

Seera Investment Bank B.S.C. (c)
INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015



Ernst & Young
P.O. Box 140
14th Floor, South Tower
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
ey.com/mena
C.R. No. 6700

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 2015, 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 2015, the results of its operations, its cash flows and changes in owners' equity for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

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

Other Matters

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

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

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association having occurred during the year ended 31 December 2015 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 35 to these consolidated financial statements.



Partner's registration no:121
26 March 2016
Manama, Kingdom of Bahrain

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Note	2015 US\$ '000	2014 US\$ '000
ASSETS			
Cash and balances with banks	5	2,396	1,959
Due from banks and financial institutions	6	40,700	17,702
Financing contracts		-	3,910
Non-trading investments	7	30,529	10,333
Investment in ijarah assets	8	74,100	119,252
Net assets of disposal group classified as held for sale	9	-	12,765
Investment in real estate	10	10,476	10,476
Other assets	11	5,271	19,763
Property and equipment	12	5,578	5,797
TOTAL ASSETS		169,050	201,957
LIABILITIES AND OWNERS' EQUITY			
LIABILITIES			
Term financing	13	14,496	46,816
Other liabilities	14	6,952	9,969
TOTAL LIABILITIES		21,448	56,785
OWNERS' EQUITY			
Share capital	15	145,643	145,643
Reserves	15	10,172	10,262
Accumulated losses		(17,977)	(20,497)
Equity attributable to shareholders of the parent		137,838	135,408
Non-controlling interest		9,764	9,764
TOTAL OWNERS' EQUITY		147,602	145,172
TOTAL LIABILITIES AND OWNERS' EQUITY		169,050	201,957


 Hamad Al Ameer
 Chairman


 Abdulla Janahi
 Chief Executive Officer


 Mubarak Al Hemeti
 Board Member

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

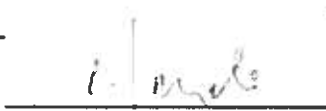
CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015

	Note	2015 US\$ '000	2014 US\$ '000
Rental income from investment in ijarah assets	16	9,083	12,175
Depreciation on investment in ijarah assets	8	(9,427)	(11,598)
Management fees relating to ijarah assets		(266)	(525)
Financing cost relating to term financing obtained to purchase ijarah assets		(1,325)	(2,037)
Other income relating to ijarah assets	17	1,163	2,113
Gain (loss) on disposal of ijarah assets, net	18	5,018	(25,974)
Other operating expenses relating to ijarah assets	19	(1,838)	(1,503)
Net income (loss) from investment in ijarah assets		2,408	(27,349)
Profit on amounts due from banks and financial institutions		192	91
Profit on financing contracts	20	2,027	533
Net funding income		2,219	624
Fee and other income	21	2,803	384
Foreign exchange loss		(816)	(794)
Gain on sale of investment classified as held for sale	9	1,256	-
TOTAL INCOME (LOSS)		7,870	(27,135)
Expenses			
Staff expenses		3,546	3,800
General and administrative expenses	22	1,330	1,501
Depreciation on property and equipment	12	269	271
TOTAL EXPENSES		5,145	5,572
NET INCOME (LOSS) FOR THE YEAR BEFORE UNREALISED GAIN AND PROVISION		2,725	(32,707)
Unrealised fair value gain on investments		1,803	-
Provisions	23	(1,728)	(26,185)
NET PROFIT (LOSS) FOR THE YEAR		2,800	(58,892)
Attributable to:			
Shareholders of the parent		2,800	(52,287)
Non-controlling interest		-	(6,605)
		2,800	(58,892)



