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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

Building a better
working world

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

We have audited the accompanying consolidated financial statements of Seera Investment Bank B.S.C. (c) (the "Bank") and its subsidiary (the "Group") which comprise the consolidated statement of financial position as at 31 December 2013, and the related consolidated statements of income, cash flows and changes in owners' equity for the year then ended. 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 Group'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 2013, 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 (the 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 2013 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 Group, except as disclosed in note 33 to these consolidated financial statements.

Ernst & Young

10 March 2014
Manama, Kingdom of Bahrain

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	**2013** **US$ '000**	2012 US$ '000
ASSETS			
Cash and balances with banks	4	**3,928**	8,242
Due from banks and financial institutions	5	**23,502**	45,255
Financing contracts	6	**30,233**	7,716
Non-trading investments	7	**15,463**	17,573
Investment in ijarah assets	8	**200,398**	244,590
Net assets of disposal group classified as held for sale	9	**15,611**	14,942
Investment in real estate	10	**10,476**	10,476
Other assets	11	**4,996**	5,093
Property and equipment	12	**6,020**	6,374
TOTAL ASSETS		**310,627**	360,261
LIABILITIES AND OWNERS' EQUITY			
LIABILITIES			
Term financing	13	**91,400**	141,483
Other liabilities	14	**13,702**	14,424
TOTAL LIABILITIES		**105,102**	155,907
OWNERS' EQUITY			
Share capital	15	**145,643**	145,643
Reserves	15	**11,723**	9,908
Retained earnings		**31,790**	27,571
Proposed dividend	16	**-**	4,275
Equity attributable to shareholders of the parent		**189,156**	187,397
Non-controlling interest		**16,369**	16,957
TOTAL OWNERS' EQUITY		**205,525**	204,354
TOTAL LIABILITIES AND OWNERS' EQUITY		**310,627**	360,261

Sulaiman Al Sahli
Chairman

Abdulla Janahi
Chief Executive Officer

Mubarak Al Hemeiri
Board Member

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2013

	Notes	***2013 US$ '000***	*2012 US$ '000*
Rental income from investment in ijarah assets	17	**23,430**	36,106
Depreciation on investment in ijarah assets	8	**(16,007)**	(16,007)
Management fees relating to ijarah assets		**(905)**	(1,057)
Financing cost relating to term financing obtained to purchase ijarah assets		**(4,016)**	(8,320)
Other income relating to ijarah assets	18	**33,137**	-
Other operating expenses relating to ijarah assets	19	**(2,985)**	(2,347)
Net income from investment in ijarah assets		**32,654**	8,375
Profit on amounts due from banks and financial institutions		**97**	1,069
Profit on financing contracts	6	**428**	634
Net funding income		**525**	1,703
Fee and other income		**664**	1,216
Foreign exchange gain		**109**	1,225
TOTAL INCOME		**33,952**	12,519
Expenses			
Staff expenses		**3,800**	3,977
General and administrative expenses	20	**1,337**	1,283
Depreciation on property and equipment	12	**515**	659
TOTAL EXPENSES		**5,652**	5,919
NET INCOME FOR THE YEAR BEFORE IMPAIRMENT AND PROVISIONS		**28,300**	6,600
Impairment and provisions	21	**(24,200)**	-
NET PROFIT FOR THE YEAR		**4,100**	6,600
Attributable to:			
Shareholders of the parent		**4,688**	5,500
Non-controlling interest		**(588)**	1,100
		4,100	6,600

Sulaiman Al Sahli
Chairman

Abdulla Janahi
Chief Executive Officer

Mubarak Al Hemeiri
Board Member

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	**2013 US$ '000**	2012 US$ '000
OPERATING ACTIVITIES			
Net profit for the year		**4,100**	6,600
Adjustments for:			
Provision for employees' end of service benefits	14	**243**	246
Depreciation on investment in ijarah assets	8	**16,007**	16,007
Depreciation on property and equipment	12	**515**	659
Impairment and provisions	21	**24,200**	-
Gain on disposal of equipment		**(15)**	-
		45,050	23,512
Changes in operating assets and liabilities:			
Financing contracts		**(22,517)**	(7,716)
Other assets		**97**	396
Other liabilities		**5,807**	(3,722)
Net cash from operating activities		**28,437**	12,470
INVESTING ACTIVITIES			
Purchase of equipment	12	**(161)**	(25)
Proceeds from disposal of equipment		**15**	-
Net cash used in investing activities		**(146)**	(25)
FINANCING ACTIVITIES			
Reduction of share capital		**-**	(145,643)
Repayment and early settlement of term financing		**(50,083)**	(22,621)
Dividends paid		**(4,275)**	-
Net cash used in financing activities		**(54,358)**	(168,264)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**(26,067)**	(155,819)
Cash and cash equivalents at beginning of the year		**53,497**	209,316
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	22	**27,430**	53,497

