

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

**INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS**

**30 JUNE 2013**

**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 subsidiary ["the Group"] as of 30 June 2013, comprising the interim consolidated statement of financial position as at 30 June 2013 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 the accounting policies disclosed in note 2.

A stylized, handwritten-style signature of 'Ernst & Young' in black ink.

7 August 2013  
Manama, Kingdom of Bahrain

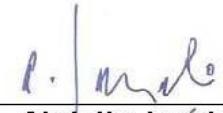
# Seera Investment Bank B.S.C. (c)


## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013 (Unaudited)

		(Unaudited) 30 June 2013 US\$ '000	(Audited) 31 December 2012 US\$ '000
	Note		
<b>ASSETS</b>			
Cash and balances with banks		4,175	8,242
Due from banks and financial institutions		29,202	45,255
Financing contracts	3	29,907	7,716
Non-trading investments	4	17,361	17,573
Investment in ijarah assets	5	232,309	244,590
Net assets of disposal group classified as held for sale		14,712	14,942
Investment in real estate		10,476	10,476
Other assets		4,526	5,093
Property and equipment		6,226	6,374
<b>TOTAL ASSETS</b>		<b>348,894</b>	<b>360,261</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>			
<b>LIABILITIES</b>			
Term financing	6	109,463	141,483
Other liabilities		34,428	14,424
<b>TOTAL LIABILITIES</b>		<b>143,891</b>	<b>155,907</b>
<b>OWNERS' EQUITY</b>			
Share capital		145,643	145,643
Reserves		9,759	9,908
Retained earnings		31,565	27,571
Proposed dividend	7	-	4,275
Equity attributable to shareholders of the parent		186,967	187,397
Non-controlling interest		18,036	16,957
<b>TOTAL OWNERS' EQUITY</b>		<b>205,003</b>	<b>204,354</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>348,894</b>	<b>360,261</b>

  
Khalid Al Nasser  
Chairman

  
Abdulla Janahi  
Chief Executive Officer

  
Mubarak Al Hemeiri  
Board Member

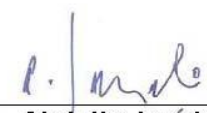
The attached explanatory notes 1 to 9 form part of these interim condensed consolidated financial statements

## INTERIM CONSOLIDATED STATEMENT OF INCOME

For the six month period ended 30 June 2013 (Unaudited)

	Note	Three months ended		Six months ended	
		30 June 2013	30 June 2012	30 June 2013	30 June 2012
		US\$ '000	US\$ '000	US\$ '000	US\$ '000
Rental income from investment in ijarah assets		7,673	9,030	15,272	17,990
Depreciation on investment in ijarah assets	5	(4,001)	(4,002)	(8,002)	(8,003)
Management fees relating to ijarah assets		(227)	(228)	(453)	(527)
Financing cost relating to term financing obtained to purchase ijarah assets		(1,146)	(2,197)	(2,633)	(4,020)
Gain on early settlement of financing relating to ijarah assets		5,714	-	5,714	-
Other operating expenses relating to ijarah assets		(1,519)	(755)	(2,140)	(2,053)
<b>Net income from investment in ijarah assets</b>		<b>6,494</b>	<b>1,848</b>	<b>7,758</b>	<b>3,387</b>
Profit on amounts due from banks and financial institutions		17	391	59	930
Profit on financing contracts		99	-	230	-
<b>Net funding income</b>		<b>116</b>	<b>391</b>	<b>289</b>	<b>930</b>
Fee and other income		183	72	405	294
<b>TOTAL INCOME</b>		<b>6,793</b>	<b>2,311</b>	<b>8,452</b>	<b>4,611</b>
<b>Expenses</b>					
Staff expenses		935	903	1,895	1,844
Foreign exchange		(44)	-	363	-
General and administration expenses		286	409	562	676
Depreciation on property and equipment		117	174	266	353
<b>TOTAL EXPENSES</b>		<b>1,294</b>	<b>1,486</b>	<b>3,086</b>	<b>2,873</b>
<b>NET INCOME FOR THE PERIOD BEFORE UNREALISED LOSS</b>		<b>5,499</b>	<b>825</b>	<b>5,366</b>	<b>1,738</b>
Net unrealised fair value loss on investment		2	-	(293)	-
<b>NET INCOME FOR THE PERIOD</b>		<b>5,501</b>	<b>825</b>	<b>5,073</b>	<b>1,738</b>
Attributable to:					
Shareholders of the parent		4,582	581	3,994	1,303
Non-controlling interest		919	244	1,079	435
		<b>5,501</b>	<b>825</b>	<b>5,073</b>	<b>1,738</b>