 Hamad Al Ameer
 Chairman



 Abdulla Janahi
 Chief Executive Officer



 Mubarak Al Hameiri
 Board Member

The attached notes 1 to 35 form part of these consolidated financial statements

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	<i>Note</i>	2015 US\$ '000	2014 US\$ '000
OPERATING ACTIVITIES			
Net profit (loss) for the year		2,800	(58,892)
Adjustments for:			
Provision for employees' end of service benefits		320	235
(Gain) / loss on disposal of ijarah assets, net	18	(5,018)	25,974
Depreciation on investment in ijarah assets	8	9,427	11,598
Depreciation on property and equipment	12	269	271
Unrealised fair value gain on investments		(1,803)	-
Provisions	23	1,728	26,185
Gain on sale of investment classified as held for sale		(1,256)	-
Gain on disposal of equipment		-	(4)
Operating profit before changes in operating assets and liabilities		6,467	5,367
Changes in operating assets and liabilities:			
Financing contracts		3,910	26,323
Other assets		16,367	(17,744)
Other liabilities		(3,337)	(2,484)
Net cash from operating activities		23,407	11,462
INVESTING ACTIVITIES			
Proceeds from disposal of ijarah assets		37,441	28,404
Purchase of non-trading investments		(18,551)	-
Proceeds from disposal of investment classified as held for sale		13,506	-
Purchase of ijarah assets	8	-	(3,007)
Purchase of equipment	12	(50)	(48)
Proceeds from disposal of equipment		2	4
Net cash from investing activities		32,348	25,353
FINANCING ACTIVITY			
Repayment and early settlement of term financing *		(32,320)	(44,584)
Net cash used in financing activity		(32,320)	(44,584)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		23,435	(7,769)
Cash and cash equivalents at the beginning of the year		19,661	27,430
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	24	43,096	19,661

Non-cash activity

* 31 December 2014 balance includes a non cash item of US\$ 10,000 thousand.

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2015

	Equity attributable to shareholders of the parent						Non-controlling interest US\$ '000	Total owners' equity US\$ '000
	Share capital US\$ '000	Statutory reserve US\$ '000	Investments fair value reserve US\$ '000	Accumulated losses US\$ '000	Total	Total		
Balance at 1 January 2015	145,643	9,609	653	(20,497)	135,408	9,764	145,172	
Net income for the year	-	-	-	2,800	2,800	-	2,800	
Transferred to statutory reserve		280		(280)	-			
Unrealised loss on re-measurement to fair value, net	-		(370)	-	(370)	-	(370)	
Balance at 31 December 2015	145,643	9,889	283	(17,977)	137,838	9,764	147,602	
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)	
Transferred to statutory reserve	-	-	-	-	-	-	-	
Unrealised gain 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	

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 provides 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 26 March 2016.

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.

At 31 December 2015

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:

<i>Name of subsidiary</i>	<i>Country of incorporation</i>	<i>Equity interest</i>	
		<i>2015</i>	<i>2014</i>
Falak Aviation Investment Fund B.S.C. (c)	Kingdom of Bahrain	86%	86%

The principal activity of the subsidiary is to invest in aircrafts and consequently renting out, selling and marketing of such aircrafts.

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 off 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.

Investments at fair value through statement of income

The Group utilises the exemption available in accordance with IAS 28 and FAS 24 as applicable to venture capital organisations and classifies such investments in joint ventures and associates as "investments at fair value through statement of income". Financial assets carried at fair value through statement of income are recognised at fair value, with transaction costs recognised in the consolidated statement of income.

Investments classified as 'fair value through statement of income' are subsequently measured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the consolidated statement of income.

3.2.5 Investment in ijarah assets

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

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

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

3.2.6 Net assets of disposal group classified as held for sale

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

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

3.2.7 Investment in real estate

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

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

3.2.8 Property and equipment

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

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

Building	20 years
Others	3-5 years

Expenditure for maintenance and repairs is expensed as incurred.

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

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

3.2.9 Recognition of income

Rental income from investment in ijarah assets

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

Profit on amounts due from banks and financial institutions and financing contracts

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

Dividend income

Dividend income is recognised when the Bank's right to receive the dividend is established.

