

**BANK ALKHAIR B.S.C. (c)**  
**CONDENSED CONSOLIDATED INTERIM**  
**FINANCIAL INFORMATION**

**31 MARCH 2014**

Commercial registration	:	53462 (registered with Central Bank of Bahrain as a wholesale Islamic bank).
Registered Office	:	4 <sup>th</sup> Floor Building No. 2304, Road 2830, Seef District 428 PO Box 31700, Manama, Kingdom of Bahrain
Directors	:	Yousef Abdullah AlShelash, <i>Chairman</i> Hethloul Saleh AlHethloul Abdullatif Abdullah AlShalash Ayman Ismail Abudawood Abdulaziz Naif Al Orayer Ahmed Saleh Dehailan Khaled Shaheen Saqer Shaheen Khaled Abdulla Mohammed Ateeq Abdullah Ali Al Dubaikhi Majed Abdulrahman Al Qasem Sultan Abdulrahman Abalkheel Abdulrazaq Mohamed Al Wohaib Ali Saleh Al Othaim Khalid Mohamed Abdulrahim Mohamed Waleed Abdulrahim Alasfoor
Acting Chief Executive Officer	:	Jonathan H. Holley
Auditors	:	KPMG Fakhro

**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
for the three months ended 31 March 2014**

---

**CONTENTS**

Page

Independent auditors' report on review of condensed consolidated interim financial information	1
<b>Condensed consolidated interim financial information</b>	
Condensed consolidated statement of financial position	2
Condensed consolidated income statement	3
Condensed consolidated statement of changes in equity	4-5
Condensed consolidated statement of cash flows	6
Condensed consolidated statement of changes in restricted investment accounts	7
Notes to the condensed consolidated interim financial information	8-19



**KPMG Fakhro**  
**Audit**  
12th Floor  
Fakhro Tower  
PO Box 710, Manama  
Kingdom of Bahrain

CR No. 6220  
Tel +973 17 224807  
Fax +973 17 227443  
Internet www.kpmg.com.bh

## **INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

To  
The Board of Directors  
Bank Alkhair B.S.C. (c)  
Seef  
Kingdom of Bahrain

14 May 2014

### **Introduction**

We have reviewed the accompanying 31 March 2014 condensed consolidated interim financial information of Bank Alkhair B.S.C. (c) (the "Bank") and its subsidiaries (the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 31 March 2014;
- the condensed consolidated income statement for the three month period ended 31 March 2014;
- the condensed consolidated statement of changes in equity for the three month period ended 31 March 2014;
- the condensed consolidated statement of cash flows for the three month period ended 31 March 2014;
- the condensed consolidated statement of changes in restricted investment accounts for the three month period ended 31 March 2014; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### **Scope of review**

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2014 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
as at 31 March 2014

US\$ 000's

	note	<b>31 March 2014 (reviewed)</b>	<b>31 December 2013 (audited)</b>
<b>ASSETS</b>			
Cash and balances with banks		13,476	15,836
Placements with financial institutions		46,011	74,390
Financing receivables	6	30,088	52,309
Investment securities	7	80,610	79,186
Assets held-for-sale	8	225,968	216,764
Equity-accounted investees	9	109,343	107,389
Investment property	10	73,719	73,719
Other assets	11	9,715	7,410
Equipment		1,633	1,587
<b>TOTAL ASSETS</b>		<b>590,563</b>	<b>628,590</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to financial institutions	12	33,818	51,173
Due to customers		189,841	217,594
Liabilities related to assets held-for-sale	8	100,272	92,427
Other liabilities	13	19,383	18,810
<b>TOTAL LIABILITIES</b>		<b>343,314</b>	<b>380,004</b>
<b>EQUITY</b>			
Share capital		207,862	207,862
Statutory reserve		664	664
Fair value reserve		170	114
Foreign currency translation reserve		(9,306)	(9,499)
Accumulated losses		(32,517)	(29,768)
<b>Equity attributable to the shareholders of the Parent</b>		<b>166,873</b>	<b>169,373</b>
Non-controlling interests		28,949	28,456
Non-controlling interests related to assets held-for-sale	8	51,427	50,757
<b>TOTAL EQUITY (page 4)</b>		<b>247,249</b>	<b>248,586</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>590,563</b>	<b>628,590</b>

The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 19 on 14 May 2014.