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2013

	Equity attributable to shareholders of the parent							
	Share capital US$ '000	*Statutory reserve US$ '000*	*Investments fair value 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 2013	145,643	9,140	768	27,571	4,275	187,397	16,957	204,354
Net income (loss) for the year	-	-	-	4,688	-	4,688	(588)	4,100
Transferred to statutory reserve	-	469	-	(469)	-	-	-	-
Unrealised gain on re-measurement to fair value	-	-	1,346	-	-	1,346	-	1,346
Dividends paid (note 16)	-	-	-	-	(4,275)	(4,275)	-	(4,275)
Balance at 31 December 2013	**145,643**	**9,609**	**2,114**	**31,790**	**-**	**189,156**	**16,369**	**205,525**
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	(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

The attached notes 1 to 33 form part of these consolidated financial statements

1 INCORPORATION AND ACTIVITIES

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

The Bank operates under an Islamic Wholesale Banking License issued by the Central Bank of Bahrain [the "CBB"]. The Bank and its subsidiary [the "Group"] provide 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 March 2014.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate and 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$"], being the functional and presentation currency of the Group. All values are rounded to the nearest thousand ["US$ '000"] except when indicated otherwise.

Statement of compliance
These consolidated financial statements have been prepared in accordance with Financial Accounting Standards ["FAS"] as 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"] as issued by the International Accounting Standards Board ["IASB"].

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and its subsidiary 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 subsidiary 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.

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.

2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)
The following is the Group's significant subsidiary as at 31 December 2013:

Name of subsidiary	***Country of incorporation***	***Equity interest***	
		2013	*2012*
Falak Aviation Investment Fund B.S.C. (c)	Kingdom of Bahrain	86%	86%

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 Board of Directors 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 and investment in real estate
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 in real estate 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 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
The Group reviews its financing contracts 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.

Impairment provisions against investment in ijarah assets
At the end of each reporting period an assessment is made to determine whether any evidence of impairment exists in the Bank's investment in ijarah assets by comparing the carrying amount to the recoverable amount. The recoverable amount is determined by independent valuation experts with specific expertise in the valuation of such assets. Judgment is applied by the independent valuation experts in determining the cash flows, discount rates and in identification of assets comparable to the asset being valued.

The independent valuation experts provide management with a range of values which are based on different valuation techniques. Management exercises its judgement in identifying the value which best represents the recoverable value of the ijarah assets.

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 cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations effective as of 1 January 2013.

FAS 26 Investment in Real Estate

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

The adoption of other standards, changes in IFRS or interpretations as issued by the IASB does not have any impact on the Group. In addition, standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are not expected to have any significant impact on the Group's financial position or performance.

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 Due from banks and financial institutions

Due from banks and financial institutions comprise commodity murabaha and wakala contracts. Commodity murabaha contracts are stated net of deferred profits and provision for impairment, if any. Wakala contracts are stated at cost less provision for impairment, if any.

3.2.3 Financing contracts

Financing contracts are stated at cost net of deferred profit and provision for impairment, if any. The Group considers the promise made by the purchase orderer in a financing contract as obligatory. Specific provisions are created for impairment where losses are expected to arise on non-performing contracts. The contracts are written of when they are considered to be uncollectible.

3.2.4 Non-trading investments

Non-trading investments 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

Subsequent to acquisition, these are re-measured at fair value with unrealised gains or losses recognised in owners' equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity 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.

3.2.5 Investment in ijarah assets

Investments in ijarah assets are stated at cost less accumulated depreciation and accumulated impairment. Changes in expected useful lives 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.

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

3.2.5 Investment in ijarah assets (continued)

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 in real estate

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

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

3.2.8 Property and equipment

Property and equipment are 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:

Building	20 years
Others	3-5 years

Expenditure for maintenance and repairs is expensed as incurred.

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 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

3.2.9 Recognition of income

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 financing contracts
Profit is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and profit agreed.

Dividend income
Dividend income 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 has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group 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 changes in owners' equity.

3.2.12 Impairment

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income. In the case of investments designated at fair value through equity, impairment is reflected directly as a write down of the financial asset. Impairment losses on investments designated at fair value through equity are not reversed through the consolidated statement of income. Any subsequent increases in their fair value are recognised directly in equity.

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

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 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; and
- For investment in real estate, fair value is determined based on the valuation performed by independent valuers.

3.2.15 Provisions
Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

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 there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

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

	2013	*2012*
	US$ '000	*US$ '000*
Balances with banks	**3,924**	8,239
Cash in hand	**4**	3
	3,928	8,242

5 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2013 US$ '000	2012 US$ '000
Commodity murabaha contracts	**14,606**	45,261
Deferred income	**(4)**	(6)
	14,602	45,255
Wakala contracts	**8,900**	-
	23,502	45,255

6 FINANCING CONTRACTS

	Notes	2013 US$ '000	2012 US$ '000
Murabaha receivables	6.1	**4,150**	7,716
Tawarruq	6.2	**26,083**	-
		30,233	7,716

6.1 Murabaha receivables

	2013 US$ '000	2012 US$ '000
Gross murabaha receivables	**4,187**	7,720
Deferred income	**(37)**	(4)
Net murabaha receivables	**4,150**	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. As at 31 December 2013, murabaha receivables were neither past due nor impaired (2012: nil).

