SEERA INVESTMENT BANK B.S.C. (c)
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	2014 US$ '000	2013 US$ '000
ASSETS			
Cash and balances with banks	4	**1,959**	3,928
Due from banks and financial institutions	5	**17,702**	23,502
Financing contracts	6	**3,910**	30,233
Non-trading investments	7	**10,333**	15,463
Investment in ijarah assets	8	**119,252**	200,398
Net assets of disposal group classified as held for sale	9	**12,765**	15,611
Investment in real estate	10	**10,476**	10,476
Other assets	11	**19,763**	4,996
Property and equipment	12	**5,797**	6,020
TOTAL ASSETS		**201,957**	310,627
LIABILITIES AND OWNERS' EQUITY			
LIABILITIES			
Term financing	13	**46,816**	91,400
Other liabilities	14	**9,969**	13,702
TOTAL LIABILITIES		**56,785**	105,102
OWNERS' EQUITY			
Share capital	15	**145,643**	145,643
Reserves	15	**10,262**	11,723
Accumulated (losses) / retained earnings		**(20,497)**	31,790
Equity attributable to shareholders of the parent		**135,408**	189,156
Non-controlling interest		**9,764**	16,369
TOTAL OWNERS' EQUITY		**145,172**	205,525
TOTAL LIABILITIES AND OWNERS' EQUITY		**201,957**	310,627

Hamad Al Ameeri
Chairman

Mubarak Al Hemeiri
Board Member

Abdulla Janahi
Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2014

	Note	*2014* *US$ '000*	*2013* *US$ '000*
Rental income from investment in ijarah assets	16	**12,175**	23,430
Depreciation on investment in ijarah assets	8	**(11,598)**	(16,007)
Management fees relating to ijarah assets		**(525)**	(905)
Financing cost relating to term financing obtained to purchase ijarah assets		**(2,037)**	(4,016)
Other income relating to ijarah assets	17	**2,113**	33,137
Loss on disposal of ijarah assets, net	18	**(25,974)**	-
Other operating expenses relating to ijarah assets	19	**(1,503)**	(2,985)
Net (loss) income from investment in ijarah assets		**(27,349)**	32,654
Profit on amounts due from banks and financial institutions		**91**	97
Profit on financing contracts	6	**533**	428
Net funding income		**624**	525
Fee and other income		**384**	664
Foreign exchange (loss) income		**(794)**	109
TOTAL (LOSS) INCOME		**(27,135)**	33,952
Expenses			
Staff expenses		**3,800**	3,800
General and administrative expenses	20	**1,501**	1,337
Depreciation on property and equipment	12	**271**	515
TOTAL EXPENSES		**5,572**	5,652
NET (LOSS) INCOME FOR THE YEAR BEFORE PROVISION AND IMPAIRMENT		**(32,707)**	28,300
Provision and impairment	21	**(26,185)**	(24,200)
NET (LOSS) PROFIT FOR THE YEAR		**(58,892)**	4,100
Attributable to:			
Shareholders of the parent		**(52,287)**	4,688
Non-controlling interest		**(6,605)**	(588)
		(58,892)	4,100

Hamad Al Ameeri
Chairman

Abdulla Janahi
Chief Executive Officer

Mubarak Al Hemeiri
Board Member

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 US$ '000	2013 US$ '000
OPERATING ACTIVITIES			
Net (loss) profit for the year		**(58,892)**	4,100
Adjustments for:			
Provision for employees' end of service benefits	14	**235**	243
Loss on disposal of ijarah assets, net	18	**25,974**	-
Depreciation on investment in ijarah assets	8	**11,598**	16,007
Depreciation on property and equipment	12	**271**	515
Provision and impairment	21	**26,185**	24,200
Gain on disposal of equipment		**(4)**	(15)
Operating profit before changes in operating assets and liabilities		**5,367**	45,050
Changes in operating assets and liabilities:			
Financing contracts		**26,323**	(22,517)
Other assets		**(17,744)**	97
Other liabilities		**(2,484)**	5,807
Net cash from operating activities		**11,462**	28,437
INVESTING ACTIVITIES			
Proceeds from disposal of ijarah assets		**28,404**	-
Purchase of ijarah assets	8	**(3,007)**	-
Purchase of equipment	12	**(48)**	(161)
Proceeds from disposal of equipment		**4**	15
Net cash from (used in) investing activities		**25,353**	(146)
FINANCING ACTIVITIES			
Repayment and early settlement of term financing *		**(44,584)**	(50,083)
Dividends paid		**-**	(4,275)
Net cash used in financing activities		**(44,584)**	(54,358)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**(7,769)**	(26,067)
Cash and cash equivalents at beginning of the year		**27,430**	53,497
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	22	**19,661**	27,430

