BANK ALKHAIR

بسم الله الرحمن الرحيم

Contents

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

His Royal Highness
Prince Khalifa bin Salman
Al Khalifa

The Prime Minister of
The Kingdom of Bahrain

His Majesty King
Hamad bin Isa
Al Khalifa

The King of
the Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa

The Crown Prince, Deputy
Supreme Commander and First
Deputy Prime Minister

Established in 2004 in the Kingdom of Bahrain, Bank Alkhair is a wholesale Islamic bank with an international presence in Saudi Arabia, Malaysia and Turkey. The Bank's primary focus is to provide clients with access to innovative alternative investment opportunities in the MENA region. Bank Alkhair offers a select range of investment banking-related products and services, including asset management, private equity, corporate finance and capital markets advisory.

Bank Alkhair seeks to deliver exceptional value to its shareholders and clients by focusing on innovation, professionalism and integrity. All products and transactions are governed by two essential principles: that they comply fully with the rules of Islamic Shari'ah, and that they are benchmarked against international financial best practice.

Stringent corporate governance standards ensure that the Bank, its directors and employees adopt the highest standards of ethical conduct, and adhere to the principles of fairness, transparency, accountability and responsibility, in all day-to-day dealings and operations.

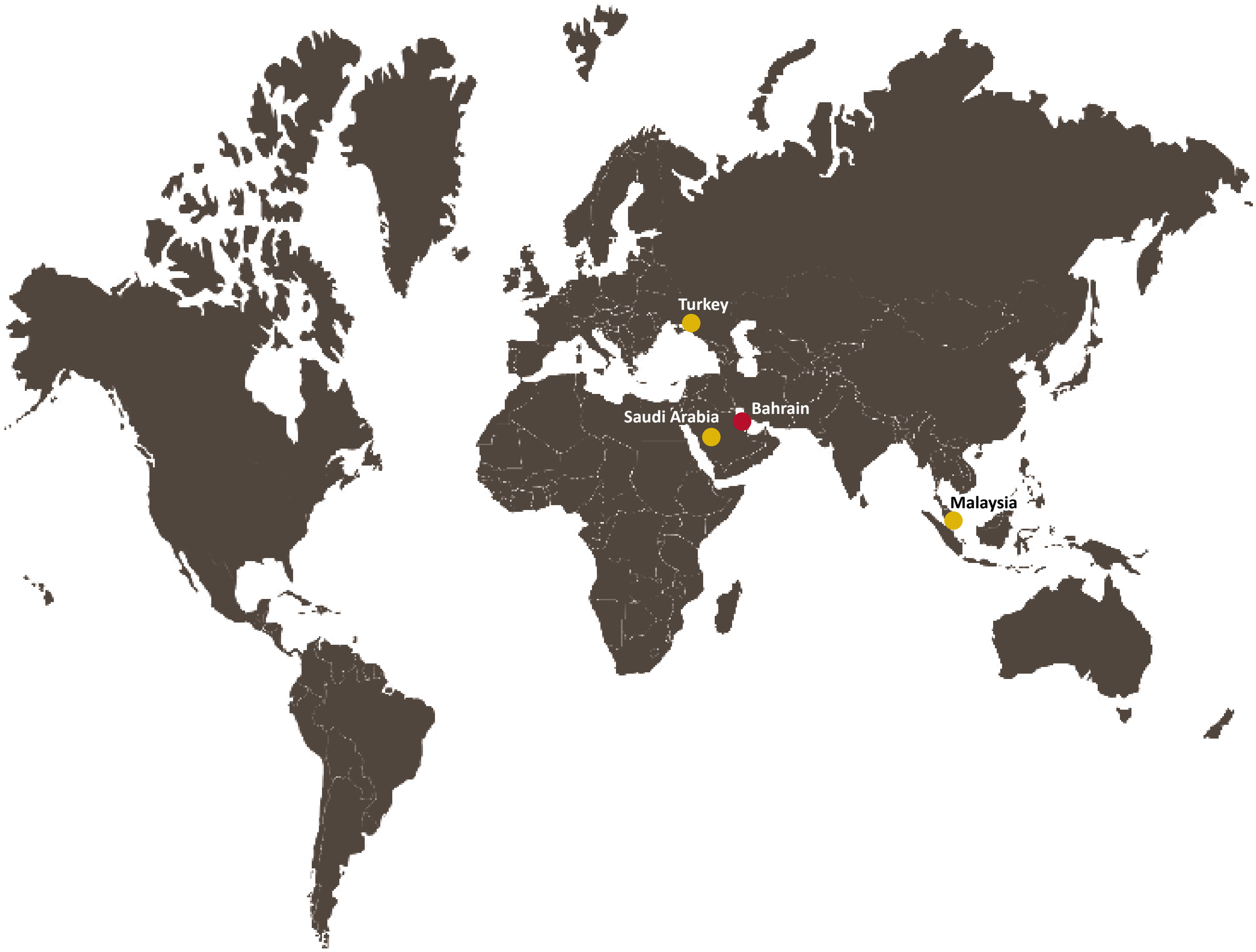
Vision

To be a leading global provider of Shari'ah-compliant financial services

Values

• Integrity • Honesty • Innovation • Transparency
• Confidentiality • Professionalism

Bank Alkhair seeks to deliver exceptional value to clients and shareholders through a focus on innovation, professionalism and integrity – the shared values that drive the Bank's endeavour to be a leading global provider of Shari'ah-compliant financial services

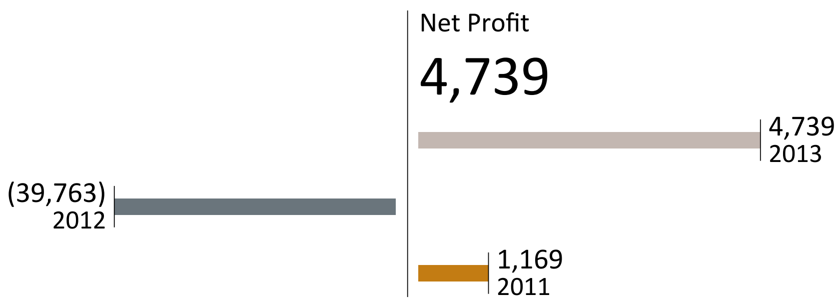


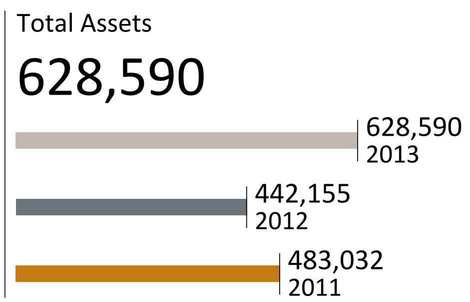
Financial Highlights

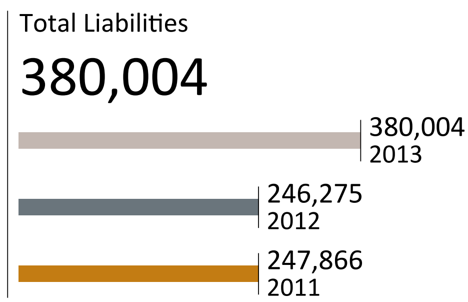
5-Year Consolidated Performance Summary

(Amounts in US $ thousands)	**2013**	2012	2011	2010	2009
Profit/(loss) for the year from continuing operations before Zakah and impairment	**3,429**	(39,208)	(15,538)	(173,692)	12,300
Profit/(loss) for the year	**4,739**	(39,763)	1,169	(229,496)	2,235
Total assets	**628,590**	442,155	483,032	727,948	1,033,619
Placements with financial institutions	**74,390**	63,733	66,477	72,437	188,465
Financing receivables	**52,309**	86,623	95,838	229,413	112,578
Investment securities	**79,186**	112,905	130,383	123,002	247,999
Total liabilities	**380,004**	246,275	247,866	525,542	609,967
Due to financial institutions	**51,173**	153,121	143,178	298,275	300,766
Due to customers	**217,594**	68,176	88,483	95,705	220,657
Equity attributable to the shareholders of the parent	**169,373**	167,113	203,483	152,528	379,709
Total equity	**248,586**	195,880	235,166	202,406	423,652
Return on average assets (percent)	**0.9%**	-8.6%	0.2%	-26.1%	0.2%
Return on average shareholders' total equity (percent)	**2.1%**	-18.4%	0.5%	-73.3%	0.5%
Cost : income ratio (percent)	**90.1%**	n/a	159.6%	n/a	81.5%
Financial leverage (percent)	**158.7%**	132.4%	113.8%	291.9%	150.5%
Capital adequacy ratio (percent)	**15.2%**	22.6%	21.6%	13.6%	23.1%

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







Board of Directors

Yousef A. Al-Shelash
Chairman

Ayman Ismail Abudawood
Independent Director

Hethloul Saleh Al-Hethloul
Non-Executive Director

Abdullatif Abdullah Al-Shalash
Non-Executive Director

Dr. Ahmed Al-Dehailan
Independent Director

Dr. Abdulaziz Al Orayer
Independent Director

Khalid Shaheen
Independent Director

Ali Al-Othaim
Non-Executive Director

Board of Directors

Waleed Alasfoor
Independent Director

Sultan Abalkheel
Independent Director

Abdullah Aldubaikhi
Independent Director

Khaled Abdulrahim
Independent Director

Abdulrazaq Al-Wohaib
Non-Executive Director

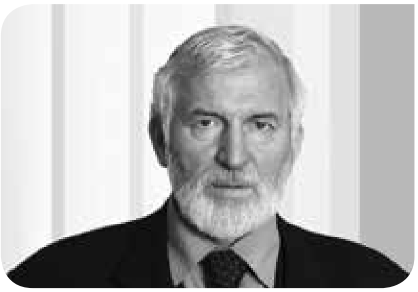
Majed Al Qasem
Non-Executive Director

Dr. Khalid Ateeq
Independent Director

Shari'ah Supervisory Board

Dr. Khalid Mathkoor Al-Mathkoor
Chairman

Dr. Aagil Jasim Al-Nashmy
Deputy Chairman



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

Dr. Ali Muhyealdin Al-Quradaghi

Dr. Mohammad Daud Bakar

Sh. Nizam Mohammad Saleh Yaqouby

Executive Management Team

Jonathan H. Holley
Acting Chief Executive Officer &
Head of Investment Banking

Dr. Muhammad Al-Bashir M. Al-Amine
Group Head of Shari'ah

Ikbal Daredia
Chief Executive Officer
Alkhair International Islamic Bank Berhad

Gülsevim Kahraman
General Manager
Alkhair Capital Turkey

Ali İlhan
General Manager
Alkhair Portfoy Turkey

Khalid Al-Mulhim
Acting Chief Executive Officer
Alkhair Capital Saudi Arabia

Aziz Rehman Sheikh
Chief Financial Officer

Kubra Ali Mirza
Chief Compliance Officer
MLRO & Board Secretary

Ayham Gharaibeh
General Counsel

Muhammad Abbas Khan
Head of Group Internal Audit

US$ 34.7 million

Total income grew to US$ 34.7 million from US$ 5.3 million in 2012

As we strive to meet our ambitious goals, we remain constant to our focus on innovation and professionalism

US$ 628.6 million

Total assets stood at US$ 628.6 million versus US$ 442.2 million at the end of 2012

Chairman's Message

In the name of Allah, the Most Beneficent, the Most Merciful, Prayers and Peace be upon our Prophet Mohammed, His Companions and Relatives.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Bank Alkhair for the year ended 31 December 2013. I am pleased to report that the Bank's ninth full year of operations was marked by an overall notable improvement in performance from prior years.

During 2013, we successfully completed the process of restructuring and realigning our domestic and international banking operations; improved the performance and asset quality of our portfolio companies; and achieved our stated goal of returning the Bank to profitability. These achievements, which took place against the headwinds of continued global economic volatility and challenging market conditions, constitute an important milestone for Bank Alkhair. The Bank continued to witness a substantial improvement in the performance and quality of its portfolio assets during 2013, which continue to be a major contributor to total revenues. Notable achievements in 2013 include Bahrain Financing Company expanding its international operations into India and Malaysia; while t'azur Company established a fully-licensed takaful company in Oman, and has filed for an IPO on the Muscat Securities Market during the first quarter of 2014. Elsewhere, the Al Tajamouat Mall – the premier upscale shopping and entertainment complex in Jordan – which was launched in 2012 is now completed and fully let to prime occupants.

I am delighted to report that these successful strategic and business achievements enabled the Bank to meet its stated goal of returning to profitability in 2013. Net profit for the year was US$ 4.7 million compared with a loss of US$ 39.8 million in 2012; while total income grew to US$ 34.7 million from US$ 5.3 million in 2012. At the end of the year, total assets stood at US$ 628.6 million versus US$ 442.2 million at the end of 2012; with total equity growing to US$ 248.6 million from US$ 195.9 million at the end of the previous year.

Throughout 2013, we continued to enhance the Bank's institutional capability, with the further strengthening of our corporate governance and risk management frameworks. We also resumed recruitment of high-calibre professionals to strengthen our investment banking team in Bahrain, while continuing to enhance the skills sets of existing staff. At the same time, we initiated the development of a world-class private cloud and integrated business continuity planning platform from a leading global specialist IT provider, through which to ensure the highest levels of data integrity and protection of our clients' information.

The Board of Directors' current three-year term expired in 2013. Following the election of the new Board, I would like to thank the outgoing Directors for their valuable contributions, and welcome the eight new Directors. Their diverse knowledge, experience and expertise, and commitment to the highest standards of governance, will help the enlarged Board guide the Bank in implementing its strategy of business growth and sustainable profitability.

Looking forward to 2014, we are optimistic about the Bank's future prospects. Operationally, we have developed a strategy to diversify our revenue streams by growing significantly our commercial activities to balance our portfolio revenues. We also have ambitious plans to expand our capital markets business, and double its contribution to total income during the year ahead.

The measures we have taken over the past few years to redefine our strategy and business model, and strengthen our adoption of sound governance principles, have placed us in a stronger position to grow our share of the fast-growing Islamic finance industry, whose assets are forecast to hit the US$ 2 trillion mark by the end of 2014. The consensus of delegates at the recent World Islamic Banking Conference in Bahrain, and the World Islamic Economic Forum in London, is that the Islamic finance industry has truly come of age as a driver of global economic growth. Such a view is strong validation of the pioneering vision and foresight of our founding shareholders. Nine years on, Bank Alkhair is strongly placed to take advantage of the improving economic environment to capture new business opportunities and grow its global footprint. As we strive to meet our ambitious goals, we remain constant to our focus on innovation and professionalism; and our commitment to the principles of Islamic Shari'ah, and the highest standards of fairness, transparency, accountability and responsibility.

In conclusion, on behalf of the Board of Directors, I express my sincere appreciation to our shareholders for their enduring support and confidence; to our Shari'ah Supervisory Board for its guidance and counsel; and to our clients and business partners for their trust and collaboration. In particular, I thank the Government of Bahrain and its leaders for their encouragement and support of the Islamic banking sector. Special acknowledgement is also due to the Central Bank of Bahrain and the regulatory bodies in other jurisdictions where we operate, for their constructive advice and cooperation. Finally, I pay tribute to the dedication, commitment and positive attitude of our management and staff around the world; and their contribution to the progress of Bank Alkhair in a challenging but successful year.

May Allah guide us on the proper path, and lead us to the realisation of our goals for the future success of the Bank.

