

**Seera Investment Company B.S.C. (c)
(Formerly "Seera Investment Bank B.S.C. (c)")**

**INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2017



Ernst & Young
P.O. Box 140
10th Floor, East Tower
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
ey.com/mena
C.R. No. 6700 / 29977

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

We have audited the accompanying consolidated financial statements of Seera Investment Company B.S.C. (c) (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2017, and the related consolidated statements of income, cash flows and changes in owners' equity for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2017, the results of its operations, its cash flows and changes in owners' equity for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

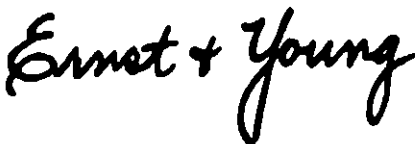
**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
SEERA INVESTMENT COMPANY B.S.C. (c) (continued)**

Other Matters

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (the CBB) Rule Book (Volume 4), we report that:

- a) the Company 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 4) and CBB directives, regulations and associated resolutions or the terms of the Company's memorandum and articles of association during the year ended 31 December 2017 that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Group has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.



Partner's registration no. 115
22 February 2018
Manama, Kingdom of Bahrain

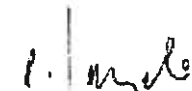
Seera Investment Company B.S.C. (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
ASSETS			
Cash and balances with banks	5	7,570	3,787
Due from banks and financial institutions	6	31,275	34,003
Non-trading investments	7	16,931	26,487
Investment in ijarah assets	8	-	28,892
Investment in real estate	9	9,429	10,476
Other assets	10	1,555	2,321
Property and equipment	11	5,359	5,353
TOTAL ASSETS		72,119	111,319
LIABILITIES AND OWNERS' EQUITY			
LIABILITIES			
Term financing	12	-	12,413
Other liabilities	13	10,988	7,703
TOTAL LIABILITIES		10,988	20,116
OWNERS' EQUITY			
Share capital	14	55,863	145,643
Reserves	14	673	10,073
Retained earnings / (accumulated losses)		4,507	(68,243)
Equity attributable to shareholders of the parent		61,043	87,473
Non-controlling interest		88	3,730
TOTAL OWNERS' EQUITY		61,131	91,203
TOTAL LIABILITIES AND OWNERS' EQUITY		72,119	111,319


 Hamad Al Ameer
 Chairman


 Abdulla Janahi
 Chief Executive Officer


 Mubarak Al Hemeiri
 Board Member

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

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


CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
Rental income from ijarah assets	15	1,315	9,642
Depreciation on ijarah assets	8	(908)	(6,743)
Management fees relating to ijarah assets		(37)	(248)
Financing cost relating to term financing obtained to purchase ijarah assets	12	(211)	(861)
Other income relating to ijarah assets	16	1,512	151
Gain on disposal of ijarah assets - net	17	6,064	2,232
Other operating expenses relating to ijarah assets	18	(214)	(411)
Net income from investment in ijarah assets		7,521	3,762
Profit on amounts due from banks and financial institutions		673	330
Net funding income		673	330
Income / (loss) on investments - net	19	3,319	(1,715)
Fee and other income	20	1,415	546
TOTAL INCOME		12,928	2,923
Expenses			
Staff expenses		4,293	3,546
General and administrative expenses	21	1,298	1,349
Depreciation on property and equipment	11	242	272
TOTAL EXPENSES		5,833	5,167
NET INCOME / (LOSS) FOR THE YEAR BEFORE FAIR VALUE LOSS ON INVESTMENT IN REAL ESTATE AND PROVISION AND IMPAIRMENT		7,095	(2,244)
Fair value loss on investment in real estate	9	(1,047)	-
Provisions and impairment	25	-	(54,056)
NET INCOME / (LOSS) FOR THE YEAR		6,048	(56,300)
Attributable to:			
Shareholders of the parent		5,008	(50,266)
Non-controlling interest		1,040	(6,034)
		6,048	(56,300)