Yousef Abdullah Al-Shelash

Chairman



Hethloul Saleh Al-Hethloul

Board Member

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**for the three months ended 31 March 2014**

US\$ 000's

	note	Three months ended	
		31 March 2014 (reviewed)	31 March 2013 (reviewed)
<b>Continuing operations</b>			
Finance income		823	1,804
Finance expense		(2,485)	(1,735)
<b>Net finance (expense) / income</b>		<b>(1,662)</b>	<b>69</b>
Income from investment securities	14	1,339	2,373
Fees and commission	15	1,090	1,155
Share of profit of equity-accounted investees		1,655	1,529
Other income		900	236
<b>Total income</b>		<b>3,322</b>	<b>5,362</b>
Staff cost		3,329	4,174
Legal and professional expenses		829	1,442
Premises cost		357	693
Business development expenses		140	126
Depreciation		202	406
Other operating expenses		1,378	979
<b>Total expenses</b>		<b>6,235</b>	<b>7,820</b>
<b>Loss for the period before Zakah</b>		<b>(2,913)</b>	<b>(2,458)</b>
Provision for Zakah		(35)	(380)
<b>Loss for the period from continuing operations</b>		<b>(2,948)</b>	<b>(2,838)</b>
Income from assets held-for-sale and discontinued operations	8	1,358	-
<b>Loss for the period</b>		<b>(1,590)</b>	<b>(2,838)</b>
Attributable to:			
Shareholders of the Parent		(2,749)	(2,436)
Non-controlling interests		489	(402)
Non-controlling interests relating to assets held-for-sale		670	-
		<b>(1,590)</b>	<b>(2,838)</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the three months ended 31 March 2014

US\$ 000's

	Attributable to the shareholders of the Parent						Non-controlling interests	Non-controlling interests related to assets held-for-sale	Total equity
	Share capital	Statutory reserve	Investments fair value reserve	Foreign currency translation reserve *	Accumulated losses	Total			
As at 1 January 2014	207,862	664	114	(9,499)	(29,768)	169,373	28,456	50,757	248,586
Loss for the period (page 3)	-	-	-	-	(2,749)	(2,749)	489	670	(1,590)
Foreign currency translation differences	-	-	-	1	-	1	4	-	5
Share of changes in reserves of equity-accounted investees	-	-	56	192	-	248	-	-	248
<b>Total recognised income and expense for the period</b>	-	-	<b>56</b>	<b>193</b>	<b>(2,749)</b>	<b>(2,500)</b>	<b>493</b>	<b>670</b>	<b>(1,337)</b>
<b>As at 31 March 2014</b>	<b>207,862</b>	<b>664</b>	<b>170</b>	<b>(9,306)</b>	<b>(32,517)</b>	<b>166,873</b>	<b>28,949</b>	<b>51,427</b>	<b>247,249</b>

\* Translation reserve amounting to US\$ 6,306 thousand (31 March 2013: US\$ 6,306 thousand) is attributable to assets held-for-sale and will be recycled to the consolidated income statement on disposal

The condensed consolidated interim financial information consists of pages 2 to 19.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the three months ended 31 March 2014 (continued)

US\$ 000's

	Attributable to the shareholders of the Parent						Non-controlling interests	Total Equity
	Share capital	Statutory reserve	Investments fair value reserve	Foreign currency translation reserve	Accumulated losses	Total		
31 March 2013 (reviewed)								
As at 1 January 2013	207,862	337	114	(8,485)	(32,715)	167,113	28,767	195,880
Loss for the period	-	-	-	-	(2,436)	(2,436)	(402)	(2,838)
Foreign currency translation differences	-	-	-	(64)	-	(64)	(6)	(70)
Share of changes in reserves of equity-accounted investees	-	-	-	(515)	-	(515)	-	(515)
Total recognised income and expense for the period	-	-	-	(579)	(2,436)	(3,015)	(408)	(3,423)
As at 31 March 2013	207,862	337	114	(9,064)	(35,151)	164,098	28,359	192,457

The condensed consolidated interim financial information consists of pages 2 to 19.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for the three months ended 31 March 2014**

