Seera Investment Bank

2016 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

TABLE OF CONTENTS

MESSAGE FROM THE CHAIRMAN

On behalf of the Board of Directors of Seera, I am presenting the consolidated financial results for the year ended 31st December 2016, a year of uncertainties and challenges.

Overview

2016 was the year when two major unexpected political changes occurred, the full impact of which is still not totally clear. In June, UK voted in favor of leaving the European Union ("Brexit") and in November, the United States elected a new President. One of the immediate impacts of Brexit on Seera was the sharp decline of sterling from 1.48 in January 2016 to 1.22 as of 31st December 2016 resulting in a foreign exchange loss of around US$ 3 million due to Seera's investment holdings in British Pounds. Although the impact of the new US Presidency has had no direct impact on Seera, uncertainty about the economic and other policies of the new administration is creating some anxiety amongst regional investors. As a result, and until there is some more certainty on the future economic political climate, many investors seem to be taking a cautious approach when it comes to investments in the US or UK.

However, the most significant impact on Seera's net consolidated income for the year ended 31st December 2016 has been due to a decision to proactively address the issues in Seera's legacy investments in aviation and real estate. These are investments which were made in the early days of the Bank and prior to the global financial crisis, including the aviation portfolio 'Falak' which has been continually pruned over the past few years and at the end of 2016. Out of the three aircraft left in the portfolio, two are leased to a startup airline in Europe which continues to face teething issues. In the meantime, due to the age of these aircraft and the declining popularity of the aircraft type (A340s), the market value of these aircraft is declining much faster than the book value which would have meant a need to book additional impairments on these aircraft. In addition, the lessee has faced financial difficulties and may not be able to abide by the terms of the original lease. Should they be unable to continue with the lease in the future, the Bank could incur further significant expenses in re-possessing and disposing of the aircraft. Given all these issues, the Board of Directors and the Management have accordingly decided that it is in the best interest of the Bank to exit from the aviation sector altogether.

A similar decision had to be made in respect of a legacy investment in an affordable housing project in Morocco which was promoted by another Bahrain based real estate investment company and in which Seera took a share back in 2007. Despite several initiatives to recover some of the initial investment, several significant hurdles have hampered the likelihood of a near term recovery. The Board and Management have accordingly decided that it would be in the Bank's best interest to fully impair the value of this investment in the books. Provisions on these two investments contribute to the bulk of the losses reported in 2016. The 2016-year end provisions have been made on a prudent and conservative basis to minimize the possibility of any further provisions being required for these legacy assets in the future. These hard measures will enable the Bank to free itself from the constraints of its legacy portfolio and focus its efforts on new and profitable business opportunities in the future.

Although much of 2016 was utilized to address issues with legacy investments, new investments were not ignored during this period. During 2016, we substantially placed a multifamily investment made at the end of 2015 and in Q3' 2016, invested in a 1 Million Sq. Ft. logistics warehouse in the US leased to Amazon.com. These investments have provided a platform for the Bank to look at other good opportunities in the US market and a number of interesting investments are currently being carefully reviewed.

2016 Performance Analysis

In 2016, as mentioned above, the Bank has taken provisions and fair value adjustments to de-risk its balance sheet. The total provisions and impairments on a consolidated basis were US$ 45.7 million while fair value adjustments including impact of the drop in GBP due to Brexit is US$ 10.5 million. On a consolidated basis, the Bank generated a net income of US$ 760 thousand before the impact of the FX fair value adjustments and provisions as noted above. The impact of the fair value adjustments and provisions has resulted in the Bank posting a consolidated net loss of US$ 56.3 million for the year ended 31st December 2016 compared to a net profit of US$ 2.8 million in the previous year. The loss attributable to shareholders for 2016 is US$ 50.3 million, compared to a profit of US$ 2.8 million in the previous year. Total consolidated income for 2016 is US$ 5.9 million compared to US$ 8.7 million in the previous year.

Fee income on new investments completed during the year was US$ 1.4 million, a reduction of US$ 1 million on the previous year due to volatility created in the second half of the year post Brexit and the US elections. Operating expenses before depreciation for the year were US$ 4.9 million which remained in line with the previous year.

Total assets of the Bank as of 31st December 2016 stood at US$ 111.3 million compared to US$ 169.1 million in the previous year. Investment in Ijarah Assets, representing Seera's investment in Falak Aviation Fund, declined to US$ 28.9 million compared to US$ 74.1 million in the previous year. This decline represents the impact of the provisions as outlined above. These provisions have completely de-risked Seera's balance sheet from any further negative impact of the aviation sector and will allow the Bank to focus on new business and growth.

Seera's liquid assets as of 31st December 2016 were US$ 37.8 million and a Capital Adequacy ratio of around 34% which is significantly higher than the Central Bank of Bahrain's regulatory minimum capital requirement of 12.5%. Furthermore, the Bank's liabilities at the end of the year slightly dropped to US$ 20.1 million from US$ 21.4 million in the previous year, primarily representing one year's debt repayments on one aircraft. The remaining liabilities relate mainly to an external bank loan on one aircraft which is currently leased to a top-tier international airline and is in the process of being sold with the attached renewed lease. The external bank has no recourse to Seera or its investors on this loan.

Despite the general negative sentiments in the market, during 2016 Seera completed a transaction in the US in a very niche logistics warehouse spectrum. Throughout the year, we continued to show strong investment discipline in an economic climate that is still challenging.

Market Outlook

According to a number of market reports, the risk to global growth continues to remain towards the downside with recent political developments and potential widening of global imbalances, along with sharp exchange rate movements. Geopolitical risks in the Middle East and Africa continue to weigh down the outlook. However, policy stimulus in the United States and China have helped the overall global outlook, and upside risks include higher investments if market confidence strengthens. Based on stronger than expected performance of countries namely the United States, China, Europe and Japan in 2016, the overall economic forecasts for global growth have been raised for 2017.

However, the economic outlook still remains uncertain, mainly due to the changes in the US policy under the new presidency as well as effects on Europe and United Kingdom due to Brexit. Despite these hurdles, according to market reports, advanced economies are expected to grow at 1.9 percent and emerging markets at a rate of 4.5 percent. In the region, due to a cut back in oil production by OPEC towards the end of 2016, the growth in most GCC countries is expected by many analysts to be weaker than expected. However, this cut in oil production is expected to help stabilize oil prices, which is expected to have a positive effect on oil exporting countries.

Looking Ahead

The message from the above and various market experts is that of 'cautious optimism', due to positive momentum in developed economies which will continue to benefit from low oil prices. Despite the negative financial results for 2016, Seera's balance sheet remains strong with no material liabilities or financial obligations and supported by substantial liquid assets. With this in mind, Seera will, continue to cautiously and selectively identify opportunities in its target markets with appropriate risk adjusted returns for its Shareholders and investors. In addition, the Bank will continue to opportunistically exit from certain existing investments and a number of such exits are already being explored.

Appreciations

On behalf of the Board of Directors, I would like to thank the Government of the Kingdom of Bahrain, the Central Bank of Bahrain and the Ministry of Industry, Commerce & Tourism 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

2016 has been a challenging year both from global geopolitical point of view and due to specific issues facing Seera's legacy portfolio.

Overview

The continued challenges in the Bank's legacy investments in aviation and a real estate investment in Morocco forced substantial provisions to be taken to allow Seera to completely de-risk the balance sheet from the legacy investments which have hindered the growth and performance of the Bank in the past.

Due to the above and despite the fact that total income for the year was close to US$ 6 million, Seera had to make substantial provisions and fair value adjustments which resulted in a net consolidated loss of US$ 56.3 million for the year ended 31st December 2016.

This step, in our view, is a very prudent and necessary step which will allow the Bank to clean its books and its un-leveraged balance sheet and focus its efforts and resources on new and more profitable investment opportunities.

Challenges faced in the legacy portfolio

Falak Aviation Fund ("Falak")

In 2007 and immediately following inception, Seera made a major investment in Falak, a portfolio of 11 aircraft leased to various regional and global airlines. Following the increase in oil prices and then the global financial crisis in 2008, several four-engine aircraft in the portfolio fell out of favor with airlines and remarketing them at the end of their original leases became an increasingly significant challenge. Over the last few years a key focus of the Bank has been to wind down the portfolio in an orderly manner through selective exits. Accordingly, a number of aircraft were sold over the last few years which gradually reduced our exposure and risk in this sector.

The A321 is a relatively newer aircraft with better market conditions and Falak is pursuing various serious leads for an outright sale of the aircraft with the lease attached, at prices close to the carrying value for this aircraft. As of 31st December 2016, the Falak Aviation Fund comprised of only three aircraft i.e. two A340s and one A321. The two A340 (which are now over 20 years old) were leased to a Spanish startup airline and the A321 aircraft leased to a top-tier international airline. The two A340s were leased to the Spanish airline in 2014 on favorable terms and although the airline complied with the terms of its lease up to the beginning of 2016, they started facing various problems and difficulties including some serious financial challenges. Due to these challenges the lessee approached Falak to seek its approval to alter the lease terms which were unacceptable and unrealistic as it was clear that even at the revised terms the airline would continue to face challenges going forward. Based on this assessment it was decided to start the process to terminate and accelerate the disposal of the remaining aircraft in the Falak portfolio and wind up the portfolio altogether at the earliest.

Due to their four engines and the introduction of newer aircraft, the A340s have faced significant challenges over the last few years and have witnessed a big decline in their demand and market values. Given the challenges currently faced by the lessee and in the likely event that they are unable to continue meet their obligations under the lease, disposal of the aircraft could become even more challenging and could result in substantially low prices.

Although efforts are being made to find the optimal exit route given the above factors, a prudent fair value impairment adjustment has been made in the financial statements. Furthermore, given the volatility in the aviation market and the risk return trade off in the Falak portfolio it has been decided to completely exit the portfolio during 2017. This will allow Seera to focus on new business and growth.

Real Maroc

In addition to the fair value adjustments made for the Falak Portfolio, one of the legacy investments remaining on Seera's books relates to Real Maroc. This is a fund which was initiated by a Bahrain-based real estate company called Real Capita ("Investment Manager") with the intention of developing affordable housing in Morocco. Seera took a share in this fund in its early days back in 2007. The fund had acquired plots of land in three locations in Morocco and the Investment Manager had appointed a local contractor who commenced the development of one of the plots of land. However, the project came to a halt as a result of a dispute between the Investment Manager and the contractor. Various liens also exist on all three land plots, placed by the contractor and other claimants including a Moroccan bank and individuals who had paid deposits for housing units during the pre-sales period.

The Investment Manager (Real Capita) has not been able to provide Seera with adequate information to assess the fair value of the investment, however, Seera together with other investors in the Fund have been able to obtain a representation on the board of Real Maroc and access the underlying books of the Fund. In the meantime, the Investment Manager has filed for voluntary liquidation which has further complicated matters for all investors in the Real Maroc Fund including Seera.

We have attempted to assess the net asset value of the fund based on the available information and the ongoing disputes and liens on the plots of Real Maroc. This has been done taking into consideration the fair value of the lands (as assessed by an independent valuation expert based in Morocco) in addition to the liabilities of the Fund (including the claim of the contractor which has been determined by the International Court of Arbitration "ICA"), the outstanding loan taken by the Fund from a local bank in Morocco and the amounts paid by the buyers of units as deposit during the pre-sales period.