  
 Khalid Al Nasser  
 Chairman

  
 Abdulla Jarahi  
 Chief Executive Officer

  
 Mubarak Al Hemeiri  
 Board Member

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

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

For the six month period ended 30 June 2013 (Unaudited)

	<i>Note</i>	<b>30 June 2013 US\$ '000</b>	<b>30 June 2012 US\$ '000</b>
<b>OPERATING ACTIVITIES</b>			
Net income for the period		<b>5,073</b>	1,738
Adjustments for:			
Depreciation on investment in ijarah assets	5	<b>8,002</b>	8,003
Depreciation on property and equipment		<b>266</b>	353
Gain on early settlement of financing relating to ijarah assets		<b>(5,714)</b>	-
Gain on disposal of equipment		<b>(10)</b>	-
Net unrealised fair value loss on investment		<b>293</b>	-
		<b>7,910</b>	10,094
Changes in operating assets and liabilities:			
Financing contracts		<b>(22,191)</b>	-
Other assets		<b>567</b>	(90)
Other liabilities		<b>20,008</b>	(173)
Net cash from operating activities		<b>6,294</b>	9,831
<b>INVESTING ACTIVITIES</b>			
Purchase of equipment		<b>(118)</b>	(19)
Proceeds from disposal of equipment		<b>10</b>	-
Net cash used in investing activities		<b>(108)</b>	(19)
<b>FINANCING ACTIVITY</b>			
Repayment of term financing		<b>(26,306)</b>	(10,022)
Net cash used in financing activity		<b>(26,306)</b>	(10,022)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(20,120)</b>	(210)
Cash and cash equivalents at the beginning of the period		<b>53,497</b>	209,316
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>33,377</b>	209,106
Cash and cash equivalents comprise:			
Cash and balances with banks		<b>4,175</b>	8,400
Due from banks and financial institutions with original maturity of ninety days or less		<b>29,202</b>	200,706
		<b>33,377</b>	209,106

The attached explanatory notes 1 to 9 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 2013 (Unaudited)

	<i>Equity attributable to shareholders of the parent</i>					<i>Total</i>	<i>Non-controlling interest</i>	<i>Total owners' equity</i>
	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Investment fair value reserve</i>	<i>Retained earnings</i>	<i>Proposed dividend</i>			
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Balance at 1 January 2013	145,643	9,140	768	27,571	4,275	187,397	16,957	204,354
Net income for the period	-	-	-	3,994	-	3,994	1,079	5,073
Unrealised loss on remeasurement to fair value	-	-	(149)	-	-	(149)	-	(149)
Dividends declared (note 7)	-	-	-	-	(4,275)	(4,275)	-	(4,275)
<b>Balance at 30 June 2013</b>	<b>145,643</b>	<b>9,140</b>	<b>619</b>	<b>31,565</b>	<b>-</b>	<b>186,967</b>	<b>18,036</b>	<b>205,003</b>
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

The attached explanatory notes 1 to 9 form part of these interim condensed consolidated financial statements



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

### 1 INCORPORATION AND ACTIVITIES

Seera Investment Bank B.S.C. (c) ["the Bank"] was incorporated on 5 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 subsidiary ["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 7 August 2013.

### 2 ACCOUNTING POLICIES

#### 2.1 Basis of preparation

These interim condensed consolidated financial statements for the six month period ended 30 June 2013 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 2012. In addition, results for the six month period ended 30 June 2013 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

#### 2.2 Accounting convention

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate, 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 2012, (except for the adoption of a new accounting standard as of 1 January 2013), which were prepared in accordance with Financial Accounting Standards ("FAS") issued by the 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 ("IFRSs") issued by International Accounting Standards Board ("IASB").

