Where Vision Inspires Progress

BANK ALKHAIR

Annual Report 2012

Licensed as a wholesale Islamic bank by the Central Bank of Bahrain

H.R.H. Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

H.M. King Hamad bin Isa Al Khalifa

The King of Bahrain

H.R.H. Prince Salman bin Hamad Al Khalifa

The Crown Prince and Deputy Supreme Commander of the Kingdom of Bahrain

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Financial Highlights

5-Year Consolidated Performance Summary

(Amounts in US$ thousands)	2012	2011	2010	2009	2008
(Loss)/profit for the year from continuing operations before Zakah and impairments	**(39,208)**	(15,538)	(173,692)	12,300	45,756
(Loss)/profit for the year	**(39,763)**	1,169	(229,496)	2,235	35,011
Total assets	**442,155**	483,032	727,948	1,033,619	978,770
Placements with financial institutions	**63,733**	66,477	72,437	188,465	396,614
Financing receivables	**86,623**	95,838	229,413	112,578	-
Investment securities	**112,905**	130,383	123,002	247,999	328,560
Total liabilities	**246,275**	247,866	525,542	609,967	524,859
Due to financial institutions	**153,121**	143,178	298,275	300,766	383,468
Due to customers	**68,176**	88,483	95,705	220,657	38,979
Total equity attributable to the shareholders of the parent	**167,113**	203,483	152,528	379,709	329,640
Total equity	**195,880**	235,166	202,406	423,652	453,911
Return on average assets (percent)	**-8.6%**	0.2%	-26.1%	0.2%	4.8%
Return on average shareholders equity (percent)	**-21.5%**	0.7%	-86.2%	0.6%	10.9%
Cost: income ratio (percent)	**n/a**	159.6%	n/a	81.5%	41.3%
Financial leverage (percent)	**132.4%**	113.8%	291.9%	150.5%	90.9%
Capital adequacy ratio (percent)	**22.6%**	21.6%	13.6%	23.1%	30.8%

Note: Figures of previous years have been reclassified for comparative purposes.

International Presence

Board of Directors

Yousef Abdullah Al-Shelash
Chairman

Khalil Ebrahim Nooruddin
Managing Director
& Chief Executive Officer

Hethloul Salah Al-Hethloul

Bader Abdulaziz Kanoo

Abdullatif Abdullah Al-Shalash

Ayman Abdullah Boodai

Ayman Ismail Abudawood

Dr. Abdulaziz Naif Al Orayer

Adel Yousef Al-Saqabi

Dr. Ahmed Saleh Al-Dehailan

Khalid Sager Shaheen

Shari'ah Supervisory Board

Dr. Khalid Mathkoor Al-Mathkoor
Chairman

Dr. Aagil Jasim Al-Nashmy
Deputy Chairman

Dr. Abdul Sattar Abdul Kareem Abu Ghuddah
Chairman, Shari'ah Executive Committee

Dr. Ali Muhyealdin Al-Quradaghi

Dr. Mohammad Daud Baker

Sh. Nizam Mohammad Saleh Yaqouby

We are pleased to present the Annual Report for the year ended December 2012, which was the Bank's ninth year of operation. Bank Alkhair pursued a two pronged approach during the year to strengthen its operations and its overall business. On the one hand, we streamlined our operations in Bahrain and Turkey and devised a more focused business approach for both offices. On the other hand, we continued to build our operations in Saudi Arabia and Malaysia to support our business iniatives in both markets.

Chairman's Message

In Bahrain, Bank Alkhair consolidated its multi business lines to focus on one primary business function, namely the management of alternative assets. This entails sourcing and structuring alternative investment opportunities in the MENA region and placing these opportunities with the Bank's client base in the GCC. This change in strategy will see the Bank generate recurring income from management fees and third party placements going forward.

During the year, Bank Alkhair's Investment Banking division actively engaged in managing and bolstering the performance of the Bank's portfolio investments, positioning them for continuous growth and profitable future exits. The Investment Banking team worked closely alongside the executive teams of the Bank's investee companies to strengthen the management and governance within the companies. This resulted in the completion of significant milestones in 2012, including the successful opening of Al Tajamouat Mall in Jordan, the expansion of Bahrain Financing Group's global branch network, the announcement of t'azur's expansion into Oman and Burj Bank's successful return to profitability after a three year loss making period. Accordingly, the Bank witnessed a substantial improvement in the performance of its portfolio assets, and recorded a 66% increase in profits from its share of associate activities, from US$6.4 million in 2011 to US$10.6 million in 2012.

Bank Alkhair also successfully exited its stake in Göknur Foods Import Export Trading and Production Co. (Göknur), generating a return of 20%. Göknur is one of the largest and fastest growing fruit juice and puree producers and the largest fruit juice concentrate exporter in Turkey.

In Turkey, we restructured our operations to complement our investment banking business in Bahrain. This will further facilitate Alkhair Capital Turkey's (Alkhair Turkey's) mission of acting as a bridge for Middle Eastern capital seeking access to the Turkish market, one of the fastest growing economies in the world. With the support of Alkhair Turkey, our Investment Banking division commenced an active investment development plan in 2012 focused on the energy, food and real estate segments in the Turkish market.

In Saudi Arabia, we continued to invest in Alkhair Capital Saudi Arabia's (Alkhair Saudi's) resources and infrastructure to support its refocused business model, which was set in place in 2011. Alkhair Saudi's business model revolves around three core business lines: Asset Management, Investment Banking and Brokerage. This will see the growth of Alkhair Saudi's revenues in line with its business objectives over the coming years.

In Malaysia, we revised our strategy to focus on maintaining an optimal asset mix and generating further income from fee-based transactions. During the year, we repositioned our global Capital Markets division to operate out of our Malaysia subsidiary, Alkhair International Islamic Bank Berhad (Alkhair Malaysia). Accordingly, Alkhair Malaysia witnessed a 36.58% increase in net profit, mainly due to an increase in advisory fees generated by the Capital Markets division.

Despite the considerable progress Bank Alkhair and its subsidiaries made during the year, the Group reported a loss of US$39.8 million for the year ended 31 December 2012. This was primarily attributable to the conservative accounting methodology Bank Alkhair adopts towards the valuation of its portfolio assets. The loss was mainly due to a mark-to-market loss on one of the Bank's major investments in Al Tajamouat mall, an upscale shopping and entertainment complex in Amman, Jordan. Furthermore, the significant measures taken to strengthen the Bank's operations in Saudi Arabia and Malaysia as well as the reduced overall business activity as a result of the volatile operating environment in 2012 also contributed to the loss.

However, overall, we are pleased with the significant strides Bank Alkhair achieved during the year in terms of its business objectives. We believe that the important steps taken to turnaround the Bank's operations leave Bank Alkhair as well as its subsidiaries in a strong position to develop further business in the year ahead. Also, the substantial improvement in the valuation of the Bank's portfolio assets will see the Bank strategically exit a number of its investments over the coming years. We are confident that with the increase in business activity and the potential profitable exits, the Bank will return to profitability in 2013.

We would like to take this opportunity to welcome Mr. Khalil Nooruddin who officially joined the Bank in June 2012 as Managing Director and Chief Executive Officer. Mr. Nooruddin brings to the Bank in depth investment banking experience, gained over 35 years of serving international and regional institutions in an executive, board and advisory capacity. We would also like to welcome Mr. Khalid Shaheen, who joined the Bank's Board of Directors in April 2012. Mr. Shaheen has over 30 years of experience in the financial services sector and serves on the Boards of prominent financial institutions in Bahrain.

In closing, we would like to express our tremendous gratitude, as always, to all of our stakeholders for their continuous support and confidence in the Bank. We are also immensely grateful to the Central Bank of Bahrain for its invaluable guidance and support.

Yousef Abdullah Al-Shelash
Chairman of the Board

TURKEY - 1 HOUR

3PM BAHRAIN
2PM TURKEY

The Investment Banking team discusses the Bank's investment development plan with Alkhair Capital Turkey.

Business Review

2012 continued to be challenging due to the tight operating and financial environment. Against this challenging backdrop, Bank Alkhair focused its efforts during the year primarily on streamlining its operations in Bahrain and Turkey and devising a more focused business approach for both offices, strengthening its subsidiaries in Saudi Arabia and Malaysia and bolstering the performance of its investment portfolio.

INVESTMENT BANKING

During the year, Bank Alkhair consolidated its multi business lines in Bahrain into one core business line - Investment Banking, capitalising on the Bank's investment banking expertise and proven track record. The Bank revised its business strategy to focus on providing clients with access to innovative alternative investment opportunities in the MENA region.

Bank Alkhair's primary investment focus is on the real estate and private equity sectors, including the oil & gas services and distribution, industrial services, logistics, agribusiness and food industries.

The Investment Banking division operates out of the Bank's headquarters in Bahrain and is engaged in transaction origination, investment structuring, placement to third-party investors and co-investors, post acquisition management, and asset realisation, with an emphasis on enhancing value at each stage.

Highlights in 2012:

During the year, Bank Alkhair successfully exited its stake in Göknur Foods Import Export Trading and Production Co. (Göknur), realising a gain of US$1.0 million on its US$5 million investment. Göknur is one of the largest and fastest growing fruit juice and puree producers and the largest fruit juice concentrate exporter in Turkey.

> "During the year, Bank Alkhair's Investment Banking division actively engaged in managing and bolstering the performance of the Bank's portfolio investments, positioning them for continuous growth and profitable future exits."

The Investment Banking division also actively engaged in improving the performance of the Bank's portfolio investments. Bank Alkhair's Investment Banking team worked closely alongside the executive management of the Bank's investee companies to strengthen their operational efficiencies. This resulted in:

- ***Al Tajmouat Mall (Taj Mall):*** The successful completion and grand opening of Al Tajmouat Mall (Taj Mall), which is co-owned by Bank Alkhair. Taj Mall is the premier, upscale shopping and entertainment complex in Amman, Jordan. The mall's occupancy has now reached 89% at premium lease rates.

- ***Tintoria:*** The successful completion of Tintoria's new state-of-the-art laundry facility in Dubai, positioning the company as a leader in the laundry services market in the UAE. Tintoria is an industrial and hotel laundry services company based in the UAE.

- ***BFC Group Holdings (BFC Group):*** BFC Group reported a year-on-year (YoY) Revenue Growth of 5.4% and announced the distribution of a dividend of US$7.5 million in 2012. Furthermore, the Company finalised a 5-year strategic plan in 2012, which will see BFC Group's EBITDA (Earnings Before Interest, Depreciation and Amortisation) grow at a Compounded Average Rate (CAGR) of over 20% between 2013 and 2017, primarily due to its international expansion plans. BFC Group is a foreign exchange and remittance house headquartered in Bahrain, with an international presence in 6 countries and agent locations in 35 countries.

- ***t'azur:*** t'azur witnessed a significant reduction in its loss ratio due to a more rigorous underwriting policy. Additionally, the Company announced its expansion into Oman, where it is pursuing a joint venture and negotiations are ongoing. t'azur is an Islamic insurance (Takaful) company headquartered in Bahrain, with a regional presence in Qatar and Kuwait.

- ***Burj Bank:*** 2012 proved to be the 'turnaround year' for Burj Bank as it successfully returned to profitability after a three year loss making period. Furthermore, during the year Burj Bank increased its branch network by 50%, from 50 branches in 2011 to 75 branches in twenty-five cities in 2012. Burj Bank is a Shari'ah compliant retail bank based in Pakistan.

Also, as part of Bank Alkhair's strategy to focus on its core markets in the MENA and Southeast Asia regions, the Investment Banking division successfully completed the closure of UIB Capital Inc., the Bank's subsidiary in the United States, subsequent to 31 December 2012.

Going forward, the Investment Banking division will continue to actively pursue new acquisitions in line with the Bank's investment focus and target markets. The division will also continue to restructure the Bank's assets to maintain the strong performance of its portfolio, and will continue to strategically exit its investments.

ASSOCIATE ENTITIES:

BFC Group Holdings (BFC Group):
Founded in 1917 and acquired by Bank Alkhair in January 2009, BFC Group is one of the leading foreign exchange and remittance houses in the GCC region. The Company has recorded consistent growth and profitability over the past several decades and has developed an extensive correspondent network globally.

2012 saw BFC Group's global branch network expand by 50%, from 58 branches in 2011 to 87 branches in 2012. This included the sucessful launch of BFC Forex in India, which attributed 21 branches, and a license for remittance and money exchange in Malaysia. BFC Group plans to expand its branch network by over 50% in 2013, taking Bahrain and Kuwait up to 35 branches each, UK to 11, Malaysia to 12 and India to 40. The Company also plans to explore expansion opportunities across other GCC countries, either through local agents using Ezremit or the establishment of BFC branded businesses.

Also during the year, BFC Group implemented software updates for Fossil, Smart Money and EzRemit to increase product functionality and enhance overall business growth. Additionally, BFC Group successfully launched the EzRemit Card in India, which is expected to improve its distribution network. Further product launches are in the pipeline for 2013, including FX home delivery in the UK.

On the operational front, BFC Group invested heavily in advanced technology to develop its operating system and enable its global branch network to work out of the same platform. Additionally, BFC Group's HR division adopted a number of significant changes to strengthen performance across its global network, including the introduction of a new online Policy Manager, a complete online solution for communicating new or updated policies across its network, and the launch of dedicated training and development centres in both Bahrain and Kuwait. In 2013, BFC Group aims to roll out a new E-Learning system to provide efficient and standardised staff training. BFC, BEC and EzRemit have also adopted more stringent Finance Policies and Procedures to enhance transparency and provide a clear and detailed operating manual for new companies coming on board.

t'azur:
t'azur is a regional Islamic insurance (Takaful) company established in 2007 following two years of intensive research and development led by Bank Alkhair. The Company was founded in association with a group of strategic founding investors from across the GCC to capitalise on the largely untapped opportunities within the Takaful sector. t'azur offers both General and Family Takaful products and services and seeks to meet the demands of a vastly fragmented market for Shari'ah compliant insurance and savings solutions in the GCC region.

INTERNATIONAL SUBSIDIARIES

Turkey: Alkhair Capital Turkey (Alkhair Turkey) was established in 2007, following the Bank's acquisition of the Turkish brokerage company and asset management company, Inter Yatirim Menkul Değerler A.Ş. and Inter Portföy Yönetimi A.Ş. respectively. Alkhair Capital Turkey's main lines of business are: Asset Management, Real Estate & Private Equity, Brokerage and Research. As a vast and significantly under-served Islamic finance market with enormous growth potential, Turkey is a key market for the Bank and an important component of the Bank's growing international capabilities.

After registering the world's second largest GDP growth in 2011, the Turkish economy made a soft landing in 2012, recording a 1.6% YoY growth in third quarter of 2012. GDP growth stood at 2.6% as diversification of trading partners fueled economic growth amid reduced domestic demand. Slowing economic activity slightly dented Turkey's fiscal outlook, with the budget deficit to GDP ratio slightly weakening to 1.6% from 1.4% in 2011. However, the debt stock to GDP eased to below 38%, a slight decrease from 40% in 2011. Overall, Turkey's performance stood out in comparison to the debt-laden Eurozone.

In 2012, Alkhair Capital Turkey streamlined its operations to support Bank Alkhair's Investment Banking business in Bahrain, which is focused on offering clients access to alternative investment opportunities in the private equity and real estate sectors in the MENA region. Consequently, Alkhair Capital Turkey witnessed a 50% reduction in its staff headcount as the Bank aligned its operating capabilities with its revised business focus. At present, Alkhair Turkey has over US$400 million in investment opportunities under review.

50%

2012 saw BFC Group Holdings' (BFC Group's) global branch network expand by 50%, from 58 branches in 2011 to 87 branches in 2012. This included the sucessful launch of BFC Forex in India, which attributed 21 branches, and a license for remittance and money exchange in Malaysia.

Malaysia: As at 31st December 2012, Alkhair Malaysia's total assets stood at US$186.76 million, representing a slight reduction of 1.66% compared to US$189.91 million in 2011. However, this reflects the shift in strategy to focus on maintaining an optimal asset mix and generating further income from fee-based transactions. During the year, Bank Alkhair repositioned its global Capital Markets division to operate out of its Malaysia subsidiary. The Capital Markets division generated advisory fees of US$1.12 million in 2012. Accordingly, Alkhair Malaysia witnessed a 36.59% increase in net profit, from US$0.82 million in 2011 to US$1.12 million in 2012. Total deposits received reduced by 3.85%, from US$160.44 million in 2011 to US$154.26 million in 2012.

Total shareholders' equity increased by 10.23% to US$30.72 million in 2012, compared to US$27.87 million in 2011. The increase was due to higher net profit and positive unrealised mark-to-market valuation of the Treasury division's assets.

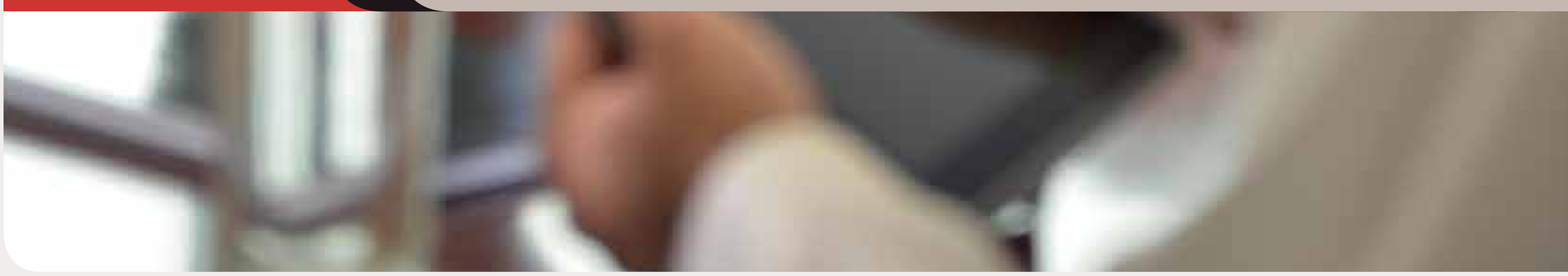
Corporate Banking and Treasury were once again the key drivers of Alkhair Malaysia's business. As at 31st December 2012, the Corporate Banking division's gross financing to customers totaled US$86.37 million, against US$87.19 million and US$58.73 million in 2011 and 2010 respectively.

