

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

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**

30 SEPTEMBER 2011

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 September 2011, comprising the interim consolidated statement of financial position as at 30 September 2011 and the related interim consolidated statements of income, cash flows and changes in equity for the nine 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.

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 September 2011

		<i>(Unaudited)</i> 30 September 2011 US\$ '000	<i>(Audited)</i> 31 December 2010 US\$ '000
	<i>Notes</i>		
ASSETS			
Cash and balances with banks		6,567	18,486
Due from banks and financial institutions		212,262	34,286
Non-trading investments	3	21,427	21,494
Investments in leases		-	93,390
Investments in ijarah assets	4	264,599	-
Net assets of disposal group classified as held for sale		15,300	14,953
Investment property		10,476	10,476
Goodwill and intangible assets		-	165,206
Other assets	5	5,730	49,844
Property and equipment		7,348	9,590
TOTAL ASSETS		543,709	417,725
LIABILITIES AND EQUITY			
Term financing	6	168,923	-
Due to banks and financial institutions		15,300	101,338
Other liabilities		13,800	15,455
TOTAL LIABILITIES		198,023	116,793
EQUITY			
Share capital		291,286	291,286
Reserves		2,939	4,565
Accumulated profit (losses)		35,714	(27,396)
Equity attributable to shareholders of the parent		329,939	268,455
Non-controlling interest		15,747	32,477
TOTAL EQUITY		345,686	300,932
TOTAL LIABILITIES AND EQUITY		543,709	417,725



 Asaad Al Banwan
 Chairman



 Khalid Al Nasser
 Board Member



 Abdulla Janahi
 Chief Executive Officer

The attached explanatory notes 1 to 8 form part of these interim condensed consolidated financial statements

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

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the nine month period ended 30 September 2011 (Unaudited)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	30 September 2011	<i>30 September 2010</i>	30 September 2011	<i>30 September 2010</i>
	US\$ '000	<i>US\$ '000</i>	US\$ '000	<i>US\$ '000</i>
Rental income from investments in ijarah assets	8,861	-	26,657	-
Rental income from investments in leases	-	8,739	-	25,566
Rental expense on investments in leases	-	(7,226)	-	(19,578)
Management fees relating to leases	(299)	(349)	(966)	(1,046)
Net income from investments in ijarah assets / leases	8,562	1,164	25,691	4,942
Profit on amounts due from banks and financial institutions	520	52	612	152
Profit on amounts due to banks and financial institutions	(63)	(50)	(182)	(160)
Financing cost relating to term financing	(2,311)	-	(6,685)	-
Net funding cost / income	(1,854)	2	(6,255)	(8)
Gain on disposal of non-trading investments	-	63	-	2,400
Fee and other income	253	147	573	443
TOTAL INCOME	6,961	1,376	20,009	7,777
Expenses				
Staff expenses	946	1,853	3,025	4,775
General and administration expenses	591	639	1,789	2,010
Foreign exchange loss / (gain)	1,256	(2,381)	(427)	288
Depreciation relating to investments in ijarah assets	4,001	-	12,005	-
Depreciation relating to property and equipment	350	411	1,092	1,256
TOTAL EXPENSES	7,144	522	17,484	8,329
Net (loss) / profit for the period before provisions and disposal of an investment	(183)	854	2,525	(552)
Write back of provisions	-	-	-	1,950
Disposal of an investment (note 7)	-	2,946	61,368	5,405
NET (LOSS) / INCOME FOR THE PERIOD	(183)	3,800	63,893	6,803
Attributable to:				
Shareholders of the parent	(434)	3,254	63,110	5,485
Non-controlling interest	251	546	783	1,318
	(183)	3,800	63,893	6,803

The attached explanatory notes 1 to 8 form part of these interim condensed consolidated financial statements

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine month period ended 30 September 2011 (Unaudited)