Yousef Abdullah Al-Shelash
Chairman of the Board

27 February 2014

Successful strategic and business achievements during the year enabled Bank Alkhair to meet its stated goal of returning to profitability in 2013

US$4.7 million

Net profit for the year was US$ 4.7 million compared with a loss of US$ 39.8 million in 2012

BUSINESS LINES

INVESTMENT BANKING

In 2013, Bank Alkhair completed the streamlining of its Bahrain-based investment banking division. This includes a revised strategy and business model which seeks to provide clients with access to innovative alternative investment opportunities in the MENA region. The Bank's primary focus is in the private equity area, concentrating on industry sectors that include oil and gas, industrial services, logistics, utilities and infrastructure, agribusiness and food-related industries. Following a typical merchant banking model, Bank Alkhair engages in transaction origination, investment structuring, placement to co-investors, post-acquisition management and asset realisation; and places particular emphasis on enhancing value at each stage of the investment cycle, with a primary aim of exiting successfully.

During the year, Bank Alkhair finalised the realignment of its international banking operations to complement the new investment banking focus, and to position them for greater growth and profitability in 2014. With the successful completion of this exercise, the Bank is well-equipped to resume revenue-generating transactional activities, and capitalise on its track record for arranging successful Sukuk issues.

Bank Alkhair also completed the restructuring of its associate companies and affiliates to bolster their performance, and maximise the potential for profitable exits in the future. Potential divestures in 2014 include Burj Bank and Open Silicon, while there has been increased interest in Tintoria International and Al-Tajamouat for Touristic Projects Company. Such exits will provide additional liquidity for further select investments in preferred industry sectors and core geographies. The Bank also plans to close its Global Private Equity Fund since it is nearing the term-end. Launched in 2007, the Fund was affected by the global financial crisis, but the return to investors is expected to be greater than their original investment.

Fund:	Al Tajamouat for Touristic Projects Company
Sector:	Tourism
Location:	Amman, Jordan

Shareholding

50.63%

Al Tajamouat Mall (Taj Mall), the premier upscale shopping mall and entertainment complex in Amman, Jordan is now fully operational, and has achieved an occupancy rate of 93 Percent at premium lease rates, with active interest in the remaining space. One of the highest-yielding shopping malls in the GCC, its footfall has more than doubled since opening

t'azur

In 2013, t'azur was instrumental in the establishment of Takaful Oman, the first Shari'ah-compliant insurance company in the Sultanate. The Company's initial public offering raised US$ 60 million, and was 5.5 times oversubscribed. Takaful Oman plans to list on the Muscat Securities Market in early 2014

Shareholding

25.86%

Fund:	t'azur Company
Sector:	Takaful
Location:	Bahrain, Kuwait, Qatar and Oman

US$248.6 million

Total equity grew to US$ 248.6 million from US$ 195.9 million at the end of the previous year

SUBSIDIARIES

Malaysia

Established in 2007, Alkhair International Islamic Bank Berhad is the first foreign Islamic bank in Malaysia licensed to conduct a full range of non-Malaysian Ringgit banking activities under the Malaysia International Islamic Financial Centre initiative. Operating under a full-fledged commercial banking licence, the core business lines of Alkhair Malaysia are corporate banking, treasury and capital markets.

In 2013, the Bank's gross financing to clients decreased from the previous year due to a lower appetite for US Dollar financing in the local and regional markets, and increased competition by local banks for market share. Treasury continued to play an active role in the primary and secondary Sukuk markets, with capital gains from the sale of Sukuks rising more than seven-fold. The Bank was also successful in growing its capital market advisory fees.

Turkey

Alkhair Capital Menkul Degerler A.S (Alkhair Capital Turkey) was established in 2007 following the acquisition by Bank Alkhair of the Turkish asset management and brokerage company Inter Yatrim Menkul Degerler A.S., and its subsidiary Inter Portfoy Yonetimi A.S. The main business lines of Alkhair Capital Turkey are private equity, asset management, real estate, brokerage and research.

In 2013, the Bank completed the streamlining of its operations to support the restructuring of Bank Alkhair's investment banking business in Bahrain. Market conditions proved challenging during the year due to socio-political unrest and a drop in the value of Turkish lira, which affected capital markets activity. With the planned introduction of new Sukuk regulations in Turkey in 2014, Alkhair Capital Turkey is well-positioned to take a leading role in arranging customised Sukuks for placement in Malaysia. The Bank is planning to launch a Shari'ah-compliant real-estate fund in 2014; establish partnerships with international partners to arrange syndicated Islamic facilities; and secure new financing business with food and agribusiness companies.

Saudi Arabia

Alkhair Capital Saudi Arabia was established in 2009. The Company's core business lines are asset management and brokerage, together with corporate finance and investment banking, which provides clients with a broad range of corporate advisory services and solutions, with a specific focus on capital planning and fund raising, financial restructuring, and mergers and acquisitions.

In 2013, Alkhair Capital was successful in attracting new clients and securing new business across its three core business lines. The Company launched its Saudi Equity Fund, and grew discretionary assets under management from new and existing clients. It is planning to launch additional public and private funds in 2014. Alkhair Capital also increased its institutional brokerage client base and trading value, and introduced a new service for high net-worth individuals. The Company secured two new corporate advisory mandates during the year – an equity-arranging deal for a client in the industrial sector, and a sell-side transaction for a company operating in the logistics sector. In addition, Alkhair Capital acquired prime real estate properties in Saudi Arabia that will generate recurring income.

The Bank continued to witness a substantial improvement in the performance and quality of its portfolio assets during 2013

ASSOCIATE COMPANIES AND AFFILIATES

BFC Group Holdings

In 2013, BFC entered the Malaysian market, increased its presence in India, and expanded its global branch network by 30 Percent to 113 branches. The Group continued to enhance its IT operating infrastructure, and increased the total headcount by 14 Percent to 918 employees. BFC was included in the 2013 World Finance 100, which honours pioneering companies and business people around the world.

t'azur Company

During 2013, t'azur was instrumental in establishing Takaful Oman, the first Shari'ah-compliant insurance company in the Sultanate. The Company's initial public offering raised US$ 60 million, and was oversubscribed 5.5 times. Takaful Oman plans to list on the Muscat Securities Market in early 2014.

Burj Bank

Burj Bank was named the 'Best Islamic Bank - Pakistan' in the 2013 World Finance Awards. According to the Karachi Stock Exchange, MCB Bank – the fourth-largest commercial bank in Pakistan – announced that it had reached an understanding with the majority shareholders of Burj Bank to acquire a 55 Percent shareholding in the Bank.

Tintoria International

Tintoria International operates Clean Swift, a leading industrial laundry and textile services provider based in Dubai. In 2013, Clean Swift was appointed the exclusive laundry provider to the Office of the Prime Minister of the United Arab Emirates; and also extended its specialist textile care services in the areas of laboratory fabric testing, linen procurement support, training for hotel housekeeping staff, and linen leasing.

Open Silicon

The restructuring of the Company was completed in 2013, including a 30 Percent reduction in headcount. Open Silicon grew its revenues during the year; and has now completed over 300 designs, and shipped more than 90 million chips with a return rate of only 0.0003 Percent. The Company is currently developing specialised ASICs for clients involved in Bitcoin mining.

Turquoise Coast Investment Company

The Company's 23-acre mixed hospitality and residential real estate development at Bodrum, overlooking the turquoise waters of Koyunbaba Bay, is now entering its second phase. This comprises a hotel and spa, and the second tranche of residences for sale; together with amenities including a private beach, swimming pools, nature paths and funicular railway, together with several signature restaurants.

Fund:	BFC Group Holdings
Sector:	Financial services
Location:	Bahrain, Kuwait, Malaysia, India and UK

Shareholding

43.36%

The BFC Group currently operates in the United Kingdom, Malaysia, India, Kuwait and Bahrain through a global network of 113 retail branches. In addition, through its proprietary EzRemit money transfer service, BFC is present in 30 countries with over 44,000 correspondent agent locations. The Group also has an extensive global reach of more than 200 countries through its partnership with MoneyGram, a leading international remittance company

Tintoria International operates Clean Swift, a leading industrial laundry and textile services provider based in Dubai. Clean Swift has been fully operational since 2012 and the Bank has successfully positioned the company as a leader in the laundry services market in the UAE. In 2013, Clean Swift was appointed the exclusive laundry provider to the Office of the Prime Minister of the United Arab Emirates

Shareholding

41.44%

Fund:	Tintoria International
Sector:	Laundry and textile services
Location:	Dubai, UAE

CLEAN SWIFT
Laundry and Textile Services

SHARED SERVICES

Human Resources

Having completed the restructuring of the organisation, the Bank has now resumed recruitment of high-calibre professionals to strengthen the investment banking team in Bahrain, while continuing to enhance the skills sets of existing staff. The focus is on the continuous professional development of staff, with key personnel attending specialised training programmes.

Bank Alkhair also participates in the Tamkeen career development programme, and has hired two Bahraini university graduates to date, one of whom has joined the Bank on a permanent basis. The Bank has introduced a new performance management system, which incorporates key performance indicators (KPIs) for all staff, based on revised job descriptions and core competencies; while remuneration packages have been benchmarked against current market rates.

Information Technology

Bank Alkhair is committed to the utilisation of leading-edge information and communications technology (ICT) as a key strategic driver and business enabler. In 2013, the Bank initiated the transformation of its existing ICT infrastructure to a world-class private cloud and integrated business continuity planning platform from a leading global specialist IT provider.

This development, which will provide 99.9 Percent uptime and full disaster recovery facilities, will ensure the highest levels of data integrity and protection of clients' information.

Phase one of the new private cloud is planned to be fully operational by the end of the first quarter of 2014. Phase two will involve extending it to incorporate the Bank's international banking operations.

Bank Alkhair is well placed to further build its franchise and secure sustainable profitability going forward

The Bank's focus on continuing to strengthen its core business areas, together with an increase in commercial activities, resulted in a return to profitability in 2013

Bank Alkhair reported a net profit of US$4.7 million for the year ended 31 December 2013 compared to a net loss of US$39.8 million in 2012. The Bank's focus on continuing to strengthen its core business areas, together with an increase in commercial activities, resulted in a return to profitability in 2013. The steady improvement of global and regional financial markets, which gained momentum during the year, enabled the Bank to generate income from fee-based transactions.

The net profit reported in 2013 was driven primarily by income from the gain on acquisition from assets held-for-sale, and income from investment securities; in addition to improved operating efficiency and the refocused business model of the Bank's commercial activities.

Operating Income

(US $ millions)	**31 December 2013**	31 December 2012
Fees and commission income	**7.0**	3.8
Income from investment securities	**7.2**	(10.7)
Share of profit of equity-accounted investees	**5.8**	10.6
Gain on acquisition of assets held-for-sale	**14.5**	-
Sub-total	**34.5**	3.7
Net finance (expense)/income	**(1.2)**	0.9
Other income	**1.4**	0.7
Total	**34.7**	5.3

Fees and commission income increased by 84% to US$7.0 million in 2013 compared to US$3.8 million in 2012. The increase was mainly attributable to advisory and arrangement fees, with the Bank acting as joint book runner and lead Shari'ah advisor in the successful closing of the US$750 million Sukuk Programme established by Dar Al-Arkan, a leading residential real estate developer in the Kingdom of Saudi Arabia. The first issue, which was four times oversubscribed, closed at US$450 million, with the overall book order reaching US$ 1.68 billion. Management fees from the Bank's Global Private Equity Fund I and Strategic Acquisition Fund were US$2.3million, representing a slight increase over the previous year. Alkhair Capital Saudi Arabia successfully launched its first Shari'ah-compliant Saudi Equity Fund, which also generated management fees in 2013.

The overall gain from investment securities was US$7.2 million compared to a loss of US$10.7 million in 2012. This was mainly due to a mark-to-market gain on one of the Bank's major investments in Al Tajamouat Mall (Taj Mall), an upscale shopping and entertainment complex in Amman, Jordan. Further, fair value gains were also recorded in the Strategic Acquisition Fund, due to improvements in the underlying investments. However, this was offset against fair value book losses taken against the Unicorn Global Private Equity Fund I and Tintoria International, the Bank's investment in Clean Swift, a laundry business based in the United Arab Emirates. An industrial and hotel laundry services company, Clean Swift has been fully operational since 2012. The Bank has successfully positioned the company as a leader in the laundry services market in the UAE, and it is now showing significant improvement in performance and revenues.

Prior to the acquisition of an additional stake in Taj Mall on 31 May 2013, the mark-to-market valuation of the Bank's investment in Taj Mall was based on the share price of Al-Tajamouat for Touristic Projects Company listed on the Amman Stock Exchange. This accounting treatment resulted in a gain of US$7.9 million compared to a loss of US$15.1 million in 2012. The mall has been fully operational throughout 2013 and is now achieving an occupancy rate of over 93% at premium lease rates, with sustainable income for the foreseeable future. It is located in the Abdoun District of Amman, Jordan, which is a prestigious, mainly residential neighbourhood to the south of the city centre.

On 31 May 2013, the Group acquired a controlling stake in Al-Tajamouat for Touristic Project Company, bringing its overall shareholding to 50.63%, and resulting in Al-Taj becoming a subsidiary. The Bank recognised a gain on acquisition of US$14.5 million in the consolidated income statement for the full year 2013. Bank Alkhair has an active plan, which has been approved by the Board, to successfully exit its stake and therefore, in accordance with acquisition accounting requirements, the net identifiable assets and liabilities recognised on acquisition were measured at their fair value on the date of acquisition and have been classified as held-for-sale, and recorded in the consolidated statement of financial position. For 2013, the Bank's net income from assets held-for-sale was US$3.5 million against the previous year of US$0.064 million, with the balance in 2012 being derived from the Bank's exit from two of its US investments in previous years.

Bank Alkhair continued to focus its efforts during the year on managing and bolstering the performance of its portfolio investments and positioning them for sustainable growth and profitable exits over the coming years. The Bank reported profit from its share of profit of equity-accounted investees' activities of US$ 5.8 million in 2013, down from a profit of US$ 10.6 million in 2012.

The main driver of the decrease was due to the Bank recording a one-off share of profit from its investment in t'azur in 2012, 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 in 2012 used to calculate the unearned contribution reserve, excluding Wakala fees, which were previously deducted from the amount. During the year, t'azur continued to build its franchise and expand its presence in the GCC. The Company established a fully-licensed Takaful company in Oman, and filed for an IPO on the Muscat Securities Market during the first quarter of 2014. The revenues of BFC Group Holdings showed a slight decline, which was also due to continued international expansion, with offices opening in India and Malaysia.

During the year, the Bank's net finance income decreased, due mainly to the negative funding charge, since financing expense came in higher than the previous year at a net expense of US$ 1.2 million against a net income from financing of US$ 0.9 million in 2012. Bank Alkhair leveraged its financial position and replaced expensive funding, as well as ensuring that it had adequate liquidity to cover all outstanding maturities. Consequently, overall net finance expense increased. The Bank's other income was also higher – at US$ 1.4 million in 2013 against US$ 0.7 million the previous year.

Operating Expenses

(US $ millions)	31 December 2013	31 December 2012
Staff cost	**15.3**	19.1
Legal and professional expenses	**7.9**	13.4
Premises cost	**2.2**	2.8
Business development expenses	**0.6**	1.1
Depreciation	**1.0**	1.9
Other operating expenses	**4.2**	6.2
Non-staff cost	**15.9**	25.4
Total expenses	**31.2**	44.5
Cost : income ratio (Percent)	**90.1%**	n/a
Period end headcount	**99**	106

Overall operating expenses decreased by 30% to US$ 31.2 million in 2013 from US$44.5 million in 2012. The decrease was mainly due to the reduction in staff cost and legal expenses for various legal proceedings and actions filed by the Bank. Staff cost decreased from US$19.1 million in 2012 to US$15.3 million in 2013, a reduction of 20% due to further re-alignment and deployment of resources, by which the Bank expects to generate revenues from increased commercial activity. Operating expenses across the Group reduced significantly in line with the Bank's strategy to streamline its operations and focus on one primary business function – investment banking. The Bank remains cautious since various other economic factors may come into play in 2014 and impact deal flow and business activity. It will adhere to stringent cost measures despite business confidence significantly improving in 2013.