The Treasury division continued to play an active role in the primary and secondary Sukuk market, realising considerable capital gains from sale of Sukuk in 2012. The division also holds Sukuk as part of its liquefiable assets. The Treasury division also managed to secure additional interbank lines and new clients deposits, in addition to maintaining its existing broad client base across Malaysia, including government agencies, financial institutions and public listed companies.

MALAYSIA + 5 HOURS

11AM BAHRAIN
4PM MALAYSIA

The Capital Markets team meet at Bank Alkhair's headquarters in Bahrain to discuss global capital market opportunities.



89%

2012 saw the successful opening of Al Tajamouat Mall (Taj Mall), with an occupancy of over 89% at premium lease rates. Taj Mall is the premier, upscale shopping and entertainment complex in Amman, Jordan.

Saudi Arabia: In 2012, Alkhair Capital Saudi Arabia (Alkhair Saudi) continued to invest in its infrastructure and resources to strengthen and build its business initiatives in Saudi Arabia, the largest and deepest market in the GCC region. Alkhair Saudi's business model revolves around three integrated business lines: Asset Management, Brokerage and Corporate Finance & Investment Banking.

In 2012, Alkhair Capital Saudi Arabia's Asset Management division secured CMA approval to launch the Saudi Equity Fund and the Global Sukuk Fund, offering the Saudi market a mixture of both public and private funds. Accordingly, Alkhair Saudi carried a rigorous one-to-one marketing campaign to introduce its product offering to the market and attract third-party investments.

In Brokerage, Alkhair Capital Saudi Arabia commenced its e-trading service, a solution that allows investors to trade from the comfort of their own seats. Only in its first full year of operation, the Brokerage division successfully produced a significant number of traded transactions, both online and off-market, and managed to position itself as one of the emerging brokerage service providers in Saudi Arabia.

Alkhair Capital Saudi Arabia's Corporate Finance & Investment Banking division focuses on offering clients a broad range of corporate advisory services and solutions, with a specific focus on capital planning and fund raising, financial restructuring and mergers & acquisitions. It aims to be actively involved throughout all stages of each mandate, from initial structuring through to final execution. Despite challenging market conditions and rigid local competition in 2012, the Corporate Finance & Investment Banking division successfully secured a mandate to offer a rights issue for one of the leading Saudi companies specialised in the field of advertising, public relations, marketing, publishing, media and telecommunications services.

The outlook for the coming years for the investment banking market in Saudi Arabia remains positive, and Alkhair Saudi's Corporate Finance & Investment Banking division aims to capitalise on this trend - given its capabilities and extensive relationships. In 2013, the division intends to raise its bar by offering private placement and facilitating real estate project financing.

In 2012, Bank Alkhair took concrete measures to strengthen its financial position, operations and investment portfolio. The Bank right-sized its operations in Bahrain and Turkey, strengthened its subsidiaries in Saudi Arabia and Malaysia to better support its business focus in both markets and actively engaged in improving the performance of its investee companies.

Financial Review

Throughout 2012, volatility continued in the global financial markets due to the deteriorating Eurozone debt crisis together with the continued slow recovery in the US post the global financial meltdown. Furthermore, geopolitical risk remained a central factor in delaying growth in the Gulf region, draining investor confidence and challenging all asset classes. In this environment, Bank Alkhair ("the Bank") reported a loss of US$39.8 million for the twelve months ended 31 December 2012, compared to a net profit of US$1.2 million in 2011.

The loss reported in 2012 was primarily attributable to the reduced overall deal flow due to continued market uncertainties, the accounting methodology the Bank adopts towards the valuation of its portfolio assets and the Bank's continued investment in its operations in Saudi Arabia and Malaysia.

Fee and Asset-based Income

	31 December	
US$ millions	**2012**	2011
Investment banking fees	**3.8**	8.7
Income from investment securities	**(10.7)**	8.3
Share of profits from equity-accounted investees'	**10.6**	6.4
Other	**1.6**	2.7
Total	**5.3**	26.1

Investment banking fees income decreased to US$3.8 million in 2012 from US$8.7 million in 2011. The decrease was in line with the reduced overall deal activity due to the continued stressed operating and financial environment in 2012.

The overall loss from investment securities was US$10.7 million, compared to a profit of US$8.3 million in 2011. This was mainly due to a mark-to-market loss on one of the Bank's major investments in Al Tajamouat Mall (Taj Mall), an upscale shopping and entertainment complex in Amman, Jordan. The mark-to-market valuation of the Bank's investment in Taj Mall is based on the share price of Al Tajamouat for Touristic Projects Co PLC, listed on the Amman stock exchange. This accounting treatment resulted in a US$15.2 million loss compared to a US$2.2 million loss in 2011. The mark-to-market loss was in spite of tangible improvement in the conditions of the investment as the Bank managed to see through the completion and successful opening of Taj Mall in early 2012, achieving an occupancy rate of over 89% at premium lease rates. The Mall is located in the Abdoun District of Amman, Jordan. Abdoun is a prestigious, mainly residential neighbourhood to the south of the city centre. The Mall is now fully operational, with sustainable income for the foreseeable future. The Bank's investment in Taj Mall is well positioned for a profitable future exit.

This book loss was off-set against unrealised fair value gains made (US$1.8 million) in the Bank's Strategic Acquisition Fund (SAF) and the successful exit from Göknur Foods Import Export Trading and Production Co (Göknur). Göknur is one of the largest producers of fruit juice concentrate and fruit puree in Turkey. The Bank realised a gain of US$1.0 million on its US$5 million investment on exit.

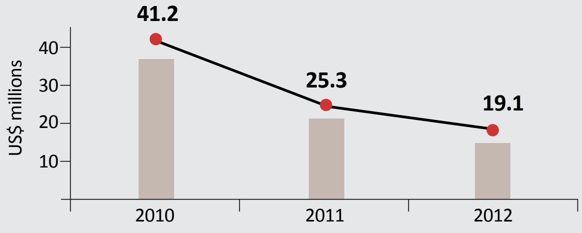
In 2012, Bank Alkhair's net income from assets held-for-sale was US$0.064 million, the balance from the Bank's exit from two of its US investments in 2011. The income from both US investments under assets held-for-sale and from discontinued operations was US$14.5 million in 2011.

Bank Alkhair continued to focus its efforts during the year on strengthening the performance of its portfolio investments, positioning them for sustainable growth and profitable exits over the coming years. This resulted in the completion of significant milestones during the year.

Accordingly, the Bank reported profits from its share of profit of equity accounted investee' activities of US$10.6 million in 2012, up from profits of US$6.4 million in 2011. The main driver of the increase in revenues was the Bank's share of profits from its investment in t'azur, a regional Takaful company established by Bank Alkhair in 2007. The Bank recorded a one-off income of US$3.1 million due to a change in the accounting methodology used to calculate the unearned contribution reserve, which excludes Wakala fees; previously, Wakala fees were deducted from the amount. During the year, t'azur continued to build its franchise and expand its presence in the GCC. The Company announced its expansion into Oman, where it is pursuing a joint venture and negotiations are ongoing.

54%

Group Staff Expenses



Bank Alkhair's overall staff expenses decreased by 54%, from US$41.2 million in 2010 to US$19.1 million in 2012. This was in line with the Bank's strategy to streamline its operations in Bahrain and Turkey to focus on one core business line - Investment Banking.

Operating Expenses

	31 December	
(US$ millions)	**2012**	2011
Staff costs	**19.1**	25.3
Legal and professional expenses	**13.4**	2.2
Premises cost	**2.8**	3.5
Business development expenses	**1.1**	1.5
Depreciation	**1.9**	2.1
Other operating expenses	**6.2**	7.0
Non-staff costs	**25.4**	16.3
Total expenses	**44.5**	41.6
Cost:income ratio (percent)	**n/a**	160%
Period end headcount	**106**	134

Overall operating expenses marginally increased by 7%, up from US$41.6 million in 2011 to US$44.5 million in 2012. The increase was mainly due to one-off legal and professional expenses borne by Bank Alkhair for various legal proceedings and actions filed by the Bank. Based on the advice received from the Bank's external legal counsel, it is premature to quantify the amount or timing of any gain or loss. Excluding this one-time increase in legal and professional expenses, operating expenses reduced to US$33.3 million, 21% lower than 2011.

Furthermore, the Bank's continued investment in its Malaysian and Saudi subsidiaries also contributed to the increase in operating expenses. This was in line with the Bank's strategy to build its business capacity in both markets. Accordingly, Alkhair Malaysia's operational costs increased from US$3.3 million in 2011 to US$4.5million 2012 as the Bank repositioned its Capital Markets division to operate out of Malaysia, where deal activity remained robust. The Bank also continued to invest in Alkhair Capital Saudi's infrastructure and resources to better support its business initiatives in Saudi Arabia, the largest market in the GCC. Consequently, operating expenses in Saudi Arabia increased from US$8.7 million in 2011 to US$9.3 million in 2012.

Operating expenses in Bahrain and Turkey reduced significantly in line with the Bank's strategy to streamline its operations to focus on one business line - Investment Banking. The Bank's Investment Banking strategy focuses on sourcing and structuring innovative alternative investment opportunities and placing them with its client base in the GCC. This change in strategy will see the Bank generate further income from management fees and third party placements going forward. Accordingly, operating expenses (excluding legal expenses) in Turkey and Bahrain reduced by US$9.8 million (33%), from US$29.6 million in 2011 to US$19.8 million in 2012.

Also during the year, Bank Alkhair continued to deleverage its financial position. Consequently, finance expenses reduced from US$9.2 million in 2011 to US$7.8 million in 2012. This was the result of a decrease in borrowings achieved as the Bank continued to repay some of its borrowing obligations.

Financial Position Analysis

	31 December	
Selected financial position data (US$ millions)	**2012**	2011
Cash and balances with banks	**8.0**	11.1
Placements with financial institutions	**63.7**	66.5
Total cash and cash equivalents	**71.7**	77.6
Financing receivables	**86.6**	95.8
Due to financial institutions and customers	**221.3**	231.7
Total equity attributable to the shareholders of the parent	**167.1**	203.5
Non-controlling interest	**28.8**	31.7
Total equity	**195.9**	235.2
Total liabilities and equity	**442.2**	483.0
Return on average shareholders' equity (percent)	**-21.5%**	0.7%
Return on average assets (percent)	**-8.6%**	0.2%
Liquidity ratio (percent)	**71.5%**	74.8%
Leverage ratio (percent)	**132.4%**	113.8%

Bank Alkhair's total assets decreased in 2012 by US$40.8 million, from US$483.0 million as at 31 December 2011 to US$442.2 million as at 31 December 2012. This was in line with the Bank's strategy to strategically exit its portfolio investments and close down its US operations to focus on its core markets in MENA and Southeast Asia regions.

As at 31 December 2012, the Bank had total bank and non-bank borrowings of US$221.3 million in the form of reverse Murabaha and Wakala deposits, a decline of US$10.4 million from US$ 231.7 million in 2011. Shareholders' equity attributable to the shareholders of the parent as reported on 31 December 2012 decreased by US$36.4 million, from US$203.5 million in 2011 to US$167.1 million in 2012. Overall, the net loss attributable to Bank Alkhair shareholders in 2012 was US$36.9 million.

Overall, the substantial measures taken during the year to strengthen the Bank's operations as well as its investment portfolio leave the Bank well placed to return to profitability going forward. The refocused business strategy in Bahrain and Turkey will see the Bank generate recurring income from fee based transactions. The Bank's investment in its Saudi and Malaysian subsidiaries will result in increased revenue generation in line with their business models. Furthermore, the substantial improvement in the performance of the Bank's portfolio investments will lead to a number of profitable exits in the future.

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 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 31 December 2012, 2011 and 2010 for Tier 1 and Tier 2 capital.

Composition of Capital

	31 December		
(US$ millions)	**2012**	2011	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	**(32.7)**	4.2	(107.0)
Foreign currency translation reserve	**(8.4)**	(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%	**(6.4)**	(4.8)	(5.0)
Less: excess amounts over maximum permitted large exposure limits	**(3.9)**	(7.1)	(20.7)
Less: additional deduction from Tier 1 to absorb deficiency in Tier 2 capital	**(19.8)**	(21.3)	-
Total qualifying Tier 1 capital	**91.5**	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%	**(6.4)**	(4.8)	(5.0)
Less: excess amounts over maximum permitted large exposure limits	**(3.9)**	(7.1)	(20.7)
Addition to Tier 2 to absorb Tier 2 capital deficiency	**19.8**	21.3	-
Total qualifying Tier 2 capital	**-**	-	17.4
Total eligible regulatory capital	**91.5**	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 31 December 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 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 Group's 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 are 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**
	31 December			
(US$ millions)	**2012**	2011	2010	
Claims on sovereigns	**0.5**	0.9	-	20%-100%
Claims on PSEs*	**0.4**	0.4	-	20%
Claims on banks	**41.8**	47.9	41.1	20%-100%
Claims on corporates including Takaful companies & category 3 investment firms	**110.3**	133.9	193.7	100%
Investments in equities and funds:				
Investments in listed equities	**23.7**	24.8	0.1	100%
Investments in unlisted equities	**42.6**	56.9	125.5	150%
Investments in unrated funds	**38.1**	43.0	53.7	150%
Real estate holdings	**38.5**	38.5	134.8	200%
Other assets and specialised financing	**20.0**	23.4	39.8	100%
Credit risk-weighted assets	**315.9**	369.7	588.7	

* Public Sector Entities (PSE's)

Minimum Capital Requirements for Islamic Financing Contracts

	31 December 2012		31 December 2011	
(US$ millions)	**Risk-weighted equivalents**	**Minimum capital requirements**	Risk-weighted equivalents	Minimum capital requirements
Murabaha	**90.4**	**11.3**	102.6	12.8
Wakala	**9.1**	**1.1**	17.6	2.2
Mudaraba	**17.9**	**2.2**	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 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 Bank Alkhair's market risk capital charges and the equivalent market risk-weighted exposures as at 31 December 2012, 31 December 2011 and 31 December 2010 are:

	31 December		
(US$ millions)	**2012**	2011	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
Market risk-weighted assets	**37.5**	42.5	67.5

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

	31 December 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 (KRIs) 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:

	31 December		
(US$ millions)	**2012**	2011	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 decreased by US$162.3 million (29%) in 2012, from US$568.2 million as at 31 December 2011 to US$405.9 million as at 31 December 2012, as detailed below:

	31 December		
(US$ millions)	**2012**	2011	2010
Credit risk-weighted exposures	**315.9**	369.7	588.7
Market risk-weighted exposures	**37.5**	42.2	67.0
Operational risk-weighted exposures	**52.5**	156.3	247.4
Total risk-weighted assets	**405.9**	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 full and pro-rata forms of consolidation.

Above: Alkhair Capital Saudi Arabia team members

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 Değerler A.Ş.	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 consolidated capital. There are no restrictions on the transfer of funds. However, capital is managed for each entity and non-transferable within the Group's entities.

Capital Adequacy Ratio

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

	31 December					
	2012		2011		2010	
	Capital Ratio					
(Percent)	**Total**	**Tier 1**	Total	Tier 1	Total	Tier 1
Bank Alkhair Group	**22.6**	**22.6**	21.6	21.6	13.6	11.7
Alkhair International Islamic Bank Berhad	**23.7**	**23.7**	24.3	24.3	28.9	28.9
Alkhair Capital Saudi Arabia	**77.5**	**77.5**	93.2	93.2	157.8	157.8
Alkhair Capital Menkul Değerler A.Ş.	**44.6**	**44.6**	41.0	41.0	57.5	57.5

(Percent)	2012	2011	2010
	31 December		
Tier 1 capital adequacy ratio	**22.6**	21.6	11.7
Total capital adequacy ratio	**22.6**	21.6	13.6

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

Minimum Capital Requirements

(US$ millions)	2012	2011	2010
	31 December		
Credit risk	**39.5**	46.2	73.6
Market risk	**4.7**	5.3	8.4
Operational risk	**6.6**	19.5	30.9
Total capital requirements	**50.8**	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)	2012	2011	2010
	31 December		
Investments in listed equities	**3.0**	3.1	-
Investments in unlisted equities	**5.3**	7.1	15.7
Investments in unrated funds	**4.8**	5.4	6.7
Total capital requirements	**13.1**	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. 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.

Gross and average credit risk

The table below shows the average gross credit risk exposure of the Bank as at 31 December 2012, classified as per the disclosure in the financial statements:

Selected Financial Position Data:

(US$ thousands)	Funded exposure	Unfunded exposure	Total gross credit exposure	Average gross credit exposure*
Balances with banks	7,966	-	7,966	12,264
Placements with financial institutions	63,733	-	63,733	55,405
Financing receivables	86,623	-	86,623	93,465
Investment securities - Sukuk	26,063	-	26,063	21,457
Other assets	23,359	-	23,359	29,662
	207,744	**-**	**207,744**	**212,254**
Guarantees	3,315	-	3,315	3,297
Total credit risk exposure	**211,059**	**-**	**211,059**	**215,551**

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the year ended 31 December 2012.

