee
Elected on 2nd August, 2006 and reelected for second term on 5th May, 2010

Mr. Al Felaij has over 20 years of business experience. He is currently the General Manager of Finesco International General Trading and Contracting Company, Finesco National Trading & Contracting Company and Waleed Al Felaij General Trading & Contracting Company and is a partner in MEDCO Development Company in Kuwait. Mr. Al Felaij holds a Bachelors degree in Business Management from Font Bonne College, USA.

MR. YOUSEF BIN NASSER AL NASSER

Independent Non-Executive Board Member
Member of the Nomination and Remuneration Committee
Elected on 5th May, 2010

Mr. Yousef Al Nasser is the Chief Executive Officer of the Al Nasser Group, Saudi Arabia. He has over 15 years of experience in the logistics, construction and motor vehicles sectors. He is a founding shareholder in several banks and investment companies in the GCC. He also holds several executive positions including President of the Yousef Al Nasser Contracting Company and General Manager of Future Cities Real Estate Investment Company. Mr. Al Nasser is a holder of an MBA from California State University, USA.

MR. WALEED ABDULLA AL EISA

Independent Non-Executive Board Member
Chairman of the Audit Committee
Elected on 2nd August, 2006 and reelected for second term on 5th May, 2010

Mr. Al Eisa has over 25 years of Investment Banking experience. He is currently Senior Manager at the Asset Management Division of Kuwait Investment Company. Prior to that, Mr. Al Eisa headed the European Equity Investment and Fixed Income area. Mr. Al Eisa completed several international assignments in Europe, North America and the Far East. Mr. Al Eisa holds a Bachelors degree from California State University, USA.

* The qualifying criteria for “Independent” and “Non-Executive” directors are as per the Central Bank of Bahrain’s Corporate Governance requirements

** In 2012, Mr. Khalid Al Nasser assumed his role as Chairman of the Board. Mr. Asaad Al Banwan and Mr. Yousef Al Majid resigned from the Board during the year. Following their resignation, Board committees’ membership were reconfigured as reflected above.

*** Members of the Board of Directors who own shares of the Bank in their own name are H.R.H Prince Khalid Bin Alwaleed Al Saud, Mr. Khalid Bin Nasser Al Nasser, Mr. Waleed Khalifa Al Felaij, Mr. Yousef Bin Nasser Al Nasser and Mr. Waleed Abdulla Al Eisa who own 5 m, 10 m, 5 m, 5 m and 100 K shares respectively.

SHARI'A SUPERVISORY BOARD COMPOSITION

All current Shari'a Supervisory Board members have extensive knowledge of Islamic law being graduates from Shari'a colleges with various experience in Islamic banking.

SHAIKH ESAM M. ISHAQ

SHARI'A SUPERVISORY BOARD CHAIRMAN

Over 10 years residing on Shari'a board of a number of Islamic financial institutions.

Chairman: Seera's Shari'a Board and the Muslim Educational Society, Bahrain.

Director and Shari'a Advisor: Discover Islam, Bahrain.

Member: Shari'a Supervisory Board of ArCapita; Board of Trustees, Al Iman Islamic School, Bahrain; Shari'a Supervisory Board of Meezan Islamic Bank, Islamic Republic of Pakistan; Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI), Bahrain; and Shari'a Supervisory Boards of a number of Islamic banks and financial institutions.

Instructor: Islamic jurisprudence, theology and Qur'anic exegeses (Tafseer) courses in English and Arabic, in various centers in Bahrain.

Director: Zawaya Property Development, Kingdom of Bahrain.

Shaikh Ishaq obtained his Bachelor Degree in Political Science from McGill University, Montreal, Canada 1982.

DR. MOHAMMAD ALTABTABAEI

SHARI'A SUPERVISORY BOARD MEMBER

Over 15 years of experience in Islamic Banking.

Dean: Shari'a and Islamic Studies faculty in the Kuwait University.

Shari'a Board member: In a number of Islamic Institutions; Ministry of Awqaf and Islamic Affairs; member of Shari'a Committee in Zakat House, Kuwait.

Professor: Kuwait institute for Juridical Studies, Kuwait.

Dr. Altabtabaei has several books and publications in Islamic jurisprudence related topics. He has obtained a PhD in Islamic jurisprudence from Imam Mohamed bin Saud Islamic University, Kingdom of Saudi Arabia.

DR. YOUSEF ABDULLAH ALSHUBAILY

SHARI'A SUPERVISORY BOARD MEMBER

Over 10 years of experience in Islamic Banking.