Non-cash activity

* This includes a non cash item of US$ 10,000 thousand.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2014

	Equity attributable to shareholders of the parent							
	Share capital	*Statutory reserve*	*Investments fair value reserve*	*Retained earnings / Accumulated losses*	*Proposed dividend*	*Total*	*Non-controlling interest*	*Total owners' equity*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2014	145,643	9,609	2,114	31,790	-	189,156	16,369	205,525
Net loss for the year	-	-	-	(52,287)	-	(52,287)	(6,605)	(58,892)
Unrealised loss on re-measurement to fair value, net	-		(1,461)	-	-	(1,461)	-	(1,461)
Balance at 31 December 2014	**145,643**	**9,609**	**653**	**(20,497)**	**-**	**135,408**	**9,764**	**145,172**
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, net	-	-	1,346	-	-	1,346	-	1,346
Dividends paid	-	-	-	-	(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

The attacned 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 subsidiaries (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 22 February 2015.

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$"), being the functional and presentation currency of the Bank. All values are rounded to the nearest thousand ("US$ '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. The financial information of the subsidiaries is prepared for the same reporting year as the Bank, using consistent accounting policies.

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continues to be consolidated until the date that such control ceases. Control is achieved where the Bank 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 Bank 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 principal subsidiary of the Bank, which is consolidated in these consolidated financial statements:

Name of subsidiary	*Country of incorporation*	*Equity interest*	
		2014	*2013*
Falak Aviation Investment Fund B.S.C. (c)	Kingdom of Bahrain	**86%**	86%

The following are the subsidiaries held indirectly through the principal subsidiary of the Bank:

Falak Investments Limited	Bahamas	**86%**	86%
Falak Lease One Limited	Bahamas	**86%**	86%
Falak Lease Two Limited	Bahamas	**86%**	86%
Falak Lease Three Limited	Bahamas	**86%**	86%
Falak Lease Four Limited	Bahamas	**86%**	86%
Falak Lease Seven Limited	Bahamas	**86%**	86%
Falak Lease Eight Limited	Bahamas	**86%**	86%
Falak Lease Nine Limited	Bahamas	**86%**	86%
Falak Lease Ten Limited	Bahamas	**86%**	86%
Falak Lease Eleven Limited	Bahamas	**86%**	86%
Falak Fin One Limited	Bahamas	-	-
Falak Fin Two Limited	Bahamas	-	-
Falak Fin Three Limited	Bahamas	-	-
Falak Fin Four Limited	Bahamas	-	-
Falak Fin Seven Limited	Bahamas	-	-
Falak Fin Eight Limited	Bahamas	-	-
Falak Fin Nine Limited	Bahamas	-	-
Falak Fin Ten Limited	Bahamas	-	-
Falak Fin Eleven Limited	Bahamas	-	-

3 ACCOUNTING POLICIES

3.1 Significant accounting judgments and estimates

The preparation of the Bank'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 Bank's Board of Directors has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank 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 Bank'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 Bank'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.

3 ACCOUNTING POLICIES (continued)

3.1 Significant accounting judgments and estimates (continued)

Revaluation of equity securities and investment in real estate (continued)
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 Bank 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 Bank 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.

Useful life of an aircraft
Management assigns useful lives to aircrafts based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives differing from initial estimates.

Provision of other receivables
Provisions of other receivables are made as soon as they are considered doubtful. An estimate for doubtful receivables is made when collection of the full amount is no longer probable. Bad debts are written off when there is no probability of recovery.

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.

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

3.2 Summary of significant accounting policies (continued)

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 Bank 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
Investment 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 ijarah 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 Bank 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 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

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.

