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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF SEERA INVESTMENT BANK B.S.C. (c)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Seera Investment Bank B.S.C. (c) ["the Bank"] and its subsidiaries ["the Group"] as of 30 June 2012, comprising the interim consolidated statement of financial position as at 30 June 2012 and the related interim consolidated statements of income, cash flows and changes in owners' equity for the six month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with note 2.

6 August 2012
Manama, Kingdom of Bahrain

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 June 2012

	Notes	***(Unaudited)* 30 June 2012 US$ '000**	*(Audited) 31 December 2011 US$ '000*
ASSETS			
Cash and balances with banks		**8,400**	12,045
Due from banks and financial institutions		**200,706**	197,271
Non-trading investments	3	**18,475**	18,752
Investments in ijarah assets	4	**252,594**	260,597
Net assets of disposal group classified as held for sale		**14,104**	14,630
Investment property		**10,476**	10,476
Other assets		**6,107**	6,017
Property and equipment		**6,674**	7,008
TOTAL ASSETS		**517,536**	526,796
LIABILITIES AND OWNERS' EQUITY			
LIABILITIES			
Term financing	5	**154,082**	164,104
Other liabilities		**19,471**	19,644
TOTAL LIABILITIES		**173,553**	183,748
OWNERS' EQUITY			
Share capital	7	**291,286**	291,286
Reserves		**8,206**	9,009
Retained earnings		**28,199**	26,896
Equity attributable to shareholders of the parent		**327,691**	327,191
Non-controlling interest		**16,292**	15,857
TOTAL OWNERS' EQUITY		**343,983**	343,048
TOTAL LIABILITIES AND OWNERS' EQUITY		**517,536**	526,796

The attached explanatory notes 1 to 7 form part of these interim condensed consolidated financial statements

CONSOLIDATED STATEMENT OF INCOME

For the six month period ended 30 June 2012 (Unaudited)

	Three months ended		*Six months ended*	
	30 June 2012	*30 June 2011*	***30 June 2012***	*30 June 2011*
	US$ '000	*US$ '000*	***US$ '000***	*US$ '000*
Rental income from investment in ijarah assets	**9,030**	9,606	**17,990**	17,796
Depreciation on investment in ijarah assets	**(4,002)**	(3,996)	**(8,003)**	(8,004)
Management fees relating to ijarah	**(228)**	(324)	**(527)**	(667)
Financing cost relating to term financing obtained to purchase ijarah assets	**(2,197)**	(2,332)	**(4,020)**	(4,374)
Other operating expenses relating to ijarah	**(755)**	(361)	**(2,053)**	(626)
Net income from investment in ijarah assets	**1,848**	2,593	**3,387**	4,125
Profit on amounts due from banks and financial institutions	**391**	41	**930**	92
Profit on amounts due to banks and financial institutions	**-**	(61)	**-**	(119)
Net funding income / (cost)	**391**	(20)	**930**	(27)
Fee and other income	**72**	577	**294**	2,003
TOTAL INCOME	**2,311**	3,150	**4,611**	6,101
Expenses				
Staff expenses	**903**	1,024	**1,844**	2,079
General and administration expenses	**409**	294	**676**	572
Depreciation on property and equipment	**174**	362	**353**	742
TOTAL EXPENSES	**1,486**	1,680	**2,873**	3,393
Net profit for the period before disposal of an investment	**825**	1,470	**1,738**	2,708
Disposal of an investment	**-**	60,033	**-**	61,368
NET INCOME FOR THE PERIOD	**825**	61,503	**1,738**	64,076
Attributable to:				
Shareholders of the parent	**581**	61,360	**1,303**	63,544
Non-controlling interest	**244**	143	**435**	532
	825	61,503	**1,738**	64,076

The attached explanatory notes 1 to 7 form part of these interim condensed consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six month period ended 30 June 2012 (Unaudited)