Fee income

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

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

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

3.2.10 Derecognition of financial instruments

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

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

3.2.11 Foreign currencies

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

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

3.2.12 Impairment

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

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

3.2.13 Employees' end of service benefits

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

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

At 31 December 2015

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 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

FAS 23 – Consolidation

The amendment introduced to FAS 23 is to give clarification on the way an Islamic financial institution (IFI) should determine if financial statements of an investee Company, or a subsidiary, should be consolidated with its own. The amendment provides clarification that, in addition to the existing stipulations in the standard, control may also exist through rights arising from other contractual arrangement, voting rights of the Islamic financial institutions that give de facto power over an entity, potential voting rights, or a combination of these factors. In terms of voting rights, the amendment also clarifies that an Islamic financial institution shall consider only substantive voting rights in its assessment of whether the institution has power over an entity. In order to be substantive, the voting rights need to be exercisable when relevant decisions are required to be made and the holder of such rights must have the practical ability to exercise those rights. Determination of voting rights shall include current substantive voting rights and currently-exercisable voting rights.

The amendments and clarifications are effective for the annual financial periods ending on or after 31 December 2015. The transition provision requires retrospective application including restatement of previous period comparatives. The amendment had no impact on the consolidation of investments held by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

4 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)**4.1 Standards issued but not yet effective****FAS 27 – Investment Accounts**

FAS 27 will replace FAS 5 - 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 - 'Equity of Investment Account Holders and their Equivalent'. Upon adoption of this standard certain disclosures with respect to investment account holders and bases of profit allocation will be enhanced without having any significant impact on the financial statements of the Group. FAS 27 is applicable from 1 January 2016 and management does not foresee material impact in the consolidated financial statements upon application of this standard.

5 CASH AND BALANCES WITH BANKS

	2015 US\$ '000	2014 US\$ '000
Balances with banks	2,392	1,955
Cash in hand	4	4
	<u>2,396</u>	<u>1,959</u>

6 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2015 US\$ '000	2014 US\$ '000
Commodity murabaha contracts	27,102	17,705
Deferred income	(7)	(3)
	<u>27,095</u>	<u>17,702</u>
Wakala contracts	13,605	-
	<u>40,700</u>	<u>17,702</u>

7 NON-TRADING INVESTMENTS

	2015 US\$ '000	2014 US\$ '000
Equity type investments at fair value through equity		
Quoted investment designated at fair value through equity	1,336	1,699
Unquoted investment designated at fair value through equity	8,359	8,634
	<u>9,695</u>	<u>10,333</u>
Equity type investment at fair value through statement of income		
Unquoted investments	20,834	-
	<u>30,529</u>	<u>10,333</u>

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

	Note	2015 US\$ '000	2014 US\$ '000
At 1 January		10,333	15,463
Fair value changes		(336)	(480)
Provision	23.1	(302)	(4,650)
		<u>9,695</u>	<u>10,333</u>

At 31 December 2015

8 INVESTMENT IN IJARAH ASSETS

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

	<i>Cost at 1 January 2015 US\$ '000</i>	<i>Accumulated depreciation 1 January 2015 US\$ '000</i>	<i>Depreciation charge US\$ '000</i>	<i>Accumulated depreciation 31 December 2015 US\$ '000</i>	<i>Additions US\$ '000</i>	<i>Disposal US\$ '000</i>	<i>Net book value at 31 December 2015 US\$ '000</i>	<i>Net book value at 31 December 2014 US\$ '000</i>
Falak Fin								
One Limited	39,746	5,936	1,484	7,420	-	-	32,326	33,810
Falak Fin								
Two Limited	41,035	5,614	1,403	7,017	-	-	34,018	35,421
Falak Fin								
Seven Limited	43,056	8,720	2,180	10,900	-	-	32,156	34,946
Falak Fin								
Eight Limited	34,269	12,308	3,077	15,385	-	(18,884)	-	21,961
Falak Fin								
Nine Limited	5,046	5,046	-	5,046	-	-	-	-
Falak Fin								
Ten Limited	5,526	5,526	-	5,526	-	-	-	-
Falak Fin								
Eleven Limited	37,752	5,812	1,283	7,095	-	(30,657)	-	31,940
	<u>206,430</u>	<u>48,962</u>	<u>9,427</u>	<u>58,389</u>	<u>-</u>	<u>(49,541)</u>	<u>98,500</u>	<u>158,078</u>
Provisions							(24,400)	(38,826)
							<u>74,100</u>	<u>119,252</u>

The movement in provision is as follows:

	<i>Notes</i>	<i>2015 US\$ '000</i>	<i>2014 US\$ '000</i>
At 1 January		38,826	36,185
Charge during the year		1,426	18,177
Release of provision upon disposal of ijarah assets	18	(15,852)	(15,536)
		<u>24,400</u>	<u>38,826</u>

9 NET ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

During the year, the Bank has entered into a sale agreement to dispose of its stake in the asset classified as held for sale and received the full agreed consideration related to the sale.