On the basis of the above, the Bank has concluded that the recoverability of its investment in Real Maroc is doubtful and therefore an impairment covering the full carrying value has been recognized.

Impact of Brexit

During the year and specifically in June 2016, the UK, on the basis of a referendum which had been voted on by British Citizens, had decided to exit the European Union (more commonly referred to as "Brexit"). Brexit had an impact on the UK economy including the real estate market. Further as a result of the Brexit the value of the British Pound ("GBP") sharply declined against the United States Dollar ("USD"), Seera's reporting currency.

During 2014, the Bank entered into a joint venture with Apache Capital Partners to develop a dementia care facility in Clapham, UK. As at 31 December 2016, the joint venture had completed the acquisition of the land on which the project is planned to be developed and obtained the planning permission to develop the project. Due to Brexit, the main impact on the value of this investment has been on the FX loss due to the weakening of GBP against the dollar. Furthermore, although the project remains very much on track for successful completion, Brexit has in the short term affected the land prices in UK. Based on the above, the Bank recognized as a prudent measure a fair value loss of US$ 2.1 million thousand during the year which includes the impact of the decline in the exchange rate and the fair value of the land.

New Transactions

US Multifamily, Atlanta

2016 was not only a year of challenges but also a year when new transactions were completed and placed with our investors. During the early part of the year our investment in the US Multifamily acquired in partnership with another financial institution, was successfully placed with investors. The portfolio consists of two properties, Bridgewater and Preston Creek, located in Duluth and McDonough in Atlanta, Georgia, respectively. Bridgewater is a 532-unit garden-style community, built in 1992 in the North Gwinnett submarket, northeast of downtown Atlanta. Preston Creek is a 334-unit garden-style community, built in two phases in 2002 and 2003, in the Clayton/Henry submarket, southeast of downtown Atlanta and the airport. The portfolio has an occupancy of around 95% and is projected to offer attractive risk adjusted returns for Seera and its investors over the investment holding period.

Logistics Centre leased to Amazon.com

In July 2016, Seera successfully completed the acquisition of a new investment in a US logistics sector. The transaction comprises a Shari'a compliant equity investment in a Logistics Centre leased to Amazon, Phoenix, AZ. USA ("Amazon Logistics Centre" or the "Property"). Amazon Logistics Centre comprises over 1 million square feet of Class A institutional/distribution space and is 100 percent leased to Amazon.com ("Amazon").

The Property was built in 2007 and Amazon originally occupied around 600,000 sq. ft. of space. In 2011, the Amazon Logistics Centre was further expanded by a further 400,000 sq. ft. The Property is located in the heart of Phoenix's logistics hub and is very well connected to the entire South Western US. Known as "The Valley of the Sun," Phoenix is the sixth largest city and the 12th largest metropolitan area in the country with over 4.4 million residents. People continue to be drawn to Phoenix for its exceptional lifestyle, warm weather, top universities, outstanding employment opportunities, and affordable cost of living. The investment offers attractive risk adjusted returns and Seera was successful in placing a substantial portion of the investment to its investors during the last two quarters of 2016.

Looking Ahead

Coming out of 2016 Seera has a completely de-risked balance sheet with all the challenges faced by the legacy portfolio adequately covered for any further negative outcome. The Bank remains free from any material liabilities or obligations with a liquidity of over US$37million and a Capital adequacy ratio of 34%. These factors provide Seera with an open door to tremendous opportunities and potential growth.

Given the continued global economic environment the current investor risk appetite remains to be for investments providing regular cash income with moderate risk. We will therefore continue to seek investments which are well suited to current market conditions and investor appetite.

In terms of investment strategy, Seera seeks to diversify its portfolio both geographically and asset-class wise. 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.

Economic Outlook

Despite an overall global growth of 3.1% last year, 2016 was termed by some reports to be the weakest year for global growth since 2008. Global growth for the past four years has been trending below average, and it is expected to remain the same in 2017. Growth in the United States is expected to remain moderate under new policies and labor market tightening. The United Kingdom and Europe will likely be affected by the uncertainties surrounding Brexit, whereas in the Asian markets, China continues to slow and Japan is virtually at a halt. Negative policy rates by the ECB and Bank of Japan have led to negative government bond yields, which resulted in stock price underperformance of European and Japanese banks. Commodities are currently undergoing their rebalancing process, with production cuts, inventories are starting to normalize prices. Hence, as per some market reports oil prices are expected to be around US$ 55 in 2017. Commercial real estate markets, however, continue to benefit from the low interest rates. Growth in this sector is expected to remain strong in the United States, Europe and Japan. Returns in real estates in UK are likely to suffer due to Brexit, however despite all the uncertainties surrounding Brexit, the UK is still expected to grow by 1.5% based on stronger-than-expected performance in the second half of 2016.

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. 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.

Keeping the above investment strategy in mind, Seera has a number of transactions in the pipeline which after satisfactory completion of due diligence may be taken forward for investment.

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. MOHAMED HANI ABDULKADER AL BAKRI
Board Member

MR. OBAID MOHAMED AL SALAMI
Board Member

MR. HAMAD ABDULLATIF AL ASFOUR
Board Member

MR. WALEED KHALIFA AL FELAIJ
Board Member

MR. ABDULLAH ANWAR AL NOURI
Board Member

MR. MOHAMED LOAY TAYSEER ABDELFATTAH
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.

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. MAHA AL SAYYAD	Head of Compliance & Board Secretary (Acting)
MR. AHMED AL KHAYYAT	Head of Information Technology

INVESTMENTS

Seera focuses primarily on two business lines, Asset Based Investments and Corporate Investments. Almost immediately following its inception, 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 and successfully exited investments in industrial manufacturing and specialty chemicals. The aircraft leasing portfolio was also determined to be non-core to Seera's investment strategy and is being gradually wound down through selective exits. Following the financial crisis, there has been a pronounced shift in the risk appetite of Seera's investors from Corporate Investments towards investments that provide recurring income. Recent investments have therefore focused primarily on opportunities that can provide investors attractive current income. Summary of key investments is provided below:

US Logistics Centre – Amazon.com

During 2016, Seera partnered with the Koll Group, USA to acquire a state of the art logistics facility, 100% leased to Amazon. The property is located at 6835 W Buckeye Road, Phoenix, Arizona and comprises over 1 million square feet of Class A institutional warehouse/distribution space. The warehouse is fully air-conditioned and boasts of energy efficient LED lighting, which makes it one of only two warehouses in Phoenix that have both these features. It is very well located in the main logistics hub of Buckeye, Phoenix, in close proximity to Phoenix Sky Harbour airport and just a 6-hour drive away from Southern California.

Amazon is the largest e-retailer globally and this facility forms a critical part of its distribution network. Additionally, the Global Security Operations for Amazon are also based in this property, reflecting the critical nature of this property within the operations of Amazon.

The transaction was closed with attractively priced financing, which will allow a distribution of c.9% p.a. to the investors over a 5 year hold period. We expect that the property will attract strong interest from potential new buyers in 5 years, with a renewed lease to Amazon in place.

Falak Aviation Fund

At its inception in 2007, Falak comprised of 11 aircraft which were leased to various regional and global airlines. As of the end of 2016, the portfolio comprised of 3 aircraft which are on long term leases.

During the year, the current lease with British Airways for the A321-200 was extended for a further 5 years from Jul'18 to Jul'23. Marketing efforts to sell the aircraft with the attached BA lease were also initiated with good interest from potential buyers. A sale is expected to be concluded in the first half of 2017.

In addition to the A321, Falak comprised of two A340 aircraft which are leased to Plus Ultra, a new Spanish startup airline, in 2014. However, performance of Plus Ultra has been below expectations due to a combination of internal and external issues. As a result, they faced financial difficulties in meeting their obligations under the lease agreement. This along with the general weak market for wide bodied aircraft made the recovery of the carrying value of these aircraft highly unlikely, on account of which Seera decided to make additional provisions to reflect the likely recoverability from these assets, based on current market values.

UK Elderly Care Development Project

In early 2015, Seera invested in the development of a world class dementia care facility at Clapham, London. Seera teamed up with a very strong Investment Management partner for this project, Apache Capital Partners, a UK based real estate asset manager and Red & Yellow (R&Y) as the operating partner.

Following acquisition of the land site, planning approval for the project was received well ahead of schedule and for a larger scheme than originally envisaged. However, during 2016, the project faced a few unexpected challenges related to cost escalation, reduction in the anticipated loan proceeds following Brexit; and internal management issues within R&Y which made it unviable to continue with them as the operating partner for the project.

Since then, significant progress has been made on selecting a new operator with advanced discussions underway. While unforeseen events have delayed the project execution, the fundamental factors that made the project attractive such as the undersupply of the product and the planning approval, remain intact. Construction is expected to commence during 2017, once the new operator has been appointed.

US Multifamily, Atlanta

Towards the end of 2015, Seera in partnership with a regional financial institution and GoldOller Real Estate Investment (GoldOller) acquired two properties - Bridgewater and Preston Creek, located in two suburbs of Atlanta. Bridgewater is a 532-unit garden-style community, while Preston Creek is a 334-unit garden-style community. GoldOller, the operating partner, is an experienced Multifamily management services provider with over 7,700 units currently under management through their offices in 8 states.

The two properties performed largely in line with expectations during 2016. A cash distribution of 8.5% p.a. was made to investors in the project during the year. In accordance with the business plan, a renovation program at both the properties in currently underway which is expected to result in higher rents and profitability.

The US in general, including Atlanta metropolitan area, the 10th largest metro economy in the US by real GDP, continues to perform strongly with high job growth and economic growth prospects.

Seera expects to hold the property for a period of 4 to 5 years during which the operational improvement initiatives will be completed, after which the properties will be sold.