	Six months ended	
	30 June 2012	*30 June 2011*
	US$ '000	*US$ '000*
OPERATING ACTIVITIES		
Net income for the period	**1,738**	64,076
Adjustments for:		
Depreciation on investment in ijarah assets	**8,003**	8,004
Depreciation on property and equipment	**353**	742
Gain on disposal of an investment	**-**	(60,033)
	10,094	12,789
Changes in operating assets and liabilities:		
Due to banks and financial institutions	**-**	(20)
Other assets	**(90)**	878
Other liabilities	**(173)**	(1,168)
Net cash from operating activities	**9,831**	12,479
INVESTING ACTIVITIES		
Proceeds from disposal of an investment	**-**	177,678
Purchase of property and equipment	**(19)**	-
Net movement in non-trading investment	**-**	(6,007)
Net cash (used in) / from investing activities	**(19)**	171,671
FINANCING ACTIVITIES		
Term financing	**(10,022)**	(9,757)
Non-controlling interest	**-**	(329)
Net cash used in financing activities	**(10,022)**	(10,086)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(210)**	174,064
Cash and cash equivalents at beginning of the period	**209,316**	52,772
Cash and cash equivalents of an investment	**-**	(13,804)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**209,106**	213,032

The attached explanatory notes 1 to 7 form part of these interim condensed consolidated financial statements

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the six month period ended 30 June 2012 (Unaudited)

	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 / (Accumulated losses) 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 period	-	-	-	-	1,303	1,303	435	1,738
Unrealised loss on remeasurement to fair value	-	-	(803)	-	-	(803)	-	(803)
Balance at 30 June 2012	**291,286**	**8,590**	**(384)**	**-**	**28,199**	**327,691**	**16,292**	**343,983**
Balance at 1 January 2011	291,286	2,557	351	1,657	(27,396)	268,455	32,477	300,932
Net income for the period	-	-	-	-	63,544	63,544	532	64,076
Dividends paid by a subsidiary	-	-	-	-	-	-	(329)	(329)
Disposal of an investment	-	-	-	(1,657)	-	(1,657)	(17,184)	(18,841)
Unrealised gain on remeasurement to fair value	-	-	94	-	-	94	-	94
Balance at 30 June 2011	291,286	2,557	445	-	36,148	330,436	15,496	345,932

The attached explanatory notes 1 to 7 form part of these interim condensed 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 interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 3 August 2012.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

These interim condensed consolidated financial statements for the six month period ended 30 June 2012 have been prepared in accordance with the guidance given by International Accounting Standard 34 "Interim Financial Reporting". The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as at 31 December 2011. In addition, results for the six month period ended 30 June 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

2.2 Accounting convention

The interim condensed 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 interim condensed consolidated financial statements have been presented in United States Dollars ("US$"), being the functional currency of the Group. All values are rounded to the nearest US$ '000 except when otherwise indicated.

2.3 Significant accounting policies

The accounting policies adopted in preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2011, which were prepared in accordance with Financial Accounting Standards (FAS) issued by Accounting and Auditing Organisation for Islamic Institutions (AAOIFI), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law and Central Bank of Bahrain and Financial Institutions Law. For matters which are not covered by AAOIFI standards, including "Interim Financial Reporting", the Group uses International Financial Reporting Standards (the "IFRSs").

3 NON-TRADING INVESTMENTS

	(Unaudited) 30 June 2012 US$ '000	*(Audited) 31 December 2011 US$ '000*
Investments designated at fair value through equity		
Quoted investment designated at fair value through equity	**1,535**	1,465
Unquoted investments designated at fair value through equity	**20,286**	20,633
Provision	**(3,346)**	(3,346)
Unquoted investments designated at fair value through equity	**16,940**	17,287
	18,475	18,752