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 2015 and 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

11 OTHER ASSETS

	2015 US\$ '000	2014 US\$ '000
Receivable on sale of aircraft	1,875	-
Staff receivables	442	477
Prepaid expenses	139	297
Advance against an investment	-	16,802
Others	2,815	2,187
	<u>5,271</u>	<u>19,763</u>

12 PROPERTY AND EQUIPMENT

	<i>Freehold land</i> US\$ '000	<i>Building</i> US\$ '000	<i>Others</i> US\$ '000	<i>Total</i> US\$ '000
Cost:				
At 1 January 2015	3,162	4,079	5,575	12,816
Additions	-	-	50	50
Disposals	-	-	(217)	(217)
At 31 December 2015	<u>3,162</u>	<u>4,079</u>	<u>5,408</u>	<u>12,649</u>
Accumulated depreciation:				
At 1 January 2015	-	1,648	5,371	7,019
Charge for the year	-	204	65	269
Disposals	-	-	(217)	(217)
At 31 December 2015	<u>-</u>	<u>1,852</u>	<u>5,219</u>	<u>7,071</u>
Net book value				
At 31 December 2015	<u>3,162</u>	<u>2,227</u>	<u>189</u>	<u>5,578</u>
At 31 December 2014	<u>3,162</u>	<u>2,431</u>	<u>204</u>	<u>5,797</u>

13 TERM FINANCING

	2015 US\$ '000	2014 US\$ '000
Falak Fin Seven Limited	14,496	16,737
Falak Fin Eight Limited	-	13,532
Falak Fin Ten Limited	-	1,348
Falak Fin Eleven Limited	-	15,199
	<u>14,496</u>	<u>46,816</u>

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

	2015 US\$ '000	2014 US\$ '000
Balance at the beginning of the year	46,816	91,400
Financing cost	1,325	2,037
Repayments and early settlement	(33,645)	(46,621)
Balance at end of the year	<u>14,496</u>	<u>46,816</u>

At 31 December 2015

13 TERM FINANCING (continued)

The above financing has been obtained by the Bank's subsidiaries to purchase ijarah assets and mature within 3 years bearing profit rate of 4.190%.

These financings are secured by first priority mortgage over the respective aircraft on lease. As at 31 December 2015, the subsidiaries are in compliance with debt covenants against the financings. There is no recourse to the Bank on these financings.

14 OTHER LIABILITIES

	2015 US\$ '000	2014 US\$ '000
Maintenance accruals	795	3,793
Accounts payable	1,558	1,558
Accrued expenses	1,604	1,320
Provision for employees end of service benefits	923	1,711
Current accounts	1,993	1,024
Unearned rental income from investment in Ijarah assets	79	563
	<u>6,952</u>	<u>9,969</u>

15 OWNERS' EQUITY**15.1 Share capital**

	2015 US\$ '000	2014 US\$ '000
Authorised :		
2,500,000,000 ordinary shares of US\$ 0.5 each	<u>1,250,000</u>	<u>1,250,000</u>
Issued and fully paid up		
As at the beginning and end of the year		
291,286,000 ordinary shares of US\$ 0.5 each	<u>145,643</u>	<u>145,643</u>

15.2 Statutory reserve

In accordance with the Bahrain Commercial Companies Law ("BCCL") and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. This reserve is not distributable, but can be utilised as security for the purpose of distribution in such circumstances as stipulated in the BCCL and other applicable statutory regulations. During the year US\$ 280 thousand (2014: Nil) was transferred to statutory reserve.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