 Hamad Al Ameer
 Chairman



 Abdulla Janahi
 Chief Executive Officer



 Mubarak Al Hemery
 Board Member

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
OPERATING ACTIVITIES			
Net profit / (loss) for the year		6,048	(56,300)
Adjustments for:			
Depreciation on ijarah assets		908	6,743
Financing cost relating to term financing		211	861
Other income relating to ijarah assets		(1,512)	-
Gain on disposal of ijarah assets - net		(6,064)	(2,232)
Provision for employees end of service benefits	13	(37)	189
Unrealised fair value gain / (loss) on investment	24	(577)	2,156
Gain on sale of investment classified as held for sale	19	(517)	-
Depreciation on property and equipment		242	272
Fair value loss on investment in real estate	9	1,047	-
Provisions and impairment		-	54,056
Operating (loss) / profit before changes in operating assets and liabilities		(251)	5,745
Changes in operating assets and liabilities:			
Other assets		766	(1,706)
Other liabilities		1,060	751
Net cash from operating activities		1,575	4,790
INVESTING ACTIVITIES			
Proceeds from disposal of ijarah assets		33,162	1,048
Purchase of non-trading investments		-	(24,379)
Proceeds from placement / disposal of non trading investments	24	9,346	17,808
Proceeds from disposal of investment classified as held for sale	7	1,292	-
Purchase of ijarah assets		-	(1,582)
Purchase of equipment	11	(248)	(47)
Net cash from (used in) investing activities		43,552	(7,152)
FINANCING ACTIVITIES			
Repayment and early settlement of term financing	12	(12,624)	(2,944)
Subsidiary capital distribution		(4,682)	-
Capital distribution		(26,766)	-
Net cash used in financing activities		(44,072)	(2,944)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		1,055	(5,306)
Cash and cash equivalents at the beginning of the year		37,790	43,096
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	22	38,845	37,790

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

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2017

	Equity attributable to shareholders of the parent					Non-controlling interest US\$ '000	Total owners' equity US\$ '000
	Share capital US\$ '000	Statutory reserve US\$ '000	Investments fair value reserve US\$ '000	(Accumulated losses) / retained earnings US\$ '000	Total US\$ '000		
Balance at 1 January 2017	145,643	9,889	184	(68,243)	87,473	3,730	91,203
Net income for the year	-	-	-	5,008	5,008	1,040	6,048
Accumulated losses write off	(58,354)	(9,889)	-	68,243	-	-	-
Capital distribution	(31,426)	-	-	-	(31,426)	-	(31,426)
Transferred to statutory reserve	-	501	-	(501)	-	-	-
Subsidiary capital distribution	-	-	-	-	-	(4,682)	(4,682)
Net movement in investments fair value reserve	-	-	(12)	-	(12)	-	(12)
Balance at 31 December 2017	55,863	501	172	4,507	61,043	88	61,131
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)
Net movement in investments fair value reserve	-	-	(99)	-	(99)	-	(99)
Balance at 31 December 2016	145,643	9,889	184	(68,243)	87,473	3,730	91,203

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

At 31 December 2017

1 INCORPORATION AND ACTIVITIES

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

The Company operates under an Investment Business Firm License – Category 1 (Islamic Principles) issued by the Central Bank of Bahrain ("CBB"), to operate under the Islamic Shari'a principles, and is supervised and regulated by the CBB.

During the year, the shareholders have resolved to change the Bank license from an Islamic Wholesale Banking License to an Investment Firm License Category 1 in their Extraordinary General Meeting ("EGM") held on 18 May 2017. The Bank has transferred the license as per the EGM resolution duly approved by CBB on 7th December 2017.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 22 February 2018.

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 Company. All values are rounded to the nearest thousand ("US\$ '000") except when indicated otherwise.

Statement of compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the CBB, Financial Institutions Law, the CBB Rule Book (Volume 4), CBB directives, regulations and the terms of the Company's memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB").

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December each year. The financial information of the subsidiaries is prepared for the same reporting year as the Company, using consistent accounting policies.