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 31 December 2012 was US$99.8 million (31 December 2011: US$95.7 million).

Exposures in excess of the 15% limit for the year ended 31 December 2012 are as follows:

Counterparties	Amount of exposures in US$ thousands	% of exposure to capital
Counterparty # 1	99,761	100.49%
Counterparty # 2	30,793	31.02%
Counterparty # 3	24,418	24.60%
Counterparty # 4	24,146	24.32%
Counterparty # 5	23,801	23.97%
Counterparty # 6	18,940	19.08%

The exposure to Counterparty # 2 is an exempted short-term interbank exposure.

Specific Provisions

	Specific provisions were made against:			
(US$ thousands)	Financing receivable	Other assets	Investment securities	Total
At the beginning of the period	-	8,768	-	8,768
New provision made	-	-	-	-
Write off	-	-	-	-
Recoveries/writebacks	-	(5,000)	-	(5,000)
Balance at the ending of the period	-	3,768	-	3,768

During the year, the Group made new general collective provisions of US$0.25 million against its Financing Receivables. All the specific provisions were made in Bahrain.

PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties prepay. The Group is not exposed to any significant prepayment risk.

EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

The Group did not receive any significant income or incur significant expenses that are prohibited by Islamic Shari'ah rules and principles.

During the year, Bank Alkhair recovered US$454,022.44 (31 December 2011: $411,471.00) from a client towards late payment charges on a financing facility. However, this amount was allocated by the Shari'ah Board to registered charities.

RESTRICTED INVESTMENT ACCOUNTS (RIA)

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

	31 December				
(US$ thousands)	**2012**	2011	2010	2009	2008
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.

OVERVIEW

As a Bahrain based bank, Bank Alkhair is subject to the corporate governance standards of the Central Bank of Bahrain (CBB) and the Bahrain Commercial Companies Law. Bank Alkhair aspires to the highest standards of ethical conduct, which is based on sound corporate governance. In accordance with the Bank's commitment to both meeting legal and regulatory requirements and adhering to international best practices, Bank Alkhair has a comprehensive Corporate Governance framework in place to maximise operational efficiency and protect shareholders' rights.

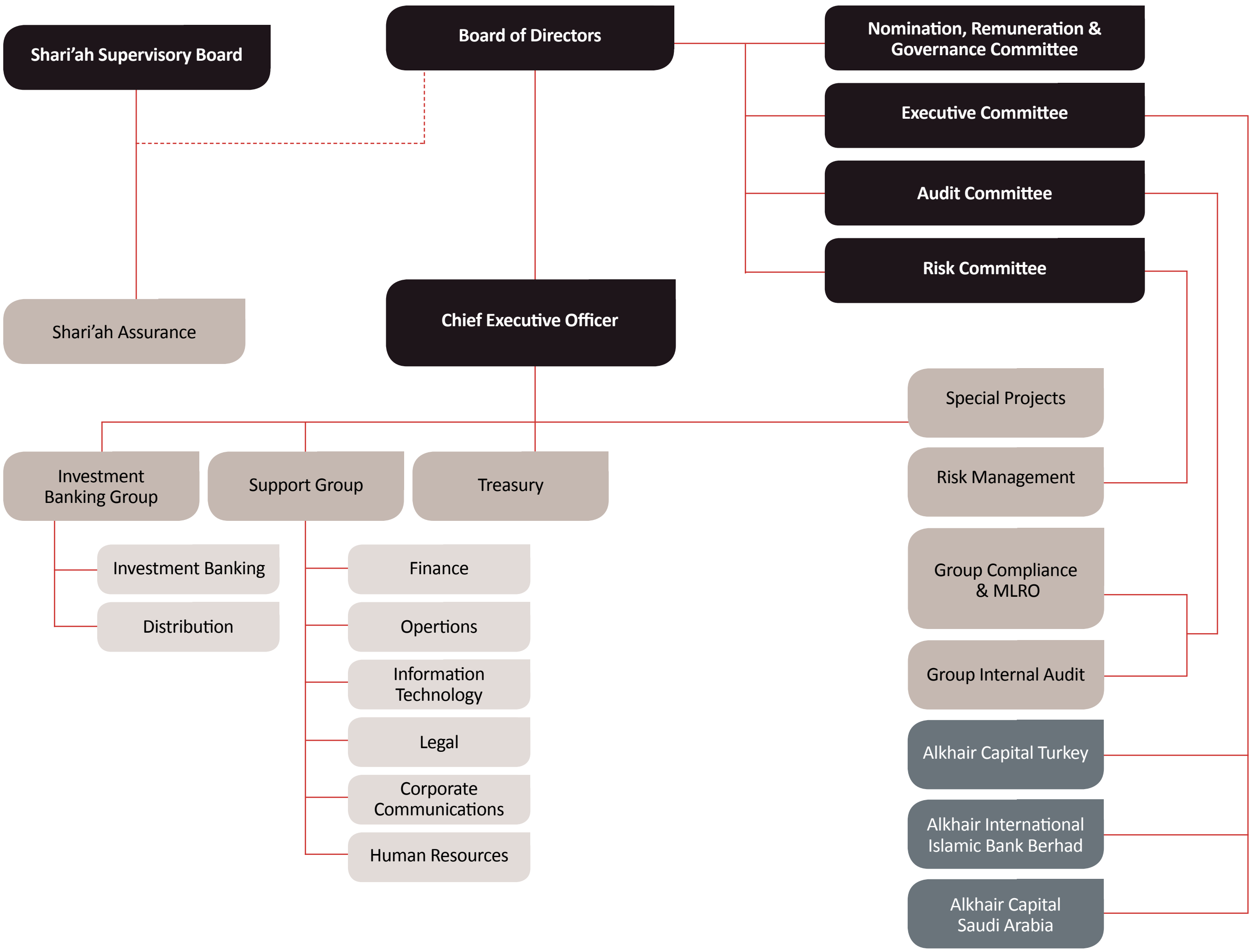
Corporate Governance, Risk and Compliance Review

Bank Alkhair regards the guiding principles of its Corporate Governance framework to be: Fairness, Transparency, Accountability and Responsibility.

Building on the strong Corporate Governance framework established in 2011, Bank Alkhair made significant enhancements to its governance structure and operations in 2012. This included:

- The appointment of a new Managing Director & Chief Executive Officer
- The appointment of a new Board member
- A thorough review and enhancement of the Bank's organisation structure
- As part of the Bank's commitment to provide the Board of Directors with continuous training, Bank Alkhair's Board of Directors attended a corporate governance training workshop, updating them with the latest developments in the industry. The workshop was organised by the Waqf Fund in liaison with the CBB. Additionally, the Board of Directors attended an in-house development and awareness session on Risk Management, which was organised by the Bank's Risk Committee in cooperation with the Risk Management department.

BOARD AND MANAGEMENT STRUCTURE:



BOARD OF DIRECTORS

Bank Alkhair's Board of Directors is responsible for supervising the management of the Bank's business and its affairs and protecting and strengthening the Bank's assets in the interest of all shareholders, while overseeing the corporate governance function to ensure the highest standards of transparency and accountability. The Board's responsibilities include:

- Reviewing and approving the Bank's financial statements;
- Regularly reviewing the Bank's processes, risk levels and control framework to ensure the Bank's adherence to the Central Bank of Bahrain's regulations; Promoting and achieving sustainable performance and long-term growth in shareholders' value;
- Approving and overseeing the implementation of the Bank's strategies, objectives and plans;
- Ensuring that the interests of all stakeholders are considered;
- Overseeing the accuracy and compliance of the Bank's corporate governance guidelines with the Central Bank of Bahrain's HC Module as well as the Code of Corporate Governance; and
- Providing strategic leadership and setting values and standards for the Bank.

Names and details of current directors are set out on pages 32-33.

The Board is comprised of members from diverse backgrounds, who combine a broad spectrum of experience and expertise with a reputation for integrity and professionalism.

The current Board comprises of 11 members, 7 of which are independent non-executive directors in accordance with the requirements of Bahrain's Code of Corporate Governance. As part of the Bank's corporate governance framework, the Bank introduced formal Board procedures, including the induction and training of new members and continuing development and training of existing members. The Board, the Board's sub-committees and each individual director must undergo formal performance review and evaluation as required by the Code.

The election and termination of directors is governed by the Bahrain Commercial Companies Law and the Bank's Articles of Association, which require the election of directors by written ballot. The Board term for members is three years.

Board members must meet and attend at least 75% of all Board meetings within a calendar year.

Board of Directors

No. of members	11 members of which seven are independent non-executive directors and one is an executive director
Committee Membership	Please refer to the Board of Directors' biographies on pages 32-33
Minimum no. of meetings per year	Four
Quorum	Six

Board of Directors Meeting Attendance - 2012

Members	14 March	9 May	28 June	17 October	13 December	75% and above attendance for all meetings
Yousef Al-Shelash (Chairman)	✓	✓	✓	✓	✓	✓
Hethloul Al-Hethloul	✓	✓	✓	✓	✓	✓
Abdullatif Al-Shalash	✓	✓	✓	✓	✓	✓
Ayman Boodai	✓	✓	✓	X	✓	✓
Ayman Abudawood	X	X	X	✓	✓	X
Bader Kanoo	✓	✓	X	✓	✓	✓
Dr. Ahmed Al-Dehailan	✓	✓	✓	✓	✓	✓
Dr. Abdulaziz Al Orayer	✓	✓	✓	✓	✓	✓
Adel Al-Saqabi	✓	✓	X	✓	✓	✓
Khalid Shaheen*	NA	✓	✓	✓	✓	✓
Khalil Nooruddin*	NA	✓	✓	✓	✓	✓

* Appointed in April 2012

BOARD COMMITTEES

Bank Alkhair's Board of Directors is assisted by four Board Committees: the Audit Committee; the Nomination, Remuneration & Governance Committee; the Executive Committee; and the Risk Committee. Board Committee membership details can be found on pages 35-37.

Audit Committee

The Audit Committee is responsible for assisting the Board in its oversight of statutory affairs relating to accounting and financial reporting, internal control systems, internal and external audit and compliance with Shari'ah and regulatory laws and regulations.

No. of members	Four independent directors
Members of the Committee	• Dr. Ahmed Al-Dehailan (Chairman) - Independent • Bader Kanoo - Independent • Khalid Shaheen - Independent • Adel Al-Saqabi - Independent
Minimum no. of meetings per year	Four
Quorum	Two
Responsibilities include:	• Ensuring the integrity of the Bank's financial statements, financial reporting process and internal accounting and financial control systems; • Approving the appointment of the internal auditor and reviewing the activities of the internal audit function; • Overseeing the annual independent audit process of the Bank's financial statements; • Recommending to the Board the engagement of external auditors for specific functions and evaluating the external auditors' independence and performance; • Overseeing the Bank's compliance with legal and regulatory requirements, including the Bank's; and disclosure controls and procedures and compliance with the Bank's Code of Conduct.

Audit Committee Meeting Attendance - 2012

Members	13 March	9 May	17 October	12 December
Dr. Ahmed Al-Dehailan (Chairman)	✓	✓	✓	✓
Adel Al-Saqabi	✓	✓	✓	✓
Bader Kanoo	✓	✓	✓	✓
Khalid Shaheen (Appointed in October 2012)	NA	NA	NA	✓

Nomination, Remuneration & Governance Committee

The Nomination, Remuneration & Governance Committee (NRGC) is responsible for assisting the Board in establishing an impartial nomination, selection and remuneration process for directors, the CEO and executive management. The Committee also assists the Board in discharging its oversight responsibilities in relation to corporate governance and compliance with legal and regulatory requirements and Shari'ah rules and principles.

No. of members	Four non Executive Directors, of which two should be Independent
Members of the Committee	• Dr. Abdulaziz Al Orayer (Chairman) - Independent • Yousef Al-Shelash - Non-executive • Hethloul Al-Hethloul - Non-executive • Sh. Nizam Yaqouby - Independent
Minimum no. of meetings per year	Four
Quorum	Two

Responsibilities include:	• Overseeing the Board of Directors' and individual directors' performance; • Ensuring the Bank's effectiveness and compliance with corporate governance policies and practices; • Succession planning for the Board and senior management; and • Assisting the Board in establishing staff remuneration policies and fees for non-executive directors and the Shari'ah Supervisory Board.

Nomination, Remuneration & Governance Committee Meeting Attendance - 2012

Members	14 March	9 May	28 June	17 October	13 December
Yousef Al-Shelash	✓	✓	✓	✓	✓
Hethloul Al-Hethloul	✓	✓	✓	✓	✓
Dr. Aziz Al Orayer (Chairman)	✓	✓	✓	✓	✓
Sh. Nizam Yaqouby (Appointed to oversee Shari'ah Governance and to attend meeting discussions related to Shari'ah Governance)	NA	NA	NA	NA	X

Risk Committee

The Risk Committee is responsible for overseeing the risk management framework of the Bank and ensuring that the Bank's management takes adequate steps to monitor and mitigate the Bank's risk exposures.

No. of members	Three Independent Directors
Members of the Committee	• Adel Al-Saqabi (Chairman) - Independent non-executive • Dr. Ahmed Al-Dehailan - Independent non-executive • Dr. Abdulaziz Al Orayer - Independent non-executive
Minimum no. of meetings per year	Four
Quorum	Two
The Risk Committee's primary responsibilities include:	• Overseeing the Bank's risk profile and risk appetite; • Overseeing the Group's risk policies, processes and infrastructure (including operational risk) related matters; and • Supervising the credit approval and investment review process.

Risk Committee Meeting Attendance - 2012

Members	13 March	9 May	17 October	12 December
Adel Al-Saqabi (Chairman)	✓	✓	✓	✓
Dr. Ahmed Al-Dehailan	✓	✓	✓	✓
Dr. Abdulaziz Al Orayer	✓	✓	✓	✓

Executive Committee

The Executive Committee is responsible for reviewing specific matters delegated to it by the Board and making recommendations thereon to the Board or making decisions based on authorities specifically delegated to it by the Board. The Committee also assists the Board in fulfilling its oversight responsibilities in relation to strategy, budget, financing plans, investments and operations. The Committee also has the power and authority to approve investments and expenditure up to a pre-approved limit specified by the Board.

No. of members	Six members
Members of the Committee	• Yousef Al-Shelash (Chairman) - Non-executive • Hethloul Al-Hethloul - Non-executive • Abdullatif Al-Shalash - Non-executive • Ayman Boodai - Independent • Ayman Abudawood - Independent • Khalil Nooruddin - Executive
Minimum no. of meetings per year	Two
Quorum	Three
Responsibilities include:	• Overseeing the Bank's operations, investment and finance related matters as well as assisting the Board in ensuring and maintaining oversight of the Bank's risk management systems and control environment; • Reviewing and proposing strategic objectives of the Bank to the Board; • Reviewing and approving the Bank's business plans and ensuring alignment with the Bank's strategic objectives; and • Presenting the annual financial, operational and capital expenditure budgets to the Board.

Executive Committee Meeting Attendance - 2012

Members	14 March	13 December
Yousef Al-Shelash (Chairman)	✓	✓
Hethloul Al-Hethloul	✓	✓
Abdullatif Al-Shalash	✓	✓
Ayman Boodai	✓	X
Ayman Abudawood	X	X
Khalil Nooruddin	NA	✓

BOARD OF DIRECTORS BIOGRAPHIES

YOUSEF ABDULLAH AL-SHELASH
Chairman of the Board of Directors and founding shareholder
Chairman of the Board's Executive Committee
Non-executive director since April 2004
Mr. Yousef A. Al-Shelash is the Chairman of Dar Al Arkan Real Estate Development Company (Dar Al Arkan), Saudi Arabia. He is also the Chairman of the Strategic Acquisition Fund, Bahrain. Previously, Mr. Al-Shelash served as a member of the Investigation and Attorney General in Saudi Arabia, as well as a legal advisor to various legal consultancy firms in Saudi Arabia. He obtained an MSc in Law and Legal Proceedings from the Institute of Public Administration Al-Riyadh and a BSc in Shari'ah from Mohamed Bin Saud Islamic University, Saudi Arabia. He has received formal training in financial management and evaluation of investment projects and has also earned diplomas in both Banking and Combating Financial Crimes. Mr. Al-Shelash is one of the pioneers of the real estate development industry in the Kingdom of Saudi Arabia, beginning over two decades ago in the early 1990's. He also initiated the real estate mortgage industry in Saudi Arabia in 1998.

Number of years of experience: Over 20 years

AYMAN ISMAIL ABUDAWOOD
Independent director since December 2008
Mr. Ayman Abudawood is Vice President of Finance, Regional & Overseas Investments, and Legal Structuring at the Abudawood Group, a diversified international conglomerate based in Saudi Arabia, with investments in the Middle East, Europe and the USA. He has held senior management positions at the Abudawood Group for over 20 years and serves on the boards of Al-Khabeer Merchant Finance Corporation (Saudi Arabia), Helvetia Arab General Trade Company (Kuwait) and Oryx Capital (Saudi Arabia). He is also the Chairman of Alpine Wealth Management, an independent wealth management advisory group based in Bahrain. Mr. Abudawood holds a BS in Mechanical Engineering from the University of Arizona in the United States.

Number of years of experience: Over 20 years

HETHLOUL SALEH AL-HETHLOUL
Non-executive director since April 2004 and founding shareholder
Mr. Hethloul Bin Saleh Al-Hethloul is a Saudi national, founding shareholder and member of Dar Al Arkan's Board of Directors. He has over 20 years of experience in real estate investment and finance, specifically conceptualising real estate strategies and related managerial plans. Mr. Al-Hethloul holds a diploma of Commercial Secondary Institutes in Riyadh (1990).