16 RENTAL INCOME FROM INVESTMENT IN IJARAH ASSETS

	2015 US\$ '000	2014 US\$ '000
Falak Fin One Limited	1,845	-
Falak Fin Four Limited	-	700
Falak Fin Seven Limited	3,156	3,156
Falak Fin Eight Limited	2,465	5,100
Falak Fin Eleven Limited	1,617	3,219
	<u>9,083</u>	<u>12,175</u>

17 OTHER INCOME RELATING TO IJARAH ASSETS

	2015 US\$ '000	2014 US\$ '000
	<i>Note</i>	
Income relating to the early settlement of term financing obtained to purchase ijarah assets	-	500
Income relating to the early termination of certain ijarah contracts	-	1,613
Release of deposits received on aircrafts	17.1 1,163	-
	<u>1,163</u>	<u>2,113</u>

17.1 This amount primarily represents amounts released on certain purchase contracts that had not been pursued by potential buyers.

18 GAIN (LOSS) ON DISPOSAL OF IJARAH ASSETS, NET

	2015 US\$ '000	2014 US\$ '000
	<i>Note</i>	
Loss on disposal of ijarah assets	(10,834)	(41,510)
Release of provision upon disposal of ijarah assets	8 15,852	15,536
	<u>5,018</u>	<u>(25,974)</u>

19 OTHER OPERATING EXPENSES RELATING TO IJARAH ASSETS

	2015 US\$ '000	2014 US\$ '000
Repairs and maintenance	1,739	1,259
Professional and consultancy fees	99	244
	<u>1,838</u>	<u>1,503</u>

20 PROFIT ON FINANCING CONTRACTS

This represents an amount received upon maturity of a 2.5 year shari'a compliant facility provided to ADGL (Guernsey), which matured on 2 February 2015.

21 FEE AND OTHER INCOME

	2015 US\$ '000	2014 US\$ '000
Structuring and arrangement fees	1,423	-
Advisory fees	927	-
Dividend income	100	-
Management fees	41	245
Other income	312	139
	<u>2,803</u>	<u>384</u>

At 31 December 2015

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2015 US\$ '000	2014 US\$ '000
Rent and maintenance expenses	257	282
Legal and professional expenses	360	223
Communication charges	199	198
Board of Directors and Board Committees attendance allowances	125	125
Shari'a Supervisory Board attendance allowances	106	106
Travel expenses	23	76
Marketing and advertisement expenses	23	32
Other expenses	237	459
	1,330	1,501

23 PROVISIONS

		2015		
Note	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	
	US\$ '000	US\$ '000	US\$ '000	
Balance at beginning of the year		56,300	-	56,300
Charge during the year	23.1	1,728	-	1,728
Release of provision upon disposal of assets		(15,852)	-	(15,852)
Balance at the end of the year		42,176	-	42,176
		2014		
Note	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	
	US\$ '000	US\$ '000	US\$ '000	
Balance at beginning of the year		44,167	1,484	45,651
Charge during the year	23.1	26,185	-	26,185
Release of provision upon disposal of assets		(15,536)	-	(15,536)
Transfer		1,484	(1,484)	-
Balance at the end of the year		56,300	-	56,300

23.1 Charge during the year

	Notes	2015 US\$ '000	2014 US\$ '000
Investment in ijarah assets	8	1,426	18,177
Non-trading investments	7	302	4,650
Net assets of disposal group classified as held for sale		-	1,865
Other assets		-	2,977
Other liabilities		-	(1,484)
		1,728	26,185

At 31 December 2015

24 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:

	2015 US\$ '000	2014 US\$ '000
Cash and balances with banks	2,396	1,959
Due from banks and financial institutions (with original maturities of 90 days or less)	40,700	17,702
	<u>43,096</u>	<u>19,661</u>

25 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 2015:

	<i>Amortised Cost US\$ '000</i>	<i>Fair value through equity US\$ '000</i>	<i>Fair value through statement of income US\$ '000</i>
Financial assets			
Financing contracts	-	-	-
Non-trading investments	-	9,695	20,834
Other assets (excluding prepayments)	5,132	-	-
	<u>5,132</u>	<u>9,695</u>	<u>20,834</u>
Financial liabilities			
Term financing	14,496	-	-
Other liabilities	6,952	-	-
Financial guarantee			
Financial guarantee	3,106	-	-
	<u>24,554</u>	<u>-</u>	<u>-</u>

26 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.