#### 2.4 Adoption of new and amended standard

During 2012, AAOIFI issued a new Financial Accounting Standard (FAS 26) "Investment in real estate", which is effective as of 1 January 2013.

#### Financial Accounting Standard (Fas 26) "Investment In Real Estate".

The Group has adopted FAS 26 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation, or both. Before the adoption of FAS 26, the Group followed FAS 17 'Investments' and measured its investment in real estate at fair value and this measurement continued to be followed under FAS 26.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

**2 ACCOUNTING POLICIES (continued)****2.5 Investment in real estate**

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investment in real estate is initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investment in real estate is re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the interim consolidated statement of changes in owners' equity.

Losses arising from changes in fair value of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the interim consolidated statement of income. If there are unrealised losses that have been recognised in the interim consolidated statement of income in the previous financial period, the current period unrealised gains shall be recognised in the interim consolidated statement of income to the extent of crediting back such previous losses in the interim consolidated statement of income. When the property is disposed of, the cumulative gains previously transferred to the property fair value reserve, are transferred to interim consolidated statement of income.

**3 FINANCING CONTRACTS**

		<i>(Unaudited)</i> <b>30 June</b> <b>2013</b> <b>US\$ '000</b>	<i>(Audited)</i> <b>31 December</b> <b>2012</b> <b>US\$ '000</b>
	Note		
Murabaha receivables	3.1	<b>3,824</b>	7,716
Tawarruq	3.2	<b>26,083</b>	-
		<b>29,907</b>	7,716

**3.1 Murabaha receivables**

Gross murabaha receivables	<b>3,856</b>	7,720
Deferred income	<b>(32)</b>	(4)
Net murabaha receivables	<b>3,824</b>	7,716

**3.2 Tawarruq**

Gross tawarruq	<b>40,083</b>	-
Deferred income	<b>(14,000)</b>	-
Net tawarruq	<b>26,083</b>	-

**4 NON-TRADING INVESTMENTS**

	<i>(Unaudited)</i> <b>30 June</b> <b>2013</b> <b>US\$ '000</b>	<i>(Audited)</i> <b>31 December</b> <b>2012</b> <b>US\$ '000</b>
Quoted investment designated at fair value through equity	<b>1,583</b>	1,502
Unquoted investments designated at fair value through equity	<b>15,778</b>	16,071
	<b>17,361</b>	17,573



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

**5 INVESTMENT IN IJARAH ASSETS**

Investment 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.

	<b>Cost at 1 January 2013 US\$ '000</b>	<b>Accumulated Depreciation 1 January 2013 US\$ '000</b>	<b>Depreciation charge US\$ '000</b>	<b>Net book value at 30 June 2013 US\$ '000</b>	<b>Net book value at 31 December 2012 US\$ '000</b>
Falak Fin One Limited	39,739	2,968	742	36,029	36,771
Falak Fin Two Limited	40,042	2,808	702	36,532	37,234
Falak Fin Three Limited	41,965	3,496	874	37,595	38,469
Falak Fin Four Limited	36,599	3,238	810	32,551	33,361
Falak Fin Seven Limited	43,666	4,360	1,090	38,216	39,306
Falak Fin Eight Limited	34,269	6,154	1,538	26,577	28,115
Falak Fin Nine Limited	5,046	3,262	816	968	1,784
Falak Fin Ten Limited	5,526	2,876	718	1,932	2,650
Falak Fin Eleven Limited	37,752	2,852	712	34,188	34,900
	<b>284,604</b>	<b>32,014</b>	<b>8,002</b>	<b>244,588</b>	252,590
Provision				<b>(12,279)</b>	(8,000)
				<b>232,309</b>	244,590