	<i>Nine months ended</i>	
	30 September 2011	<i>30 September 2010</i>
	US\$ '000	<i>US\$ '000</i>
OPERATING ACTIVITIES		
Net income for the period	63,893	6,803
Adjustments for:		
Depreciation relating to investments in ijarah assets	12,005	-
Depreciation relating to property and equipment	1,092	1,256
Write back of provisions	-	(1,950)
Provision for employees' end of service benefits	-	178
Gain on disposal of non-trading investments	-	(2,400)
Gain on disposal of an investment	(60,033)	-
	16,957	3,887
Changes in operating assets and liabilities:		
Due to banks and financial institutions	327	(12,746)
Other assets	(538)	(3,493)
Other liabilities	(68)	2,957
Net cash from (used in) operating activities	16,678	(9,395)
INVESTING ACTIVITIES		
Proceeds from disposal of an investment	177,678	-
Purchase of investments in leases	-	(500)
Net movement in non-trading investment	36	9,417
Purchase of property and equipment	(4)	(28)
Net cash from investing activities	177,710	8,889
FINANCING ACTIVITIES		
Term financing	(14,291)	-
Dividend received	93	-
Non-controlling interest	(329)	(164)
Net cash used in financing activities	(14,527)	(164)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	179,861	(670)
Cash and cash equivalents at beginning of the period	52,772	42,303
Cash and cash equivalents of investment sold (note 7)	(13,804)	13,969
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	218,829	55,602

For the purpose of the interim consolidated statement of cash flows, cash and cash equivalents comprised of the following:

Cash and balances with banks	6,567	22,498
Due from banks and financial institutions with original maturity of ninety days or less	212,262	33,104
	218,829	55,602

The attached explanatory notes 1 to 8 form part of these interim condensed consolidated financial statements

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine month period ended 30 September 2011 (Unaudited)

	<i>Equity attributable to shareholders of the parent</i>							<i>Total equity</i> US\$ '000
	<i>Share capital</i> US\$ '000	<i>Statutory reserve</i> US\$ '000	<i>Investment fair value reserve</i> US\$ '000	<i>Foreign currency translation reserve</i> US\$ '000	<i>Accumulated profit / (losses)</i> US\$ '000	<i>Total</i> US\$ '000	<i>Non-controlling interest</i> US\$ '000	
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	-	-	-	-	63,110	63,110	783	63,893
Dividends paid by a subsidiary	-	-	-	-	-	-	(329)	(329)
Disposal of an investment (note 7)	-	-	-	(1,657)	-	(1,657)	(17,184)	(18,841)
Unrealised gain on remeasurement to fair value	-	-	31	-	-	31	-	31
Balance at 30 September 2011	291,286	2,557	382	-	35,714	329,939	15,747	345,686
Balance at 1 January 2010	291,286	2,002	418	-	(32,804)	260,902	15,110	276,012
Net income for the period	-	-	-	-	5,485	5,485	1,318	6,803
Dividends paid by subsidiaries	-	-	-	-	-	-	(164)	(164)
Acquisition of a subsidiary	-	-	-	-	-	-	15,824	15,824
Exchange differences on translation of foreign operations	-	-	-	552	-	552	98	650
Unrealised gain on remeasurement to fair value	-	-	346	-	-	346	-	346
Balance at 30 September 2010	291,286	2,002	764	552	(27,319)	267,285	32,186	299,471

The attached explanatory notes 1 to 8 form part of these interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended 30 September 2011 (Unaudited)

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.

Based on the revised "Conceptual Framework for Financial Reporting by Islamic Financial Institutions" issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and effective from 1 January 2011, the full structure of Falak Aviation Fund B.S.C. (c) has been consolidated line by line which has resulted in recognition of aircraft and term financing on the interim condensed consolidated financial statements. Therefore, the comparative amounts are not entirely comparable to that extent.

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 15 November 2011.

2 BASIS OF PREPARATION

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Bank and its subsidiaries (together "the Group") for the nine month period ended 30 September 2011 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 Group's annual consolidated financial statements as at 31 December 2010. In addition, results for the nine month period ended 30 September 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

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's operations.

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 2010 except for the new and amended conceptual framework and financial accounting standards, which were prepared in accordance with the Financial Accounting Standards issued by 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").

2.4 New and amended accounting standard and framework

During 2010, AAOIFI amended its conceptual framework and issued new Financial Accounting Standard (FAS 25) "Investment in sukuk, shares and similar instruments", which was effective as of 1 January 2011.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended 30 September 2011 (Unaudited)

2 BASIS OF PREPARATION (continued)
2.5 Statement of financial accounting No.1: Conceptual Framework for the financial reporting by Islamic Financial Institutions

The amended conceptual framework provides the basis for the financial accounting standards issued by AAOIFI. The amended framework introduces the concept of substance and form compared to the concept of form over substance. The framework states that it is necessary that information, transactions and other events are accounted for and presented in accordance with its substance and economic reality as well as the legal form. The adoption of this has resulted in a full consolidation of all entities under the Falak structure.