6.2 Tawarruq

During the year, the Bank entered into tawarruq facilities with a special purpose vehicle ("SPV") established by Novus (the lead aviation partner of the Bank in Falak Aviation Investment Fund). The Bank granted the SPV with tawarruq facilities amounting to US$ 26,083 thousand for the purpose of settling certain financings, obtained by the subsidiary of the Bank to purchase Ijarah assets.

7 NON-TRADING INVESTMENTS

	2013 US$ '000	2012 US$ '000
Quoted investment designated at fair value through equity	**1,679**	1,502
Unquoted investments designated at fair value through equity	**13,784**	16,071
	15,463	17,573

The movement of non-trading investments during the year is as follows:

	2013 US$ '000	2012 US$ '000
At 1 January	**17,573**	18,752
Fair value changes	**677**	456
Impairment and provisions	**(2,787)**	(1,635)
	15,463	17,573

8 INVESTMENT IN IJARAH ASSETS

Investment in ijarah assets represent aircraft indirectly acquired through an equity investment in Falak Aviation Investment Fund B.S.C.(c) a Collective Investment Unit regulated by the Central Bank of Bahrain (the CBB).

	Cost at 1 January 2013 US$ '000	Accumulated Depreciation 1 January 2013 US$ '000	Depreciation charge US$ '000	Net book value at 31 December 2013 US$ '000	Net book value at 31 December 2012 US$ '000
Falak Fin One Limited	39,739	2,968	1,484	35,287	36,771
Falak Fin Two Limited	40,042	2,808	1,403	35,831	37,234
Falak Fin Three Limited	41,965	3,496	1,748	36,721	38,469
Falak Fin Four Limited	36,599	3,238	1,619	31,742	33,361
Falak Fin Seven Limited	43,666	4,360	2,180	37,126	39,306
Falak Fin Eight Limited	34,269	6,154	3,077	25,038	28,115
Falak Fin Nine Limited	5,046	3,262	1,631	153	1,784
Falak Fin Ten Limited	5,526	2,876	1,439	1,211	2,650
Falak Fin Eleven Limited	37,752	2,852	1,426	33,474	34,900
	284,604	32,014	16,007	236,583	252,590
Provisions				(36,185)	(8,000)
				200,398	244,590

9 NET ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

The disposal group represents a company incorporated in the Cayman Islands which holds a 92.02% stake in a Danish operator, a leading supplier of systems and solutions for filling and reconditioning of liquefied petroleum gas cylinders. As at 31 December 2013, the Group holds a 21.5% stake in this Company. The Bank's management is in the process of identifying a potential buyer to dispose of this investment. As at 31 December 2013, the total assets and liabilities of the Company amounted to US$ 112,118 thousand and US$ 43,229 thousand respectively (31 December 2012: US$ 93,754 thousand and US$ 30,160 thousand respectively).

10 INVESTMENT IN REAL ESTATE

	2013 US$ '000	2012 US$ '000
Balance as at the beginning and end of the year	10,476	10,476

The investment in real estate represents land in the Kingdom of Bahrain. The land is stated at fair value, determined based on valuations performed by three independent professional valuers as at 31 December 2013 and 31 December 2012.

11 OTHER ASSETS

	2013	2012
	US$ '000	*US$ '000*
Management fee receivables	**3,383**	2,937
Staff receivables	**503**	353
Prepaid expenses	**278**	513
Others	**832**	1,290
	4,996	5,093

12 PROPERTY AND EQUIPMENT

	Freehold land	*Building*	*Others*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Cost:				
At 1 January 2013	3,162	4,079	5,366	12,607
Additions	-	-	161	161
At 31 December 2013	**3,162**	**4,079**	**5,527**	**12,768**
Accumulated depreciation:				
At 1 January 2013	-	1,240	4,993	6,233
Charge for the year	-	204	311	515
At 31 December 2013	**-**	**1,444**	**5,304**	**6,748**
Net book value				
At 31 December 2013	**3,162**	**2,635**	**223**	**6,020**
At 31 December 2012	3,162	2,839	373	6,374

13 TERM FINANCING

	2013	2012
	US$ '000	*US$ '000*
Falak Fin One Limited	**-**	20,141
Falak Fin Two Limited	**10,725**	20,366
Falak Fin Three Limited	**14,280**	22,865
Falak Fin Four Limited	**11,615**	15,345
Falak Fin Seven Limited	**18,884**	21,310
Falak Fin Eight Limited	**16,464**	19,239
Falak Fin Ten Limited	**1,888**	2,428
Falak Fin Eleven Limited	**17,544**	19,789
	91,400	141,483

The movement in term financing during the year is as follows:

	2013	2012
	US$ '000	*US$ '000*
Balance at beginning of the year	**141,483**	164,104
Repayments and early settlement	**(50,083)**	(22,621)
Balance at end of the year	**91,400**	141,483

The above financing has been obtained by the Bank's subsidiary to purchase ijarah assets. The financing carries profit rates between 3.3% and 6.8% and mature between 2013 and 2015. There is no recourse to the Bank on these financings.