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.

At 31 December 2015

26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	2015			
	<i>Level 1</i> <i>US\$ 000</i>	<i>Level 2</i> <i>US\$ 000</i>	<i>Level 3</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
Non-trading investments	1,336	-	20,834	22,170
	<u>1,336</u>	<u>-</u>	<u>20,834</u>	<u>22,170</u>
	2014			
	<i>Level 1</i> <i>US\$ 000</i>	<i>Level 2</i> <i>US\$ 000</i>	<i>Level 3</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
Non-trading investments	1,699	-	-	1,699
	<u>1,699</u>	<u>-</u>	<u>-</u>	<u>1,699</u>

An investment with a carrying value of US\$ 8,359 thousand (2014: US\$ 8,634 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.

27 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.

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.

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

Regulatory capital

	Notes	2015 US\$'000
Regulatory		
Tier 1 capital	27.1	137,838
Total regulatory capital		<u>137,838</u>
Risk weighted assets	27.2	505,246
Total capital adequacy ratio		<u>27.28%</u>
Minimum regulatory ratio		<u>12.5%</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

27 CAPITAL MANAGEMENT (continued)

27.1 Tier 1 Capital

	2015 US\$'000
Share capital	145,643
Statutory reserve	9,889
Retained earnings	(17,977)
Investments fair value reserve	283
Core Tier 1 Capital	137,838

27.2 Risk weighted assets

	2015 US\$ '000
Credit risk weighted assets	407,253
Market risk weighted assets	22,900
Operational risk weighted assets	75,093
	505,246

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.

28 SEGMENTAL INFORMATION

a) Geographic sector

The geographical distribution of the Bank's assets and liabilities as of 31 December 2015 is as follows:

	<i>Bahrain</i> US\$'000	<i>Europe</i> US\$'000	<i>Others</i> US\$'000	<i>Total</i> US\$'000
Assets				
Cash and balances with banks	519	1,827	50	2,396
Due from banks and financial institutions	40,700	-	-	40,700
Financing contracts	-	-	-	-
Non-trading investments	-	7,584	22,945	30,529
Investment in ijarah assets	-	74,100	-	74,100
Net assets of disposal group classified as held for sale	-	-	-	-
Investment in real estate	10,476	-	-	10,476
Other assets	581	2,386	2,304	5,271
Property and equipment	5,578	-	-	5,578
Total assets	57,854	85,897	25,299	169,050
Liabilities				
Term financing	-	14,496	-	14,496
Other liabilities	2,560	900	3,492	6,952
Total liabilities	2,560	15,396	3,492	21,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

28 SEGMENTAL INFORMATION (continued)

a) Geographic sector (continued)

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

	<i>Bahrain</i> <i>US\$'000</i>	<i>Europe</i> <i>US\$'000</i>	<i>Others</i> <i>US\$'000</i>	<i>Total</i> <i>US\$'000</i>
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

b) Industry sector

The industrial distribution of the Bank's assets and liabilities as of 31 December 2015 is as follows:

	<i>Banking and financial institutions</i> <i>US\$'000</i>	<i>Aviation</i> <i>US\$'000</i>	<i>Real estate</i> <i>US\$'000</i>	<i>Manufacturing</i> <i>US\$'000</i>	<i>Others</i> <i>US\$'000</i>	<i>Total</i> <i>US\$'000</i>
Assets						
Cash and balances with banks	2,396	-	-	-	-	2,396
Due from banks and financial institutions	40,700	-	-	-	-	40,700
Financing contracts	-	-	-	-	-	-
Non-trading investments	-	-	29,193	1,336	-	30,529
Investment in ijarah assets	-	74,100	-	-	-	74,100
Net assets of disposal group classified as held for sale	-	-	-	-	-	-
Investment in real estate	-	-	10,476	-	-	10,476
Other assets	-	3,867	309	-	1,095	5,271
Property and equipment	-	-	-	-	5,578	5,578
Total assets	43,096	77,967	39,978	1,336	6,673	169,050
Liabilities						
Term financing	-	14,496	-	-	-	14,496
Other liabilities	-	1,686	-	-	5,267	6,952
Total liabilities	-	16,181	-	-	5,267	21,448

At 31 December 2015

28 SEGMENTAL INFORMATION (continued)**b) Industry sector (continued)**

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

	<i>Banking and financial institutions</i>	<i>Aviation</i>	<i>Real estate</i>	<i>Manufacturing</i>	<i>Others</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
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	-	51,518	-	-	5,267	56,785

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.