**6 TERM FINANCING**

	<b>(Unaudited) 30 June 2013 US\$ '000</b>	<b>(Audited) 31 December 2012 US\$ '000</b>
Falak Fin One Limited	-	20,141
Falak Fin Two Limited	15,460	20,366
Falak Fin Three Limited	21,995	22,865
Falak Fin Four Limited	13,305	15,345
Falak Fin Seven Limited	20,000	21,310
Falak Fin Eight Limited	17,870	19,239
Falak Fin Ten Limited	2,158	2,428
Falak Fin Eleven Limited	18,675	19,789
	<b>109,463</b>	141,483

**7 PROPOSED DIVIDEND**

During the quarter, dividends of US\$ 4,275 thousand (US\$ 0.01467 per share) for the year ended 31 December 2012 were approved by the Bank's shareholders at the Annual General Meeting held on 4 March 2013.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

## 8 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. Transactions with these related parties have been carried out on an arm's length basis in manner similar to transactions with third parties. For the period ended 30 June 2013, the Bank had not made any provision related to the amounts owed by related parties (31 December 2012: Nil).

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

<b>30 June 2013 (Unaudited)</b>				(Audited) 31 December
<b>Shareholders</b>	<b>Directors</b>	<b>Others</b>	<b>Total</b>	2012
<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$ '000</b>

### Interim consolidated statement of financial position

#### Assets

Other assets	589	-	-	589	544
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<b>30 June 2013 (Unaudited)</b>				(Unaudited) 30 June
<b>Shareholders</b>	<b>Directors</b>	<b>Others</b>	<b>Total</b>	2012
<b>(US\$'000)</b>	<b>(US\$'000)</b>	<b>(US\$'000)</b>	<b>(US\$'000)</b>	<b>US\$ '000</b>

### Interim consolidated statement of income

#### Income

Fee income	75	-	-	75	54
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#### Expenses

Board of Directors and

Board committees

attendance allowance

-	58	-	58	51
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Shari'a Supervisory Board

attendance allowance

-	-	53	53	35
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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 are as follows:

		<b>(Unaudited)</b>	
		<b>Six months ended</b>	
		<b>30 June</b>	<b>30 June</b>
		<b>2013</b>	<b>2012</b>
		<b>US\$ '000</b>	<b>US\$ '000</b>
Short term employee expenses		615	634
Termination expenses		105	104
		<b>720</b>	<b>738</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2013 (Unaudited)

**9 FINANCIAL INSTRUMENTS**

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by the Group as at 30 June 2013:

	<b>Amortised Cost US\$ '000</b>	<b>Fair value through equity US\$ '000</b>
<b>Financial assets:</b>		
Financing contracts	29,907	-
Non-trading investments	-	17,361
Other assets (excluding prepayments)	4,250	-
<b>Total</b>	<b>34,157</b>	<b>17,361</b>
<b>Financial liabilities:</b>		
Term financing	109,463	-
Other liabilities	34,428	-
<b>Total</b>	<b>143,891</b>	<b>-</b>

**Fair value hierarchy**

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

Fair values of quoted securities are derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments 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 30 June 2013:

	<b>Level 1 US\$ '000</b>	<b>Level 2 US\$ '000</b>	<b>Level 3 US\$ '000</b>	<b>Total US\$ '000</b>
<b>Non-trading investments</b>	<b>1,583</b>	<b>-</b>	<b>4,639</b>	<b>6,222</b>

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

The fair values of financial instruments carried at amortised cost are not materially different from their carrying values as at the statement of financial position date.

**Transfers between Level 1, Level 2 and Level 3**

During the six month period ended 30 June 2013 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

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Seera Investment Bank B.S.C. (c)  
ADDITIONAL PUBLIC DISCLOSURES  
30 June 2013

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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:

	<b><i>Ownership for Jun 2013</i></b>	<b><i>Ownership for Dec 2012</i></b>	<b><i>Year of incorporation</i></b>	<b><i>Country of incorporation</i></b>
Falak Aviation Investment Fund B.S.C. (c)	<b>85.68%</b>	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 2013 to 30 June 2013.

