BANK ALKHAIR

Bank Alkhair B.S.C. (c)

Public Disclosures Document

30 June 2012

These disclosures should be read in conjunction with the detailed risk and capital management disclosures made by the Bank in the Annual Report for the year ended 31 December 2011 and condensed consolidated interim financial information for the six months period ended 30 June 2012.

CONSOLIDATED FINANCIAL PERFORMANCE SUMMARY

Bank Alkhair B.S.C (c)

Consolidated Performance Summary

(Amounts in United State Dollars thousands)	**H1 2012**	**2011**	**2010**	**2009**	**2008**
Loss for the period / year from continuing operations before taxation and impairment (including reversals)	(20,212)	(15,538)	(173,692)	12,300	45,756
Profit /(loss) for the period / year	(20,068)	1,169	(229,496)	2,235	35,011
Total assets	450,273	483,032	727,948	1,033,619	978,770
Placements with financial institutions	52,275	66,477	72,437	84,985	396,614
Financing receivables	95,105	95,838	229,413	216,865	-
Investment securities	114,729	130,383	123,002	247,999	328,560
Total liabilities	234,780	247,866	525,542	609,967	524,859
Due to financial institutions	139,569	143,178	307,785	300,766	383,468
Due to customers	79,695	88,483	86,195	220,657	38,952
Total equity attributable to the shareholders of the Parent	185,493	203,483	152,528	379,709	329,640
Total equity	215,493	235,166	202,406	423,652	453,911
Return on average assets *(per cent)*	-8.6%	0.2%	-26.1%	0.2%	4.8%
Return on average shareholders' equity *(per cent)*	-20.6%	0.7%	-86.2%	0.6%	10.9%
Cost to income ratio *(per cent)*	N.A.	159.6%	N.A.	81.5%	41.3%
Financial leverage *(per cent)*	118.2%	113.8%	291.9%	150.5%	90.9%
Liquidity ratio *(per cent)*	69.9%	74.8%	83.2%	109.4%	129.1%
Capital adequacy ratio *(per cent)*	20.8%	21.6%	13.6%	23.1%	30.8%

CAPITAL MANAGEMENT AND ALLOCATION

Bank Alkhair B.S.C. (c) ("the Bank") is a closed, unlisted company incorporated in the Kingdom of Bahrain and licensed as a Wholesale Bank (Islamic Principles) by the Central Bank of Bahrain (CBB). It has subsidiaries in the Kingdom of Saudi Arabia, Malaysia and Turkey and associated undertakings in the United Arab Emirates, Pakistan and Bahrain. The Bank with its subsidiaries (together referred as "the Group").

Bank Alkhair is required to comply with the regulatory capital adequacy guidelines promulgated by the CBB, based on the standards established by the Basel Committee on Banking Supervision (the Basel Committee) of the Bank for International Settlements (BIS). In accordance with CBB guidelines, Bank Alkhair must maintain a minimum target capital adequacy ratio of 12.5% on a consolidated basis.

Capital Structure

The following table details the regulatory capital resources for Bank Alkhair as at 30 June 2012, 31 December 2011 and 31 December 2010 for Tier 1 and Tier 2 capital.

Composition of Capital

(US$ millions)	**30 June 2012**	31 December 2011	31 December 2010
Tier 1 capital			
Paid-up share capital	**207.9**	207.9	215.6
Share premium	**-**	-	141.7
Statutory reserve	**0.3**	0.3	15.6
(Accumulated loss) / retained earnings	**(14.2)**	4.2	(107.0)
Foreign currency translation reserve	**(8.5)**	(8.7)	(6.1)
Non-Controlling Interest	**-**	(0.2)	34.6
Less: Goodwill	**(36.0)**	(37.7)	(38.1)
Less: unrealised net fair value losses on investment securities	**-**	(0.2)	(118.3)
Less: 50% of significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	**(9.5)**	(9.4)	(7.0)
Less: 50% of investment in insurance entity greater than or equal to 20%	**(6.5)**	(4.8)	(5.0)
Less: excess amounts over maximum permitted large exposure limits	**(2.1)**	(7.1)	(20.7)
Less: additional deduction from Tier 1 to absorb deficiency in Tier 2 capital	**(18.1)**	(21.3)	-
Total qualifying Tier 1 capital	**113.3**	123.0	105.3

Tier 2 capital

Subordinated Murabaha	**-**	-	50.0
Fair value gains	**-**	-	0.1
Less: regulatory discount (55%) on fair value gains	**-**	-	-
Less: 50% of significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	**(9.5)**	(9.4)	(7.0)
Less: 50% of investment in insurance entity greater than or equal to 20%	**(6.5)**	(4.8)	(5.0)
Less: excess amounts over maximum permitted large exposure limits	**(2.1)**	(7.1)	(20.7)
Addition to Tier 2 to absorb Tier 2 capital deficiency	**18.1**	21.3	-
Total qualifying Tier 2 capital	**-**	-	17.4
Total eligible regulatory capital	**113.3**	123.0	122.7

Please note goodwill mainly relates to BFC Group Holdings Ltd and is considered only for capital adequacy calculation purposes.

