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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

ERNST & YOUNG

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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.

ERNST & YOUNG

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

Other Matters

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

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

Ernst + Young

10 February 2013
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

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

Khalid Al Nasser
Chairman

Abdulla Janahi
Chief Executive Officer

Mubarak Al Hemeiri
Board Member

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2012

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

Khalid Al Nasser
Chairman

Abdulla Janahi
Chief Executive Officer

Mubarak Al Hemeiri
Board Member

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

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

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2012

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

1 INCORPORATION AND ACTIVITIES

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

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

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

2 BASIS OF PREPARATION

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

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

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

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

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

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

2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

3 ACCOUNTING POLICIES

3.1 Significant accounting judgments and estimates

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

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

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

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

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

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

3 ACCOUNTING POLICIES (continued)

3.1 Significant accounting judgments and estimates (continued)

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

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

3.2 Summary of significant accounting policies

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

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

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

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

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

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

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

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

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

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

Buildings	20 years
Others	3-5 years

Expenditure for maintenance and repairs is expensed as incurred.

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

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

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

3.2.9 Recognition of income

(i) Income recognition

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

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

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

Fee income
Fee income is recognised when earned.

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

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

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

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

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

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

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

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

4 CASH AND BALANCES WITH BANKS

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

5 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

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

6 MURABAHA RECEIVABLES

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

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

7 NON-TRADING INVESTMENTS

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

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

8 INVESTMENT IN IJARAH ASSETS

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

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

9 NET ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

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

10 INVESTMENT PROPERTY

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

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

11 OTHER ASSETS

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

12 PROPERTY AND EQUIPMENT

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

13 TERM FINANCING

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

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

14 OTHER LIABILITIES

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

14 OTHER LIABILITIES (continued)

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

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

15 OWNERS' EQUITY

15.1 Share capital

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

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

15.2 Statutory reserve

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

15.3 Investment fair value reserve

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

16 PROPOSED DIVIDEND

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

17 GENERAL AND ADMINISTRATION EXPENSES

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

18 PROVISIONS

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

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

19 CASH AND CASH EQUIVALENTS

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

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

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

21 CAPITAL MANAGEMENT

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

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

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

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

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

21 CAPITAL MANAGEMENT (continued)

Regulatory capital

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

21.1 Tier 1 Capital

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

21.2 Tier 2 Capital

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

21.3 Risk weighted assets

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

Credit risk weighted assets

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

21 CAPITAL MANAGEMENT (continued)

21.3 Risk weighted assets (continued)

Market risk weighted assets

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

Operational risk weighted assets

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

21.4 Tier 1 Capital Adequacy Ratio

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

22 SEGMENTAL INFORMATION

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

Geographical segment

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

Industrial segment

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

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

22 SEGMENTAL INFORMATION (continued)

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

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

23 RELATED PARTIES

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

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

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

23 RELATED PARTIES (continued)

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

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

24 COMMITMENTS

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

The Bank has the following commitments.

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

25 SHARI'A SUPERVISORY BOARD

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

26 RISK MANAGEMENT

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

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

26.1 Risk management structure

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

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

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

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

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

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

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

26 RISK MANAGEMENT (continued)

26.2 Credit risk

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

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

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

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

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

(i) Maximum exposure to credit risk

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

Exposures by geographical region

As at 31 December 2012:

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

26 RISK MANAGEMENT (continued)

26.2 Credit risk (continued)

Exposures by geographical region

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

Exposure by industry:

As at 31 December 2012:

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

As at 31 December 2011:

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

26.3 Market Risk

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

Profit rate risk

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

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

26 RISK MANAGEMENT (continued)

26.3 Market risk (continued)

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

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

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

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

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

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

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

26 RISK MANAGEMENT (continued)

26.3 Market risk (continued)

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

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

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

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

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

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

26.4 Operational risk

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

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

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

26 RISK MANAGEMENT (continued)

26.4 Operational risk (continued)

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

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

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

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

27 SOCIAL RESPONSIBILITY

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

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

29 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

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