14 OTHER LIABILITIES

	2013	2012
	US$ '000	*US$ '000*
Maintenance accruals	**6,139**	1,025
Accrued expenses	**3,102**	2,944
Provision for employees end of service benefits	**1,476**	1,292
Current accounts	**1,082**	81
Unearned rental income	**419**	827
Others	**1,484**	8,255
	13,702	14,424

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

	2013	2012
	US$ '000	*US$ '000*
Balance at beginning of the year	**1,292**	1,089
Charge for the year	**243**	246
Utilised and paid during the year	**(59)**	(43)
Balance at end of the year	**1,476**	1,292

15 OWNERS' EQUITY

15.1 Share capital

	2013	2012
	US$ '000	*US$ '000*
Authorised :		
2,500,000,000 Ordinary shares of US$ 0.5 each	**1,250,000**	1,250,000
Issued and fully paid up		
As at the beginning and end of the year		
291,286,000 Ordinary shares of US$ 0.5 each	**145,643**	145,643

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. During the year US$ 469 thousand (2012: US$ 550 thousand) was transferred to statutory reserve.

15.3 Investments fair value reserve

Unrealised gains on 'investment in real estate' and 'investments carried at fair value through equity' are appropriated to the 'investments 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 DIVIDENDS PAID

The dividend for the year ended 31 December 2012 amounting to US$ 4,275 thousand (US$ 0.01467 per share) was paid during the year, following regulatory approvals and the approval of the shareholders in the Annual General Meeting held on 4 March 2013.

17 RENTAL INCOME FROM INVESTMENT IN IJARAH ASSETS

	2013 ***US$ '000***	*2012* *US$ '000*
Falak Fin One Limited	**1,159**	5,640
Falak Fin Two Limited	**1,159**	5,640
Falak Fin Three Limited	**3,745**	6,420
Falak Fin Four Limited	**4,788**	4,790
Falak Fin Seven Limited	**4,321**	5,374
Falak Fin Eight Limited	**5,100**	5,100
Falak Fin Eleven Limited	**3,158**	3,142
	23,430	36,106

18 OTHER INCOME RELATING TO IJARAH ASSETS

	Notes	***2013*** ***US$ '000***	*2012* *US$ '000*
Income from early settlement of term financing obtained to purchase ijarah assets	18.1	**18,164**	-
Income from early termination of certain ijarah contracts	18.2	**14,973**	-
		33,137	-

18.1 During the year, the Group realised US$ 18,164 thousand upon early settlement of certain term financing, obtained by the Group to purchase Ijarah assets.

18.2 During the year, the Group realised US$ 14,973 on early termination of certain ijarah contracts.

19 OTHER OPERATING EXPENSES RELATING TO IJARAH ASSETS

	2013 ***US$ '000***	*2012* *US$ '000*
Professional and consultancy fees	**1,724**	261
Repairs and maintenance	**1,142**	1,608
Miscellaneous expenses	**119**	478
	2,985	2,347

20 GENERAL AND ADMINISTRATIVE EXPENSES

	2013 ***US$ '000***	*2012* *US$ '000*
Rent and maintenance expenses	**252**	250
Communication charges	**181**	181
Legal and professional expenses	**151**	222
Board of Directors and Board Committees attendance allowances	**115**	94
Shari'a Supervisory Board attendance allowances	**106**	58
Travel expenses	**19**	55
Marketing and advertisement expenses	**20**	25
Other expenses	**493**	398
	1,337	1,283

21 IMPAIRMENT AND PROVISIONS

	2013		
	Specific impairment US$ '000	Collective impairment US$ '000	Total US$ '000
Balance at beginning of the year	**5,195**	**16,256**	**21,451**
Charge during the year	**24,200**	**-**	**24,200**
Transfer	**14,772**	**(14,772)**	**-**
Balance at the end of the year	**44,167**	**1,484**	**45,651**

	2012		
	Specific impairment US$ '000	Collective impairment 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

22 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:

	2013 US$ '000	2012 US$ '000
Cash and balances with banks	**3,928**	8,242
Due from banks and financial institutions (with original maturities of 90 days or less)	**23,502**	45,255
	27,430	53,497

23 ACCOUNTING CLASSIFICATION OF FINANCIAL INSTRUMENTS

Set out below is the accounting classification of financial instruments, other than cash and cash equivalents, held by the Group as at 31 December 2013:

	Amortised Cost US$ '000	Fair value through equity US$ '000
Financial assets		
Financing contracts	**30,233**	**-**
Non-trading investments	**-**	**15,463**
Other assets (excluding prepayments)	**4,718**	**-**
	34,951	**15,463**
Financial liabilities		
Term financing	**91,400**	**-**
Other liabilities	**10,742**	**-**
	102,142	**-**

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

Fair value hierarchy
The fair value of the quoted security is derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using appropriate valuation techniques. Such techniques may include recent arm's length market transactions; discounted cash flow analysis or other valuation models.