Financial Position Analysis

Selected financial position data (US $ millions)	31 December 2013	31 December 2012
Cash and balances with banks	**15.8**	8.0
Placements with financial institutions	**74.4**	63.7
Total cash and cash equivalents	**90.2**	71.7
Financing receivables	**52.3**	86.6
Other assets	**7.4**	26.0
Assets held-for-sale	**216.8**	18.9
Due to financial institutions & customers	**268.8**	221.3
Equity attributable to the shareholders of the parent	**169.4**	167.1
Non-controlling interests	**28.4**	28.8
Non-controlling interests related to assets held-for-sale	**50.8**	-
Total equity	**248.6**	195.9
Total liabilities and equity	**628.6**	442.2
Return on average shareholders' equity (Percent)	**2.1%**	-18.4%
Return on average assets (Percent)	**0.9%**	-8.6%
Liquidity ratio (Percent)	**50.8%**	71.6%
Leverage ratio (Percent)	**158.7%**	132.4%

As at 31 December 2013, Bank Alkhair's total assets increased by US$186.4 million to US$628.6 million from US$442.2 million at the end of 2012. This was mainly attributable to the net assets acquired in Al Taj, which resulted in it becoming a subsidiary; together with an overall increase in liquidity to cover the Bank's obligations and operational cash flow requirements. Cash and cash equivalents increased by US$7.8 million to US$ 15.8 million in 2013 from US$8.0 million the previous year. In 2013, assets held for sale increased by US$197.9 million to US$ 216.8 million from US$18.9 million in 2012, due to the net result of operations of the subsidiary acquired during the year (Al-Tajamouat – see Note 7 to the Financial Statements on page no. 71). Investment property increased by US$56.0 million to US$73.7 million from US$17.7 million in 2012. During the year, the Bank acquired income-generating assets in the form of land and buildings in the Kingdom of Saudi Arabia through its subsidiary Alkhair Capital Saudi Arabia. Other assets decreased by US$18.5 million to US$7.4 million from US$25.9 million in 2012 as receivables were settled, further improving the Bank's liquidity position.

Non-controlling interests from assets held-for-sale (US$50.8 million) relate to the minority interest when the Bank acquired an additional stake in Taj Mall in 2013. Financing receivables reduced to US$52.3 million in 2013 from US$86.6 million the previous year as financing to customers matured, mainly related to the Bank's corporate banking business in Malaysia.

As at 31 December 2013, the Bank had total bank and non-bank borrowings of US$268.8 million in the form of reverse Murabaha and Wakala deposits, an increase of US$47.5 million from US$221.3 million at the end of 2012. Shareholders' equity attributable to the parent, as reported on 31 December 2013, increased by US$2.2 million to US$169.3 million from US$167.1 million at the end of 2012. Overall, the net profit attributable to the Bank's shareholders was US$3.3 million in 2013.

The substantial measures taken during the year to strengthen operations and the investment portfolio, leave Bank Alkhair well placed to further build its franchise and secure sustainable profitability going forward. The refocused business strategy in Bahrain and Turkey will see the Bank generate recurring income from fee-based transactions. Bank Alkhair'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 and profitability in 2013, will lead to a number of profitable exits in the future.

Investment Portfolio

BFC Group Holdings

Shareholding **43.36%**
Sector/Industry **Financial services**
Location **Bahrain, Kuwait, Malaysia, India and UK**

Headquartered in the Kingdom of Bahrain, BFC Group Holdings (BFC Group) is a leading international remittance, foreign exchange and currency trading institution. BFC Group was formed in 2009 when Bank Alkhair acquired a significant stake in Bahrain Financing Company, established in 1917 as the first foreign exchange firm in Bahrain. The acquisition also included Bahrain Exchange Company in Kuwait and EzRemit Limited (now BFC Exchange Limited) in the United Kingdom. Since then, the Group has launched BFC Forex in India and BFC Exchange in Malaysia, and has plans for further expansion.

The BFC Group currently operates in the United Kingdom, Malaysia, India, Kuwait and Bahrain through a global network of 113 retail branches. In addition, through its proprietary *EzRemit* money transfer service, BFC is present in 30 countries with over 44,000 correspondent agent locations. The Group also has an extensive global reach of more than 200 countries through its partnership with *MoneyGram*, a leading international remittance company.

t'azur Company

Shareholding **25.86%**
Sector/Industry **Takaful**
Location **Bahrain, Kuwait, Qatar and Oman**

Established in 2007 by Bank Alkhair, t'azur is a Bahrain-based Takaful (Shari'ah-compliant) regional insurance group, offering a comprehensive range of Takaful products for individuals and businesses. The Group's regional presence extends to Kuwait, Qatar and Oman.

The t'azur Takaful Insurance Company, which was established in Kuwait in 2007, has a Ba1 insurance financial strength rating with a stable outlook from Moody's. In 2009, t'azur received approval from the Qatar Financial Centre Regulatory Authority to operate a General Takaful business at the Qatar Financial Centre (QFC). In 2013, t'azur was instrumental in the establishment of Takaful Oman, the first Shari'ah-compliant insurance company in the Sultanate. The Company's initial public offering raised US$ 60 million, and was 5.5 times oversubscribed. Takaful Oman plans to list on the Muscat Securities Market in early 2014.

The t'azur Company provides Family & Healthcare Takaful and General Takaful (motor, home and personal accident) for individuals; and Employee Protection & Healthcare and General Takaful (fire, engineering, marine cargo and liability) for businesses.

Burj Bank

Shareholding **37.91%**
Sector/Industry **Retail banking**
Location **Pakistan**

Burj Bank is one of five full-fledged Islamic commercial banks in Pakistan. It was established in 2007 as the Dawood Islamic Bank, and renamed in 2011. Bank Alkhair is the largest shareholder with a 37.91 Percent stake, followed by the Jeddah-based ICD – the private sector arm of the Islamic Development Bank Group – with a shareholding of 33 Percent. Burj Bank operates through a network of 75 branches in 25 cities in Pakistan. It provides a comprehensive range of Shari'ah-compliant banking products and services for individual customers and corporate clients, including small-and-medium enterprises (SMEs). The Bank also offers investment and corporate advisory services. Burj Bank was named as the 'Best Islamic Bank - Pakistan' in the 2013 *World Finance* Awards. In a recent development, the Karachi Stock Exchange announced that MCB Bank – the fourth-largest commercial bank in Pakistan – had reached an understanding with the majority shareholders of Burj Bank to acquire a 55 Percent shareholding in the Bank.

Al Tajamouat for Touristic Projects Company

Shareholding **50.63%**
Sector/Industry **Tourism**
Location **Amman, Jordan**

The Al-Tajamouat for Touristic Projects Company, which is listed on the Amman Stock Exchange, operates in the leisure and recreation sector of Jordan. The Company owns and operates the Al-Tajamouat Lifestyle Centre (Al Taj), the premier upscale shopping mall and entertainment complex in Amman, Jordan. Al Taj is located in the Abdoun District of Amman, Jordan, which is a prestigious, mainly-residential neighbourhood to the south of the city centre.

Launched in 2012, Al Taj is now fully operational, and has achieved an occupancy rate of 93 Percent at premium lease rates, with active interest in the remaining space. One of the highest-yielding shopping malls in the GCC, its footfall has more than doubled since opening. Al Taj is a multi-purpose facility, comprising four car parking basements, two market levels, two fashion levels, and a supermarket. Diversified entertainment facilities include cinemas and games arcades; a family entertainment zone; and food courts, cafes and restaurants.

Tintoria International

Shareholding **41.44%**
Sector/Industry **Laundry and textile services**
Location **Dubai, UAE**

Tintoria International operates Clean Swift, a leading industrial laundry and textile services provider based in Dubai. Operating out of a new state-of-the-art facility in Dubai Investment Park, Clean Swift has a capacity of 45 tonnes of hotel linen per day. The facility utilises leading-edge laundry equipment from Germany, including tunnel washers that reduce water consumption by 75 Percent and extend the lifespan of linen. The plant also incorporates a barrier wall concept that segregates clean and soiled linen to avoid cross-contamination, in line with WHO hygiene standards.

Clean Swift's services cover room linen, towelling, guest laundry, food and beverages, and staff uniforms for a client base of primarily 4- and 5-star hotels, spas and restaurants. The Company has been appointed as the exclusive laundry provider to the Office of the Prime Minister of the United Arab Emirates. Clean Swift also offers laboratory fabric testing, linen procurement support, training for hotel housekeeping staff, and a linen leasing service.

Open Silicon

Shareholding **28.49%**
Sector/Industry **Technology**
Location **USA, India and Taiwan**

Open Silicon is a leading semiconductor solutions provider, specialising in application-specific integrated circuit (ASIC) design and outsourced manufacturing services. The Company was established in 2003 by the founders of Intel Microelectronics, a subsidiary of Intel, to bring cost-effectiveness, predictability and reliability to the ASIC market. Open Silicon designs and manufactures custom microchips for companies engaged in cellular wireless, digital home appliances, computers, and network communications. Its services include product definition, design engineering, wafer fabrication, package and assembly, test engineering and logistics.

Based in Silicon Valley, California, the Company has design centres in various locations across the USA, as well as in Taiwan and India. Its blue chip clients include HP, Cisco, Sony, Fuji, Panasonic and Hitachi. Since inception, Open Silicon has completed over 300 designs, and shipped more than 90 million chips with a return rate of only 0.0003 Percent. The Company is currently developing specialised ASICs for clients involved in Bitcoin mining.

Turquoise Coast Investment Company

Shareholding **4.48%**
Sector/Industry **Real estate - residential and hospitality**
Location **Bodrum, Turkey**

The Turquoise Coast Investment Company was established in 2008 to provide investors with an opportunity to capitalise on the strong demand for vacation homes in Turkey. The Company is developing a 23-acre mixed hospitality and residential real estate development at Bodrum, overlooking the turquoise waters of Koyunbaba Bay. With a history dating back to the Ancient Greeks, the Bodrum Peninsula has emerged as one of the most desirable tourist destinations in Turkey, known today as the Monte Carlo of the Aegean.

Phase one of the project, comprising luxury residences for sale, has been completed. Phase two, which is now underway, will include a hotel and spa, and the second tranche of residences for sale. Phase three will see the completion of additional residences. Comprehensive amenities include a private beach, swimming pools, nature paths and funicular railway, together with several signature restaurants.

Risk Management Review

Risk is an inherent part of Bank Alkhair's business; and the Bank's ability to properly identify, anticipate, 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; risk strategy, approved risk management policies, limits and processes; supporting the 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.

Developments in 2013

The key focus during the year was on further strengthening the risk management framework with greater emphasis on Group oversight:

- The Board approved enhanced internal risk governance controls, granting the Risk Management function responsibility for preparing investment performance reports independently of front office analysis.
- 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.
- Plans were finalised to enhance the Group's business continuity plan and information security systems.

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. The Risk Management function, through the Chief Risk Officer, reports functionally and administratively to the Board Risk Committee. The Board is responsible for approving the Bank's risk management framework, risk strategy, and risk appetite to ensure consistency with the Bank's long term objectives. The Board is also responsible for setting delegated authority limits, and overseeing the Bank's compliance with them.

Audit Committee

The Audit Committee is appointed by the Board of Directors and consists of four independent non-executive Board members. The Committee assists the Board in fulfilling its oversight responsibilities with respect to integrity of financial reporting and the underlying financial/operational internal controls framework. The Committee oversees the Internal Audit and Compliance functions, in addition to overseeing the External Audit process.

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.

Senior Management Risk Oversight

The Group Risk Executive Committee (REXCO) is the senior management-level authority for overseeing risk and credit. The Committee 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; and reviews and approves risk management 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. It discusses the result of all assessments with Management, and reports its findings and recommendations to the Audit Committee. Internal Audit recommendations are tracked for resolution via the Committee.

Risk Management Function

The Risk Management function, headed by the Director of Risk, is responsible for designing and implementing the Bank's Risk Management Framework, including risk strategy, policies, processes and systems. Risk Management conducts independent risk assessments of strategic developments, business plans, products and services, and individual transactions (including their respective credit, investment, counterparty and operational risks). It 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.

Treasury Activities

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

Investment Monitoring & Reporting

Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective departments. Post-acquisition investment management is rigorously exercised, mainly via board representation within the investee company, throughout the life of each investment transaction.

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 – those in which 70% of Bank revenues are generated; network countries – mostly peripheral; and extended countries – where the Bank takes an opportunistic view, but with a very limited business focus.

The risk strategy forms a critical part of the risk policy framework for the Bank, is continuously reviewed and updated in line with changes in the business strategy. Additional information is available in Note 23 to the Consolidated Financial Statements on page no. 79 and 80.

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.

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 Group's development of ICAAP. The Bank's Basel II efforts are led by the Risk Management function under the auspices of the Group Risk Committee.

Risk Exposure

The Group's main risk exposure categories are investment, credit, liquidity, market and operational risk. Information about the Group's exposure to each of these 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 to the Consolidated Financial Statements on pages 81 to 85 and 90.

Capital Structure

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.

The following table details the regulatory capital resources for Bank Alkhair as at the end of 2013, 2012 and 2011, for Tier 1 and Tier 2 capital.

Composition of Capital

(US $ millions)	31 December 2013	31 December 2012	31 December 2011
Tier 1 capital			
Paid-up share capital	207.9	207.9	207.9
Statutory reserve	0.6	0.3	0.3
(Accumulated loss) / retained earnings	(29.8)	(32.7)	4.2
Other reserves	(9.5)	(8.4)	(8.7)
Non-controlling Interest	-	-	(0.2)
Less : goodwill*	(32.0)	(36.0)	(37.7)
Less : unrealised net fair value losses on investment securities	-	-	(0.2)
Less : 50% of significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	(10.8)	(9.5)	(9.4)
Less : 50% of investment in insurance entity greater than or equal to 20%	(6.5)	(6.4)	(4.8)
Less : excess amounts over maximum permitted large exposure limits	(18.6)	(3.9)	(7.1)
Less : additional deduction from Tier 1 to absorb deficiency in Tier 2 capital	(35.9)	(19.8)	(21.3)
Total qualifying Tier 1 capital	65.4	91.5	123.0
Tier 2 capital			
Less : 50% of significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	(10.8)	(9.5)	(9.4)
Less : 50% of investment in insurance entity greater than or equal to 20%	(6.5)	(6.4)	(4.8)
Less : excess amounts over maximum permitted large exposure limits	(18.6)	(3.9)	(7.1)
Addition to Tier 2 to absorb Tier 2 capital deficiency	35.9	19.8	21.3
Total qualifying Tier 2 capital	-	-	-
Total eligible regulatory capital	65.4	91.5	123.0

**Goodwill mainly relates to acquisition of BFC Group Holdings Ltd., and is considered only for capital adequacy calculation purposes.*

Capital Management

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

The following tables detail the risk-weighted exposures, regulatory capital requirements and regulatory capital ratios for Bank Alkhair B.S.C. (c) (the Group) as at the end of 2013, 2012 and 2011. The figures are based on the Basel II standardised approach for credit risk and market risk, and the Basel II basic indicator approach for operational risk. The Bank considers Standard & Poor's, Fitch and Moody's to be External Credit Assessment Institutions (ECAIs) for the risk weighting of balance with banks, placement with financial institutions, financing receivables and investment in Sukuk. If there are two assessments available by eligible ECAIs chosen by the Bank which map into different risk weights, the higher risk weight will be applied. If there are three assessments available by eligible ECAIs chosen by the Bank which map into different risk weights, the assessments corresponding to the two lowest risk weights will be referred to, and the higher of those two risk weights will be selected.

