BANK ALKHAIR

Bank Alkhair B.S.C. (c)

Pillar III disclosures

30 June 2014

These disclosures should be read in conjunction with the detailed risk and capital management disclosures made by the Bank in the Annual Report for the year ended 31 December 2013 and the condensed consolidated interim financial information for the six-month period ended 30 June 2014.

CONSOLIDATED FINANCIAL PERFORMANCE SUMMARY

Bank Al-Khair B.S.C (c)
5-Year Consolidated Performance Summary

(Amounts in US $ thousands)	H1 2014	2013	2012	2011	2010	2009
(Loss) / profit for the period from continuing operations before Zakah and impairment	(2,017)	3,429	(39,208)	(15,538)	(173,692)	12,300
(Loss) / profit for the period / year	(2,937)	4,739	(39,763)	1,169	(229,496)	2,235
Total assets	580,632	628,590	442,155	483,032	727,948	1,033,619
Placements with financial institutions	42,937	74,390	63,733	66,477	72,437	188,465
Financing receivables	18,322	52,309	86,623	95,838	229,413	112,578
Investment securities	84,947	79,186	112,905	130,383	123,002	247,999
Total liabilities	330,640	380,004	246,275	247,866	525,542	609,967
Due to financial institutions	35,889	51,173	153,121	143,178	298,275	300,766
Due to customers	177,730	217,594	68,176	88,483	95,705	220,657
Equity attributable to the shareholders of the parent	164,320	169,373	167,113	203,483	152,528	379,709
Total equity	249,992	248,586	195,880	235,166	202,406	423,652
Return on average assets *(percent)*	-0.5%	0.9%	-8.6%	0.2%	-26.1%	0.2%
Return on average shareholders' equity *(percent)*	-1.2%	2.1%	-18.4%	0.5%	-73.3%	0.5%
Cost : income ratio *(percent)*	119.3%	90.1%	n/a	159.6%	n/a	81.5%
Financial leverage *(percent)*	130.0%	158.7%	132.4%	113.8%	291.9%	150.5%
Capital adequacy ratio *(percent)*	13.8%	15.2%	22.6%	21.6%	13.6%	23.1%

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

CAPITAL MANAGEMENT AND ALLOCATION

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

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

.

Capital Structure

The following table details the regulatory capital resources for Bank Alkhair as at 30 June 2014, 31 December 2013 and 31 December 2012, for Tier 1 and Tier 2 capital.

Composition of Capital

(US$ millions)	**30 June 2014**	31 December 2013	31 December 2012
Tier 1 capital			
Paid-up share capital	**207.9**	207.9	207.9
Statutory reserve	**0.6**	0.6	0.3
Accumulated loss	**(34.5)**	(29.8)	(32.7)
Other reserves	**(10.0)**	(9.5)	(8.4)
Non-controlling Interest	**-**	-	-
Less: goodwill*	**(32.0)**	(32.0)	(36.0)
Less: unrealised net fair value losses on investment securities	**-**	-	-
Less: 50% of significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	**(10.8)**	(10.8)	(9.5)
Less: 50% of investment in insurance entity greater than or equal to 20%	**(4.9)**	(6.5)	(6.4)
Less: excess amounts over maximum permitted large exposure limits	**(23.1)**	(18.6)	(3.9)
Less: additional deduction from Tier 1 to absorb deficiency in Tier 2 capital	**(38.8)**	(35.9)	(19.8)
Total qualifying Tier 1 capital	**54.4**	65.4	91.5

Tier 2 capital			
Less: 50% of significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	**(10.8)**	(10.8)	(9.5)
Less: 50% of investment in insurance entity greater than or equal to 20%	**(4.9)**	(6.5)	(6.4)
Less: excess amounts over maximum permitted large exposure limits	**(23.1)**	(18.6)	(3.9)
Addition to Tier 2 to absorb Tier 2 capital deficiency	**38.8**	35.9	19.8
Total qualifying Tier 2 capital	**-**	-	-
Total eligible regulatory capital	**54.4**	65.4	91.5