Capital Management

Bank Alkhair's capital adequacy policy is to maintain a strong capital base to support the Bank's balance sheet. Current and future capital requirements are determined on the basis of business growth expectations for each business line; future sources and uses of funds, including seed capital requirements and expected sell-down and placement targets; and the Bank's future dividend policy.

The following tables detail the risk-weighted exposures, regulatory capital requirements and regulatory capital ratios for the Bank Alkhair Group as at 30 June 2012, 31 December 2011 and 31 December 2010. The figures are based on the Basel II standardised approach for credit risk and market risk and the Basel II basic indicator approach for operational risk. The Bank considers Standard & Poor's, Fitch and Moody's to be External Credit Assessment Institutions (ECAIs) for the risk weighting of assets by type of claims. If there are two assessments available by eligible ECAIs chosen by the Bank which map into different risk weights, the higher risk weight will be applied. If there are three assessments available by eligible ECAIs chosen by the Bank which map into different risk weights, the assessments corresponding to the two lowest risk weights will be referred to and the higher of those two risk weights will be selected.

The Bank uses the Standardised Approach for allocating capital for credit risk and consequently uses the same approach for allocating capital for counterparty credit risk. The Bank does not deal with, finance or hold securities on behalf of Highly Leveraged Institutions (HLIs) as defined by the Basel Committee on Banking Supervision (BCBS). The Bank's methodology and approach for establishing and approving counterparty and credit limits is based on an extensive review and analysis of a counterparty's financial condition and performance, trading history, due diligence covering licensing, regulatory oversight and anti-money laundering compliance review – tools which are all designed to exclude HLIs. Bank Alkhair's treasury counterparts are fully licensed and regulated financial institutions. In addition, the Bank has developed an internal rating methodology where all counterparties are rated and assigned an internal rating mapped to grades provided by external rating agencies. The internal credit rating methodology has strengthened the counterparty risk management process by providing a more objective, risk-based and deeper analysis of counterparty financial conditions and performance. Before establishing limits, all counterparties undergo a thorough credit risk assessment and due diligence review before approval by the Risk Committee.

As part of its collateral management policy, the Bank only accepts collateral in line with Shari'ah requirements and with a view to minimising wrong-way risk exposure. The Bank also manages its collateral with a view to minimising collateral concentration risk either by specific issuer, market or instrument.

The Bank's credit policy defines the approach to be used when determining provisions and this depends on the number of days outstanding and the credit risk rating. Facilities where repayments of principal and or profit charges have been outstanding for more than 90 days are classified as non-performing. All exposures graded as non-performing have provisions provided for. General provisions are assessed and calculated on a portfolio basis if it is determined that a portfolio of facilities is affected by common risk factors that are likely to increase the collective probability of default on those facilities. Specific provisions are calculated on a facility-by-facility basis after incorporating the value of realisable collateral net of any disposal costs.

Credit Risk-Weighted Exposures

Under the CBB standardised approach, credit risk exposures are assigned to one of fourteen standard portfolios as shown below, risk weighted accordingly.

	Risk-weighted equivalents			**Basel II risk-weightings**
(US$ millions)	**30 June 2012**	31 December 2011	31 December 2010	
Claims on sovereigns	**0.5**	0.9	-	20%-100%
Claims on PSEs	**0.4**	0.4	-	20%
Claims on banks	**37.3**	47.9	41.1	20%-100%
Claims on corporates including Takaful companies & category 3 investment firms	**121.8**	133.9	193.7	100%
Investments in equities and funds:				
Investments in listed equities	**22.4**	24.8	0.1	100%
Investments in unlisted equities	**56.8**	56.9	125.5	150%
Investments in unrated funds	**43.0**	43.0	53.7	150%
Real estate holdings	**38.5**	38.5	134.8	200%
Other assets and specialized financing	**29.7**	23.4	39.8	100%
Credit risk-weighted assets	**350.4**	369.7	588.7	

Minimum Capital Requirements for Islamic Financing Contracts

(US$ millions)	**30 June 2012**		31 December 2011	
	Risk-weighted equivalents	**Minimum capital requirements**	Risk-weighted equivalents	Minimum capital requirements
Murabaha	**95.7**	**12.0**	102.6	12.8
Wakala	**8.2**	**1.0**	17.6	2.2
Mudaraba	**13.6**	**1.7**	35.5	4.4

Market Risk-Weighted Exposures

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in profit rates, foreign exchange rates, equity prices and commodities. Under the CBB standardised approach, market risk exposures are calculated for the five categories shown in the table below. Apart from limited foreign exchange which is mainly transaction-driven and long-term foreign currency exposure on private equity investments, the Bank has limited exposure to short-term market risks.

