Seera
Investment Bank

# 2014 Annual Report

**Seera Investment Bank B.S.C. (c)**
P.O. Box 18373, Manama
Kingdom of Bahrain

T: +973 17566533
F: +973 17566544

www.seera.com

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## MESSAGE FROM THE CHAIRMAN

I would like to present to you on behalf of the Board of Directors the 2014 annual report of Seera Investment Bank.

### Overview

2014 was a year of de-risking Seera's balance sheet and refocusing the Bank on growth through new investments. During 2014, two aircraft in Seera's aviation portfolio 'Falak' whose leases had expired, were sold realizing a loss of around $26 million. In addition and given the prevailing market conditions especially in the aviation sector, further provisions of around $26 million were prudently made for a number of other aircraft and portfolio investments to reflect conservative fair values due to general market conditions. The realized loss together with the unrealized prudent provisions has resulted in Seera reporting a loss of $52.3 million ($58.9 million as per consolidated financials).

During the year, Seera also commenced the exit process for two of its other investments namely, Kosan Crisplant which is hoped to be completed within the next few months, and ADGL (UK student accommodation) which was successfully completed in February 2015 generating IRR of around 20% for Seera and its investors.

### Way Forward

Although the focus during 2014 was to reduce exposure to some riskier assets, it was also a year where significant progress was made on new investments.

Seera's investment strategy is built on two main pillars: investments focused on capital growth (primarily private equity) and income generating investments. Investors are quite sophisticated and are increasingly demanding investments which are unique. Given the growing investor appetite, we believe that the way forward for Seera to grow is to actively seek and participate in niche investments.

In our view, the following are critical success factors for the Bank going forward:

<u>Continued Investor Appetite for Alternate Investments</u>

Investor appetite for alternative investments has been growing steadily with the recovery in the global economy, and we see investors consciously allocating their wealth between public markets and alternative investments. Seera will therefore continue to focus on alternative investments - specifically on asset based investments and opportunistically in private equity investments. Post financial crisis, investors are more selective of the investments they participate in and only institutions offering niche and innovative opportunities will succeed.

Seera recently completed a transaction in the elderly healthcare sector focused on patients diagnosed with dementia. Dementia is one of the key focus areas of UK government but until now there is no residential health care facility with a dementia focus. Seera is also actively looking at a number of other niche and innovative investment opportunities which offer scalable and substantial risk adjusted returns and growth prospects.

Investors have shown a preference for income-generating assets such as property and infrastructure, but want to get compensated for being illiquid. Therefore demand for higher yielding assets are preferred. Inflows from fixed income investors have increased liquidity - but also inflated valuations. Yet opportunities abound as prices vary widely within regions, markets and property types. Seera will opportunistically look at these asset classes as we expect above-average annual returns over 2015 - 2017 in this area.

Private equity is another asset class that Seera has core expertise in. Exit from BWA, a private equity investment made by Seera a couple of years ago generated 1.7x cash return. The Bank will continue to opportunistically look at this asset class.

Well Diversified Portfolio and Investor base

Building and growing the investor base is probably one of the most critical success factors for Seera. A well diversified and meaningful investment portfolio cannot be built without investors willing to invest their trust and wealth with Seera.

Over the last couple of years investor confidence is returning and we see appetite for alternative investments growing. This is a positive development for Seera as the ability to close good transactions as quickly as possible is critical to succeed and that is not possible without capital inflows from investors.

Growing the investor base is dependent on providing interesting and relevant investments and being able to deliver investment returns from these investments. This is an ongoing journey and we are pleased to note that Seera has received positive feedback from its strategic investors on the recent investments shown to them.

Corporate Governance

Prior to the financial crisis investors were willing to participate in 'well marketed' investments and put significant trust in investment banks to have performed due diligence to safe guard their invested capital. This trust was shaken by the financial crisis where weak due diligence was highlighted as the main reason for big drops in valuations leading in many cases to loss of capital. To re-build this trust banks, including Seera, have to demonstrate that they have a robust and strong governance culture and all necessary due processes are conducted to identify and mitigate all foreseeable risks.

Having in place a robust risk governance culture is a must for Seera and all acquisitions are subjected to a thorough due diligence process. Seera will continue to build on its governance culture to make it stronger and won't shy away from refusing transactions no matter how attractive they appear if due diligence is not satisfactory.

Selective Geographic Focus

Despite setbacks, recovery globally continues, albeit unevenly. However, the recovery continues to be overshadowed by the legacies of pre-crisis boom and the subsequent crisis, particularly in advanced economies. Overall, the pace of recovery is becoming more country specific.

As per a consensus view of major economists globally, barring major geopolitical upheaval, global economic growth in 2015 will hold at a rate of 3.4%. The United States will continue to grow, but the expansionary phase may show signs of maturing, causing a moderation in profitability, joined by a variety of cost pressures. European economies have more scope to recover, but there are dark clouds - from slowing exports to emerging markets, especially hurting Germany's growth engine, and a dysfunctional policy environment to tackle deflationary pressures. Despite significant downside risks, many experts are projecting the Euro Area to grow at 1.6% in 2015, almost double that of 2014. Modest recovery in domestic consumption is a likely source of growth as labor markets improve.

In the medium term, we believe Seera will continue to focus its investment strategy in the UK, US and European markets. Although new geographies for growth, such as Middle East, Africa and parts of Asia, offer opportunities to build sustainable growth models, but they also bring challenges on economic, legal, and institutional fronts, hence the need to be extremely careful and very selective.

Although we are cautiously optimistic that global growth will continue its positive momentum, albeit at a slow pace, there continues to be the downside risk. Downsides to the global outlook relate to intensifying political and economic risks; upsides relate to the ability of policy and business to invest in people, raise productivity, and rebuild trust and confidence.

## Appreciations

On behalf of the Board of Directors, I would like to thank the Government of the Kingdom of Bahrain and the Central Bank of Bahrain for their support. I would also like to thank Seera's Shari'a Supervisory Board and all shareholders and investors for their continued confidence and support. Last but not least, I wish to thank Seera's management and staff for their professionalism, contribution and continued commitment to the Bank.

**Hamad Ahmad Al Ameeri**
Chairman of the Board

# MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

The most severe effect of the financial crisis on Seera has been on its aviation portfolio. The resultant systematic shock to the financial system and its impact on market liquidity forced a sharp decline in the values of a number of aircraft, particularly older ones and those with four engines.

Due to the continued impact of these factors, Seera decided to de-risk its balance sheet by selling riskier aircraft in the portfolio for which leases had expired and where re-leasing at viable rates was not an option, in addition to making necessary provisions on remaining aircraft . As a result of this and after a number of years of positive results, Seera has reported a loss of $52.3 million (consolidated loss of $58.9 million) for the year ended 31st December 2014.

Seera's Falak Aviation portfolio included four A340 aircraft which airlines consider to be relatively inefficient due to the four engines particularly post financial crisis when fuel prices crossed the $100 per barrel mark. Three of these aircraft had previously been leased to a regional airline with financing from a European bank. In 2013, Seera was able to negotiate favorable terms on early termination of leases and settlement of financial obligations at re-negotiated favorable terms.

Furthermore, as of the end of 2013 the management of Falak Aviation and Seera were in active discussions with a potential lessee for these aircraft at attractive terms. Although, we are pleased to report that two of the A340 aircraft have been leased at attractive rates to a newly established airline in Spain, the leases on the other two A340s did not materialize due to circumstances beyond Falak's control. Given that holding these aircraft on the ground incurs heavy maintenance and storage cost, decision was made to sell the two aircraft at prevailing market values. Although Seera was able to recover substantial cash on its invested equity on these aircraft and had no recourse on its balance sheet for the financing on these aircraft, due to consolidation the book value exceeded the sale proceeds thus resulting in a significant accounting loss on the disposal.

In addition to the above, provisions based on a conservative and prudent view on fair values have also been made for a number of other aircraft in the portfolio. Although risks still remain particularly on the successful performance of the new Spanish airline which has leased the two A340s, we believe that these actions have resulted in a substantial de-risking of the aircraft portfolio, which is Seera's biggest investment in terms of size and risk.

## Other Investments

In addition to the Falak Aviation portfolio the other two key investments under Seera's management are Kosan Crisplant (KC), a world leader in providing filling solutions for Liquefied Petroleum Gas cylinders, and ADGL, financing provided for the development of student accommodation in London.

Seera and its investors provided a Shari'a compliant financing for the development of a student housing project in Central London in 2012. The project was completed in 2013 and fully let to an internationally recognized business School for 8 years. I am pleased to inform you that the facility was fully re-paid in February 2015 generating IRR of around 20% for Seera and its investors.

KC's performance over the past few years has continued the trend of growth and strong performance across all key business metrics. The company which was acquired in 2008 saw its EBITDA decline by 93% from 2008 to 2010. Seera's Post Acquisition Management team worked with the company hands on and since then, the EBITDA has exceeded pre-crisis levels. An exit process which was initiated sometime back is now in final stages of completion with a potential sale to a regional strategic buyer.

## Financial Performance 2014

Gross operating loss for 2014 is $26.3 million before provisions and expenses. After deducting FX loss of $0.8 million, and operating expenses of $5.6 million, the net operating loss was $32.7 million. In addition, and as stated earlier, Seera took a conservative view towards its portfolio of investments, recording a further reduction of $26.2 million in unrealized fair value changes. These are unrealized adjustments that reflect the challenging environment particularly in the aviation sector. Total consolidated net loss for year 2014 is thereby $58.9 million.

As of 31st December 2014, the shareholders equity stood at $145.2 million. The shareholders' equity is represented by assets with projected cash recovery in excess of this amount. Seera continued to prudently, manage its liquidity and has kept its cost base under control. Total Operating Expenses were reduced from $15.7 million in 2008 to $5.6 million in 2014, a drop of over 64%. Management continued to streamline operations and retain strict controls over costs. Total expenses remained stable at $5.6 million in 2014, representing a lean organization, with a cost base below a number of its peers in the region.