CORPORATE GOVERNANCE

Seera is committed to effective corporate governance, as this is a key aspect of the Bank's strategic direction and encompasses Seera'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 purposes.
- 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

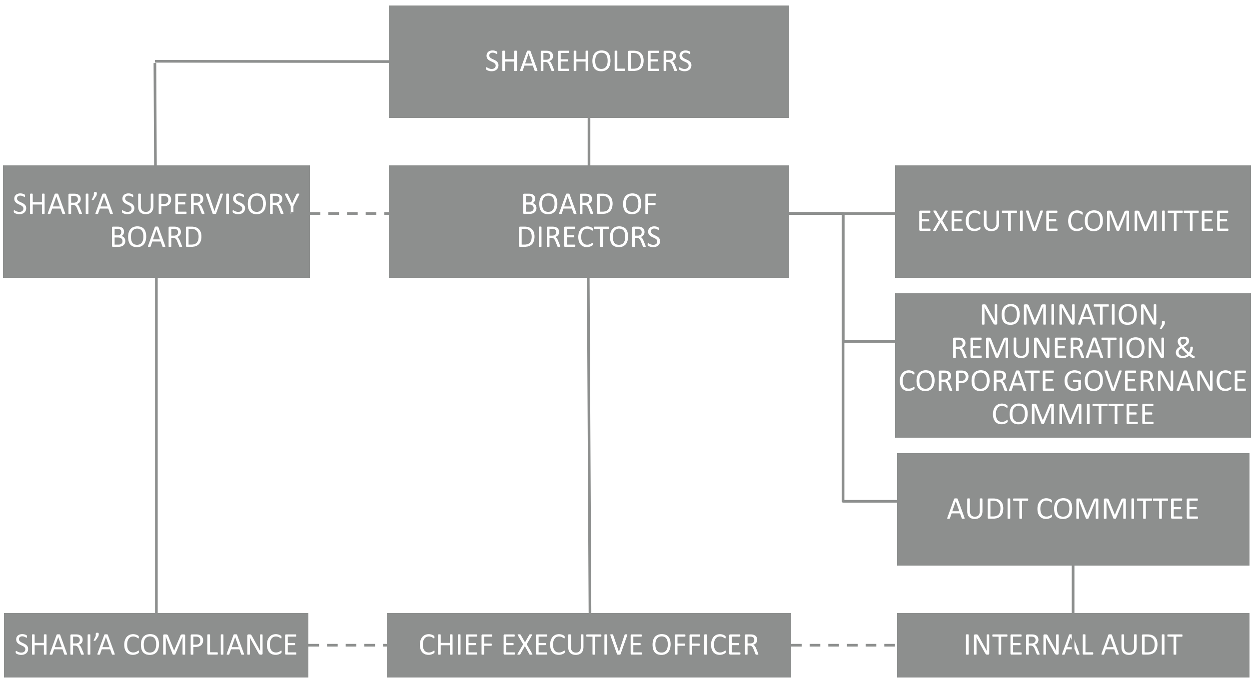
The primary objectives of the Bank's Corporate Governance Framework are to ensure that corporate governance:

- 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 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 (SSB)
- 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 Central Bank of Bahrain (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 consideration 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 only 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, Remuneration and Corporate Governance 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, Remuneration and Corporate Governance Committee is responsible for identifying individuals to become Board members and developing the 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. The Committee is also responsible for overseeing and monitoring the implementation of the governance policy framework by working together with the management, the Audit Committee and the SSB; as well as developing and recommending changes from time to time to the Bank's corporate governance policy framework.

Shari'a Compliance

In line with the Bank's mandate, Seera conducts its activities in compliance with Shari'a principles. The Shari'a Supervisory Board (SSB), 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 SSB is responsible for forming and expressing an opinion on the extent to which the activities of the Bank 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 Shari'a Supervisory Board to provide guidance to the Bank on a day-to-day basis.

The Group is also committed to avoiding recognizing 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 Supervisory 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 up to US$ 75 million may be approved by the Board's Executive Committee if the full Board of Directors cannot meet. However, all such approvals require to be ratified by the full Board of Directors in their next meeting. Transactions above US$ 75 million require 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 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 and a Recruitment policy prohibiting the employment of relatives of approved persons.

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 2014, the Bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain and proposed revisions to its variable remuneration framework. The revised policy was approved by the shareholders in the Annual General Meeting on 9th April 2015.

Although, no variable remuneration is being awarded for 2016, the key features of the proposed remuneration framework are summarized 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 are 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 employees is fundamental to the success of any organization. We therefore aim to attract, retain and motivate the 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 reward package is comprised of the following key elements:

1. Fixed Pay and Benefits
2. Annual Performance Bonus and 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 & Corporate Governance Committee (NRCGC).

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 he is the Head of a significant business line or any individual within his 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 summarized 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 NRCGC believes the latter contributes to the long-term sustainability of the business.

NRCGC role and focus

The Nomination, Remuneration and Corporate Governance Committee (NRCGC) has oversight of all reward policies for the Bank's employees. The NRCGC 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 NRCGC 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 NRCGC 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 NRCGC 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 support functions like risk management, internal audit, operations, financial control and compliance the mix of fixed and variable remuneration is weighted in favor of fixed remuneration.

- Recommend Board member remuneration based on their performance and attendance 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.

- Overseeing and monitoring the implementation of the Corporate Governance policy framework by working together with the management, the Audit Committee and the SSB;

- Developing and recommending changes from time to time to the Bank's Corporate governance policy framework.

The NRCGC comprises of the following members:

NRCGC Member Name	Appointment date	Number of meetings attended
Abdullah Anwar Al Nouri, Chairman	12 December 2016	1 Out of 1
Waleed Khalifa Al Felaij, Member	27 April 2016	3 Out of 3
Hamad Abdullatif Al Asfour, Member	27 April 2016	2 Out of 2

The aggregate remuneration paid to all NRCGC members during the year in the form of sitting fees (mainly to cover travel expenses for attending meetings) amounted to US$ 15,000 [2015: US$ 12,500].

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 10% of the net profits after deducting the legal reserves 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 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 NRCGC 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 NRCGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRCGC 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 NRCGC.

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 measures 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 NRCGC 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 NRCGC keeps itself abreast of the Bank's performance against the risk management framework. The NRCGC 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 NRCGC, 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

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 NRCGC; 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 annual remuneration is less than BHD 100,000.

Details of remuneration paid

Remuneration paid for the Board of Directors and Management/Staff as per the following tables:

2016					
Categories	**No.**	**Fixed Remuneration (BHD'000)**			
		Salaries and Wages	**Other Benefits/ Allowances**	**Sitting Fees**	**Total**
1. Members of the Board	9	-	-	47	47
2. Approved Persons - Business Lines (not including in 1,3 to 7)	4	462	167	-	629
3. Approved Persons - Control & Support	4	191	81	-	272
4. Employees engaged in risk taking activities (business area)	2	62	25	-	87
5. Employees, other than approved persons, engaged in functions under 3	4	96	46	-	142
6. Other employees	11	103	44	-	147
7. Outsourced Employees/Service providers (engaged in risk taking activities)	-	-	-	-	-

Other staff costs amounting BHD 61k relate to indirect staff expenses such as training, recruitment, and levy. Other costs have not been considered in the table above.

2015					
Categories	No.	Fixed Remuneration (BHD'000)			
		Salaries and Wages	Other Benefits/ Allowances	Sitting Fees	Total
1. Members of the Board	9	-	-	47	47
2. Approved Persons - Business Lines (not including in 1,3 to 7)	4	506	132	-	638
3. Approved Persons - Control & Support	4	243	33	-	275
4. Employees engaged in risk taking activities (business area)	-	-	-	-	-
5. Employees, other than approved persons, engaged in functions under 3	4	108	21	-	129
6. Other employees	13	190	39	-	229
7. Outsourced Employees/Service providers (engaged in risk taking activities)	-	-	-	-	-

Other staff costs amounting BHD 66k relate to indirect staff expenses such as training, recruitment, and levy. Other costs have not been considered in the table above.

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 incorporates the CBB's rulebook quarterly updates and all the rules mandated by CBB were met as of December 2016. In addition to the Rules the CBB also issues 'Guidance' to banks which are expected to be followed (or explained in the case of non-compliance). Such non-compliance needs to be reported to the CBB and to shareholders in the annual report.

CBB Guidance HC-1.4.6 mentions that the Chairman of the Board of Directors should be an independent director. The Chairman of the Board, Mr. Hamad Al Ameeri; is a Non-Executive Director as per CBB classification. However, being nominated by NIC (a Controller who holds 34.3% of Seera's shares), Mr. Al-Ameeri is not viewed by the CBB as an independent director.

CBB Guidance HC-9.2.4B states that the Corporate Governance Committee shall comprise at a minimum of a Shari'a scholar who is an SSB member. The Bank's Corporate Governance Committee is merged with the Nomination Remuneration Committee and while it does not contain a Shari'a scholar who is an SSB member, the Bank believes that the spirit of the CBB guidance is achieved through liaising with the SSB on matters related to the Shari'a as stipulated in the Committee's charter. Additionally, a Shari'a scholar may be invited when and as needed.

During FY 2016, the Central Bank of Bahrain ("CBB") imposed a financial penalty amounting to BD400 due to the late publication (4 days late) of the Annual Audited Financial Statements as per PD.1.2.3.

Given the high standards of corporate governance maintained by the Bank including very strict policies followed by the Board in managing any potential conflicts of interest in board decision, the Bank is of the view that this does not represent a compromise of the risk control or governance standards. This fact has already been notified to the CBB since 2007.

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 2016, 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 2016 Board and Committee meetings' attendance:

	Minimum Number of Meetings Per Year	Actual Number Held in 2016	Total Number of Members	23 Feb.	27 Apr.	27 Apr.	2 Jun.	28 Sep.	26 Oct.	17 Nov.	14 Dec.	14 Dec.
Board of Directors	4	8	9	8	7	8	7*	6*	7*	7*	9	-
Audit Committee	4	6	3	3	3	-	3	3	-	-	3	3
Nomination & Remuneration Committee	2	3	3	-	2	-	2**	-	-	-	3	-

* Two members resigned during the year

** One member resigned during the year

Board Evaluation

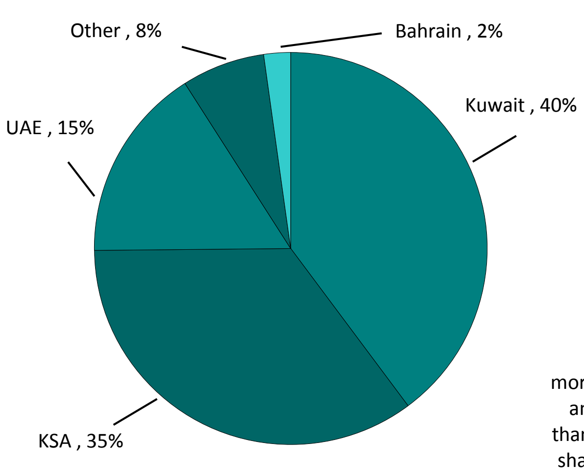
The Board of Directors has conducted its 2016 performance assessment of the Board and its committees. This was done through the completion of questionnaires covering the effectiveness of the Board and its committees and the contribution of Directors against their primary responsibilities on the Board and its committees. The Nomination, Remuneration and Corporate Governance 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

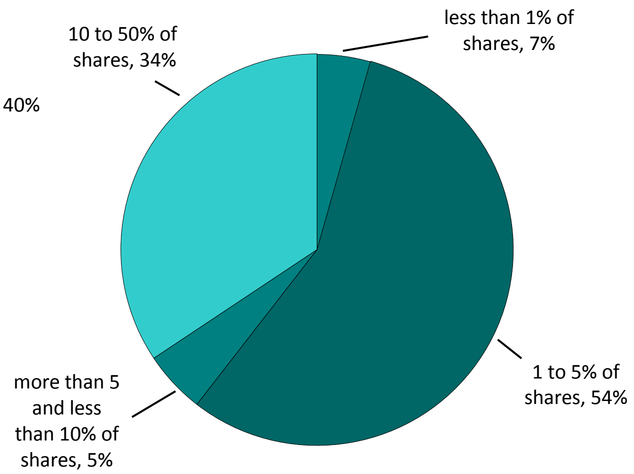
Board terms are generally three years. New Directors are elected by shareholders at annual general meetings by a majority of votes whereby shareholders have voting rights which correspond to their shareholdings. Shareholders with more than 10% of shares may appoint a Director for every 10% of their shareholdings. 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.