The details of Bank Alkhair's market risk capital charges and the equivalent market risk-weighted exposures as at 30 June 2012, 31 December 2011 and 31 December 2010 are:

(US$ millions)	**30 June 2012**	31 December 2011	31 December 2010
Price risk	**-**	-	-
Equities position risk	**-**	-	-
Sukuk risk	**-**	-	-
Foreign exchange risk	**3.0**	3.4	5.4
Commodities risk	**-**	-	-
Total capital requirement for market risk	**3.0**	3.4	5.4
Multiplier	**12.5**	12.5	12.5
Total Market risk-weighted exposures	**37.5**	42.5	67.5

The details of Bank Alkhair maximum and minimum value for each category of the market risk during the six months period ended 30 June 2012 and year ended 31 December 2011 are:

	30 June 2012		31 December 2011	
(US$ millions)	**Maximum Capital Charge**	**Minimum Capital Charge**	Maximum Capital Charge	Minimum Capital Charge
Price risk	**-**	**-**	-	-
Equities position risk	**-**	**-**	-	-
Sukuk risk	**-**	**-**	-	-
Foreign exchange risk	**3.3**	**3.0**	6.7	3.4
Commodities risk	**-**	**-**	-	-
Total capital requirement for market risk	**3.3**	**3.0**	6.7	3.4
Multiplier	**12.5**	**12.5**	12.5	12.5
Total Market risk-weighted exposures	**41.3**	**37.5**	83.8	42.5

Operational Risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure and or inadequate staffing. Bank Alkhair has a policy in place which outlines the Bank's approach in the management of operational risk, including the appointment of departmental Risk Champions, mapping of key processes and establishment of an operational risk database incorporating risk libraries and Key Risk Indicators (KRI's) used for monitoring operational risks through Risk and Control Self Assessments (RCSAs).

To support a robust internal control environment, the Risk Management department is actively involved in oversight of key control processes including exposure and limit monitoring. In addition, the Risk Management department also independently reviews payment authorisation and control arrangements, nostro account reconciliations, new product proposals, new counterparty limit proposals, new commodity broker proposals and key changes in internal processes. A change management policy outlining the Bank's approach in the management of risks arising from the implementation of changes in processes and systems is also in place.

For selected material operational risks where the Bank's capacity to fully mitigate risk is limited, Takaful insurance contracts are used to transfer such risks to third parties. Key risks where Takaful insurance contracts are used include professional indemnity liability, property risks and third party liability.

Operational Risk-Weighted Exposures

For purposes of calculating regulatory capital for operational risk under Basel II, the Bank uses the Basic Indicator Approach where gross income (weighted by an alpha of 15%) is used as a proxy for operational risk capital.

The details of Bank Alkhair's operational risk capital charge, and the equivalent operational risk-weighted exposures, as at 31 December 2011 and 31 December 2010 are shown below:

(US$ millions)	**31 December 2011**	31 December 2010	31 December 2009
Gross income	**32.3**	17.8	199.1
Average gross income for three years	**83.1**	132.0	162.6
Alpha	**15%**	15%	15%
Capital charge for operational risk	**12.5**	19.8	24.4
Multiplier	**12.5**	12.5	12.5
Total operational risk-weighted exposures	**156.3**	247.5	304.9

Risk-Weighted Exposures

Risk-weighted exposures decreased by US$24.0 million (4%) in 2012, from US$568.2 million as at 31 December 2011 to US$544.2 million as at 30 June 2012, as detailed below:

(US$ millions)	**30 June 2012**	31 December 2011	31 December 2010
Credit risk-weighted exposures	**350.4**	369.7	588.7
Market risk-weighted exposures	**37.5**	42.2	67.0
Operational risk-weighted exposures	**156.3**	156.3	247.4
Total risk-weighted exposures	**544.2**	568.2	903.1

Group Structure

The Group's financial statements are prepared on a full consolidation basis, with all subsidiaries being consolidated in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). For capital adequacy purposes, all subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