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date that such control ceases. Control is achieved where the Company 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 Company 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

2 BASIS OF PREPARATION (continued)**Basis of consolidation (continued)**

The following is the principal subsidiary of the Company, which is consolidated in these consolidated financial statements:

<i>Name of subsidiary</i>	<i>Country of incorporation</i>	<i>Equity interest</i>	
		<i>2017</i>	<i>2016</i>
Falak Aviation Investment Fund B.S.C. (c)	Kingdom of Bahrain	86%	86%

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

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

<i>Name of subsidiary</i>	<i>Country of incorporation</i>	<i>Equity interest</i>	
		<i>2017</i>	<i>2016</i>
Falak Investments 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 Lease One Limited	Bahamas	-	86%
Falak Lease Two Limited	Bahamas	-	86%
Falak Lease Seven Limited	Bahamas	-	86%

3 ACCOUNTING POLICIES**3.1 Significant accounting judgments and estimates**

The preparation of the Company'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 Company's Board of Directors has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company 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 Company'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 Company's unquoted equity securities cannot be derived from an active market, they are derived using a variety of valuation techniques. Judgment by management is required to establish fair values through the use of appropriate valuation models, consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

Investment in real estate is carried at fair value as determined by independent real estate valuation experts. The determination of the fair value for such assets requires the use of judgment by the independent valuation experts that are based on local market conditions existing at the date of the consolidated statement of financial position.

At 31 December 2017

3 ACCOUNTING POLICIES (continued)

3.1 Significant accounting judgments and estimates (continued)

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 Company'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 Company 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 or changes in AAOIFI financial accounting standards (FAS) not have any impact on the Company. In addition, standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are not expected to have any significant impact on the Company's financial position or performance.

3.2.1 Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash and balances with banks and due from banks and financial institutions with original maturities of ninety days or less.

3.2.2 Due from banks and financial institutions

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

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

3.2.3 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

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. They 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.

3.2.4 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.

3.2.5 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.

3.2.6 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.

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

3.2.6 Property and equipment (continued)

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.

3.2.7 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 Company's right to receive the dividend is established.

Fee income

The Company 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 Company.

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

3.2.8 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 Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company 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.

At 31 December 2017

3 ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

3.2.9 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.

3.2.10 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.

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

3.2.12 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.

At 31 December 2017

3 ACCOUNTING POLICIES (continued)**3.2 Summary of significant accounting policies (continued)****3.2.13 Provisions**

Provisions are recognised when the Company 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.

3.2.14 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.

3.2.15 Zakah

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

4 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

The standard issued but not yet effective, up to the date of issuance of the Company's financial statements is disclosed below. The Company intends to adopt this standard, when it becomes effective.

FAS 30 – Impairment, Credit Losses and Onerous Contracts

In November 2017, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued Financial Accounting Standard (FAS) 30 - Impairment, credit losses and onerous commitments, the standard supersedes the earlier FAS 11 "Provisions and Reserves" effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted. The Company is in process of assessing the impact of FAS 30 on its consolidated financial statements.

5 CASH AND BALANCES WITH BANKS

	2017 US\$ '000	2016 US\$ '000
Balances with banks	7,565	3,782
Cash in hand	5	5
	<u>7,570</u>	<u>3,787</u>

6 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2017 US\$ '000	2016 US\$ '000
Commodity murabaha contracts	7,329	11,800
Deferred income	(3)	(7)
	<u>7,326</u>	<u>11,793</u>
Wakala contracts	<u>23,949</u>	<u>22,210</u>
	<u>31,275</u>	<u>34,003</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

7 NON-TRADING INVESTMENTS

	Note	2017 US\$ '000	2016 US\$ '000
Equity type investments at fair value through equity			
Quoted investment designated at fair value through equity		451	1,238
	7.1	<u>451</u>	<u>1,238</u>
Equity type investment at fair value through statement of income			
Unquoted investments (note 24)		16,480	25,249
		<u>16,931</u>	<u>26,487</u>

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

	2017 US\$ '000	2016 US\$ '000
As at 1 January	1,238	9,695
Fair value changes	505	(98)
Sale during the year	(1,292)	-
Impairment against available for sale investment	-	(8,359)
As at 31 December	<u>451</u>	<u>1,238</u>

