BANK ALKHAIR

Bank Alkhair B.S.C. (c)

Pillar III disclosures

30 June 2013

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 2012 and the condensed consolidated interim financial information for the six month period ended 30 June 2013.

CONSOLIDATED FINANCIAL PERFORMANCE SUMMARY

Bank Alkhair B.S.C (c)

Consolidated Performance Summary

(US$ thousands)	**H1 2013**	**2012**	**2011**	**2010**	**2009**
Profit / (loss) for the period / year from continuing operations before Zakah and impairment	5,424	(39,208)	(15,538)	(173,692)	12,300
Profit / (loss) for the period / year	3,684	(39,763)	1,169	(229,496)	2,235
Total assets	639,158	442,155	483,032	727,948	1,033,619
Placements with financial institutions	86,560	63,733	66,477	72,437	188,465
Financing receivables	89,343	86,623	95,838	229,413	112,578
Investment securities	82,593	112,905	130,383	123,002	247,999
Total liabilities	391,475	246,275	247,866	525,542	609,967
Due to financial institutions	110,272	153,121	143,178	298,275	300,766
Due to customers	150,999	68,176	88,483	95,705	220,657
Total equity attributable to the shareholders of the Parent	170,954	167,113	203,483	152,528	379,709
Total equity	247,683	195,880	235,166	202,406	423,652
Return on average assets *(per cent)*	1.4%	-8.6%	0.2%	-26.1%	0.2%
Return on average shareholders' equity *(per cent)*	4.4%	-21.5%	0.7%	-86.2%	0.6%
Cost to income ratio *(per cent)*	79.2%	841.1%	159.6%	N.A.	81.5%
Financial leverage *(per cent)*	152.8%	132.4%	113.8%	291.9%	150.5%
Capital adequacy ratio *(per cent)*	22.4%	22.6%	21.6%	13.6%	23.1%

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 Islamic Bank by the Central Bank of Bahrain (CBB). It has subsidiaries in the Kingdom of Saudi Arabia, Malaysia, Jordan and Turkey and associated undertakings in the United Arab Emirates, Pakistan and Bahrain. The Bank along with its subsidiaries are together referred to 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 2013, 31 December 2012 and 31 December 2011 for Tier 1 and Tier 2 capital.

Composition of Capital

(US$ millions)	**30 June 2013**	31 December 2012	31 December 2011
Tier 1 capital			
Paid-up share capital	**207.9**	207.9	207.9
Statutory reserve	**0.3**	0.3	0.3
(Accumulated loss) / retained earnings	**(32.7)**	(32.7)	4.2
Foreign currency translation reserve	**(9.2)**	(8.4)	(8.7)
Non-Controlling Interest	**-**	-	(0.2)
Less: Goodwill	**(32.0)**	(36.0)	(37.7)
Less: unrealised net fair value losses on investment securities	**-**	-	(0.2)
Less: 50% of significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	**(9.5)**	(9.5)	(9.4)
Less: 50% of investment in insurance entity greater than or equal to 20%	**(6.4)**	(6.4)	(4.8)
Less: excess amounts over maximum permitted large exposure limits	**(4.3)**	(3.9)	(7.1)
Less: additional deduction from Tier 1 to absorb deficiency in Tier 2 capital	**(15.8)**	(19.8)	(21.3)
Total qualifying Tier 1 capital	**98.3**	91.5	123.0

Tier 2 capital

Current interim profits (reviewed by external auditors)	**4.3**	-	-
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)**	(9.5)	(9.4)
Less: 50% of investment in insurance entity greater than or equal to 20%	**(6.4)**	(6.4)	(4.8)
Less: excess amounts over maximum permitted large exposure limits	**(4.3)**	(3.9)	(7.1)
Addition to Tier 2 to absorb Tier 2 capital deficiency	**15.8**	19.8	21.3
Total qualifying Tier 2 capital	**-**	-	-
Total eligible regulatory capital	**98.3**	91.5	123.0

**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 financial position. 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 2013, 31 December 2012 and 31 December 2011. 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 balance with banks, placement with financial institutions, financing receivables and investment in Sukuk. 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 risk exposure. The Bank also manages its collateral with a view to minimising collateral concentration risk either by specific issuer, market or instrument. The Groups collateral is not considered as eligible collateral for credit risk mitigation techniques.