Number of years of experience: Over 20 years

ABDULLATIF ABDULLAH AL-SHALASH
Non-executive director since April 2004
Mr. Al Abdullatif Al-Shalash is a Saudi national and has considerable experience in financial and information management systems. Mr. Al-Shalash occupies the position of Managing Director at Dar Al Arkan in addition to his role as a Board member of Bank Alkhair. He is also a Board member of t'azur and Strategic Acquisition Fund, Bahrain. Mr. Al-Shalash holds a Bachelor's degree in Organisation Leadership and Supervision from Purdue University, USA and an MBA from Findlay University, USA.

Number of years of experience: Over 18 years

AYMAN ABDULLAH BOODAI
Independent director since September 2006
Mr. Ayman Boodai is the Chairman and Managing Director of The Securities House K.S.C.C. in Kuwait, a position he has held since 1986. Mr. Boodai has extensive experience in the finance, investment and education sectors, and throughout his career, he has held a series of prominent board positions. Mr. Boodai is the Vice-Chairman of The Securities House Real Estate Company KSCC – Kuwait. Mr. Boodai holds a diploma from the Institute of Banking Studies in Kuwait and is trained in financial analysis, portfolio management and monetary policy programmes.

Number of years of experience: Over 34 years

BADER ABDULAZIZ KANOO
Founding shareholder
Independent director since April 2004
Mr. Bader Kanoo has spent more than 20 years in various positions within the Yusuf Bin Ahmed Kanoo (YBAK) organisation, a 120-year-old, family-owned group of companies operating in Saudi Arabia and throughout the GCC. He is currently responsible for the Kanoo Joint Ventures Division and Business Development and is a Board member of a number of YBAK companies. Mr. Kanoo holds a degree in Management from Mercer University, Georgia, United States.

Number of years of experience: Over 20 years

DR. AHMED SALEH AL-DEHAILAN
Chairman of the Audit Committee and founding shareholder
Independent director since February 2011
Dr. Ahmed Al-Dehailan served as the Chief Financial Officer and Advisor to the General Manager at Dar Al Arkan. He was also a lecturer at Al Emam Mohamed University in Riyadh. Dr. Al-Dehailan holds board memberships in several other companies including the Saudi Home Loan Company (Director); the Strategic Acquisition Fund Company (Member of the Investment Committee); Bahrain Financing Company (Director), BFC Group Holding Limited; BFC Group Holdings W.L.L. (Director); t'azur, Bahrain (Director); and t'azur, Kuwait (Chairman). Dr. Al-Dehilan holds a Doctoral Degree in Accounting and Finance from Cardiff University, United Kingdom.

Number of years of experience: Over 19 years

DR. ABDULAZIZ NAIF AL ORAYER
Chairman of the Nomination, Remuneration & Governance Committee
Independent director since February 2011
Dr. Abdulaziz Al Orayer brings to the Board extensive experience gained over 39 years of working in high level positions in Saudi Arabia's public and private sectors. Dr. Al Orayer has been a member of the Saudi Arabian Majlis Al-Shura since 1997. Dr. Al Orayer is the Chairman of t'azur's Board of Directors, a position he has held since the Company's inception. He has overseen tazur's evolution into one of the leading players in the GCC Family and General Takaful industry. He is also a Board member of Alkhair International Bank Berhad, Malaysia. Previously, Dr. Al Orayer was the Deputy Minister for the Saudi Ministry of Finance and National Economy. Dr. Al Orayer holds a Doctorate in Economics and Business Administration from the University of Wales in the UK, a Masters degree in Economics and Banking from Southern Illinois University and a Bachelor of Arts from the University of California, Berkeley.

Number of years of experience: Over 39 years

ADEL YOUSEF AL-SAQABI
Chairman of the Risk Committee
Independent director since May 2011
Mr. Adel Al-Saqabi brings to the Board over 20 years of experience in the financial services sector. Mr. Al-Saqabi previously held senior positions in leading investment companies, including Gulf Investment Corporation, Al-Ahlia Investment Co. and Al-Safat Holding Co., where he was responsible for managing existing portfolios as well as identifying and assessing new investment opportunities. Mr. AL-Saqabi currently serves on the Boards of M/s Al-Safat Investment Co., M/s Al-Safwa Group Holding Co., Burj Bank and Danah Al Safat Foodstuff Co. Mr. Al-Saqabi is also the Chief Executive Officer of M/s Al-Safwa Group Holding in Kuwait, which focuses on investments in various sectors globally, including the oil & gas services, industrial and banking sectors. Mr. Al-Saqabi holds a degree in Business Administration with a major in Finance from the University of Kuwait.

Number of years of experience: Over 20 years

KHALIL EBRAHIM NOORUDDIN
Managing Director and Chief Executive Officer
Executive director since April 2012
Mr. Khalil Nooruddin is the Managing Director and Chief Executive Officer of Bank Alkhair. Mr. Nooruddin brings to the Bank extensive experience gained over 35 years of serving international and regional institutions in an executive, board or advisory capacity, including Chase Manhattan Bank, Union Bank of Switzerland, Investcorp, Gulf International Bank, Ithmaar Bank and Alpine Wealth Management. In 2007, Mr. Nooruddin founded Capital Knowledge (CK), a financial consulting and training institute. Mr. Nooruddin is a Chartered Financial Analyst, holds a Master of Science degree from New York University (NYU), USA and a Bachelor of Science degree from the University of Petroleum and Minerals (UPM), Saudi Arabia.

Number of years of experience: Over 35 years

KHALID SAGER SHAHEEN
Independent director since April 2012
Mr. Khalid Shaheen is currently a Board member and the Chairman of the Audit Committee of National Finance House and a Board member of BFC Group Holdings in Bahrain. Throughout his career, Mr. Shaheen held various high level positions in prominent financial institutions in Bahrain, including Bahraini Saudi Bank, Bahrain Development Bank, Shamil Bank and Gulf International Bank. Mr. Shaheen also held a series of Board and Committee memberships in various organisations in Bahrain's public and private sectors. Mr. Shaheen holds a Bachelors degree in Business from the University of St. Thomas, Houston, Texas, USA, and he is a Fellow at the Institute of Directors, UK.

Number of years of experience: Over 30 years

SHARI'AH SUPERVISORY BOARD

Shari'ah compliance is the cornerstone of Bank Alkhair's operations. A six-scholar Shari'ah Supervisory Board has been established to provide Islamic advice and guidance to ensure that all Bank Alkhair activities comply with Shari'ah law. The members of the Shari'ah Supervisory Board are prominent Islamic scholars who are well versed in international financial markets and have a proven track record in the implementation of Shari'ah rules and principles in Islamic banks, as well as in product development and Islamic finance structuring techniques.

The Shari'ah Supervisory Board is proactively involved in all product development and investment decisions relating to transactions and all underlying contractual documentation is only finalised after obtaining the approval of the Shari'ah Assurance division under the direct oversight of the Shari'ah Supervisory Board. The Shari'ah Supervisory Board sets out the Islamic opinions (Fatwas) which are required for approval of the structures of new financial transactions, services or investment products.

SHARI'AH BOARD BIOGRAPHIES

DR. KHALID MATHKOOR AL-MATHKOOR
Chairman
Dr. Khalid Mathkoor Al-Mathkoor is the Chairman of the Higher Consultative Committee for Finalisation of the Application of the Provisions o f Islamic Shari'ah for the State of Kuwait. He is a Lecturer in the Division of Comparative Jurisprudence and Shari'ah Policy of the Faculty of Shari'ah and Islamic Studies at the University of Kuwait. Dr. Al-Mathkoor is a member of the Higher Planning Board of the State of Kuwait, and serves on the Shari'ah Supervisory Boards of a number of Islamic banks. Dr. Al-Mathkoor holds a PhD in Shari'ah from Al-Azhar University.

DR. AAGIL JASIM AL-NASHMY
Deputy Chairman
Dr. Aagil Jasim Al-Nashmy is a Professor at the Faculty of Shari'ah and Islamic Studies at the University of Kuwait. He represents the State of Kuwait in the Islamic Fiqh Academy, which evolved from the Organisation of Islamic Conference in Jeddah, Saudi Arabia. He is a member of the Shari'ah Supervisory Boards of a number of Islamic banks, as well as of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Dr. Al-Nashmy also serves on the Fatwa Committee of the Kuwait Ministry of Awqaf and Islamic Affairs. Dr. Al-Nashmy holds a PhD in Shari'ah from Al-Azhar University.

DR. ABDUL SATTAR ABU GHUDDAH
Dr. Abdul Sattar Abu Ghuddah is a member of the Islamic Fiqh Academy which evolved from the Organisation of Islamic Conference in Jeddah, Saudi Arabia. He sits on both the Standard Board and Shari'ah Board of AAOIFI. He is also a member of the Shari'ah Supervisory Board for a number of Islamic banks. Dr. Abu Ghuddah holds a PhD in Shari'ah from Al- Azhar University.

DR. ALI MUHYEALDIN AL-QURADAGHI
Dr. Ali Muhyealdin Al-Quradaghi is a professor and Chairman of the Department of Jurisprudence and its Principles in the Faculty of Shari'ah Law and Islamic Studies at the University of Qatar. He is a member of the Islamic Fiqh Academy, which evolved from the Organisation of Islamic Conference in Jeddah, Saudi Arabia. He also sits on the Shari'ah Supervisory Board for a number of Islamic banks. Dr. Al-Quradaghi holds a PhD in Shari'ah from Al-Azhar University.

DR. MOHAMMAD DAUD BAKAR
Dr. Mohammad Daud Bakar is currently president and CEO of the International Institute of Islamic Finance Inc. and Amanie Business Solutions Sdn. Bhd. Kuala Lumpur, Malaysia. Dr. Bakar is a member of the Shari'ah Advisory Councils of both the Securities Commission and Bank Negara (Central Bank), Malaysia. Dr. Bakar holds a PhD in Shari'ah from St. Andrews University, UK. He also sits on the Shari'ah Supervisory Board for a number of Islamic banks.

SH. NIZAM MOHAMMAD SALEH YAQOUBY
Sh. Nizam Mohammad Saleh Yaqouby is a member of the Shari'ah Supervisory Board of a number of Islamic banks and institutions. He holds a BA in Economics and Comparative Religion from McGill University, Canada and at present is a PhD candidate in Islamic Law at the University of Wales. He also sits on the Shari'ah Supervisory Board for a number of Islamic banks.

SHARI'AH ASSURANCE

Bank Alkhair's Shari'ah Assurance division works closely with the Shari'ah Supervisory Board in the development and pre-screening of every business proposition, including those of Bank Alkhair's subsidiaries and associates. The Shari'ah Assurance division also plays a key role in ensuring that the Fatwas of the Shari'ah Supervisory Board are consistently applied, and prepares quarterly Shari'ah audit reports for the review of the Bank's Shari'ah Board and management team.

The Shari'ah Assurance division actively monitors all transactions and forms an integral part of the investment process from the outset. It is also a member of the Investment and Post-Investment Management Committee and the Risk Committee. The Shari'ah Assurance division validates all business propositions against both the Shari'ah Board's resolutions and Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards.

All transactions and dealings during the year ended 31 December 2012 were in compliance with the rules and principles of Islamic Shari'ah, except for partial financing of Al Tajamouat Mall. However, the Bank is in the process of refinancing the project using Shari'ah compliant financing.

In 2012, Bank Alkhair received US$454,022 non-Shari'ah income. In view of that, the Shari'ah Supervisory Board advised the Bank to donate this amount to registered charities, and submit the list of beneficiaries to the Shar'ah Board.

MANAGEMENT

MANAGEMENT COMMITTEES

Investment and Post-Investment Management Committee (IPIMC)

The purpose of the IPIMC is to ensure and oversee the efficient and comprehensive transition of an investment transaction from the point of origination to the point of closing, including all internal approval requirements and external financial and legal due diligence. The Committee includes management, product origination, finance and risk officers.

The IPIMC also assumes responsibility for the monitoring of all existing investments, with the objective of ensuring the fulfillment of all closing requirements of the transaction. The Committee is also responsible for post-investment management and overseeing the ongoing performance of the portfolio to ensure a successful exit.

Asset and Liability Committee (ALCO)

ALCO establishes the funding, liquidity and market risk policies for the Bank. It is composed of the heads of key business areas and finance, risk, operations and other control areas. ALCO's objectives are to manage the assets and liabilities of the Bank, determine the statement of financial position mix and appropriate risk and return profile. It oversees all treasury and capital market activities and all areas affected by liquidity and market risk. Cash flow management is a major focus of ALCO and ALCO regularly reviews the business line investment plans to ensure that sufficient funding is in place. ALCO ensures that the appropriate mix of short, medium and long term funding strategies is developed in conjunction with the Bank's Treasury and Capital Markets functions.

Risk Committee

The Risk Committee's overall responsibility is to ensure that the Bank develops appropriate risk policies and strategies for the relevant business activities, including compliance with Basel II. The Risk Committee oversees the risk management, compliance and all operational activities of the Bank, and reviews and approves risk management principles, frameworks, policies, projects, limit processes and procedures. Furthermore, it is the first institutional body to approve all counterparty, market risk, business line and country limits on a group wide basis.

Steering Committee

The Steering Committee is a standing sub-committee of the Board's Executive Committee. Members of the Steering Committee are appointed by the Executive Committee/Board. The Committee should consist of a minimum of four members. The Bank's Managing Director & Chief Executive Officer and the Chief Executive officers of the Bank's subsidiaries must be members of this Committee.

The Steering Committee's primary purpose is to consider specific matters delegated by the Executive Committee/Board and to make recommendations thereon to the Executive Committee/Board, or to take decisions based on specific authorities delegated by the Executive Committee/Board. The Committee also assists the Executive Committee/Board in fulfilling its oversight responsibilities in relation to strategy development, budget monitoring, financing plans, investment review and operations of the Bank as well as its subsidiaries.

MANAGEMENT BIOGRAPHIES

KHALIL NOORUDDIN
Managing Director and Chief Executive Officer
Mr. Khalil Nooruddin is the Managing Director and Chief Executive Officer of Bank Alkhair responsible for running the day to day operations of the Bank as well as its subsidiaries and for developing and executing the Group's turnaround strategy. Mr. Nooruddin brings to the Bank extensive experience gained over 35 years of serving international and regional institutions in an executive, board or advisory capacity, including Chase Manhattan Bank, Union Bank of Switzerland, Investcorp, Gulf International Bank, Ithmaar Bank and Alpine Wealth Management. In 2007, Mr. Nooruddin founded Capital Knowledge (CK), a financial consulting and training institute. Mr. Nooruddin is a Chartered Financial Analyst, holds a Master of Science degree from New York University (NYU), USA and a Bachelor of Science degree from the University of Petroleum and Minerals (UPM), Saudi Arabia.

JONATHAN HOLLEY
Head of Investment Banking
Mr. Jonathan Holley is the Head of Investment Banking at Bank Alkhair responsible for the Bank's investment activities, including origination, post-acquisition management and asset realisation. Mr. Holley brings to the Bank broad global experience gained over 20 years of transaction experience in emerging markets in South America, Eastern Europe and the GCC Region, including Andersen Consulting Brazil, Ernst & Young, Internet Capital Group, Matterhorn Capital and Dubai Group. Mr. Holley is a licensed Professional Engineer, holds a Master of Science in Transportation Management and a Bachelor of Science in Industrial Engineering from Northwestern University, USA and a Master of Arts in International Transactions from George Mason University, USA.

IKBAL DAREDIA (resigned as ACEO of Bank Alkhair)
Chief Executive Officer, Alkhair International Islamic Bank Berhad
Mr. Ikbal Daredia has 20 years of experience in Islamic banking. Prior to joining Bank Alkhair in October 2006, he was the Deputy Chief Executive Officer of Noriba, UBS's global Islamic platform for Shari'ah compliant products and services. Prior to Noriba, Mr. Daredia worked for four years with ABN AMRO in Bahrain as the Global Head of Islamic Financial Services. Mr. Daredia has originated and executed several Islamic structured cross-border transactions for sovereign entities and corporates in Turkey, the GCC, the Philippines, India, Pakistan and the United Kingdom. Mr. Daredia is an Associate of the Chartered Institute of Bankers, England.

SENIOR MANAGEMENT BIOGRAPHIES (continued)

DR. MUHAMMAD AL-BASHIR M. AL-AMINE
Group Head of Shari'ah
Dr. Muhammad Al-Bashir M. Al-Amine joined Bank Alkhair in 2005 and is currently serving as the Group Head of Shari'ah. Dr. Bashir is responsible for overseeing the Shari'ah affairs of Bank Alkhair as well as its subsidiaries through close coordination with the Bank's Shar'ah Supervisory Board and senior management team. Prior to joining Bank Alkhair, Dr. Al-Bashir was the Head of Product Development and Shari'ah Compliance at the International Islamic Financial Market (IIFM). Dr. Al-Bashir holds a LLB (Shari'ah) from the Islamic University of Madina and a Masters of Comparative Law (MCL) and PhD in Law from the International Islamic University Malaysia.

AMIR AHMED
Chief Financial Officer
Mr. Amir Ahmed brings to the Bank extensive international and regional banking experience in Audit, Risk Management and Finance. Prior to joining Bank Alkhair in 2007, he worked as Group Head of Internal Audit, Investment & Corporate Banking, for Riyad Bank in Saudi Arabia. Prior to moving to the Middle East, Mr. Ahmed held various senior positions in leading financial institutions in Canada, including Scotiabank and TD Bank Financial Group. Mr. Ahmed holds an MBA in Finance and is a CPA from Washington, USA.