Seera's Capital Adequacy Ratio was at 29% on 31st December 2014, which is comfortably above the minimum 12% required by the Central Bank of Bahrain. The Bank follows a prudent approach in managing its capital, which provides the scope to acquire significant future risk assets from a regulatory capital standpoint. Details of the Bank's financial position and performance are provided in the Financial Review section and the Consolidated Financial Statements.

As stated above, we believe that exits from current investments will continue to be an important focus and challenge for Seera and the key to a successful 2015 and beyond. These divestitures would enhance Seera's returns and free up capital for further investment activities and business growth.

## Going Forward

Steps taken by the management, over the past few years, have strengthened the balance sheet in order to meet the challenging environment created by the financial crisis. During this period management had focused on the following key issues to be able to grow and emerge as a stronger institution:

- De-risking the balance sheet by reducing investment exposures including creating the required provisions where necessary
- Optimizing the Bank's expense base by reducing costs in sync with expected near-medium term revenue generation capability
- Hands on management of portfolio investments to optimize value recovery
- Continuing our critical dialog with investors and shareholders to reassure them that the investment team is focused on the management of their investments and on developing suitable new products to meet their needs in the current environment
- Pursuing appropriate and appealing opportunistic investments that take advantage of attractive valuations and investor appetite and preferences
- Continue to strengthen corporate governance and risk management infrastructure and culture

The above together with positive market momentum are the key fundamentals which will further strengthen Seera's growth potential.

In terms of investment strategy, Seera seeks to diversify its portfolio both geographically and asset-class wise. We continue to seek investments which are well suited to current market conditions and investor appetite. The Bank will continue to follow a cautious strategy for new investments with stringent criteria requirements having to be fulfilled when evaluating all new investment opportunities. Given the current investor risk appetite, it is envisaged that focus will remain on investments providing regular cash income with moderate risk.

Keeping the above investment strategy in mind, Seera is in the process of completing an equity investment in the development of elderly residential care units in London, UK, focused on patients diagnosed with dementia.

## Business Environment

Business environment in which Seera and its competitors operate is a key factor defining future growth and success. Although as compared to last few years global economy has moved to a position of relative stability, some macro-economic challenges remain. The driving factor of the recovery in developed economies has continued to be the availability of liquidity, driven by central bank monetary stimulus. To ensure a more sustained recovery, these economies will be looking to key growth drivers such as corporate investment and increased employment.

The sharp decline in oil prices, witnessed in 2015, is worth noting given the severity of the move in such a short period of time. The decline has been severe with oil prices dropping below $50 per barrel. Although many analysts do believe that longer term, a price of around $70 - $80 per barrel, represents a reasonable target given the costs of major producers, these remain to be expectations and prediction. What is slightly more certain, however, is that the longer this price drop continues the more severe is going to be the impact on some of the smaller oil producing countries.

These factors mean that Seera will still approach the current markets with a degree of caution, while looking to capitalize on the opportunities that the markets may bring. From an investment point of view, we generally continue to be in an environment where yield generating investments are viewed quite favorably. We, therefore, take the view that current markets are opportunities to invest and that with the niche and innovative investment strategy, healthy returns can be realized for Seera and its investors over the long term.

**Abdulla Saleh Janahi**
Chief Executive Officer

## BOARD OF DIRECTORS

MR. HAMAD AHMAD AL AMEERI
Chairman of the Board

MR. MUBARAK MATAR AL HEMEIRI
Vice Chairman

MR. HAMAD ABDULLATIF AL ASFOUR
Board Member

MR. MOHAMED HANI ABDULKADER AL BAKRI
Board Member

MR. WALEED KHALIFA AL FELAIJ
Board Member

MR. OMAR SAAD AL MOSHAWAH
Board Member

MR. YOUSEF BIN NASSER AL NASSER
Board Member

MR. OBAID MOHAMED AL SALAMI
Board Member

MR. AHMAD ABDULQADER MOHAMMAD
Board Member

## SHARI'A SUPERVISORY BOARD

SHAIKH ESAM M. ISHAQ
Chairman

DR. MOHAMMAD ALTABTABAEI
Member

DR. YOUSEF ABDULLAH ALSHUBAILY
Member

## MANAGEMENT

We pride ourselves on the diversity of our team. Each member offers aligned yet complementary skill sets within the wider team structure. Collectively, our wealth of knowledge allows us to offer unrivalled expertise and acumen across a range of business lines and sectors. We offer a collaborative culture that welcomes original thinking and allows individual responsibility and freedom to maximize potential.

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|---|---|
| MR. ABDULLA JANAHI | Chief Executive Officer |
| MR. SHAHZAD IQBAL | Chief Operating Officer & MLRO |
| MR. SAMEER OUNDHAKAR | Head of Investment & Post Acquisition Management |
| MR. SOHAIL TOHAMI | Head of Treasury & Placement |
| MR. PRATEEK SHARMA | Head of Investment |
| MS. FULYA KOCH PLAS | Head of Risk Management |
| DR. AHMED OMAR ABDALLEH | Head of Shari'a Compliance |
| MR. TAWFIQ AL SARI | Head of Financial Control |
| MR. HASAN ABDULLA HASAN | Head of Human Resources & Administration |
| MS. ARWA AL SHARAF | Head of Compliance & Board Secretary |
| MR. AHMED AL KHAYYAT | Head of Information Technology |

## INVESTMENTS

Seera focuses primarily on two business lines, Asset Based Investments and Corporate Investments. During previous years, Seera made substantial investments in these business lines in the areas of aircraft leasing, industrial manufacturing, and specialty chemicals. Following the financial crisis, Seera worked closely with its portfolio companies to adjust their business plans and position them for rapid growth following the recovery. Summary of key investments is provided below:

### Falak Aviation Fund

Falak is the largest investment for Seera. At its inception in 2007, Falak comprised of 11 aircraft leased to various regional and global airlines. As of the end of 2014, the portfolio comprised of 7 aircraft which are either leased or in the process of being leased/sold.

Given the challenging environment in the aviation sector in the last few years post the financial crisis, Seera pro-actively de-risked the portfolio through tailored solutions for specific aircraft. These included four A340 aircraft which, due to their four engines and higher fuel consumption, have fallen out of favor post 2009. In 2013, Falak undertook several bold initiatives on three of the A340s in the portfolio, including settling the outstanding financing at re-negotiated favorable terms and negotiating an early termination of the leases on these aircraft in return for compensation. These steps enabled Falak the flexibility to find new homes for these aircraft and/or sell at acceptable terms. During 2014, two of the A340s were sold and long term leases are in the process of being finalized on the other two on attractive terms.

The portfolio will continue to be selectively downsized and discussions are underway to sell a further three to four aircraft in the portfolio during 2015. This will enable the Falak portfolio to be reduced to three or four aircraft.

### Kosan Crisplant

Headquartered in Denmark, Kosan Crisplant (KC) is the world leader in providing filling solutions for Liquefied Petroleum Gas (LPG) cylinders. KC’s market leading position is a result of its technological innovation, proximity to customers and a long and successful track record in the industry which spans several decades.

During 2014, KC continued to deliver strong performance. In the core filling equipment business, where KC already has a market leading position, the company further consolidated its positions in key markets in South America and the Middle East. Its strategy of product innovation and being able to offer products meeting small to large customers, have enabled it to successfully serve customers in over 130 countries globally. The company's efforts to expand into the fast growing and attractive aftermarket business (service, spare parts) have enabled it to successfully smoothen revenues from its core contract led business which is less predictable. In addition to organic growth efforts, the company also worked on concluding two smaller acquisitions, one in Cameroon and another one in the UK. The pace of targeted acquisitions is expected to accelerate in the near future as the company grows its aftermarket business even faster.

Overall KC’s continued market strength and strong financial performance provide a good platform for its future prospects and exit potential in 2015.

## Aldgate UK Student Accommodation

In 2012, Seera made an investment in the UK student housing sector. The transaction comprised a Shari'a compliant structured financing facility for a new purpose built student housing project and commercial property in central London. During 2013, the property development was completed to high specifications and in 2014 was let out on a long term lease to an educational institution. The property offers 346 student rooms and 38,000 sq. feet of commercial space near Aldgate East station in Central London in close proximity to several higher educational institutions.

The strong position of the UK and London as a destination for higher education combined with the persistent shortage of purpose built student accommodation in the UK supports a positive outlook for rental income and capital growth.

This investment, in particular, was further underpinned by the property's prime location, regular and attractive yields, a relatively short investment tenure and a very attractive risk profile. The financing matured in February 2015 and has been fully settled generating exceptional returns for Seera and its investors.

## UK Elderly Care Transaction

Dementia is one of the principal challenges facing the UK as it primarily affects older people. The number of people in the UK currently living with dementia is estimated to be 820,000 and, with increasing life expectancy, this number is forecast to double by 2050. Surprisingly, there continues to be a lack of full service expertise and integrated care pathways for dementia care in the UK and the current options for those with dementia are limited or unsuitable. Dementia currently costs the UK tax payers around £23bn a year and this cost is expected to rise to £50bn by 2040.

To fill this important gap, Seera has partnered with Apache Capital Partners and other strategic co-investors to develop a world class dementia care facility in Clapham, London.

A 1.19 acre freehold site has been acquired to develop the first truly integrated dementia care provider by creating a purpose-built community that provides medical, nursing and personal care and housing for people at all stages of the condition on a single site. Once completed, the development is expected to comprise of around 113 apartments and care rooms. Alongside this accommodation will be various ancillary facilities and communal spaces such as restaurants, library, games room and gym. The project is underway and development of the facility is expected to be completed by 2017. Several other potential sites have been identified to roll out this innovative concept and these will be selectively progressed during 2015 and beyond.