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 facilities graded as non-performing have been 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			**Risk-weightings**
(US$ millions)	**30 June 2013**	31 December 2012	31 December 2011	
Claims on sovereigns	**0.5**	0.5	0.9	20%-100%
Claims on PSEs	**0.4**	0.4	0.4	20%
Claims on banks	**54.4**	41.8	47.9	20%-100%
Claims on corporates including Takaful companies & category 3 investment firms	**91.4**	110.3	133.9	100%
Investments in equities and funds:				
Investments in listed equities	**49.8**	23.7	24.8	100%
Investments in unlisted equities	**38.3**	42.6	56.9	150%
Investments in unrated funds	**39.3**	38.1	43.0	150%
Real estate holdings	**54.9**	38.5	38.5	200%
Other assets and specialised financing	**20.7**	20.0	23.4	100%
Credit risk-weighted assets	**349.7**	315.9	369.7	

Minimum Capital Requirements for Islamic Financing Contracts

(US$ millions)	**30 June 2013**		31 December 2012	
	Risk-weighted equivalents	**Minimum capital requirements**	Risk-weighted equivalents	Minimum capital requirements
Murabaha	**102.5**	**12.8**	90.4	11.3
Wakala	**12.2**	**1.5**	9.1	1.1
Mudaraba	**16.5**	**2.0**	17.9	2.2

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 and commodity prices. 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 the group's market risk capital charges and the equivalent market risk-weighted exposures as at 30 June 2013, 31 December 2012 and 31 December 2011 are:

(US$ millions)	**30 June 2013**	31 December 2012	31 December 2011
Price risk	**-**	-	-
Equities position risk	**-**	-	-
Sukuk risk	**-**	-	-
Foreign exchange risk	**5.2**	3.0	3.4
Commodities risk	**-**	-	-
Total capital requirement for market risk	**5.2**	3.0	3.4
Multiplier	**12.5**	12.5	12.5
Total Market risk-weighted exposures	**65.0**	37.5	42.5

The details of the Group's maximum and minimum value for each category of the market risk during the years ended 30 June 2013 and 31 December 2012 are:

(US$ millions)	30 June 2013 Maximum Capital Charge	30 June 2013 Minimum Capital Charge	31 December 2012 Maximum Capital Charge	31 December 2012 Minimum Capital Charge
Price risk	-	-	-	-
Equities position risk	-	-	-	-
Sukuk risk	-	-	-	-
Foreign exchange risk	**5.2**	**3.0**	3.3	3.0
Commodities risk	-	-	-	-
Total capital requirement for market risk	**5.2**	**3.0**	3.3	3.0
Multiplier	**12.5**	**12.5**	12.5	12.5
Total Market risk-weighted exposures	**65.0**	**37.5**	41.3	37.5

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. The Bank 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 2012, 31 December 2011 and 31 December 2010 are shown below:

(US$ millions)	**31 December 2012**	31 December 2011	31 December 2010
Gross income	**17.8**	45.6	19.7
Average gross income for three years	**27.7**	83.1	132.0
Alpha	**15%**	15%	15%
Capital charge for operational risk	**4.2**	12.5	19.8
Multiplier	**12.5**	12.5	12.5
Total operational risk-weighted exposures	**52.5**	156.3	247.5

Risk-Weighted Exposures

Risk-weighted exposures increased by US$ 61.3 million (15%) in 2013, from US$ 405.9 million as at 31 December 2012 to US$ 467.2 million as at 30 June 2013, as detailed below:

(US$ millions)	**30 June 2013**	31 December 2012	31 December 2011
Credit risk-weighted exposures	**349.7**	315.9	369.7
Market risk-weighted exposures	**65.0**	37.5	42.2
Operational risk-weighted exposures	**52.5**	52.5	156.3
Total risk-weighted exposures	**467.2**	405.9	568.2

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 full and pro-rata 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			
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
Al-Tajamouat for Touristic Projects Co Plc	Jordan	50.6%	Risk Weighting
Associates			
BFC Group Holdings Ltd.	United Arab Emirates	43.36%	Pro-rata Consolidation
Burj Bank Limited	Pakistan	36.90%	Full Deduction
t'azur Company B.S.C. (c)	Kingdom of Bahrain	25.86%	Full Deduction

On 31 May 2013, the Group acquired additional stake of 4.17% in Al-Tajamouat for Touristic Projects Co Plc (TAJ), a company listed on the Amman Stock Exchange, Jordan and in which the Group already owned 46.46% resulting in TAJ becoming a subsidiary. (Refer to note 8 of Group's interim financial information for the period ended 30 June 2013).