29 RELATED PARTIES

Related parties comprise the Bank's Shareholders, the directors, Shari'a Supervisory Board members, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the 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 2015, the Bank has not made any provision related to amounts owed by related parties (2014: Nil). All related party transactions are approved by the Board of directors.

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

	2015				2014
	<i>Shareholders</i>	<i>Directors</i>	<i>Others</i>	<i>Total</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Consolidated statement of financial position					
Asset					
Other assets	-	-	442	442	472
Expenses					
Fee income	-	-	266	266	525
Board of Directors and Board					
Committees attendance					
allowances	-	125	-	125	125
Shari'a Supervisory Board					
attendance allowances	-	-	106	106	106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

29 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:

	2015	2014
	US\$'000	US\$'000
Short term employee costs	1,288	1,241
Termination costs	169	206
	<u>1,458</u>	<u>1,447</u>

30 COMMITMENTS AND GUARANTEES

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 Banks commitments are as follows:

	<i>Note</i>	<i>Less than 1 year US\$ '000</i>	<i>Total US\$ '000</i>
At 31 December 2015			
Capital and other commitments		550	550
Financial Guarantee	30.1	3,106	-
		<u>3,656</u>	<u>550</u>
At 31 December 2014			
Capital and other commitments		545	545
		<u>545</u>	<u>545</u>

30.1 During the year, the Bank exited from an investment classified as held for sale and issued a financial guarantee equivalent to US\$ 3.1 million in favor of the buyer representing the Bank's indemnity obligations in relation to the sale, if any. The Bank's share of the financial guarantee is US\$ 0.7 million while the remaining amount represents the guarantee issued on behalf of its investors. The Bank has also signed back to back guarantee agreements with its investors which entitles the Bank to claim any amounts paid to the buyer from its investors. The financial guarantee matures on 10 June 2018.

31 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.

32 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.

32.1 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.

At 31 December 2015

32 RISK MANAGEMENT (continued)**32.2 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

	2015 US\$'000	2014 US\$'000
Balances with banks	2,392	1,955
Due from banks and financial institutions	40,700	17,702
Financing contracts	-	3,910
Other assets	5,132	19,466
	48,224	43,033

As of 31 December 2015, none of the above exposures are either past due or impaired (2014: 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:

	<i>Balances with banks</i> US\$ '000	<i>Due from banks and financial institutions</i> US\$ '000	<i>Financing contracts</i> US\$ '000	<i>Other assets</i> US\$ '000	<i>Total</i> US\$ '000
2015					
Medium grade: A – BBB	2,392	40,700	-	-	43,092
Non-investment / speculative: BB – B	-	-	-	-	-
Unrated	-	-	-	5,132	5,132
	2,392	40,700	-	5,132	48,224

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Credit quality per class of financial assets (continued)

	Balances with banks US\$ '000	Due from banks and financial institutions US\$ '000	Financing contracts US\$ '000	Other assets US\$ '000	Total US\$ '000
2014					
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
	<u>1,955</u>	<u>17,702</u>	<u>3,910</u>	<u>19,466</u>	<u>43,033</u>

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:

	Bahrain US\$'000	Europe US\$'000	Others US\$'000	Total US\$'000
2015				
Balances with banks	549	1,823	20	2,392
Due from banks and financial institutions	40,700	-	-	40,700
Other assets	493	2,386	2,253	5,132
	<u>41,742</u>	<u>4,209</u>	<u>2,273</u>	<u>48,224</u>
2014				
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
	<u>18,407</u>	<u>21,347</u>	<u>3,279</u>	<u>43,033</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