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:

	2013			
	Level 1	***Level 2***	***Level 3***	***Total***
	US$ 000	***US$ 000***	***US$ 000***	***US$ 000***
Non-trading investments	**1,679**	**-**	**2,145**	**3,824**
	1,679	**-**	**2,145**	**3,824**

	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

An investment with a carrying value of US$ 11,639 thousand (2012: US$ 11,139 thousand) is carried at cost less impairment.

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

Transfers between Level 1, Level 2 and Level 3
During the year ended there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

25 CAPITAL MANAGEMENT

The adequacy of the Group'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 Group'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 investments 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 Group 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 Group 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.

Regulatory capital

	Notes	***2013 US$'000***	*2012 US$'000*
Tier 1 capital	25.1	**158,261**	158,436
Tier 2 capital	25.2	**(42,715)**	(44,805)
Total capital base (a)		**115,546**	113,631
Risk weighted assets (b)	25.3	**483,341**	378,611
Capital adequacy (a/b x 100)		**23.91%**	30.01%
Minimum requirement		**12.0%**	12.0%

25.1 Tier 1 Capital

	2013 US$'000	*2012 US$'000*
Share capital	**145,643**	145,643
Statutory reserve	**9,609**	9,140
Proposed dividend	**-**	4,275
Retained earnings	**31,790**	27,571
Non-controlling interest	**16,369**	16,957
Core Tier 1 Capital	**203,411**	203,586
Deductions	**(45,150)**	(45,150)
Tier 1 Capital	**158,261**	158,436
Negative balance of Tier 2	**(42,715)**	(44,805)
Tier 1 Capital net of negative Tier 2 Capital	**115,546**	113,631

25 CAPITAL MANAGEMENT (continued)

25.2 Tier 2 Capital

	2013	2012
	US$ '000	US$ '000
Unrealised gains arising from fair valuing equities (45%)	**951**	345
Collective impairment provision	**1,484**	-
Core Tier 2 Capital	**2,435**	345
Deductions	**(45,150)**	(45,150)
Tier 2 Capital	**(42,715)**	(44,805)

25.3 Risk weighted assets

	2013	2012
	US$ '000	US$ '000
Credit risk weighted assets	**313,476**	228,464
Market risk weighted assets	**38,125**	42,863
Operational risk weighted assets	**131,740**	107,284
	483,341	378,611

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.

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 Bank.

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.

25.4 Tier 1 Capital Adequacy Ratio

	2013	2012
Capital Adequacy on Tier 1 Capital	**32.68%**	41.85%

26 SEGMENTAL INFORMATION

a) Geographic sector

The geographical distribution of the Group's assets and liabilities as of 31 December 2013 is as follows:

	Bahrain US$'000	*Europe US$'000*	*Others US$'000*	*Total US$'000*
Assets				
Cash and balances with banks	**701**	**2,265**	**962**	**3,928**
Due from banks and financial institutions	**14,602**	**-**	**8,900**	**23,502**
Financing contracts	**-**	**4,150**	**26,083**	**30,233**
Non-trading investments	**-**	**2,145**	**13,318**	**15,463**
Investment in ijarah assets	**78,974**	**62,411**	**59,013**	**200,398**
Net assets of disposal group classified as held for sale	**-**	**15,611**	**-**	**15,611**
Investment in real estate	**10,476**	**-**	**-**	**10,476**
Other assets	**612**	**768**	**3,616**	**4,996**
Property and equipment	**6,020**	**-**	**-**	**6,020**
Total assets	**111,385**	**87,350**	**111,892**	**310,627**
Liabilities				
Term financing	**-**	**91,400**	**-**	**91,400**
Other liabilities	**3,734**	**4,220**	**5,748**	**13,702**
Total liabilities	**3,734**	**95,620**	**5,748**	**105,102**

The geographical distribution of the Group's assets and liabilities as of 31 December 2012 is as follows:

	Bahrain US$'000	*Europe US$'000*	*Others US$'000*	*Total US$'000*
Assets				
Cash and balances with banks	6,307	1,635	300	8,242
Due from banks and financial institutions	35,755	-	9,500	45,255
Financing contracts	-	7,716	-	7,716
Non-trading investments	-	4,932	12,641	17,573
Investment in ijarah assets	108,925	74,655	61,010	244,590
Net assets of disposal group				-
classified as held for sale	-	14,942	-	14,942
Investment in real estate	10,476	-	-	10,476
Other assets	468	1,040	3,585	5,093
Property and equipment	6,374	-	-	6,374
Total assets	168,305	104,920	87,036	360,261
Liabilities				
Term financing		141,483	-	141,483
Other liabilities	11,072	3,199	153	14,424
Total liabilities	11,072	144,682	153	155,907

26 SEGMENTAL INFORMATION (continued)

b) Industry sector

The industrial distribution of the Group's assets and liabilities as of 31 December 2013 is as follows:

	Banking and financial institutions US$'000	*Aviation US$'000*	*Real estate US$'000*	*Manufacturing US$'000*	*Others US$'000*	*Total US$'000*
Assets						
Cash and balances with banks	3,928	-	-	-	-	3,928
Due from banks and financial institutions	23,502	-	-	-	-	23,502
Financing contracts	-	26,083	4,150	-	-	30,233
Non-trading investments	-	-	11,639	1,679	2,145	15,463
Investment in ijarah assets	-	200,398	-	-	-	200,398
Net assets of disposal group classified as held for sale	-	-	-	15,611	-	15,611
Investment in real estate	-	-	10,476	-	-	10,476
Other assets	654	462	-	1,499	2,381	4,996
Property and equipment	-	-	-	-	6,020	6,020
Total assets	28,084	226,943	26,265	18,789	10,546	310,627
Liabilities						
Term financing	91,400	-	-	-	-	91,400
Other liabilities		7,112	-	-	6,590	13,702
Total liabilities	91,400	7,112	-	-	6,590	105,102

The industrial distribution of the Group's assets and liabilities as of 31 December 2012 is as follows:

	Banking and financial institutions US$'000	*Aviation US$'000*	*Real estate US$'000*	*Manufacturing US$'000*	*Others US$'000*	*Total US$'000*
Assets						
Cash and balances with banks	8,242	-	-	-	-	8,242
Due from banks and	45,255	-	-	-	-	45,255
financial institutions	-	-	-	-	-	-
Financing contracts	-	-	7,716	-	-	7,716
Non-trading investments	-	-	11,139	1,502	4,932	17,573
Investment in ijarah assets	-	244,590	-	-	-	244,590
Net assets of disposal group classified as held for sale	-	-	-	14,942	-	14,942
Investment in real estate	-	-	10,476	-	-	10,476
Other assets	2,723	657	-	297	1,416	5,093
Property and equipment	-	-	-	-	6,374	6,374
Total assets	56,220	245,247	29,331	16,741	12,722	360,261
Liabilities						
Term financing	141,483	-	-	-	-	141,483
Other liabilities	-	2,118	-	-	12,306	14,424
Total liabilities	141,483	2,118	-	-	12,306	155,907

The Group's revenue and expenses are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

27 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 2013, the Group has not made any provision related to amounts owed by related parties (2012: Nil).

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

	2013				*2012*
	Shareholders	***Directors***	***Others***	***Total***	*Total*
	US$'000	***US$'000***	***US$'000***	***US$'000***	*US$'000*
Consolidated statement of financial position					
Asset					
Other assets	**682**	**-**	**-**	**682**	544
Income					
Fee income	**231**	**-**	**-**	**231**	500
Expenses					
Board of Directors and Board Committees attendance allowances	**-**	**115**	**-**	**115**	94
Shari'a Supervisory Board attendance allowances	**-**	**-**	**106**	**93**	58

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:

	2013	*2012*
	US$'000	*US$'000*
Short term employee costs	**1,236**	1,253
Termination costs	**210**	204
	1,446	1,457

28 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 2013		
Capital and other commitments	**545**	**545**
	545	**545**
At 31 December 2012		
Capital and other commitments	116	116
	116	116

29 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.

30 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.

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 (RMD) independently identifies, measures, monitors and recommends appropriate steps to manage each type of risk. The RMD has independent access to the Board of Directors and updates them on the overall risk profile of the Group on a regular basis.

30.1 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 Group 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 RMD 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, profit rate, 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 RMD 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 exposures to risk are within the approved limits.

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

30 RISK MANAGEMENT (continued)

30.2 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 which are set by the Board of Directors and monitored by the RMD 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, 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 table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position.

(i) Maximum exposure to credit risk

	2013 ***US$'000***	*2012* *US$'000*
Balances with banks	**3,924**	8,239
Due from banks and financial institutions	**23,502**	45,255
Financing contracts	**30,233**	7,716
Other assets	**4,718**	4,581
	62,377	65,791

As of 31 December 2013, none of the above exposures are either past due or impaired (2012: nil).

Credit quality per class of financial assets

The table below analyses the Group's maximum credit exposure where the credit quality is reflected by external credit ratings (S&P, Moody's and Fitch) of the counterparties where relevant:

2013	***Balances with banks US$ '000***	***Due from banks and financial institutions US$ '000***	***Financing contracts US$ '000***	***Other assets US$ '000***	***Total US$ '000***
Prime to High grade: AAA – AA	**45**		**-**	**-**	**45**
Medium grade: A – BBB	**2,149**	**20,401**	**-**	**-**	**22,550**
Non-investment / speculative: BB – B	**1,703**	**-**	**-**	**-**	**1,703**
Unrated	**27**	**3,101**	**30,233**	**4,718**	**38,079**
	3,924	**23,502**	**30,233**	**4,718**	**62,377**

30 RISK MANAGEMENT (continued)

30.2 Credit risk (continued)

Credit quality per class of financial assets (continued)

2012	*Balances with banks US$ '000*	*Due from banks and financial institutions US$ '000*	*Financing contracts US$ '000*	*Other assets US$ '000*	*Total US$ '000*
Prime to High grade: AAA – AA	58	-	-	-	58
Medium grade: A – BBB	1,233	29,403	-	-	30,636
Non-investment / speculative: BB – B	6,945	6,351	-	-	13,296
Unrated	3	9,501	7,716	4,581	21,801
	8,239	45,255	7,716	4,581	65,791

Concentration Risk

Concentration risk is the risk of insufficient diversification of the portfolio resulting in an adverse impact of an external event on portfolio constituents sensitive to similar risk factors. Concentration risk primarily arises due to name and sector concentration, including geographic concentration.

