

**Seera Investment Bank B.S.C. (c)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2012**

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

We have audited the accompanying consolidated statement of financial position of Seera Investment Bank B.S.C. (c) ("the Bank") and its subsidiaries (together the "Group") as of 31 December 2012, and the related consolidated statements of income, cash flows and changes in owners' equity for the year then ended and a summary of significant accounting policies and other explanatory information. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012, the results of its operations, its cash flows and changes in owners' equity for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

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

**Other Matters**

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association having occurred during the year ended 31 December 2012 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

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


10 February 2013  
Manama, Kingdom of Bahrain

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

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



**Khalid Al Nasser**  
Chairman



**Abdulla Janahi**  
Chief Executive Officer




**Mubarak Al Hemeiri**  
Board Member

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2012

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

  
 Khalid Al Nasser  
 Chairman

  
 Abdulla Janahi  
 Chief Executive Officer

  
 Mubarak Al Hemeiri  
 Board Member

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2012

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

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



## **1 INCORPORATION AND ACTIVITIES**

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

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

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

## **2 BASIS OF PREPARATION**

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

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

### **Statement of compliance**

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

### **Basis of consolidation**

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

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. The results of a subsidiary acquired or disposed off during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

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



**2 BASIS OF PREPARATION (continued)****Basis of consolidation (continued)**

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

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

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

**3 ACCOUNTING POLICIES****3.1 Significant accounting judgments and estimates**

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

***Going concern***

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

***Revaluation of equity securities, investment property and property and equipment***

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

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

***Impairment provisions against financing contracts and investment in ijarah assets***

The Group reviews its financing contracts and investment in ijarah assets at each reporting date to assess whether an impairment provision should be recorded in the consolidated financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

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

**3 ACCOUNTING POLICIES (continued)**

**3.1 Significant accounting judgments and estimates (continued)**

***Impairment provisions against financing contracts and investment in ijarah assets (continued)***

The general provision reflects estimated losses affecting these exposures attributable to unknown events that may have already occurred at the date of the consolidated financial statements, and not estimated losses attributable to future events. These provisions are reversed through the consolidated statement of income, if the balance exceeds the required level.

***Impairment of investments at fair value through equity***

The Group treats investments carried at fair value through equity as impaired when there is a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

**3.2 Summary of significant accounting policies**

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

**3.2.1 Cash and cash equivalents**

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

**3.2.2 Murabaha receivables**

Murabaha receivables are sales on deferred terms. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the Murabeh over the agreed period. Promise made in the murabaha to the purchase orderer is not obligatory upon the customer.

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

**3.2.3 Wakala receivables**

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

**3.2.4 Non-trading investments**

These are classified as investments designated at fair value through equity.

***Initial recognition***

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

***Re-measurement to fair value***

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

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

**3 ACCOUNTING POLICIES (continued)**

**3.2 Summary of significant accounting policies (continued)**

**3.2.5 Investment in ijarah assets**

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

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

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

**3.2.6 Net assets of disposal group classified as held for sale**

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

**3.2.7 Investment property**

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

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

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

**3.2.8 Property and equipment**

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

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

Buildings	20 years
Others	3-5 years

Expenditure for maintenance and repairs is expensed as incurred.

**3 ACCOUNTING POLICIES (continued)**

**3.2 Summary of significant accounting policies (continued)**

**3.2.8 Property and equipment (continued)**

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

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

**3.2.9 Recognition of income**

**(i) Income recognition**

*Rental income from investment in ijarah assets*

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

*Profit on amounts due from banks and financial institutions and murabaha receivables*

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

*Dividends*

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

*Fee income*

Fee income is recognised when earned.

**3.2.10 Derecognition of financial instruments**

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

- (i) the right to receive cash flows from the asset has expired;
- (ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- (iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

**3.2.11 Foreign currencies**

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange gains and losses on non-monetary items classified as "fair value through equity" are taken to the consolidated statement of comprehensive income.