4 INVESTMENTS IN IJARAH ASSETS

	Cost at 1 January 2012 US$ '000	***Accumulated Depreciation 1 January 2012 US$ '000***	***Depreciation charge US$ '000***	***Net book value at 30 June 2012 US$ '000***	*Net book value at 31 December 2011 US$ '000*
Falak Fin One Limited	**39,739**	**1,484**	**742**	**37,513**	38,255
Falak Fin Two Limited	**40,042**	**1,404**	**702**	**37,936**	38,638
Falak Fin Three Limited	**41,965**	**1,748**	**874**	**39,343**	40,945
Falak Fin Four Limited	**36,599**	**1,619**	**809**	**34,171**	34,980
Falak Fin Seven Limited	**43,690**	**2,180**	**1,090**	**40,420**	42,179
Falak Fin Eight Limited	**34,245**	**3,077**	**1,538**	**29,630**	29,771
Falak Fin Nine Limited	**5,046**	**1,631**	**815**	**2,600**	3,415
Falak Fin Ten Limited	**5,526**	**1,438**	**720**	**3,368**	4,088
Falak Fin Eleven Limited	**37,752**	**1,426**	**713**	**35,613**	36,326
	284,604	**16,007**	**8,003**	**260,594**	268,597
Provision				**(8,000)**	(8,000)
				252,594	260,597

5 TERM FINANCING

	(Unaudited) 30 June 2012 US$ '000	*(Audited) 31 December 2011 US$ '000*
Falak Fin One Limited	**21,469**	22,752
Falak Fin Two Limited	**21,686**	22,962
Falak Fin Three Limited	**24,133**	25,358
Falak Fin Four Limited	**17,365**	19,362
Falak Fin Seven Limited	**22,588**	23,837
Falak Fin Eight Limited	**20,568**	21,861
Falak Fin Nine Limited	**2,698**	3,013
Falak Fin Ten Limited	**2,698**	3,013
Falak Fin Eleven Limited	**20,877**	21,946
	154,082	164,104

6 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.

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

	30 June 2012 (Unaudited)			*(Unaudited) 30 June 2011*
	Shareholders (US$'000)	***Directors (US$'000)***	***Total (US$'000)***	*US$ '000*
Income				
Fee income	**54**	**-**	**54**	58
Expenses				
Board of Directors and committees meetings' expenses and attendance allowances	**-**	**51**	**51**	35
Shari'a Supervisory Board meetings' expenses and attendance allowances	**-**	**35**	**35**	25
Fee expense	**-**	-	**-**	1

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:

	(Unaudited) Six months ended	
	30 June 2012 US$ '000	*30 June 2011 US$ '000*
Short term employee costs	**634**	657
Termination costs	**104**	100
	738	757

7 REDUCTION OF SHARE CAPITAL

At an Extraordinary General Meeting (EGM) dated 16 April 2012, the shareholders have resolved to reduce the share capital of the Bank from US$ 291,286 thousands to US$ 145,643 thousands. The Bank has obtained an initial approval from the CBB and is in process of finalising other regulatory requirements.

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

Additional Public Disclosures
30 June 2012

(Unaudited)

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1 INTRODUCTION

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 aims to provide a full range of investment banking products and services that are compliant with Shari'a principles.

The following is the Bank's significant subsidiary:

	Ownership for Jun 2012	***Ownership for Dec 2011***	***Year of incorporation***	***Country of incorporation***
Falak Aviation Investment Fund B.S.C. (c)	**85.68%**	85.68%	11-Feb-2008	Kingdom of Bahrain

This document contains disclosures required under the guidelines of the public disclosures required by Islamic banks. The period covered is from 1 January 2012 to 30 June 2012.

FINANCIAL HIGHLIGHTS

The following summarises the basic quantitative indicators of financial performance of the Group:

USD millions	**June 2012**	Dec 2011	Dec 2010	Dec *2009*	Dec *2008*
TOTAL INCOME	4.6	87.2	16.5	7.0	18.2
TOTAL EXPENSES	**2.9**	13.8	10.3	11.0	15.7
NET INCOME/(LOSS)	**1.7**	73.4	6.3	(4.0)	2.5
TOTAL ASSETS	**518**	527	418	307	377
TOTAL EQUITY	**344**	343	301	276	312
Islamic Financing to Equity Ratio (leverage)	**0.34**	0.35	0.28	0.10	0.17
Return on average assets *	**0.33%**	15.54%	1.73%	-1.17%	0.66%
Return on average equity *	**0.51%**	22.79%	2.17%	-1.36%	0.79%
Cost to Income	**62.31%**	15.86%	62.08%	157.14%	86.26%

** before unrealised losses and provisions*

2 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.