The Bank strictly adheres to regulatory guidelines in respect of large exposures and connected and related counterparty exposures to effectively manage name concentration. Any excesses above the said limits are reported to the CBB and treated in accordance with the regulatory guidelines by way of capital deduction. In addition, the Bank has established internal limits on the maximum permissible exposures to sectors for managing sector concentration.

In respect of geographical concentration the Bank has defined limits for each country / geography which is based on the lowest among the available ratings by S&P, Moody's and Fitch. The Bank also closely monitors political risk arising from events in each country of exposure.

The Group's financial assets with credit risk, can be analysed by the following geographical regions:

As at 31 December 2013

	Bahrain US$'000	***Europe US$'000***	***Others US$'000***	***Total US$'000***
Balances with banks	**697**	**2,265**	**962**	**3,924**
Due from banks and financial institutions	**14,602**	**-**	**8,900**	**23,502**
Financing contracts	**-**	**4,150**	**26,083**	**30,233**
Other assets	**334**	**768**	**3,616**	**4,718**
	15,633	**7,183**	**39,561**	**62,377**

30 RISK MANAGEMENT (continued)

30.2 Credit risk (continued)

Concentration risk (continued)

	Bahrain US$'000	*Europe US$'000*	*Others US$'000*	*Total US$'000*
As at 31 December 2012				
Balances with banks	6,304	1,635	300	8,239
Due from banks and financial institutions	35,755	-	9,500	45,255
Financing contracts	-	7,716	-	7,716
Other assets	414	573	3,594	4,581
	42,473	9,924	13,394	65,791

The Group's financial assets with credit risk can be analysed by the following industry sector:

As at 31 December 2013

	Aviation US$'000	***Banking and finance US$'000***	***Manufacturing US$'000***	***Other US$'000***	***Total US$'000***
Balances with banks	**-**	**3,924**	**-**	**-**	**3,924**
Due from banks and financial institutions	**-**	**23,502**	**-**		**23,502**
Financing contracts	**26,083**	**-**	**-**	**4,150**	**30,233**
Other assets	**462**	**654**	**1,499**	**2,103**	**4,718**
	26,545	**28,080**	**1,499**	**6,253**	**62,377**

As at 31 December 2012

	Aviation US$'000	*Banking and finance US$'000*	*Manufacturing 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

30.3 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 2013, a +/- 200bp change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 587 thousand (31 December 2012: +/-200bp resulted in +/- US$ 2,849 thousand) impact on the consolidated statement of income.

30 RISK MANAGEMENT (continued)

30.3 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's risk management policy regulates such exposure by hedging currency exposures with Shari'a compliant instruments. Currency exposure is monitored daily by RMD 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:

	2013		
	Assets	***Liabilities***	***Net***
	US$'000	***US$'000***	***US$'000***
Danish Krone	**15,611**	**-**	**15,611**
Kuwaiti Dinars	**1,716**	**-**	**1,716**
Great Britain Pounds	**6,353**	**(638)**	**5,715**
Euro	**15,073**	**-**	**15,073**

	2012		
	Assets	*Liabilities*	*Net*
	US$'000	*US$'000*	*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

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 consolidated statement of financial position date and calculating the impact of the change in exchange rate.

	Change in exchange rates (+/-)	***income and equity (+/-)***
	%	***US$'000***
Danish Krone	**10**	**1,561**
Kuwaiti Dinars	**10**	**172**
Great Britain Pounds	**10**	**572**
Euro	**10**	**1,507**

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.

30 RISK MANAGEMENT (continued)

30.3 Market risk (continued)

Equity price risk (continued)
As at 31 December 2013 the Group had an investment in a 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**	**168**

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 investments fair value reserve.

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

	2013	*2012*
	US$ '000	*US$ '000*
Foreign exchange risk	**38,125**	42,863
Regulatory capital requirement (multiple of 12.5)	**3,050**	3,429

During the year, the maximum capital requirement as per the standardized method was US$ 3,211 thousand while the minimum capital requirement was US$ 3,050 thousand.

30.4 Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are to be settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Board of Directors approves all significant policies and strategies related to the management of liquidity. Management Committees, including the Asset Liability and Risk Management Committee, review the liquidity profile of the Group on a regular basis and any material change in the current or prospective liquidity position is notified to the Board.

The RMD monitors the liquidity profile of the Bank on an ongoing basis to ensure that the liquidity gap is within regulatory limits and the liquidity gap and key liquidity ratios are within the internal Board approved limits.