The principal subsidiaries and associates as well as the basis of consolidation for capital adequacy purposes are as follows:

	Domicile	Ownership	Consolidation basis
Subsidiaries			
UIB Capital Inc.	United States of America	100%	Full Consolidation
Alkhair International Islamic Bank Berhad	Malaysia	100%	Full Consolidation
Alkhair Capital Menkul Degerler A.S.	Turkey	91.9%	Full Consolidation
Alkhair Capital Saudi Arabia	Kingdom of Saudi Arabia	53.4%	Pro-rata Consolidation
Associates			
BFC Group Holdings Ltd.	United Arab Emirates	43.36%	Pro-rata Consolidation
Burj Bank Limited	Pakistan	36.90%	Full Deduction
t'azur B.S.C. (c)	Kingdom of Bahrain	25.86%	Full Deduction

There are no investments in subsidiaries that are treated as a deduction from the Group's regulatory capital. There are no restrictions on the transfer of funds or regulatory capital within the Group.

Capital Adequacy Ratio

Capital Ratios - Consolidated & Subsidiaries above 5% of Group Regulatory Capital

(Percent)	**30 June 2012**		31 December 2011		31 December 2010	
	Total Capital Ratio	**Tier 1 Capital Ratio**	Total Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Tier 1 Capital Ratio
Bank Alkhair Group	**20.8**	**20.8**	21.6	21.6	13.6	11.7
Alkhair International Islamic Bank Berhad	**25.2**	**25.2**	24.3	24.3	28.9	28.9
Alkhair Capital Saudi Arabia	**69.2**	**69.2**	93.2	93.2	157.8	157.8
Alkhair Capital Menkul Degerler A.S.	**41.2**	**41.2**	41.0	41.0	57.5	57.5

(Percent)	**30 June 2012**	31 December 2011	31 December 2010
Tier 1 capital adequacy ratio	**20.8**	21.6	11.7
Total capital adequacy ratio	**20.8**	21.6	13.6

The minimum capital required by Bank Alkhair to maintain compliance at 12.5% is shown in the table below.

(US$ millions)	**30 June 2012**	31 December 2011	31 December 2010
Credit risk	**43.8**	46.2	73.6
Market risk	**4.7**	5.3	8.4
Operational risk	**19.5**	19.5	30.9
Total capital requirements	**68.0**	71.0	112.9

The minimum capital required by Bank Alkhair to maintain compliance at 12.5% for equity type investments is shown in the table below.

(US$ millions)	**30 June 2012**	31 December 2011	31 December 2010
Investments in listed equities	**2.8**	3.1	-
Investments in unlisted equities	**7.1**	7.1	15.7
Investments in unrated funds	**5.4**	5.4	6.7
Total capital requirements	**15.3**	15.6	22.4

RISK MANAGEMENT

Credit Risk

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations and arises principally from the Group's balances with banks, placements with financial institutions, financing receivables, investment securities – sukuk and other receivables. The Bank has defined processes for credit assessment, review and approval including counterparty credit risk management. Risk Management conducts an independent assessment of all credit and counterparty limit proposals, after which an independent recommendation is forwarded to the Risk Executive Committee (REXCO) for approval. REXCO periodically reviews these limits for appropriateness in prevailing market conditions.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. There is no significant use of master netting and collateral agreements.

	Maximum exposure 30 June 2012	Maximum exposure 31 December 2011
Balances with banks	5,909	11,061
Placements with financial institutions	52,275	66,477
Financing receivables	95,105	95,838
Investment securities – Sukuk	19,537	23,396
Other assets	32,216	35,477
Guarantees	3,293	3,292
	208,335	235,541

Gross and average credit risk

The table below shows the average gross credit risk exposure of the Bank as at 30 June 2012, classified as per the disclosure in the financial statements:

Balance sheet items	**Funded exposure**	**Unfunded exposure**	**Total gross credit exposure**	**Average gross credit exposure***
(Amounts in US$ thousands)				
Balances with banks	5,909	-	5,909	14,188
Placements with financial institutions	52,275	-	52,275	55,328
Financing Receivables	95,105	-	95,105	95,740
Investment securities - Sukuk	19,537	-	19,537	20,790
Other assets - fees and recoverable expenses outstanding from clients	32,216	-	32,216	34,769
	205,042	**-**	**205,042**	**220,815**
Guarantees	3,293	-	3,293	3,292
Total credit risk exposure	**208,335**	**-**	**208,335**	**224,107**

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the period ended 30 June 2012.