3.2.9 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 Bank's right to receive the dividend is established.

Fee income
The Bank earns acquisition, arrangement, placement and brokerage fees during the acquisition and placement process for rendering services. These fees are recognised when earned, generally on receipt of cash and signed share purchase agreements by the Bank.

Management fees represent a recurring fee earned by the Bank for rendering management and administrative services. Management fees are recognised as and when services are rendered.

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

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 Bank 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 Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank 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 under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

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 owners' equity.

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

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

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, 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 Bank.

4 CASH AND BALANCES WITH BANKS

	2014	*2013*
	US$ '000	*US$ '000*
Balances with banks	**1,955**	3,924
Cash in hand	**4**	4
	1,959	3,928

5 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2014 US$ '000	2013 US$ '000
Commodity murabaha contracts	**17,705**	14,606
Deferred income	**(3)**	(4)
	17,702	14,602
Wakala contracts	**-**	8,900
	17,702	23,502

6 FINANCING CONTRACTS

	Note	2014 US$ '000	2013 US$ '000
Murabaha receivables	6.1	**3,910**	4,150
Tawarruq	6.2	**-**	26,083
		3,910	30,233

6.1 Murabaha receivables

	2014 US$ '000	2013 US$ '000
Gross murabaha receivables	**3,944**	4,187
Deferred income	**(34)**	(37)
Net murabaha receivables	**3,910**	4,150

Murabaha receivables represent a 2.5 year shari'a compliant facility provided to ADGL (Guernsey), which matured on 2 February 2015. Profit was received on a quarterly basis. As at 31 December 2014, murabaha receivables were neither past due nor impaired (2013: nil).

6.2 Tawarruq

Tawarruq represents an islamic financing transaction provided by the Bank to a counterparty amounting to US$ 26,083 thousand in 2013. During the year, the counterparty has settled the outstanding amount of tawarruq.

7 NON-TRADING INVESTMENTS

	2014 US$ '000	2013 US$ '000
Quoted investment designated at fair value through equity	**1,699**	1,679
Unquoted investments designated at fair value through equity	**8,634**	13,784
	10,333	15,463

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

	Note	2014 US$ '000	2013 US$ '000
At 1 January		**15,463**	17,573
Fair value changes		**(480)**	677
Provision and impairment	21.1	**(4,650)**	(2,787)
		10,333	15,463

8 INVESTMENT IN IJARAH ASSETS

Investment in ijarah assets represent aircraft indirectly acquired through subsidiaries of the Bank.

	Cost at 1 January 2014 US$ '000	*Accumulated depreciation 1 January 2014 US$ '000*	*Depreciation charge US$ '000*	*Accumulated depreciation 31 December 2014 US$ '000*	*Additions US$ '000*	*Disposal US$ '000*	*Net book value at 31 December 2014 US$ '000*	*Net book value at 31 December 2013 US$ '000*
Falak Fin One Limited	39,739	4,452	1,484	5,936	1,007	(1,000)	33,810	35,287
Falak Fin Two Limited	40,042	4,211	1,403	5,614	2,000	(1,007)	35,421	35,831
Falak Fin Three Limited	41,965	5,244	175	5,419	-	(36,546)	-	36,721
Falak Fin Four Limited	36,599	4,857	381	5,238	-	(31,361)	-	31,742
Falak Fin Seven Limited	43,666	6,540	2,180	8,720	-	-	34,946	37,126
Falak Fin Eight Limited	34,269	9,231	3,077	12,308	-	-	21,961	25,038
Falak Fin Nine Limited	5,046	4,893	153	5,046	-	-	-	153
Falak Fin Ten Limited	5,526	4,315	1,211	5,526	-	-	-	1,211
Falak Fin Eleven Limited	37,752	4,278	1,534	5,812	-	-	31,940	33,474
	284,604	48,021	11,598	59,619	3,007	(69,914)	158,078	236,583
Provision and impairment							(38,826)	(36,185)
							119,252	200,398

The movement in provisions is as follows:

	Notes	*2014 US$ '000*	*2013 US$ '000*
At 1 January		**36,185**	8,000
Charge during the year	21.1	**18,177**	28,185
Release of provision upon disposal of ijarah assets	18	**(15,536)**	-
		38,826	36,185

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 2014, the Bank holds a 21.5% stake in this Company. The Bank's management is in the process to dispose this investment. As at 31 December 2014, the total assets and liabilities of the Company amounted to US$ 105,784 thousand and US$ 42,852 thousand respectively (31 December 2013: US$ 112,118 thousand and US$ 43,229 thousand respectively).