US\$ 000's

	<b>31 March 2014 (reviewed)</b>	<b>31 March 2013 (reviewed)</b>
<b>OPERATING ACTIVITIES</b>		
Profit / (loss) for the period	(1,590)	(2,838)
Adjustments for:		
Provision for Zakah	35	380
Loss / (gain) on sale of investment securities	1	(550)
Fair value changes in investment securities	(1,188)	(1,538)
Share of profit of equity-accounted investees	(1,655)	(1,529)
Depreciation and amortisation	202	406
Sukuk amortisation	(75)	(161)
Income from assets held-for-sale and discontinued operations	(1,358)	-
	<b>(5,628)</b>	<b>(5,830)</b>
Changes in:		
Financing receivables	22,221	(3,113)
Other assets	(2,363)	493
Due to financial institutions	(17,355)	(15,451)
Due to customers	(27,753)	20,128
Other liabilities	538	(5,389)
	<b>(30,340)</b>	<b>(9,162)</b>
<b>Net cash used in operating activities</b>		
<b>INVESTING ACTIVITIES</b>		
Payment for purchase of equipment, net	(190)	3
Proceeds from sale of investment securities	345	15,974
Purchase of investment securities	(513)	(3,818)
	<b>(358)</b>	<b>12,159</b>
<b>Net cash (used in) / generated from investing activities</b>		
<b>FINANCING ACTIVITIES</b>		
Repayment of bank financing	-	(15,110)
	<b>-</b>	<b>(15,110)</b>
<b>Net cash used in financing activities</b>		
<b>Net decrease in cash and cash equivalents during the period</b>	<b>(30,698)</b>	<b>(12,113)</b>
Effect of exchange rate changes on cash and cash equivalents	(41)	(134)
Cash and cash equivalents at the beginning of the period	90,226	71,718
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>59,487</b>	<b>59,471</b>
Cash and cash equivalents comprise:		
Cash and balances with banks	13,476	9,823
Placements with financial institutions	46,011	49,648
	<b>59,487</b>	<b>59,471</b>

The condensed consolidated interim financial information consists of pages 2 to 19.



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS**

for the three months ended 31 March 2014

US\$ 000's

	At 1 January 2014	Deposit	Gross Income	Wakil Fee	Withdrawals	At 31 March 2014
<b>31 March 2014 (reviewed)</b>						
Wakala contract	-	-	-	-	-	-
<b>31 March 2013 (reviewed)</b>						
Wakala contract	-	500	1	-	-	501

The condensed consolidated interim financial information consists of pages 2 to 19.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
for the three months ended 31 March 2014**

US\$ 000's

**1. REPORTING ENTITY**

Bank Alkhair B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under Commercial Registration No. 53462 on 29 April 2004 and operates under a wholesale Islamic banking license granted by the Central Bank of Bahrain (CBB). The Bank's registered office is at the 4<sup>th</sup> floor of Building No. 2304, Road No. 2830, Seef District 428, Manama, Kingdom of Bahrain.

The Bank and its subsidiaries (together referred to as "the Group") aim to provide a full range of investment banking products and services that are compliant with Shari'ah principles. The principal products and services offered by the Group are:

- financial advisory services;
- private equity, equity structuring, private placements and initial public offerings;
- facility structuring, restructuring and placement including project finance, securitisation and Sukuk;
- structuring and marketing of both open and closed end mutual funds as well as client portfolio management and brokerage services that aim to meet investor driven return and asset criteria;
- advisory and investment services for takaful (Islamic insurance) and retakaful (Islamic reinsurance) providers; and
- mergers and acquisitions, including deal sourcing, structuring, valuations and advisory.

**2. BASIS OF PREPARATION**

The condensed consolidated interim financial information has been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards. Accordingly, the condensed consolidated interim financial information has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – '*Interim Financial Reporting*'. The condensed consolidated interim financial information does not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2013. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2013.

*Going concern*

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for foreseeable future. The management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, and accordingly, the condensed consolidated interim financial information has been prepared on a going concern basis.

*Accounting policies*

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the audited consolidated financial statements for the year ended 31 December 2013.

*Judgements and estimates*

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainties were the same as those applied to the audited consolidated financial statements for the year ended 31 December 2013.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**for the three months ended 31 March 2014**

US\$ 000's

**2. BASIS OF PREPARATION (continued)**
**Financial Risk Management**

The Group's financial risk management objectives and policies are consistent with that disclosed in the audited consolidated financial statements for the year ended 31 December 2013.