Seera Investment Bank B.S.C. (c)  
ADDITIONAL PUBLIC DISCLOSURES

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30 June 2013

**1.1 FINANCIAL HIGHLIGHTS**

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

<i>USD millions</i>	<b><i>June</i></b>	<i>Dec</i>	<i>Dec</i>	<i>Dec</i>	<i>Dec</i>	<i>Dec</i>
	<b><i>2013</i></b>	<i>2012</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
TOTAL INCOME	<b>8.5</b>	12.5	85.0	16.5	7.0	18.2
TOTAL EXPENSES	<b>3.1</b>	5.9	11.6	10.3	11.0	15.7
NET INCOME/(LOSS)	<b>5.4</b>	6.6	73.4	6.3	(4.0)	2.5
TOTAL ASSETS	<b>349</b>	360	527	418	307	377
TOTAL EQUITY	<b>205</b>	204	343	301	276	312
Islamic Financing to Equity Ratio	<b>0.53</b>	0.69	0.48	0.28	0.10	0.17
Return on average assets	<b>1.43%</b>	1.49%	15.54%	1.73%	-1.17%	0.66%
Return on average equity	<b>2.48%</b>	2.41%	22.79%	2.17%	-1.36%	0.79%
Cost to Income	<b>36.51%</b>	47.28%	13.65%	62.08%	157.14%	86.26%



30 June 2013

## 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, retained earnings and non controlling interest. The other component of regulatory capital, Tier 2 Capital, consists of current interim profits and 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 year.

**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**

	<u>30 June 2013</u>
	<u>US\$ '000</u>
Tier 1 capital	155,240
Tier 2 capital	(40,878)
Total capital base (a)	<u>114,362</u>
Risk weighted assets (b)	497,132
Capital adequacy (a/b x 100)	23.00%
Minimum requirement	12.00%
	<u>30 June 2013</u>
	<u>US\$ '000</u>
<b>Tier 1 Capital Components</b>	
Share capital	145,643
Statutory reserve	9,140
Retained earnings	27,571
Non-controlling interest	18,036
Core Tier 1 Capital	<u>200,390</u>
Deductions	(45,150)
Tier 1 Capital	<u>155,240</u>
Negative balance of Tier 2	(40,878)
Tier 1 Capital net of negative Tier 2 Capital	<u><u>114,362</u></u>
<b>Tier 2 Capital Components</b>	
Current interim profits	3,994
Unrealised gains arising from fair valuing equities 45% only	278
Core Tier 2 Capital	<u>4,272</u>
Deductions	(45,150)
Tier 2 Capital	<u><u>(40,878)</u></u>

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**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)**

	<i>30 June 2013</i>	
	<i>Tier 1</i>	<i>Tier 2</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Deduction</b>		
Large exposure	45,150	45,150
<b>Total Deductions</b>	<b>45,150</b>	<b>45,150</b>

**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:

	<i>30 June 2013</i>	
	<i>Risk weighted assets</i>	<i>Minimum capital requirement</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Credit Risk	351,347	42,162
Market Risk	38,500	4,620
Operational Risk	107,285	12,874
	<b>497,132</b>	<b>59,656</b>

**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:

	<i>30 June 2013</i>	
	<i>Risk weighted assets</i>	<i>Minimum capital requirement</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b><u>Islamic financing contracts</u></b>		
Financing contracts	39,557	4,747
Ijarah assets	120,599	14,472
	<b>160,156</b>	<b>19,219</b>

**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:

	<i>30 June 2013</i>
	<b>2013</b>
Total capital ratio	23.00%
Tier 1 capital ratio	31.23%

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### 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. The 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 2013**

Short term assets to short term liabilities	<b>9.82</b>
Liquid assets to total assets	<b>0.10</b>

**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.

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**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 2013 was as follows:

	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>3 to 5 years</i>	<i>5 to 10 years</i>	<i>10 to 20 years</i>	<i>20 years and above</i>	<i>Undated</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>ASSETS</b>											
Cash and balances with banks	4,175	-	-	-	-	-	-	-	-	-	4,175
Due from banks and financial institutions	29,202	-	-	-	-	-	-	-	-	-	29,202
Financing contracts	-	-	-	-	29,907	-	-	-	-	-	29,907
Non-trading investments	-	-	-	-	-	-	-	-	-	17,361	17,361
Investment in ijarah assets	-	-	-	-	-	-	-	-	-	232,309	232,309
Net assets of disposal group classified as held for sale	-	-	-	-	-	-	-	-	-	14,712	14,712
Investment in real estate	-	-	-	-	-	-	-	-	-	10,476	10,476
Property and equipment	-	-	-	-	-	-	-	-	-	6,226	6,226
Other assets	-	-	-	-	-	-	-	-	-	4,526	4,526
<b>Total Assets</b>	<b>33,377</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,907</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>285,610</b>	<b>348,894</b>
<b>LIABILITIES</b>											
Term financing	2,158	-	13,305	-	74,000	20,000	-	-	-	-	109,463
Due to banks and financial institutions	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,213	-	-	-	-	-	-	-	-	33,215	34,428
<b>Total Liabilities</b>	<b>3,371</b>	<b>-</b>	<b>13,305</b>	<b>-</b>	<b>74,000</b>	<b>20,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,215</b>	<b>143,891</b>
<b>Net liquidity gap</b>	<b>30,006</b>	<b>-</b>	<b>(13,305)</b>	<b>-</b>	<b>(44,093)</b>	<b>(20,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>252,395</b>	

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**3 RISK MANAGEMENT (continued)**

**b) Credit risk**

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

As at 30 June 2013:

	<i>Average credit exposures US\$ '000</i>	<i>Gross funded credit exposures US\$ '000</i>	<i>Credit risk weighted exposures US\$ '000</i>	<i>Regulatory capital requirements US\$ '000</i>
Balances with banks	7,532	4,172	4,172	501
Murabaha and Wakala receivables	31,954	29,202	29,202	3,504
Financing contracts	22,674	29,907	29,907	3,589
Other assets	4,518	4,250	4,250	510
	<b>66,678</b>	<b>67,531</b>	<b>67,531</b>	<b>8,104</b>

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

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

Net funded credit exposures by geographical region

As at 30 June 2013:

	<i>Balances with banks US\$ '000</i>	<i>Murabaha and Wakala receivables US\$ '000</i>	<i>Financing contracts US\$ '000</i>	<i>Other assets US\$ '000</i>	<i>Total US\$ '000</i>
Europe	2,826	-	3,824	330	6,980
Bahrain	644	16,502	-	326	17,472
Other GCC Countries	54	12,700	-	3,040	15,794
Other Middle East and Asia	-	-	-	554	554
North America	648	-	26,083	-	26,731
	<b>4,172</b>	<b>29,202</b>	<b>29,907</b>	<b>4,250</b>	<b>67,531</b>

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 2013:

	<i>Balances with banks US\$'000</i>	<i>Murabaha receivables US\$'000</i>	<i>Financing contracts US\$'000</i>	<i>Other assets US\$'000</i>	<i>Total US\$'000</i>
Claims on banks	4,172	29,202	-	2,808	36,182
Claims on corporates	-	-	29,907	-	29,907
Others	-	-	-	1,442	1,442
	<b>4,172</b>	<b>29,202</b>	<b>29,907</b>	<b>4,250</b>	<b>67,531</b>

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**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:

	<i>30 June 2013 US\$ '000</i>
Credit rating:	
AAA to AA-	46
A+ to A-	49,274
BBB+ to BBB-	7,838
BB+ to B-	2,105
Unrated	8,268
	<b>67,531</b>

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

	<i>30 June 2013</i>	
	<i>Assets</i>	<i>Liabilities</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Geographical region:		
Bahrain	138,893	7,312
Other Gulf Cooperation Council (GCC) Countries	17,378	224
Europe	96,787	113,383
Other Middle East and Asia	69,106	22,972
North America	26,730	-
	<b>348,894</b>	<b>143,891</b>
	<i>30 June 2013</i>	
	<i>Assets</i>	<i>Liabilities</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Industry sector:		
Banking and financial institutions	36,185	109,463
Aviation	258,946	2,660
Real estate	25,439	-
Utilities	4,639	-
Manufacturing	16,424	-
Others	7,261	31,768
	<b>348,894</b>	<b>143,891</b>