Complaints Methodology

It is the Bank's Policy to provide an open and transparent investment management process for all its investors. Investor's satisfaction is critical for the continued success of Seera. Thus, all complaints raised by investors are independently investigated.

Seera has established a Complaints Methodology which forms an integral part of its Corporate Governance.

FINANCIAL HIGHLIGHTS

US$ MILLIONS	2016	2015	2014	2013	2012
TOTAL INCOME / (LOSS)	**5.9**	8.7	(26.3)	33.8	11.4
TOTAL EXPENSES	**5.2**	5.1	5.6	5.7	5.9
NET INCOME FOREIGN EXCHANGE LOSSES, UNREALISED FAIR VALUE (LOSSES) GAINS, PROVISION AND IMPAIRMENT	**0.7**	3.5	(31.9)	28.1	5.5
INCOME FOREIGN EXCHANGE LOSSES, UNREALISED FAIR VALUE (LOSSES) GAINS, PROVISION AND IMPAIRMENT, NET	**(57.1)**	(0.7)	(27.0)	(24.1)	1.1
NET INCOME / (LOSS)	**(56.4)**	2.8	(58.9)	4.1	6.6
TOTAL ASSETS	**111.3**	169.1	202.0	310.6	360.3
TOTAL EQUITY	**91.2**	147.6	145.2**	205.5	204.4

KEY RATIOS

Islamic Financing to Equity Ratio (leverage)	**0.1**	0.1	0.4	0.3	0.7
Capital Adequacy	**33.6%**	27.3%	28.5%	23.9%	30.0%
Return on Average Assets *	**0.5%**	1.5%	-12.8%	8.4%	1.5%
Return on Average Equity *	**0.6%**	1.9%	-18.6%	13.8%	2.4%
Cost to Income	**88.1%**	65.4%	-20.7%	16.6%	47.3%

* Before foreign exchange loss, unrealized fair value (losses) gains on investments and provisions and impairment

** After 50% reduction in capital

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 2016, 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 Organization 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 2016, 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.

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 2016 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 34 to these consolidated financial statements.

Ernst + Young

16 February 2017
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 2016

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 issued fatwas and rulings during the year ended 31st December 2016 and found them compatible with its 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 resolutions. 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 (although the Bank notified the SSB that it is in advance stage of selling the aircraft with conventional loans in first quarter of 2017). 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 2016 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 2016

	Note	2016 US$ '000	2015 US$ '000
ASSETS			
Cash and balances with banks	5	**3,787**	2,396
Due from banks and financial institutions	6	**34,003**	40,700
Non-trading investments	7	**26,487**	30,529
Investment in ijarah assets	8	**28,892**	74,100
Investment in real estate	9	**10,476**	10,476
Other assets	10	**2,321**	5,271
Property and equipment	11	**5,353**	5,578
TOTAL ASSETS		**111,319**	169,050
LIABILITIES AND OWNERS' EQUITY			
LIABILITIES			
Term financing	12	**12,413**	14,496
Other liabilities	13	**7,703**	6,952
TOTAL LIABILITIES		**20,116**	21,448
OWNERS' EQUITY			
Share capital	14	**145,643**	145,643
Reserves	14	**10,073**	10,172
Accumulated losses		**(68,243)**	(17,977)
Equity attributable to shareholders of the parent		**87,473**	137,838
Non-controlling interest		**3,730**	9,764
TOTAL OWNERS' EQUITY		**91,203**	147,602
TOTAL LIABILITIES AND OWNERS' EQUITY		**111,319**	169,050

Hamad Ahmad Al Ameeri
Chairman

Mubarak Al Hemeiri
Board Member

Abdulla Janahi
Chief Executive Officer

The attached notes 1 to 34 form part of these consolidated financial statements

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	Note	2016 US$ '000	2015 US$ '000
Rental income from ijarah assets	15	**9,642**	9,083
Depreciation on ijarah assets	8	**(6,743)**	(9,427)
Management fees relating to ijarah assets		**(248)**	(266)
Financing cost relating to term financing obtained to purchase ijarah assets	12	**(861)**	(1,325)
Other income relating to ijarah assets	16	**151**	1,163
Gain on disposal of ijarah assets, net	17	**2,232**	5,018
Other operating expenses relating to ijarah assets	18	**(411)**	(1,838)
Net income from investment in ijarah assets		**3,762**	2,408
Profit on amounts due from banks and financial institutions		**330**	192
Profit on financing contracts	19	**-**	2,027
Net funding income		**330**	2,219
Fee and other income	20	**1,835**	2,803
Gain on sale of investment classified as held for sale		**-**	1,256
TOTAL INCOME		**5,927**	8,686
Expenses			
Staff expenses		**3,546**	3,546
General and administrative expenses	21	**1,349**	1,330
Depreciation on property and equipment	11	**272**	269
TOTAL EXPENSES		**5,167**	5,145
NET INCOME FOR THE YEAR BEFORE FOREIGN EXCHANGE LOSSED, UNREALISED FAIR VALUE (LOSSES) GAINS, PROVISION AND IMPAIRMENT		**760**	3,541
Foreign exchange loss		**(848)**	(816)
Unrealised fair value (losses) gains on investments		**(2,156)**	1,803
Provisions and Impairment	25	**(54,056)**	(1,728)
NET PROFIT (LOSS) FOR THE YEAR		**(56,300)**	2,800
Attributable to:			
Shareholders of the parent		**(50,266)**	(2,800)
Non-controlling interest		**(6,034)**	-
		(56,300)	(2,800)

Hamad Ahmad Al Ameeri
Chairman

Mubarak Al Hemeiri
Board Member

Abdulla Janahi
Chief Executive Officer

The attached notes 1 to 34 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 US$ '000	2015 US$ '000
OPERATING ACTIVITIES			
Net (loss) income for the year		**(56,300)**	2,800
Adjustments for:			
Provision for employees' end of service benefits		**189**	320
Gain on disposal of ijarah assets, net	17	**(2,232)**	(5,018)
Depreciation on ijarah assets	8	**6,743**	9,427
Depreciation on property and equipment	11	**272**	269
Unrealised fair value gain / (loss) on investments		**2,156**	(1,803)
Provisions and Impairment		**54,056**	1,728
Gain on sale of investment classified as held for sale		**-**	(1,256)
Operating profit before changes in operating assets and liabilities		**4,884**	6,467
Changes in operating assets and liabilities:			
Financing contracts		**-**	3,910
Other assets		**(1,706)**	45
Other liabilities		**751**	(3,337)
Net cash from operating activities		**3,929**	7,085
INVESTING ACTIVITIES			
Proceeds from disposal of ijarah assets		**1,048**	37,441
Purchase of non-trading investments	24	**(24,379)**	(13,083)
Proceeds from placement / disposal of non trading investments		**17,808**	10,854
Proceeds from disposal of investment classified as held for sale		**-**	13,506
Purchase of ijarah assets	8	**(1,582)**	-
Purchase of equipment	11	**(47)**	(50)
Proceeds from disposal of equipment		**-**	2
Net cash (used in) from investing activities		**(7,152)**	48,670
FINANCING ACTIVITIY			
Repayment and early settlement of term financing	12	**(2,083)**	(32,320)
Net cash used in financing activity		**(2,083)**	(32,320)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**(5,306)**	23,435
Cash and cash equivalents at the beginning of the year		**43,096**	19,661
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	22	**37,790**	43,096

* The movement in other assets in the comparatives (2015) excludes the effect of an advance payment amounting to US$ 16,802 thousand made by the Bank in 2014 to acquire an investment and the legal formalities of the acquisition were completed in 2015 and hence transferred to investments.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2016

	Equity attributable to shareholders of the parent						
	Share capital US$ '000	*Statutory reserve US$ '000*	*Investments fair value reserve US$ '000*	*Accumulated losses US$ '000*	*Total US$ '000*	*Non-controlling interest US$ '000*	*Total owners' equity US$ '000*
Balance at 1 January 2016	145,643	9,889	283	(17,977)	137,838	9,764	147,602
Net loss for the year	-	-	-	(50,266)	(50,266)	(6,034)	(56,300)
Unrealised loss on re-measurement of investments to fair value, net	-	-	(99)	-	(99)	-	(99)
Balance at 31 December 2016	**145,643**	**9,889**	**184**	**(68,243)**	**87,473**	**3,730**	**91,203**
Balance at 1 January 2015	145,643	9,609	653	(20,497)	135,408	9,764	145,172
Net profit for the year	-	-	-	2,800	2,800	-	2,800
Transferred to statutory reserve	-	280	-	(280)	-	-	-
Unrealised loss on re-measurement of investments 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

The attached notes 1 to 34 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 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 16th February 2017.

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*	
		2016	*2015*
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 Seven Limited	Bahamas	86%	86%
Falak Lease Nine Limited	Bahamas	86%	86%
Falak Lease Ten Limited	Bahamas	86%	86%
Falak Lease Four Dublin Limited	Bahamas	86%	86%
Falak Fin Seven 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.

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
Ijarah assets	3-6 years

Expenditure for maintenance and repairs is expensed as incurred.

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

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

3.2.9 Recognition of income

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

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

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

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

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

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

3.2.10 Derecognition of financial instruments

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

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

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

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

3.2.11 Foreign currencies

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

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

3.2.12 Impairment

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

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

3.2.13 Employees' end of service benefits

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

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

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

3.2.14 Fair value of financial instruments

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

- For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market price prevailing on the date of consolidated statement of financial position;
- For private equity investments, fair value is determined using recent buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to valuation models, including net present value of estimated future cash flows, and based on earnings before financing cost, tax, depreciation and amortization ("EBITDA") multiples; and
- For investment in real estate, fair value is determined based on the valuation performed by independent valuers.

3.2.15 Provisions

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

3.2.16 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

3.2.17 Zakah

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

4 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 2016. 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.

4 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

FAS 27 – Investment Accounts
FAS 27 replaced 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. FAS 27 is applicable from 1 January 2016 the addition of this standard did not have an impact on the group's financial statements since the group does not maintain "Equity of Investment Account Holders and their Equivalent" and does not foresee material impact in the consolidated financial statements upon application of this standard.