KUBRA ALI MIRZA
Chief Compliance Officer, MLRO & Board Secretary
Mrs. Kubra Mirza has over 14 years of experience in investment banking, financial regulations, corporate governance, compliance, financial crimes and anti-money laundering. Prior to joining Bank Alkhair, Mrs. Mirza was the Head of Compliance, MLRO and Board Secretary; Secretary of the Corporate Governance Committee and Secretary of the Finance & Investment Committee at Venture Capital Bank. Mrs. Mirza holds a Bachelors degree in Accounting and an Executive MBA from the University of Bahrain.

AYHAM GHARAIBEH
General Counsel
Mr. Ayham Gharaibeh has over 10 years of legal experience in investment banking, specialising in Private Equity, Asset Management, Capital Markets, Mergers & Acquisitions, and Corporate Finance transactions. Mr. Gharaibeh has structured and successfully closed over 30 sizable transactions at Bank Alkhair to date. Prior to joining Bank Alkhair, Mr. Gharaibeh was the General Counsel and Chief Compliance Officer at Atlas Investment Group (AB Invest), the investment banking arm of Arab Bank - Amman, Jordan. Mr. Gharaibeh holds a BA and a Masters degree in International Business Law.

NICOLAS MARTIN
Managing Director, Strategic Mergers & Acquisitions
Mr. Nicolas Martin joined Bank Alkhair in 2009 as Managing Director, Strategic M&A. Mr. Martin has extensive international experience and throughout his 20 year career has managed some of the largest and most high profile M&A transactions recorded. Prior to joining Bank Alkhair, Mr. Martin was General Manager, Strategic M&A, at Fortis (based in Brussels and Hong Kong). During the three years that he held this position, Mr. Martin coordinated the entire M&A process of Fortis' joint acquisition of ABN AMRO (EUR744 billion), managing a team of 50 to close the transaction. Mr. Martin graduated from the University of Geneva with a BA in Business Administration and holds an MBA from INSEAD.

MUHAMMAD ABBAS KHAN
Head of Group Internal Audit
Mr. Abbas Khan joined Bank Alkhair in 2009, and is currently the Head of the Group Internal Audit function. Mr. Khan has over 15 years of experience in internal audit, forensic investigations, and operational risk management. Prior to joining Bank Alkhair, Mr. Khan worked at Ernst & Young, where he was instrumental in developing and enhancing corporate governance practices, enterprise risk management and internal audit capabilities for various investment banks and financial institutions in the region. Mr. Khan is the Vice Chairman of the Audit & Legal Committee of the Bahrain Association of Banks and a member of the Institute of the Chartered Accountants of Pakistan. Mr. Khan holds a certification from the Institute of Internal Auditors, USA.

HASAN AL-EID
Group Head of Information Technology
Mr. Hasan Al-Eid is currently serving as the Group Head of Information Technology. Mr. Al-Eid has over 20 years of experience in IT operations, technical support, software engineering, information security, and the development of web applications. Throughout his career, Mr. Al-Eid worked for various organisations in the public and private sectors of Bahrain. Mr. Al-Eid was involved in various projects of the Government of Bahrain, including the establishment and management of the Government's information security policies, standards and guidelines. Mr. Al-Eid holds a Master of Science degree in Computer Science from the University of Wales, UK.

TAREK AL-RIKHAIMI
Chief Executive Officer, Alkhair Capital Saudi Arabia
Mr. Al-Rikhami has over 20 years of experience in the financial services sector. Prior to joining Alkhair Capital Saudi Arabia, Mr. Al-Rikhaimi served as the Chief Operating Officer of Samba Capital & Investment Company, where he was responsible for assisting the CEO in developing and formulating strategies and business plans, overseeing business support functions, in addition to managing and monitoring the performance of all outsourced functions. Mr. Al-Rikhaimi holds a Bachelors of Science degree as well as a Masters degree in Civil Engineering from King Saud University, Riyadh.

CORPORATE GOVERNANCE POLICIES AND PROCEDURES

Compensation of the Board of Directors and Executive Management

Compensation of the Board of Directors and Executive Management is recommended to the Board of Directors by the Nomination, Remuneration & Governance Committee and the Board of Directors then makes the recommendation to the shareholders at the annual general meeting. Under the Articles of Association, the total remuneration that the Board of Directors may receive shall not exceed 10 percent of the net profit in any one financial year after allowing for statutory reserves.

The Executive Management's remuneration takes into consideration the performance of the Bank as well as an assessment of individual members performance and i responsibilities. Total Executive Management remuneration includes salaries, allowances, reimbursement of expenses, post employment benefits and performance related incentives.

Executive Management members are entitled to a fixed remuneration as per their contractual agreements, and any other performance-related incentives/bonuses must be approved by the Board.

Details of the aggregate compensation (including benefits) for the Board of Directors and Executive Management for the year ended 31 December 2012 can be found on page 32, Note 22.

Continuous Development of the Board and Board Committees

In line with the Bank's Board Induction and Training Policy, an induction programme was conducted for new members of the Board of Directors. The induction programme covered governance information and financial information, and directors were provided with all Board related documents and policies relating to the Bank. Furthermore, as part of the Board's continuous development, Board members attended a workshop on Corporate Governance and in-house development/awareness session on risk management.

Board Performance Evaluation

Bank Alkhair has a policy in place to govern the annual review mechanism of the Board, the Board's sub-committees and each individual director against specific criteria.

Bank Alkhair's Board of Directors has established a mechanism for the annual periodic review of its own and each of its Sub-Committees' performance. The review evaluates the Board as a whole and each of its Sub-Committees' in light of its strategic objectives, and accordingly, each Director, including the Chairman, is subject to a self evaluation.

The Board and Board Sub-Committee evaluation is facilitated by the Board Secretary, who reports the results to the Nomination, Remuneration and Governance Committee (NRGC). The NRGC may elect to hire an external consultant to evaluate the effectiveness of the Board and Board Sub-Committees. The NRGC presents the results of the evaluation to the Board and subsequently reports to the Shareholders during the next AGM.

Code of Conduct

The Board of Directors has adopted a written code of ethical business conduct, which includes the following;

- Honesty and observance;
- Avoidance of conflicts between personal interests and the interests of the Bank;
- Respecting confidentiality of information obtained during the course of business;
- Maintenance of the Bank's reputation and avoidance of activities which might reflect adversely on the Bank;
- Integrity in dealing with the Bank's assets;
- Setting high personal standards and adhering to the Code of Conduct; and
- Keeping abreast of current good practices.

Conflict of Interest

Bank Alkhair has a formal conflict of Interest policy which applies to all directors and employees, including a signed undertaking requiring directors to disclose their personal interests annually. The conflict of interest policy requires Board members to inform the entire Board of potential conflicts of interest between the Bank's activities and their personal interests, and abstain from voting on matters relating to them in accordance with the relevant provisions of the Company Law.

No conflicts of interest occurred in 2012.

Related party transactions

The Bank has an approval process for related party transactions in place. The approval process is reflected in the Bank's Group Code of Conduct and Corporate Governance Policy. In this regard, the Bank has complied with Article 32(3) of the Bank's Articles of Association and Article 189 of the Bahrain Commercial Companies Law (CCL).

Transactions, including related party transactions, with a monetary value between US$7-25 million require the approval of the Board Executive Committee, and any transaction above US$25 million requires Board approval.

Details of related party transactions are disclosed in note 22of the financial statements.

CORPORATE GOVERNANCE POLICIES AND PROCEDURES (continued)

Investor Complaints

In order to strengthen and formalise the Investor complaints mechanism, Bank Alkhair developed a policy for managing complaints received from investors, along with a formal escalation structure to ensure complaints are dealt with effectively and efficiently.

Whistle-blowing Procedure

Bank Alkhair endeavors to operate in a climate of transparency, and in order to strengthen and encourage transparency, has a formal whistle-blowing policy in place to facilitate the escalation of employees' concerns and suspicions of criminal or unethical conduct.

Shareholder Communications

Bank Alkhair is dedicated to maintaining an open line of communication with its stakeholders and ensures transparent and accurate information is disclosed in a professional and timely manner. Communication with shareholders is disseminated through several channels, including the corporate website, the Annual Report, the Annual General Meeting, and timely announcements in the local media.

Corporate Social Responsibility

Bank Alkhair is committed to supporting and contributing to the communities in which it operates. In 2012, the Bank supported a number of events, including Shaikh Khaled Bin Hamad Al-Khalifa's Horserace for children with special needs and H.M. King Hamad Bin Isa Al-Khalifa's Horserace Championship. The events were selected as part of the Bank's initiative to support and encourage the youth of Bahrain. Furthermore, the Bank made a donation to the Bahrain Association for Intellectual Disability and Autism (BAIDA), which provides care and support to children with special needs, including rehabilitation services, education and training, entertainment and much more.

COMPLIANCE WITH REGULATORY GUIDELINES

The Central Bank of Bahrain's (CBB's) High Level Controls Module (HC Module), which focuses on strengthening the corporate governance function of banks, contains rules, which must be complied with, and guidance, which may be complied with, or in cases of non-compliance, must be disclosed in the Annual Report and explained to the CBB.

For the year 2012, Bank Alkhair is fully compliant with the requirements of the CBB's HC Module, except for the following:

HC-1.4.6 recommends that the Chairman of the Board is an independent director. However, as the majority of the Board members are independent, the independence of the decision making is not compromised. Furthermore, of the four Board committees, the Chairmen of three committees are independent, including the Nominations, Remunerations & Governance Committee; the Audit Committee; and the Risk Committee. The Bank also has a conflict of interest policy as well as a directors' independence policy in place, which require Board members to declare their personal interests on an annual basis.

HC-1.8.2 and HC-9.2.4 recommend that the Corporate Governance Committee is established of at least three independent members. Currently, all members are non-executive directors, and two members of the Committee, including the Chairman and Shari'ah scholar, are independent.

In the event that an individual director has not attended at least 75% of Board meetings within a calendar year, the CBB should be notified and such notification should be disclosed in this section of the Annual Report.

External Audit Fees and Services The details of the audit fees charged and non-audit services provided by the Bank's external auditors will be made available to the shareholders as and when requested. Such details will be made available to the Bank's shareholders as per their specific request provided that these disclosures do not negatively impact the Bank's interest.

CONTROL FUNCTIONS

Group Internal Audit

Group Internal Audit reports directly to the Board Audit Committee (Committee) to provide independent and objective assurance over the adequacy, sustainability and effectiveness of the Bank's governance, internal controls and risk management processes. Its scope and role is defined and approved by the Committee.

Group Internal Audit also conducts strategic audit reviews of the Bank's subsidiaries in Turkey, Malaysia and Saudi Arabia, and oversees the internal audit process in Bahrain Financing Company and t'azur – both of which are the Bank's associated entities. Group Internal Audit also established a continuous controls monitoring framework to independently verify selected controls on a regular basis.

Group Internal Audit reports key audit findings and status of management action plans, via a structured process, to the Board Audit Committee on a quarterly basis.

Compliance

Bank Alkhair is committed to meeting the highest levels of ethical standards in all areas of its operations. The Board of Directors of Bank Alkhair was keen to establish a strong and independent Compliance department to assist the Senior Management of the Bank in effectively managing its compliance risk. The Compliance department reports functionally to the Board of Directors, and is responsible for overseeing the Bank's compliance programme. It is responsible solely for compliance-related issues and functions independently from other business activities, including those where the department's independence and objectivity may be compromised. The Compliance department is responsible for the management of compliance risk at the Group level for the Bank and its subsidiaries, and for ensuring that the Group's policies, procedures and operations are in line with all applicable rules and regulations. It also assists Senior Management in educating staff and increasing awareness regarding compliance issues across the Group.

Anti-Money Laundering (AML)

Bank Alkhair's Anti-Money Laundering function administers the authorisation process by which the Bank's targets are approved as legitimate clients, and thereafter continues to monitor clients to ensure effective compliance with the rules and regulations as stipulated in the Central Bank of Bahrain's Financial Crime Module and international best practices. This has been achieved through the appointment of a designated Money Laundering Reporting Officer and Deputy Money Laundering Reporting Officer and the development of a detailed AML policy, procedures and comprehensive KYC documentation to rigorously screen potential investors' identities and source of funds.

Risk Management

Risk is an inherent part of Bank Alkhair's business and the Bank's ability to properly identify, assess, mitigate and actively manage risks is a core element of its operating philosophy and profitability. The Bank's approach to managing risk involves the establishment of a risk management framework that includes: supporting risk governance arrangements, approved risk management policies, limits and processes, supporting risk management infrastructure and an independent risk function. The Bank's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Bank's activities.

Risk Management Function
The Risk Management function is responsible for designing and implementing the Bank's risk framework, including policies, processes and systems. Risk Management conducts independent risk assessments of strategic developments, business plans, individual transactions (including their respective credit, investment, counterparty and operational risks), products and services. Risk Management is also responsible for ensuring that the Bank's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk.

Risk Governance
Board Risk Management Oversight
The Board of Directors is ultimately responsible for risk management oversight. In recognition of this responsibility, the Board Risk Committee provides exclusive focus on risk management issues and oversight. The Risk Management function, through the Chief Risk Officer, reports functionally to the Board Risk Committee and administratively to the Chief Executive Officer.

The Board is responsible for defining the Bank's risk appetite within the framework of the risk strategy under which Bank Alkhair manages its risk exposures. The Board sets delegated authority limits and reviews the Bank's compliance with them.

Senior Management Risk Oversight
The Risk Executive Committee (REXCO) based in Bahrain acts as the senior management risk oversight authority with all subsidiary Risk and Credit Committees having a reporting line to REXCO. The establishment of REXCO is designed to support effective Bank risk oversight and governance across the Group, ensuring harmonisation of Group risk standards, policies and reporting processes.

Risk Policy Framework
Group Risk Strategy
The Bank's risk strategy defines risk appetite in terms of business growth, capital adequacy, compliance with regulatory requirements, return on equity, business strategy and exposure limits.
As part of the Bank's risk strategy, countries are clustered into core countries, countries in which 80% of Bank revenues are generated; network countries, mostly peripheral countries; and extended countries, where the Bank takes a very opportunistic view but with a very limited business focus.

The risk strategy forms a critical part of the risk policy framework for the Bank and will be continuously reviewed and updated in line with changes in the business strategy. Additional information is available in note 23, page 70 of the financial statements.

Risk Management Process
The Bank has established a number of supporting risk policies covering credit risk, operational risk, large exposure, liquidity management and outsourcing risk. The policies are subject to review and update on a periodic basis. All risk policies are established in line with the group risk framework which defines common risk management standards, processes and structures across the Bank Alkhair Group.

Basel II and Capital Management
In 2012, the Bank's Malaysian subsidiary, Alkhair International Islamic Bank Berhad, completed the establishment of the Internal Capital Adequacy Assessment Process (ICAAP), in line with Basel II requirements, and is in the process of integrating it within Bank Alkhair's development of ICAAP. The Bank's Basel II efforts are led by the Risk Management division under the auspices of the Group Risk Committee. Reports on the progress and status of Basel II compliance plans are submitted to the CBB on a monthly basis.

OWNERSHIP STRUCTURE

Ownership by nationality

Nationality	No. of Shares	No. of Shareholders	Percentage (%)
Saudi Arabian	150,864,544	46	72.54
Kuwaiti	38,099,800	35	18.32
Bahraini	5,762,532	30	2.77
Cayman Islands	4,576,703	1	2.2
Qatari	3,456,006	3	1.66
Others	5,202,329	56	2.5

Ownership by percentage of equity

Class of Equity	No. of Shares	No. of Shareholders	Percentage (%)
Less than 1%	32,082,281	151	15.43
1% to less than 5%	120,519,831	15	57.95
5% to less than 10%	55,359,802	5	26.62

Ownership of directors and senior management

Name	Position	Percentage (%) as of 31 December 2012
Yousef Abdullah Al-Shelash	Chairman	5.55%
Abdullatif Abdullah Al-Shalash	Director	5.18%
Hethloul Saleh Al-Hethloul	Director	5.18%
Dr. Ahmed Saleh Al-Dehailan	Director	4.99%
Bader Abdulaziz Kanoo	Director	0.37%
Ikbal Haji Karim Daredia	Chief Executive Officer, Alkhair Malaysia	0.04%
Ayham Yousef Gharaibeh	General Counsel	0.02%
Muhammad Al-Bashir Muhammad Al-Amine	Head of Shari'ah	0.01%
Syed Amir Ahmed	Chief Financial Officer	0.0000052%

Ownership above 5%

Name	Percentage (%) as of 31 December 2012
Yousef Abdullah Al-Shelash	5.55%
Sultan Abdulrahman Abalkheel	5.55%
Abdullatif Abdullah Al-Shalash	5.18%
Hethloul Saleh Al-Hethloul	5.18%
Fahad Abdulaziz Al-Sekait	5.18%

Note: No shares were traded by the Bank's directors during the year.

Consolidated Financial Statements

For the year ended 31 December 2012

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Independent Auditors' Report

TO THE SHAREHOLDERS OF BANK ALKHAIR BSC (c), MANAMA, KINGDOM OF BAHRAIN

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bank Alkhair BSC (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows and the consolidated statement of changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah rules and principles are the responsibility of the board of directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012, and of the consolidated results of its operations, its consolidated cash flows, consolidated changes in equity and consolidated changes in restricted investment accounts for the year then ended, in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the chairman's report is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), or the terms of the Bank's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

28 February 2013
Manama, Kingdom of Bahrain

Shari'ah Supervisory Board Report

TO THE SHAREHOLDERS OF BANK ALKHAIR BSC (c), MANAMA, KINGDOM OF BAHRAIN

ASSLAMO A'LAIKOM WA RAHMATU ALLAH WA BARAKATUH

In compliance with the terms of our letter of appointment, we are required to report as follows:

We have reviewed through the Shari'ah department and under our supervision the principles and the contracts relating to the transactions conducted by Bank Alkhair B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2012. We have conducted our review with a view to form an opinion as to whether the Group has complied with rules and principles of Islamic Shari'ah and also with the specific fatwa's, rulings and guidelines issued by us.