The Bank uses the Standardised Approach for allocating capital for credit risk and consequently uses the same approach for allocating capital for counterparty credit risk. The Bank does not deal with finance or hold securities on behalf of Highly Leveraged Institutions (HLIs) as defined by the Basel Committee on Banking Supervision (BCBS). The Bank's methodology and approach for establishing and approving counterparty and credit limits is based on an extensive review and analysis of a counterparty's financial condition and performance, trading history, due diligence covering licensing, regulatory oversight and anti-money laundering compliance review – tools which are all designed to exclude HLIs.

Bank Alkhair's treasury counterparts are fully licensed and regulated financial institutions. In addition, the Bank has developed an internal rating methodology where 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 to minimise 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, depending on the number of days outstanding and the credit risk rating. Facilities where repayments of principal and/or profit charges have been outstanding for more than 90 days are classified as non-performing. All facilities graded as non-performing have been provided for. General provisions are assessed and calculated on a portfolio basis if it is determined that a portfolio of facilities is affected by common risk factors that are likely to increase the collective probability of default on those facilities. Specific provisions are calculated on a facility-by-facility basis after incorporating the value of realisable collateral net of any disposal costs.

Credit Risk-Weighted Exposures

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

	Risk-weighted equivalents			Risk-weightings
(US $ millions)	**31 December 2013**	31 December 2012	31 December 2011	
Claims on sovereigns	**-**	0.5	0.9	0%-100%
Claims on PSEs*	**0.4**	0.4	0.4	20%
Claims on banks	**43.7**	41.8	47.9	20%-100%
Claims on corporates including Takaful companies & category 3 investment firms	**62.4**	110.3	133.9	100%
Investments in securities and sukuk:				
Investments in listed equities	**20.6**	23.7	24.8	100%
Investments in unlisted equities	**38.1**	42.6	56.9	150%
Investments in unrated funds	**41.0**	38.1	43.0	100%-150%
Real estate holdings	**98.3**	38.5	38.5	200%
Other assets and specialised financing	**21.0**	20.0	23.4	100%
Credit risk-weighted assets	**325.5**	315.9	369.7	

**Public sector entities (PSEs)*

Minimum Capital Requirements for Islamic Financing Contracts

	31 December 2013		31 December 2012	
(US $ millions)	**Risk-weighted equivalents**	**Minimum capital requirements**	Risk-weighted equivalents	Minimum capital requirements
Murabaha	**59.7**	**7.5**	90.4	11.3
Wakala	**4.4**	**0.6**	9.1	1.1
Mudaraba	**19.6**	**2.5**	17.9	2.2

Market Risk-Weighted Exposures

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

The details of the Group's market risk capital charges and the equivalent market risk-weighted exposures as at the end of 2013, 2012 and 2011, are as follows:

(US $ millions)	31 December 2013	31 December 2012	31 December 2011
Price risk	-	-	-
Equity position risk	-	-	-
Sukuk risk	-	-	-
Foreign exchange risk	2.5	3.0	3.4
Commodities risk	-	-	-
Total capital requirement for market risk	2.5	3.0	3.4
Multiplier	12.5	12.5	12.5
Total Market risk-weighted exposures	31.3	37.5	42.5

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

	31 December 2013		31 December 2012	
(US $ millions)	Maximum Capital Charge	Minimum Capital Charge	Maximum Capital Charge	Minimum Capital Charge
Price risk	-	-	-	-
Equities position risk	-	-	-	-
Sukuk risk	-	-	-	-
Foreign exchange risk	5.2	2.5	3.3	3.0
Commodities risk	-	-	-	-
Total capital requirement for market risk	5.2	2.5	3.3	3.0
Multiplier	12.5	12.5	12.5	12.5
Total Market risk-weighted exposures	65.0	31.3	41.3	37.5

Operational Risk

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

To support a robust internal control environment, the Risk Management function is actively involved in oversight of key control processes including exposure and limit monitoring. In addition, it 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.

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 the 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 the end of 2013, 2012 and 2011, are shown below:

(US $ millions)	**31 December 2013**	31 December 2012	31 December 2011
Gross income	**53.6**	17.8	45.6
Average gross income for three years	**39.0**	27.7	83.1
Alpha	**15%**	15%	15%
Capital charge for operational risk	**5.9**	4.2	12.5
Multiplier	**12.5**	12.5	12.5
Total operational risk-weighted exposures	**73.8**	52.5	156.3

Risk-Weighted Exposures

Risk-weighted exposures increased by US$24.7 million (6.1%) in 2013, from US$405.9 million as at 31 December 2012 to US$430.6 million as at 31 December 2013, as detailed below:

(US $ millions)	**31 December 2013**	31 December 2012	31 December 2011
Credit risk-weighted exposures	**325.5**	315.9	369.7
Market risk-weighted exposures	**31.3**	37.5	42.5
Operational risk-weighted exposures	**73.8**	52.5	156.3
Total risk-weighted exposures	**430.6**	405.9	568.5

Group Structure

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

The principal subsidiaries and associates, as well as the treatment for capital adequacy purposes, are as follows:

	Domicile	Ownership	Regulatory treatment
Subsidiaries			
Alkhair International Islamic Bank Berhad	Malaysia	100%	Full Consolidation
Alkhair Capital Menkul Degerler A.S.	Turkey	91.9%	Full Consolidation
Alkhair Capital Saudi Arabia	Kingdom of Saudi Arabia	53.4%	Pro-rata Consolidation
Al-Tajamouat for Touristic Projects Co Plc	Jordan	50.6%	Risk Weighting
Associates			
BFC Group Holdings Ltd.	United Arab Emirates	43.36%	Pro-rata Consolidation
Burj Bank Limited	Pakistan	37.91%	Full Deduction
t'azur Company B.S.C. (c)	Kingdom of Bahrain	25.86%	Full Deduction

On 31 May 2013, the Group acquired an additional stake of 4.17% in Al-Tajamouat for Touristic Projects Co Plc (Taj), a company listed on the Amman Stock Exchange, Jordan; and in which the Group already owned 46.46%, resulting in Taj becoming a subsidiary. (Refer to Note 7 to the Consolidated Financial Statements on page no. 71).

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

Capital Adequacy Ratio

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

(Percent)	31 December 2013		31December 2012		31December 2011	
	Total Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Tier 1 Capital Ratio
Bank Alkhair B.S.C. (c) (Group)	15.2	15.2	22.6	22.6	21.6	21.6
Alkhair International Islamic Bank Berhad *	38.5	38.1	23.7	23.7	24.3	24.3
Alkhair Capital Saudi Arabia	47.7	47.7	77.5	77.5	93.2	93.2
Alkhair Capital Menkul Degerler A.S.	41.8	41.8	44.6	44.6	41.0	41.0

** Computed based on local regulatory requirements where entity operates.*

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

(US $ millions)	31 December 2013	31December 2012	31December 2011
Credit risk	40.7	39.5	46.2
Market risk	3.9	4.7	5.3
Operational risk	9.2	6.6	19.5
Total capital requirements	**53.8**	50.8	71.0

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

(US $ millions)	31 December 2013	31December 2012	31December 2011
Investments in listed equities	2.6	3.0	3.1
Investments in unlisted equities	4.8	5.3	7.1
Investments in unrated funds	5.1	4.8	5.4
Total capital requirements	**12.5**	13.1	15.6

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. The 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 2013, classified as per the disclosure in the financial statements:

Balance sheet items (US $ millions)	Funded exposure	Unfunded exposure	Total gross credit exposure	Average gross credit exposure*
Balances with banks	15,817	-	15,817	17,644
Placements with financial institutions	74,390	-	74,390	67,973
Financing Receivables	52,309	-	52,309	81,367
Investment securities - Sukuk	13,775	-	13,775	16,488
Other assets	4,479	-	4,479	11,111
	160,770	**-**	**160,770**	**194,583**
Guarantees	-	5,311	5,311	4,512
Financing commitment	-	500	500	1,833
Total credit risk exposure	**160,770**	**5,811**	**166,581**	**200,928**

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the year ended 31 December 2013.

Risk concentration of the maximum exposure to credit risk

Concentration of risks is managed through the establishment of exposure limits for counterparties and geographical regions, and by industry sectors. The Bank's Large Exposure Policy details concentration limits per obligor, groups of connected obligors, sector, geography, countries and groups of countries. The maximum credit exposure to any one client or counterparty as of 31 December 2013 was US$100.9 million (31 December 2012: US$99.8 million). For large exposure purposes, the Bank's investments also fall under the definition of obligor.

Exposures in excess of the 15 Percent limit for the year ended 31 December 2013 are as follows:

Counterparties	Amount of exposures In US $ thousands	% of exposure To capital	Type of Exposures
Counterparty # 1	**100,909**	**98.33%**	Investment and Murabaha
Counterparty # 2	**50,300**	**49.01%**	Investment and receivable
Counterparty # 3	**39,239**	**38.23%**	Mudaraba and bank balance
Counterparty # 4	**26,345**	**25.67%**	Investment, receivable and guarantee
Counterparty # 5	**24,846**	**24.21%**	Investment and receivable
Counterparty # 6	**21,543**	**20.99%**	Investment and bank balance
Counterparty # 7	**15,405**	**15.01%**	Investment, Murabaha and receivable

The exposure to Counterparty # 3 is an exempted short-term interbank exposure.

Credit quality per class of financial assets

Specific provisions

(US $ thousands)	Specific Provision against Financing Receivable	Other Assets	Investment Securities	Total
At the beginning of the year	-	3,768	-	**3,768**
New provision made	2,974	297	-	**3,271**
Write off	-	(859)	-	**(859)**
Recoveries / write-backs	-	(1,304)	-	**(1,304)**
Balance at the year-end	**2,974**	**1,902**	**-**	**4,876**

In 2013, the Group made general collective provisions of US$0.05 million (2012: US$ 0.25 million) against its Financing Receivables. The specific provision of US$ 2.97 million against the Financing Receivable was made in Malaysia. The remaining specific provisions were made in Bahrain.

Liquidity Risk Management

Liquidity risk is the risk that the Group will not be able to meet its current and future cash flow and collateral needs, both expected and unexpected, without materially affecting its daily operations or overall financial condition.

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

- The Group Asset and Liability Committee (ALCO) is responsible for liquidity monitoring, cash flow planning, and general asset liability management.
- In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.
- The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon, and its forecast investment commitments over the liquidity horizon.

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

	31 December 2013	31 December 2012
Liquid assets : Total assets	**16.6%**	22.1%
Liquid assets : Total deposits	**38.7%**	44.2%
Liquid assets : Total liabilities	**27.4%**	39.7%
Short term assets : Short term liabilities	**103.8%**	97.4%

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.

Earnings and Expenses Prohibited by Shari'ah

The Group did not receive any significant income or incur significant expenses that were prohibited by Shari'ah. During the year, Bank Alkhair recovered US$ 11,387.74 (31 December 2012: US$454,022.44) from a client towards late payment charges on a financing facility. This has been allocated by the Shari'ah Board to registered charities.

Restricted Investment Accounts

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

Total Income from RIA

(US $ thousands)	**31 December 2013**	31 December 2012	31 December 2011	31 December 2010	31 December 2009
Gross Income	**15**	91	758	4,931	188
Wakil Fee	**(3)**	(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.

Corporate Governance Review

Overview

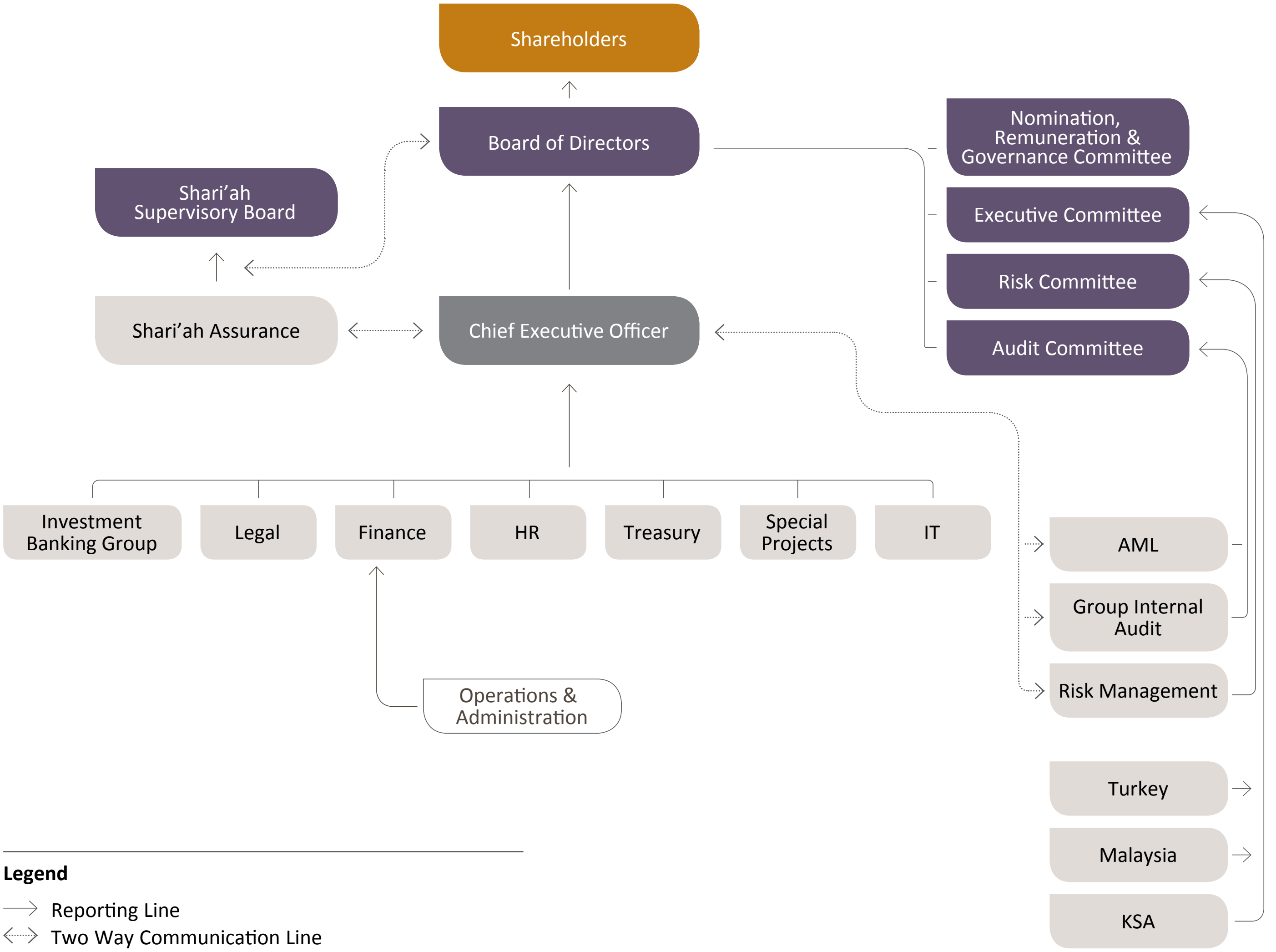
As a Bahrain-based bank, Bank Alkhair is subject to the corporate governance standards of the Central Bank of Bahrain (CBB) and the Bahrain Commercial Companies Law. The Bank aspires to the highest standards of ethical conduct, which is based on sound corporate governance. In accordance with its commitment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

Developments in 2013

During 2013, Bank Alkhair ensured compliance with the robust Corporate Governance framework established in 2011. Developments during the year include:

- Held Elections for Board Membership, and further increased the size of the Board from eleven to fifteen members in order to improve the diversity and experience of the Board; wherein eight new members joined the Board and seven existing Board members were re-elected.
- Conducted an induction session for all Board members, including in-house training by all Head of Departments, and a summary to update all members on the Bank's profile, mission, vision and strategy.
- Enhanced the Bank's organisation structure.
- Conducted a thorough Performance Evaluation of the Board, its members and its sub-committees, and highlighted areas to be strengthened in order to enhance the Board of Directors.