## CORPORATE GOVERNANCE

Seera is committed to effective corporate governance, as this is a key aspect of the Bank's strategic direction and encompasses the Bank's overall operating mission. More specifically:

- The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency; and maintaining compliance with the laws, rules and regulations that govern the Bank’s business.
- A key doctrine of the Bank is good governance. In addition to its commitment towards meeting legal and regulatory governance requirements, the Bank seeks to establish and maintain good governance. The Bank is however aware that good corporate governance is not an end in itself, but that it facilitates the Bank’s capacity to define and achieve its purpose.
- Corporate governance establishes how shareholders, Board of Directors and management interact in determining the direction and performance of the Bank. Good governance holds management accountable to the Board and the Board accountable to the owners and other stakeholders. The Board is ultimately responsible to ensure that an adequate, effective, comprehensive, and transparent corporate governance process is in place.
- The Bank’s shareholders have entrusted the Board of Directors to provide central leadership to the Bank, establish its objectives and develop the strategies that direct the ongoing activities of the Bank to achieve these objectives. Directors shall determine the future of the Bank and protect its assets and reputation. They will consider how their decisions relate to “stakeholders” and the regulatory framework. Directors apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors are accountable to the shareholders of the Bank for the Bank’s performance and can be removed from office by them.
- Management is responsible for implementing the direction set by the Board of Directors. Management ensures that the Board of Directors are appropriately informed and involved in carrying out this mission.

### Objectives

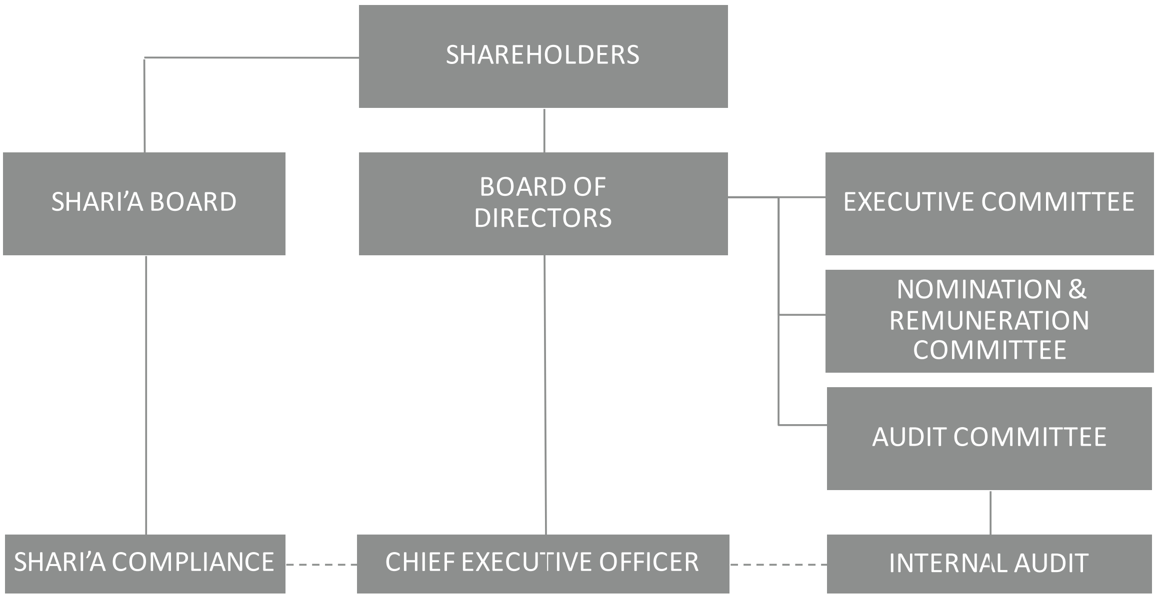
The primary objectives of the Bank’s Corporate Governance Framework are to ensure that corporate governance:

- Forms an integral part of the Bank's strategic direction;
- Sets and enforces clear lines of responsibilities and accountability throughout the organization;
- Ensures that there is an appropriate oversight by the Board of Directors and senior management;
- Safeguards the interests of stakeholders and other third parties;
- Ensures that the Bank's operations are effectively and efficiently managed;
- Fulfils regulatory requirements;
- Ensures that the Bank conducts its activities in a Shari'a compliant manner; and
- Enforces a high level of standards.

Effective corporate governance entails the deployment of several key instruments which govern the operations of the Bank. These include:

- Board of Directors and Board Committees
- Shari'a Supervisory Board
- Management Committees
- Key support roles such as, Shari'a Compliance, Compliance, Risk Management and Internal Audit
- Policies and Procedures

These elements are established in line with the Central Bank of Bahrain's Rule Book applicable to Wholesale Shari'a compliant financial institutions. The principles and rules outlined in each of the corporate governance elements are in line with those of the CBB. These have been addressed in more detail in the documents that relate to these elements.




## Board of Directors

The Board of Directors is responsible for overseeing the management and business affairs of the Bank and making all major policy decisions. Its primary responsibility is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies, including its investors, business partners, employees, suppliers and local community. The Board's responsibilities include developing Seera's overall business objectives, strategies that direct ongoing activities of the Bank to achieve these objectives, as well as monitoring of the Bank's performance. The Board is also responsible for approving Seera's financial results, monitoring conflicts of interest, preventing abusive related party transactions, assuring equitable treatment of shareholders, and ensuring transparency and integrity in its reporting, including the Bank's financial statements. Its responsibilities also include ensuring that the systems and controls framework of Seera, including the Board structure and organizational structure is appropriate for the Bank's business and associated risks.

Seera has in place charters which clearly define the role of the Board of Directors, its committees and the way they operate, as well as the Chairman’s role. The aim is to ensure that Seera is headed by an effective, collegial and informed Board of Directors. One of the key considerations for the set-up of the Board is to have a sufficient presence of independent and non-executive directors to help ensure Board independence.

Upon joining the Board, Directors are provided with an induction package which includes key items such as the Bank’s strategy, a description of the Bank and its business, its corporate governance framework and elements, governing policies and procedures, along with Board and Board Committees’ charters.

To facilitate the Board in carrying out its responsibilities, the Board established committees which focus on key aspects of governance. The Board of Directors has the following Committees in place:

***Executive Committee***

Considers specific matters delegated to it by the Board and makes recommendations to the Board or decisions based on authorities specifically delegated by the Board. The Committee meets on an “as needed” basis.

***Audit Committee***

In line with the requirement for the Board to have rigorous controls for financial audit and reporting, internal control, and compliance with the law, the Board has established an Audit Committee. The Committee assists the Board in discharging its oversight responsibilities relating to the integrity of the Bank’s financial statements, financial reporting process, the Bank’s systems of internal accounting and financial controls, the annual independent audit of the Bank’s financial statements and all matters related to external and internal auditors, compliance by the Bank with legal and regulatory requirements, and compliance with the Bank’s code of conduct.

***Nomination and Remuneration Committee***

The Bank utilizes rigorous and transparent procedures for the appointment, training and evaluation of the Board and ensures that approved persons are remunerated fairly. The Nomination and Remuneration Committee is responsible for identifying individuals to become Board members, developing procedures for remuneration policy for the Board and senior management and leads the Board in its annual evaluation of Board performance. The Committee also evaluates the skills and expertise of directors and recommends changes and training accordingly.

## Shari’a Compliance

In line with the Bank’s mandate, Seera conducts its activities in compliance with Shari'a principles. The Shari'a Board, an independent body of specialized jurists in Islamic commercial jurisprudence, is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that the Bank is in compliance with Shari'a rules and principles. The Shari'a Board is responsible for forming and expressing an opinion on the extent to which the Bank's activities are in compliance with Shari'a, reviewing of contracts, policies and processes, products and Bank's Memorandum and Articles of Association to ensure they are in line with the Shari'a principles and for monitoring and reviewing Shari'a Compliance Department's performance.

Seera has put in place a Shari’a Compliance function within the Bank that is responsible for carrying out the internal Shari'a review which is an integral part of the governance of the Bank. The Shari’a Compliance function operates under the policies established by the Bank. The Head of Shari’a Compliance works closely with the Bank’s Shari’a Supervisory Board to provide guidance to the Bank on a day-to-day basis.

The Group is also committed to avoiding recognition of any income generated from non-Shari’a compliant sources. Accordingly, any non-Shari’a compliant income that might be inadvertently earned is credited to a charity account where the Group uses these funds for charitable means, closely coordinating on such matters with the Shari’a Board.

## Management Committees

Seera has established key management committees to oversee particular aspects of the business. The membership of these committees typically includes senior managers from respective functions. Responsibilities of the committees are outlined in their charters. The key committees include:

***Management Investment Committee***

The Committee is tasked to review and evaluate all major business transactions and decisions being considered by Seera including new investments, financing, exits or major strategic, operational or management changes for Seera’s investment portfolio.

***Asset, Liability and Risk Management Committee***

The Asset, Liability and Risk Management Committee’s mandate is to assist the Board of Directors in performing their risk management oversight function. The committee is responsible for management of risks associated with investment, credit, market, operational, liquidity and profit rate within the guidelines laid by the Board of Directors and regulatory requirements.

Management also forms other committees to address specific aspects of the business or initiatives.

## Approval Authorities Guidelines

The Guidelines outline the process by which authorities are approved, administered, delegated, revised and communicated, and include a list of approved authorities and their associated limits allowing authority limits to be delegated to certain officers and committees to allow business processes to be executed effectively, efficiently and as per established procedures.

Particularly, any transaction over US$20 million requires the approval of the Board’s Executive Committee, whereas, any transaction above US$75 million requires the approval of the Board of Directors.