The Group's management is responsible for ensuring that the Group conducts its business in accordance with the rules and principles of Islamic Shari'ah. It is our responsibility to form an independent opinion, based on our review of the operations of the Group, and to report this to you.

We conducted our review through the Shari'ah department and under our supervision which included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Group. We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give assurance that the Group has not violated any rules and principles of Islamic Shari'ah.

In our opinion:

a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2012 are in compliance with the rules and principles of Islamic Shari'ah, except for the investment in Taj Mall which the Shari'ah Board advised in a previous resolution to exit as soon as possible.

b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'ah rules and principles.

c) The Shari'ah Board advised the Bank's management that all earnings that have been realised from sources or by means prohibited by rules and principles of Islamic Shari'ah principles shall be disposed off and given to charity under the supervision of the Shari'ah Board.

d) The calculation of Zakah is in compliance with the rules and principles of Islamic Shari'ah.

We supplicate to Allah the Almighty to grant us success and a straight path.
Wa Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh.

Dr. Khalid Mathkoor Al-Mathkoor

Dr. Aagil Jasim Al-Nashmy

Dr. Abdul Sattar Abu Ghuddah

Dr. Ali Muhyealdin Al-Quradaghi

Sh. Nizam Mohammed Yaqouby

Dr. Mohammed Daud Baker

28 February 2013

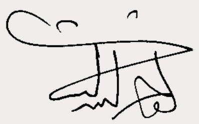
Consolidated Statement of Financial Position

As at 31 December

(Amounts in US$ thousands)

	Note	2012	2011
ASSETS			
Cash and balances with banks	4	**7,985**	11,081
Placements with financial institutions		**63,733**	66,477
Financing receivables	5	**86,623**	95,838
Investment securities	6	**112,905**	130,383
Assets held-for-sale	7	**18,932**	2,560
Equity-accounted investees	8	**106,006**	114,952
Investment property	9	**17,706**	17,706
Other assets	10	**25,988**	38,552
Equipment		**2,277**	5,483
TOTAL ASSETS		**442,155**	483,032
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions	11	**153,121**	143,178
Due to customers	12	**68,176**	88,483
Other liabilities	13	**24,978**	16,205
TOTAL LIABILITIES		**246,275**	247,866
EQUITY			
Share capital	14	**207,862**	207,862
Statutory reserve		**337**	337
Fair value reserve		**114**	(227)
Foreign currency translation reserve		**(8,485)**	(8,642)
(Accumulated losses)/retained earnings		**(32,715)**	4,153
Equity attributable to the shareholders of the parent		**167,113**	203,483
Non-controlling interests		**28,767**	31,683
TOTAL EQUITY (page 46)		**195,880**	235,166
TOTAL LIABILITIES AND EQUITY		**442,155**	483,032

The consolidated financial statements consisting of pages 44 to 84 were approved by the Board of Directors on 28 February 2013 and signed on its behalf by:



Yousef Abdullah Al-Shelash
Chairman

Hethloul Saleh Al-Hethloul
Board Member

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

Consolidated Income Statement

For the year ended 31 December

(Amounts in US$ thousands)

	Note	2012	2011
Finance income		**8,742**	9,687
Finance expense		**(7,814)**	(9,218)
Net finance income		**928**	469
Income from investment securities	15	**(10,676)**	8,265
Fees and commission	16	**3,754**	8,715
Share of profit of equity-accounted investees	8	**10,575**	6,444
Other income		**709**	2,191
Total income		**5,290**	26,084
Staff cost		**19,080**	25,319
Legal and professional expenses		**13,394**	2,154
Premises cost		**2,848**	3,506
Business development expenses		**1,066**	1,478
Depreciation		**1,881**	2,157
Other operating expenses		**6,229**	7,008
Total expenses		**44,498**	41,622
Loss for the year before Zakah and impairment		**(39,208)**	(15,538)
Provision for Zakah	17	**(1,719)**	(1,800)
Reversal of impairment	18	**1,100**	4,010
Loss for the year from continuing operations		**(39,827)**	(13,328)
Income from assets held-for-sale and discontinued operations		**64**	14,497
(Loss)/profit for the year		**(39,763)**	1,169
Attributable to:			
Shareholders of the parent		**(36,868)**	3,371
Non-controlling interests		**(2,895)**	(2,837)
Non-controlling interests relating to assets held-for-sale		**-**	635
		(39,763)	1,169

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

(Amounts in US$ thousands)

2012	Share capital	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	Attributable to the shareholders of the parent							
As at 1 January 2012	207,862	337	(227)	(8,642)	4,153	203,483	31,683	235,166
Loss for the year	-	-	-	-	(36,868)	(36,868)	(2,895)	(39,763)
Foreign currency translation differences	-	-	-	417	-	417	(21)	396
Fair value changes	-	-	192	-	-	192	-	192
Share of changes in reserves of equity-accounted investees	-	-	149	(260)	-	(111)	-	(111)
Total recognised income and expense for the year	**-**	**-**	**341**	**157**	**(36,868)**	**(36,370)**	**(2,916)**	**(39,286)**
As at 31 December 2012	**207,862**	**337**	**114**	**(8,485)**	**(32,715)**	**167,113**	**28,767**	**195,880**

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

(Amounts in US$ thousands)

2011	Share capital	Share premium	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Non-controlling interests relating to assets held-for-sale	Total equity
	Attributable to the shareholders of the parent									
As at 1 January 2011	215,578	141,708	15,580	(262)	(6,112)	(213,964)	152,528	34,605	15,273	202,406
Profit/(loss) for the year	-	-	-	-	-	3,371	3,371	(2,837)	635	1,169
Foreign currency translation differences	-	-	-	-	(2,577)	-	(2,577)	(85)	-	(2,662)
Fair value changes	-	-	-	235	-	-	235	-	-	235
Transfer on sale	-	-	-	(79)	-	79	-	-	-	-
Share of changes in reserves of equity-accounted investees	-	-	-	(121)	47	-	(74)	-	-	(74)
Total recognised income and expense for the year	-	-	-	35	(2,530)	3,450	955	(2,922)	635	(1,332)
Transfer to statutory reserve	-	-	337	-	-	(337)	-	-	-	-
Conversion of subordinated Murabaha	50,000	-	-	-	-	-	50,000	-	-	50,000
Capital reduction	(57,716)	(141,708)	(15,580)	-	-	215,004	-	-	-	-
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(15,908)	(15,908)
As at 31 December 2011	207,862	-	337	(227)	(8,642)	4,153	203,483	31,683	-	235,166

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

Consolidated Statement of Cashflows

For the year ended 31 December 2012

(Amounts in US$ thousands)

	Note	2012	2011
OPERATING ACTIVITES			
(Loss)/profit for the year		**(39,763)**	1,169
Adjustments for:			
Provision for Zakah		**1,719**	1,800
Gain on sale of investment securities		**(1,375)**	(6,739)
Fair value changes in investment securities		**13,386**	(591)
Share of profit of equity-accounted investees		**(10,575)**	(6,444)
Income from assets held-for-sale		**-**	(14,497)
Other income		**-**	(2,481)
Depreciation and amortisation		**1,881**	2,157
Sukuk amortisation		**(1,054)**	(973)
Reversal of impairment		**(1,100)**	(4,010)
		(36,881)	(30,609)
Changes in:			
Financing receivables		**9,215**	135,086
Other assets		**16,914**	(22,454)
Due to financial institutions		**(5,167)**	(36,334)
Due to customers		**(20,307)**	2,288
Other liabilities		**7,054**	(6,718)
Proceeds from sale of investment securities		**17,970**	31,329
Purchase of investment securities		**(13,000)**	(34,619)
Net cash (used in)/generated from operating activities		**(24,202)**	37,969
INVESTING ACTIVITIES			
Purchase of equipment		**(275)**	(66)
Investments in equity-accounted investees		**3,252**	(7,394)
Disposal of assets held-for-sale		**-**	60,417
Net cash generated from investing activities		**2,977**	52,957
FINANCING ACTIVITIES			
Draw down of bank financing		**15,110**	-
Repayment of syndicated borrowing		**-**	(128,273)
Net cash generated from (used in) financing activities		**15,110**	(128,273)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(6,115)**	(37,347)
Effect of exchange rate changes on cash and cash equivalents		**275**	(1,475)
Cash and cash equivalents at the beginning of the year		**77,558**	116,380
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**71,718**	77,558
Cash and cash equivalents comprise:			
Cash and balances with banks		**7,985**	11,081
Placements with financial institutions		**63,733**	66,477
		71,718	77,558

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Restricted Investment Accounts

For the year ended 31 December 2012

(Amounts in US$ thousands)

2012	As at 1 January 2012	Deposit	Gross Income	Wakil Fee	Withdrawals	As at 31 December 2012
Wakala contract	3,604	-	91	(36)	(3,659)	-

2011	As at 1 January 2011	Deposit	Gross Income	Wakil Fee	Withdrawals	As at 31 December 2011
Wakala contract	-	23,602	758	(215)	(20,541)	3,604

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

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 4th 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.

Consolidated financial statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised profits and losses resulting from intra-group transactions are eliminated in full.

The following are the principal subsidiaries of the Bank that are consolidated:

Subsidiary	Ownership	Year of incorporation/ acquisition	Country of incorporation	Principal activity
UIB Capital Inc.	100%	2004	USA	The main activity of UIB Capital Inc. was to monitor the performance of the acquired companies on behalf of the Bank and investors. The operations of UIB Inc. were closed in 2010 to focus on the Middle East and Levant regions.
Alkhair International Islamic Bank Berhad	100%	2004	Malaysia	Alkhair International Islamic Bank Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. In 2007, Alkhair International Islamic Bank Berhad was granted an investment banking license by Bank Negara Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit.
Alkhair Capital Menkul Değerler A.Ş.	91.9%	2007	Turkey	The main activities of Alkhair Capital Menkul Değerler A.Ş. are to provide investment consultancy and asset management.
Alkhair Capital Saudi Arabia	53.4%	2009	Kingdom of Saudi Arabia	Alkhair Capital Saudi Arabia was granted a certificate of incorporation by the Saudi Arabia Capital Markets Authority in March 2009. Its principal activities are Asset Management, Corporate Finance & Investment Banking and Brokerage.

The Bank has other special purpose entities (SPE's) holding companies and subsidiaries which are set up to supplement the activities of the Bank and its principal subsidiaries.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have 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 ('IFRS').

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for certain investment securities and investment properties carried at fair value. The consolidated financial statements are presented in United States Dollars (US$), being the functional currency of the Group's operations. All financial information presented in US$ has been rounded to the nearest thousands, except when otherwise indicated.

Going concern

The Bank's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 consolidated financial statements have been prepared on a going concern basis.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity also manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 20.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

Non-controlling interests

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated statement of financial position as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as income attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2. BASIS OF PREPARATION (continued)

(i) Subsidiaries (continued)

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to the consolidated income statement.

(ii) Investment in associates (Equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exit when the Group holds between 20% and 50% of the voting power of another entity.

On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 – Investment in Associates for venture capital organisation and designates certain of its investment in associates, as 'investments carried at fair value through income statement'. These investments are managed, evaluated and reported on internally on a fair value basis (refer to note 3 (b)).

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investees, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an equity-accounted investees at the date of acquisition is recognised as goodwill, and included within the carrying amount of the investment. When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

If the ownership interest in an equity-accounted investee is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in equity is reclassified to the consolidated income statement where appropriate.

(iii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The reporting period of the Group's subsidiaries and equity-accounted investees are identical and their accounting policies conform to those used by the Bank for like transactions and events in similar circumstances. The accounting policies of the subsidiaries and equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a) Foreign currency transactions

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US$, which is the Bank's functional and presentation currency.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Foreign currency transactions (continued)

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve.

Other group companies

As at the reporting date, the assets and liabilities of subsidiaries, equity-accounted investees and joint venture are translated into the Bank's functional currency at the rate of exchange prevailing at the reporting date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate reserve in equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

b) Investment securities

Investment securities comprise debt and equity instruments, but exclude investment in subsidiaries and equity-accounted investees (note 2 (c ii)).

(i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

Debt-type instruments

Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

These investments are either not managed on contractual yield basis or designated on initial recognition at FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. Currently, the Group does not have any investment under this category.

At amortised cost

This classification is for debt-type instruments which are not designated as FVTIS and are managed on contractual yield basis. These include investments in medium to long-term sukuk.

Equity-type instruments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

Equity-type instruments classified and measured at FVTIS include investments held-for-trading or designated on initial recognition at FVTIS.

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking. The Group currently does not have any of its investments classified as investments held-for-trading purposes.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported on internally by the management on a fair value basis. This category currently includes investment in private equity, funds and investment in associates (refer note 2 (c) (ii))

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Investment securities (continued)

At fair value through equity (FVTE)

Equity-type instruments other than those designated at FVTIS are classified as at fair value through equity. This category includes investment in unquoted equity securities.

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For investments carried at FVTIS transaction costs are expensed in the consolidated income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity.

When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the consolidated income statement.

Investments carried at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or where there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

Subsequent to initial recognition, debt-type investments other than those carried at FVTIS are measured at amortised cost using the effective profit method less any impairment allowances.

iv) Measurement principles

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financing receivables

Financing receivables comprise shari'ah compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha contracts. Financing assets are recognised on the date at which they are originated and are carried at their amortised cost.

d) Placements with financial institutions

These comprise inter-bank placements made using Shari'ah compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

e) Due to financial institutions

These comprise funds payable to financial institutions received using Shari'ah compliant contracts. Due to financial institutions are stated at their amortised cost.

f) Due to customers

These comprise funds payable to corporate customers received using Shari'ah compliant contracts. Due to customers are stated at their amortised cost.

g) Impairment of assets

The Group assesses at each reporting date whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that the loss event(s) have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial assets carried at amortised cost

For financial assets carried at amortised cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

Investments carried at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. If any such evidence exists for FVTE investments, the unrealised re-measurement loss shall be transferred from equity to the consolidated income statement.

The cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Impairment of assets (continued)

Non-financial assets

The carrying amount of the Group's assets or its cash generating unit, other than financial assets carried at amortised cost and investments carried at FVTE, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of expected return and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

h) Investment property

Investment property is an investment that earns rental income and/or is expected to benefit from capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the period in which they arise.

Investment properties are derecognised when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

i) Equipment

Equipment includes computers, office equipment, fixtures and fittings. Equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 1 to 8 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

j) Assets held-for-sale and discounted operations

i) Classification

The Group classifies non-current assets or disposal groups as held-for-sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and investment property carried at fair value, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in the consolidated income statement. Gains are not recognised in excess of any cumulative impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Assets held-for-sale and discounted operations (continued)

ii) Measurement

Non-current assets or disposal groups classified as held for sale, other than financial instruments, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held-for-sale' continue to be measured in accordance with their stated accounting policies. On classification of equity-accounted investee as held-for-sale, equity accounting is ceased at the time of such classification as held-for-sale.

iii) Discounted operations

A discontinued operation is a component of the Group's business, the operations and cashflows of which can be clearly distinguished from the rest of the Group and which:

– represents a separate major line of business or geographical area of operations;
– is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
– is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

k) Restricted investment accounts

Restricted investment accounts represent funds received by the Group from third parties for investment in specified products as directed by the investment account holders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Restricted investments are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and holders of restricted investment accounts.

l) Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the Group and the amount of the revenue can be reliably measured. Revenue earned by the Group and gain/loss on assets are recognised on the following basis:

Dividend income is recognised when the Group's right to receive the payment is established.

Gain/(loss) on sale of investment securities (realised gain/(loss)) is recognised on trade date at the time of decongestion of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration receive or receivable.

Fair value gain/(loss) on investment securities (unrealised gain or loss) is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 3g).

Sukuk Income comprises the coupon profit on Sukuk and realised gain or loss on the sale of Sukuk. The coupon profit is recognised through the effective profit rate in accordance with the accounting policy for debt-type instrument carried at amortised costs (refer to 3bi). Realised gain or loss on sale of Sukuk is recognised on trade date at the time of de-recognition of the Sukuk. The gain or loss is the difference between the carrying value on the trade date and the fair value of consideration received or receivable.

Fees and Commission represents advisory fees, arrangement fees, management fees and brokerage fees. Fees and Commission is recognised at the fair value of consideration received or receivable and when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms for each transaction.

Finance income and expense

Finance income and expense is recognised on a time apportioned basis over the period of the shari'ah complaint contracts based on effective profit rate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Post-employment benefits

Pensions and other social benefits for local employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Group are recognised as an expense in the consolidated income statement when they are due. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Certain employees on fixed contracts are also entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

n) Earnings prohibited by Shari'ah

The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Bank uses these funds for charitable purposes.

o) Zakah

The Bank is not obliged to pay Zakah on behalf of its shareholders. However, the Bank is required to calculate and notify individual shareholders of their pro-rata share of the Zakah payable amount.

p) Provision for Zakah

Provision for Zakah represents Zakah from operation in Kingdom of Saudi Arabia and computed in accordance with Saudi Arabia Zakah regulations.

q) Offsetting of financial instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets include cash and balances with banks, placements with financial institutions, financing receivables, investment securities and other assets. Financial liabilities include due to financial institutions, due to customers, other liabilities and financial guarantees.