Governance and Organisation Structure



Ownership Structure

Ownership by nationality

Nationality	No. of Shares	No. of Shareholders	Percentage (%)
Saudi Arabian	150,864,544	46	72.55%
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 2013
Yousef Abdullah Al-Shelash	Chairman	5.55%
Sultan Abdulrahman Abalkheel	Director	5.55%
Abdullatif Abdullah Al-Shalash	Director	5.18%
Hethloul Saleh Al-Hethloul	Director	5.18%
Ahmed Saleh Al Dehailan	Director	4.99%
Majed Al Qassem	Director	4.81%
Khaled Abdulrahim	Director	0.44%
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%

Ownership above 5%

Name	Percentage (%) as of 31 December 2013
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%

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

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:

- Causing financial statements to be prepared accurately and approving them;
- 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; and 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.

The Board comprises members from diverse backgrounds, who combine a broad spectrum of experience and expertise with a reputation for integrity and professionalism. The current Board comprises fifteen members, nine of whom 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 continuous development and training of existing members. The Board, the Board's Committees, and each individual director must undergo a formal performance review and evaluation as required by the Code.

During 2013, Board nominations and elections were held, wherein eight new board members joined the existing seven members who were re-elected, adding to the size and experience of the Board of Directors. An induction programme was also tailored for the new and existing board members to better familiarise them with the Bank's profile, mission and strategy.

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. Biographies of current directors are listed at the end of this Review.

Material transactions that need Board approval

Credit and Investment applications exceeding certain pre-defined exposure levels require approval of the Board. Similarly, related party transactions relating to members of the Board require approval of the Board.

Board Composition

No. of members	15 non-executive members of which nine are independent directors
Committee Membership	Please refer to the Board of Directors' biographies at the end of this Review
Minimum no. of meetings per year	4
Quorum	8

Board of Directors Meeting Attendance - 2013

Members	28 February	9 May	27 June	22 August	12 December	75% & Above Attendance for All Meetings
Yousef Al-Shelash	✓	✓	✓	✓	✓	✓
Hethloul Al-Hethloul	✓	✓	✓	✓	✓	✓
Abdullatif Al-Shalash	✓	×	✓	✓	✓	✓
Ayman Abudawood	×	✓	×	×	×	×
Dr. Ahmed Al-Dehailan	✓	✓	✓	✓	✓	✓
Dr. Abdulaziz Al Orayer	✓	✓	✓	✓	✓	✓
Khalid Shaheen	✓	✓	✓	✓	✓	✓
Majed Al Qasem*	N/A	N/A	✓	✓	✓	✓
Sultan Abalkheel*	N/A	N/A	✓	✓	✓	✓
Waleed Alasfoor*	N/A	N/A	N/A	✓	✓	✓
Ali Al-Othaim*	N/A	N/A	N/A	✓	✓	✓
Abdullah Al Dubaikhi*	N/A	N/A	N/A	✓	✓	✓
Abdulrazaq Al-Wohaib*	N/A	N/A	N/A	✓	×	✓
Dr. Khalid Ateeq*	N/A	N/A	N/A	✓	✓	✓
Khaled Abdulrahim*	N/A	N/A	N/A	✓	×	✓

* elected on 27 June 2013

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.

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	4 non-executive members, 3 of whom are independent directors	
Members of the Committee	• Dr. Ahmed Al Dehailan (Chairman)	Independent
	• Abdullah Al Dubaikhi	Independent
	• Sultan Abalkheel	Independent
	• Ali Al-Othaim	Non-executive
Minimum no. of meetings per year	Four	
Quorum	Two	
The Audit Committee's primary 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; • Conducting an annual independent audit of the Bank's financial statements; • Recommending to the Board the engagement of external auditors for non-audit services and evaluating the external auditors' independence and performance; • Overseeing the Bank's compliance with legal and regulatory requirements, including the Bank's disclosure controls and procedures and compliance with the Bank's Code of Conduct; and • Overseeing the Bank's risk profile and risk appetite.	

Meeting Attendance – Audit Committee, 2013

Members	27 February	8 May	7 November	11 December
Dr. Ahmed Al-Dehailan	✓	✓	✓	✓
Adel Al-Saqabi	✓	✓	N/A	N/A
Bader Kanoo	✗	✗	N/A	N/A
Ali Al-Othaim	N/A	N/A	✓	✓
Sultan Abalkheel	N/A	N/A	✓	✓
Abdullah Al Dubaikhi	N/A	N/A	✓	✓

Nomination, Remuneration & Governance Committee

The Nomination, Remuneration & Governance Committee (NR&GC) 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	Non-executive Directors, one of which is independent	
Members of the Committee	• Yousef Al-Shelash	Non-executive
	• Hethloul Al-Hethloul	Non-executive
	• Dr. Abdulaziz Al-Orayer (Chairman)	Independent
	• Majed Al Qasem	Non-executive
Minimum no. of meetings per year	Four	
Quorum	Two	
The NR&GC's primary 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.	

NR&GC Meeting Attendance - 2013

Members	28 February	9 May	27 June	22 August	12 December
Yousef Al-Shelash	✓	✓	✓	✓	✓
Hethloul Al-Hethloul	✓	✓	✓	✓	✓
Dr. Aziz Al Orayer	✓	✓	✓	✓	✓
Majed Al Qasem	N/A	N/A	N/A	✓	✓

Risk Committee

The Risk Committee is responsible for overseeing the risk management framework of the Bank, and ensuring that the Bank's management take adequate steps to monitor and mitigate the Bank's risk exposures. This is a newly-formed committee during the year.

No. of members	Four Non-Executive Directors, two of whom are Independent	
Members of the Committee	• Majed Al Qasem (Chairman)	Non-executive
	• Abdullatif Al-Shalash	Non-executive
	• Khaled Abdulrahim	Independent
	• Dr. Khalid Ateeq	Independent
Minimum no. of meetings per year	Four	
Quorum	Two	
The Risk Committee's primary responsibilities include:	• 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 -2013

Members	27 February	8 May	7 November	11 December
Majed Al Qasem (Chairman)	N/A	N/A	✓	✓
Abdullatif Al-Shalash	N/A	N/A	✓	✓
Khaled Abdulrahim	N/A	N/A	✓	×
Dr. Khalid Ateeq	N/A	N/A	✓	✓

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	5 members	
Members of the Committee	• Yousef Al-Shelash (Chairman) • Ayman Abudawood • Khalid Shaheen • Abdulrazaq Al-Wohaib • Waleed Al Asfoor	Non-executive Independent Independent Non-executive Independent
Minimum number of meetings per year	2	
Quorum	3	
The Executive Committee's primary 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; • Presenting the annual financial, operational and capital expenditure budgets to the Board; and • Ensuring the Bank has strong risk management and internal control systems in place.	

Executive Committee Meeting Attendance - 2013

Members	28 February	9 May	3 October	5 December
Yousef Al-Shelash (Chairman)	✓	✓	✓	✓
Hethloul Al-Hethloul	✓	✓	N/A	N/A
Abdullatif Al-Shalash	✓	×	N/A	N/A
Ayman Boodai	×	×	N/A	N/A
Ayman Abudawood	×	✓	✓	✓
Khalil Nooruddin	✓	N/A	N/A	N/A
Khalid Shaheen	N/A	N/A	✓	✓
Abdulrazaq Al-Wohaib	N/A	N/A	✓	✓
Waleed Al Asfoor	N/A	N/A	✓	✓

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 Board is pro-actively 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 Board sets out the Islamic opinions (Fatwas) which are required for approval of the structures of each financial transaction, service or investment product. Biographies of the Shari'ah Board members are listed at the end of this review.

Corporate Governance Policies and Procedures

Compensation of the Board of Directors, Shari'ah Supervisory Board 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. In line with CBB and MOIC regulations, the total remuneration that the Board of Directors may receive shall not exceed 5 Percent of the net profit in any one financial year after allowing for statutory reserves.

The Shari'ah Supervisory Board remuneration includes sitting fees only.

The Executive Management's remuneration takes into consideration the performance of the Bank, as well as an assessment of individual members' performance and 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 2013 can be found in Note 22 to the Financial Statements on page no. 77 and 78.

Sound Remuneration Practices

The CBB issued new regulations regarding Sound Remuneration Practices, and the Bank will ensure full compliance with all CBB guidelines and MOIC laws with regards to compensation.

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 in 2013. The induction programme covered governance 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 detailed training programme which included training and updates from the Head of all functions, including the CEO on the Bank's profile; the CFO on the Finance function; the Investment Team on the Investment function; the Board secretary on Corporate Governance and the Board's roles and responsibilities; the Risk Director on the Risk function; the Chief Compliance Officer on the Compliance function; the MLRO on the AML function; the Head of Internal Audit on the Internal Audit function; and the Head of Shari'ah on the Shari'ah function.

Board Performance Evaluation

Bank Alkhair has a policy in place to govern the annual review mechanism of the Board, the Board's Committees, and each individual director against specific criteria. Bank Alkhair's Board of Directors has established a mechanism for the annual periodic review of the Board and each of its Committee's performance. The review evaluates the Board as a whole, and each of its Committees in the light of its strategic objectives, and accordingly, each Director, including the Chairman, is subject to a self-evaluation.

The Board and Board Committee evaluation is facilitated by the Board Secretary, who reports the results to the Nomination, Remuneration and Governance Committee (NR&GC). The NR&GC may elect to hire an external consultant to evaluate the effectiveness of the Board and Board Committees. The NR&GC presents the results of the evaluation to the Board, and subsequently reports to the Shareholders during the next AGM. Board Evaluations for the Board of Directors, its members, and its Committees were conducted for the year ending 2013, and the results have been reported to the NR&GC, and subsequently to the Board of Directors, and reported to the shareholders in the 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 BCCL or any other Law. No conflicts of interest were identified and reported in 2013.

Related Party Transactions

The Bank has an approval process in place for related party transactions. 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 million and US$ 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 22 of the Financial Statements on page no 77 and 78.

Investor Complaints

In order to strengthen and formalise the Investor complaints mechanism, Bank Alkhair has developed a policy for managing complaints received from investors, along with a formal escalation structure to ensure complaints are dealt with effectively and efficiently. For logging any complaints, the Investor Complaints Guidelines and escalation information is available on the Bank's website.

Whistle-blowing Procedure

Bank Alkhair endeavours 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 improving the well-being and quality of life of citizens of the Kingdom of Bahrain. During 2013, the Bank supported a number of charitable organisations, including the Bahrain Disabled Sports Federation, Al Ehsan Charity Organisation and the Bahrain Young Ladies Association. In addition, Bank Alkhair provided financial support to needy families and individuals, and other deserving causes in the community.

The Bank also supports the development of young Bahrainis by participating in Tamkeen's Employment Support Scheme, with the joint goal of providing Bahraini nationals with work experience opportunities, along with a financial contribution towards their income and professional training fees.

As a prominent Shari'ah-compliant financial institution, Bank Alkhair supports the development of the Islamic banking industry through providing financial support and participating in major industry conferences and events, including the annual World Islamic Banking Conference.

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 that 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 2013, 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 process is not compromised. Furthermore, of the four Board Committees, the Chairmen of two Committees are independent, including the Nominations, Remunerations & Governance Committee and the Audit 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-1.3.4 requires Board members to attend at least 75% of all Board meetings in a given financial year. Unfortunately, due to unavoidable circumstances, Mr. Abudawood has not met this requirement, and CBB was notified of the same.

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

Compliance

Bank Alkhair is committed to meeting the highest levels of ethical standards in all areas of its operations. The Board of Directors 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 detailed AML policies and procedures, and comprehensive KYC documentation, to rigorously screen potential investors' identities and source of funds.

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 the Bank's subsidiaries and associates. The 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 review by 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 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 2013 were in compliance with the rules and principles of Islamic Shari'ah, except part of the investment in the Taj Mall project, Open Silicon and The Independent for Logistics & Warehousing. However, the Bank is in the process of refinancing these projects using Shari'ah-compliant financing. In 2013, Bank Alkhair accumulated US $ 658,324 of non-Shari'ah income, which the Shari'ah Supervisory Board advised the Bank to donate to registered charities, and submit the list of beneficiaries to the Board.

Group Internal Audit

Group Internal Audit reports directly to the Board Audit 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 has been defined and approved by the Audit Committee in the form of an Internal Audit Charter.

The department also conducts strategic audit reviews of the Bank's subsidiaries in Turkey, Malaysia and Saudi Arabia; and oversees the internal audit process in t'azur – which is an associated company of the Bank. Group Internal Audit has also established a continuous controls monitoring process to independently verify selected controls on a regular basis. The audit assignments are carried out in accordance with a risk-based internal audit plan approved by the Audit Committee.

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.

Management

The Board of Directors has delegated authority for the day-to-day management of the Bank's business to the Acting Chief Executive Officer, who is supported by a well-qualified and experienced Executive Management team, and four Management Committees. Biographies of the Executive Managers are listed at the end of this Review.

Management Committees

Investment and Post-Investment Management Committee (IPIMC)

The IPIMC is responsible for overseeing the entire investment life cycle, including all internal approval requirements, and external financial and legal due diligence. The Committee is actively involved at the acquisition phase, from the point of origination to the point of closing, where it receives independent assessments from the Risk Department. In the post-investment phase, IPIMC oversees management's handling of investments, and the performance of the portfolio, to ensure a successful exit. The Committee includes the Acting Chief Executive Officer, Chief Financial Officer, Senior Management, and Heads of independent functions. All investments are subject to the final approval of the Board Executive Committee.

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 the Committee 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 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.

Professional Biographies

Board of Directors

Yousef A. Al-Shelash
Chairman of the Board of Directors and Founding Shareholder
Chairman of the Board Executive Committee
Non-executive Director since April 2004

A Saudi national, 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 Bureau 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 1990s. He also initiated the real estate mortgage industry in Saudi Arabia in 1998.

Professional experience: over 20 years

Ayman Ismail Abudawood
Independent director since December 2008

A Saudi national, 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 BSc in Mechanical Engineering from the University of Arizona, USA.

Professional 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).

Professional 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. He occupies the position of Managing Director at Dar Al Arkan. He is also a Board member of t'azur and the Strategic Acquisition Fund, Bahrain. Mr. Al-Shalash holds a Bachelor's degree in Organization Leadership and Supervision from Purdue University, USA; and an MBA from Findlay University, USA.

Professional experience: over 18 years

Dr. Ahmed 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 and 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, UK.

Professional experience: over 19 years

Dr. Abdulaziz Al Orayer
Chairman of the Nomination, Remuneration & Governance Committee
Independent director since February 2011

A Saudi national, 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. He 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 the evolution of t'azur 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, he 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, UK; a Masters degree in Economics and Banking from Southern Illinois University, USA; and a Bachelor of Arts from the University of California, Berkeley, USA.

Professional experience: over 39 years

Khalid 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. He 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 of the Institute of Directors, UK.

Professional experience: over 30 years

Ali Al-Othaim
Non-Executive director since June 2013

Mr. Ali Al-Othaim holds a Bachelor's degree in Business Administration. He received extensive training in the Global Investment division of Merrill Lynch in the United Kingdom, as well as the NASDAQ Program 2 stock trading and technical analysis, in addition to many advanced courses in senior management in the USA. Mr. Al-Othaim began his career as a key partner in the family group of companies, and then became a member of several companies, including ARCIL Group for the Cayman Islands and Investment, which invests equity, bonds and mutual funds in global markets. Taking advantage of his financial background and experience accumulated in this field. Mr. Ali Al-Othaim is the Chairman of the National Committee of Young Businessmen Council of Saudi Chambers, and one of the founders of the Committee of Young Businessmen in Saudi Arabia. He is a Board Member of the Prince Salman Center for Young Entrepreneurs, and a member of the Executive Committee of the Prince Salman Award for Young Entrepreneurs. A member of the Young Arab Leaders, he is also a member of the Saudi Management Association. Mr. Ali Al-Othaim is head of the entrepreneur program to support entrepreneurs in Riyadh Chamber of Commerce and Industry; and the President of the International Forum of Investment Prospects.