8 INVESTMENT IN IJARAH ASSETS

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

	Cost at 1 January 2017 US\$ '000	Accumulated depreciation 1 January 2017 US\$ '000	Depreciation charge US\$ '000	Accumulated depreciation 31 December 2017 US\$ '000	Disposals 2017 US\$ '000	Net book value at 31 December 2017 US\$ '000	Net book value at 31 December 2016 US\$ '000
Falak Lease							
One Limited	40,348	(9,678)	-	(9,678)	(30,670)	-	30,670
Falak Lease							
Two Limited	42,015	(9,322)	-	(9,322)	(32,693)	-	32,693
Falak Fin							
Seven Limited	43,056	(13,080)	(908)	(13,988)	(29,068)	-	29,976
	<u>125,419</u>	<u>(32,080)</u>	<u>(908)</u>	<u>(32,988)</u>	<u>(92,431)</u>	-	93,339
Impairment						-	(64,447)
						-	28,892

The movement in impairment against ijarah assets is as follows:

	Note	2017 US\$ '000	2016 US\$ '000
At 1 January		64,447	24,400
Charge during the year		-	40,047
Reversal of impairment upon disposal of ijarah assets	17	(64,447)	-
		<u>-</u>	<u>64,447</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

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 independent valuation experts as at 31 December 2017 and 31 December 2016.

	2017 US\$ '000	2016 US\$ '000
At 1 January	10,476	10,476
Fair value loss during the year	(1,047)	-
	<u>9,429</u>	<u>10,476</u>

10 OTHER ASSETS

	2017			2016		
	US\$ '000			US\$ '000		
	Gross receivable	Provision	Net receivable	Gross receivable	Provision	Net receivable
Rental receivable	-	-	-	3,825	(3,825)	-
Receivable on sale of aircraft	373	-	373	3,154	(1,483)	1,671
Staff receivables	368	-	368	392	-	392
Prepaid expenses	107	-	107	138	-	138
Others	707	-	707	462	(342)	120
Gross receivables	<u>1,555</u>	<u>-</u>	<u>1,555</u>	<u>7,971</u>	<u>(5,650)</u>	<u>2,321</u>

The movement in provision during the year is as follows:

	Note	2017 US\$ '000	2016 US\$ '000
At 1 January		5,650	-
Charge during the year	25	-	5,650
Write-offs		(5,650)	-
As at 31 December		<u>-</u>	<u>5,650</u>

11 PROPERTY AND EQUIPMENT

	Freehold land US\$ '000	Building US\$ '000	Others US\$ '000	Total US\$ '000
Cost:				
At 1 January 2017	3,162	4,121	5,342	12,625
Additions	-	-	248	248
At 31 December 2017	<u>3,162</u>	<u>4,121</u>	<u>5,590</u>	<u>12,873</u>
Less: Accumulated depreciation:				
At 1 January 2017	-	2,057	5,215	7,272
Charge for the year	-	206	36	242
At 31 December 2017	<u>-</u>	<u>2,263</u>	<u>5,251</u>	<u>7,514</u>
Net book value				
At 31 December 2017	<u>3,162</u>	<u>1,858</u>	<u>339</u>	<u>5,359</u>
At 31 December 2016	<u>3,162</u>	<u>2,064</u>	<u>127</u>	<u>5,353</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

12 TERM FINANCING

	2017	2016
	US\$ '000	US\$ '000
Falak Fin Seven Limited	-	12,413
	<u>-</u>	<u>12,413</u>

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

	2017	2016
	US\$ '000	US\$ '000
Balance at the beginning of the year	12,413	14,496
Financing cost	211	861
Repayments and early settlement	(12,624)	(2,944)
Balance at the end of the year	<u>-</u>	<u>12,413</u>

The term financing was obtained by the Company's subsidiary's Falak Fin Seven Limited to purchase ijarah assets which mature in 3 years and bear profit rate of 4.19% per annum. During the year the term financing has been fully prepaid and settled.