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

Capital Management

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

The following tables detail the risk-weighted exposures, regulatory capital requirements and regulatory capital ratios for the Bank Alkhair B.S.C. (c) (Group) as at 30 June 2014, 31 December 2013 and 31 December 2012. The figures are based on the Basel II standardised approach for credit risk and market risk, and the Basel II basic indicator approach for operational risk. The Bank considers Standard & Poor's, Fitch and Moody's to be External Credit Assessment Institutions (ECAIs) for the risk weighting of balance with banks, placement with financial institutions, financing receivables and investment in Sukuk. If there are two assessments available by eligible ECAIs chosen by the Bank which map into different risk weights, the higher risk weight will be applied. If there are three assessments available by eligible ECAIs chosen by the Bank which map into different risk weights, the assessments corresponding to the two lowest risk weights will be referred to, and the higher of those two risk weights will be selected.

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

Bank Alkhair's treasury counterparts are fully licensed and regulated financial institutions. In addition, the Bank has developed an internal rating methodology where all counterparties are rated and assigned an internal rating mapped to grades provided by external rating agencies. The internal credit rating methodology has strengthened the counterparty risk management process by providing a more objective, risk-based and deeper analysis of counterparty financial conditions and performance. Before establishing limits, all counterparties undergo a thorough credit risk assessment and due diligence review before approval by the Risk Committee.

As part of its collateral management policy, the Bank only accepts collateral in line with Shari'ah requirements, and with a view to minimising risk exposure. The Bank also manages its collateral 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.

(US$ millions)	Risk-weighted equivalents			Risk-weightings
	30 June 2013	31 December 2013	31 December 2012	
Claims on sovereigns	**-**	-	0.5	0%-100%
Claims on PSEs*	**0.4**	0.4	0.4	20%
Claims on banks	**29.1**	43.7	41.8	20%-100%
Claims on corporates including Takaful companies & category 3 investment firms	**33.0**	62.4	110.3	100%
Investments in securities and sukuk::				
Investments in listed equities	**20.2**	20.6	23.7	100%
Investments in unlisted equities	**37.9**	38.1	42.6	150%
Investments in unrated funds	**39.7**	41.0	38.1	100%-150%
Real estate holdings	**97.6**	98.3	38.5	200%
Other assets and specialised financing	**28.2**	21.0	20.0	100%
Credit risk-weighted assets	**286.1**	325.5	315.9	

*Public sector entities (PSEs)

Minimum Capital Requirements for Islamic Financing Contracts

(US$ millions)	**30 June 2014**		31 December 2013	
	Risk-weighted equivalents	**Minimum capital requirements**	Risk-weighted equivalents	Minimum capital requirements
Murabaha	**22.5**	**2.8**	59.7	7.5
Wakala	**6.0**	**0.8**	4.4	0.6
Mudaraba	**7.8**	**1.0**	19.6	2.5

Market Risk-Weighted Exposures

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

The details of the Group's market risk capital charges and the equivalent market risk-weighted exposures as at 30 June 2014, 31 December 2013 and 31 December 2012, are as follows:

(US$ millions)	**30 June 2014**	31 December 2013	31 December 2012
Price risk	**-**	-	-
Equities position risk	**-**	-	-
Sukuk risk	**-**	-	-
Foreign exchange risk	**2.7**	2.5	3.0
Commodities risk	**-**	-	-
Total capital requirement for market risk	**2.7**	2.5	3.0
Multiplier	**12.5**	12.5	12.5
Total Market risk-weighted exposures	**33.8**	31.3	37.5

The details of the Group's maximum and minimum value for each category of the market risk during the period ended 30 June 2014 and 31 December 2013 are:

	30 June 2014		31 December 2013	
(US$ millions)	**Maximum Capital Charge**	**Minimum Capital Charge**	Maximum Capital Charge	Minimum Capital Charge
Price risk	**-**	**-**	-	-
Equities position risk	**-**	**-**	-	-
Sukuk risk	**-**	**-**	-	-
Foreign exchange risk	**3.1**	**2.7**	5.2	2.5
Commodities risk	**-**	**-**	-	-
Total capital requirement for market risk	**3.1**	**2.7**	5.2	2.5
Multiplier	**12.5**	**12.5**	12.5	12.5
Total Market risk-weighted exposures	**38.8**	**33.8**	65.0	31.3

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 decreased by US$ 36.9 million (8.6%) in 2014, from US$ 430.6 million as at 31 December 2013 to US$ 393.7 million as at 30 June 2014, as detailed below:

(US$ millions)	**30 June 2014**	31 December 2013	31 December 2012
Credit risk-weighted exposures	**286.1**	325.5	315.9
Market risk-weighted exposures	**33.8**	31.3	37.5
Operational risk-weighted exposures	**73.8**	73.8	52.5
Total risk-weighted exposures	**393.7**	430.6	405.9

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 MenkulDegerler 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
Tintoria International Limited	UAE	61.85%	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

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 per cent of Group Regulatory Capital

(Percent)	**30 June 2014**		31 December 2013		31 December 2012	
	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)	**13.8**	**13.8**	15.2	15.2	22.6	22.6
Alkhair International Islamic Bank Berhad *	**62.3**	**61.6**	38.5	38.1	23.7	23.7
Alkhair Capital Saudi Arabia	**48.9**	**48.9**	47.7	47.7	77.5	77.5
Alkhair Capital Menkul Degerler A.S.	**38.2**	**38.2**	41.8	41.8	44.6	44.6

** 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)	**30 June 2014**	31 December 2013	31 December 2012
Credit risk	**35.8**	40.7	39.5
Market risk	**4.2**	3.9	4.7
Operational risk	**9.2**	9.2	6.6
Total capital requirements	**49.2**	53.8	50.8

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

(US$ millions)	**30 June 2014**	31 December 2013	31 December 2012
Investments in listed equities	**2.5**	2.6	3.0
Investments in unlisted equities	**4.7**	4.8	5.3
Investments in unrated funds	**5.0**	5.1	4.8
Total capital requirements	**12.2**	12.5	13.1

RISK MANAGEMENT

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 30 June 2014	Maximum exposure 31 December 2013
<u>On balance sheet</u>		
Balances with banks	7,647	15,817
Placements with financial institutions	42,937	74,390
Financing receivables	18,322	52,309
Investment securities – Sukuk	19,831	13,775
Other assets	3,315	4,479
<u>Off balance sheet</u>		
Guarantees	5,311	5,311
Financing	-	500
	97,363	166,581

Gross and average credit risk

The table below shows the average gross credit risk exposure of the Bank as at 30 June 2014, classified as per the disclosure in the financial statements:

Balance sheet items	**Funded exposure**	**Unfunded exposure**	**Total gross credit exposure**	**Average gross credit exposure***
(US$ thousands)				
Balances with banks	7,647	-	7,647	12,305
Placements with financial institutions	42,937	-	42,937	54,446
Financing Receivables	18,322	-	18,322	33,573
Investment securities - Sukuk	19,831	-	19,831	15,843
Other assets	3,315	-	3,315	5,129
	92,052	**-**	**92,052**	**121,296**
Guarantees	-	5,311	5,311	5,311
Financing commitment	-	-	-	317
Total credit risk exposure	**92,052**	**5,311**	**97,363**	**126,924**

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the period ended 30 June 2014.

Risk concentration of the maximum exposure to credit risk

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 30 June 2014 was US$ 21.8 million (31 December 2013: US$ 39.2 million), relating to "financing receivables and Sukuk investment".