Professional experience: Over 15 years

Waleed Alasfoor
Independent director since June 2013

A Kuwaiti national, Mr. Alasfoor is the Chief Executive Officer of Warba Investment Company, AlSafwa Group Holding Company, and Carpets Industry Company. He previously held senior key management positions with the Industrial & Financial Investment Company, Kuwait, which is an investment company engaged in all investment operations, finance, trading and management, in respect of funds and rights related to industrial projects. Mr. Alasfoor is Vice Chairman of the Board of Al Safat Holding Company and Carpets Industry Company. He participated in the establishment of the Kuwait Offset Fund, and served as Chairman of the Management Committee of the Fund from 2002 to 2004. He has also participated in many other funds memberships and foreign companies in Europe and Japan. Mr. Alasfoor holds a Bachelor of Science in Economics from Kuwait University; and a Master in Business Management (Funding) from the University City Oklahoma, USA

Professional experience: over 25 years

Sultan Abalkheel
Independent director since June 2013

A Saudi national, Mr. Abalkheel has successfully established various businesses over the years in conjunction with growing and managing his family's interests in real estate, equity and other financial market activities. In addition, he has business interests in leading construction and development companies and equity markets. Mr. Abalkheel holds a Master's Degree in Management from the University of Cardiff, UK.

Professional experience: over 15 years

Abdullah Aldubaikhi

Independent director since June 2013

Mr. Abdullah Aldubaikhi is the CEO of Saudi Agricultural and Livestock Investment Company (SALIC). Prior to joining SALIC he was President of Afwaf Investment, and President of AwalNet, one of the largest internet providers in Saudi Arabia. Mr. Aldubaikhi co-founded DowLong Technologies in 1993 after working as a project manager at the Saudi Industrial Development Fund. He started his career as a communication engineer at Saudi Telecom in 1987. He is a member of the Joint Business Councils between Saudi Arabia and the nations of France, Poland, Switzerland and Qatar. Mr Abdullah Aldubaikhi holds an Executive MBA from Oxford University, UK: and a BSc degree in Electrical Engineering from King Fahad University of Petroleum and Minerals, Saudi Arabia.

Professional experience: over 20 years

Khaled Abdulrahim

Independent director since June 2013

Mr. Khaled Rahim is founder and Chairman of the KAR Group of companies. The flagship, Cebarco, is a leading building construction and civil engineering company responsible for many landmark projects of varying size and complexity, notably the Bahrain International Circuit, Abu Dhabi Formula 1 Circuit, and Bahrain City Center, among other iconic projects. Mr. Rahim was also Executive Director of Hafeera Contracting WLL and associated companies. He has been awarded many accolades during his career, including the prestigious 'HM the King of Bahrain Medal for Services to the Kingdom and its People'. Mr. Rahim holds an MSc from the Glasgow Caledonian University, Scotland, UK; and is a Fellow of the Chartered Institute of Building, UK; and Fellow of the Association of Cost Engineers, UK.

Professional experience: over 30 years

Abdulrazaq Al-Wohaib

Non-Executive director since June 2013

Mr. Abdulrazaq Al-Wohaib serves as Chief Executive Officer and Managing Director of t'azur Takaful Insurance Company. He brings a wealth of experience and knowledge of the insurance industry gained in his many years in the sector. He has held senior positions with many high- profile insurance providers in Kuwait, including Takaful Insurance Kuwait, Wethaq Insurance, and Gulf Insurance. Mr. Al-Wohaib is a Board Member of Kuwait Insurance Federation, and a Member of the Executive Technical Committee of GCC Insurance Federation. He holds a BSc in Business Administration from Azusa Pacific University, California, USA; and is a Member of the Chartered Insurance Institute, London, UK.

Professional experience: over 20 years

Majed Al Qasem

Non-Executive director since June 2013

A Saudi national, Mr. Majed Al Qasem is a Founding Shareholder and Non-executive Independent Director of Dar Al Arkan Real Estate Development Company. He is also a Board Member of Al Buraq Real Estate Company and Namaa Al-Sarah Company; and spent almost 10 years as a Member of the Investigation & Attorney General Bureau in Saudi Arabia. Mr. Al Qasem holds a Bachelor's Degree in Islamic Studies from Imam Mohammed bin Saud Islamic University, Saudi Arabia.

Professional experience: over 15 years

Dr. Khalid Ateeq

Independent director since June 2013

A Bahraini national, Dr. Khalid Ateeq has over 30 years' experience in banking, finance, auditing and accounting. He is currently the CEO and an Independent Board Member at Family Bank, Bahrain; and Chairman of the Audit & Risk Committee. He is also an Independent Board Member and Chairman of the Audit & Risk Committee of MEDGULF Insurance Co., Bahrain; and Chairman of the Board of Trustees at Gulf University. From 1993 to 2005, Dr. Ateeq was Executive Director of Banking Supervision at the Central Bank of Bahrain (CBB), where he was responsible for the licensing, inspection and supervision of financial institutions, ensuring that all banks and financial institutions, either operating or incorporated in Bahrain, complied with promulgated laws and regulations. Before joining the CBB, he was Assistant Professor of Accounting and Auditing at the University of Bahrain. Dr. Ateeq holds a PhD in the Philosophy of Accounting from Hull University, UK; an MBA from Armstrong University, Berkeley, USA; and a BSc in Accounting and Finance from the University of Kuwait.

Professional experience: over 30 years

Messrs Ayman Boodai, Adel Al Saqabi and Bader Kanoo completed their three-year term on 26 June 2013. Mr Khalil Nooruddin resigned on 24 February 2013.

Shari'ah Supervisory Board

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 of 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. He 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. He 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 Standards 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; and 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. He is also the Chairman 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; and is a Member of the Shari'ah Supervisory Board for a number of Islamic banks.

Sh. Nizam Mohammad Saleh Yaqouby

Sh. Nizam Mohammad Saleh Yaqouby is a well-renowned Shari'ah scholar and a member of the Shari'ah Supervisory Board of a number of Islamic banks and institutions, including the Shari'ah Board of AAOIFI. He holds a BA in Economics and Comparative Religion from McGill University, Canada.

Executive Management

Jonathan H. Holley
Acting Chief Executive Officer

Mr. Jonathan Holley has held several positions during his time with Bank Alkhair, including President of UIB Capital, the Bank's former US subsidiary: and Managing Director, Strategic Mergers & Acquisitions. He is currently Chairman of BFC Group Holdings and Open Silicon Inc. Jonathan has over 25 years transaction experience in emerging markets in South America, Eastern Europe and the GCC. During this time, he worked with Andersen Consulting Brazil, Ernst & Young, Internet Capital Group (of which he was a Founding Team Member and Vice President, prior to its acquisition by Accenture), Matterhorn Capital, and Dubai Group Tatweer Capital. A licensed Professional Engineer, Jonathan holds an MSC in Transportation Management and a BSC in Industrial Engineering from Northwestern University, USA; and an MA in International Transactions from George Mason University, USA.

Dr. Muhammad Al-Bashir M. Al-Amine
Group Head of Shari'ah

Dr. Muhammad Al-Bashir has over 12 years experience in the field of Islamic finance and Shari'ah compliance. He is responsible for overseeing the Shari'ah affairs of the Bank and its subsidiaries through close coordination with the Bank's Shari'ah Supervisory Board and senior management team. Prior to joining Bank Alkhair, he was the Head of Product Development and Shari'ah Compliance at the International Islamic Financial Market (IIFM). He was also a part-time lecturer at a number of universities and institutes in Malaysia and Bahrain; and is the author of numerous books and articles on Islamic banking and finance. Dr. Muhammad holds a LLB (Shari'ah) from the Islamic University of Madina, Saudi Arabia; and a Masters of Comparative Law (MCL) and PhD in Law from the International Islamic University, Malaysia.

Ikbal Daredia
Chief Executive Officer, Alkhair International Islamic Bank Berhad

Mr. Ikbal Daredia has 20 years of experience in Islamic banking. Prior to joining Bank Alkhair, he was the Deputy Chief Executive Officer of Noriba, UBS's global Islamic platform for Shari'ah- compliant products and services. Prior to this, he worked with ABN AMRO in Bahrain as the Global Head of Islamic Financial Services. Ikbal 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. He is an Associate of the Chartered Institute of Bankers, England, UK.

Gülsevim Kahraman
General Manager, Alkhair Capital Turkey

Ms. Gülsevim Kahraman has 25 years of experience in investment banking, covering operations, finance, reporting and management information systems (MIS). Prior to joining Alkhair Capital, Ms. Kahraman worked for Deniz Invest as Financial Controller and Financial Business Support Manager. Previously, she was Finance Manager for Kent Invest, where she was responsible for reporting to the Capital Markets Board and Istanbul Stock Exchange; and managing the business planning process and MIS systems. A Certified Public Accountant, Gülsevim has a Bachelor's degree in Economics from Marmara University; and an Advanced Level Licence and Derivatives Licence from the Turkish Capital Markets Board.

Ali İlhan
General Manager, Alkhair Portfoy Turkey

Mr. Ali İlhan has 20 years of experience in asset management, having worked for leading asset management companies in Turkey. He was previously the Head of Equity Fund Management in Eczacibasi-UBP Asset Management, a joint venture of Eczacibasi Holding and Union Bancaire Privee of Switzerland, where he managed equity mutual funds and pension funds. Prior to this, he was the Chief Investment Officer in ABN AMRO Asset Management in Turkey, where he had full responsibility for all investment procedures both in equity and fixed income. Ali İlhan has an MBA from the University of Scranton, USA; and a BSc in Civil Engineering from the Middle East Technical University.

Khalid Al-Mulhim
Acting Chief Executive Officer, Alkhair Capital Saudi Arabia

Mr. Khalid Al-Mulhim has over 16 years of experience working for prominent financial institutions in Saudi Arabia, including Samba Financial Group. Prior to joining Alkhair Capital, he was Head of Operations at Arabian Capital. Khalid holds a Bachelor's degree in Business Administration from the Central State University, California, USA.

Aziz Rehman Sheikh
Chief Financial Officer

Mr. Aziz Rehman Sheikh has over 20 years financial services experience gained primarily within leading financial institutions in London. Before joining Bank Alkhair, Aziz was Managing Director in the International Equities Division of Bear Stearns International Limited (UK). Prior to that he held senior roles within ABN AMRO Equities (UK), Abbey National Treasury Services and Warburg (Custody) Limited UK. He is a Fellow of the Association of Chartered Certified Accountants and a Member of the Chartered Institute of Securities & Investment. Aziz holds a BA (Hons) in Accountancy & Finance from Southampton University and an MBA from London Metropolitan University.

Kubra Ali Mirza
Chief Compliance Officer, MLRO & Board Secretary

Ms. 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, she 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, Bahrain. Prior to that, she worked for Tatweer Consulting Company, and the Central Bank of Bahrain. She was also a member of several local and international regulatory working groups and task forces. Kubra holds an Executive MBA and a Bachelor's degree in Accounting 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 and acquisitions, and corporate finance transactions. He has structured and successfully closed over 30 sizeable transactions at Bank Alkhair to date. Prior to joining the Bank, Ayham 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 Master's and Bachelor's degree in International Business Law.

Muhammad Abbas Khan
Head of Group Internal Audit

Mr. Abbas Khan has over 15 years of experience in internal audit, forensic investigations, and operational risk management. Prior to joining Bank Alkhair, he 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. Muhammad 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. He holds a Professional Certification from the Institute of Internal Auditors, USA.

Consolidated Financial Statements

For the year ended 31 December 2013

Contents

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 2013, 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'a 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 2013, 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.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and Volume 2 of the Central Bank of Bahrain (CBB) Rule Book, 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. Except for the matters discussed in the Shari'a Supervisory Board Report dated 27 February 2014, we are not aware of any other breaches of the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

kpmg

27 February 2014
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 2013. 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 2013 are in compliance with the rules and principles of Islamic Shari'ah except part of the investment in Taj Mall project, Open Silicon and The Independent For Logistics & Warehousing which were not submitted to the Shari'ah Board for approval before its execution, and appear later to be having explicitly non-Shari'ah Compliance issues.

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 realized 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 Al Mathkoor

Dr. Aagil Al Nashmy

Dr. Abdul Sattar Abu Ghuddah

Dr. Ali M. Al Qaradaghi

Sh. Nizam M. Yacoubi

Dr. Mohamed Daud Bakar

27 February 2014

Consolidated Statement of Financial Position

As at 31 December 2013

(Amounts in US $ thousands)

	note	31 December 2013	31 December 2012
ASSETS			
Cash and balances with banks	4	**15,836**	7,985
Placements with financial institutions		**74,390**	63,733
Financing receivables	5	**52,309**	86,623
Investment securities	6	**79,186**	112,905
Assets held-for-sale	7	**216,764**	18,932
Equity-accounted investees	8	**107,389**	106,006
Investment property	9	**73,719**	17,706
Other assets	10	**7,410**	25,988
Equipment		**1,587**	2,277
TOTAL ASSETS		**628,590**	442,155
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions	11	**51,173**	153,121
Due to customers	12	**217,594**	68,176
Liabilities related to assets held-for-sale	7	**92,427**	-
Other liabilities	13	**18,810**	24,978
TOTAL LIABILITIES		**380,004**	246,275
EQUITY			
Share capital	14	**207,862**	207,862
Statutory reserve		**664**	337
Fair value reserve		**114**	114
Foreign currency translation reserve		**(9,499)**	(8,485)
Accumulated losses		**(29,768)**	(32,715)
Equity attributable to the shareholders of the parent		**169,373**	167,113
Non-controlling interests		**28,456**	28,767
Non-controlling interests related to assets held-for-sale	7	**50,757**	-
TOTAL EQUITY (page 56)		**248,586**	195,880
TOTAL LIABILITIES AND EQUITY		**628,590**	442,155

The consolidated financial statements consisting of pages 54 to 90 were approved by the Board of Directors on 27 February 2014 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 2013

(Amounts in US $ thousands)

	note	2013	2012
Continuing operations			
Finance income		**7,034**	8,742
Finance expense		**(8,240)**	(7,814)
Net finance (expense)/ income		**(1,206)**	928
Income from investment securities	15	**7,232**	(10,676)
Fees and commission income	16	**7,009**	3,754
Share of profit of equity-accounted investees	8	**5,752**	10,575
Gain on acquisition of assets held-for-sale	7	**14,453**	-
Other income		**1,428**	709
Total income		**34,668**	5,290
Staff cost		**15,330**	19,080
Legal and professional expenses		**7,891**	13,394
Premises cost		**2,254**	2,848
Business development expenses		**609**	1,066
Depreciation		**953**	1,881
Other operating expenses		**4,202**	6,229
Total expenses		**31,239**	44,498
Profit / (loss) for the year before Zakah and impairment		**3,429**	(39,208)
Provision for Zakah	17	**(145)**	(1,719)
(Charge) / reversal of impairment	18	**(2,017)**	1,100
Profit / (loss) for the year from continuing operations		**1,267**	(39,827)
Income from assets held-for-sale and discontinued operations	7	**3,472**	64
Profit / (loss) for the year		**4,739**	(39,763)
Attributable to:			
Shareholders of the parent		**3,274**	(36,868)
Non-controlling interests		**(249)**	(2,895)
Non-controlling interests relating to assets held-for-sale		**1,714**	-
		4,739	(39,763)

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 2013

(Amounts in US $ thousands)