13 OTHER LIABILITIES

	2017	2016
	US\$ '000	US\$ '000
Payable to Shareholders	4,660	-
Accrued expenses	3,715	1,753
Clients accounts	1,162	1,978
Provision for employees end of service benefits	1,075	1,112
Accounts payable	376	383
Maintenance reserve payable	-	1,398
Security deposit payable	-	1,000
Unearned rental income from investment in Ijarah assets	-	79
	<u>10,988</u>	<u>2,477</u>

14 OWNERS' EQUITY

14.1 SHARE CAPITAL

	2017	2016
	US\$ '000	US\$ '000
Authorised :		
500,000,000 ordinary shares of US\$ 0.32 each (2016: 2,500,000,000 ordinary shares of US\$ 0.5 each)	<u>500,000</u>	<u>1,250,000</u>
Issued and fully paid up		
As at the beginning and end of the year		
174,571,000 ordinary shares of US\$ 0.32 each (2016: 291,286,000 ordinary shares of US\$ 0.5 each)	<u>55,863</u>	<u>145,643</u>

The shareholders of the Company in their EGM dated 18 May 2017 resolved the following:

- Reduction of the authorised share capital of the Company from US\$ 1,250,000 thousand to US\$ 500 thousand, through reducing the nominal value of the shares from US\$ 0.50 to US\$ 0.32 per share;
- Write off the accumulated losses from the statutory reserve of US\$ 9,889 thousand and against the paid-up capital to the extent of US\$ 58,354 thousand; and
- Reduce US\$ 31,426 thousand of the paid up capital and repay it to the shareholders according to their respective shareholding.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

14 OWNERS' EQUITY (continued)

14.2 Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Company's articles of association, 10% of the net profit for the year is required to be transferred to a statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of paid up share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain. During the year 2017, the Company settled US\$ 9,889 thousand of the opening balance of the statutory reserve against the accumulated losses (note 14.1) and transferred an amount of US\$ 501 thousand (2016: USD Nil) to statutory reserve.

15 RENTAL INCOME FROM IJARAH ASSETS

	2017 US\$ '000	2016 US\$ '000
Falak Lease One Limited	-	3,446
Falak Lease Two Limited	-	3,040
Falak Lease Seven Limited	1,315	3,156
	<u>1,315</u>	<u>9,642</u>

16 OTHER INCOME RELATING TO IJARAH ASSETS

	2017 US\$ '000	2016 US\$ '000
Unwinding of discount on sale of aircraft	-	95
Other income on ijarah assets	1,512	56
	<u>1,512</u>	<u>151</u>

17 GAIN ON DISPOSAL OF IJARAH ASSETS - NET

	Note	2017 US\$ '000	2016 US\$ '000
(Loss) / gain on disposal of ijarah assets		(58,383)	2,232
Release of impairment upon disposal of ijarah assets	8	64,447	-
		<u>6,064</u>	<u>2,232</u>

18 OTHER OPERATING EXPENSES RELATING TO IJARAH ASSETS

	2017 US\$ '000	2016 US\$ '000
Repairs and maintenance	152	345
Professional and consultancy fees	62	66
	<u>214</u>	<u>411</u>

19 INCOME / (LOSS) ON INVESTMENTS - NET

	2017 US\$ '000	2016 US\$ '000
Yield on investment	2,119	334
Unrealised fair value gain / (loss) on investment	577	(2,156)
Gain on sale of investment classified as held for sale	517	-
Dividend income	106	107
	<u>3,319</u>	<u>(1,715)</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

20 FEE AND OTHER INCOME

	2017 US\$ '000	2016 US\$ '000
Placement / structuring and arrangement fees	1,040	1,378
Foreign exchange gain / (loss)	375	(848)
Management fees	-	16
	<u>1,415</u>	<u>546</u>

21 GENERAL AND ADMINISTRATIVE EXPENSES

	2017 US\$ '000	2016 US\$ '000
Legal and professional expenses	289	276
Communication charges	256	226
Maintenance expenses	248	291
Board of Directors and Board Committees attendance allowances	125	125
Shari'a Supervisory Board attendance allowances	106	106
Travel expenses	29	48
Marketing and advertisement expenses	24	21
Other expenses	221	256
	<u>1,298</u>	<u>847</u>

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:

	2017 US\$ '000	2016 US\$ '000
Cash and balances with banks	7,570	3,787
Due from banks and financial institutions (with original maturities of 90 days or less)	31,275	34,003
	<u>38,845</u>	<u>37,790</u>

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 Company as at 31 December 2017:

	Amortised Cost US\$ '000	Fair value through equity US\$ '000	Fair value through statement of income US\$ '000
Financial assets			
Non-trading investments	-	451	16,480
Other assets (excluding prepayments)	1,448	-	-
	<u>1,448</u>	<u>451</u>	<u>16,480</u>
Financial liabilities			
Other liabilities	10,988	-	-
Financial guarantee	3,106	-	-
	<u>14,094</u>	<u>-</u>	<u>-</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