Exposures in excess of the 15 per cent limit for the period ended 30 June 2014 are as follows:

Counterparties	Amount of exposures In US$ thousands	% of exposure To capital	Type of Exposures
Counterparty # 1	**97,878**	**97.07%**	Investment
Counterparty # 2	**50,304**	**49.89%**	Investment and receivable
Counterparty # 3	**31,113**	**30.87%**	Investment, receivable and guarantee
Counterparty # 4	**24,749**	**24.54%**	Investment and receivable
Counterparty # 5	**21,841**	**21.66%**	Investment, murabaha and receivable
Counterparty # 6	**21,544**	**21.37%**	Investment and bank balance
Counterparty # 7	**15,829**	**15.70%**	Mudaraba and bank balance

The exposure to Counterparty # 7 is exempted short-term interbank exposure.

Geographical Exposure Distribution

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

REGION	**Total Assets**	**Off-balance sheet**	**Total 30 June 2014**	Total 31 December 2013
Bahrain	26,550	-	26,550	37,112
Other Middle East	29,499	-	29,499	65,972
North America	-	5,000	5,000	5,385
Asia Pacific	33,304	-	33,304	52,790
Europe	2,699	311	3,010	5,322
Total	**92,052**	**5,311**	**97,363**	166,581

Industry Sector Exposure

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

INDUSTRY SECTOR	**Total Assets**	**Off-balance sheet**	**Total 30 June 2014**	Total 31 December 2013
Banking and finance	59,038	311	59,349	104,896
Industrial	8,980	-	8,980	10,358
Real estate and construction	16,311	-	16,311	16,585
Technology	3,352	5,000	8,352	8,501
In-house funds	792	-	792	894
Trade	552	-	552	22,118
Government	3,027	-	3,027	3,229
Total	**92,052**	**5,311**	**97,363**	166,581

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 a nd utilization of collateral when the customer/counterparty defaults. In the past year, the Bank has obtained collateral including shareholders' personal guarantees, cash, real estate, unlisted equity shares and debentures. The Bank's credit policy discourages taking collateral value where there is positive correlation between collateral value and obligor's ability to pay.

Credit quality per class of financial assets

The Group did not apply a standard credit rating to its investment business, as the Group assessed credit quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of standard quality as of 30 June 2014. Following is an analysis of credit quality by class of financial assets:

	30 June 2014				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments/ provisions	Total
Balances with banks	7,647	-	-	-	7,647
Placements with financial institutions	42,937	-	-	-	42,937
Financing receivables	18,622	-	2,974	(3,274)	18,322
Investment securities – Sukuk	19,831	-	-	-	19,831
Other assets	3,188	127	1,902	(1,902)	3,315
Guarantees	5,311	-	-	-	5,311
Financing	-	-	-	-	-
Total	**97,536**	**127**	**4,876**	**(5,176)**	**97,363**

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

	31 December 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

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

	30 June 2014			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	55	21	51	127

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

Specific provisions

	Specific Provision against			
(US$ thousands)	Financing Receivable	Other Assets	Investment Securities	Total
At the beginning of the period	2,974	1,902	-	4,876
New Provision made	-	-	-	-
Write off	-	-	-	-
Recoveries / Write backs	-	-	-	-
Balance at the ending of the period	2,974	1,902	-	4,876

During the period, the Group made general collective provisions of US$ Nil million (30 June 2013: 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 encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

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

- The Group Asset and Liability Committee ("ALCO") is responsible for liquidity monitoring, cash flow planning and general asset liability management.
- In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.

The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon

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

	30 June 2014	31 December 2013
Liquid assets : Total assets	**12.3%**	16.6%
Liquid assets : Total deposits	**33.3%**	38.7%
Liquid assets : Total liabilities	**21.5%**	27.4%
Short term assets: Short term liabilities	**104.2%**	103.8%

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				**Carrying value**
	Less than 3 months	**3 to 12 months**	**Over 1 year**	**Total**	
At 30 June 2014					
Due to financial Institutions	19,234	16,722	-	35,956	35,889
Due to customers	55,785	125,586	-	181,371	177,730
Other liabilities	9,309	-	1,960	11,269	11,269
Total financial liabilities	**84,328**	**142,308**	**1,960**	**228,596**	**224,888**

	Gross undiscounted cash flows				Carrying value
	Less than 3 months	3 to 12 months	Over 1 year	Total	
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