5 CASH AND BALANCES WITH BANKS

	2016 US$ '000	2015 US$ '000
Balances with banks	**3,782**	2,392
Cash in hand	**5**	4
	3,787	2,396

6 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2016 US$ '000	2015 US$ '000
Commodity murabaha contracts	**11,800**	27,102
Deferred income	**(7)**	(7)
	11,793	27,095
Wakala contracts	**22,210**	13,605
	34,003	40,700

7 NON-TRADING INVESTMENTS

	Note	2016 US$ '000	2015 US$ '000
Equity type investments at fair value through equity			
Quoted investment designated at fair value through equity		**1,238**	1,336
Unquoted investment designated at fair value through equity		**-**	8,359
	7.1	**1,238**	9,695
Equity type investment at fair value through statement of income			
Unquoted investments (note 24)		**25,249**	20,834
		26,487	30,529

7.1 The movement of investments at fair value through equity during the year is as follows:

	2016 US$ '000	2015 US$ '000
As at 1 January	**9,695**	10,333
Fair value changes	**(98)**	(336)
Impairment against available for sale investment	**(8,359)**	(302)
As at 31 December	**1,238**	9,695

8 INVESTMENT IN IJARAH ASSETS

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

	Cost at 1 January 2016 US$ '000	Accumulated depreciation 1 January 2016 US$ '000	Depreciation charge US$ '000	Accumulated depreciation 31 December 2015 US$ '000	Additions US$ '000	Net book value at 31 December 2016 US$ '000	Net book value at 1 December 2015 US$ '000
Falak Fin One Limited	**39,746**	**7,420**	**2,258**	**9,678**	**602**	**30,670**	32,326
Falak Lease Two Limited	**41,035**	**7,017**	**2,305**	**9,322**	**980**	**32,693**	34,018
Falak Fin Seven Limited	**43,056**	**10,900**	**2,180**	**13,080**	**-**	**29,976**	32,156
	123,837	**25,337**	**6,743**	**32,080**	**1,582**	**93,339**	98,500
Impairment						**(64,447)**	(24,400)
						28,892	74,100

The movement in impairment against ijarah assets is as follows:

	Notes	2016 US$ '000	2015 US$ '000
At 1 January		**24,400**	38,826
Charge during the year		**40,047**	1,426
Release of impairment upon disposal of ijarah assets	17	**-**	(15,852)
		64,447	24,400

9 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 2016 and 31 December 2015.

10 OTHER ASSETS

	2016 US$ '000 Gross receivable	2016 US$ '000 Provision	2016 US$ '000 Net receivable	2015 US$ '000 Gross receivable	2015 US$ '000 Provision	2015 US$ '000 Net receivable
Rental receivable	**3,825**	**(3,825)**	**-**	-	-	-
Receivable on sale of aircraft	**3,154**	**(1,483)**	**1,671**	1,875	-	1,875
Staff receivables	**392**	**-**	**392**	442	-	442
Prepaid expenses	**138**	**-**	**138**	139	-	139
Others	**462**	**(342)**	**120**	2,815	-	2,815
Gross Receivable	**7,971**	**(5,650)**	**2,321**	5,271	-	5,271

The movement in provision during the year is as follows:

	Note	2016 US$ '000	2015 US$ '000
At 1 January		**-**	-
Provision recognised during the year	25	**5,650**	-
As at 31 December		**5,650**	-

11 PROPERTY AND EQUIPMENT

	Freehold land US$ '000	Building US$ '000	Others US$ '000	Total US$ '000
Cost:				
At 1 January 2016	3,162	4,079	5,408	12,649
Additions	-	42	5	47
Disposals	-	-	(71)	(71)
At 31 December 2016	**3,162**	**4,121**	**5,342**	**12,625**
Accumulated depreciation:				
At 1 January 2016	-	1,852	5,219	7,071
Charge for the year	-	205	67	272
Disposals	-	-	(71)	(71)
At 31 December 2016	**-**	**2,057**	**5,215**	**7,272**
Net book value				
At 31 December 2016	**3,162**	**2,064**	**127**	**5,353**
At 31 December 2015	3,162	2,227	189	5,578

12 TERM FINANCING

	2016 US$ '000	2015 US$ '000
Falak Fin Seven Limited	**12,413**	14,496
	12,413	14,496

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

	2016 US$ '000	2015 US$ '000
Balance at the beginning of the year	**14,496**	46,816
Financing cost	**861**	1,325
Repayments and early settlement	**(2,944)**	(33,645)
Balance at end of the year	**12,413**	14,496

The above financing has been obtained by the Bank's subsidiaries to purchase ijarah assets and matures in June 2018 bearing profit rate of 4.190%.

These financing is secured by first priority mortgage over the respective aircraft on lease. As at 31 December 2016, the subsidiary is in compliance with debt covenants against the financings. There is no recourse to the Bank on this financing.

13 OTHER LIABILITIES

	2016 US$ '000	2015 US$ '000
Maintenance reserve payable	**1,398**	795
Security deposit payable	**1,000**	-
Accounts payable	**383**	1,558
Accrued expenses	**1,753**	1,604
Provision for employees end of service benefits	**1,112**	923
Current accounts	**1,978**	1,993
Unearned rental income from investment in Ijarah assets	**79**	79
	7,703	6,952

14 OWNERS' EQUITY

14.1 Share capital

	2016 US$ '000	2015 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

14.2 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 to the statuary reserve as the Bank has incurred losses in the current year (31 December 2015: US$ 280 thousand).

14 OWNERS' EQUITY (continued)

14.3 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.

15 RENTAL INCOME FROM IJARAH ASSETS

	2016 US$ '000	2015 US$ '000
Falak Lease One Limited	**3,446**	1,845
Falak Lease Two Limited	**3,040**	-
Falak Lease Seven Limited	**3,156**	3,156
Falak Lease Eight Limited	**-**	2,465
Falak Lease Eleven Limited	**-**	1,617
	9,642	9,083

16 OTHER INCOME RELATING TO IJARAH ASSETS

	Note	2016 US$ '000	2015 US$ '000
Release of deposits received on aircrafts	16.1	**-**	1,163
Unwinding of discount on sale of aircraft		**95**	-
Other income on ijarah assets		**56**	-
		151	1,163

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

17 GAIN ON DISPOSAL OF IJARAH ASSETS, NET

	Note	2016 US$ '000	2015 US$ '000
Gain (loss) on disposal of ijarah assets		**2,232**	(10,834)
Release of provision upon disposal of ijarah assets	8	**-**	15,852
		2,232	5,018

18 OTHER OPERATING EXPENSES RELATING TO IJARAH ASSETS

	2016 US$ '000	2015 US$ '000
Repairs and maintenance	**345**	1,739
Professional and consultancy fees	**66**	99
	411	1,838

19 PROFIT ON FINANCING CONTRACTS

This represented an amount received upon maturity of a 2.5 year shari'a compliant facility provided to ADGL (Guernsey), during the year ended 31 December 2015.

20 FEE AND OTHER INCOME

	2016 US$ '000	2015 US$ '000
Placement/structuring and arrangement fees	**1,378**	1,423
Advisory fees	**-**	927
Dividend income	**107**	100
Management fees	**16**	41
Yield on investment	**334**	309
Other income	**-**	3
	1,835	2,803

21 GENERAL AND ADMINISTRATIVE EXPENSES

	2016 US$ '000	2015 US$ '000
Maintenance expenses	**291**	257
Legal and professional expenses	**276**	360
Communication charges	**226**	199
Board of Directors and Board Committees attendance allowances	**125**	125
Shari'a Supervisory Board attendance allowances	**106**	106
Travel expenses	**48**	23
Marketing and advertisement expenses	**21**	23
Other expenses	**256**	237
	1,349	1,330

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:

	2016 US$ '000	2015 US$ '000
Cash and balances with banks	**3,787**	2,396
Due from banks and financial institutions (with original maturities of 90 days or less)	**34,003**	40,700
	37,790	43,096

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 2016:

	Amortised Cost US$ '000	*Fair value through equity US$ '000*	*Fair value through statement of income US$ '000*
Financial assets			
Non-trading investments	**-**	**1,238**	**25,249**
Other assets (excluding prepayments)	**2,183**	**-**	**-**
	2,183	**1,238**	**25,249**
Financial liabilities			
Term financing	**12,413**	**-**	**-**
Other liabilities	**7,703**	**-**	**-**
Financial guarantee			
Financial guarantee	**3,106**	**-**	**-**
	23,222	**-**	**-**

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:

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

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.

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:

	2016			
	Level 1 US$ 000	***Level 2 US$ 000***	***Level 3 US$ 000***	***Total US$ 000***
Non-trading investments	**1,238**	**-**	**25,249**	**26,487**
	1,238	**-**	**25,249**	**26,487**

	2015			
	Level 1 US$ 000	*Level 2 US$ 000*	*Level 3 US$ 000*	*Total US$ 000*
Non-trading investments	1,336	-	20,834	22,170
	1,336	-	20,834	22,170

As at 31 December 2015 an investment with a carrying value of US$ 8,359 thousand was carried at cost less impairment. During the current year this investment has been fully impaired.

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.

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value:

	2016 US$ '000	*2015 US$ '000*
Balance as at 1 January	**20,834**	-
Acquisitions	**24,379**	29,885
Placements	**(17,808)**	(10,854)
Fair value changes	**(2,156)**	1,803
	25,249	20,834

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 PROVISIONS AND IMPAIRMENT

Provisions and impairment recognised during the year is as follows:

	Note	*2016* *US$ '000*	*2015* *US$ '000*
Impairment recognised against ijarah assets	8	**40,047**	1,426
Impairment against available for sale investment		**8,359**	302
Rental receivable		**3,825**	-
Receivable on sale of aircraft		**1,483**	-
Other receivables		**342**	-
Total provisions and impairment recognised during the year		**54,056**	1,728

26 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	*2016* *US$'000*
Regulatory		
Tier 1 capital	26.1	**87,473**
Total regulatory capital		**87,473**
Risk weighted assets	26.2	**259,998**
Total capital adequacy ratio		**33.64%**
Minimum regulatory		**12.5%**

26 CAPITAL MANAGEMENT (continued)

26.1 Tier 1 Capital

	2016 US$'000
Share capital	**145,643**
Statutory reserve	**9,889**
Retained earnings	**(68,243)**
Investments fair value reserve	**184**
Core Tier 1 Capital	**87,473**

26.2 Risk weighted assets

	2016 US$ '000
Credit risk weighted assets	**223,620**
Market risk weighted assets	**11,338**
Operational risk weighted assets	**25,040**
	259,998

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.

27 SEGMENTAL INFORMATION

a) Geographic sector

The geographical distribution of the Bank's assets and liabilities as of 31 December 2016 is as follows:

	Bahrain US$'000	*UK & Europe US$'000*	*Others US$'000*	*Total US$'000*
Assets				
Cash and balances with banks	**3,787**	**-**	**-**	**3,787**
Due from banks and financial institutions	**34,003**	**-**	**-**	**34,003**
Non-trading investments	**-**	**6,269**	**20,218**	**26,487**
Investment in ijarah assets	**-**	**28,892**	**-**	**28,892**
Investment in real estate	**10,476**	**-**	**-**	**10,476**
Other assets	**650**	**1,671**	**-**	**2,321**
Property and equipment	**5,353**	**-**	**-**	**5,353**
Total assets	**54,269**	**36,832**	**20,218**	**111,319**
Liabilities				
Term financing	**-**	**12,413**	**-**	**12,413**
Other liabilities	**5,226**	**2,477**	**-**	**7,703**
Total liabilities	**5,226**	**14,890**	**-**	**20,116**

27 SEGMENTAL INFORMATION (continued)

a) Geographic sector (continued)

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

	Bahrain US$'000	*UK & Europe US$'000*	*Others US$'000*	*Total US$'000*
Assets				
Cash and balances with banks	519	1,827	50	2,396
Due from banks and financial institutions	40,700	-	-	40,700
Non-trading investments	-	7,584	22,945	30,529
Investment in ijarah assets	-	74,100	-	74,100
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

b) Industry sector

The industrial distribution of the Bank's assets and liabilities as of 31 December 2016 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	**3,787**	**-**	**-**	**-**	**-**	**3,787**
Due from banks and financial institutions	**34,003**	**-**	**-**	**-**	**-**	**34,003**
Non-trading investments	**-**	**-**	**25,249**	**1,238**	**-**	**26,487**
Investment in ijarah assets	**-**	**28,892**	**-**	**-**	**-**	**28,892**
Investment in real estate	**-**	**-**	**10,476**	**-**	**-**	**10,476**
Other assets	**-**	**1,671**	**-**	**-**	**650**	**2,321**
Property and equipment	**-**	**-**	**-**	**-**	**5,353**	**5,353**
Total assets	**37,790**	**30,563**	**35,725**	**1,238**	**6,003**	**111,319**
Liabilities						
Term financing	**-**	**12,413**	**-**	**-**	**-**	**12,413**
Other liabilities	**-**	**2,477**	**-**	**-**	**5,226**	**7,703**
Total liabilities	**-**	**14,890**	**-**	**-**	**5,226**	**20,116**

27 SEGMENTAL INFORMATION (continued)

b) Industry sector (continued)

The industrial distribution of the Bank's assets and liabilities as of 31 December 2015 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	2,396	-	-	-	-	2,396
Due from banks and financial institutions	40,700	-	-	-	-	40,700
Non-trading investments	-	-	29,193	1,336	-	30,529
Investment in ijarah assets	-	74,100	-	-	-	74,100
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	-	1,685	-	-	5,267	6,952
Total liabilities	-	16,181	-	-	5,267	21,448

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.