The primary objectives of the Bank's capital management is to ensure that the Bank 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, accumulated gains and non controlling interest. The other component of regulatory capital, Tier 2 Capital, consists of investment fair value reserves and current interim profit. 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.

Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.14 & 1.3.15)
The following table summarizes the eligible capital after deductions as of:

Regulatory capital

	30 June 2012
	US$ '000
Tier 1 capital	**312,071**
Tier 2 capital	**(28,595)**
Total capital base (a)	**283,476**
Risk weighted assets (b)	**440,831**
Capital adequacy (a/b x 100)	**64.31%**
Minimum requirement	**12.00%**

	30 June 2012
	US$ '000
Tier 1 Capital Components	
Share capital	**291,286**
Statutory reserve	**8,590**
Other reserve	**(874)**
Accumulated gains	**26,896**
Non-controlling interest	**16,292**
Core Tier 1 Capital	**342,190**
Deductions	**(30,119)**
Tier 1 Capital	**312,071**
Negative balance of Tier 2	**(28,595)**
Tier 1 Capital net of negative Tier 2 Capital	**283,476**
Tier 2 Capital Components	
Current interim profit	**1,303**
Investments designated at fair vale thorugh equity (45%)	**221**
Core Tier 2 Capital	**1,524**
Deductions	**(30,119)**
Tier 2 Capital	**(28,595)**

2 CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

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

	30 June 2012	
	Tier 1	*Tier 2*
	US$ '000	*US$ '000*
Deduction		
Large exposure	**30,119**	**30,119**
Total Deductions	**30,119**	**30,119**

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:

	30 June 2012	
	Risk weighted assets	*Minimum capital requirement*
	US$ '000	*US$ '000*
Credit Risk	**282,438**	**33,893**
Market Risk	**35,200**	**4,224**
Operational Risk	**123,193**	**14,783**
	440,831	**52,900**

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:

	30 June 2012	
	Risk weighted assets	*Minimum capital requirement*
	US$ '000	*US$ '000*
Islamic financing contracts		
Murabaha and Wakala financing	**50,649**	**6,078**
	50,649	**6,078**

Table – 4. Capital Adequacy Ratios (PD-1.3.20 (a), PD-1.3.20 (b))

The following are Capital adequacy ratios for total capital and Tier 1 capital as of:

	30 June 2012
Total capital ratio	**64.30%**
Tier 1 capital ratio	**70.79%**

3 RISK MANAGEMENT

Risk management plays a critical role in the Bank'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 Bank in implementing risk strategy and policies, monitoring and managing the key risks to which the Bank is exposed. The Bank 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 Bank on a regular basis.

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 Bank policies and procedures lay out guidelines that will optimise use of excess liquidity and ensure availability of funds to meet the Bank's obligations when they fall due. The Bank'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 Bank, 3) The composition, characteristics and diversification of the Bank'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 – 6. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios as of:

	30 June 2012
Short term assets to short term liabilities	**37.67**
Liquid assets to total assets	**0.40**

Table – 7. 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 Bank'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.

3 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

Table – 7. Residual Contractual Maturity Breakdown (PD-1.3.23(g), PD-1.3.24(a) & PD-1.3.38) (continued)

The consolidated maturity profile at 30 June 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$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*20 years and above US$ '000*	*Undated US$ '000*	*Total US$ '000*
ASSETS											
Cash and balances with banks	8,400	-	-	-	-	-	-	-	-	-	8,400
Due from banks and financial institutions	200,706	-	-	-	-	-	-	-	-	-	200,706
Non-trading investments	-	-	-	-	-	-	-	-	-	18,475	18,475
Investments in ijarah assets	-	-	-	-	-	-	-	-	-	252,594	252,594
Net assets of disposal group classified as held for sale	-	-	-	-	-	-	-	-	-	14,104	14,104
Investment property	-	-	-	-	-	-	-	-	-	10,476	10,476
Property and equipment	-	-	-	-	-	-	-	-	-	6,674	6,674
Other assets	-	-	-	-	-	-	-	-	-	6,107	6,107
Total Assets	209,106	-	-	-	-	-	-	-	-	308,430	517,536
LIABILITIES											
Term financing	5,395	-	-	-	43,155	105,532	-	-	-	-	154,082
Due to banks and financial institutions	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	155	-	-	-	-	-	-	-	-	19,316	19,471
Total Liabilities	5,550	-	-	-	43,155	105,532	-	-	-	19,316	173,553
Net liquidity gap	203,556	-	-	-	(43,155)	(105,532)	-	-	-	289,114	343,983
Cumulative net liquidity gap	203,556	203,556	203,556	203,556	160,401	54,869	54,869	54,869	54,869	343,983	