10 INVESTMENT IN REAL ESTATE

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 valuation experts as at 31 December 2014 and 31 December 2013.

11 OTHER ASSETS

	Notes	2014 US$ '000	2013 US$ '000
Advance against an investment	11.1	**16,802**	-
Management fee receivables		**-**	3,383
Staff receivables		**477**	503
Prepaid expenses		**297**	278
Others		**2,187**	832
	11.2	**19,763**	4,996

11.1 This amount represents an advance set aside for the purpose of entering into an equity investment. This amount is currently held in escrow and will be transferred to investments upon successful completion of the transaction, and subject to the approval of the Central Bank of Bahrain.

11.2 Other assets are shown net off provision of US$ 2,977 thousand (2013: nil).

12 PROPERTY AND EQUIPMENT

	Freehold land US$ '000	Building US$ '000	Others US$ '000	Total US$ '000
Cost:				
At 1 January 2014	3,162	4,079	5,527	12,768
Additions	-	-	48	48
At 31 December 2014	**3,162**	**4,079**	**5,575**	**12,816**
Accumulated depreciation:				
At 1 January 2014	-	1,444	5,304	6,748
Charge for the year	-	204	67	271
At 31 December 2014	**-**	**1,648**	**5,371**	**7,019**
Net book value				
At 31 December 2014	**3,162**	**2,431**	**204**	**5,797**
At 31 December 2013	3,162	2,635	223	6,020

13 TERM FINANCING

	2014 US$ '000	2013 US$ '000
Falak Fin Two Limited	**-**	10,725
Falak Fin Three Limited	**-**	14,280
Falak Fin Four Limited	**-**	11,615
Falak Fin Seven Limited	**16,737**	18,884
Falak Fin Eight Limited	**13,532**	16,464
Falak Fin Ten Limited	**1,348**	1,888
Falak Fin Eleven Limited	**15,199**	17,544
	46,816	91,400

13 TERM FINANCING (continued)

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

	2014 US$ '000	*2013* US$ '000
Balance at beginning of the year	**91,400**	141,483
Repayments and early settlement	**(44,584)**	(50,083)
Balance at end of the year	**46,816**	91,400

The above financings have been obtained by the Bank's subsidiaries to purchase ijarah assets and mature between 3 months to 4 years bearing profit rates between 4.1% to 5.5%.

These financings are secured by first priority mortgage over the respective aircraft on lease. As at 31 December 2014, the subsidiaries are in compliance with debt covenants against the financings. There is no recourse to the Bank on these financings.

14 OTHER LIABILITIES

	Note	*2014* US$ '000	*2013* US$ '000
Maintenance accruals		**3,793**	6,139
Accrued expenses		**2,878**	3,102
Provision for employees end of service benefits		**1,711**	1,476
Current accounts		**1,024**	1,082
Unearned rental income		**563**	419
Others	21	**-**	1,484
		9,969	13,702

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

	2014 US$ '000	*2013* US$ '000
Balance at beginning of the year	**1,476**	1,292
Charge for the year	**235**	243
Utilised and paid during the year	**-**	(59)
Balance at end of the year	**1,711**	1,476

15 OWNERS' EQUITY

15.1 Share capital

	2014 *US$ '000*	*2013* *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 no transfer was made as the Bank has incurred losses (2013: US$ 469 thousand).