Other assets as of 30 June 2012 include US$ 3.0 million receivable from sale of the investment securities maintained in an escrow account for 18 months under recourse agreements.

Risk concentration of the maximum exposure to credit risk

Concentration of risks is managed through the establishment of exposure limits for counterparties and geographical regions and by industry sectors. The Bank's Large Exposure Policy details concentration limits per obligor, groups of connected obligors, sector, geography, countries and groups of countries. The maximum credit exposure to any one client or counterparty as of 30 June 2012 was US$99.4 million (31 December 2011: US$95.7 million).

Exposures in excess of the 15% limit for the year ended 30 June 2012 are as follows:

Counterparties	**Amount of exposures In US$ thousands**	**% of exposure To capital**
Counterparty # 1	**99,446**	**84.61%**
Counterparty # 2	**26,368**	**22.43%**
Counterparty # 3	**24,147**	**20.55%**
Counterparty # 4	**21,535**	**18.32%**
Counterparty # 5	**21,433**	**18.24%**
Counterparty # 6	**19,256**	**16.38%**
Counterparty # 7	**18,941**	**16.12%**

The exposure to Counterparty # 5 is an exempted short term interbank exposure.

Geographical Exposure Distribution

The analysis by geographical region of the Group's financial assets having credit risk exposure is as follows:

REGION	**Total Assets**	**Off balance sheet**	**Total 30 June 2012**	Total 31 December 2011
Bahrain	19,059	-	19,059	24,808
Other Middle East	106,925	-	106,925	111,672
North America	6,204	3,000	9,204	16,530
Asia Pacific	67,856	-	67,856	75,384
Europe	4,998	293	5,291	7,147
Total	**205,042**	**3,293**	**208,335**	235,541

Industry Sector Exposure

The distribution of assets and off-balance sheet items by industry sector is as follows:

INDUSTRY SECTOR	**Assets**	**Off-balance sheet**	**Total 30 June 2012**	Total 31 December 2011
Banking and finance	86,336	293	86,629	108,505
Industrial	13,408	-	13,408	17,624
Real estate and construction	50,645	-	50,645	43,898
Technology	6,053	3,000	9,053	6,090
In-house funds	1,260	-	1,260	263
Trade	42,395	-	42,395	48,284
Government	703	-	703	2,732
Individual	4,242	-	4,242	8,145
Total	**205,042**	**3,293**	**208,335**	235,541

Collateral and other credit enhancements

The Group utilises collateral and other credit enhancements, in line with Shari'ah requirements. Before taking any form of collateral the Bank pre-assesses impediments that may restrict accessibility to collateral should the need arise as well as acceptability from a Shari'ah perspective. In this respect the Bank will formally agree with the customer at the time of signing the offer letter on the usage, redemption and utilization of collateral when the customer/counterparty defaults. In the past year, the Bank has obtained collateral including shareholders' personal guarantees, cash, real estate, unlisted equity shares and debentures. The Bank's credit policy discourages taking collateral value where there is a strong correlation between collateral value and obligor's ability to pay.

Credit quality per class of financial assets

The Group did not apply a standard credit rating to its investment business, as the Group assessed credit quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of standard quality as of 30 June 2012. Following is an analysis of credit quality by class of financial assets:

	30 June 2012				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments / provisions	Total
Balances with banks	5,909	-	-	-	5,909
Placements with financial institutions	52,275	-	-	-	52,275
Financing receivables	95,105	-	-	-	95,105
Investment securities - Sukuk	19,537	-	-	-	19,537
Other assets	30,462	1,483	7,539	(7,268)	32,216
Guarantees	3,293	-	-	-	3,293
Total	**206,581**	**1,483**	**7,539**	**(7,268)**	**208,335**

Exposures that are past due but not impaired are either past due for less than 90 days and the financial condition of the customer is sound, or has adequate unimpaired collateral coverage. Provisioning is driven by the performance of the customer against laid down terms and conditions of the facility, internal credit grading and classification system calculated on net exposure after deducting the discounted value of recoverable collateral and any disposal costs.