3 RISK MANAGEMENT (continued)

b) Credit risk

Table - 8. Gross funded and unfunded exposure (PD-1.3.23(a))

As at 30 June 2012:

	Gross funded credit exposures US$ '000	*Net funded credit exposures US$ '000*	*Credit risk weighted exposures US$ '000*	*Regulatory capital requirements US$ '000*
Investments	**295,649**	**235,138**	**214,836**	**25,780**
Due from banks and financial institutions				
Murabaha receivables	**185,706**	**185,706**	**43,149**	**5,178**
Wakala receivables	**15,000**	**15,000**	**7,500**	**900**
Other assets	**21,181**	**21,181**	**16,953**	**2,034**
	517,536	**457,025**	**282,438**	**33,892**

The period-end credit exposure position as disclosed above is representative of the risk positions of the Bank during the period and accordingly, the average gross exposures have not been disclosed.

Table - 9. Geographic distribution of the credit exposure (PD-1.3.23(b))

Net funded credit exposures by geographical region

As at 30 June 2012:

	Investment US$ '000	***Murabaha receivables US$ '000***	***Wakala receivables US$ '000***	***Other assets US$ '000***	***Total US$ '000***
Europe	**126,690**	**-**	**-**	**4,726**	**131,416**
Bahrain	**62,033**	**135,679**	**-**	**10,961**	**208,673**
Other GCC Countries	**1,265**	**50,027**	**15,000**	**2,596**	**68,888**
Other Middle East and Asia	**45,150**	**-**	**-**	**2,286**	**47,436**
North America	**-**	**-**	**-**	**612**	**612**
	235,138	**185,706**	**15,000**	**21,181**	**457,025**

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

Table - 10. Exposure by counterparty type (PD-1.3.23(c))

Net funded credit exposures by counterparty

As at 30 June 2012:

	Investment US$'000	***Murabaha receivables US$'000***	***Wakala receivables US$'000***	***Other assets US$'000***	***Total US$'000***
Investment in securities	**214,148**	**-**	**-**	**-**	**214,148**
Claims on banks	**-**	**185,706**	**15,000**	**8,400**	**209,106**
Holdings of real estate	**20,990**	**-**	**-**	**6,593**	**27,583**
Claims on corporates	**-**	**-**	**-**	**5,141**	**5,141**
Other assets	**-**	**-**	**-**	**1,047**	**1,047**
	235,138	**185,706**	**15,000**	**21,181**	**457,025**

3 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Analysis of exposure to credit risk by external credit ratings

The table below analyses the Bank'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:

	30 June 2012 US$ '000
Credit rating:	
AAA to AA-	**55,020**
A+ to A-	**85,738**
BBB+ to BBB-	**25,842**
BB+ to B-	**40,443**
Unrated	**249,982**
	457,025

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

	June 2012	
	Assets US$'000	*Liabilities US$'000*
Geographical region:		
Bahrain	**268,910**	**13,677**
Other Gulf Cooperation Council (GCC) Countries	**69,157**	**2,834**
Europe	**131,416**	**157,042**
Other Middle East and Asia	**47,438**	**-**
North America	**615**	**-**
	517,536	**173,553**

	June 2012	
	Assets US$'000	*Liabilities US$'000*
Industry sector:		
Banking and financial institutions	**211,461**	**154,082**
Aviation	**254,488**	**2,997**
Real estate	**20,990**	**-**
Utilities	**6,426**	**-**
Manufacturing	**15,711**	**-**
Services	**3**	**-**
Others	**8,457**	**16,474**
	517,536	**173,553**