28 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 2016, the Bank has not made any provision related to amounts owed by related parties (2015: 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:

	2016				*2015*
	Shareholders US$'000	***Directors US$'000***	***Others US$'000***	***Total US$'000***	*Total US$'000*
Consolidated statement of financial position					
Asset					
Other assets	**-**	**-**	**-**	**-**	442
Expenses					
Yield income	**-**	**-**	**248**	**248**	266
Board of Directors and Board Committees attendance allowances	**-**	**125**	**-**	**125**	125
Shari'a Supervisory Board attendance allowances	**-**		**106**	**106**	106

28 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:

	2016 US$'000	*2015 US$'000*
Short term employee costs	**1,416**	1,288
Termination costs	**122**	169
	1,538	1,457

29 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:

	Note	*Less than 1 year US$ '000*	*Total US$ '000*
At 31 December 2016			
Capital and other commitments		**554**	**554**
Financial Guarantee	29.1	**3,106**	**3,106**
		3,660	**3,660**
At 31 December 2015			
Capital and other commitments		550	550
Financial Guarantee		3,106	3,106
		3,656	3,656

29.1 In 2015, 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.

30 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.

31 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 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.

31.1 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.

31 RISK MANAGEMENT (continued)

31.2 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

	2016 US$'000	*2015 US$'000*
Balances with banks	**3,782**	2,392
Due from banks and financial institutions	**34,003**	40,700
Receivables (other assets)	**2,183**	5,132
	39,968	48,224

As of 31 December 2016, none of the above exposures are either past due or impaired (2015: 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:

2016	*Balances with banks US$ '000*	*Due from banks and financial institutions US$ '000*	*Other assets US$ '000*	*Total US$ '000*
Medium grade: A – BBB	**462**	**8,003**	**-**	**8,465**
Non-investment / speculative: BB – B	**3,320**	**26,000**	**-**	**29,320**
Unrated	**-**	**-**	**2,183**	**2,183**
	3,782	**34,003**	**2,183**	**39,968**

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Credit quality per class of financial assets (continued)

2015	*Balances with banks US$ '000*	*Due from banks and financial institutions US$ '000*	*Other assets US$ '000*	*Total US$ '000*
Medium grade: A – BBB	2,392	40,700	-	43,092
Unrated	-	-	5,132	5,132
	2,392	40,700	5,132	48,224

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:

2016	***Bahrain US$'000***	***UK & Europe US$'000***	***Others US$'000***	***Total US$'000***
Balances with banks	**457**	**3,278**	**47**	**3,782**
Due from banks and financial institutions	**34,003**	**-**	**-**	**34,003**
Other assets	**512**	**1,671**	**-**	**2,183**
	34,972	**4,949**	**47**	**39,968**

2015	*Bahrain US$'000*	*Europe US$'000*	*Others US$'000*	*Total US$'000*
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
	41,742	4,209	2,273	48,224

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Concentration risk (continued)

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

2016	***Aviation US$'000***	***Banking and financial institutions US$'000***	***Others US$'000***	***Total US$'000***
Balances with banks	**-**	**3,782**	**-**	**3,782**
Due from banks and financial institutions	**-**	**34,003**	**-**	**34,003**
Other assets	**1,671**	**-**	**512**	**2,183**
	1,671	**37,785**	**512**	**39,968**

2015	*Aviation US$'000*	*Banking and financial institutions US$'000*	*Others US$'000*	*Total US$'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

31.3 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 2016, a +/- 200bp change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 367 thousand (31 December 2015: +/-200bp would have resulted in +/- US$ 367 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.

31 RISK MANAGEMENT (continued)

31.3 Market risk (continued)

Currency risk (continued)
The Bank has the following significant foreign currency exposures at the consolidated statement of financial position date:

	2016		
	Assets US$'000	Liabilities US$'000	Net US$'000
Kuwaiti Dinars	**1,238**	**(11)**	**1,227**
Great Britain Pounds	**10,637**	**(492)**	**10,145**
Euro	**20**	**(2)**	**18**
	2015		
	Assets US$'000	*Liabilities US$'000*	*Net US$'000*
Kuwaiti Dinars	1,336	(11)	1,325
Great Britain Pounds	7,585	(484)	7,101
Euro	8,359	-	8,359

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
Kuwaiti Dinars	**10**	**124**
Great Britain Pounds	**10**	**1,064**
Euro	**10**	**2**

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.

As at 31 December 2016, 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**	**124**

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.

31 RISK MANAGEMENT (continued)

31.3 Market risk (continued)

Equity price risk (continued)
The total market risk weighted assets and regulatory capital requirements related to market risk are as follows:

	2016 **US$ '000**	2015 US$ '000
Foreign exchange risk	**11,338**	23,863
Regulatory capital requirement (multiple of 12.5)	**907**	1,909

During the year, the maximum capital requirement as per the standardized method was US$ 1,799 thousand while the minimum capital requirement was US$ 915 thousand.

31.4 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.

31 RISK MANAGEMENT (continued)

31.4 Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2016 based on expected periods to cash conversion from the consolidated statement of financial position date:

2016	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	3,787	-	-	-	-	-	-	-	3,787
Due from banks and financial institutions	34,003	-	-	-	-	-	-	-	34,003
Non-trading investments	-	-	-	-	-	-	-	26,487	26,487
Investment in ijarah assets	-	-	-	-	-	-	-	28,892	28,892
Investment in real estate	-	-	-	-	-	-	-	10,476	10,476
Other assets	-	-	138	1,671	-	-	-	512	2,321
Property and equipment	-	-	-	-	-	-	-	5,353	5,353
Total assets	37,790	-	138	1,671	-	-	-	71,720	111,319
Liabilities									
Term financing	-	-	-	12,413	-	-	-	-	12,413
Other liabilities	-	-	5,725	-	1,978	-	-	-	7,703
Total liabilities	-	-	5,725	12,413	1,978	-	-	-	20,116
Net gap	37,790	-	(5,587)	(10,742)	(1,978)	-	-	71,720	91,203
Cumulative net gap	37,790	37,790	32,203	21,461	19,483	19,483	19,483	91,203	

31 RISK MANAGEMENT (continued)

31.4 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
Non-trading investments	-	-	-	-	-	-	-	30,529	30,529
Investment in ijarah assets	-	-	-	-	-	-	-	74,100	74,100
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	

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.

31 RISK MANAGEMENT (continued)

31.5 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:

	2016 US$ '000	*2015 US$ '000*
Average gross income	**13,355**	22,900
Operational risk weighted assets	**25,040**	75,093
Regulatory capital requirement (at 12.5%)	**3,130**	9,387

32 SOCIAL RESPONSIBILITY

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

33 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

Besides the expenses incurred on the conventional financing facility, the Bank has not recognised any income nor expenses that are not Shari'a compliant.

34 NON COMPLIANCE WITH SHARI'A RULES AND PRINICPLES

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.

1 INTRODUCTION

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

The Bank operates under an Islamic Wholesale Banking License issued by the Central Bank of Bahrain (the "CBB").

The Bank aims to provide a full range of investment banking products and services that are compliant with Shari'a principles.

The following is the Bank's significant subsidiary:

	Ownership for Dec 2016	*Ownership for Dec 2015*	***Year of incorporation***	***Country of incorporation***
Falak Aviation Investment Fund	**85.68%**	85.68%	11-Feb-2008	Kingdom of Bahrain

Ijara Assets
Non-trading Investments
This document contains disclosures required under the guidelines of the public disclosures required by Islamic banks. The period covered is from 1 January 2016 to 31 December 2016.

Difference between the treatment of subsidiaries for accounting and regulatory purposes:

The Bank consolidates its 86% investment in Falak Aviation Investment Fund B.S.C (c) for accounting purposes whereas for regulatory purposes the Bank's investment in Falak Aviation Investment Fund B.S.C (c) is treated as a commercial entity, in line with the guidance of the Module CA of the CBB rulebook and hence is not consolidated.

1.1 FINANCIAL HIGHLIGHTS

The following summarises the basic quantitative indicators of financial performance of the Group:

US$ millions	***Dec 2016***	*Dec 2015*	*Dec 2014*	*Dec 2013*	*Dec 2012*	*Dec 2011*
TOTAL INCOME	5.9	8.7	(26.3)	33.8	11.4	84.3
TOTAL EXPENSES	5.2	5.1	5.6	5.7	5.9	11.6
NET INCOME FOR THE YEAR BEFORE FOREIGN EXCHANGE LOSSES, UNREALISED FAIR VALUE (LOSSES) GAINS, PROVISION AND IMPAIRMENT	0.7	3.5	(31.9)	28.1	5.5	72.7
FOREIGN EXCHANGE LOSSES, UNREALISED FAIR VALUE (LOSSES) GAINS, PROVISION AND IMPAIRMENT	(57.1)	(0.7)	(27.0)	(24.1)	1.1	(11.4)
NET (LOSS) / INCOME	(56.4)	2.8	(58.9)	4.1	6.6	61.4
TOTAL ASSETS	111	169	202	311	360	527
TOTAL EQUITY	91	148	145	206	204	343
Islamic Financing to Equity Ratio (leverage)	0.10	0.10	0.40	0.30	0.70	0.50
Capital Adequacy	33.64%	27.30%	28.50%	28.50%	23.90%	30.00%
Return on average assets	0.50%	1.50%	-12.80%	8.40%	1.50%	15.50%
Return on average equity	0.60%	1.90%	-18.60%	13.80%	2.40%	22.80%
Cost to Income	88.1%	65.4%	-20.7%	16.6%	47.3%	13.7%

2 CAPITAL STRUCTURE AND CAPITAL ADEQUACY

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 is 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, non controlling interest and current interim losses. The other component of regulatory capital, Tier 2 Capital, consists of investments fair value reserve and general provision. Certain adjustments are made to these balances as prescribed by the CBB. Risk-weighted assets are calculated in accordance with the prudential rules laid down by the CBB.