## Internal Audit

Internal Audit provides independent and objective appraisal of all the activities of the Bank aiming to add value, improve operational efficiency, risk management, and internal control systems. Its approach is in line with the Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors. Internal Audit helps the Bank accomplish its objectives by evaluating and improving the effectiveness of risk management, control and governance processes, and by providing objective analyses and recommendations to improve the Bank’s activities.

## Compliance

Seera is committed to comply with all applicable regulatory provisions, to adopt industry best practices and to have rigorous controls for compliance with the law. In this regard, Seera has established an Independent Compliance Department to act as a focal point for regulatory compliance and to ensure appropriate implementation of the Compliance Framework approved by the Board.

## Anti-Money Laundering

Seera recognizes money laundering and terrorist financing as significant risks to the financial sector. The Bank, therefore, has adopted an Anti-Money Laundering & Combating Financing of Terrorism (AML & CFT) Program, based on Bahrain's AML & CFT Law and regulation and the FATF 40+9 Recommendations. This includes the appointment of a Money Laundering Reporting Officer (MLRO), approved AML & CFT policies and procedures manual, employee training programs and independent audit of the program by Internal Audit. In addition, External Auditors also perform independent procedures on an annual basis to check Seera's AML & CFT compliance. The Bank's AML & CFT program is also inspected by the Central Bank of Bahrain.

## Risk Management

Seera's activities involve the measurement, evaluation, acceptance and management of some degree of risk, or combination of risks. The most important risk categories that the Bank is exposed to are: investment risk, credit risk, liquidity risk, market risk, operational and reputational risks. Risk is inherent in banking and Seera will make choices about the amount of risk it will accept, keeping in mind the trade-off between risk and return. Therefore, the Bank will only accept risk when it perceives the probable rewards to be commensurate with the level of risk involved. The risk decisions made by Seera are primarily a function of policies and practices laid down by the Board of Directors, underpinned by the strength and clarity of the corporate culture, and the efficiency of internal control systems.

## Code of Conduct

It is critical that all approved persons and employees have full loyalty to the Bank. To help ensure this, Seera has developed and implemented a Code of Conduct. The Code of Conduct outlines the principles, policies and laws that govern the Bank's activities. The Code addresses key areas of conduct for Board members, other approved persons, and employees and addresses areas of personal integrity, working to the letter and spirit of the law, protecting information and assets, dealing with conflict of interest and ensuring independent decision making, personal trading in securities and prohibition of insider trading, community involvement, and raising concerns.

## Policies and Procedures

Seera has a broad range of policies and procedures that regulate key aspects of the Bank's business ranging from accounting and risk management to human resources and corporate communications. Seera also discloses information related to its corporate governance. To this effect, Seera has a Public Disclosures policy. Other unique policies and procedures also enhance corporate governance, such as the Whistleblower Policy and Board of Directors evaluation process.

## Approval Process for Related Party Transactions

Procedures are in place to avoid situations that may involve conflict of interest. Additionally, each member of the Board and senior management is required to disclose, at least on an annual basis, their interests in other entities which may give rise to such conflicts. Furthermore, the Board of Directors in its charters has incorporated procedures to avoid such conflicts when making any decisions.

## Management Structure

A clear, efficient, and Board approved management structure is maintained by the Bank. Seera's organization chart which is communicated to the CBB clearly defines the reporting lines and maintains segregation of duties between respective departments. Job descriptions are maintained for all staff members to ensure that responsibilities are clearly defined and an annual performance appraisal is conducted for all staff to ensure that responsibilities are met. The Bank's key positions are approved by the CBB as "Approved Persons".

Seera's Internal Control effectiveness, including maintenance of adequate segregation of duties, is regularly reviewed by independent audit parties and their findings are reported to the Board and/or its delegated Committees. The Compliance, Risk Management and Financial Reporting functions are independent of business lines. Compliance and Risk Management functions have reporting lines to the Board or its delegated Committees.

## Compensation

The Bank's total compensation approach, which includes the variable remuneration policy, sets out the Bank's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

During the year, the Bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain and has proposed revisions to its variable remuneration framework. The revised policy framework and incentive components are subject to the approval of the shareholders in the upcoming Annual General Meeting (April 2015). Once approved, the policy will be effective for the 2014 annual performance incentives and will be fully implemented for future periods.

Although, no variable remuneration has been awarded for 2014, the key features of the proposed remuneration framework are summarised below:

### Remuneration strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of our objectives through balancing rewards for both short-term results and long-term sustainable performance. Our strategy is designed to share our success, and to align employees' incentives with our risk framework and risk outcomes.

The quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of our shareholders. The Bank's reward package is comprised of the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus
4. Long Term Incentives

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination & Remuneration Committee (NRC).

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk Taker and/ or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank and an employee is considered a Material Risk Taker if they are the Head of a significant business line or any individuals within their control who has a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the NRC believes the latter contributes to the long-term sustainability of the business.

**NRC role and focus**

The NRC has oversight of all reward policies for the Bank's employees. The NRC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRC ensures that all persons must be remunerated fairly and responsibly.  The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank.

The responsibilities of the NRC with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure the system operates as intended.

- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.

- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the Bank.
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial control and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

The NRC comprises of the following members:

| NRC Member Name | Appointment date | Number of Meetings Attended |
|---|---|---|
| Mubarak Matar Al Hemeiri | 4 March 2013 | 2 |
| Waleed Khalifa Al Felaij | 4 March 2013 | 2 |
| Omar Saad Al Moshawah | 4 March 2013 | 2 |

The aggregate remuneration paid to all NRC members during the year in the form of sitting fees (mainly to cover travel expenses for attending meetings) amounted to US$ 15,000 [2013: US$ 12,500].

**External consultants**

Consultants were appointed during the year to advise the Bank on amendments to its variable remuneration policy to be in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share-based Incentive Scheme for the Bank.

**Scope of application of the remuneration policy**

The variable remuneration policy has been adopted on a bank-wide basis.

**Board remuneration**

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 5% of the Bank's net profit after all required deductions as outlined in Article 188 of the Companies law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

**Variable remuneration for staff**

Variable remuneration is performance related and consists primarily of the annual performance bonus award and long term incentives for future performance. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRC aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the Bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk, via the use of risk-adjusted measures (including forward-looking considerations).

The NRC carefully evaluates practices by which remuneration is paid for potential future revenues, whose timing and likelihood remain uncertain. NRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRC.

For the overall Bank to have any funding for distribution of a bonus pool; threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool, as determined above, is subject to risk adjustments in line with the risk assessment and linkage framework.

*Remuneration of control functions*

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not to be determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations, as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

*Variable compensation for business units*

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the Bank are treated differently by the remuneration system.

*Risk assessment framework*

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

The Bank's NRC considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance, prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the Bank's current capital position and its ICAAP.

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the Bank takes into account the full range of current and potential risks, including:

(a) The cost and quantity of capital required to support the risks taken;
(b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRC keeps itself abreast of the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

*Risk adjustments*

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration.
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and, hence, employee performance ratings will be lower.
- Reduction in the value of deferred shares or awards.
- Possible changes in vesting periods and additional deferral applied to unvested rewards.
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The NRC, with the Board's approval, can rationalize and make the following discretionary decisions:

- Increase/reduce the ex-post adjustment.
- Consider additional deferrals or increase in the quantum of non-cash awards.
- Recovery through malus and clawback arrangements.

***Malus and Clawback framework***

The Bank's malus and clawback provisions allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behavior has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Board of Directors.

The events under which the deferred bonus plan can be adjusted/cancelled include the following:

Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk, due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year.
The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

***Components of Variable remuneration***

Variable remuneration has the following main components:

| | |
|---|---|
| Upfront cash | The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year. |
| Deferred cash | The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years. |
| Upfront share awards | The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year. |
| Deferred shares | The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years. |
| Other non-cash awards | Co-Investment opportunities that link rewards to the risk and profitability of an individual or portfolio of transactions. |

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price, as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

***Deferred compensation***

All staff at Vice President and above are subject to the following rules of deferral:

1. The CEO, his deputies and 5 most highly paid business line employees are subject to the following deferral rules:

| Element of variable remuneration | Payout percentages | Vesting period | Retention | Malus* | Clawback** |
|---|---|---|---|---|---|
| Upfront cash | 40% | immediate | - | - | Yes |
| Deferred cash | 10% | 3 years | - | Yes | Yes |
| Deferred phantom shares | 10-50% | 3 years | 6 months | Yes | Yes |
| Other non-cash awards | 0-40% | Transaction linked | 6 months | Yes | Yes |

* *malus is a feature of a remuneration arrangement that reduces the amount of a deferred bonus, so that the amount of the payout is less than the amount of the bonus award.*

** *clawback requires that an employee (or ex-employee) return to the Bank the variable remuneration that was previously paid out to him/her.*

2. All other covered staff (Vice President level and above) are subject to the following deferral rules:

| Element of variable remuneration | Payout percentages | Vesting period | Retention | Malus* | Clawback** |
|---|---|---|---|---|---|
| Upfront cash | 50% | immediate | - | - | Yes |
| Upfront non-cash awards | 10% | immediate | 6 months | Yes | Yes |
| Deferred non-cash awards | 40% | 3 years | 6 months | Yes | Yes |

* *malus is a feature of a remuneration arrangement that reduces the amount of a deferred bonus, so that the amount of the payout is less than the amount of the bonus award.*

** *clawback requires that an employee (or ex-employee) return to the Bank the variable remuneration that was previously paid out to him/her.*

The NRC, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements, has empowered the CEO to exclude individual members of staff at Vice President level from being subject to mandatory deferral on a case by case basis with the condition that their total remuneration is less than BHD 100,000.