15.3 Investments fair value reserve

Unrealised gains on 'investment in real estate' and unrealised gain or losses on '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 RENTAL INCOME FROM INVESTMENT IN IJARAH ASSETS

	2014 *US$ '000*	*2013* *US$ '000*
Falak Fin One Limited	-	1,159
Falak Fin Two Limited	-	1,159
Falak Fin Three Limited	-	3,745
Falak Fin Four Limited	**700**	4,788
Falak Fin Seven Limited	**3,156**	4,321
Falak Fin Eight Limited	**5,100**	5,100
Falak Fin Eleven Limited	**3,219**	3,158
	12,175	23,430

17 OTHER INCOME RELATING TO IJARAH ASSETS

	2014 *US$ '000*	*2013* *US$ '000*
Income relating to the early settlement of term financing obtained to purchase ijarah assets	**500**	18,164
Income relating to the early termination of certain ijarah contracts	**1,613**	14,973
	2,113	33,137

18 LOSS ON DISPOSAL OF IJARAH ASSETS, NET

	Note	2014 US$ '000	2013 US$ '000
Loss on disposal of ijarah assets		**(41,510)**	-
Release of provision upon disposal of ijarah assets	8	**15,536**	-
		(25,974)	-

19 OTHER OPERATING EXPENSES RELATING TO IJARAH ASSETS

	2014 US$ '000	2013 US$ '000
Professional and consultancy fees	**244**	1,724
Repairs and maintenance	**1,259**	1,142
Miscellaneous expenses	**-**	119
	1,503	2,985

20 GENERAL AND ADMINISTRATIVE EXPENSES

	2014 US$ '000	2013 US$ '000
Rent and maintenance expenses	**282**	252
Legal and professional expenses	**223**	151
Communication charges	**198**	181
Board of Directors and Board Committees attendance allowances	**125**	115
Shari'a Supervisory Board attendance allowances	**106**	106
Travel expenses	**76**	19
Marketing and advertisement expenses	**32**	20
Other expenses	**459**	493
	1,501	1,337

21 PROVISION AND IMPAIRMENT

	Note	2014		
		Specific US$ '000	**Collective US$ '000**	**Total US$ '000**
Balance at beginning of the year		**44,167**	**1,484**	**45,651**
Charge during the year	21.1	**26,185**	**-**	**26,185**
Release of provision upon disposal of ijarah assets		**(15,536)**	**-**	**(15,536)**
Transfer		**1,484**	**(1,484)**	**-**
Balance at the end of the year		**56,300**	**-**	**56,300**

	Note	2013		
		Specific US$ '000	Collective US$ '000	Total US$ '000
Balance at beginning of the year		5,195	16,256	21,451
Charge during the year	21.1	24,200	-	24,200
Transfer		14,772	(14,772)	-
Balance at the end of the year		44,167	1,484	45,651

21 PROVISION AND IMPAIRMENT (continued)

21.1 Charge during the year

	Notes	*2014 US$ '000*	*2013 US$ '000*
Investment in ijarah assets	8	**18,177**	28,185
Non-trading investments	7	**4,650**	2,787
Net assets of disposal group classified as held for sale		**1,865**	-
Other assets	11.2	**2,977**	-
Other liabilities	14	**(1,484)**	(6,772)
		26,185	24,200

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:

	2014 US$ '000	*2013 US$ '000*
Cash and balances with banks	**1,959**	3,928
Due from banks and financial institutions (with original maturities of 90 days or less)	**17,702**	23,502
	19,661	27,430

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 Bank as at 31 December 2014:

	Amortised Cost US$ '000	*Fair value through equity US$ '000*
Financial assets		
Financing contracts	**3,910**	**-**
Non-trading investments	**-**	**10,333**
Other assets (excluding prepayments)	**19,466**	**-**
	23,376	**10,333**
Financial liabilities		
Term financing	**46,816**	**-**
Other liabilities	**9,969**	**-**
	56,785	**-**

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

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.

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Bank 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:

	2014			
	Level 1	***Level 2***	***Level 3***	***Total***
	US$ 000	***US$ 000***	***US$ 000***	***US$ 000***
Non-trading investments	**1,699**	**-**	**-**	**1,699**
	1,699	**-**	**-**	**1,699**

	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

An investment with a carrying value of US$ 8,634 thousand (2013: US$ 11,639 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 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 Bank complies with externally imposed capital requirements and maintains healthy capital ratios in order to support its business and maximise shareholder value.

Regulatory capital consists of Tier 1 Capital, which comprises principally of share capital, statutory reserve, retained earnings and non-controlling interest. The other component of regulatory capital, Tier 2 Capital, consists of investments fair value reserve. 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 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.