**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 2013, the Bank's exposures in excess of 15% of Capital base for obligor limits to individual counterparties is shown below:

	<i>Large exposure US\$ '000</i>	<i>% of exposure to capital</i>
Counterparty A	30,917	15.11%
Counterparty B	36,297	17.74%
Counterparty C	32,472	15.87%



**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 2013:

	<i>Specific provisions</i>		
	<i>Opening Balance US\$ '000</i>	<i>Charges during the period US\$ '000</i>	<i>FX translation US\$ '000</i>
Investment - Energy	3,153	-	293
Investment - Real estate	2,042	-	-
	<b>5,195</b>	<b>-</b>	<b>293</b>

**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:

	<i>30 June 2013 US\$ '000</i>
Opening Balance	16,256
Charges during the period	-
Balance at the end of the period	<b>16,256</b>

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. In accordance with the Bank'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 - 15 (PD-1.3.23 (j), (k), (l), PD-1.3.25(b) & (c))**

The Bank has not restructured islamic financing contracts during the period.

The Bank has no obligations with respect to recourse transaction.

The Bank has not imposed any 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:

	<b>30 June 2013</b>
	<b>Foreign</b>
	<b>exchange</b>
	<b>risk</b>
	<b>US\$ '000</b>
Risk weighted exposure (RWE) (Foreign Exchange)	38,500
Capital requirements (12%)	4,620
Maximum value of RWE	4,620
Minimum value of RWE	3,051

#### *Profit rate risk*

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 2013, a +/- 200bp change in the profit rate, with all other variables constant, would have resulted in a +/- US\$ 388 thousand (31 December 2012: +/-200bp resulted in +/- US\$ 2,849 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 value through equity decreases due to fluctuations in the respective stock market indices. As at 30 June 2013 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.

	<b>Change in</b>	<b>Effect on net</b>
	<b>equity price</b>	<b>equity (+/-)</b>
	<b>%</b>	<b>US\$'000</b>
Kuwait Stock Exchange	10	158

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.

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**3 RISK MANAGEMENT (continued)**

**c) Market risk (continued)**

Equity positions in the banking book

Investments

	<b>30 June 2013</b>		
	<b>Total gross exposure</b>	<b>Average gross exposure</b>	<b>Regulatory capital requirements</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Non trading investments			
Quoted	1,583	1,557	125
Unquoted	15,778	15,875	1,270
	<b>17,361</b>	<b>17,432</b>	<b>1,395</b>

**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:

	<b>30 June 2013 US\$ '000</b>
Cumulative realised gains arising from sales or liquidations in the reporting period	-
Total unrealized gains recognised in the consolidated statement of financial positions but not through consolidated statement of income	619
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)	278

*Foreign currency 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:

	<b>30 June 2013</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>Currency</b>			
Danish Krone	14,712	-	14,712
Kuwaiti Dinars	1,620	-	1,620
Great Britain Pounds	8,555	(697)	7,858
Euro	14,179	-	14,179

### 3 RISK MANAGEMENT (continued)

#### c) Market risk (continued)

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 2013

	Change in exchange rates(+/-) %	Change in net income and equity (+/-) US\$'000
<b>Currency</b>		
Danish Krone	10	1,471
Kuwaiti Dinars	10	162
Great Britain Pounc	10	786
Euro	10	1,418

#### 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		
	2012 US\$ '000	2011 US\$ '000	2010 US\$ '000
<b>Total Gross Income</b>	<b>40,249</b>	112,965	18,441
			<b>June 2013</b>
<b>Indicators of operational risk</b>			
Average Gross income (US\$ '000)			57,218
Multiplier			12.5
			<b>715,225</b>
Eligible Portion for the purpose of the calculation			15%
<b>TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US\$ '000)</b>			<b>107,285</b>

The Bank has no material legal contingencies nor any pending legal action.