***Details of remuneration paid***

*(a) Board of Directors*

| | 2014 | 2013 |
|---|---|---|
| Sitting Fees | $50,000 | $67,500 |

## Public Disclosures

The Bank has a public disclosures policy which is intended to provide Bank stakeholders with relevant, accessible and accurate information on a timely basis. The information disclosed by the Bank is governed by this policy. Seera's website is a primary vehicle by which this is achieved.

The Bank's website in both Arabic and English is updated on an ongoing basis with the latest public information, such as financials and press releases. Financial information is maintained on the website for a minimum of 3 years.

## Investor Relations

The Bank is committed to the highest level of service to its clients. In this regard, the Placement function interacts with investors to address their information requirements and to satisfy the Bank's Know Your Customer ("KYC") requirements. Investors are kept informed about the progress of their investments through regular reports on their performance. Investors may also contact the Post Acquisition Management Department of the Bank for any specific requests or questions.

## Compliance with CBB's Corporate Governance Guidelines

Banks in Bahrain are obliged to comply with CBB's Rulebook High-Level Controls (HC) Module which contains applicable Rules and Guidance for the Bank. The Bank's Comply/Explain Report is a tool where non-compliance is explained to shareholders by means of an annual report. Accordingly, the Bank's Comply/Explain Report has been revised to incorporate the CBB's rulebook quarterly updates and all requirements were met as of December 2014.

## Audit Fees Charged by the External Auditor

Fees paid to external auditors are based on market rates, taking into consideration the nature and complexity of transactions subject to audit. For the year ended 31st December 2014, total audit related expenses for the Bank amounted to US$ 133,687.

## Board and Board Committee Meeting Attendance

According to Board and Committee charters and in line with regulatory requirements, a minimum number of meetings must be held in each year. Each meeting cannot be valid unless the minimum required number of attendees is achieved. Below is a summary of 2014 Board and Committee meetings' attendance.

| | Minimum Number of Meetings Per Year | Actual Number Held in 2014 | Total Number of Members | 27-Mar | 12-Jun | 16-Oct | 26-Nov | 11-Dec |
|---|---|---|---|---|---|---|---|---|
| Board of Directors | 4 | 4 | 9 | 6 | 8* | 8 | | 8** |
| Audit Committee | 4 | 4 | 3 | | 3 | 3 | 2** | 2** |
| Nomination & Remuneration Committee | 2 | 2 | 3 | | 3 | 3 | | |

* One member resigned

** One member was unable to attend or participate due to health issues that were explained to the Board

## Board Evaluation

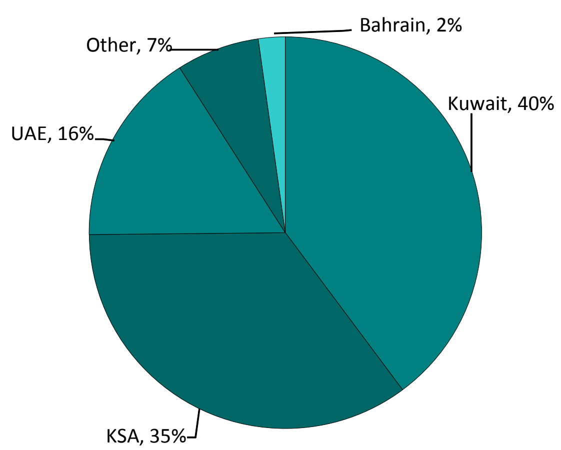
The Board of Directors has conducted its 2014 performance assessment of the Board and its committees. This was done through the completion of questionnaires covering the effectiveness of the Board and its committees and the contribution of each Director against their primary responsibilities on the Board and its committees. The Nomination and Remuneration Committee took the leadership role in this process and the findings were consolidated and presented to the Board of Directors. Findings confirm that Seera's Board and its committees continue to operate effectively.

## Director Elections

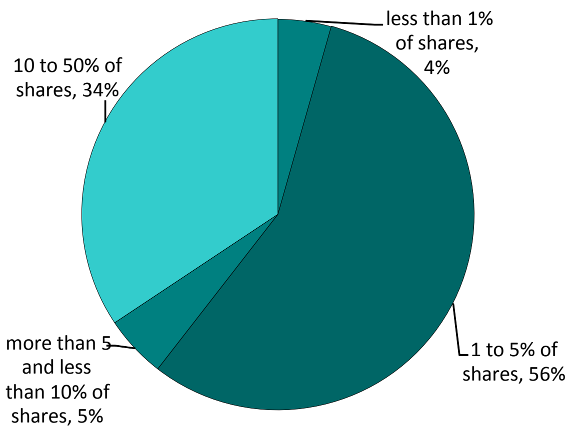
Board terms are generally three years. New Directors are elected by shareholders at annual general meetings by a majority of votes, whereby shareholders have voting rights which correspond to their shareholdings. Shareholders with more than 10% of shares may appoint a Director for every 10% of their shareholdings. All Director appointments are subject to CBB approval. Directors may be removed by shareholders through a similar voting system and in line with the Bank's Memorandum and Articles of Association.

## Shareholding

Seera has a diverse group of shareholders. Distributions of shareholdings are as per below:




SHARE OWNERSHIP
BY NATIONALITY




SHARE OWNERSHIP
BY SIZE OF SHAREHOLDING

Shareholders that have holdings above 5% of the Bank's shares are National Investments Company K.S.C (Closed) and Commercial Bank International P.L.C.

## Shareholder Information

Seera is committed to communicating with shareholders, encourages their participation and respects their rights. Shareholders are encouraged to seek information about Seera and to actively participate in shareholder meetings. Shareholder requests for information are addressed by Shareholder Relations within the Placement function at the Bank.

## FINANCIAL HIGHLIGHTS

| US$ MILLIONS | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007* |
|---|---|---|---|---|---|---|---|---|
| TOTAL (LOSS)/INCOME | **(27.1)** | 34.0 | 12.5 | 85.0 | 16.5 | 7.0 | 18.2 | 29.7 |
| TOTAL EXPENSES | **5.6** | 5.7 | 5.9 | 11.6 | 10.3 | 11.0 | 15.7 | 15.2 |
| UNREALISED LOSSES AND PROVISIONS | **(26.2)** | (24.2) | Nil | (12.0) | 1.0 | (31.0) | (16.2) | 6.4 |
| NET (LOSS) / INCOME | **(58.9)** | 4.1 | 6.6 | 61.4 | 7.2 | (35.1) | (13.8) | 20.9 |
| TOTAL ASSETS | **202.0** | 310.6 | 360.3 | 526.8 | 417.7 | 306.8 | 376.7 | 383.4 |
| TOTAL EQUITY | **145.2** | 205.5 | 204.4 | 343.0 | 300.9 | 276.0 | 312.0 | 318.7 |

### KEY RATIOS

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Islamic Financing to Equity Ratio (leverage) | **0.4** | 0.3 | 0.7 | 0.5 | 0.3 | 0.1 | 0.2 | 0.2 |
| Capital Adequacy | **28.5%** | 23.9% | 30.0% | 61.5% | 61.1% | 56.7% | 52.7% | 68.3% |
| Return on Average Assets ** | **-12.8%** | 8.4% | 1.5% | 15.5% | 1.7% | -1.2% | 0.7% | 4.3% |
| Return on Average Equity ** | **-18.6%** | 13.8% | 2.4% | 22.8% | 2.2% | -1.4% | 0.8% | 4.8% |
| Cost to Income | **-20.7%** | 16.6% | 47.3% | 13.7% | 62.1% | 157.1% | 86.3% | 51.2% |

* 2007 results reflect a 17 month period between 5th August 2006 and 31st December 2007
** Before unrealized losses and provisions

# AUDITORS REPORT

## 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 subsidiaries (the "Group”) which comprise the consolidated statement of financial position as at 31 December 2014, 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 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 2014, 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.

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.

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

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 2014 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

22nd February 2015
Manama
Kingdom of Bahrain

## SHARI’A SUPERVISORY BOARD REPORT

### SHARI’A SUPERVISORY BOARD REPORT ON THE ACTIVITIES OF SEERA INVESTMENT BANK FOR THE PERIOD ENDED 31 DECEMBER 2014

*Prayers and Peace be Upon the Last Apostle and Messenger, Our Prophet Mohammed, His Relatives and Companions,*

The Shari’a Board of Seera Investment Bank, an Investment Bank, has reviewed the Bank’s investment activities and compared them with the previously issued fatwas and rulings during the year ended 31st December 2014 and found them compatible with the already issued fatwas and rulings.

The Shari’a Board believes that it has expressed its opinion in respect of the activities carried on by the Bank and it is the responsibility of the management to ensure the implementation of such decisions. It is the duty of the Shari’a Board to express an independent opinion, review Bank’s operations and to prepare a report about them.

An audit of the Bank’s activities brought attention to the continuation of the 2013 Shari’a audit observation that the Bank renewed a conventional financing facility associated with leased aircrafts. The Management of the Bank explained that, despite their best efforts, they were unable to renew this financing in 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.

A representative of the Bank’s management explained and clarified the contents of consolidated Balance Sheet, attached notes and Consolidated Statement of Income for the year ended on 31st December 2014 to our satisfaction. The report of the Shari’a Board has been prepared based on the contents provided by the Bank.

The Shari’a Board is satisfied that the investment activities and banking services are generally in compliance with the Glorious Islamic Shari’a.