There are no investments in subsidiaries that are treated as a deduction from the Group's regulatory consolidated 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 2013**		31 December 2012		31 December 2011	
	Total Capital Ratio	**Tier 1 Capital Ratio**	Total Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Tier 1 Capital Ratio
Bank Alkhair Group	**21.0**	**21.0**	22.5	22.5	21.6	21.6
Alkhair International Islamic Bank Berhad	**24.7**	**24.5**	23.7	23.7	24.3	24.3
Alkhair Capital Saudi Arabia	**54.8**	**54.8**	77.5	77.5	93.2	93.2
Alkhair Capital Menkul Degerler A.S.	**38.6**	**38.6**	44.6	44.6	41.0	41.0

(Percent)	**30 June 2013**	31 December 2012	31 December 2011
Tier 1 capital adequacy ratio	**21.0**	22.5	21.6
Total capital adequacy ratio	**21.0**	22.5	21.6

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

(US$ millions)	**30 June 2013**	31 December 2012	31 December 2011
Credit risk	**43.7**	39.5	46.2
Market risk	**8.1**	4.7	5.3
Operational risk	**6.6**	6.6	19.5
Total capital requirements	**58.4**	50.8	71.0

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 2013**	31 December 2012	31 December 2011
Investments in listed equities	**6.2**	3.0	3.1
Investments in unlisted equities	**4.7**	5.3	7.1
Investments in unrated funds	**4.9**	4.8	5.4
Total capital requirements	**15.8**	13.1	15.6

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. Capital Markets proposes limits for its interbank placement activities and other client groups for review and approval by Risk Committee. Further, Risk Management independently analyses the applications and rates for the respective counterparties. Based on this an independent recommendation is forwarded to the Risk Committee for approval. Risk Committee 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 consolidated statement of financial position. There is no significant use of master netting and collateral agreements.

	Maximum exposure 30 June 2013	Maximum exposure 31 December 2012
Funded exposure		
Balances with banks	25,496	7,966
Placements with financial institutions	86,560	63,733
Financing receivables	89,343	86,623
Investment securities – Sukuk	14,180	26,063
Other assets	2,613	23,359
Unfunded exposure		
Guarantees	5,311	3,315
Financing commitment	2,500	-
	226,003	211,059

Gross and average credit risk

The table below shows the average gross credit risk exposure of the Bank as at 30 June 2013, classified as per the disclosure in the financial statements:

Balance sheet items	**Funded exposure**	**Unfunded exposure**	**Total gross credit exposure**	**Average gross credit exposure***
(US$ thousands)				
Balances with banks	25,496	-	25,496	14,423
Placements with financial institutions	86,560	-	86,560	66,647
Financing Receivables	89,343	-	89,343	88,567
Investment securities - Sukuk	14,180	-	14,180	18,298
Other assets	2,613	-	2,613	16,265
	218,192	**-**	**218,192**	**204,200**
Guarantees	-	5,311	5,311	3,979
Financing commitment	-	2,500	2,500	2,500
Total credit risk exposure	**218,192**	**5,311**	**226,003**	**210,679**

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the period ended 30 June 2013.

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 2013 was US$100.4 million (31 December 2012: US$ 99.8 million).

Exposures in excess of the 15% limit for the year ended 30 June 2013 are as follows:

Counterparties	Amount of exposures In US$ thousands	% of exposure To capital	Type of Exposures
Counterparty # 1	**100,376**	**93.96%**	Investment and Murabaha
Counterparty # 2	**49,956**	**46.76%**	Investment and receivable
Counterparty # 3	**43,176**	**40.42%**	Murabaha and bank balance
Counterparty # 4	**26,320**	**24.64%**	Investment, receivable and guarantee
Counterparty # 5	**26,104**	**24.44%**	Mudaraba and bank balance
Counterparty # 6	**24,668**	**23.09%**	Investment, Murabaha and receivable
Counterparty # 7	**23,070**	**21.60%**	Investment and receivable
Counterparty # 8	**18,940**	**17.73%**	Investment and bank balance

The exposure to Counterparties # 3 and # 5 are exempted short-term interbank exposures.