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

Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.14 & 1.3.15)
The following table summarizes the eligible capital after deductions as of:

Regulatory capital

	31 Dec 2016
	US$ '000
Tier 1 capital	**87,473**
Tier 2 capital	**-**
Total capital base (a)	**87,473**
Risk weighted assets (b)	**259,998**
Capital adequacy (a/b x 100)	**33.64%**
Minimum requirement	

	31 Dec 2016
	US$ '000
Tier 1 Capital Components	
Share capital	**145,643**
Statutory reserve	**9,889**
Retained earnings	**(17,977)**
Current period income	**(50,266)**
Unrealised gains on AFS financial instruments	**184**
Core Tier 1 Capital	**87,473**
Deductions	
Tier 1 Capital	**87,473**
Negative balance of Tier 2	
Tier 1 Capital net of negative Tier 2 Capital	**87,473**
Tier 2 Capital Components	
General provision	**-**
Unrealised gains arising from fair valuing equities 45% only	**-**
Core Tier 2 Capital	**-**
Deductions	**-**
Tier 2 Capital	**-**

2 CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.14 & 1.3.15) (continued)

	31 Dec 2016	
	Tier 1 US$ '000	Tier 2 US$ '000
Deduction		
Large exposure	-	-
Total Deductions	-	-

Table – 2. Capital requirement for different type of risks (PD - 1.3.18, 1.3.19)
The following table summarises the capital requirements for credit risk, market risk and operational risk as of:

	31 Dec 2016	
	Risk weighted assets US$ '000	Minimum capital requirement US$ '000
Credit Risk	223,620	27,953
Market Risk	11,338	1,417
Operational Risk	25,040	2,003
	259,998	**31,373**

Table – 3. Capital requirement by type of Islamic financing contracts (PD-1.3.17)
The following table summarises the capital requirements by type of Islamic financing contracts as of:

	31 Dec 2016	
	Risk weighted assets US$ '000	Minimum capital requirement US$ '000
Islamic financing contracts		
Financing contracts	200	25
Ijarah assets	28,892	85,926
	29,092	**85,951**

Table – 4. Capital Adequacy Ratios (PD-1.3.20 (a), PD-1.3.20 (b))
The following are Capital adequacy ratios for total capital and Tier 1 capital:

	31 Dec 2016
Total capital ratio	33.64%
Tier 1 capital ratio	33.64%

3 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 independently identifies, measures, monitors and recommends appropriate steps to manage each type of risk. The Risk Management Department has independent access to the Board of Directors and updates them on the overall risk profile of the Bank on a regular basis.

a) 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. The 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.

Table – 5. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios as of:

	31 Dec 2016
Short term assets to short term liabilities	**6.62**
Liquid assets to total assets	**0.35**

Table – 6. Residual Contractual Maturity Breakdown (PD-1.3.23(g), PD-1.3.24(a) & PD-1.3.38)

The table on the next page summarises the maturity profile of the Bank's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date.

3 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

Table – 7. Residual Contractual Maturity Breakdown (PD-1.3.23(g), PD-1.3.24(a) & PD-1.3.38) (continued)

The maturity profile at 31 December 2016 was as follows:

	Up to 1 month US$ '000	1 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	20 years and above US$ '000	Undated US$ '000	Total US$ '000
ASSETS											
Cash and balances with banks	3,787	-	-	-	-	-	-	-	-	-	3,787
Due from banks and financial institutions	34,003	-	-	-	-	-	-	-	-	-	34,003
Non-trading investments	-	-	-	-	-	-	-	-	-	26,487	26,487
Investment in ijarah assets	-	-	-	-	-	-	-	-	-	28,892	28,892
Investment in real estate	-	-	-	-	-	-	-	-	-	10,476	10,476
Property and equipment	-	-	-	-	-	-	-	-	-	5,353	5,353
Other assets	-	-	-	138	1,671	-	-	-	-	512	2,321
Total Assets	37,790	-	-	138	1,671	-	-	-	-	71,720	111,319
LIABILITIES											
Term financing	-	-	-		12,413	-	-	-	-	-	12,413
Other liabilities	-	-	-	5,725	-	1,978	-	-	-		7,703
Total Liabilities	-	-	-	5,725	12,413	1,978	-	-	-	-	20,116
Net liquidity gap	37,790	-	-	(5,587)	(10,742)	(1,978)	-	-	-	71,720	

3 RISK MANAGEMENT (continued)

b) Credit risk

Table - 8. Gross funded and unfunded exposure (PD-1.3.23(a))

As at 31 December 2016:

	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	**2,553**	**3,283**	**1,504**	**188**
Murabaha and Wakala receivables	**37,352**	**34,003**	**6,801**	**850**
Financing contracts	**200**	**200**	**200**	**25**
Ijara Assets	**39,448**	**21,402**	**85,926**	**10,741**
Non-trading Investments	**28,508**	**26,486**	**102,232**	**12,779**
Other assets	**793**	**647**	**647**	**81**
	108,854	**86,021**	**197,310**	**24,664**

The average credit exposures have been calculated based on the average of opening and closing balances.

Table - 9. Geographic distribution of the credit exposure (PD-1.3.23(b))

Net funded credit exposures by geographical region

As at 31 December 2016:

	Balances with banks US$ '000	*Murabaha and receivable US$ '000*	*Financing contracts US$ '000*	*Ijara Assets US$ '000*	*Non-trading Investments US$ '000*	*Other assets US$ '000*	*Total US$ '000*
Europe	**2,779**	**-**	**-**	**-**	**6,269**	**52**	**9,100**
Bahrain	**457**	**34,003**	**-**	**-**	**-**	**478**	**34,938**
Other GCC Countries	**-**	**-**	**-**	**-**	**1,238**	**-**	**1,238**
Other Middle East and Asia	**47**	**-**	**-**	**-**	**-**	**-**	**47**
North America	**-**	**-**	**200**	**21,402**	**18,980**	**117**	**40,699**
	3,283	**34,003**	**200**	**21,402**	**26,487**	**647**	**86,022**

The geographical segregation is based on the location of the assets.

Table - 10. Exposure by counterparty type (PD-1.3.23(c))

Net funded credit exposures by counterparty

As at 31 December 2016:

	Balances US$'000	*Murabaha receivable US$'000*	*Financing contracts US$'000*	*Ijara Assets US$'000*	*Non-trading Investments US$'000*	*Other assets US$'000*	*Total US$'000*
Claims on banks	**3,283**	**34,003**	**-**		**-**	**-**	**37,286**
Claims on corporates	**-**		**200**	**21,402**		**-**	**21,602**
Others	**-**	**-**	**-**	**-**	**26,487**	**647**	**27,134**
	3,283	**34,003**	**200**	**21,402**	**26,487**	**647**	**86,022**

3 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Analysis of exposure to credit risk by external credit ratings

The table below analyses the Bank's maximum credit exposure where the credit quality is reflected by Standard and Poor's, Moody's and Fitch credit ratings where relevant of the counterparties:

	31 Dec 2016 US$ '000
Credit rating:	
AAA to AA-	-
A+ to A-	11,257
BBB+ to BBB-	18,028
BB+ to B-	-
Unrated	8,848
	38,133

The distribution of assets and liabilities by geographical region and industry sector was as follows:

	31 Dec 2016	
	Assets US$'000	*Liabilities US$'000*
Geographical region:		
Bahrain	50,941	11,980
Europe	9,048	492
Others	41,865	1,898
	101,854	**14,370**

	31 Dec 2016	
	Assets US$'000	*Liabilities US$'000*
Industry sector:		
Banking and financial institutions	37,291	-
Aviation	29,108	-
Real estate	29,456	-
Others	5,999	14,370
	101,854	**14,370**

Table-11. Large Credit Exposure (PD - 1.3.23 (f))

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 2016, 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	21,402	24.47%
Counterparty B	14,210	16.25%
Counterparty C	13,574	15.52%

RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table -12.1 Specific provisions by counterparty type (PD-1.3.23 (h), 1.3.24 (d))

The following table summarises the total specific provisions disclosed by counterparty type as of 31 December 2016:

	Specific provisions			
	Opening Balance US$ '000	*Charges during the period US$ '000*	*Release upon disposal US$ '000*	*Balance at the end of the period US$ '000*
Investment - Aviation	**24,400**	**45,697**	**-**	**70,097**
Investment - Energy	**10,838**	**-**	**-**	**10,838**
Investment - Real estate	**3,960**	**10,515**	**-**	**14,475**
Investment - Other	**2,978**	**-**	**-**	**2,978**
	42,176	**56,212**	**-**	**98,388**

Table -12.2 Specific provisions by Geographical distribution (PD-1.3.23 (h), 1.3.24 (d))
The following table summarises the total specific provisions disclosed by Geographical distribution as of 31 December 2016:

	Specific provisions			
	Opening Balance US$ '000	*Charges during the period US$ '000*	*Release upon disposal US$ '000*	*Balance at the end of the period US$ '000*
Geographical region:				
Bahrain	**24,400**	**-**	**-**	**24,400**
Europe	**10,838**	**2,156**	**-**	**12,994**
Others	**6,938**	**54,056**	**-**	**60,994**
	42,176	**56,212**	**-**	**98,388**

3 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table -13. General provisions movement (PD-1.3.23 (h), 1.3.24 (d))
The following table summarises the movement of general provisions during the period ended:

	31 December 2015 US$ '000
	-
Opening Balance	-
Charges during the period	-
Balance at the end of the period	-

This represents collective provision against exposures which, although not specifically identified, have a greater risk of default than when originally granted.

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. **(PD-1.3.23(i), PD-1.3.24(b), PD-1.3.24(c))**

Table - 15 (PD-1.3.23 (j), (k), (l), PD-1.3.25(b) & (c))
The Bank has not restructured islamic financing contracts during the period.

The Bank has no obligations with respect to recourse transaction.

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

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

3 RISK MANAGEMENT (continued)

c) 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 income and/or will decrease the value of its portfolios.

Table – 17. Market Risk Capital Requirements (PD-1.3.27 (b), PD-1.3.40)

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2016 Foreign exchange risk US$ '000
Risk weighted exposure (RWE) (Foreign Exchange)	**25,040**
Capital requirements (8%)	**3,130**
Maximum value of RWE	**3,130**

Profit rate risk

The Group currently has limited exposure to profit rate risk. The Group's assets that are exposed to profit rate risk comprise of due from financial institutions and have repricing dates no longer than three months. During 2016, a +/- 200bp change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 341 thousand (31 December 2015: +/-200bp resulted in +/- US$ 130 thousand) impact on the consolidated statement of income.

Displaced Commercial Risk

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

Equity price risk

Equity price risk is the risk that the fair value of investments designated at fair vale thorugh equity decreases due to fluctuations in the respective stock market indices. As at 31 December 2015 the Bank had investments in quoted equities on the Kuwait Stock Exchange. The table below reflects the sensitivity of the investment portfolio to changes in these inputs. The sensitivity of trading investments 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**	**124**

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 equity.