	31 December 2011				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments / provisions	Total
Balances with banks	11,061	-	-	-	11,061
Placements with financial institutions	66,477	-	-	-	66,477
Financing receivables	95,838	-	-	-	95,838
Investment securities - Sukuk	23,396	-	-	-	23,396
Other assets	35,250	227	8,768	(8,768)	35,477
Guarantees	3,292	-	-	-	3,292
Total	235,314	227	8,768	(8,768)	235,541

Ageing analysis of past due but not impaired by class of financial assets:

	30 June 2012			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	1,376	107	-	1,483

	31 December 2011			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	11	99	117	227

Specific provisions

	Specific Provision against			
	Financing Receivable	Other Assets	Investment Securities	Total
At the beginning of the period	-	8,768	-	8,768
New Provision made	-	-	-	-
Write off	-	-	-	-
Recoveries / Write backs	-	(1,500)	-	(1,500)
Balance at the ending of the period	-	7,268	-	7,268

The Group does not maintain any general collective provisions as of 30 June 2012. All the specific provisions are within Bahrain.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

The key features of the Group's liquidity methodology are:

- The Group Asset and Liability Committee ("ALCO") is responsible for liquidity monitoring, cash flow planning and general asset liability management.
- In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.
- ALCO has determined the most appropriate liquidity horizon for the Group as 3 months for the normal business scenario and 6 months for the crisis business scenario. This means that holding sufficient liquid funds for 3 months is acceptable for normal business purposes but 6 months would be more prudent in the event of a liquidity crisis.
- The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon.

Analysis of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

	Gross undiscounted cash flows				
	Less than 3 months	**3 to 12 months**	**Over 1 year**	**Total**	**Carrying value**
At 30 June 2012					
Due to financial Institutions	102,392	38,545	-	140,937	139,569
Due to customers	67,175	12,900	-	80,075	79,695
Other liabilities	8,435	-	1,749	10,184	10,184
Total financial liabilities	**178,002**	**51,445**	**1,749**	**231,196**	**229,448**

	Gross undiscounted cash flows				
	Less than 3 months	3 to 12 Months	Over 1 year	Total	Carrying value
At 31 December 2011					
Due to financial Institutions	104,762	39,620	-	144,382	143,178
Due to customers	87,372	1,641	-	89,013	88,483
Other liabilities	7,099	-	2,389	9,488	9,488
Total financial liabilities	199,233	41,261	2,389	242,883	241,149

The table below shows the contractual expiry by maturity of the Group's commitments.

	On demand	3 to 12 months	Over 1 year	Carrying value
30 June 2012				
Commitments	-	2,272	1,649	3,921
Guarantees	3,293	-	-	3,293
Total	**3,293**	**2,272**	**1,649**	**7,214**

	On demand	3 to 12 months	Over 1 year	Carrying value
31 December 2011				
Commitments	-	2,325	2,373	4,698
Guarantees	3,292	-	-	3,292
Total	3,292	2,325	2,373	7,990

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	30 June 2012							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Undated	Total
ASSETS								
Cash and balances with banks	5,924	-	-	-	5,924	-	-	5,924
Placements with financial institutions	52,044	231	-	-	52,275	-	-	52,275
Financing receivables	3,393	5,350	44,587	40,675	94,005	1,100	-	95,105
Investment securities	6,695	-	11,800	22,687	41,182	73,547	-	114,729
Assets held for sale	-	18,932	-	-	18,932	-	-	18,932
Investments in associates	-	-	-	-	-	-	105,819	105,819
Investment properties	-	-	-	-	-	-	17,706	17,706
Other assets	182	34,069	-	-	34,251	593	-	34,844
Equipment	-	-	-	-	-	-	4,939	4,939
Total assets	**68,238**	**58,582**	**56,387**	**63,362**	**246,569**	**75,240**	**128,464**	**450,273**
LIABILITIES								
Due to financial institutions	47,062	54,632	22,875	15,000	139,569	-	-	139,569
Due to customers	33,509	33,436	11,529	1,221	79,695	-	-	79,695
Other liabilities	-	8,435	-	5,332	13,767	1,749	-	15,516
Total liabilities	**80,571**	**96,503**	**34,404**	**21,553**	**233,031**	**1,749**	**-**	**234,780**
Commitments	3,293	-	1,548	724	5,565	1,649	-	7,214
Net liquidity gap	**(15,626)**	**(37,921)**	**20,435**	**41,085**	**7,973**	**71,842**	**128,464**	**208,279**
Net cumulative gap	**(15,626)**	**(53,547)**	**(33,112)**	**7,973**	**7,973**	**79,815**	**208,279**	