Geographical Exposure Distribution

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

	30 June 2013					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Funded exposure						
Balances with banks	22,908	2,168	309	111	-	25,496
Placements with financial institutions	28,908	-	-	54,010	3,642	86,560
Financing receivables	-	73,538	-	15,805	-	89,343
Investment securities – Sukuk	201	11,412	-	2,567	-	14,180
Other assets	1,972	236	183	-	222	2,613
Unfunded exposure						
Guarantees	-	-	5,000	-	311	5,311
Financing commitment	2,500	-	-	-	-	2,500
Total	56,489	87,354	5,492	72,493	4,175	226,003

Industry Sector Exposure

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

	30 June 2013							
	Banking and finance	Industrial	Real estate and construction	Technology	Funds	Trade	Government	Total
Funded exposure								
Balances with banks	25,496	-	-	-	-	-	-	25,496
Placements with financial institutions	86,560	-	-	-	-	-	-	86,560
Financing receivables	13,673	11,594	24,732	5,621	-	33,723	-	89,343
Investment securities – Sukuk	1,003	2,064	7,386	-	-	-	3,727	14,180
Other assets	9	88	963	183	1,167	203	-	2,613
Unfunded exposure								
Guarantees	311	-	-	5,000	-	-	-	5,311
Financing commitment	2,500	-	-	-	-	-	-	2,500
Total	129,552	13,746	33,081	10,804	1,167	33,926	3,727	226,003

Collateral and other credit enhancements

The Group utilizes collateral and other credit enhancements mostly on its credit facilities, 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 positive 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 2013. Following is an analysis of credit quality by class of financial assets:

	30 June 2013				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments / provisions	Total
Balances with banks	25,496	-	-	-	25,496
Placements with financial institutions	86,560	-	-	-	86,560
Financing receivables	87,543	-	3,000	(1,200)	89,343
Investment securities - Sukuk	14,180	-	-	-	14,180
Other assets	1,746	867	2,909	(2,909)	2,613
Guarantees	5,311	-	-	-	5,311
Financing commitment	2,500	-	-	-	2,500
Total	**223,336**	**867**	**5,909**	**(4,109)**	**226,003**

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 2012				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments / provisions	Total
Balances with banks	7,966	-	-	-	7,966
Placements with financial institutions	63,733	-	-	-	63,733
Financing receivables	86,623	-	-	-	86,623
Investment securities - Sukuk	26,063	-	-	-	26,063
Other assets	8,676	13,314	5,137	(3,768)	23,359
Guarantees	3,315	-	-	-	3,315
Total	196,376	13,314	5,137	(3,768)	211,059

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

	30 June 2013			
	Over 3 months	Over 1 year	Over 3 years	Total
Other assets	647	220	-	867

	31 December 2012			
	Over 3 months	Over 1 year	Over 3 years	Total
Other assets	13,195	119	-	13,314

Specific provisions

	Specific Provision against			
(US$ thousands)	Financing Receivable	Other Assets	Investment Securities	Total
At the beginning of the period	-	3,768	-	3,768
New Provision made	1,200	-	-	1,200
Write off	-	(859)	-	(859)
Recoveries / Write backs	-	-	-	-
Balance at the ending of the period	1,200	2,909	-	4,109

In 2012, the Group made general collective provisions of US$ 0.25 million against its Financing Receivables. The specific provision of US$ 1.2 million against the Financing Receivable was made in Malaysia. The rest of the specific provision were made in 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.
- 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.

The following are the key liquidity ratios which reflect the liquidity position of the Group.