**3 ACCOUNTING POLICIES (continued)**

**3.2 Summary of significant accounting policies (continued)**

**3.2.12 Impairment**

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

**3.2.13 Employees' end of service benefits**

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

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

**3.2.14 Fair value of financial instruments**

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

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

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

**3.2.15 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

**3.2.16 Offsetting financial instruments**

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

**3.2.17 Zakah**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**4 CASH AND BALANCES WITH BANKS**

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

**5 DUE FROM BANKS AND FINANCIAL INSTITUTIONS**

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

**6 MURABAHA RECEIVABLES**

	<b>2012</b> <b>US\$ '000</b>	<b>2011</b> <b>US\$ '000</b>
Gross murabaha receivables	7,720	-
Deferred income	(4)	-
	<b>7,716</b>	<b>-</b>

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

**7 NON-TRADING INVESTMENTS**

	<b>2012</b> <b>US\$ '000</b>	<b>2011</b> <b>US\$ '000</b>
<b><i>Investments designated at fair value through equity</i></b>		
Quoted investment designated at fair value through equity	7.1	1,502
Unquoted investments designated at fair value through equity	20	21,266
Specific provision	18	(5,195)
Unquoted investments designated at fair value through equity, net	<b>16,071</b>	<b>17,287</b>
	<b>17,573</b>	<b>18,752</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**8 INVESTMENT IN IJARAH ASSETS**

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

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

**9 NET ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE**

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

**10 INVESTMENT PROPERTY**

	<i>2012</i>	<i>2011</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Balance as at the beginning and end of the year	<b>10,476</b>	10,476

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

**11 OTHER ASSETS**

	<i>2012</i>	<i>2011</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Accrued income	<b>2,937</b>	2,340
Prepaid expenses	<b>513</b>	1,181
Others	<b>1,643</b>	2,496
	<b>5,093</b>	6,017



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**12 PROPERTY AND EQUIPMENT**

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

**13 TERM FINANCING**

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

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

**14 OTHER LIABILITIES**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**14 OTHER LIABILITIES (continued)**

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

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

**15 OWNERS' EQUITY****15.1 Share capital**

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

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

**15.2 Statutory reserve**

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

**15.3 Investment fair value reserve**

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

**16 PROPOSED DIVIDEND**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**17 GENERAL AND ADMINISTRATION EXPENSES**

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

**18 PROVISIONS**

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

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

**19 CASH AND CASH EQUIVALENTS**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**20 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December:

	2012		
	Level 1 US\$ 000	Level 2 US\$ 000	Level 3 US\$ 000
<b>Non-trading investments</b>	<b>1,502</b>	<b>-</b>	<b>4,932</b>
	<b>1,502</b>	<b>-</b>	<b>4,932</b>

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

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

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

**21 CAPITAL MANAGEMENT**

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**21 CAPITAL MANAGEMENT (continued)****Regulatory capital**

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

**21.1 Tier 1 Capital**

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

**21.2 Tier 2 Capital**

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

**21.3 Risk weighted assets**

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

**Credit risk weighted assets**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**21 CAPITAL MANAGEMENT (continued)****21.3 Risk weighted assets (continued)****Market risk weighted assets**

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

**Operational risk weighted assets**

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

**21.4 Tier 1 Capital Adequacy Ratio**

	<b>2012</b>	<b>2011</b>
Capital Adequacy on Tier 1 Capital	<b>41.85%</b>	68.34%

**22 SEGMENTAL INFORMATION**

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

**Geographical segment**

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

**Industrial segment**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**22 SEGMENTAL INFORMATION (continued)**

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

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

**23 RELATED PARTIES**

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**23 RELATED PARTIES (continued)**

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

	<b>2012</b> <b>US\$'000</b>	<b>2011</b> <b>US\$'000</b>
Short term employee costs	<b>1,253</b>	1,315
Termination costs	<b>204</b>	205
	<b>1,457</b>	1,520

**24 COMMITMENTS**

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

The Bank has the following commitments.