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	31 December 2011							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Undated	Total
ASSETS								
Cash and balances with banks	11,081	-	-	-	11,081	-	-	11,081
Placement with financial institutions	62,945	2,656	876	-	66,477	-	-	66,477
Financing receivables	9,224	19,760	19,110	47,744	95,838	-	-	95,838
Investment securities	-	-	11,646	29,202	40,848	89,535	-	130,383
Assets held for sale	-	2,560	-	-	2,560	-	-	2,560
Investments in associates	-	-	-	-	-	-	114,952	114,952
Investment properties	-	-	-	-	-	-	17,706	17,706
Other assets	726	37,147	-	-	37,873	679	-	38,552
Equipment	-	-	-	-	-	-	5,483	5,483
Total assets	83,976	62,123	31,632	76,946	254,677	90,214	138,141	483,032
LIABILITIES								
Due to financial institutions	52,345	51,958	37,664	1,211	143,178	-	-	143,178
Due to customers	15,720	71,142	1,018	603	88,483	-	-	88,483
Other liabilities	33	7,066	-	6,717	13,816	2,389	-	16,205
Total liabilities	68,098	130,166	38,682	8,531	245,477	2,389	-	247,866
Commitments	3,292	362	362	1,601	5,617	2,373	-	7,990
Net liquidity gap	12,586	(68,405)	(7,412)	66,814	3,583	85,452	138,141	227,176
Net cumulative gap	12,586	(55,819)	(63,231)	3,583	3,583	89,035	227,176	

MARKET RISK MANAGEMENT

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities. The Group classifies exposures to market risk into either trading or non-trading portfolios. The Group does not currently engage in trading activity. Non-trading positions are managed and monitored using sensitivity analysis.

Market Risk: Non-trading

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Board has set limits on profit rate positions by maturity. The Group currently has limited exposure to profit rate risk. The Group's assets and liabilities that are exposed to profit rate risk include: placements with financial institutions, financing receivables, investments in sukuk, due to financial and institutions and due to customers.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant. The effect of decreases in profit rate is expected to be equal and opposite to the effect of the increases shown.

	30 June 2012			31 December 2011		
	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	52,275	200	508	66,477	200	1,301
Financing receivables	95,105	200	653	95,838	200	1,556
Investment securities - Sukuk	19,537	200	6	23,396	200	14
Liabilities						
Due to financial institutions	139,569	200	(919)	143,178	200	(2,312)
Due to customers	79,695	200	(531)	88,483	200	(1,483)
Total			**(283)**			(924)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored regularly to ensure that positions are maintained within established limits.

The table below indicates the currencies to which the Group has significant exposure. The analysis shows the impact of a 20% movement in the currency rate against the United States Dollar, with all other variables held constant on the consolidated statement of income and equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

	30 Jun 2012			31 December 2011		
Currency	Exposure (USD equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)	Exposure (US$ equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Kuwaiti Dinar	(12,174)	(2,435)	-	(12,275)	(2,455)	-
Turkish Lira	7,363	278	1,195	8,370	243	1,431
Malaysian Ringgit	203	41	-	2,588	518	-
Euro	133	27	-	(12)	(2)	-
Jordanian Dinar	26,364	5,273	-	38,868	7,774	-
Sterling Pounds	319	64	-	315	63	-

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible. The Bank has established processes for pre and post investment risk management including periodic monitoring and reporting on investment performance.

The effect on income and equity (as a result of a change in the fair value of equity instruments at 30 June 2011) due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$ 13.3 million and US$ 1.0 million, respectively (31 December 2011: US$ 15.1 million and US$ 1.0 million, respectively). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

The Bank investment securities portfolio is as follows:

	30 June 2012	31 December 2011
Equity type investments		
At fair value through income statement:		
- Quoted equity securities	26,333	38,896
- Unquoted equity securities	33,003	32,994
- Unquoted funds	27,499	27,150
- Quoted funds	1,707	1,495
	88,542	100,535
At fair value through equity		
- Unquoted equity securities	6,650	6,452
Total equity type investments	**95,192**	106,987

The Bank realised and unrealised gains/losses for the investment securities portfolio recognised in the statement of income is as follows:

(US$ thousands)	**30 June 2012**	30 June 2011
Fair value movements on investment securities	**(11,848)**	3,514
Gain on sale of investment securities	**364**	3,282

PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties prepay or request repayment earlier than expected.

The Group is not exposed to any significant prepayment risk.

OPERATIONAL RISK

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group.

EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

The Group did not receive any significant income or incur significant expenses that were prohibited by the Shari'ah.

During the period, Bank Alkhair recovered US$270,768.01(30 June 2011: $Nil) from a client towards late payment charges on a financing facility. This has been allocated by the Shari'ah Board to registered charities.