30 RISK MANAGEMENT (continued)

30.4 Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2013 based on expected periods to cash conversion from the consolidated statement of financial position date:

2013	*Up to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*No fixed maturity US$ '000*	*Total US$ '000*
Assets									
Cash and balances with banks	3,928	-	-	-	-	-	-	-	3,928
Due from banks and financial institutions	23,502	-	-	-	-	-	-	-	23,502
Financing contracts	-	-	4,150	26,083	-	-	-	-	30,233
Non-trading investments	-	-	-	-	-	-	-	15,463	15,463
Investment in ijarah assets	-	-	-	-	-	-	-	200,398	200,398
Net assets of disposal group classified as held for sale	-	-	-	-	-	-	-	15,611	15,611
Investment in real estate	-	-	-	-	-	-	-	10,476	10,476
Other assets	132		4,357	503	-	-	-	4	4,996
Property and equipment	-	-	-	-	-	-	-	6,020	6,020
Total assets	27,562	-	8,507	26,586	-	-	-	247,972	310,627
Liabilities									
Term financing	1,888	-	11,615	59,013	18,884	-	-	-	91,400
Other liabilities	1,792	476	7,392	-	1,476	-	-	2,566	13,702
Total liabilities	3,680	476	19,007	59,013	20,360	-	-	2,566	105,102
Net gap	23,882	(476)	(10,500)	(32,427)	(20,360)	-	-	245,406	205,525
Cumulative net gap	23,882	23,406	12,906	(19,521)	(39,881)	(39,881)	(39,881)	205,525	

30 RISK MANAGEMENT (continued)

30.4 Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2012 based on expected periods to cash conversion from the consolidated statement of financial position date:

2012	*Up to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*No fixed maturity US$ '000*	*Total US$ '000*
Assets									
Cash and balances with banks	8,242	-	-	-	-	-	-	-	8,242
Due from banks and financial institutions	45,255	-	-	-	-	-	-	-	45,255
Financing contracts	-	-	-	7,716	-	-	-	-	7,716
Non-trading investments	-	-	-	-	-	-	-	17,573	17,573
Investment in ijarah assets	-	-	-	-	-	-	-	244,590	244,590
Net assets of disposal group classified as held for sale	-	-	-	-	-	-	-	14,942	14,942
Investment in real estate	-	-	-	-	-	-	-	10,476	10,476
Other assets	569	-	1,003	3,517	-	-	-	4	5,093
Property and equipment	-	-	-	-	-	-	-	6,374	6,374
Total assets	53,497	-	-	7,716	-	-	-	287,581	360,261
Liabilities									
Term financing	2,428	61,817	15,345	61,893	-	-	-	-	141,483
Other liabilities	1,692	896	2,207	-	1,373	-	-	8,256	14,424
Total liabilities	4,120	62,713	17,552	61,893	1,373	-	-	8,256	155,907
Net gap	49,377	(62,713)	(17,552)	(54,177)	(1,373)	-	-	279,325	204,354
Cumulative net gap	49,377	(13,336)	(30,888)	(85,065)	(86,438)	(86,438)	(86,438)	192,887	
Commitments	-	-	-	-	-	-	-	-	-

The contractual maturities of the financial assets and liabilities are not significantly different from their expected maturities and the Group does not have assets and liabilities with contractual maturities beyond 20 years.

30 RISK MANAGEMENT (continued)

30.5 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 sets 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 operational risk represented by the Board of Directors, Audit Committee, Asset Liability and Risk Management Committee, Risk Management Department, staff, contractors and Internal Audit.

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:

	2013	*2012*
	US$ '000	*US$ '000*
Average gross income	**70,262**	57,218
Operational risk weighted assets	**131,740**	107,284
Regulatory capital requirement (at 12%)	**16,468**	12,784

31 SOCIAL RESPONSIBILITY

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

32 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 2013 (2012: nil).

33 NON COMPLIANCE WITH SHARI'A RULES AND PRINICPLES DURING THE YEAR

(i) During the year the Bank renewed a conventional financing facility associated with an aircraft leased by the Bank's aviation subsidiary, Falak Aviation Investment Fund, to British Airways. Management of the Bank, despite their best efforts, were unable to renew this financing on a Shari'a compliant basis and had no choice but to renew this financing on a conventional basis out of necessity. The Shari'a Supervisory Board was unable to deem the renewal as Shari'a compliant and has accordingly requested the Bank's management to disclose this matter at the Annual General Assembly Meeting of the shareholders on the basis that the renewal was done by management out of necessity.

(ii) "During the year, the Bank granted a 'Tawarruq' facility to special purpose vehicles ('SPV's) established by the Bank's aviation partner for the purpose of settling conventional financing facilities at renegotiated terms. The relevant 'draft' agreements (between the SPV's and the conventional lenders) were reviewed by the Bank without taking prior approval from Shari'a Board to review such agreements. The Sharia Supervisory Board considered this to be a violation of its pronouncements in this regard and therefore requested that any profits on the Tawarruq financing be waived to regularise the matter which was agreed by the Bank's management."