23 ACCOUNTING CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

Set out below is the accounting classification of financial instruments, other than cash and cash equivalents, held by the Company as at 31 December 2016:

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

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 Company 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:

	2017			
	<i>Level 1 US\$ 000</i>	<i>Level 2 US\$ 000</i>	<i>Level 3 US\$ 000</i>	<i>Total US\$ 000</i>
Non-trading investments	451	-	16,480	16,931
	<u>451</u>	<u>-</u>	<u>16,480</u>	<u>16,931</u>
	2016			
	<i>Level 1 US\$ 000</i>	<i>Level 2 US\$ 000</i>	<i>Level 3 US\$ 000</i>	<i>Total US\$ 000</i>
Non-trading investments	1,238	-	25,249	26,487
	<u>1,238</u>	<u>-</u>	<u>25,249</u>	<u>26,487</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**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:

	2017 US\$ '000	2016 US\$ '000
Balance as at 1 January	25,249	20,834
Acquisitions	-	24,379
Placements/disposal	(9,346)	(17,808)
Fair value changes	577	(2,156)
	16,480	25,249

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	2017 US\$ '000	2016 US\$ '000
Impairment recognised against ijarah assets	8	-	40,047
Impairment against available for sale investment		-	8,359
Rental receivable		-	3,825
Receivable on sale of aircraft		-	1,483
Other receivables		-	342
Total provisions and impairment recognised during the year		-	54,056

26 CAPITAL MANAGEMENT

Capital includes share capital, statutory reserve, investment fair value reserve and retained earnings.

The primary objective of capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Company 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 Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new capital.

Other than the changes disclosed in note 14, no changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016. Capital is measured at US\$ 61,043 thousand as at 31 December 2017 (31 December 2016: US\$ 87,473 thousand).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

27 SEGMENTAL INFORMATION

a) Geographic sector

The geographical distribution of the Company's assets and liabilities as of 31 December 2017 is as follows:

	<i>Bahrain</i> <i>US\$'000</i>	<i>Europe</i> <i>US\$'000</i>	<i>Others</i> <i>US\$'000</i>	<i>Total</i> <i>US\$'000</i>
Assets				
Cash and balances with banks	291	7,236	43	7,570
Due from banks and financial institutions	28,240	-	3,035	31,275
Non-trading investments	-	6,846	10,085	16,931
Investment in real estate	9,429	-	-	9,429
Other assets	1,182	373	-	1,555
Property and equipment	5,359	-	-	5,359
Total assets	44,501	14,455	13,163	72,119
Liabilities				
Other liabilities	2,792	-	8,196	10,988
Total liabilities	2,792	-	8,196	10,988

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

	<i>Bahrain</i> <i>US\$'000</i>	<i>Europe</i> <i>US\$'000</i>	<i>Others</i> <i>US\$'000</i>	<i>Total</i> <i>US\$'000</i>
Assets				
Cash and balances with banks	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

b) Industry sector

The industrial distribution of the Company's assets and liabilities as of 31 December 2017 is as follows:

	<i>Banking and financial institutions</i> <i>US\$'000</i>	<i>Aviation</i> <i>US\$'000</i>	<i>Real estate</i> <i>US\$'000</i>	<i>Manufacturing</i> <i>US\$'000</i>	<i>Others</i> <i>US\$'000</i>	<i>Total</i> <i>US\$'000</i>
Assets						
Cash and balances with banks	7,570	-	-	-	-	7,570
Due from banks and financial institutions	31,275	-	-	-	-	31,275
Non-trading investments	-	-	16,480	451	-	16,931
Investment in real estate	-	-	9,429	-	-	9,429
Other assets	-	373	-	-	1,182	1,555
Property and equipment	-	-	-	-	5,359	5,359
Total assets	38,845	373	25,909	451	6,541	72,119
Liabilities						
Other liabilities	-	-	-	-	10,988	10,988
Total liabilities	-	-	-	-	10,988	10,988

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

27 SEGMENTAL INFORMATION (continued)

b) Industry sector (continued)