Financial assets and financial liabilities are only offset and the net amounts reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle these on a net basis, or intends to realise the asset and settle the liability simultaneously.

r) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

t) Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is probable. Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefits is probable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

v) Leases

Payments under operating lease are recognised in the consolidated income statement on a straight line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

w) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

x) Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

y) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and placements with financial institutions with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments..

z) Critical accounting estimates and judgements

The Group makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Judgements

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's judgement in relation to its strategy for each investment and is subject to different accounting treatments based on such classification [note 3 (b)].

(ii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control.

In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Critical accounting estimates and judgements (continued)

Estimations

(i) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility for discount rates.

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

- For investment that is actively traded in an active and liquid market, fair value is determined by reference to the quoted market price prevailing on the reporting date;
- For investment in unquoted equity securities, the Bank establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis; and
- Investments in funds or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.

The impact on fair value of financial instruments measured at fair value for changes in key assumptions is given in note 19.

(ii) Impairment of financing receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying assets/ collaterals. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department. All individually significant financing receivables are tested for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financing receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financing receivables measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective profit rate. Losses are recognised in profit or loss and reflected in an allowance account against financing receivable.

Profit on the impaired asset does not continue to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated income statement.

(iii) Fair value of investment property

The Group conducts valuation of its investment property periodically using external independent valuers. The fair value is determined based on the market value of the property through the comparable method, analysing the land rates in the vicinity for similar assumed zoning regulations. The Group's investment property is situated in Bahrain. Given the dislocation in the local property market and infrequent property transactions it is reasonably possible, based on existing knowledge, that the current determination of fair value could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

(iv) Impairment of cash generating units

Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy 3 (g). For equity-accounted investees with indicators of impairment, the recoverable amounts have been determined based on higher of fair value less costs to sell or value in use.

(Amounts in US$ thousands)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Critical accounting estimates and judgements (continued)

(iv) Impairment of cash generating units (continued)

Value in use for the equity-accounted investees was determined by discounting the future cash flows expected to be generated from continuing operations, comparison to similar instruments for which market observable prices exist and other valuation models.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. Fair value less costs to sell of certain cash generating units is based on indicative offer prices received by the Group.

Key assumptions used in the calculation of value in use were the following: cash flows were projected based on 3-5 year business plans, after ensuring consistency with historical operating results and forecasted economic growth rates for mature companies. Terminal growth rates were determined based on the IMF's forecast GDP growth rate in 5 years' time. The forecast period is based on the Group's long term perspective with respect to the operations of these CGU's.

Discount rates were based on a Capital Asset Pricing Model (CAPM) formula, with the risk-free rate obtained from the yield on 10-year bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally, as well as liquidity and control factors. The key assumptions described above may change as economic and market conditions change.

4. CASH AND BALANCES WITH BANKS

	31 December 2012	31 December 2011
Cash on hand	**19**	20
Balances with banks	**7,966**	11,061
	7,985	11,081

5. FINANCING RECEIVABLES

	31 December 2012	31 December 2011
Gross Murabaha receivables	**87,735**	97,695
Less: Deferred profits	**(862)**	(1,857)
Less: Collective impairment allowances	**(250)**	-
	86,623	95,838

Financing receivables comprise due from customers under Murabaha financing contracts. The average profit on these balances during the year was 7.6% per annum (2011: 6.6% per annum).

(Amounts in US$ thousands)

6. INVESTMENT SECURITIES

	31 December 2012	31 December 2011
Equity type instruments:		
Fair value through income statement:		
- Quoted equity securities	**23,691**	38,896
- Unquoted equity securities*	**32,771**	32,994
- Unquoted funds*	**28,397**	27,150
- Quoted funds	**1,983**	1,495
	86,842	100,535
At fair value through equity:		
- Unquoted equity securities **	**-**	6,452
Total equity type investments	**86,842**	106,987
Debt type instruments:		
At amortised cost:		
- Sukuk	**26,063**	23,396
	112,905	130,383

* Unquoted equity securities and unquoted funds carried at fair value through income statement primarily comprise assets managed by the Group. These investments are carried at fair value determined based on valuation techniques. During the year, the Group recognised a net fair value gain of US$1.4 million (31 December 2011: fair value gain of US$0.6 million) on these investments.

** Unquoted equity securities at fair value through equity comprise investment in private equity managed by external investment manager. The investment is carried at cost less impairment allowances in the absence of a reliable measure of fair value. During the year, the Group recognised an impairment loss of US$1.7 million (31 December 2011: US$2.8 million) on this investment.

The Group intends to exit this investment principally by means of private placements, strategic buy outs, sale of underlying assets or through initial public offerings.

Movement on Investments carried at fair value through income statement as follows:

	At 1 January 2012	Additions during the year	Disposals during the year	Foreign exchange changes	Fair value changes	At 31 December 2012
Investment in associates	97,201	-	(163)	-	(13,729)	**83,309**
Quoted funds	1,495	-	(8)	153	343	**1,983**
Equity investments (< than 20% stake)	1,839	-	(289)	-	-	**1,550**
	100,535	-	(460)	153	(13,386)	**86,842**

Movement on Investments carried at fair value through equity as follows:

	At 1 January 2012	Additions during the year	Disposals during the year	Foreign exchange changes	Fair value changes	Impairment	At 31 December 2012
Equity investments (< than 20% stake)	6,452	-	(5,000)	-	198	(1,650)	**-**
	6,452	-	(5,000)	-	198	(1,650)	**-**

(Amounts in US$ thousands)

7. ASSETS HELD-FOR-SALE

Assets held-for-sale represents investment in Burj Bank Limited, an equity-accounted investee, for which the Group has active plan to sell in the foreseeable future (refer note 8). During the year the Group has reclassified its stake in Burj Bank Limited as held-for-sale pursuant to the sale agreement entered into by the Bank with a prospective buyer.

8. EQUITY-ACCOUNTED INVESTEES

	31 December 2012	31 December 2011
BFC Group Holdings Ltd.	**93,205**	89,102
t'azur Company B.S.C. (c)	**12,801**	9,515
Burj Bank Limited	**16,372**	18,895
	122,378	117,512
Less: reclassified to assets held-for-sale (note 7)	**(16,372)**	(2,560)
	106,006	114,952

The Bank has 43.36% stake (2011: 44.88%) in BFC Group Holdings Ltd. ("BFC"), a company incorporated in the United Arab Emirates. BFC is a holding company of group money changers in different jurisdictions. BFC is engaged in buying and selling foreign currencies and traveller's cheques, handling of remittance business and provision of other exchange house services in both local and foreign currencies.

The Bank has 25.86% stake (2011: 25.86%) in t'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain. The equity-accounted investee has a commitment to provide a qard hassan loan to the extent of the accumulated deficit in the participants' fund of US$25.9 million at 31 December 2012 (2011: US$21.2 million). The Group's share of the commitment is US$ 6.7 million (2011: US$5.5 million)

The Bank has 36.9% stake (2011: 36.9%) in Burj Bank Limited, an unlisted Islamic commercial bank in Pakistan. The Bank has an active plan to sell all its stake in the investment and accordingly, this has been classified as assets held-for-sale (refer to note 7).

The movement on equity-accounted investees is as follows:

	2012	2011
At 1 January	**114,952**	104,745
Acquisitions during the year	**-**	7,393
Share of profits of equity-accounted investees	**10,575**	6,444
Share of reserves of equity-accounted investees	**103**	(1,070)
Transferred to assets held-for-sale (note 7)	**(16,372)**	(2,560)
Dividends received	**(3,252)**	-
At 31 December	**106,006**	114,952

(Amounts in US$ thousands)

8. EQUITY-ACCOUNTED INVESTEES (continued)

Summarised financial information of associates that have been equity accounted not adjusted for the percentage ownership held by the Group (based on most recent audited financial statements/most recent management accounts):

	2012	2011
Assets	324,670	614,865
Liabilities	(79,164)	(310,865)
Revenue	66,853	63,485
Profit for the year	19,428	12,600

9. INVESTMENT PROPERTY

Investment property comprises a plot of vacant land in the Kingdom of Bahrain. The fair value of this investment property as at 31 December 2012 has been determined by accredited independent valuers using comparable recent market transactions on arm's length terms. The investment property is mortgaged to a financial institution as security for a financing facility (refer note 11).

10. OTHER ASSETS

	31 December 2012	31 December 2011
Advance for purchase of investments	**7,145**	14,163
Fees and expenses recoverable	**4,314**	6,293
Prepayments and advances	**1,353**	1,662
Receivable from sale of investment securities	**11,900**	19,904
Others	**5,044**	5,298
	29,756	47,320
Less: Provision for impairment		
Fee and expenses recoverable	**-**	(5,000)
Others	**(3,768)**	(3,768)
	25,988	38,552

11. DUE TO FINANCIAL INSTITUTIONS

	31 December 2012	31 December 2011
Placements from financial institutions	**138,011**	143,178
Bank financing	**15,110**	-
	153,121	143,178

Bank financing represents financing for one year obtained from a financial institution during the year secured by a mortgage over the Group's investment property and carries a profit rate of 5.5% per annum. The facility was repaid on 14 February 2013 (refer note 9).

The average profit rate on placements from financial institutions was 3.81% per annum (2011: 3.99% per annum).

(Amounts in US$ thousands)

12. DUE TO CUSTOMERS

This includes deposits from corporate customers on Wakala basis mainly raised by Alkhair International Bank Berhad with maturities ranging from 3 months to 1 year (2011: 1 month to 1 year) and carries an average profit rate of 2.74% per annum (2011: 3.12% per annum).

13. OTHER LIABILITIES

	31 December 2012	31 December 2011
Provision for legal and professional expenses	**6,800**	-
Accruals and other provisions	**1,564**	1,120
Restructuring provision	**419**	2,105
Deal-related payables	**4,740**	4,919
Staff-related payables	**2,240**	2,710
Trade and other payables	**9,215**	5,351
	24,978	16,205

14. SHARE CAPITAL

	31 December 2012	31 December 2011
Authorised:		
750,000,000 (2011: 750,000,000) ordinary shares of US$1 each	**750,000**	750,000
Issued and fully paid up:		
186,070,234 (2011: 186,070,234) ordinary shares of US$1 each, issued against cash	**186,070**	186,070
20,371,807 (2011: 20,371,807) ordinary shares of US$1 each, issued in kind	**20,372**	20,372
1,419,873 (2011: 1,419,873) ordinary shares of US$1 each, granted to employees	**1,420**	1,420
As at 31 December 2012	**207,862**	207,862

15. INCOME FROM INVESTMENT SECURITIES

	2012	2011
Dividend income	**28**	21
Fair value (loss)/gain on investment securities carried at FVTIS	**(13,386)**	591
Gain on sale of investment securities carried at FVTE	**1,011**	4,838
Gain on sale of investment securities carried at FVTIS	**282**	273
Sukuk Income		
- Sukuk profit	**1,307**	914
- Gain on sale of Sukuk	**82**	1,628
	(10,676)	8,265

(Amounts in US$ thousands)

16. FEES AND COMMISSION

	2012	2011
Advisory fees	**75**	3,988
Arrangement fees	**1,135**	1,944
Management fees	**2,170**	2,783
Brokerage fees	**374**	-
	3,754	8,715

17. PROVISION FOR ZAKAH

Provision for Zakah represents the Zakah from operations of Alkhair Capital Saudi Arabia, calculated in accordance with the Zakah Regulations of the Kingdom of Saudi Arabia.

18. REVERSAL OF IMPAIRMENT/(CHARGE)

	2012	2011
Impairment allowance on:		
Investments carried at fair value through equity	**(1,650)**	(2,837)
Financing receivables	**(250)**	-
Equipment	**(2,000)**	-
Reversal of impairment allowance on:		
Financing receivables	**-**	1,511
Other assets	**5,000**	5,336
	1,100	4,010

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value of quoted securities are derived from quoted market prices in active markets, if available. In case of unquoted securities, the fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The fair values of unquoted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor, the market value of a comparable company or other proprietary valuation models.

(Amounts in US$ thousands)

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair values of other financial instruments on the consolidated statement of financial position are not significantly different from the carrying values included in the consolidated financial statements.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1	quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2	other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3	techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment carried at fair value through income statement	23,691	30,380	32,771	86,842
Investment carried at fair value through equity	-	-	-	-
	23,691	**30,380**	**32,771**	**86,842**

31 December 2011	Level 1	Level 2	Level 3	Total
Investment carried at fair value through income statement	39,119	28,645	32,771	100,535
Investment carried at fair value through equity	-	5,000	-	5,000
	39,119	33,645	32,771	105,535

Movements in level 3 financial instruments

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

	At 1 January 2012	**Total losses recorded in consolidated income statement**	**Total gains recorded in equity**	**Purchases**	**Sales / transfers**	**At 31 December 2012**
Investments carried at fair value through:						
- income statement	32,771	-	-	-	-	32,771
- equity	-	-	-	-	-	-
	32,771	**-**	**-**	**-**	**-**	**32,771**

	At 1 January 2011	Total gains recorded in consolidated income statement	Total gains recorded in equity	Purchases	Sales / transfers	At 31 December 2011
Investments carried at fair value through:						
- income statement	34,326	2,702	-	300	(4,557)	32,771
- equity	-	-	-	-	-	-
	34,326	2,702	-	300	(4,557)	32,771

(Amounts in US$ thousands)

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Group has not recognised any gains or losses on level 3 financial instruments during the year (2011: US$2.7 million unrealised gains).

Transfers between level 1, level 2 and level 3
There were no transfers between the levels during the year ended 31 December 2012.

The following table shows the impact on fair value of level 3 financial instruments using reasonably possible alternative assumptions.

For investment securities the Bank adjusted the discount rate ± 1% and carrying values ± 5% where appropriate, which is considered by the Bank to be within a range of reasonably possible alternatives.

	Carrying amount	Effects of reasonably possible alternative assumptions on carrying amount
31 December 2012		
Investment carried at fair value through income statement	**32,771**	**1,639**
31 December 2011		
Investment carried at fair value through income statement	32,771	1,639

20. ASSETS UNDER MANAGEMENT

	31 December 2012	31 December 2011
Proprietary	**61,168**	59,924
Clients	**169,946**	164,390
	231,114	224,314

Proprietary assets are included in the consolidated statement of financial position under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position.

21. COMMITMENTS AND CONTINGENCIES

	31 December 2012	31 December 2011
Lease commitments	**2,882**	4,698
Guarantees	**3,315**	3,292
	6,197	7,990

(Amounts in US$ thousands)

21. COMMITMENTS AND CONTINGENCIES (continued)

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. 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 Group's share of commitments arising from its equity-accounted investees is given in note 8.

22. 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 year is as follows:

	2012	2011
Short-term employee benefits	**3,153**	4,709
Post-employment benefits	**548**	264
	3,701	4,973

(Amounts in US$ thousands)

22. RELATED PARTY TRANSACTIONS (continued)

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

	2012				2011			
	Associates	Significant shareholders/ entities in which directors have interests	Senior management	Other entities	Associates	Significant shareholders/ entities in which directors have interests	Senior management	Other entities
Assets								
Financing receivables	**6,556**	**-**	**-**	**7,108**	6,548	-	-	6,006
Investment securities	**83,309**	**-**	**-**	**11,181**	97,201	-	-	9,557
Assets held-for-sale	**18,932**	**-**	**-**	**-**	2,560	-	-	-
Equity-accounted investees	**106,006**	**-**	**-**	**-**	114,952	-	-	-
Other assets	**2,536**	**-**	**90**	**842**	1,290	-	706	819
Liabilities								
Due to financial institutions	**26,191**	**-**	**-**	**-**	25,378	-	-	-
Due to customers	**-**	**-**	**-**	**660**	5,943	-	-	2,615
Other liabilities	**152**	**1,284**	**548**	**66**	-	825	792	66

	2012				2011			
	Associates	Significant shareholders/ entities in which directors have interests	Senior management	Other entities	Associates	Significant shareholders/ entities in which directors have interests	Senior management	Other entities
Income/(expenses)								
Income from investment securities	**(13,729)**	**-**	**-**	**1,199**	121	-	-	(201)
Fees and commission	**2,067**	**-**	**-**	**1,228**	2,595	-	-	444
Net finance income/(expense)	**(663)**	**-**	**-**	**577**	(1,018)	-	-	(282)
Share of profit of equity-accounted investees	**10,575**	**-**	**-**	**-**	6,444	-	-	-
Other income	**-**	**-**	**-**	**-**	-	1,469	-	914
Reversals of impairment	**-**	**-**	**-**	**-**	4,037	-	-	-
Directors' and Shari'ah board remuneration and expenses	**-**	**(818)**	**-**	**(52)**	-	(716)	-	(220)

23. RISK MANAGEMENT

Risk is an inherent part of the Group's business activities. The Group's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Group's activities. Risks are managed by a process of identification, measurement and monitoring, and are subject to risk limits and other controls. The process of risk management is critical to the Group's operations and each business unit within the Group is accountable for the risk exposures relating to their responsibilities. The Group's main risk exposure categories are Investment and Credit risk, Market risk, Liquidity risk and Operational risks.