25 CAPITAL MANAGEMENT (continued)

Regulatory capital

	Notes	*2014* *US$'000*	*2013* *US$'000*
Tier 1 capital	25.1	**115,773**	158,261
Tier 2 capital	25.2	**(28,452)**	(42,715)
Total capital base (a)		**87,321**	115,546
Risk weighted assets (b)	25.3	**306,083**	483,341
Capital adequacy (a/b x 100)		**28.53%**	23.91%
Minimum requirement		**12.0%**	12.0%

25.1 Tier 1 Capital

	2014 *US$'000*	*2013* *US$'000*
Share capital	**145,643**	145,643
Statutory reserve	**9,609**	9,609
Retained earnings	**(20,497)**	31,790
Non-controlling interest	**9,764**	16,369
Core Tier 1 Capital	**144,519**	203,411
Deductions	**(28,746)**	(45,150)
Tier 1 Capital	**115,773**	158,261
Negative balance of Tier 2	**(28,452)**	(42,715)
Tier 1 Capital net of negative Tier 2 Capital	**87,321**	115,546

25.2 Tier 2 Capital

	2014 *US$ '000*	*2013* *US$ '000*
Unrealised gains arising from fair valuing equities (45%)	**294**	951
Collective impairment provision	**-**	1,484
Core Tier 2 Capital	**294**	2,435
Deductions	**(28,746)**	(45,150)
Tier 2 Capital	**(28,452)**	(42,715)

25.3 Risk weighted assets

	2014 *US$ '000*	*2013* *US$ '000*
Credit risk weighted assets	**171,036**	313,476
Market risk weighted assets	**43,341**	38,125
Operational risk weighted assets	**91,706**	131,740
	306,083	483,341

25 CAPITAL MANAGEMENT (continued)

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

	2014	*2013*
Capital Adequacy on Tier 1 Capital	**28.53%**	32.68%

26 SEGMENTAL INFORMATION

a) Geographic sector

The geographical distribution of the Bank's assets and liabilities as of 31 December 2014 is as follows:

	Bahrain US$'000	*Europe US$'000*	*Others US$'000*	*Total US$'000*
Assets				
Cash and balances with banks	423	495	1,041	1,959
Due from banks and financial institutions	17,702	-	-	17,702
Financing contracts	-	3,910	-	3,910
Non-trading investments	-	-	10,333	10,333
Investment in ijarah assets	-	81,202	38,050	119,252
Net assets of disposal group classified as held for sale	-	12,765	-	12,765
Investment in real estate	10,476	-	-	10,476
Other assets	583	16,942	2,238	19,763
Property and equipment	5,797	-	-	5,797
Total assets	34,981	115,314	51,662	201,957
Liabilities				
Term financing	-	46,816	-	46,816
Other liabilities	2,375	2,430	5,164	9,969
Total liabilities	2,375	49,246	5,164	56,785

26 SEGMENTAL INFORMATION (continued)

a) Geographic sector (continued)

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

	Bahrain	*Europe*	*Others*	*Total*
	US$'000	*US$'000*	*US$'000*	*US$'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

b) Industry sector

The industrial distribution of the Bank's assets and liabilities as of 31 December 2014 is as follows:

	Banking and financial institutions	*Aviation*	*Real estate*	*Manufacturing*	*Others*	*Total*
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Assets						
Cash and balances with banks	1,959	-	-	-	-	1,959
Due from banks and financial institutions	17,702	-	-	-	-	17,702
Financing contracts	-	-	3,910	-	-	3,910
Non-trading investments	-	-	8,634	1,699	-	10,333
Investment in ijarah assets	-	119,252	-	-	-	119,252
Net assets of disposal group classified as held for sale	-	-	-	12,765	-	12,765
Investment in real estate	-	-	10,476	-	-	10,476
Other assets	-	1,977	16,802	-	984	19,763
Property and equipment	-	-	-	-	5,797	5,797
Total assets	19,661	121,229	39,822	14,464	6,781	201,957
Liabilities						
Term financing	46,816	-	-	-	-	46,816
Other liabilities	-	4,702	-	-	5,267	9,969
Total liabilities	46,816	4,702	-	-	5,267	56,785

26 SEGMENTAL INFORMATION (continued)

b) Industry sector (continued)

The industrial distribution of the Bank'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 Bank'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 Bank, directors of the Bank, shari'a supervisory board members, external auditors, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Bank. 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 2014, the Bank has not made any provision related to amounts owed by related parties (2013: Nil).