3. The condensed consolidated interim financial information is reviewed, not audited. The comparatives for the condensed consolidated statement of financial position has been extracted from the audited consolidated financial statements for the year ended 31 December 2013 and comparatives for the condensed consolidated statements of income, changes in equity, cash flows and changes in restricted investment accounts have been extracted from the condensed consolidated interim financial information for the three months ended 31 March 2013.

**4. Seasonality**

Due to nature of the Bank's business, the three months' results reported in this condensed consolidated interim financial information may not represent a proportionate share of the overall annual results.

5. Appropriations of net profit, if any, are made only at the year end.

**6. FINANCING RECEIVABLES**

	<b>31 March 2014 (reviewed)</b>	<b>31 December 2013 (audited)</b>
Gross murabaha receivables	33,661	56,224
Less: Deferred profits	(299)	(641)
<b>Net murabaha receivables</b>	<b>33,362</b>	<b>55,583</b>
Less: Specific impairment allowances	(2,974)	(2,974)
Less: Collective impairment allowances	(300)	(300)
	<b>30,088</b>	<b>52,309</b>

**7. INVESTMENT SECURITIES**

	<b>31 March 2014 (reviewed)</b>	<b>31 December 2013 (audited)</b>
<b>Equity type instruments</b>		
<i>At fair value through income statement:</i>		
- Quoted equity securities	1,109	51
- Unquoted equity securities	29,846	29,846
- Quoted funds	7,505	7,037
- Unquoted funds	28,228	28,360
<b>Total equity type instruments</b>	<b>66,688</b>	<b>65,294</b>
<b>Debt type instruments</b>		
<i>At amortised cost :</i>		
- Sukuk	13,922	13,892
	<b>80,610</b>	<b>79,186</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**for the three months ended 31 March 2014**

US\$ 000's

**8. ASSETS AND LIABILITIES HELD-FOR-SALE**

	<b>31 March 2014 (reviewed)</b>	<b>31 December 2013 (audited)</b>
Subsidiary held-for-sale		
- Assets	204,436	195,232
- Liabilities	(100,272)	(92,427)
<b>Net assets</b>	<b>104,164</b>	<b>102,805</b>
Investment in associate	21,532	21,532

The Group has an active plan approved by the Board, to sell its stake of 50.63% in the Al Tajamout for Touristic Projects Plc, a subsidiary listed in Amman Stock Exchange, and accordingly, the subsidiary's asset and liabilities are classified as held-for-sale in the condensed consolidated statement of financial position. The equity of the remaining stake of 49.37% held by external parties is classified as "non-controlling interests related to assets held-for-sale" in the condensed consolidated statement of financial position. The net result of operations of the subsidiary during the period was income of US\$ 1,358 thousand (31 March 2013: Nil) which is presented separately as "income from assets held-for-sale and discontinued operation" in the condensed consolidated income statement.

Further, assets held-for-sale also includes US\$ 21,532 thousand (31 December 2013: US\$ 21,532 thousand) of investment in associate, Burj Bank Limited, a commercial bank based in Pakistan, which was classified as held-for-sale in June 2012 based on a signed agreement with a potential buyer which was not approved by the regulatory authorities. During the period, the Group signed a memorandum of understanding with a new buyer, a local commercial bank. The completion of the deal is subject to the regulatory approvals and conclusion of the due diligence process. Accordingly, the investment in Burj Bank Limited continues to be classified as held-for-sale. Subsequent to the period end, the buyer elected not to proceed with the deal. The delay in exit was due to conditions beyond the control of the Group and the Group remains committed to continue with its plan to sell this asset.