	30 June 2013	31 December 2012
Liquid assets : Total assets	**21.3%**	22.1%
Liquid assets : Total deposits	**52.0%**	44.2%
Liquid assets : Total liabilities	**34.7%**	39.7%
Short term assets: Short term liabilities	**117.2%**	97.4%

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 2013					
Due to financial Institutions	83,912	26,919	-	110,831	110,272
Due to customers	66,423	86,978	-	153,401	150,999
Other liabilities	15,941	-	2,510	18,451	18,451
Total financial liabilities	**166,276**	**113,897**	**2,510**	**282,683**	**279,722**

	Gross undiscounted cash flows				
	Less than 3 months	3 to 12 months	Over 1 year	Total	Carrying value
At 31 December 2012					
Due to financial Institutions	130,521	23,552	-	154,073	153,121
Due to customers	42,006	26,522	-	68,528	68,176
Other liabilities	17,508	-	2,233	19,741	19,741
Total financial liabilities	190,035	50,074	2,233	242,342	241,038

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 2013				
Commitments	-	1,079	1,079	2,158
Guarantees	5,311	-	-	5,311
Financing commitment	2,500	-	-	2,500
Total	**7,811**	**1,079**	**1,079**	**9,969**

	On demand	3 to 12 months	Over 1 year	Carrying value
31 December 2012				
Commitments	-	1,676	1,206	2,882
Guarantees	3,315	-	-	3,315
Total	3,315	1,676	1,206	6,197

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 2013							
	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	25,511	-	-	-	25,511	-	-	25,511
Placements with financial institutions	86,328	232	-	-	86,560	-	-	86,560
Financing receivables	5,036	1,338	39,894	37,075	83,343	6,000	-	89,343
Investment securities	385	-	30,111	1,550	32,046	50,547	-	82,593
Assets held-for-sale	-	18,932	-	205,234	224,166	-	-	224,166
Equity-accounted investees	-	-	-	-	-	-	106,689	106,689
Investment properties	-	-	-	-	-	-	17,706	17,706
Other assets	-	4,501	-	-	4,501	453	-	4,954
Equipment	-	-	-	-	-	-	1,636	1,636
Total assets	**117,260**	**25,003**	**70,005**	**243,859**	**456,127**	**57,000**	**126,031**	**639,158**
LIABILITIES								
Due to financial institutions	56,218	27,379	20,675	6,000	110,272	-	-	110,272
Due to customers	33,116	33,077	47,442	37,364	150,999	-	-	150,999
Other liabilities	-	15,941	-	5,144	21,085	2,510	-	23,595
Liabilities held-for-sale	-	-	-	106,609	106,609	-	-	106,609
Total liabilities	**89,334**	**76,397**	**68,117**	**155,117**	**388,965**	**2,510**	**-**	**391,475**
Commitments	7,811	64	888	127	8,890	1,079	-	9,969
Net liquidity gap	**20,115**	**(51,458)**	**1,000**	**88,615**	**58,272**	**53,411**	**126,031**	**237,714**
Net cumulative gap	**20,115**	**(31,343)**	**(30,343)**	**58,272**	**58,272**	**111,683**	**237,714**	

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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

	31 December 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	7,985	-	-	-	7,985	-		7,985
Placements with financial institutions	63,489	244	-	-	63,733	-		63,733
Financing receivables	9,197	8,968	18,506	49,952	86,623	-		86,623
Investment securities	154	93	33,230	1,550	35,027	77,878		112,905
Assets held-for-sale	-	18,932	-	-	18,932	-		18,932
Equity-accounted investees	-	-	-	-	-	-	106,006	106,006
Investment properties	-	-	-	-	-	-	17,706	17,706
Other assets	15	25,400	-	-	25,415	573	-	25,988
Equipment	-	-	-	-	-	-	2,277	2,277
Total assets	80,840	53,637	51,736	51,502	237,715	78,451	125,989	442,155
LIABILITIES								
Due to financial institutions	61,380	68,551	21,881	1,309	153,121	-	-	153,121
Due to customers	23,626	18,260	25,679	611	68,176	-	-	68,176
Other liabilities	-	17,507	-	5,238	22,745	2,233	-	24,978
Total liabilities	85,006	104,318	47,560	7,158	244,042	2,233	-	246,275
Commitments	3,315	362	362	952	4,991	1,206	-	6,197
Net liquidity gap	(7,481)	(51,043)	3,814	43,392	(11,318)	75,012	125,989	189,683
Net cumulative gap	(7,481)	(58,524)	(54,710)	(11,318)	(11,318)	63,694	189,683	

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 and due to financial and non-financial institutions.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates by 200 bps, 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 2013			31 December 2012		
	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	86,560	200	837	63,733	200	1,246
Financing receivables	89,343	200	672	86,623	200	1,523
Investment securities – Sukuk	14,180	200	12	26,063	200	19
Liabilities						
Due to financial institutions	110,272	200	(828)	153,121	200	(2,609)
Due to customers	159,999	200	(694)	68,176	200	(1,135)
Total			**(1)**			(956)

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.