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

	2014				*2013*
	Shareholders US$'000	***Directors US$'000***	***Others US$'000***	***Total US$'000***	*Total US$'000*
Consolidated statement of financial position					
Asset					
Other assets	-	-	-	-	682
Income					
Fee income	-	-	-	-	231
Expense					
Board of Directors and Board Committees attendance allowances	-	**125**	-	**125**	115
Shari'a Supervisory Board attendance allowances	-		**106**	**106**	106

27 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:

	2014 ***US$'000***	*2013* *US$'000*
Short term employee costs	**1,241**	1,236
Termination costs	**206**	210
	1,447	1,446

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 US$ '000	*Total US$ '000*
At 31 December 2014		
Capital and other commitments	**545**	**545**
	545	**545**
At 31 December 2013		
Capital and other commitments	545	545
	545	545

29 SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board consists of three scholars who review the Bank'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 Bank to ensure that its activities are conducted in accordance with Shari'a principles.

30 RISK MANAGEMENT

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

Although management responsible for the key areas of the Bank are accountable for the risks that arise within their respective areas, the Risk Management Department (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 Bank 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 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 Bank 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 Bank. 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 Bank 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 Bank 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 Bank deploys excess funds in a conservative manner, targeting highly rated financial institutions locally and regionally.

Credit risk is managed by the Bank 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 Bank 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 Bank are Standard & Poor's, Moody's and Fitch.

The Bank does not have collateral for any of its credit risk exposures. In placing short-term funds with financial institutions the Bank 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

	2014 US$'000	*2013 US$'000*
Balances with banks	**1,955**	3,924
Due from banks and financial institutions	**17,702**	23,502
Financing contracts	**3,910**	30,233
Other assets	**19,466**	4,718
	43,033	62,377

As of 31 December 2014, none of the above exposures are either past due or impaired (2013: nil).

Credit quality per class of financial assets

The table below analyses the Bank'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:

2014	*Balances with banks US$ '000*	*Due from banks and financial institutions US$ '000*	*Financing contracts US$ '000*	*Other assets US$ '000*	*Total US$ '000*
Medium grade: A – BBB	**1,462**	**17,702**	**-**	**-**	**19,164**
Non-investment / speculative: BB – B	**465**	**-**	**-**	**-**	**465**
Unrated	**28**	**-**	**3,910**	**19,466**	**23,404**
	1,955	**17,702**	**3,910**	**19,466**	**43,033**

30 RISK MANAGEMENT (continued)

30.2 Credit risk (continued)

Credit quality per class of financial assets (continued)

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

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

2014	***Bahrain US$'000***	***Europe US$'000***	***Others US$'000***	***Total US$'000***
Balances with banks	**419**	**495**	**1,041**	**1,955**
Due from banks and financial institutions	**17,702**	**-**	**-**	**17,702**
Financing contracts	**-**	**3,910**	**-**	**3,910**
Other assets	**286**	**16,942**	**2,238**	**19,466**
	18,407	**21,347**	**3,279**	**43,033**

30 RISK MANAGEMENT (continued)

30.2 Credit risk (continued)

Concentration risk (continued)

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

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

2014	***Aviation US$'000***	***Banking and financial institution US$'000***	***Manufac--turing US$'000***	***Others US$'000***	***Total US$'000***
Balances with banks	-	**1,955**	-	-	**1,955**
Due from banks and financial institutions	-	**17,702**	-	-	**17,702**
Financing contracts	-	-	-	**3,910**	**3,910**
Other assets	**1,977**	-	-	**17,489**	**19,466**
	1,977	**19,657**	-	**21,399**	**43,033**

2013	*Aviation US$'000*	*Banking and financial institutions US$'000*	*Manufac--turing US$'000*	*Others US$'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

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 Bank's 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 Bank's profit-sensitive assets and liabilities caused by variations in the market reference rate, which would result in a decrease of the Bank's net present value.