**9. EQUITY-ACCOUNTED INVESTEEES**

	<b>31 March 2014 (reviewed)</b>	<b>31 December 2013 (audited)</b>
BFC Group Holdings Ltd.	96,121	94,337
t'azur Company B.S.C. (c)	13,222	13,052
	<b>109,343</b>	<b>107,389</b>

The movement on equity-accounted investees is as follows:

	<b>2014 (reviewed)</b>	<b>2013 (audited)</b>
Balance at the beginning of the period	107,389	106,006
Acquisitions during the period	-	2,600
Share of profits of equity-accounted investees	1,655	5,752
Share of reserves of equity-accounted investees	299	(33)
Transferred to assets held-for-sale	-	(2,600)
Dividends received	-	(4,336)
Balance at the ending of the period	<b>109,343</b>	<b>107,389</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**for the three months ended 31 March 2014**

US\$ 000's

**9. EQUITY-ACCOUNTED INVESTEEES (continued)**

t'azur Company B.S.C (c) has a commitment to provide a qard hassan to the extent of the accumulated deficit in the participants' fund of US\$ 35.8 million at 31 March 2014 (31 December 2013: US\$ 32.7 million). The Group's share of the commitment is US\$ 9.3 million (31 December 2013: US\$ 8.4 million).

**10. INVESTMENT PROPERTY**
**31 March 2014 (reviewed)**

	Carrying value	Fair value
Land – Kingdom of Bahrain	17,706	18,748
Land and building – Kingdom of Saudi Arabia	56,013	56,013
	<b>73,719</b>	<b>74,761</b>

**31 December 2013 (audited)**

	Carrying Value	Fair value
Land – Kingdom of Bahrain	17,706	18,748
Land and building – Kingdom of Saudi Arabia	56,013	56,013
	<b>73,719</b>	<b>74,761</b>

**11. OTHER ASSETS**

	31 March 2014 (reviewed)	31 December 2013 (audited)
Deal related advances	3,450	2,265
Fees and expenses recoverable	3,527	2,511
Rental income receivable	912	-
Prepayments and advances	968	1,240
Intangible assets	242	300
Others	2,518	2,996
	<b>11,617</b>	<b>9,312</b>
Less: Provision for impairment	(1,902)	(1,902)
	<b>9,715</b>	<b>7,410</b>

**12. DUE TO FINANCIAL INSTITUTIONS**

	31 March 2014 (reviewed)	31 December 2013 (audited)
Placements from financial institutions	33,818	51,173
	<b>33,818</b>	<b>51,173</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**for the three months ended 31 March 2014**

US\$ 000's

**13. OTHER LIABILITIES**

	<b>31 March 2014</b> (reviewed)	<b>31 December 2013</b> (audited)
Provision for legal and professional expenses	820	820
Accruals and other provisions	1,881	1,765
Restructuring provision	419	419
Deal-related payables	4,740	4,740
Staff-related payables	2,524	2,512
Trade and other payables	8,999	8,554
	<b>19,383</b>	<b>18,810</b>

**14. INCOME FROM INVESTMENT SECURITIES**

	<b>31 March 2014</b> (reviewed)	<b>31 March 2013</b> (reviewed)
Dividend income	2	-
Fair value (loss) / gain on investment securities	1,188	1,538
(Loss) / gain on sale of investment securities	(2)	22
Sukuk income		
- Sukuk profit	150	285
- Gain on sale of sukuk	1	528
	<b>1,339</b>	<b>2,373</b>

**15. FEES AND COMMISSION**

	<b>31 March 2014</b> (reviewed)	<b>31 March 2013</b> (reviewed)
Advisory fees	-	32
Placement, arrangement and underwriting fees	134	472
Management fees	867	601
Brokerage fees	89	50
	<b>1,090</b>	<b>1,155</b>

**16. COMMITMENTS AND CONTINGENCIES**

	<b>31 March 2014</b> (reviewed)	<b>31 December 2013</b> (audited)
Lease commitments	1,143	1,206
Guarantees	5,311	5,311
Financing	450	500
	<b>6,904</b>	<b>7,017</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**for the three months ended 31 March 2014**

US\$ 000's

**16. COMMITMENTS AND CONTINGENCES (continued)**

*Litigations and claims*

The Bank has filed a number of legal cases against the former Chief Executive Officer before the Civil and Criminal Courts of the Kingdom of Bahrain and the UK. At the same time the former CEO has filed a court case in the Bahraini courts for wrongful dismissal. The Bahraini Courts have ruled in favor of the Bank in a number of the civil and criminal cases. The case in the UK was filed by the Bank to remedy the damages resulting from defamation and unlawful conspiracy. The case is still in its early stages.