*We pray that Allah may grant all of us further success and prosperity,*

**Shaikh Esam M. Ishaq**
Chairman

**Dr. Yousef A. Alshubaily**
Member

**Dr. Mohammad A. Altabtabaei**
Member

# Consolidated Financial Statements

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

## 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 Ahmad Al Ameeri
Chairman

Mubarak Al Hemeiri
Board Member

Abdulla Janahi
Chief Executive Officer

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

# 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 |
| **NET (LOSS) INCOME FOR THE YEAR BEFORE EXPENSES AND PROVISION AND IMPAIRMENT** | | **(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 Ahmad Al Ameeri
Chairman

Mubarak Al Hemeiri
Board Member

Abdulla Janahi
Chief Executive Officer

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 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 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'

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

#### 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

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'

#### 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<br>US$ '000 | 2013<br>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

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

| | *2013* | | | |
|---|---|---|---|---|
| | *Level 1 US$ 000* | *Level 2 US$ 000* | *Level 3 US$ 000* | *Total 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 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 |

### 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 US$'000* | *Aviation US$'000* | *Real estate US$'000* | *Manufacturing US$'000* | *Others 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 | **-** | **-** | **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*** | ***Manufacturing 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* | *Manufacturing 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 US$'000 | Liabilities US$'000 | Net US$'000 |
| Danish Krone | **12,765** | **-** | **12,765** |
| Kuwaiti Dinars | **1,699** | **(11)** | **1,688** |
| Great Britain Pounds | **20,758** | **(1,024)** | **19,734** |
| Euro | **8,634** | **-** | **8,634** |
| | *2013* | | |
| | *Assets US$'000* | *Liabilities US$'000* | *Net US$'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* *US$ '000* | *2013* *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.

**Table – 1. Capital requirement by type of Islamic financing contracts**

The following table summarises the capital requirements by type of Islamic financing contracts as of:

| | 31 Dec 2014 | |
|---|---|---|
| | Risk weighted assets US$ '000 | Minimum capital requirement US$ '000 |
| **Islamic financing contracts** | | |
| Financing contracts | 3,910 | 469 |
| Ijarah assets | 78,464 | 9,416 |
| | 82,374 | 9,885 |

**Table – 2. Capital requirement for different type of risks**

The following table summarises the capital requirements for credit risk, market risk and operational risk as of:

| | 31 Dec 2014 | |
|---|---|---|
| | Risk weighted assets US$ '000 | Minimum capital requirement US$ '000 |
| Credit Risk | 171,036 | 228,464 |
| Market Risk | 43,341 | 42,863 |
| Operational Risk | 91,706 | 107,284 |
| | 306,083 | 378,611 |

***Table - 3. Gross funded and unfunded exposure***

As at 31 December 2014:

| | *Average credit exposures US$ '000* | *Gross funded credit exposures US$ '000* | *Credit risk weighted exposures US$ '000* | *Regulatory capital requirements US$ '000* |
|---|---|---|---|---|
| Balances with banks | **5,495** | **1,955** | **1,955** | **235** |
| Due from banks and financial institutions | **27,853** | **17,702** | **17,702** | **2,124** |
| Murabaha receivables | **13,453** | **3,910** | **3,910** | **469** |
| Other assets | **8,973** | **19,466** | **19,466** | **2,336** |
| | **55,774** | **43,033** | **43,033** | **5,164** |

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

**Table - 4. Exposure by counterparty type**

Net funded credit exposures by counterparty

As at 31 December 2014:

| | *Balances with banks US$'000* | *Murabaha receivables US$'000* | *Islamic Financing US$'000* | *Other assets US$'000* | *Total US$'000* |
|---|---|---|---|---|---|
| Claims on banks | **1,955** | **17,702** | **-** | **-** | **19,657** |
| Claims on corporates | **-** | **-** | **3,910** | **1,977** | **5,887** |
| Others | **-** | **-** | - | **17,489** | **17,489** |
| | **1,955** | **17,702** | **3,910** | **19,466** | **43,033** |

**Table-5. Large Credit Exposure**

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

As at 31 December 2014, the Bank's exposures in excess of 15% of Capital base for obligor limits to individual counterparties is shown below:

| | *Large exposure US$ '000* | *% of exposure to capital* |
|---|---|---|
| Counterparty A | **46,256** | **31.94%** |
| Counterparty B | **34,946** | **24.13%** |
| Counterparty C | **24,751** | **17.09%** |

**Table -6. Specific provisions by counterparty type**

The following table summarises the total specific provisions disclosed by counterparty type as of 31 December 2014:

| | | Specific provisions | | |
|---|---|---|---|---|
| | *Opening Balance US$ '000* | *Charges during the year US$ '000* | *Transfer from general provision US$ '000* | *Balance at the end of the period US$ '000* |
| **Investment - Aviation** | **36,186** | **2,640** | **-** | **38,826** |
| **Investment - Energy** | **5,939** | **4,899** | **-** | **10,838** |
| **Investment - Real estate** | **2,042** | **1,616** | **-** | **3,658** |
| **Investment - Other assets** | **-** | **1,494** | **1,484** | **2,978** |
| | **44,167** | **10,649** | **1,484** | **56,300** |

**Table - 7.**

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

The Bank has no obligations with respect to recourse transaction.

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

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

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

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

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

**Table - 8. Equity positions in the banking book**

| Investments | 31 Dec 2014 | | |
|---|---|---|---|
| | Total gross exposure US$'000 | Average gross exposure US$'000 | Regulatory capital requirements US$'000 |
| Non trading investments | | | |
| Quoted | 1,699 | 1,850 | 161 |
| Unquoted | 8,634 | 12,230 | 2,072 |
| | 10,333 | 14,080 | 2,233 |

**Table – 9. Equity gains or losses in banking book**

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

| | 31 Dec 2014 US$ '000 |
|---|---|
| Cumulative realised gains arising from sales or liquidations in the reporting year | - |
| Total unrealized losses recognised in the consolidated statement of financial positions but not through consolidated statement of income | - |
| Unrealised gross losses included in Tier 1 Capital | - |
| Unrealised gains included in Tier 1 Capital (45% only) | - |
| Unrealised gains included in Tier 2 Capital (45% only) | 294 |

**Table - 10. Liquidity risk**

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

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

**Liquidity ratio**

The following table summarises the liquidity ratios as of:

| | 31-Dec 2014 |
|---|---|
| Short term assets to short term liabilities | 0.70 |
| Liquid assets to total assets | 0.13 |

**Table - 11. Operational risk exposure**

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:

| | Gross income | | |
|---|---|---|---|
| | ***2014 US$ '000*** | *2013 US$ '000* | *2012 US$ '000* |
| ***Total Gross Income*** | **(11,472)** | **57,570** | 40,249 |

| | *December 2014* |
|---|---|
| **Indicators of operational risk** | |
| Average Gross income (US$ '000) (positive only) | **48,910** |
| **Multiplier** | **12.5** |
| | **611,369** |
| Eligible Portion for the purpose of the calculation | **15%** |
| **TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US$ '000)** | **91,706** |

## BOARD OF DIRECTORS COMPOSITION

### MR. HAMAD AHMAD AL AMEERI

*Chairman of the Board and Executive Committee*
*Non-Independent and Non-Executive*
*Appointed Member*
*December 2014*

Mr. Hamad AL Ameeri has over 30 years of experience in the Investment Industry. He has local and International experience in the areas of Islamic Banking, Portfolios Management, Funds Management, Finance and Brokerage, mostly in executive and senior management roles. Mr. Al Ameeri currently holds a number of key positions including: Chairman of National Investment Co. - Kuwait, Vice Chairman of Gulf Cement - UAE and Vice Chairman of Fujaira Cement - UAE. Mr. Al Ameeri holds a Bachelor Degree in Finance from the University of Kuwait

### MR. MUBARAK MATAR AL HEMEIRI

*Chairman of the Nomination & Remuneration Committee and member of the Executive Committee*
*Independent and Non-Executive*
*Elected Member*
*First term May 2010, second term March 2013*

Mr. Al Hemeiri is currently the Managing Director of Royal Group, UAE. He holds a Bachelors degree in computer science from the USA and has over 20 years of experience in the investments industry, including portfolio management, private equity, real estate and risk management. He has practical experience in the field of international investments. He was responsible for overseeing the operations and management of the investment portfolio at the Private Department of H.H. Sheikh Zayed Bin Sultan Al Nahyan. Mr. Al Hemeiri is also the Chairman and board member of several listed and unlisted companies across the GCC.

### MR. HAMAD ABDULLATIF AL ASFOUR

*Non-Independent and Non-Executive*
*Appointed Member*
*October 2014*

Mr. Al Asfour has over 10 years of experience in business, finance, and real estate industry. He is currently the Chairman and CEO of MENA Capital Holding. He is also a Member of the Board of Directors of Kuwait based National Investments Company & Gulf Dredging and Contracting Company. Mr. Al Asfour earned his Bachelor of Science in Business Administration from the University of San Diego, USA and holds an MBA from the American University of the Middle East in affiliation with Purdue University of Indiana, USA. Mr. Al Asfour was part of Kuwait Investment Authority in affiliation with global financial conglomerates, where he played a major role in introducing the re-structuring of one of the finest real estate developments in the Middle East "The Avenues". He also had a career with the world's leading international tobacco company and the 4th largest global consumer packaged goods company Philip Morris International where he was managing the Corporate Affairs function for the GCC countries.

## MR. MOHAMED HANI ABDULKADER AL BAKRI

*Chairman of the Audit Committee*
*Independent and Non-Executive*
*Elected Member*
*First term August 2006, second term May 2010, third term March 2013*

Mr. Al Bakri has over 25 years of broad experience in industry, development and finance. He is currently a board member of numerous joint stock companies in Saudi Arabic and in Bahrain. Mr. Al Bakri serves as a Board Member for numerous other companies and financial institutions and he is also a Board Member of the North of England Protection and Indemnity Club of New Castle; a mutual insurance entity covering the possible liabilities of ship owners with reserves of over $600 million. Mr. Al Bakri is a Board Member of A.K. Bakri Al Bakri & Sons Holding and of Allied Cooperative Insurance Group (ACIG) of Saudi Arabia. Mr. Al Bakri is also a Member of the Technical Committee of the Classification Society Bureau, Veritas and has served as the Head of Jeddah Chamber of Commerce Maritime Transport Committee. Mr. Al Bakri holds a Bachelors degree in Nuclear Engineering from King Abdul-Aziz University, KSA.