The Bank currently has limited exposure to profit rate risk. The Bank's assets that are exposed to profit rate risk comprise of due from banks and financial institutions and have repricing dates no longer than three months. During 2014, a +/- 200bp change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 670 thousand (31 December 2013: +/-200bp resulted in +/- US$ 587 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 Bank in currencies other than the US$. The Bank may engage, in the normal course of business, in transactions denominated in currencies other than its functional currency. The Bank'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 Bank has the following significant foreign currency exposures at the consolidated statement of financial position date:

	2014		
	Assets	***Liabilities***	***Net***
	US$'000	***US$'000***	***US$'000***
Danish Krone	**12,765**	**-**	**12,765**
Kuwaiti Dinars	**1,699**	**(11)**	**1,688**
Great Britain Pounds	**20,758**	**(1,024)**	**19,734**
Euro	**8,634**	**-**	**8,634**

	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

The table below indicates the impact of reasonably possible changes in exchange rates on the Bank's net foreign currency exposure. The impact has been calculated using the net foreign currency exposure as at the 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**	**1,277**
Kuwaiti Dinars	**10**	**169**
Great Britain Pounds	**10**	**1,973**
Euro	**10**	**863**

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 2014, the Bank 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**	**170**

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

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

	2014	*2013*
	US$ '000	*US$ '000*
Foreign exchange risk	**43,341**	38,125
Regulatory capital requirement (multiple of 12.5)	**3,467**	3,050

During the year, the maximum capital requirement as per the standardized method was US$ 3,761 thousand while the minimum capital requirement was US$ 2,870 thousand.

30.4 Liquidity risk
Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are to be settled by delivering cash or another financial asset. The Bank'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 Bank'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 Bank 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 Bank's assets and liabilities as of 31 December 2014 based on expected periods to cash conversion from the consolidated statement of financial position date:

2014	*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	1,959	-	-	-	-	-	-	-	1,959
Due from banks and financial institutions	17,702	-	-	-	-	-	-	-	17,702
Financing contracts	3,910	-	-	-	-	-	-	-	3,910
Non-trading investments	-	-	-	-	-	-	-	10,333	10,333
Investment in ijarah assets	-	-	-	-	-	-	-	119,252	119,252
Net assets of disposal group classified as held for sale	-	-	-	-	-	-	-	12,765	12,765
Investment in real estate	-	-	-	-	-	-	-	10,476	10,476
Other assets	2,144	-	329	472	-	-	-	16,818	19,763
Property and equipment	-	-	-	-	-	-	-	5,797	5,797
Total assets	25,715	-	329	472	-	-	-	175,441	201,957
Liabilities									
Term financing	16,547	-	13,532	-	16,737	-	-	-	46,816
Other liabilities	1,875	647	4,718	-	1,711	-	-	1,018	9,969
Total liabilities	18,422	647	18,250	-	18,448	-	-	1,018	56,785
Net gap	7,293	(647)	(17,921)	472	(18,448)	-	-	174,423	145,172
Cumulative net gap	7,293	6,646	(11,275)	(10,803)	(29,251)	(29,251)	(29,251)	145,172	

30 RISK MANAGEMENT (continued)

30.4 Liquidity risk (continued)

The table below summarises the maturity profile of the Bank'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	

The contractual maturities of the financial assets and liabilities are not significantly different from their expected maturities and the Bank 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 Bank 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 Bank has in place an operational risk policy that sets guidelines to manage the Bank's exposure to loss and protects its assets and outlines the principles of the Bank'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 Bank as the amount of risk that is acceptable to the Bank. 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 Bank adopts qualitative and quantitative criteria in measuring its risk appetite.

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

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

	2014	*2013*
	US$ '000	*US$ '000*
Average gross income	**48,910**	70,262
Operational risk weighted assets	**91,706**	131,740
Regulatory capital requirement (at 12%)	**11,005**	16,468

31 SOCIAL RESPONSIBILITY

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

32 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Bank has not received any income or incurred any expenses which was non shari'a compliant as at 31 December 2014 (2013: nil).

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

During 2013, 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.