Currency	30 June 2013 Exposure (US$ equivalent)	30 June 2013 Effect on net profit (+/-)	30 June 2013 Effect on equity (+/-)	31 December 2012 Exposure (US$ equivalent)	31 December 2012 Effect on net profit (+/-)	31 December 2012 Effect on equity (+/-)
Kuwaiti Dinar	(11,196)	(2,239)	-	(12,160)	(2,432)	-
Turkish Lira	5,881	304	872	7,074	322	1,093
Malaysian Ringgit	108	22	-	42	8	-
Euro	139	28	-	141	28	-
Jordanian Dinar	35,871	7,174	-	23,732	4,746	-
Sterling Pounds	148	30	-	157	31	-

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. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

Sensitivity analysis

Unquoted securities - Investment securities carried at fair value through income statement:

The effect on profit as a result of a change in the fair value of equity instruments due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$ 8.5 million. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

Quoted securities - Investment securities carried at fair value through equity:

The Group's listed equity investment is listed on Saudi Stock Exchange (Tadawul). This investment classified as investment carried at fair value through equity, a 2 percent increase in Saudi Stock Exchange Index at the end of the reporting period would have increased the equity as at 30 June 2013 by US$ 140 thousand; an equal change in the opposite direction would have decreased the equity by US$ 140 thousand.

The Bank investment securities portfolio is as follows:

	30 June 2013	31 December 2012
Equity type instruments		
At fair value through income statement:		
- Quoted equity securities	-	23,691
- Unquoted equity securities	29,771	32,771
- Unquoted funds	27,138	28,397
- Quoted funds	1,884	1,983
	58,793	86,842
At fair value through equity:		
- Quoted equity securities	9,620	-
Total equity type investments	**68,413**	86,842

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 2013**	30 June 2012
Fair value movements on investment securities	**4,469**	(11,848)
(Loss) / gain on sale of investment securities	**(47)**	364

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$ 11,387.74 (30 June 2012: US$ 270,768.01) 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

(US$ thousands)	**30 June 2013**	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
Gross Income	**8**	91	758	4,931	188	-
Wakil Fee	**(1)**	(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 2013**	30 June 2012
Short term employee benefits	1,594	1,058
Post employment benefits	834	442
Share-based payments	-	-
	2,428	1,500

RELATED PARTY TRANSACTIONS (continued)

The significant related party balances as at 30 June 2013 and transactions for the six months period ended 30 June 2013 are as follows:

	30 June 2013				31 December 2012			
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	6,567	-	-	7,106	6,556	-	-	7,108
Investment securities	55,360	-	-	20,441	83,309	-	-	11,181
Assets held-for-sale	18,932	-	-	-	18,932	-	-	-
Equity-accounted investees	106,689	-	-	-	106,006	-	-	-
Other assets	1,555	-	46	916	2,536	-	90	842
Liabilities								
Due to financial institutions	25,393	-	-	-	26,191	-	-	-
Due to customers	-	-	-	661	-	-	-	660
Other liabilities	109	1,651	834	144	152	1,284	548	66

	Six months ended 30 June 2013				Six months ended 30 June 2012			
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	3,819	-	-	438	(11,995)	-	-	147
Fees and commission	1,132	-	-	952	1,021	-	-	-
Net finance income / (expense)	(323)	-	-	277	(342)	-	-	245
Share of profit of equity-accounted investees	3,106	-	-	-	7,150	-	-	-
Directors’ and Shari’ah board remuneration and expenses	-	(445)	-	(19)	-	(405)	-	(38)

LEGAL CONTINGENCIES

Pursuant to the resolution of shareholders Extraordinary General Meeting held 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 received by the Bank from its legal counsel, management 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. External legal counsel has also confirmed that the Bank has strong grounds to successfully defend itself against these claims. 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.