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

	<i>Banking and financial institutions</i> US\$'000	<i>Aviation</i> US\$'000	<i>Real estate</i> US\$'000	<i>Manufacturing</i> US\$'000	<i>Others</i> US\$'000	<i>Total</i> 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

The Company'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 Company'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 Company. For the year ended 31 December 2017, the Company has not made any provision related to amounts owed by related parties (2016: 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:

	2017				2016
	<i>Shareholders</i> US\$'000	<i>Directors</i> US\$'000	<i>Others</i> US\$'000	<i>Total</i> US\$'000	<i>Total</i> US\$'000
Consolidated statement of financial position					
Liabilities					
Other liabilities	4,660	-	-	4,660	-
Expenses					
Management fees relating to ijarah assets	-	-	37	37	248
Board of Directors and Board Committees attendance allowances	-	125	-	125	125
Shari'a Supervisory Board attendance allowances	-	-	106	106	106

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

28 RELATED PARTIES (continued)

Key management personnel are those that possess significant decision making and direction setting responsibilities within the Company. Staff costs attributable to key management personnel of the Company is as follows:

	2017 US\$'000	2016 US\$'000
Short term employee costs	1,427	1,416
Termination costs	98	122
	<u>1,525</u>	<u>1,538</u>

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 Company's commitments are as follows:

	<i>Note</i>	<i>Less than 1 year US\$ '000</i>	<i>Total US\$ '000</i>
At 31 December 2017			
Capital and other commitments		479	479
Financial Guarantee	29.1	3,106	3,106
		<u>3,585</u>	<u>3,585</u>
At 31 December 2016			
Capital and other commitments		554	554
Financial Guarantee		3,106	3,106
		<u>3,660</u>	<u>3,660</u>

29.1 In 2015, the Company 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 Company's indemnity obligations in relation to the sale, if any. The Company'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 Company has also signed back to back guarantee agreements with its investors which entitles the Company 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 Company's Shari'a Supervisory Board consists of three scholars who review the Company'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 Company to ensure that its activities are conducted in accordance with Shari'a principles.

31 RISK MANAGEMENT

Risk management plays a critical role in the Company'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 Company in implementing risk strategy and policies, monitoring and managing the key risks to which the Company is exposed. The Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company. 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.

31.2 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 Company 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 Company does not engage in commercial or retail banking. Its exposure to credit risk arises largely through placement of liquid funds in Company accounts, murabaha contracts, wakala contracts and receivables. The Company deploys excess funds in a conservative manner, targeting highly rated financial institutions locally and regionally.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

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

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

	2017 US\$'000	2016 US\$'000
Balances with banks	7,565	3,782
Due from banks and financial institutions	31,275	34,003
Receivables (other assets)	1,448	2,183
	<u>40,288</u>	<u>39,968</u>

As of 31 December 2017, none of the above exposures are either past due nor impaired (2016: nil).

Credit quality per class of financial assets

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

	<i>Balances with banks US\$ '000</i>	<i>Due from banks and financial institutions US\$ '000</i>	<i>Other assets US\$ '000</i>	<i>Total US\$ '000</i>
2017				
Medium grade: A – BBB	7,526	21,257	-	28,783
Non-investment / speculative: BB – B	34	10,018	-	10,052
Unrated	5	-	1,448	1,453
	<u>7,565</u>	<u>31,275</u>	<u>1,448</u>	<u>40,288</u>
	<i>Balances with banks US\$ '000</i>	<i>Due from banks and financial institutions US\$ '000</i>	<i>Other assets US\$ '000</i>	<i>Total US\$ '000</i>
2016				
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
	<u>3,782</u>	<u>34,003</u>	<u>2,183</u>	<u>39,968</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

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 Company 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 Company has established internal limits on the maximum permissible exposures to sectors for managing sector concentration.

In respect of geographical concentration the Company 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 Company also closely monitors political risk arising from events in each country of exposure.