2013	Share capital	Statutory reserve	Fair value reserve	Foreign currency translation reserve *	Accumulated losses	Total	Non-controlling interests	Non-controlling interests related to assets held-for-sale	Total equity
	Attributable to the shareholders of the parent								
As at 1 January 2013	207,862	337	114	(8,485)	(32,715)	167,113	28,767	-	195,880
Profit for the year (page 55)	-	-	-	-	3,274	3,274	(249)	1,714	4,739
Foreign currency translation differences	-	-	-	(746)	-	(746)	(62)	-	(808)
Share of changes in reserves of equity-accounted investees	-	-	-	(268)	-	(268)	-	-	(268)
Total recognised income and expense for the year	**-**	**-**	**-**	**(1,014)**	**3,274**	**2,260**	**(311)**	**1,714**	**3,663**
Transfer to statutory reserve	-	327	-	-	(327)	-	-	-	-
Non-controlling interests related to assets held-for-sale	-	-	-	-	-	-	-	49,043	**49,043**
As at 31 December 2013	**207,862**	**664**	**114**	**(9,499)**	**(29,768)**	**169,373**	**28,456**	**50,757**	**248,586**

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 (page 55)	-	-	-	-	(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

* Translation reserve amounting to US$ 6,306 thousand (31 December 2012: US$ 6,306 thousand) is attributable to assets held-for-sale and will be recycled to the consolidated income statement on disposal

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

(Amounts in US $ thousands)

	2013	2012
OPERATING ACTIVITIES		
Profit / loss for the year	**4,739**	(39,763)
Adjustments for:		
Provision for Zakah	**145**	1,719
Gain on sale of investment securities	**(1,022)**	(1,375)
Fair value changes in investment securities	**(5,202)**	13,386
Share of profit of equity-accounted investees	**(5,752)**	(10,575)
Gain on acquisition of assets held-for-sale	**(14,453)**	-
Income from assets held-for-sale and discontinued operations	**(3,472)**	-
Depreciation and amortisation	**953**	1,881
Other Income	**(1,133)**	-
Sukuk amortisation	**(348)**	(1,054)
Charge / (reversal) of impairment	**2,017**	(1,100)
	(23,528)	(36,881)
Changes in:		
Financing receivables	**31,290**	9,215
Other assets	**7,354**	16,914
Due to financial institutions	**(86,838)**	(5,167)
Due to customers	**149,418**	(20,307)
Other liabilities	**(6,348)**	7,054
Proceeds from sale of investment securities	**34,210**	17,970
Purchase of investment securities	**(16,952)**	(13,000)
Net cash generated from / (used in) operating activities	**88,606**	(24,202)
INVESTING ACTIVITIES		
Net disposal / (purchase) of equipment	**105**	(275)
Investments in equity-accounted investees	**(2,600)**	3,252
Purchase of investment property	**(56,013)**	-
Dividends received from equity-accounted investees	**4,336**	-
Net cash (used in) / generated from investing activities	**(54,172)**	2,977
FINANCING ACTIVITIES		
(Repayment) / draw down of bank financing	**(15,110)**	15,110
Net cash (used in) / generated from financing activities	**(15,110)**	15,110
Net increase/ (decrease) in cash and cash equivalents during the year	**19,324**	(6,115)
Effect of exchange rate changes on cash and cash equivalents	**(816)**	275
Cash and cash equivalents at the beginning of the year	**71,718**	77,558
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**90,226**	71,718
Cash and cash equivalents comprise:		
Cash and balances with banks	**15,836**	7,985
Placements with financial institutions	**74,390**	63,733
	90,226	71,718

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 2013

(Amounts in US $ thousands)

2013	**At 1 January 2013**	**Deposit**	**Gross income**	**Wakil fee**	**Withdrawals**	**At 31 December 2013**
Wakala contract	**-**	**500**	**15**	**(3)**	**(512)**	**-**

2012	At 1 January 2012	Deposit	Gross income	Wakil fee	Withdrawals	At 31 December 2012
Wakala contract	3,604	-	91	(36)	(3,659)	-

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 results of the Bank and its subsidiaries.

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

Subsidiary	Ownership	Year of incorporation / Acquisition	Country of incorporation	Principal activity
Alkhair International Islamic Bank Malaysia Berhad	100%	2004	Malaysia	Alkhair International Islamic Bank Malaysia 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 Malaysia 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 Degerler A.S.	91.9%	2007	Turkey	The main activities of Alkhair Capital Menkul Degerler A.S. are to provide investment consultancy and asset management.
Alkhair Capital Saudi Arabia	53.4%	2009	Kingdom of 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.
Al-Tajamouat for Touristic Projects Co Plc	50.6%	2013	Jordan	Al-Tajamouat for Touristic Projects Co was incorporated in January 2004. Its principal activities are real estate property investment & development and ownership and operation of a shopping mall in Amman.

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 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 Group'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 21.

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.

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.

2. BASIS OF PREPARATION (continued)

(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 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 investee, 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 investee 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.

(d) Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated income statement immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated income statement. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements except for standards issued and effective from 1 January 2013, FAS 26 - 'Investment in real estate' which is given below:

The Group has adopted Financial Accounting Standard 26 ("FAS 26") "Investment in real estate" issued by AAOIFI during 2012, which is effective from 1 January 2013. The new standard replaces the requirements of FAS 17 which was applied for investments in real estate. The significant requirement of the standard is that for investment in real estate held-for-use, the entity shall choose either fair value model or cost model as its accounting policy. Where the entity adopts fair value model, then fair value changes should be directly recognised in equity under 'property fair value reserve'. The standard has to be applied retroactively.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Previously, the Group was following the fair value model. On the date of adoption of the standard, the Group opted to measure investment property using the cost model. The adoption of the new standard did not have any material impact on the consolidated financial statements of the Group.

New standards, amendments and interpretations issued but not yet effective for adoption

There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that would be expected to have a material impact on the Group.

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.

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 (refer 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:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Investment securities (continued)

(i) Classification (continued)

At fair value through income statement (FVTIS)

Equity-type instruments classified and measured at FVTIS include investments held-for-trading and those 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))

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Investment securities (continued)

(iv) Measurement principles (continued)

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 analysis and other valuation models with accepted economic methodologies for pricing financial instruments.

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 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 from financial institutions received on 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. Currently, the Group does not have any investments under this category.

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.

In assessing the impairment of investment property, the Group periodically uses external independent valuers to determine the recoverable amount based on market value of property.

h) Investment property

Investment property comprise land and building. Investment property is investments that earn rental income and/or are expected to benefit from capital appreciation or land held for undetermined future use. Investment properties are measured initially at cost, including directly attributable expenditures. Subsequently, investment property is carried at cost less accumulated depreciation (where applicable) and accumulated impairment losses (if any). Impairment of investment property is evaluated on assets-by-assets and not on portfolio basis at each reporting period.

Depreciation is calculated to write-off the cost of items of investment property less their estimated residual value using straight line basis over their estimated useful life. Depreciation is recognised in the consolidated income statement. Land is not depreciated. The building is depreciated over useful life of 50 years. Depreciation methods and estimated useful life and residual value are reviewed at each reporting period and adjusted if appropriate.

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. Non-financial assets (i.e. intangible assets, equipment) are no longer amortised or depreciated.

iii) Discounted operations

A discontinued operation is a component of the Group's business, the operations and cash flows 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 derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received 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 3 b).

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 3 b). 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 income represents advisory fees, arrangement fees, management fees and brokerage fees. Fees and Commission income 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 and recognised as staff cost in the consolidated income statement. 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 staff cost 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 as staff cost 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated 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 consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

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. Loan commitments are firm commitments to provide credit under pre-specified terms and commitments. 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 (refer 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 traded in an active market, fair value is determined by reference to the quoted bid 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 20.

(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) Impairment of cash generating units

Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property 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.

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.

(Amounts in US $ thousands)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Critical accounting estimates and judgements (continued)

(iii) Impairment of cash generating units (continued)

Discount rates were based on a 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 2013	31 December 2012
Cash on hand	19	19
Balances with banks	15,817	7,966
	15,836	7,985

5. FINANCING RECEIVABLES

	31 December 2013	31 December 2012
Gross murabaha receivables	56,224	87,735
Less : Deferred profits	(641)	(862)
Less : Specific impairment allowances	(2,974)	-
Less : Collective impairment allowances	(300)	(250)
	52,309	86,623

Financing receivables comprise due from customers under murabaha financing contracts. The average profit on these balances during the year was 7.2% per annum (2012: 7.6% per annum).

6. INVESTMENT SECURITIES

	31 December 2013	31 December 2012
Equity type instruments		
At fair value through income statement:		
- Quoted equity securities	51	23,691
- Unquoted equity securities *	29,846	32,771
- Quoted funds	7,154	1,983
- Unquoted funds*	28,360	28,397
Total equity type instruments	65,411	86,842
Debt type instruments		
At amortised cost :		
- Sukuk #	13,775	26,063
	79,186	112,905

* 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 loss of US$ 2.9 million (31 December 2012: fair value gain of US$ 1.4 million) on these investments.

\# The fair value of the investments carried at amortised cost at 31 December 2013 is US$ 13,734 (2012: US$ 27,259)

(Amounts in US $ thousands)

6. INVESTMENT SECURITIES (continued)

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

	At 1 January 2013	Additions during the year	Disposals/ Reclassified during the year	Foreign currency changes	Fair value changes	At 31 December 2013
Investment in associates	83,309	4,249	(36,028)	-	5,051	56,581
Quoted funds	1,983	5,333	(57)	(222)	117	7,154
Equity investments (< than 20% stake)	1,550	352	(248)	(12)	34	1,676
	86,842	**9,934**	**(36,333)**	**(234)**	**5,202**	**65,411**

7. ASSETS AND LIABILITIES HELD-FOR-SALE

	31 December 2013	31 December 2012
Subsidiary held-for-sale		
- Assets	**195,232**	-
- Liabilities	**(92,427)**	-
Net assets	**102,805**	-
Equity-accounted investee	**21,532**	18,932

On 31 May 2013, the Group acquired additional stake of 4.17% in Al-Tajamouat for Touristic Projects Co Plc (TAJ), a company listed on the Amman Stock Exchange, Jordan to take the Group's overall stake to 50.63% resulting in TAJ becoming a subsidiary. The investment was previously accounted for as investment carried at fair value through income statement.

The total consideration for the controlling stake amounted to US$ 35,838 thousand. As per acquisition accounting requirements, the net identifiable assets and liabilities recognized on acquisition were measured at their fair values on the date of acquisition. The Bank has recognised identifiable assets of US$ 206,594 thousand and liabilities of US$ 107,260 thousand at the date of acquisition which also represents the management's estimated fair value less cost to sell of the investment.

As the fair value of the recognized net identifiable assets is in excess of the consideration paid, the excess of US$ 14,453 thousand has been recognized as a gain on bargain purchase under "gain on acquisition of assets held-for-sale" in the consolidated income statement (i.e. negative goodwill). The gain on bargain purchase primarily arose from the fact that the previously held stake in TAJ was measured at the quoted market price, which was substantially below the fair value of the underlying net assets of TAJ.

The Group has an active plan approved by the Board, to sell its stake in TAJ, and accordingly, the asset and liabilities acquired are classified as held-for-sale in the consolidated statement of financial position. The equity of the remaining stake of 49.37% held by external parties is classified as "non-controlling interests related to assets held-for-sale" in the consolidated statement of financial position. The net result of operations of the subsidiary during the year was income of US$ 3,472 thousand (2012: Nil) which is presented separately as "income from assets held-for-sale and discontinued operation" in the consolidated income statement.

Further, assets held-for-sale includes investment in Burj Bank Limited, a commercial bank in Pakistan of US$ 21,532 thousand (31 December 2012: US$ 18,932 thousand), an equity-accounted investee, which was classified as held-for-sale in June 2012 based on an agreement signed with a potential buyer. During the year, the Bank subscribed to share right issue amounting US$ 2,600 thousand as per local regulatory requirements.

The buyer was eventually not approved by the local regulator and the transaction could not be completed for reasons beyond the control of the management. Subsequent to the year-end, the Group signed a memorandum of understanding with a new buyer, a local commercial bank. The completion of the deal is subject to the regulatory approvals and conclusion of the due diligence process. The management is confident that the sale process will be completed and regulatory approvals will be obtained. Accordingly, the investment in Burj Bank Limited continues to be classified as held-for-sale.

(Amounts in US $ thousands)

8. EQUITY-ACCOUNTED INVESTEES

	31 December 2013	31 December 2012
BFC Group Holdings Ltd.	**94,337**	93,205
t'azur Company B.S.C. (c)	**13,052**	12,801
	107,389	106,006

The Bank has 43.36% stake (2012: 43.36%) in BFC Group Holdings Ltd. ("BFC"), a company incorporated in the United Arab Emirates. BFC is a holding company of a group of 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 (2012: 25.86%) in t'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain. t'azur Company B.S.C (c) has a commitment to provide a Qard Hassan to the extent of the accumulated deficit in the participants' fund of US$ 32.5 million at 31 December 2013 (31 December 2012: US$ 31.2 million). The Group's share of the commitment is US$ 8.4 million (31 December 2012: US$ 8.1 million).

The movement on equity-accounted investees is as follows:

	2013	2012
At 1 January	**106,006**	114,952
Acquisitions during the year	**2,600**	-
Share of profits of equity-accounted investees	**5,752**	10,575
Share of reserves of equity-accounted investees	**(33)**	103
Transferred to assets held-for-sale (note 7)	**(2,600)**	(16,372)
Dividends received	**(4,336)**	(3,252)
At 31 December	**107,389**	106,006

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):

	2013	2012
Assets	**336,647**	324,670
Liabilities	**(94,200)**	(79,164)
Revenue	**58,303**	66,853
Profit for the year	**14,208**	19,428

9. INVESTMENT PROPERTY

31 December 2013	**Carrying value**	**Fair value**
Land - Kingdom of Bahrain	**17,706**	**18,748**
Land and building - Kingdom of Saudi Arabia	**56,013**	**56,013**
	73,719	**74,761**

31 December 2012	Carrying value	Fair value
Land - Kingdom of Bahrain	17,706	17,706
	17,706	17,706

During the year, the Group acquired land and buildings in the Kingdom of Saudi Arabia. The primary objective is to earn rental income from lease of building, accordingly, the land and buildings are classified as investment property. The fair value was determined based on valuation by external independent valuers and recent transaction prices.

(Amounts in US $ thousands)

10. OTHER ASSETS

	31 December 2013	31 December 2012
Advance for purchase of investments	-	7,145
Fees and expenses recoverable	**4,776**	4,314
Prepayments and advances	**2,731**	1,353
Receivable from sale of investment securities	-	11,900
Intangible assets	**300**	528
Others	**1,505**	4,516
	9,312	29,756
Less : Provision for impairment	**(1,902)**	(3,768)
	7,410	25,988

11. DUE TO FINANCIAL INSTITUTIONS

	31 December 2013	31 December 2012
Placements from financial institutions	**51,173**	138,011
Bank financing	-	15,110
	51,173	153,121

In February 2013, the Group repaid the bank financing. The average profit rate on placements from financial institutions was 3.58% per annum (2012: 3.81% per annum).

12. DUE TO CUSTOMERS

This includes deposits from corporate customers on Wakala basis with maturities ranging from 1 month to 1 year (2012: 1 month to 1 year) and carries an average profit rate of 3.70% per annum (2012: 2.74% per annum).