Table-11. Large Credit Exposure (PD - 1.3.23 (f))

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

As at 30 June 2012, the Bank'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	**111,795**	**32.53%**

3 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table -12. 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 30 June 2012:

		Specific provisions		
	Opening Balance US$ '000	*Charges during the period US$ '000*	*Write-Back during the period US$ '000*	*Balance at the end of the period US$ '000*
Investment - Energy	**1,346**	**-**	**-**	**1,346**
Investment - Real estate	**2,000**	**-**	**-**	**2,000**
	3,346	**-**	**-**	**3,346**

Table -13. 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:

	30 June 2012 US$ '000
Opening Balance	**18,000**
Charges during the period	**-**
Write-Back during the period	**-**
Balance at the end of the period	**18,000**

This represents collective provision against exposures which, although not specifically identified, have a greater risk of default than when originally granted.

The Bank does not have any past due and non-performing Islamic financing contracts **(PD-1.3.23(i), PD-1.3.24(b), PD-1.3.24(c))**

Table - 15 (PD-1.3.23 (j), (k), (l), PD-1.3.25(b) & (c))

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

The Bank has no obligations with respect to recourse transaction.

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

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

3 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 Bank income and/or will decrease the value of its portfolios.

Table – 17. 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:

	30 June 2012
	Foreign exchange risk US$ '000
Risk weighted exposure (RWE) (Foreign Exchange	**35,200**
Capital requirements (12%)	**2,816**
Maximum value of RWE	**2,968**
Minimum value of RWE	**2,816**

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 Bank's profit-sensitive assets and liabilities caused by variations in the market reference rate, which would result in a decrease of the Bank's net present value. The Bank currently has limited exposure to profit rate risk. The Bank’s assets that are exposed to profit rate risk comprise of due from banks and financial institutions and have repricing dates no longer than three months. During the first half of 2012, a +/- 50bp change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 473 thousand (31 December 2011: +/-200bp resulted in +/- US$ 1,778 thousand) impact on the consolidated statement of income.

Displaced Commercial Risk

The Bank 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 30 June 2012 the Bank 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.

	Change in equity price	***Effect on net equity (+/-)***
	%	***US$'000***
Kuwait Stock Exchange	**10**	**153**

The Bank 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.

3 RISK MANAGEMENT (continued)

c) Market risk (continued)

Table – 19. 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:

	30 June 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	**489**
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)	**221**

Foreign exchange risk

Currency risk represents fluctuations in exposures held by the Bank in currencies other than the US$. The Bank 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 Bank has the following significant foreign currency exposures:

	30 June 2012		
	Assets	*Liabilities*	*Net*
	US$ '000	*US$ '000*	*US$ '000*
Currency			
Danish Krone	**14,104**	**-**	**14,104**
Kuwaiti Dinars	**1,575**	**-**	**1,575**
Great Britain Pounds	**9,868**	**(3,428)**	**6,440**
Euro	**13,069**	**-**	**13,069**

The table below indicates the impact of reasonably possible changes in exchange rates on the Bank'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.

At 30 June 2012

	Change in exchange rates(+/-)	***Change in net income and equity (+/-)***
	%	***US$'000***
Currency		
Danish Krone	**10**	**1,410**
Kuwaiti Dinars	**10**	**158**
Great Britain Pounc	**10**	**987**
Euro	**10**	**1,307**

3 RISK MANAGEMENT (continued)

d) Operational Risk

The Bank, 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.

Table - 22. Operational risk exposure (PD-1.3.30 (a), (b) & (c))

The Bank 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		
	2011	*2010*	*2009*
	US$ '000	*US$ '000*	*US$ '000*
Total Gross Income	**112,965**	18,441	(21,298)

	June 2012
Indicators of operational risk	
Average Gross income (US$ '000)	**65,703**
Multiplier	**12.5**
	821,288
Eligible Portion for the purpose of the calculation	**15%**
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US$ '000)	**123,193**

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