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

	<i>Bahrain</i> US\$'000	<i>UK & Europe</i> US\$'000	<i>Others</i> US\$'000	<i>Total</i> US\$'000
2017				
Balances with banks	291	43	7,231	7,565
Due from banks and financial institutions	28,240	-	3,035	31,275
Other assets	369	373	706	1,448
	28,900	416	10,972	40,288
2016				
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

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

	<i>Aviation</i> US\$'000	<i>Banking and financial institutions</i> US\$'000	<i>Others</i> US\$'000	<i>Total</i> US\$'000
2017				
Balances with banks	-	7,565	-	7,565
Due from banks and financial institutions	-	31,275	-	31,275
Other assets	373	-	1,075	1,448
	373	38,840	1,075	40,288
2016				
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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

31 RISK MANAGEMENT (continued)

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

The Company currently has limited exposure to profit rate risk. The Company'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 2017, a +/- 200bp change in the profit rate, with all other variables constant, would have resulted in a +/- US\$ 367 thousand (31 December 2016: +/-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 Company in currencies other than the US\$. The Company may engage, in the normal course of business, in transactions denominated in currencies other than its functional currency. The Company's risk management policy regulates such exposure by hedging currency exposures with Shari'a compliant instruments. Currency exposure is monitored daily by RMD and reported on a monthly basis to the Asset Liability and Risk Management Committee.

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

	2017		
	Assets US\$'000	Liabilities US\$'000	Net US\$'000
Kuwaiti Dinars	465	-	465
Great Britain Pounds	10,885	-	10,885
Euro	4	-	4
	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

The table below indicates the impact of reasonably possible changes in exchange rates on the Company'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	47
Great Britain Pounds	10	1,089
Euro	10	0.40

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

31 RISK MANAGEMENT (continued)

31.3 Market risk (continued)

Equity price risk

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

As at 31 December 2017, the Company had an investment in a quoted equity on the Kuwait Stock Exchange. The table below reflects the sensitivity of the investment to changes in these inputs. The sensitivity of investment is calculated by considering the impact of reasonably expected changes in the capitalisation rate.

	<i>Change in equity price</i>	<i>Effect on net equity (+/-)</i>
	<i>%</i>	<i>US\$'000</i>
Kuwait Stock Exchange	10	47

31.4 Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are to be settled by delivering cash or another financial asset. The Company'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 Company'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 Company 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 Company on an ongoing basis to ensure that the liquidity gap is within regulatory limits and the liquidity gap and key liquidity ratios are within the internal Board approved limits.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

31 RISK MANAGEMENT (continued)

31.4 Liquidity risk (continued)

The table below summarises the maturity profile of the Company's assets and liabilities as of 31 December 2017 based on expected periods to cash conversion from the consolidated statement of financial position date:

2017	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	7,570	-	-	-	-	-	-	-	7,570
Due from banks and financial institutions	31,275	-	-	-	-	-	-	-	31,275
Non-trading investments	-	-	-	-	-	-	-	16,931	16,931
Investment in real estate	-	-	-	-	-	-	-	9,429	9,429
Other assets	707	-	480	368	-	-	-	-	1,555
Property and equipment	-	-	-	-	-	-	-	5,359	5,359
Total assets	39,552	-	480	368	-	-	-	31,719	72,119
Liabilities									
Other liabilities	5,825	517	496	-	-	-	-	4,150	10,988
Total liabilities	5,825	517	496	-	-	-	-	4,150	10,988
Net gap	33,727	(517)	(16)	368	-	-	-	27,569	61,131
Cumulative net gap	33,727	33,210	33,194	33,562	33,562	33,562	33,562	61,131	61,131

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

31 RISK MANAGEMENT (continued)

31.4 Liquidity risk (continued)

The table below summarises the maturity profile of the Company'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	91,203

The contractual maturities of the financial assets and liabilities are not significantly different from their expected maturities.

At 31 December 2017

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 Company has implemented a strong corporate governance framework and control mechanism to prevent such potential operational risks. The Company's internal audit function performs regular independent audits of each critical area and reports to the Board Audit Committee on a regular basis.

The Company has in place an operational risk policy that sets guidelines to manage the Company's exposure to loss and protects its assets and outlines the principles of the Company'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 Company as the amount of risk that is acceptable to the Company. 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 Company adopts qualitative and quantitative criteria in measuring its risk appetite.

The Company, 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.

32 SOCIAL RESPONSIBILITY

The Company discharges its social responsibilities through donations to charitable causes and

33 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

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