## MR. WALEED KHALIFA AL FELAIJ

*Member of the Executive and Nomination & Remuneration Committees*
*Independent and Non-Executive*
*Elected Member*
*First term August 2006, second term May 2010, third term March 2013*

Mr. Al Felaij has over 20 years of business experience. He is currently the General Manager of Finesco International General Trading & Contracting Company - Kuwait, Finesco National General Trading & Contracting Company - Kuwait, Waleed Al Felaij General Trading & Contracting Company - Kuwait and Al Felaij International Readymade Garment Factory - Kuwait, and is a partner in Finesco Holding Company - Kuwait, and owns MEDCO Development Company in Kuwait. Mr. Al Felaij holds a Bachelors degree in Business Management from Font Bonne College, USA.

## MR. OMAR SAAD AL MOSHAWAH

*Member of the Nomination & Remuneration Committee*
*Independent and Non-Executive*
*Elected Member*
*March 2013*

Mr. Al Moshawah has more than 25 years of experience in the finance, real estate and construction Industries in KSA and UAE. Mr. Al Moshawah is currently the Chief Executive Officer of Khalid Al Nasser & Sons Co. Riyadh, KSA. Previously, he worked for the Ministry of Finance in KSA as an Advisor in the Income department. Mr. Al Moshawah holds a Bachelors degree in Political Science from King Saud University, KSA.

### MR. YOUSEF BIN NASSER AL NASSER

*Member of the Executive Committee*
*Independent and Non-Executive*
*Elected Member*
*First term May 2010, second term March 2013*

Mr. Yousef Al Nasser has over 20 years of experience in Real Estate, construction and investments. He is a founding shareholder in several banks and investment companies in GCC countries. He is currently the Chief Executive Officer of Al Nasser Group in Riyadh, Saudi Arabia. He also holds several executive positions, including the President of Yousef Al Nasser Contracting Establlishement & the General Manager of Future Cities for Real Estate Development Company in Riyadh, Saudi Arabia.

### MR. OBAID MOHAMED AL SALAMI

*Member of the Audit Committee*
*Independent and Non-Executive*
*Appointed Member, subject to AGM approval*
*October 2014*

Mr. Al Salami has over 25 years of banking experience. He is currently a Board Member of Commercial Bank International and General Manager of Dubai Investment Real Estate Company. Mr. Al Salami worked for UAE Central Bank in Abu Dhabi and held several managerial positions in governmental and semi-government entities. Mr. Al Salami also serves as a Board member in several companies including Takamul Real Estate. Mr. Al Salami holds a Bachelors degree in Accounting & Business Administration from UAE University and MBA in Business Administration from Oklahoma City University, USA.

### MR. AHMAD ABDULQADER MOHAMMAD

*Member of the Audit Committee*
*Non-Independent and Executive*
*Appointed Member*
*March 2013*

Mr. Ahmad AbdulQader Mohammad has over 30 years of experience in the Investment Banking Industry. Within the industry, he has local and international experience in the areas of lending and financing, Direct Investments and Treasury & Correspondent Banking activities. Currently Mr. Mohammad holds the position of AGM Financial and Administrative Affairs within The National Investments Company where he oversees areas such as Operations and Settlements, Finance and Accounts and Administration & Human Resources. Mr. Mohammad holds a Bachelors of Science degree with a major in Economics and a minor in Marketing from The University of Kuwait.

*	The qualifying criteria for “Independent” and “Non-Executive” directors are as per the Central Bank of Bahrain’s Corporate Governance requirements.

***	Members of the Board of Directors who own shares of the Bank in their own name are Mr. Waleed Khalifa Al Felaij and Mr. Yousef Bin Nasser Al Nasser who own 5 m shares each.

## SHARI’A SUPERVISORY BOARD COMPOSITION

All current Shari’a Supervisory Board members have extensive knowledge of Islamic law being graduates from Shari’a colleges with various experience in Islamic banking.

### SHAIKH ESAM M. ISHAQ

*Shari’a Supervisory Board Chairman*

Over 10 years residing on Shari’a boards of a number of Islamic financial institutions.
Chairman: Muslim Educational Society, Bahrain.
Director and Shari’a Advisor: Discover Islam, Bahrain.
Member: Shari’a Supervisory Board of Arcapita; Board of Trustees, Al Iman Islamic School, Bahrain; Shari’a Supervisory Board: Meezan Islamic Bank, Islamic Republic of Pakistan; Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI), Bahrain; and Shari’a Supervisory Boards of a number of Islamic banks and financial institutions.
Instructor: Islamic jurisprudence, theology and Qur’anic exegeses (Tafseer) courses in English and Arabic, in various centers in Bahrain.
Director: Zawaya Property Development, Kingdom of Bahrain.
Shaikh Ishaq obtained his Bachelor Degree in Political Science from McGill University, Montreal, Canada 1982.

### DR. MOHAMMAD ALTABTABAEI

*Shari’a Supervisory Board Member*

Over 15 years of experience in Islamic Banking.
Dean: Shari’a and Islamic Studies faculty in the Kuwait University.
Shari’a Board Member: In a number of Islamic Institutions; Ministry of Awqaf and Islamic Affairs; member of Shari’a Committee in Zakat House, Kuwait.
Professor: Kuwait institute for Juridical Studies, Kuwait.
Dr. Altabtabaei has several books and publications in Islamic jurisprudence related topics. He has obtained a PhD in Islamic jurisprudence from Imam Mohamed bin Saud Islamic University, Kingdom of Saudi Arabia.

### DR. YOUSEF ABDULLAH ALSHUBAILY

*Shari’a Supervisory Board Member*

Over 10 years of experience in Islamic Banking.
Assistant Professor: Al Imam Mohamed Bin Saud Islamic University; Visiting Professor in the Open American University.
Shari’a Advisor: Al Zad International Investment Company.
Member: Of the Academy of Shari’a Jurists in North America and in the Permanent Fatwa Committee; Former member of Fatwa Committee in Islamic Institutions in North America; Former member in the Council of Board of Directors of the college of Islamic Studies in Kenya; Committee of Islamic Endowment.
Shari’a Researcher: Board of Grievances, Saudi Arabia.
Deputy Dean: Comparative Fiqh Department in the Juridical Higher Institution.
Dr. Alshubaily has several research papers and publications in the Islamic Studies and participated in a number of Islamic Conferences in the Kingdom of Saudi Arabia, United States and other countries. He has obtained his PhD from the Al Imam Mohamed Bin Saud Islamic University, Kingdom of Saudi Arabia.

## MANAGEMENT PROFILES

### MR. ABDULLA JANAHI

*Chief Executive Officer*

Mr. Janahi has over 35 years of investment banking experience mostly in executive and senior management roles in Bahrain and New York. Prior to joining Seera Investment Bank, Mr. Janahi was Group Head responsible for various key functions at Gulf International Bank (GIB) where he was also involved in high-level committees such as Group Risk and General Management Committees. Prior to this, Mr. Janahi headed up the Islamic Banking area and was involved in key areas such as Marketing, Credit, Treasury and Operations. Mr. Janahi completed several international assignments in Europe and North America, including coverage of fixed-income securities and equities with leading financial institutions in New York and London. Mr. Janahi holds a Masters degree in International Banking and Financial Services from the University of Reading, UK.

### MR. SHAHZAD IQBAL

*Chief Operating Officer & MLRO*

Mr. Iqbal has more than 20 years of experience in Islamic banking. Prior to joining Seera he worked at Ernst & Young where he set up the Islamic Financial Services Group and later at Arcapita Bank, Bahrain in various senior executive positions. He has extensive experience in establishing and managing key banking functions. He is also experienced in advising and execution of Shari'a compliant private equity investments. Mr. Iqbal holds an MBA from Northern Arizona University, USA, and is a Fellow of the Institute of Chartered Accountants in England and Wales.

### MR. SAMEER OUNDHAKAR

*Head of Investment & Post Acquisition Management*

Mr. Oundhakar has almost 15 years of experience in the Financial Services sector. Before joining Seera, he worked with the Boston Consulting Group in London where he advised several financial services and private equity clients. He has wide ranging experience within financial services and has worked with Threadneedle Asset Management (UK), American Express (UK) and HSBC (India). Mr. Oundhakar has a Bachelors degree with Distinction in Mechanical Engineering from VJTI - University of Mumbai, a Post Graduate Diploma in Management from the Indian Institute of Management (IIM), Lucknow and an MBA from INSEAD, France.

### MR. SOHAIL TOHAMI

*Head of Treasury & Placement*

Mr. Tohami has more than 15 years experience in the banking industry and other diversified business. Prior to joining Seera Investment Bank, Mr. Tohami was Head of the Money Market Desk in the Treasury Department at the Bank of Bahrain and Kuwait where he worked in various Treasury functions including fixed income portfolio manager, FX trading and currency options and the corporate desk. Mr. Tohami holds a Certified Public Accountant (CPA) designation from the University of Illinois and is a member of the American Institute of Certified Public Accountants. Mr. Tohami is also a member of the CFA Institute where he is designated as a Chartered Financial Analyst (CFA) holder. He also holds an executive MBA with first-class honors distinction from the University of Bahrain.

## MR. PRATEEK SHARMA

*Head of Investment*

Mr. Sharma has over 10 years of banking experience with BNP Paribas, Arab Banking Corporation (ABC) and BBK in Corporate Banking and Risk management. Prior to joining Seera, he was heading Credit Risk management at BBK. He has worked on a wide range of transactions in industries such as shipping, airlines, Power, Oil & Gas across Asia, Middle East, Europe and North America. He has also led the development of Credit Risk management frameworks at his previous positions at ABC and BBK. Mr. Sharma holds a Bachelors degree in Electronics and Communications and an MBA in Finance. He is also a CFA charter holder and a Financial Risk Manager.