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

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Carrying value
30 June 2014					
Lease Commitments	-	64	1,015	-	1,079
Guarantees	5,311	-	-	-	5,311
Total	**5,311**	**64**	**1,015**	**-**	**6,390**

	On demand	Less than 3 months	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

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	30 June 2014							
	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	7,658	-	-	-	7,658	-	-	7,658
Placements with financial institutions	40,864	2,073	-	-	42,937	-	-	42,937
Financing receivables	611	36	7,717	3,323	11,687	6,635	-	18,322
Investment securities	826	2,170	1,460	31,356	35,812	49,135	-	84,947
Assets held-for-sale	-	-	21,532	218,527	240,059	-	-	240,059
Equity-accounted investees	-	-	-	-	-	-	107,612	107,612
Investment properties	-	-	-	-	-	-	73,068	73,068
Other assets	-	4,174	-	234	4,408	189	-	4,597
Equipment	-	-	-	-	-	-	1,432	1,432
Total assets	**49,959**	**8,453**	**30,709**	**253,440**	**342,561**	**55,959**	**182,112**	**580,632**
LIABILITIES								
Due to financial institutions	17,419	1,772	16,698	-	35,889	-	-	35,889
Due to customers	7,498	47,893	83,178	39,161	177,730	-	-	177,730
Liabilities related to assets held-for-sale	-	-	-	100,608	100,608	-	-	100,608
Other liabilities	-	9,309	-	5,144	14,453	1,960	-	16,413
Total liabilities	**24,917**	**58,974**	**99,876**	**144,913**	**328,680**	**1,960**	**-**	**330,640**
Commitments	5,311	64	888	127	6,390	-	-	6,390
Net liquidity gap	**19,731**	**(50,585)**	**(70,055)**	**108,400**	**7,491**	**53,999**	**182,826**	**243,602**
Net cumulative gap	**19,731**	**(30,854)**	**(100,909)**	**7,491**	**7,491**	**61,490**	**243,602**	

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	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	

MARKET RISK MANAGEMENT

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

Market Risk: Non-trading

Profit rate risk

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

The following table demonstrates the sensitivity to a reasonable possible change in profit rates by 200 bps, with all other variables held constant. The effect of decreases in profit rate is expected to be equal and opposite to the effect of the increases shown.

	30 June 2014			31 December 2013		
	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	42,937	200	402	74,390	200	1,459
Financing receivables	18,322	200	136	52,309	200	992
Investment securities – Sukuk	19,831	200	12	13,775	200	13
Liabilities						
Due to financial institutions	35,889	200	(223)	51,173	200	(867)
Due to customers	177,730	200	(473)	217,594	200	(2,332)
Total			**(146)**			(735)

Currency risk

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

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

Currency	30 June 2014 Exposure (USD equivalent)	30 June 2014 Effect on net profit (+/-)	30 June 2014 Effect on equity (+/-)	31 December 2013 Exposure (US$ equivalent)	31 December 2013 Effect on net profit (+/-)	31 December 2013 Effect on equity (+/-)
Kuwaiti Dinar	(10,429)	(2,086)	-	(10,423)	(2,085)	-
Turkish Lira	3,656	289	442	4,718	264	680
Malaysian Ringgit	108	22	-	85	17	-
Euro	125	25	-	27	5	-
Jordanian Dinar *	50,323	10,065	-	50,323	10,065	-
Sterling Pounds	151	30	-	77	15	-

* 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.

PREPAYMENT RISK

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

OPERATIONAL RISK

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

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

EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

The Group did not receive any significant income or incur significant expenses that were prohibited by Shari'ah. During the period, Bank Alkhair recovered US$ Nil (31 December 2013: US$ 11,387.74) 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)	**30 June 2014**	31 December 2013	31 December 2012	31 December 2011	31 December 2010
Gross Income	**-**	15	91	758	4,931
Wakil Fee	**-**	(3)	(36)	(215)	(956)

Displaced Commercial Risk

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