32 RISK MANAGEMENT (continued)**32.2 Credit risk (continued)***Concentration risk (continued)*

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

2015	Aviation	Banking and financial institution	Others	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Balances with banks	-	2,392	-	2,392
Due from banks and financial institutions	-	40,700	-	40,700
Other assets	3,867	-	1,265	5,132
	3,867	43,092	1,265	48,224

2014	Aviation	Banking and financial institutions	Others	Total
	US\$'000	US\$'000	US\$'000	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

32.3 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 2015, a +/- 200bp change in the profit rate, with all other variables constant, would have resulted in a +/- US\$ 367 thousand (31 December 2014: +/-200bp would have resulted in +/- US\$ 670 thousand) impact on the consolidated statement of income.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

32 RISK MANAGEMENT (continued)**32.3 Market risk (continued)***Currency risk (continued)*

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

	2015		
	<i>Assets</i> <i>US\$'000</i>	<i>Liabilities</i> <i>US\$'000</i>	<i>Net</i> <i>US\$'000</i>
Kuwaiti Dinars	1,336	(11)	1,325
Great Britain Pounds	7,585	(484)	7,101
Euro	8,359	-	8,359

	2014		
	<i>Assets</i> <i>US\$'000</i>	<i>Liabilities</i> <i>US\$'000</i>	<i>Net</i> <i>US\$'000</i>
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

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.

	<i>Change in exchange rates (+/-)</i> %	<i>income and equity (+/-)</i> <i>US\$'000</i>
Kuwaiti Dinars	10	134
Great Britain Pounds	10	759
Euro	10	836

Equity price risk

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

As at 31 December 2015, 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.

	<i>Change in equity price</i> %	<i>Effect on net equity (+/-)</i> <i>US\$'000</i>
Kuwait Stock Exchange	10	134

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.

At 31 December 2015

32 RISK MANAGEMENT (continued)**32.3 Market risk (continued)***Equity price risk (continued)*

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

	2015 US\$ '000	2014 US\$ '000
Foreign exchange risk	23,863	43,341
Regulatory capital requirement (multiple of 12.5)	1,909	3,467

During the year, the maximum capital requirement as per the standardized method was US\$ 2,234 thousand while the minimum capital requirement was US\$ 1,539 thousand.

32.4 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

32 RISK MANAGEMENT (continued)

32.4 Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2015 based on expected periods to cash conversion from the consolidated statement of financial position date:

2015	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	2,396	-	-	-	-	-	-	-	2,396
Due from banks and financial institutions	40,700	-	-	-	-	-	-	-	40,700
Financing contracts	-	-	-	-	-	-	-	-	-
Non-trading investments	-	-	-	-	-	-	-	30,529	30,529
Investment in ijarah assets	-	-	-	-	-	-	-	74,100	74,100
Net assets of disposal group classified as held for sale	-	-	-	-	-	-	-	-	-
Investment in real estate	-	-	-	-	-	-	-	10,476	10,476
Other assets	-	-	329	472	-	-	-	4,470	5,271
Property and equipment	-	-	-	-	-	-	-	5,578	5,578
Total assets	43,096	-	329	472	-	-	-	125,153	169,050
Liabilities									
Term financing	-	-	4,832	9,664	-	-	-	-	14,496
Other liabilities	1,875	647	100	-	1,711	-	-	2,619	6,952
Total liabilities	1,875	647	4,932	9,664	1,711	-	-	2,619	21,448
Net gap	41,221	(647)	(4,603)	(9,192)	(1,711)	-	-	122,534	147,602
Cumulative net gap	41,221	40,574	35,971	26,779	25,068	25,068	25,068	147,602	

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

32 RISK MANAGEMENT (continued)

32.4 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	145,172

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.

At 31 December 2015

32 RISK MANAGEMENT (continued)**32.5 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:

	2015 US\$ '000	2014 US\$ '000
Average gross income	22,900	48,910
Operational risk weighted assets	75,093	91,706
Regulatory capital requirement (at 12.5%)	9,011	11,005

33 SOCIAL RESPONSIBILITY

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

34 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 2015 (2014: nil).

35 NON COMPLIANCE WITH SHARI'A RULES AND PRINCIPLES 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.