Assistant Professor: Al Imam Mohamed Bin Saud Islamic University; Visiting Professor in the Open American University.

Shari'a Advisor: Al Zad International Investment Company.

Member: Of the Academy of Shari'a Jurists in North America and in the Permanent Fatwa Committee; Former member of Fatwa Committee in Islamic Institutions in North America; Former member in the Council of Board of Directors of the college of Islamic Studies in Kenya; Committee of Islamic Endowment.

Shari'a Researcher: Board of Grievances, Saudi Arabia.

Deputy Dean: Comparative Fiqh Department in the Juridical Higher Institution.

Dr. Alshubaily has several research papers and publications in the Islamic Studies and participated in a number of Islamic Conferences in the Kingdom of Saudi Arabia, United States and other countries. He has obtained his PhD from the Al Imam Mohamed Bin Saud Islamic University, Kingdom of Saudi Arabia.

MANAGEMENT PROFILES

ABDULLA SALEH JANAHI

CHIEF EXECUTIVE OFFICER

Mr. Janahi has over 30 years of investment banking experience mostly in executive and senior management roles in Bahrain and New York. Prior to joining Seera Investment Bank, Mr. Janahi was Group Head responsible for various key functions at Gulf International Bank (GIB) where he was also involved in high-level committees such as Group Risk and General Management Committees. Prior to this, Mr. Janahi headed up the Islamic Banking area and was involved in key areas such as Marketing, Credit, Treasury and Operations. Mr. Janahi completed several international assignments in Europe and North America, including coverage of fixed-income securities and equities with leading financial institutions in New York and London. Mr. Janahi holds a Masters degree in International Banking and Financial Services from the University of Reading, UK.

SHAHZAD IQBAL

CHIEF OPERATING OFFICER

Prior to joining Seera Investment Bank, Mr. Iqbal worked for over six years at Arcapita Bank in various positions including Head of Risk Management and Operations. Mr. Iqbal has more than 10 years of experience in Islamic banking, having worked at Ernst & Young's Bahrain office. Whilst at Ernst & Young, he established the Islamic Financial Services Group that provided a wide range of consultancy services to Islamic financial institutions, and also developed the Prudential Islamic Regulatory framework implemented by the Central Bank of Bahrain. Mr. Iqbal holds an MBA from Northern Arizona University, USA, and is a Fellow of the Institute of Chartered Accountants in England and Wales.

SAMEER OUNDHAKAR

HEAD OF INVESTMENT AND POST ACQUISITION MANAGEMENT

Mr. Oundhakar has almost 15 years of experience in the Financial Services sector. Before joining Seera, he worked with the Boston Consulting Group in London where he advised several financial services and private equity clients. Mr. Oundhakar began his career in India with Larsen & Tourbo as an Engineering trainee. He then joined HSBC, where he was the Head of Electronic Banking for India. In 2003, he moved to the UK with American Express and worked in the Strategic Planning Group. Mr. Oundhakar also worked with Threadneedle Asset Management in roles encompassing strategic alliances and distribution strategy. Mr. Oundhakar has a Bachelors degree with Distinction in Mechanical Engineering from VJTI - University of Mumbai, a Post Graduate Diploma in Management from the Indian Institute of Management (IIM), Lucknow and an MBA from INSEAD, France.

SOHAIL TOHAMI

HEAD OF TREASURY AND ACTING HEAD OF PLACEMENT

Mr. Tohami has more than 15 years experience in the Banking industry and other diversified business. Prior to joining Seera Investment Bank, Mr. Tohami was Head of the Money Market Desk in the Treasury Department at the Bank of Bahrain and Kuwait where he worked in various Treasury functions including fixed income portfolio manager, FX trading and currency options and the corporate desk. Mr. Tohami holds a Certified Public Accountant (CPA) designation from the University of Illinois and is a member of the American Institute of Certified Public Accountants. Mr. Tohami is also a member of the CFA Institute where he is designated as a Chartered Financial Analyst (CFA) holder. He also holds an executive MBA with first-class honors distinction from the University of Bahrain.

PRATEEK SHARMA

HEAD OF INVESTMENT

Mr. Sharma has over 10 years of banking experience with BNP Paribas, Arab Banking Corporation (ABC) and BBK in Corporate Banking and Risk management. Prior to joining Seera, he was heading Credit Risk management at BBK. He has worked on a wide range of transactions in industries such as shipping, airlines, Power, Oil & Gas across Asia, Middle East, Europe and North America. He has also led the development of Credit Risk management frameworks at his previous positions at ABC and BBK. Mr. Sharma holds a Bachelors degree in Electronics and Communications and an MBA in Finance. He is also a CFA charter holder and a Financial Risk Manager.