RESTRICTED INVESTMENT ACCOUNTS

Bank Alkhair offers Restricted Investment Accounts (RIAs) to both financial and non-financial institutions. All RIA offering documents are prepared and issued with input from the business lines and the Shari'ah Assurance, Financial Control, Legal and Risk Management departments to ensure that all investors have sufficient information to consider all risk factors allowing them to make an informed decision. The Bank has clear guidelines and procedures for the development, management and risk mitigation of its RIAs. The Bank has established a robust operational and functional infrastructure to ensure that effective internal control systems are in place and that RIA holders' interests are protected at all times. The Bank is fully aware of its fiduciary duties and responsibilities in managing RIAs.

Total Income from RIA

	30 June 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008	31 December 2007
(US$ thousands)						
Gross Income	**91**	758	4,931	188	-	-
Wakil Fee	**(36)**	(215)	(956)	(56)	-	-

DISPLACED COMMERCIAL RISK

The Bank does not have Profit Sharing Investment Accounts (PSIAs) and is not exposed to displaced commercial risk.

RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors and senior management of the Group; members of the Shari'ah Supervisory Board of the Group; and close members of their families and entities owned or controlled by them. Pricing policies and terms of the transactions relating to these related parties are approved by management.

Related parties also comprise the Group's investment companies and funds that hold clients' investments. The Group manages its investment companies and funds on a fiduciary basis on behalf of its clients, who are third parties and are the beneficiaries of a majority of the economic interest of the underlying investments in the investment companies and funds. All transactions with these investment companies and funds are undertaken on a commercial basis and strictly in accordance with the related underlying contracts.

All transactions with these related parties arose from the ordinary course of business at normal commercial rates.

Compensation of senior management personnel

Senior management personnel are those that possess significant decision-making and direction-setting responsibilities within the Group.

(US$ thousands)	**30 June 2012**	30 June 2011
Short term employee benefits	1,058	3,082
Post employment benefits	442	175
Share-based payments	-	-
	1,500	3,257

RELATED PARTY TRANSACTIONS (continued)

The significant related party balances as at 30 June 2012 and transactions for the six months period ended 30 June 2012 are as follows:

	30 June 2012				31 December 2011			
Assets	**Associates**	**Significant shareholders/ entities in which directors have interest**	**Senior management**	**Other entities**	Associates	Significant shareholders/ entities in which directors have interest	Senior management	Other entities
Financing receivables	6,553	-	-	6,024	6,548	-	-	6,006
Investment securities	85,044	-	-	10,434	97,201	-	-	9,557
Assets held-for-sale	18,932	-	-	-	2,560	-	-	-
Investments in associates	105,819	-	-	-	114,952	-	-	-
Other assets	1,324	-	80	785	1,290	-	706	819
Liabilities								
Due to financial institutions	24,107	-	-	-	25,378	-	-	-
Due to customers	945	-	-	658	5,943			2,615
Other liabilities	-	1,087	204	109	-	825	792	66

	Six months ended 30 June 2012				Six months ended 30 June 2011			
Income / (expenses)	**Associates**	**Significant shareholders/ entities in which directors have interest**	**Senior management**	**Other entities**	Associates	Significant shareholders/ entities in which directors have interest	Senior management	Other entities
Income from Investment securities	(11,995)	-	-	147	2,025	-	-	(72)
Fees and commission	-	-	-	-	1,444	-	-	233
Net finance income / (expense)	(342)	-	-	245	(1,538)	-	-	220
Share of profit of associates	7,150	-	-	-	2,896	-	-	-
Other income	-	-	-	-	4,037	1,299		467
Directors' and Shari'ah board remuneration and expenses	-	(405)	-	(38)	-	(282)	-	(181)

LEGAL CONTINGENCIES

According to the Extraordinary General Meeting resolution passed in October 2010, the Bank's Board of Directors was mandated by the General Assembly to bring legal action against the former Chief Executive Officer & Managing Director. Accordingly, the Bank has filed various legal proceedings against the former Chief Executive Officer & Managing Director before the Civil and Criminal Courts of the Kingdom of Bahrain. In view of the results made by the General Prosecutor and the advice the Bank received from its legal counsel, Bank Alkhair is confident that damages will be awarded to the Bank.

Employment claims against the Bank have been filed by former Bank employees. Based on the advice the Bank received from its external legal counsel, it is premature to quantify the amount or timing of liability, if any. The external legal counsel has also confirmed that the Bank has strong grounds to successfully defend itself against these claims. Accordingly, no provision for these claims has been made in the consolidated financial statements. No further disclosures regarding contingent liabilities arising from any of the employment claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's position.

The Courts of Bahrain dismissed two civil claims filed by the former CEO and his associates against the Bank. Furthermore, the former CEO was sentenced 4 years imprisonment by the criminal Court for embezzlement of funds, destroying data and squandering of assets belonging to the Bank.