2.6 Financial accounting standard (FAS 25) "Investment in sukuk, shares and similar instruments"

The Group has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by Islamic financial institutions.

The adoption of this standard did not have any significant impact on the accounting policies, financial position or performance of the Group.

2.7 Investments in ijarah assets

Investments in ijarah assets are stated at cost less accumulated depreciation and accumulated impairment/provision in value. 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 NON-TRADING INVESTMENTS

	<i>(Audited)</i>	
	30 September	31 December
	2011	2010
	US\$ '000	US\$ '000
Available for sale - equity investments		
<i>Quoted</i>	1,502	1,906
<i>Unquoted</i>	19,925	19,588
	21,427	21,494

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended 30 September 2011 (Unaudited)

4 INVESTMENTS IN IJARAH ASSETS

	<i>Cost at</i>		<i>Net book</i>
	<i>1 January</i>	<i>Depreciation</i>	<i>value at</i>
	<i>2011</i>	<i>charge</i>	<i>30 September</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>2011</i>
			<i>US\$ '000</i>
Falak Fin One Limited	39,739	1,113	38,626
Falak Fin Two Limited	40,042	1,053	38,989
Falak Fin Three Limited	42,693	1,311	41,382
Falak Fin Four Limited	36,599	1,214	35,385
Falak Fin Seven Limited	44,359	1,635	42,724
Falak Fin Eight Limited	32,848	2,308	30,540
Falak Fin Nine Limited	5,046	1,223	3,823
Falak Fin Ten Limited	5,526	1,079	4,447
Falak Fin Eleven Limited	37,752	1,069	36,683
	<u>284,604</u>	<u>12,005</u>	<u>272,599</u>
General provision			<u>(8,000)</u>
			<u>264,599</u>

5 OTHER ASSETS

	<i>(Audited)</i>
	<i>30 September</i>
	<i>31 December</i>
	<i>2011</i>
	<i>2010</i>
	<i>US\$ '000</i>
	<i>US\$ '000</i>
Trade receivables	-
Deferred tax asset	20,738
Inventories	9,478
Other assets	11,848
	7,780
	<u>5,730</u>
	<u>49,844</u>

6 TERM FINANCING

	<i>30 September</i>
	<i>2011</i>
	<i>US\$ '000</i>
Falak Fin One Limited	23,378
Falak Fin Two Limited	23,584
Falak Fin Three Limited	25,956
Falak Fin Four Limited	20,291
Falak Fin Seven Limited	24,455
Falak Fin Eight Limited	22,496
Falak Fin Nine Limited	3,146
Falak Fin Ten Limited	3,145
Falak Fin Eleven Limited	22,472
	<u>168,923</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended 30 September 2011 (Unaudited)

7 DISPOSAL OF AN INVESTMENT

During the period the Bank entered into a Master Sale Agreement and disposed off its 85% equity interest in an investment. The gain recognised by the Bank from the disposal amounted to US\$ 60 million. The share of profit recognised on the investment up to the date of disposal amounted to US\$ 1.3 million (September 2010 : US\$ 5.4 million).

8 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, Shari'a Supervisory Board, 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 significant balances with related parties were as follows:

	<i>(Audited)</i>	
	30 September	31 December
	2011	2010
	US\$ '000	US\$ '000
Assets		
Quoted equity investments	-	1,906

The significant transactions in respect of related parties were as follows:

	<i>Nine months ended</i>	
	30 September	30 September
	2011	2010
	US\$ '000	US\$ '000
Income		
Fee income	87	81
Expenses		
Board of Directors and committees meetings' expenses and attendance allowances	52	141
Shari'a Supervisory Board meetings' expenses and attendance allowances	38	58
Fee expense	1	20

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 were as follows:

	<i>Nine months ended</i>	
	30 September	30 September
	2011	2010
	US\$ '000	US\$ '000
Short term employee costs	986	1,467
Post employment benefits	152	150
	1,138	1,617