	<i>Less than 1 year US\$ '000</i>	<i>Total US\$ '000</i>
<b>At 31 December 2012</b>		
Capital and other commitments	<b>116</b>	<b>116</b>
	<b>116</b>	<b>116</b>
<b>At 31 December 2011</b>		
Capital and other commitments	525	525
	525	525

At 31 December 2012

## **25 SHARI'A SUPERVISORY BOARD**

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

## **26 RISK MANAGEMENT**

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

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

### **26.1 Risk management structure**

#### *Board of Directors*

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

#### *Shari'a Supervisory Board*

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

#### *Executive Committee*

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

#### *Management Investment Committee*

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

#### *Asset Liability and Risk Management Committee*

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

#### *Risk Management Department*

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

### **Risk management and reporting systems**

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

At 31 December 2012

**26 RISK MANAGEMENT (continued)****26.2 Credit risk**

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

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

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

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

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

**(i) Maximum exposure to credit risk**

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

Exposures by geographical region

As at 31 December 2012:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**26 RISK MANAGEMENT (continued)****26.2 Credit risk (continued)**

Exposures by geographical region

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

Exposure by industry:

As at 31 December 2012:

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

As at 31 December 2011:

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

**26.3 Market Risk**

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

*Profit rate risk*

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

The Group currently has limited exposure to profit rate risk. The Group's assets that are exposed to profit rate risk comprise of due from financial institutions and have repricing dates no longer than three months. During 2012, a +/- 200bp change in the profit rate, with all other variables constant, would have resulted in a +/- US\$ 2,849 thousand (31 December 2011: +/-200bp resulted in +/- US\$ 1,778 thousand) impact on the consolidated statement of income.

At 31 December 2012

**26 RISK MANAGEMENT (continued)****26.3 Market risk (continued)***Currency risk*

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

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

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

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

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

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

*Equity price risk*

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

At 31 December 2012

**26 RISK MANAGEMENT (continued)****26.3 Market risk (continued)***Equity price risk (continued)*

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

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

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

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

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

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

**26.4 Operational risk**

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

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

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

**26 RISK MANAGEMENT (continued)****26.4 Operational risk (continued)**

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

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

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

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

**27 SOCIAL RESPONSIBILITY**

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

**28 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

**29 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A**

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



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**1 CAPITAL STRUCTURE AND CAPITAL ADEQUACY**

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

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

	<b>31 Dec 2012</b>	
	<b>Tier 1</b>	<b>Tier 2</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>
<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:

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

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

**2 RISK MANAGEMENT**

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

**a) Liquidity risk**

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

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

**Table – 4. Liquidity Ratios (PD-1.3.37)**

The following table summarises the liquidity ratios as of:

	<b>31-Dec 2012</b>
Short term assets to short term liabilities	<b>21.40</b>
Liquid assets to total assets	<b>0.15</b>

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

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

## 31 December 2012

**a) Liquidity risk (continued)**

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

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

[illegible]

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**2 RISK MANAGEMENT (continued)**

**b) Credit risk**

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

As at 31 December 2012:

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

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

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

Net funded credit exposures by geographical region

As at 31 December 2012:

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

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

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

Net funded credit exposures by counterparty

As at 31 December 2012:

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

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**2 RISK MANAGEMENT (continued)**

**b) Credit risk (continued)**

***Analysis of exposure to credit risk by external credit ratings***

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

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

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

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

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

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

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

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

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**2 RISK MANAGEMENT (continued)**

**b) Credit risk (continued)**

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

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

	<b>Specific provisions</b>		
	<b>Opening Balance US\$ '000</b>	<b>Charges during the period US\$ '000</b>	<b>FX translation US\$ '000</b>
Investment - Energy	1,346	1,744	63
Investment - Real estate	2,000	-	42
	<b>3,346</b>	<b>1,744</b>	<b>105</b>

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

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

	<b>31 December 2012 US\$ '000</b>
Opening Balance	18,000
Charges during the period	(1,744)
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

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

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

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

The Group has no obligations with respect to recourse transaction.

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

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

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**2 RISK MANAGEMENT (continued)**

**c) Market risk**

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

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

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

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

*Displaced Commercial Risk*

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

*Equity price risk*

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

Equity positions in the Grouping book

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



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**2 RISK MANAGEMENT (continued)**

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

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

	<b>31 Dec 2012 US\$ '000</b>
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	<b>456</b>
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)	<b>345</b>

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

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

	<b>Gross income</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>Total Gross Income</b>	<b>40,249</b>	112,965	18,441
			<i>December 2012</i>
<b>Indicators of operational risk</b>			
Average Gross income (US\$ '000)			<b>57,218</b>
<b>Multiplier</b>			<b>12.5</b>
			<b>715,225</b>
Eligible Portion for the purpose of the calculation			<b>15%</b>
<b>TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US\$ '000)</b>			<b>107,284</b>

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