## MS. FULYA KOCH PLUS

*Head of Risk Management*

Ms. Koch was previously employed by Ryada Capital Investment Company (RCIC) as a Director of Risk Management, where she worked for two years. Prior to joining RCIC, Ms. Koch worked for five years in the risk management department of the Industrial Development Bank of Turkey, where she was responsible for market risk and had a leading role with the Basel II implementation committee. Ms. Koch has almost 15 years of risk management experience and is the Regional Director of the Global Association of Risk Professionals for the Kingdom of Bahrain. Ms. Koch holds a M.Sc. in Risk Management and an Insurance degree from City University, London. She was granted the Financial Risk Manager designation from the Global Association of Risk Professionals in 2003.

## DR. AHMED OMAR ABDALLEH

*Head of Shari'a Compliance*

Dr. Ahmed has more than 8 years experience in the banking industry. Prior to joining Seera Investment Bank, Dr. Ahmed was the Head of Shari'a Review Department in the Kuwait Finance House Malaysia ( Berhad), and subsequently moved to Kuwait where he was a manager in the Shari'a Division of Kuwait Finance House (Kuwait). Dr. Ahmed was also involved in Teaching and training in the field of Islamic banking and law in both International Islamic University Malaysia (IIUM) and Institute of Islamic banking studies ( IBS) in Kuwait. Dr. Ahmed holds a PhD in Comparative law of banking, a Master degree in Comparative law (MCL), and Bachelor of law (LLB) from the International Islamic University Malaysia.

## MR. TAWFIQ AL SARI

*Head of Financial Control*

Mr. Al Sari has over 15 years of banking and audit experience. Prior to joining Seera, Mr. Al Sari was a First Manager Financial Control with Bahrain Islamic Bank. Prior to that, Mr. Al Sari held several positions at Khaleej Finance & Investments Bank including Head of Financial Control, Acting Head of Direct Investment and Head of Internal Audit. Mr. Al Sari was also the designated Compliance Officer and Anti-Money Laundering Reporting Officer. Mr. Al Sari's audit experience included working for KPMG as a Senior Audit Supervisor for six years where he supervised audits of major Islamic and conventional financial institutions inside and outside of Bahrain. Mr. Al Sari is member of The American Institute of Certified Public Accountant (CPA), California, USA, and is also a Certified Islamic Public Accountant (CIPA) from the Accounting and Auditing Organization for Islamic Financial Institutions. He holds a Bachelor of Science degree in Accounting.

### MR. HASAN ABDULLA HASAN

*Head of Human Resources & Administration*

Mr. Hasan Abdulla has 14 years experience in Human Resources & Administration. Prior to joining Seera Investment Bank, he was working in Sheraton Bahrain and Batelco. Mr. Abdulla holds a commercial studies diploma (CSD) from University of Bahrain and many other professional certificates and courses such as: Diploma in Human Resources Management (BTI), Human Resources Planning Techniques course (BIBF), Effective Recruitment & Selection course (BIBF) & Basic in Human Resources Management – Dubai (Meirc Training and Consulting) and First Aid Certificate through Bahrain Red Crescent Society. In addition to that he has an excellent communication and leadership skills.

### MS. ARWA AL SHARAF

*Head of Compliance & Board Secretary*

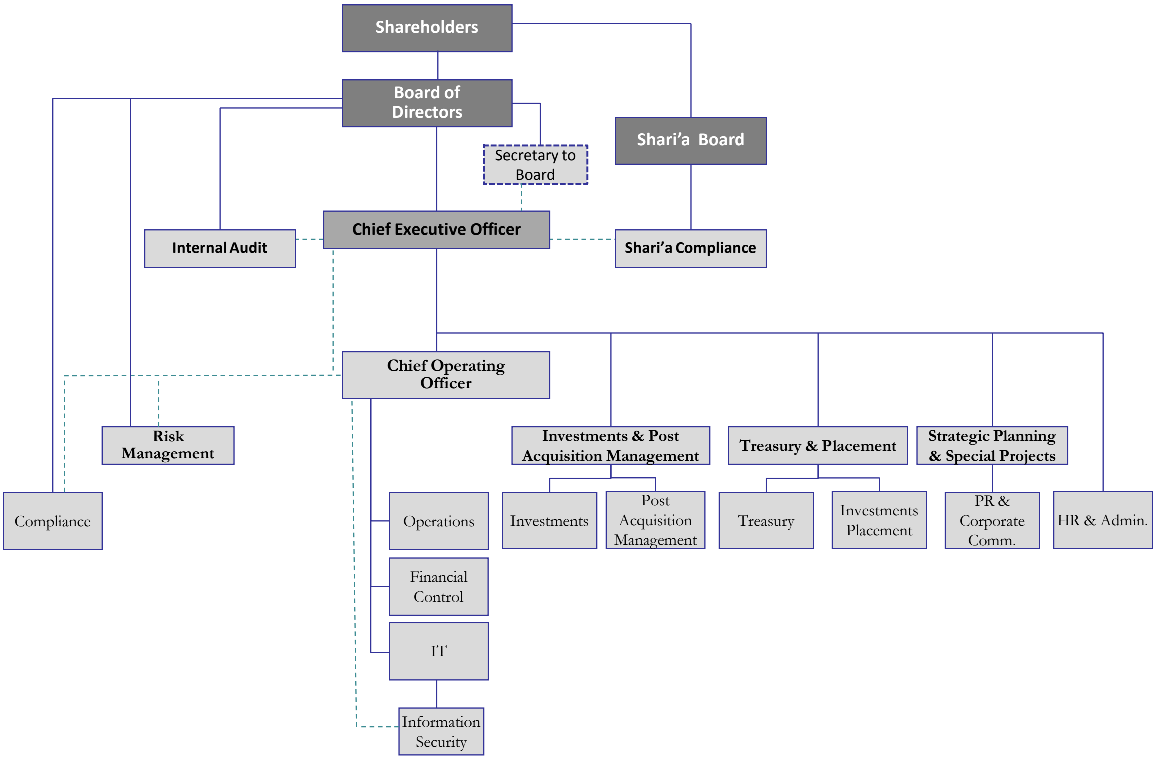
Ms. Al Sharaf has over 9 years of experience in Banking. In addition to her core task as Seera's Compliance Officer, where she is responsible for developing, implementing and administering the Bank's Compliance Management Program, Ms. Al Sharaf is also the Board Secretary and Deputy MLRO. Prior to her current role, Ms. Al Sharaf worked in the Financial Controls department where she was responsible for MIS and CBB reporting. Ms. Al Sharaf commenced her career at CITI Bank Bahrain in the Treasury Operations department where she gained broad experience in the banking operations and in a wide range of Islamic and conventional banking products. Ms. Al Sharaf holds a Bachelors of Science degree in Banking and Finance from University of Bahrain and an International Diploma in Compliance from the International Compliance Association, Manchester, UK.

### MR. AHMED AL KHAYYAT

*Head of Information Technology*

Mr. Al Khayyat has more than 7 years of IT experience. Prior to joining Seera Investment Bank , Mr. Al Khayyat was a Senior Project Coordinator assigned to large scale IT projects at Bahrain eGovernment Authority (eGOV), where he worked for more than 2 years. Prior to joining eGOV, He worked for 3 years in the IT department of Seera Investment Bank, where he was responsible for supporting core banking system and its related components. Mr. Al Khayyat holds a Bachelor degree from University of Bahrain in Business Information System, he is also a certified Project Management Professional (PMP) in addition to being designated as an Oracle Database Administrator Certified Professional (DBA).

## ORGANIZATIONAL STRUCTURE




**Note:** The Internal Audit function reports directly to the Audit Committee of the Board of Directors and the Shari'a Compliance function reports directly to the Shari'a Supervisory Board, with dotted reporting lines to the CEO.

# DETAILS OF REMUNERATION PAID FOR THE FINANCIAL YEAR ENDED 2014

| Categories | No. | Fixed Remuneration | | | | Variable Remuneration | | | | | | Total (BHD'000) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Salaries and Wages (BHD) | Other Benefits/Allowances | Sitting Fees | Total | Performance Bonuses (in Cash) | Performance Bonuses (in Shares) | Other Performance Linked Incentives | Deferred Compensation paid during the period | Others | Total | |
| 1. Members of the Board | 9 | - | - | 47 | 47 | Nil | Nil | Nil | Nil | Nil | Nil | 47 |
| 2. Approved persons - Business Lines (not included in 1,3 to 7) | 4 | 404 | 176 | - | 580 | Nil | Nil | Nil | Nil | Nil | Nil | 580 |
| 3. Approved Persons - Control & Support | 7 | 237 | 105 | - | 343 | Nil | Nil | Nil | Nil | Nil | Nil | 343 |
| 4. Employees engaged in risk taking activities (business area) | | - | - | - | - | Nil | Nil | Nil | Nil | Nil | Nil | |
| 5. Employees, other than approved persons, engaged in functions under 3 | | - | - | - | - | Nil | Nil | Nil | Nil | Nil | Nil | |
| 6. Other employees | 16 | 198 | 87 | - | 285 | Nil | Nil | Nil | Nil | Nil | Nil | 285 |
| 7. Outsourced Empl./Service providers (engaged in risk taking activities) | | - | - | - | - | Nil | Nil | Nil | Nil | Nil | Nil | |
| Total | 27 | 840 | 368 | 47 | 1,255 | | | | | | | 1,255 |

Other staff costs amounting BHD 225k relate to indirect staff expenses such as training, recruitment, levy and other costs have not been considered in the table above.

The above table has been updated on July 15th 2015, after the printing of the 2014 annual report.

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