3 RISK MANAGEMENT (continued)

c) Market risk (continued)

Equity positions in the banking book

Investments	31 December 2016		
	Total gross exposure US$'000	Average gross exposure US$'000	Regulatory capital requirements US$'000
Non trading investments			
Quoted	1,238	1,287	103
Unquoted	25,249	27,221	2,178
	26,487	**28,508**	**2,281**

Table – 16. Equity gains or losses in banking book (PD-1.3.31 (d) and (e))

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

	31 December 2016 US$ '000
Cumulative realised gains arising from sales or liquidations in the reporting period	-
Total unrealized gains 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	184
Unrealised gains included in Tier 2 Capital	-

Foreign 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 risk management policy regulates such exposure by hedging currency exposures with Shari'a compliant instruments. Currency exposure is monitored daily by Risk Management Department and reported on a monthly basis to the Asset Liability and Risk Management Committee.

The Bank has the following significant foreign currency exposures:

	31 December 2016		
	Assets US$ '000	Liabilities US$ '000	Net US$ '000
Currency			
Kuwaiti Dinars	1,266	(11)	1,255
Great Britain Pounds	10,637	(492)	10,145
Euro	20	(2)	18

3 RISK MANAGEMENT (continued)

c) Market risk (continued)

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 balance sheet date and calculating the impact of the change in exchange rate.

At 31 December 2016	*Change in exchange rates(+/-)*	*Change in net income and equity (+/-)*
	%	*US$'000*
Currency		
Kuwaiti Dinars	**10**	**126**
Great Britain Pounds	**10**	**1,015**
Euro	**10**	**2**

d) Operational Risk

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.

Table - 22. Operational risk exposure (PD-1.3.30 (a), (b) & (c))

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		
	2016	*2015*	*2014*
	US$ '000	*US$ '000*	*US$ '000*
Total Gross Income	**14,502**	14,452	11,110

	Dec 2016
Indicators of operational risk	
Average Gross income (US$ '000)	**13,355**
Multiplier	**12.5**
	166,933
Eligible Portion for the purpose of the calculation	**15%**
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US$ '000)	**25,040**

The Bank has no material legal contingencies nor any pending legal action.

BOARD OF DIRECTORS COMPOSITION

MR. HAMAD AHMAD AL AMEERI

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

Mr. 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's Degree in Finance from the University of Kuwait.

MR. MUBARAK MATAR AL HEMEIRI

Member of the Executive Committee
Independent
Elected Member
May 2010

Mr. Al Hemeiri is currently the Managing Director of Royal Group, UAE. He holds a Bachelor's 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. MOHAMED HANI ABDULKADER AL BAKRI

Chairman of the Audit Committee
Independent
Elected Member
August 2006

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 Arabia 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 Bachelor's degree in Nuclear Engineering from King Abdul-Aziz University, KSA.

MR. OBAID MOHAMED AL SALAMI

Member of the Executive Committee
Non-Executive
Appointed Member
April 2015

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 Bachelor's degree in Accounting & Business Administration from UAE University and MBA in Business Administration from Oklahoma City University, USA.

MR. HAMAD ABDULLATIF AL ASFOUR

Member of the Nomination, Remuneration & Corporate Governance Committee
Non-Executive
Appointed Member
October 2014

Mr. Al Asfour has over 15 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 started his career in a specialized program by Kuwait Investment Authority in affiliation with global financial conglomerates, and thereafter played a major role in re-structuring and introducing 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. WALEED KHALIFA AL FELAIJ

Member of Nomination, Remuneration & Corporate Governance Committees
Independent
Elected Member
August 2006

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 Bachelor's degree in Business Management from Font Bonne College, USA.

MR. ABDULLAH ANWAR AL NOURI

Chairman of the Nomination, Remuneration and Corporate Governance Committee
Independent
Nominated by the Board (subject to AGM approval)
December 2016

Mr. Al Nouri has more than 10 years of experience in the investment sector within Kuwait. During his tenure at Global Investment house, Mr. Al Nouri co-managed equity and fixed income funds for 5 years. Mr. Al Nouri had then joined the Private Banking department at Kuwait Financial Center (Markaz) to overlook clients and portfolios. He currently heads the business development division at Al Nuwaiseeb International, a company with more than 30 years of experience in automotive tools and equipment. Mr. Al Nouri holds a Bachelor's degree in Political Science from Kuwait University.

MR. MOHAMED LOAY TAYSEER ABDELFATTAH

Member of the Audit Committee
Independent
Nominated by the Board (subject to AGM approval)
December 2016

Mr. Abdelfattah is currently the Chief Investment Officer at Royal Group, UAE. He holds a Bachelor's degree in Accounting and has over 18 years of experience in the investments, private equity, real estate and risk management as well as a wide experience in Audit and Assurance, He serves as a board member and Audit committee member of several companies across UAE and the GCC. Mr. Abdelfattah is a US Certified Public Accountant, US Certified Fraud Examiner and a member of many professional bodies and associations.

MR. AHMAD ABDULQADER MOHAMMAD

Member of the Audit Committee
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 Executive Vice President-Support Services Sector 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 Bachelor of Science with a major in Economics and a minor in Marketing from Kuwait University.

Note:

- The qualifying criteria for "Independent" and "Non-Executive" directors are as per the Central Bank of Bahrain's Corporate Governance requirements.
- The only Member of the Board of Directors who owns shares of the Bank in his own name is Mr. Waleed Khalifa Al Felaij. Mr. Al Felaij owns 5 Million shares.

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 12 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's degree in Political Science from McGill University, Montreal, Canada 1982.

DR. MOHAMMAD ALTABTABAEI

Shari'a Supervisory Board Member

Over 17 years of experience in Islamic Banking.
Dean: Shari'a and Islamic Studies faculty in 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 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 12 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 was the Head of 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 Master’s 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 25 years of experience in the Financial Services sector and 20 years of Islamic banking experience. 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 nearly 20 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 Bachelor’s 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 19 years of experience in the banking industry both commercial and investment banking exposure 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 20 years of experience in commercial and investment banking. Previously, he has worked with BNP Paribas, Arab Banking Corporation (ABC) and BBK. 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, Aviation, 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 Bachelor's 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 over 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 10 years of 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 and BIBF in Bahrain. Dr. Ahmed holds a PhD in Comparative law of banking, a Master's degree in Comparative law (MCL), and a Bachelor of law (LLB) from the International Islamic University Malaysia.

MR. TAWFIQ AL SARI

Head of Financial Control

Mr. Al Sari has over 25 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 includes 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 more than 15 years of experience in Human Resources & Administration. Prior to joining Seera Investment Bank, he was working at the 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: Mini MBA in Human Resources Management (MDI Missouri State University), 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.

MS. MAHA AL SAYYAD

Head of Compliance & Board Secretary (Acting)

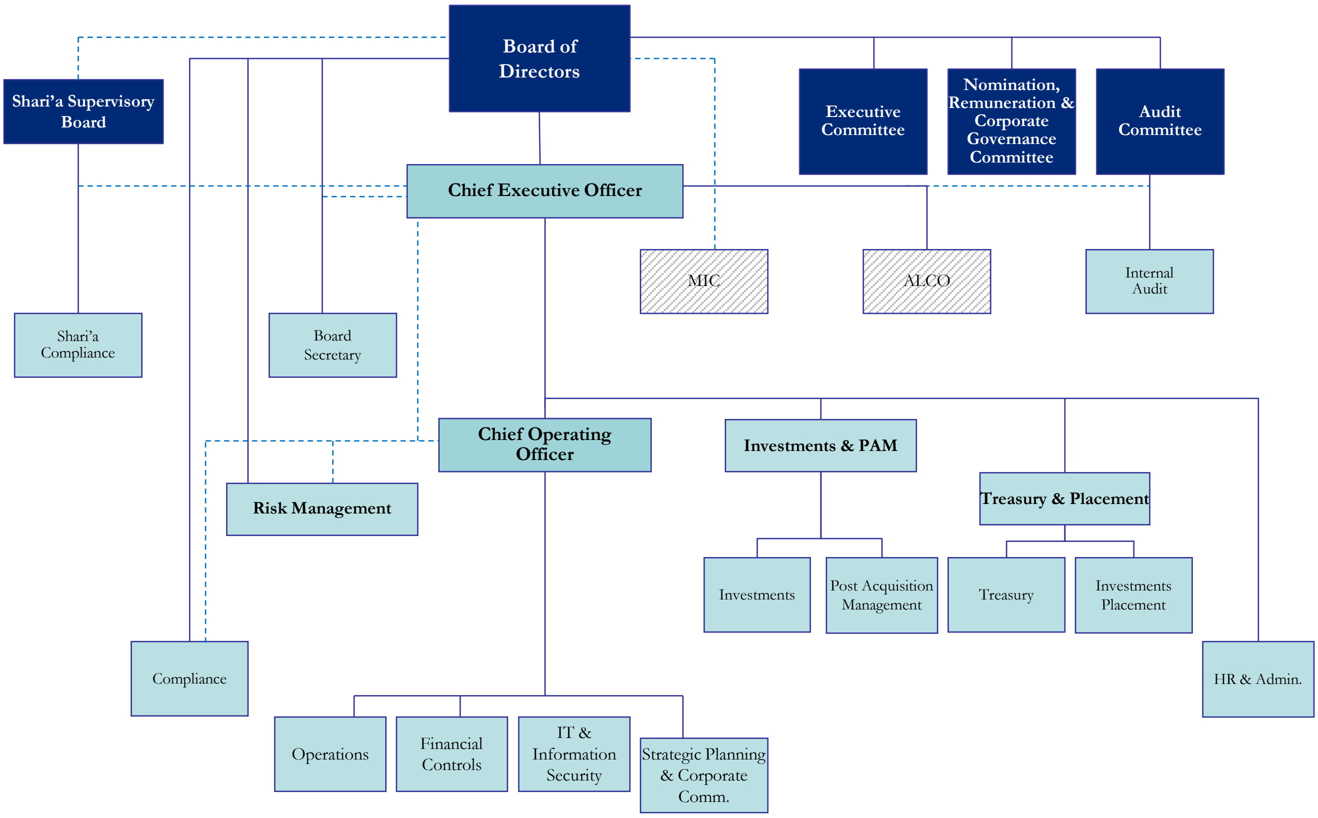
Ms. Al Sayyad has nearly 15 years of experience in Islamic Banking. In addition to her core task as Seera's Compliance Officer, where she is responsible for developing, implementing and administering the Bank's Compliance Management Program, Ms. Al Sayyad is also the Board Secretary. Prior to her current role, Ms. Al Sayyad worked in the Investment & PAM department at Seera. Ms. Al Sayyad commenced her career at Gulf International Bank Bahrain (GIB) in the Islamic Banking department where she gained broad experience in Islamic banking. Ms. Al Sayyad holds a Bachelor's Degree in Business & Law from the University of Wales (UK) a Master's Degree in Banking from the University of Durham (UK). Ms. Al Sayyad is also a Professional Member of the International Compliance Association ("ICA"), Manchester, UK and holds the International Diploma in Governance, Risk and Compliance from the ICA.

MR. AHMED AL KHAYYAT

Head of Information Technology

Mr. Al Khayyat has more than 9 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's 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.