A number of employment claims have been filed against the Bank by former employees. The Bank's external legal counsel has confirmed that the Bank has strong grounds to successfully defend itself against these claims. No disclosure regarding contingent liabilities arising from the employment claims has been made as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

The Group's share of commitments arising from its equity-accounted investees is given in note 9.

**17. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include significant shareholders and entities over which the Bank and shareholders exercise significant influence, directors, members of Shari'ah Supervisory Board and executive management of the Bank.

**Compensation of key management personnel**

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation during the period is as follows:

	<b>31 March 2014 (reviewed)</b>	<b>31 March 2013 (reviewed)</b>
Short term employee benefits	375	843
Post-employment benefits	644	727
	<b>1,019</b>	<b>1,570</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
for the three months ended 31 March 2014

US\$ 000's

**17. RELATED PARTY TRANSACTIONS (continued)**

The significant related party transactions and balances included in this condensed consolidated interim financial information are as follows:

	31 March 2014 (reviewed)				31 December 2013 (audited)			
	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
<b>Assets</b>								
Financing receivables	-	-	-	8,170	7,281	-	-	7,097
Investment securities	56,449	-	-	16,656	56,581	-	-	16,197
Assets held-for-sale	21,532	-	-	-	21,532	-	-	-
Equity-accounted investees	109,343	-	-	-	107,389	-	-	-
Other assets	1,655	-	11	3,645	1,177	-	11	2,532
<b>Liabilities</b>								
Due to financial institutions	17,681	-	-	-	22,888	-	-	-
Due to customers	-	-	-	50,608	-	-	-	50,077
Other liabilities	72	895	644	260	149	754	606	221

	Three months ended 31 March 2014 (reviewed)				Three months ended 31 March 2013 (reviewed)			
	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
<b>Income / (expenses)</b>								
Income from investment securities	(130)	-	-	810	1,476	-	-	268
Fees and commission	609	-	-	39	561	-	-	26
Net finance (expense) / income	(147)	-	-	(379)	(179)	-	-	138
Share of profit of equity-accounted investees	1,655	-	-	-	1,529	-	-	-
Directors' and Shari'ah board remuneration and expenses	-	(158)	-	(35)	-	(217)	-	(13)



**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
for the three months ended 31 March 2014

US\$ 000's

**18. SEGMENT INFORMATION**

	For the three months ended 31 March 2014 (reviewed)				
	Investment Banking & Alkhair Capital Menkul Degerler A.S	Alkhair International Islamic Bank Malaysia Berhad	Alkhair Capital Saudi Arabia	Inter-company	Total
External revenue					
Net finance (expense) / income	(1,811)	149	-	-	(1,662)
Income from investment securities	(27)	42	1,324	-	1,339
Fees and commission	634	285	171	-	1,090
Share of profit of equity-accounted investees	1,655	-	-	-	1,655
Other income	48	23	829	-	900
Inter-segment income	(90)	90	-	-	-
<b>Total income</b>	<b>409</b>	<b>589</b>	<b>2,324</b>	<b>-</b>	<b>3,322</b>
Total operating expenses	(4,358)	(658)	(1,219)	-	(6,235)
Provision for Zakah	-	-	(35)	-	(35)
Income from assets held-for-sale	1,358	-	-	-	1,358
<b>Loss for the period</b>	<b>(2,591)</b>	<b>(69)</b>	<b>1,070</b>	<b>-</b>	<b>(1,590)</b>
Equity-accounted investees	109,343	-	-	-	109,343
Segment assets	459,270	90,352	69,368	(28,427)	590,563
Segment liabilities	305,045	60,705	5,991	(28,427)	343,314

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
for the three months ended 31 March 2014