23. RISK MANAGEMENT (continued)

- Risk identification: The Group's exposure to risk through its business activities, including investment in Private Equity, Brokerage, and Capital Markets, is identified through the Group's risk management infrastructure.
- Risk measurement: The Group measures risk using basic risk management position methodologies which reflect the Group's investment risks, foreign exchange and profit rate exposure risks. The Bank relies on both quantitative and qualitative approaches in quantifying risks.
- Risk monitoring: The Group's risk management policies and procedures incorporate respective limits and the Group's activities are regularly reviewed. The Bank has also reviewed and strengthened its corporate governance arrangements.
- Risk reporting: The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. In line with the board-approved risk framework. The Bank has risk governance arrangements to oversee risk management and transaction approval and key governance committees include; the Group Asset and Liability Committee ("ALCO") which oversees liquidity, cash flow planning and general asset liability management, the Group Risk Executive Committee ("REXCO") which oversees risk management across the group including review and approval of risk limits, credit facilities and key risk processes and the Investment and Post Investment Management Committee ("IPIMC") which is responsible for review and approval of new investments, funding requirements, divestments and general investment processes.

Group Risk Framework and Governance

The Board of Directors is ultimately accountable for the risk management of the Group. The Board has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework. The Group Risk Framework establishes Group risk management standards, risk processes, structures, and defines the Bank's risk philosophy.

Board of Directors

The Board of Directors is responsible for defining the Group's risk appetite within which it manages its risk exposures and reviews the Group's compliance with delegated risk authorities.

Audit Committee

The Audit Committee is appointed by the Board of Directors and consists of four non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and oversight of the Internal Audit function.

Shari'ah Supervisory Board

The Group's Shari'ah Supervisory Board is vested with the responsibility of ensuring that the Group complies with the Shari'ah rules and principles in its transactions, activities and general philosophy.

Group Risk Executive Committee

Group Risk Executive Committee REXCO has the overall responsibility for ensuring that the Group develops appropriate risk policies and strategies for the relevant business activities, and makes preparations for forthcoming regulatory arrangements in line with Basel Committee recommendations. It oversees the risk management activities of the Group, reviews and approves risk management principles, frameworks, policies, limits, processes and procedures. It is responsible for assessing fundamental risk issues within the general development strategy of the Group.

Internal Audit and Independent Review

All key operational, financial and risk management processes are audited by Internal Audit according to risk based auditing standards. Internal Audit examines the adequacy of the relevant policies and procedures and the Group's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with management and reports its findings and recommendations to the Audit Committee. The Internal Audit recommendations are tracked for resolution via the Committee.

23. RISK MANAGEMENT (continued)

Group Asset and Liability Committee (ALCO)

The Group Asset and Liability Committee establishes the funding, liquidity and market risk policies for the Group. It is composed of the heads of key business areas and finance, risk, operations and control areas. ALCO's objectives are to manage the assets and liabilities of the Group, determine the statement of financial position mix and appropriate risk and return profile. It oversees all treasury and capital markets activities and all areas affected by liquidity and market risk. Cash flow management is a major focus of ALCO and ALCO regularly reviews the business line investment plans to ensure that sufficient funding is in place. ALCO ensures that the appropriate mix of short and long term funding strategies are developed in conjunction with the Group's treasury and capital markets functions.

Risk Management

The Risk Management function is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. With the establishment of the Board Risk Committee, the Chief Risk Officer now reports functionally to the Board Risk Committee and administratively to the Chief Executive Officer. Risk Management conducts risk assessments of individual transactions (including their respective credit, investment, counterparty and operational risks), products and services. Risk Management is responsible for ensuring that the Group's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk. In addition to the above the Risk Function also supports investment processes throughout the investment cycle including periodic valuation and reporting.

Treasury Activities

Treasury is responsible for managing the Group's day to day funding, liquidity management, foreign exchange and profit rate exposures, under the review of Risk Management and the supervision of ALCO.

Investment Monitoring and Reporting

Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective departments. This is supported by Risk Management which undertakes an independent risk assessment of every investment transaction. Post-acquisition investment management is rigorously exercised, mainly via board representation within the investee company, during the life of the investment transaction.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

The information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Bank's management of capital is explained in notes 24 to 27 and 34.

24. CREDIT RISK

Credit Risk Policy Framework

The Bank has a Group Credit Risk Policy framework establishing Group credit risk appetite, credit risk origination, underwriting and administration standards. The credit policy articulates key credit markets, minimum criteria for the granting of credit, minimum requirements on collateral and defines roles and responsibilities for credit risk management. The policy provides a guideline to business units when originating credit business.

In order to strengthen the Bank's credit risk management processes through a rigorous and consistent analysis of credit worthiness, the Bank introduced Internal Credit Rating Models covering corporate entities, banking counterparties and real estate exposures. The ratings coming out of the rating models are used together with other supporting information on the obligor's creditworthiness when making credit decisions.

(Amounts in US$ thousands)

24. CREDIT RISK (continued)

Credit Risk Management

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. Institutional Banking has established a credit analysis unit which conducts credit assessments for its interbank placement activities and other client groups in close cooperation with Risk Management and proposes limits for review and approval by REXCO. Further, Risk Management independently analyses the applications and rates the respective counterparties. Based on this an independent recommendation is forwarded to the 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 consolidated statement of financial position. There is no significant use of master netting and collateral agreements.

	Maximum exposure 2012	Maximum exposure 2011
On balance sheet		
Balances with banks	**7,966**	11,061
Placements with financial institutions	**63,733**	66,477
Financing receivables	**86,623**	95,838
Investment securities – Sukuk	**26,063**	23,396
Other assets	**23,359**	35,477
Off balance sheet		
Guarantees	**3,315**	3,292
	211,059	235,541

Risk Exposure Concentration

Risk concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits.

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2012 was US$30.8 million (2011: US$39.2 million), relating to "placement with financial institution and financing receivables".

(Amounts in US$ thousands)

24. CREDIT RISK (continued)

Geographical Exposure Distribution

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

	Total assets	Off-balance sheet	Total 2012	Total 2011
Region				
Bahrain	22,761	-	**22,761**	24,808
Other Middle East	109,237	-	**109,237**	111,672
North America	1,145	3,000	**4,145**	16,530
Asia Pacific	69,206	-	**69,206**	75,384
Europe	5,395	315	**5,710**	7,147
Total	207,744	3,315	**211,059**	235,541

Industry Sector Exposure

The distribution of assets and off-statement of financial position items by industry sector is as follows:

	Assets	Off-balance sheet	Total 2012	Total 2011
Industry Sector				
Banking and finance	94,947	315	**95,262**	108,505
Industrial	13,706	-	**13,706**	17,624
Real estate and construction	43,384	-	**43,384**	43,898
Technology	3,512	3,000	**6,512**	6,090
In-house funds	2,381	-	**2,381**	263
Trade	41,670	-	**41,670**	48,284
Government	6,775	-	**6,775**	2,732
Individual	1,369	-	**1,369**	8,145
Total	207,744	3,315	**211,059**	235,541

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.

(Amounts in US$ thousands)

24. CREDIT RISK (continued)

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 31 December 2012. Following is an analysis of credit quality by class of financial assets:

	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

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.

	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:

	2012			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	11,971	1,224	119	13,314

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

(Amounts in US$ thousands)

25. 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.

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 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**

	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**
31 December 2012				
Commitments	**-**	**1,676**	**1,206**	**2,882**
Guarantees	**3,315**	**-**	**-**	**3,315**
Total	**3,315**	**1,676**	**1,206**	**6,197**

(Amounts in US$ thousands)

25. LIQUIDITY RISK MANAGEMENT (continued)

	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

26. 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, 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.

	2012			2011		
	Balance	**Change in profit rate (+/-)**	**Effect on net profit (+/-)**	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	**63,733**	**200**	**1,246**	66,477	200	1,301
Financing receivables	**86,623**	**200**	**1,523**	95,838	200	1,556
Investment securities - Sukuk	**26,063**	**200**	**19**	23,396	200	14
Liabilities						
Due to financial institutions	**153,121**	**200**	**(2,609)**	143,178	200	(2,312)
Due to customers	**68,176**	**200**	**(1,135)**	88,483	200	(1,483)
Total			**(956)**			(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.

(Amounts in US$ thousands)

26. MARKET RISK MANAGEMENT (continued)

Currency risk (continued)

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.

	2012			2011		
	Exposure (USD equivalent)	**Effect on net profit (+/-)**	**Effect on equity (+/-)**	Exposure (USD equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Currency						
Kuwaiti Dinar	**(12,160)**	**(2,432)**	**-**	(12,275)	(2,455)	-
Turkish Lira	**7,074**	**322**	**1,093**	8,370	243	1,431
Malaysian Ringgit	**42**	**8**	**-**	2,588	518	-
Euro	**141**	**28**	**-**	(12)	(2)	-
Jordanian Dinar	**23,732**	**4,746**	**-**	38,868	7,774	-
Sterling Pounds	**157**	**31**	**-**	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. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

Quoted securities – Investment securities carried at fair value through income statement:

The Group's listed equity investment is listed on Amman Stock Exchange. This investments classified as investment carried at fair value through income statement, a 2 percent increase/decrease in Aman Stock Exchange Index at the end of the year would have increased/decrease the profit for the year by US$9.4 million (2011: an increase/decrease of US$15.8 million).

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 at 31 December 2012 due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$9.2 million (2011: US$9 million). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

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.

27. 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.

(Amounts in US$ thousands)

28. 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.

	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**	

	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
Placements 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
Equity-accounted investees	-	-	-	-	-	-	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
Liaiblities								
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	

29. SEGMENT INFORMATION

Operating segments are reported in accordance with internal reporting provided to Executive Management (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under FAS 22.

During the year, the Group has changed its reportable segments as a result of the recent restructuring of its business and in-line with the current internal reporting to the Chief Operating decision-maker for segment measurement and monitoring. Currently, the Group is organised into business units based on their nature of operations and services and has three reportable operating segments which are as follows:

Investment Banking & Alkhair Capital Menkul Değerler A.Ş.

The Group's Investment banking business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. This segment focuses on stable companies, historically revenue-generating with positive profitability, requiring growth capital or partial exits. The segment focuses on specific sectors and geographies, whilst avoiding start-ups, venture capital, and greenfield investments. The segment targets businesses in the oil & gas services; industrial services; building materials; logistics; and agri-business; specifically in the MENA region including Turkey.

Alkhair Capital Menkul Değerler A.Ş. originates Shari'ah compliant PE transactions, especially proprietary deals from direct contacts with a wide range of local sources. The Turkey office also provides a post-investment management services post management until successful exit, advisory for an IPO or trade sale to co-investors.

The business manages the Bank's Global Private Equity Fund. It also sources and manages investments on behalf of the Bank's Strategic Acquisition Fund.

Alkhair International Islamic Bank Berhad

Alkhair International Islamic Bank Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group.

Alkhair Capital Saudi Arabia

Alkhair Capital Saudi Arabia was incorporated in March 2009 and registered with Capital Markets Authority. Its principal activities are Asset Management, Corporate Finance & Investment banking and Brokerage.

Information regarding the results of each reportable segment is included below. Inter-segment pricing is determined on an arm's length basis. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

(Amounts in US Dollars Thousands)

29. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2012				
	Investment Banking & Alkhair Capital Menkul Değerler A.Ş.	**Alkhair International Islamic Bank Berhad**	**Alkhair Capital Saudi Arabia**	**Inter-company**	**Total**
External revenue					
Net finance expense	**(2,457)**	**3,385**	**-**	**-**	**928**
Income from investment securities	**(11,707)**	**1,031**	**-**	**-**	**(10,676)**
Fees and commission	**2,229**	**1,145**	**380**	**-**	**3,754**
Share of profit of equity-accounted investees	**10,575**	**-**	**-**	**-**	**10,575**
Other income	**685**	**24**	**-**	**-**	**709**
Inter-segment income	**(3,267)**	**317**	**2,950**	**-**	**-**
Total income	**(3,942)**	**5,902**	**3,330**	**-**	**5,290**
Total operating expenses	**(32,483)**	**(4,479)**	**(7,536)**	**-**	**(44,498)**
Reversal of impairment	**1,350**	**(250)**	**-**	**-**	**1,100**
Income from assets held for sale and discontinued operations	**64**	**-**	**-**	**-**	**64**
Provision for tax	**-**	**-**	**(1,719)**	**-**	**(1,719)**
(Loss)/profit for the year	**(35,011)**	**1,173**	**(5,925)**	**-**	**(39,763)**
Equity-accounted investees	**106,006**	**-**	**-**	**-**	**106,006**
Capital expenditure	**255**	**-**	**20**	**-**	**275**
Segment assets	**272,538**	**185,567**	**70,099**	**(86,049)**	**442,155**
Segment liabilities	**167,888**	**156,990**	**7,446**	**(86,049)**	**246,275**

	For the year ended 31 December 2011				
	Investment Banking & Alkhair Capital Menkul Değerler A.Ş.	Alkhair International Islamic Bank Berhad	Alkhair Capital Saudi Arabia	Inter-company	Total
External revenue					
Net finance expense	(2,401)	2,805	-	65	469
Income from investment securities	7,112	1,153	-	-	8,265
Fees and commission	8,564	216	-	(65)	8,715
Share of profit of equity-accounted investees	6,444	-	-	-	6,444
Other income	2,226	(35)	-	-	2,191
Inter-segment income	(2,921)	-	2,921	-	-
Total income	19,024	4,139	2,921	-	26,084
Total operating expenses	(31,386)	(3,317)	(6,919)	-	(41,622)
Reversal of impairment	4,010	-	-	-	4,010
Income from assets held for sale and discontinued operations	14,497	-	-	-	14,497
Provision for tax	-	-	(1,800)	-	(1,800)
Profit/(loss) for the year	6,145	822	(5,798)	-	1,169
Equity-accounted investees	114,952	-	-	-	114,952
Capital expenditure	86	5	(25)	-	66
Segment assets	308,054	190,577	73,589	(89,188)	483,032
Segment liabilities	169,347	162,372	5,011	(88,864)	247,866

The comparative segment reporting for the previous year has been restated and disclosed based on the current reportable segments.

(Amounts in US$ thousands)

29. SEGMENT INFORMATION (continued)

Geographic segment information:

The Group operates in five geographic markets: Bahrain, Other Middle East, North America, Asia Pacific and Europe. The following tables show the distribution of the Group's total income and non-current assets by geographical segments.

31 December 2012	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total income	**1,877**	**(2,091)**	**-**	**4,229**	**1,275**	**5,290**
Net loss	**(25,801)**	**(11,346)**	**(237)**	**(500)**	**(1,879)**	**(39,763)**
Non-current assets*	**18,934**	**377**	**-**	**365**	**307**	**19,983**

31 December 2011	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total income	2,288	14,086	1,976	3,031	4,703	26,084
Net income/(loss)	(20,635)	5,345	15,388	(602)	1,673	1,169
Non-current assets*	22,112	457	-	556	64	23,189

* includes equipment and investment property

30. SHARI'AH SUPERVISORY BOARD

The Bank's Shari'ah Supervisory Board consists of six Islamic scholars who review that the Bank is compliant with general Shari'ah principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Bank to ensure that its activities are conducted in accordance with Islamic Shari'ah principles.

31. 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.

32. SOCIAL RESPONSIBILITIES

The Group discharges its social responsibilities through donations to good faith charity funds.

33. ZAKAH

The Bank is not obliged to pay Zakah. Payment of Zakah is the responsibility of the shareholders of the Bank. Zakah payable by shareholders on their holdings in the Bank is calculated on the basis of a method prescribed by the Bank's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of the year ended 31 December 2012 was US$0.0283 cents per share (2011: US$0.022 cents per share).

34. CAPITAL MANAGEMENT

The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. CBB capital adequacy regulations are based on the principles of Basel II and IFSB capital adequacy guidelines.

The Bank's regulatory capital is analysed into two tiers:
- *Tier 1 capital*, includes ordinary share capital, disclosed reserves including share premium, general reserves, legal/statutory reserve as well as retained earnings after deductions for goodwill and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- *Tier 2 capital*, includes interim retained profits reviewed by the auditors and an allowed portion profit equalisation reserve (PER) and investment risk reserves (IRR). As per CBB, the PER & IRR can be up to a maximum amount equal to the capital charge pertaining to 30% of the risk weighted assets financed by unrestricted investment accounts.

Certain limits are applied to elements of the capital base in line with regulatory requirements. Tier 1 capital should represent at least half of the total eligible capital, i.e., Tier 2 capital is limited to 100% of Tier 1 capital. The limit on Tier 2 capital is based on the amount of Tier 1 capital after all deductions of investments pursuant to Prudential Consolidation and Deduction Requirements (PCD) Module of the CBB. The PCD Module sets out the regulatory rules for prudential consolidation, pro-rata consolidation or deduction where the own controlling or significant minority stakes in regulated financial entities, insurance entities and have significant exposures to investment in commercial entities. It also sets out the framework for the prudential deductions from capital for various instances including exposures to counterparties exceeding the large exposure limits as set out by CBB.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains adequate capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new capital. No changes were made in the objectives, policies and processes from the previous years.

The Group has adopted the standardised approach for credit risk and market risk and basic indicator approach for operational risk regulatory capital computation purposes under the CBB capital adequacy framework. The Group does not have Basel II permissible credit risk mitigates against any of its credit exposures.

(Amounts in US$ thousands)

34. CAPITAL MANAGEMENT (continued)

The Group's capital adequacy ratio, calculated in accordance with the capital adequacy rules determined by the Central Bank of Bahrain, is as follows:

	2012	2011
Regulatory capital base:		
Tier 1 capital	**91,515**	122,960
Tier 2 capital	**-**	-
Total regulatory capital	**91,515**	122,960
Risk-weighted assets	**405,597**	568,630
Tier 1 capital adequacy ratio	**22.56%**	21.62%
Total capital adequacy ratio	**22.56%**	21.62%

The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board.

35. COMPARATIVES

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