AMR ELIMAM

HEAD OF STRATEGIC PLANNING AND CORPORATE COMMUNICATIONS

Mr. Elimam has over 15 years of consulting and industry experience in the financial services, petrochemical and consumer products sectors. In consulting, he led strategic transformation initiatives for financial institutions such as The Bank of Canada, The Royal Canadian Mint and TD Canada Trust while working for KPMG Consulting. Mr. Elimam also directed major strategic initiatives for multinational companies in the petrochemical and consumer products sectors such as Procter & Gamble and Fuji. Mr. Elimam has a Bachelor of Science degree (Hons) in Mechanical Engineering from The American University.

FULYA KOCH

HEAD OF RISK MANAGEMENT

Ms. Koch was previously employed by Ryada Capital Investment Company (RCIC) as a Director of Risk Management, where she worked for two years. Prior to joining RCIC, Ms. Koch worked for five years in the risk management department of the Industrial Development Bank of Turkey, where she was responsible for market risk and had a leading role with the Basel II implementation committee. Ms. Koch has almost 15 years of risk management experience and is the Regional Director of the Global Association of Risk Professionals for the Kingdom of Bahrain. Ms. Koch holds a M.Sc. in Risk Management and an Insurance degree from City University, London. She was granted the Financial Risk Manager designation from the Global Association of Risk Professionals in 2003.

ISMAIL YOUNIS AHMED

HEAD OF HUMAN RESOURCES & ADMINISTRATION

Mr. Ahmed comes from Ahli United Bank where he was heading the Human Resources Department. Prior to Ahli United Bank, he worked for Arab Banking Corporation looking after the Human Resources and Administration function. He has more than 20 years of experience in the field of Human Resources and Administration. Mr. Ahmed has obtained his Middle Management Diploma from the University of Bahrain and holds a Human Resources Management Certificate. He has also successfully completed the Gulf Executive Management program conducted by the University of Virginia USA (Darden).

TAWFIQ AL-SARI

HEAD OF FINANCIAL CONTROL

Mr. Al-Sari has over 15 years of banking and audit experience. Prior to joining Seera, Mr. Al-Sari was a First Manager Financial Control with Bahrain Islamic Bank. Prior to that, Mr. Al-Sari held several positions at Khaleej Finance & Investments Bank including Head of Financial Control, Acting Head of Direct Investment and Head of Internal Audit. Mr. Al-Sari was also the designated Compliance Officer and Anti-Money Laundering Reporting Officer. Mr. Al-Sari's audit experience included working for KPMG as a Senior Audit Supervisor for six years where he supervised audits of major Islamic and conventional financial institutions inside and outside of Bahrain. Mr. Al-Sari is member of The American Institute of Certified Public Accountant (CPA), California, USA, and is also a Certified Islamic Public Accountant (CIPA) from the Accounting and Auditing Organization for Islamic Financial Institutions. He holds a Bachelor of Science degree in Accounting.

AHMED ALKHAN

HEAD OF SHARI'A COMPLIANCE

Prior to joining Seera, Mr. Alkhan worked at the Central Bank of Bahrain as a Senior Examiner in the Inspection Directorate where he was engaged in conducting on-site inspection examinations to various Islamic Financial Institutions across the Kingdom of Bahrain. Prior to that, Mr. Alkhan worked as a Shari'a Auditor at the Family Bank and at Gulf Finance House. Mr. Alkhan has also taught part-time and continues to lecture in topics related to Islamic Finance in Universities around the Kingdom of Bahrain. Mr. Alkhan has almost 5 years of experience in Shari'a compliance, and has a Bachelors degree in Banking and Finance from the University of Wales and a Masters in Islamic Finance.