US\$ 000's

**18. SEGMENT INFORMATION (continued)**

	For the three months ended 31 March 2013 (reviewed)					Total
	Investment Banking & Alkhair Capital Menkul Degerler A.S	Alkhair International Islamic Bank Malaysia Berhad	Alkhair Capital Saudi Arabia	Inter-company		
External revenue						
Net finance (expense) / income	(617)	686	-	-	69	
Income from investment securities	1,561	812	-	-	2,373	
Fees and commission	586	472	97	-	1,155	
Share of profit of equity-accounted investees	1,529	-	-	-	1,529	
Other income	240	(4)	-	-	236	
Inter-segment income	(844)	132	712	-	-	
<b>Total income</b>	<b>2,455</b>	<b>2,098</b>	<b>809</b>	<b>-</b>	<b>5,364</b>	
<b>Total operating expenses</b>	<b>(5,411)</b>	<b>(1,156)</b>	<b>(1,253)</b>	<b>-</b>	<b>(7,820)</b>	
Provision for Zakah	-	-	(380)	-	(380)	
Income from assets held-for-sale	-	-	-	-	-	
(Loss) / profit for the period	(2,956)	942	(824)	-	(2,838)	
Equity-accounted investees (as at 31 December 2013) (audited)	107,389	-	-	-	107,389	
Segment assets (as at 31 December 2013) (audited)	451,611	132,392	68,382	(23,795)	628,590	
Segment liabilities (as at 31 December 2013) (audited)	295,006	102,695	6,098	(23,795)	380,004	

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**for the three months ended 31 March 2014**

US\$ 000's

**19. FINANCIAL INSTRUMENTS****Fair values**

The Group's financial instruments are accounted for under the historical cost method with the exception of investment securities. By contrast, the fair value represents the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices and the use of valuation techniques such as discounted cash flow analysis.

Set out below is a comparison of the carrying amounts and fair values of financial instruments:

**31 March 2014 (reviewed)**

	Carrying amount	Fair value
<b>Financial assets:</b>		
Balances with banks	13,452	13,452
Placements with financial institutions	46,011	46,011
Financing receivables	30,088	30,088
Investment securities	80,610	80,812
Other assets	8,505	8,505
	<b>178,666</b>	<b>178,868</b>
<b>Financial liabilities:</b>		
Due to financial institutions	33,818	33,818
Due to customers	189,841	189,841
Other liabilities	14,559	14,559
	<b>238,218</b>	<b>238,218</b>

**31 December 2013 (audited)**

	Carrying amount	Fair value
<b>Financial assets:</b>		
Balances with banks	15,817	15,817
Placements with financial institutions	74,390	74,390
Financing receivables	52,309	52,309
Investment securities	79,186	79,145
Other assets	5,870	5,870
	<b>227,572</b>	<b>227,531</b>
<b>Financial liabilities:</b>		
Due to financial institutions	51,173	51,173
Due to customers	217,594	217,594
Other liabilities	14,114	14,114
	<b>282,881</b>	<b>282,881</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
for the three months ended 31 March 2014**

US\$ 000's

**19. FINANCIAL INSTRUMENTS (continued)****Valuation techniques**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

*Investment securities*

The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active or the instrument is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

*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\$ 8.7 million. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

*Financing receivables*

The fair values of financing receivables are principally estimated their carrying amount less impairment provisions as these are for short term (i.e. less than 12 months). Hence, the present value of expected future cash flows is not expected to be different from their carrying values.

*Other financial instruments*

Placements with financial institutions, due to financial institutions and due to customers are for short term tenure hence their carrying value is not different from the fair value. Fair value of other financial assets and liabilities are not significantly different from their carrying values due to their short term nature.

**Fair value hierarchy**

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**for the three months ended 31 March 2014**

US\$ 000's

**19. FINANCIAL INSTRUMENTS (continued)**

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

**31 March 2014 (reviewed)**
*Investment securities*

Equity type instruments carried at fair value through income statement

	Level 1	Level 2	Level 3	Total
	8,614	49,366	8,708	66,688
	<b>8,614</b>	<b>49,366</b>	<b>8,708</b>	<b>66,688</b>

**31 December 2013 (audited)**
*Investment securities*

Equity type instruments carried at fair value through income statement

	Level 1	Level 2	Level 3	Total
	7,088	49,497	8,709	65,294
	<b>7,088</b>	<b>49,497</b>	<b>8,709</b>	<b>65,294</b>

The following table analyses the movement in Level 3 financial assets during the period:

	31 March 2014 (reviewed)	31 March 2013 (reviewed)
At 1 January	8,709	11,634
Losses in income statement	(1)	-
Purchases	-	-
Settlements	-	-
Transfers into / (out) of Level 3	-	-
<b>At 31 March</b>	<b>8,708</b>	<b>11,634</b>

**20. COMPARATIVES**

Certain prior period amounts have been regrouped to conform to current period's presentation. Such regrouping did not affect previously reported loss or equity.