13. OTHER LIABILITIES

	31 December 2013	31 December 2012
Provision for legal and professional expenses	**820**	6,800
Accruals and other provisions	**1,765**	1,564
Restructuring provision	**419**	419
Deal-related payables	**4,740**	4,740
Staff-related payables	**2,512**	2,240
Trade and other payables	**8,554**	9,215
	18,810	24,978

(Amounts in US $ thousands)

14. SHARE CAPITAL

	31 December 2013	31 December 2012
Authorised:		
750,000,000 (2012: 750,000,000) ordinary shares of US$1 each	**750,000**	750,000
Issued and fully paid up:		
186,070,234 (2012: 186,070,234) ordinary shares of US$1 each, issued against cash	**186,070**	186,070
20,371,807 (2012: 20,371,807) ordinary shares of US$1 each, issued in kind	**20,372**	20,372
1,419,873 (2012: 1,419,873) ordinary shares of US$1 each, granted to employees	**1,420**	1,420
	207,862	207,862

15. INCOME FROM INVESTMENT SECURITIES

	2013	2012
Dividend income	-	28
Fair value gain / (loss) on investment securities carried at FVTIS	**5,202**	(13,386)
Gain on sale of investment securities carried at FVTE	**424**	1,011
(Loss) / gain on sale of investment securities carried at FVTIS	**(76)**	282
Sukuk Income:		
- Sukuk profit	**1,008**	1,307
- Gain on sale of sukuk	**674**	82
	7,232	(10,676)

16. FEES AND COMMISSION INCOME

	2013	2012
Advisory fees	-	75
Arrangement fees	**3,791**	1,135
Management fees	**2,911**	2,170
Brokerage fees	**307**	374
	7,009	3,754

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.

(Amounts in US $ thousands)

18. (CHARGE) / REVERSAL OF IMPAIRMENT

	2013	2012
Impairment allowance on:		
Investment carried at fair value through equity	-	(1,650)
Financing receivables	**(3,024)**	(250)
Other assets	**(297)**	-
Equipment	-	(2,000)
Reversal of impairment allowance on:		
Other assets	**1,304**	5,000
	(2,017)	1,100

19. COMMITMENTS AND CONTINGENCIES

	31 December 2013	31 December 2012
Lease commitments	**1,206**	2,882
Guarantees	**5,311**	3,315
Financing	**500**	-
	7,017	6,197

Litigations and claims

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

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

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

20. FAIR VALUE

Fair value is the amount for which an asset could be exchanged or an obligation settled between well informed, willing parties (seller and buyer) in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices and the use of valuation techniques such as discounted cash flow analysis.

Valuation techniques

Fair value of quoted securities are derived from quoted market prices in active markets. 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 value 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.

The fair value 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.

(Amounts in US $ thousands)

20. FAIR VALUE (continued)

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 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments carried at fair value through income statement	**7,205**	**49,497**	**8,709**	**65,411**
Investments carried at fair value through equity	-	-	-	-
	7,205	**49,497**	**8,709**	**65,411**

31 December 2012	Level 1	Level 2	Level 3	Total
Investments carried at fair value through income statement	25,674	49,534	11,634	86,842
Investments carried at fair value through equity	-	-	-	-
	25,674	49,534	11,634	86,842

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 2013	**Total losses recorded in consolidated income statement**	**Total gains recorded in equity**	**Purchases**	**Sales/ transfers**	**At 31 December 2013**
Investments carried at fair value through:						
- income statement	**11,634**	**(3,000)**	**-**	**75**	**-**	**8,709**
- equity	**-**	**-**	**-**	**-**	**-**	**-**
	11,634	**(3,000)**	**-**	**75**	**-**	**8,709**

	At 1 January 2012	Total gains 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	11,634	-	-	-	-	11,634
- equity	-	-	-	-	-	-
	11,634	-	-	-	-	11,634

Transfers between level 1, level 2 and level 3

There were no transfers between the levels during the year ended 31 December 2013.

(Amounts in US $ thousands)

20. FAIR VALUE (continued)

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 2013		
Investments carried at fair value through income statement	**8,709**	**435**
31 December 2012		
Investments carried at fair value through income statement	11,634	582

21. ASSETS UNDER MANAGEMENT

	31 December 2013	31 December 2012
Proprietary	**58,131**	61,168
Clients	**166,803**	169,946
	224,934	231,114

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.

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:

	2013	2012
Short term employee benefits	**2,482**	3,153
Post-employment benefits	**606**	548
	3,088	3,701

(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:

	2013				2012			
	Associates	Significant shareholders/ entities in which directors have interest	Senior management	Other entities	Associates	Significant shareholders/ entities in which directors have interest	Senior management	Other entities
Assets								
Financing receivables	**7,281**	**-**	**-**	**7,097**	6,556	-	-	7,108
Investment securities	**56,581**	**-**	**-**	**16,197**	83,309	-	-	11,181
Assets held-for-sale	**21,532**	**-**	**-**	**-**	18,932	-	-	-
Equity-accounted investees	**107,389**	**-**	**-**	**-**	106,006	-	-	-
Other assets	**1,177**	**-**	**11**	**2,532**	2,536	-	90	842
Liabilities								
Due to financial institutions	**22,888**	**-**	**-**	**-**	26,191	-	-	-
Due to customers	**-**	**-**	**-**	**50,077**	-	-	-	660
Other liabilities	**149**	**754**	**606**	**221**	152	1,284	548	66

	2013				2012			
	Associates	Significant shareholders/ entities in which directors have interest	Senior management	Other entities	Associates	Significant shareholders/ entities in which directors have interest	Senior management	Other entities
Income / (expenses)								
Income from investment securities	**5,050**	**-**	**-**	**695**	(13,729)	-	-	1,199
Fees and commission	**2,314**	**-**	**-**	**2,646**	2,067	-	-	1,228
Net finance income / (expense)	**(674)**	**-**	**-**	**956**	(663)	-	-	577
Share of profit of equity-accounted investees	**5,752**	**-**	**-**	**-**	10,575	-	-	-
Directors' and Shari'ah board remuneration and expenses	**-**	**(874)**	**-**	**(33)**	-	(818)	-	(52)

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.

- 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.

23. RISK MANAGEMENT (continued)

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.

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.

(Amounts in US $ thousands)

23. RISK MANAGEMENT (continued)

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.

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 proposes limits for its interbank placement activities and other client groups for review and approval by REXCO. Further, Risk Management independently analyses the applications and rates for 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 2013	Maximum exposure 2012
On balance sheet		
Balances with banks	**15,817**	7,966
Placements with financial institutions	**74,390**	63,733
Financing receivables	**52,309**	86,623
Investment securities - Sukuk	**13,775**	26,063
Other assets	**4,479**	23,359
Off balance sheet		
Guarantees	**5,311**	3,315
Financing	**500**	-
	166,581	211,059

(Amounts in US $ thousands)

24. CREDIT RISK (continued)

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 2013 was US$ 39.2 million (2012: US$ 30.8 million), relating to "placement with financial institution and financing receivables".

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 2013**	Total 2012
Region				
Bahrain	**37,112**	**-**	**37,112**	22,761
Other Middle East	**65,472**	**500**	**65,972**	109,237
North America	**385**	**5,000**	**5,385**	4,145
Asia Pacific	**52,790**	**-**	**52,790**	69,206
Europe	**5,011**	**311**	**5,322**	5,710
Total	**160,770**	**5,811**	**166,581**	211,059

Industry Sector Exposure

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

	Total Assets	**Off-balance sheet**	**Total 2013**	Total 2012
Industry Sector				
Banking and finance	**104,585**	**311**	**104,896**	95,262
Industrial	**9,858**	**500**	**10,358**	13,706
Real estate and construction	**16,585**	**-**	**16,585**	43,384
Technology	**3,501**	**5,000**	**8,501**	6,512
In-house funds	**894**	**-**	**894**	2,381
Trade	**22,118**	**-**	**22,118**	41,670
Government	**3,229**	**-**	**3,229**	6,775
Individual	**-**	**-**	**-**	1,369
Total	**160,770**	**5,811**	**166,581**	211,059

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 2013. Following is an analysis of credit quality by class of financial assets:

	2013				
	Neither past due nor impaired	**Past due but not impaired**	**Individually impaired**	**Impairments/ provisions**	**Total**
Balances with banks	**15,817**	**-**	**-**	**-**	**15,817**
Placements with financial institutions	**74,390**	**-**	**-**	**-**	**74,390**
Financing receivables	**52,609**	**-**	**2,974**	**(3,274)**	**52,309**
Investment securities - Sukuk	**13,775**	**-**	**-**	**-**	**13,775**
Other assets	**3,919**	**560**	**1,902**	**(1,902)**	**4,479**
Guarantees	**5,311**	**-**	**-**	**-**	**5,311**
Financing	**500**	**-**	**-**	**-**	**500**
Total	**166,321**	**560**	**4,876**	**(5,176)**	**166,581**

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.

	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	86,873	-	-	(250)	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	196,626	13,314	5,137	(4,018)	211,059

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

	2013			
	Less than 120 days	**Less than 365 days**	**More than 365 days**	**Total**
Other assets	**177**	**279**	**104**	**560**

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

(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 2013					
Due to financial Institutions	**30,723**	**20,749**	**-**	**51,472**	**51,173**
Due to customers	**65,411**	**156,720**	**-**	**222,131**	**217,594**
Other liabilities	**11,236**	**-**	**2,430**	**13,666**	**13,666**
Total financial liabilities	**107,370**	**177,469**	**2,430**	**287,269**	**282,433**

	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

(Amounts in US $ thousands)

25. LIQUIDITY RISK MANAGEMENT (continued)

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 2013				
Lease Commitments	-	1,079	127	1,206
Guarantees	5,311	-	-	5,311
Financing	500	-	-	500
Total	**5,811**	**1,079**	**127**	**7,017**

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

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 by 200 bps, with all other variables held constant. The effect of decreases in profit rate is expected to be equal and opposite to the effect of the increases shown.

	2013			2012		
	Balance	**Change in profit rate (+/-)**	**Effect on net profit (+/-)**	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	**74,390**	**200**	**1,459**	63,733	200	1,246
Financing receivables	**52,309**	**200**	**992**	86,623	200	1,523
Investment securities –Sukuk	**13,775**	**200**	**13**	26,063	200	19
Liabilities						
Due to financial institutions	**51,173**	**200**	**(867)**	153,121	200	(2,609)
Due to customers	**217,594**	**200**	**(2,332)**	68,176	200	(1,135)
Total			**(735)**			(956)

(Amounts in US $ thousands)

26. MARKET RISK MANAGEMENT (continued)

Currency risk

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

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

	2013			2012		
	Exposure (USD equivalent)	**Effect on net profit (+/-)**	**Effect on equity (+/-)**	Exposure (US$ equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Currency						
Kuwaiti Dinar	**(10,423)**	**(2,085)**	**-**	(12,160)	(2,432)	-
Turkish Lira	**4,718**	**264**	**680**	7,074	322	1,093
Malaysian Ringgit	**85**	**17**	**-**	42	8	-
Euro	**27**	**5**	**-**	141	28	-
Jordanian Dinar *	**50,323**	**10,065**	**-**	23,732	4,746	-
Sterling Pounds	**77**	**15**	**-**	157	31	-

* Jordanian Dinar is officially pegged to International Monetary Fund (IMP) special drawing rights (SDR's). In practice this is fixed at 1US$=0.709 JOD most of the times.

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

Sensitivity analysis

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

The effect on profit as a result of a change in the fair value of equity instruments at 31 December 2013 due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$ 8.8 million (2012: US$ 9.2 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 2013							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Undated	Total
ASSETS								
Cash and balances with banks	15,836	-	-	-	15,836	-	-	15,836
Placements with financial institutions	73,327	1,063	-	-	74,390	-	-	74,390
Financing receivables	8,976	7,646	19,659	10,028	46,309	6,000	-	52,309
Investment securities	79	91	8,844	22,687	31,701	47,485	-	79,186
Assets held-for-sale	-	21,532	-	195,232	216,764	-	-	216,764
Equity-accounted investees	-	-	-	-	-	-	107,389	107,389
Investment properties	-	-	-	-	-	-	73,719	73,719
Other assets	-	6,627	-	483	7,110	300	-	7,410
Equipment	-	-	-	-	-	-	1,587	1,587
Total assets	98,218	36,959	28,503	228,430	392,110	53,785	182,695	628,590
LIABILITIES								
Due to financial institutions	12,342	18,246	19,875	710	51,173	-	-	51,173
Due to customers	16,829	48,256	78,613	73,896	217,594	-	-	217,594
Liabilities related to assets held-for-sale	-	-	-	92,427	92,427	-	-	92,427
Other liabilities	-	11,236	-	5,144	16,380	2,430	-	18,810
Total liabilities	29,171	77,738	98,488	172,177	377,574	2,430	-	380,004
Commitments	5,811	64	64	951	6,890	127	-	7,017
Net liquidity gap	63,236	(40,843)	(70,049)	55,302	7,646	51,228	182,695	241,569
Net cumulative gap	63,236	22,393	(47,656)	7,646	7,646	58,874	241,569	

	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	

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 Degerler A.S

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 Degerler A.S 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 Malaysia Berhad

Alkhair International Islamic Bank Malaysia 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 $ thousands)

29. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2013				
	Investment Banking & Alkhair Capital Menkul Degerler A.S	Alkhair International Islamic Bank Malaysia Berhad	Alkhair Capital Saudi Arabia	Inter-company	Total
External revenue					
Net finance expense	**(4,054)**	**2,848**	**-**	**-**	**(1,206)**
Income from investment securities	**5,503**	**1,641**	**88**	**-**	**7,232**
Fees and commission	**3,060**	**2,162**	**1,787**	**-**	**7,009**
Share of profit of equity-accounted investees	**5,752**	**-**	**-**	**-**	**5,752**
Gain on acquisition of assets held-for-sale	**14,453**	**-**	**-**	**-**	**14,453**
Other income	**1,370**	**(23)**	**81**	**-**	**1,428**
Inter-segment income	**(3,250)**	**586**	**2,664**	**-**	**-**
Total income	**22,834**	**7,214**	**4,620**	**-**	**34,668**
Total operating expenses	**(22,319)**	**(4,016)**	**(4,904)**	**-**	**(31,239)**
(Charge) / reversal of impairment	**1,007**	**(3,024)**	**-**	**-**	**(2,017)**
Provision for Zakah	**-**	**-**	**(145)**	**-**	**(145)**
Income from assets held-for-sale	**3,472**	**-**	**-**	**-**	**3,472**
Profit / (Loss) for the year	**4,994**	**174**	**(429)**	**-**	**4,739**
Equity-accounted investees	**107,389**	**-**	**-**	**-**	**107,389**
Capital expenditure	**24**	**27**	**56,013**	**-**	**56,064**
Segment assets	**451,611**	**132,392**	**68,382**	**(23,795)**	**628,590**
Segment liabilities	**295,006**	**102,695**	**6,098**	**(23,795)**	**380,004**

	For the year ended 31 December 2012				
	Investment Banking & Alkhair Capital Menkul Degerler A.S	Alkhair International Islamic Bank Malaysia Berhad	Alkhair Capital Saudi Arabia	Inter-company	Total
External revenue					
Net finance expense	(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 Zakah	-	-	(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

(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 2013	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total income	7,897	19,073	-	7,214	484	34,668
Net income	(11,667)	17,496	-	174	(1,264)	4,739
Non-current assets *	18,633	56,270	-	194	209	75,306

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

* 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 2013 was US$ 0.04887 cents per share (2012: US$ 0.0283 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.

(Amounts in US $ thousands)

34. CAPITAL MANAGEMENT (continued)

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 mitigants against any of its credit exposures.

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

	2013	2012
Regulatory capital base:		
Tier 1 capital	**65,382**	91,515
Tier 2 capital	**-**	-
Total regulatory capital	**65,382**	91,515
Risk-weighted assets	**430,348**	405,597
Tier 1 capital adequacy ratio	**15.19%**	22.56%
Total capital adequacy ratio	**15.19%**	22.56%

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

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