MOHAMMED KAMAL

HEAD OF INFORMATION TECHNOLOGY

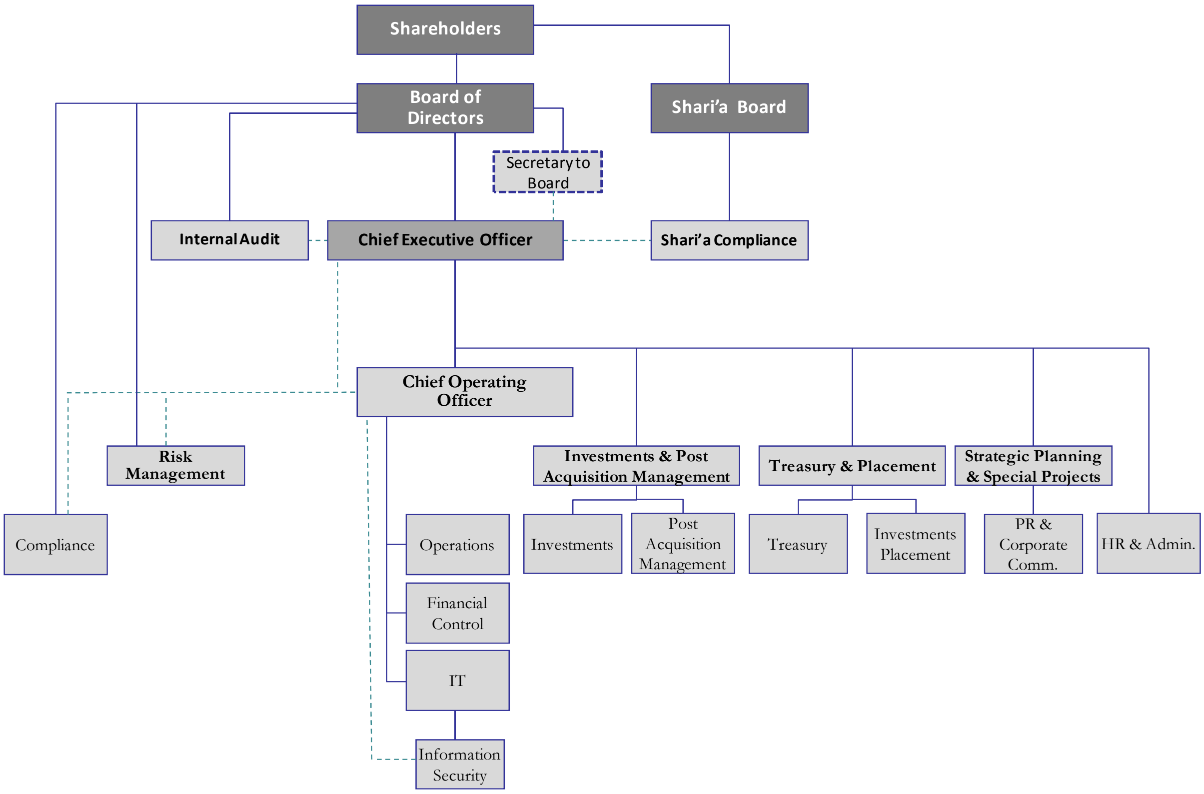
Mr. Kamal is responsible for Seera's IT operations which include core banking system implementation and aligning the IT strategy with Bank's business and compliance mandate. Prior to joining Seera Mr. Kamal was a Senior IT Specialist at the Bahrain Petroleum Company (BAPCO) where he was specialized in Information Technology & Security infrastructures and where he completed several large scale IT projects. Mr. Kamal has over 10 years of experience in IT and holds a Bachelors degree in Computer Science from the University of Bahrain and a Masters degree in Finance from DePaul University. He also obtained certification as a Certified Professional in Microsoft Active Directory and Exchange Advanced Administration from Learning Tree Institute UK and has a Microsoft Certified Systems Engineer (MCSE) designation.

ARWA AL SHARAF

COMPLIANCE OFFICER

Ms. Al Sharaf is Seera's Compliance Officer and Deputy MLRO where she is responsible for developing, implementing and administering the Bank's Compliance Management Program. Ms. Al Sharaf has almost 8 years of experience in Banking. Prior to her current role, Ms. Al Sharaf worked in the Financial Controls department where she was responsible for MIS and CBB reporting. Ms. Al Sharaf commenced her career at CITI Bank Bahrain in the Treasury Operations department where she gained broad experience in the banking operations and in a wide range of Islamic and non-Islamic banking products. Ms. Al Sharaf holds a Bachelors of Science degree in Banking and Finance from University of Bahrain and an International Diploma in Compliance from the International Compliance Association, Manchester, UK.

ORGANIZATIONAL STRUCTURE



Note: The Internal Audit function reports directly to the Audit Committee of the Board of Directors and the Shari'a Compliance function reports directly to the Shari'a Supervisory Board, with dotted reporting lines to the CEO. During the year, in order to optimize the efficient use of resources and to maintain a sustainable overhead base, Post Acquisition Management and Investments Departments were combined into a single department, the "Investments and Post Acquisition Management Department".