BANK ALKHAIR

# Bank Alkhair B.S.C. (c)

# Pillar III disclosures

# 30 June 2015

- 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 2014 and the condensed consolidated interim financial information for the six-month period ended 30 June 2015.
- Additional information presented other than those required by the PD Module of the CBB rule book and optional information presented, were not independently verified by the auditors.
- The ratios reported for the subsidiaries are not verified by the auditors

## CONSOLIDATED FINANCIAL PERFORMANCE SUMMARY

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

| (Amounts in US $ thousands) | 30-Jun-15 | 31-Dec-14 | 31-Dec-13 (restated) | 31-Dec-12 (restated) | 31-Dec-11 | 31-Dec-10 |
|---|---|---|---|---|---|---|
| (Loss) / profit for the period before Zakah and impairment | (8,304) | (9,887) | 1,114 | (38,921) | (15,538) | (173,692) |
| (Loss) / profit for the period | (8,549) | (17,316) | (1,048) | (39,476) | 1,169 | (229,496) |
| Total assets | 606,228 | 564,983 | 619,808 | 438,780 | 483,032 | 727,948 |
| Placements with financial institutions | 9,322 | 42,250 | 74,390 | 63,733 | 66,477 | 72,437 |
| Financing receivables | 68,621 | 9,151 | 52,309 | 86,623 | 95,838 | 229,413 |
| Investment securities | 75,450 | 85,323 | 79,186 | 112,905 | 130,383 | 123,002 |
| Total liabilities | 388,373 | 337,538 | 380,004 | 246,275 | 247,866 | 525,542 |
| Due to financial institutions | 100,307 | 106,987 | 130,763 | 153,121 | 143,178 | 298,275 |
| Due to customers | 246,341 | 197,552 | 217,594 | 68,176 | 88,483 | 95,705 |
| Equity attributable to the shareholders of the Bank | 130,799 | 141,656 | 161,343 | 163,738 | 203,483 | 152,528 |
| Total equity | 217,855 | 227,445 | 239,804 | 192,505 | 235,166 | 202,406 |
| Return on average assets *(percent)* | -1.5% | -2.9% | -0.2% | -8.6% | 0.2% | -26.1% |
| Return on average shareholders' equity *(percent)* | -3.8% | -7.4% | -0.5% | -18.5% | 0.5% | -73.3% |
| Cost to income ratio *(percent)** | 217.3% | 160.6% | 96.7% | n/a | 159.6% | n/a |
| Financial leverage *(percent)* # | 265.0% | 215.0% | 215.9% | 135.2% | 113.8% | 291.9% |
| Capital adequacy ratio *(percent)*** | 4.6% | 8.4% | 15.2% | 22.6% | 21.6% | 13.6% |

*Note:*
*Figures of previous years have been reclassified for comparative purposes.*
** Cost excludes impairment and provision for zakah*
*** Capital adequacy ratio for H1 2015 is calculated as per amended capital adequacy guidelines effective from 1January 2015.*
*# Calculaed as a % of 'total customer balances' and 'due to financial institutions' over the 'total equity'.*

**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, United Arab Emirates and Turkey and associated undertakings in Pakistan, United Arab Emirates and Bahrain. The Bank along with its subsidiaries are together referred to as ("the Group").

Bank is required to comply with the regulatory capital adequacy guidelines promulgated by the CBB. In accordance with CBB guidelines, Bank Alkhair must maintain a minimum target capital adequacy ratio of 12.5% on a consolidated basis. The Group capital adequacy ratio as at 30 June 2015 is 4.6 which is below the minimum regulatory capital requirement of 12.5%.

The information presented for the six months ended 30 June 2015 were prepared based on the amended capital adequacy guidelines effective from 1 January 2015. The comparative information presented for prior period was based on the guidelines applicable during those periods and have not been recalculated under the current guidelines. Accordingly the prior period information presented may not necessarily be directly comparable with current period information.

**Capital Structure**

The following table details the regulatory capital resources for Bank Alkhair as at 30 June 2015, 31 December 2014 and 31 December 2013:

**Components of Capital**

| *(US$ millions)* | **30 June 2015*** | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **Tier 1 capital** | | | |
| **Common equity Tier 1 (CET1)** | | | |
| Paid-up share capital | 207.9 | 207.9 | 207.9 |
| Statutory reserve | 0.6 | 0.6 | 0.6 |
| Accumulated losses | (63.3) | (53.5) | (29.8) |
| Foreign Currency Translation reserve | (14.3) | (13.3) | (9.5) |
| **Total CET1 capital prior to regulatory adjustments** | 130.9 | NA | NA |
| Less : Goodwill | (32.0) | NA | NA |
| **Total common equity Tier 1 capital after the regulatory adjustments above (CET1 C)** | 98.9 | NA | NA |
| Less-Significant investments in the common stock of financial entities (amount above 10% of the CET1 C) | (16.4) | NA | NA |
| -Aggregated amount of exposures exceeding the 15% of CET1 C | (12.1) | NA | NA |
| | | | |
| Previous deductions | | | |
| Less: Goodwill** | **NA** | (32.0) | (32.0) |
| Less: 50% of significant minority investments in banking, securities and other financial entities unless pro-rata consolidated | **NA** | (6.5) | (10.8) |

| | | | |
|---|---|---|---|
| Less: 50% of investment in insurance entity greater than or equal to 20% | **NA** | (4.8) | (6.5) |
| Less: excess amounts over maximum permitted large exposure limits | **NA** | (26.6) | (18.6) |
| Less: additional deduction from Tier 1 to absorb deficiency in Tier 2 capital | **NA** | (37.9) | (35.9) |
| **Total common equity Tier 1 capital after the regulatory adjustments** | **70.4** | 33.9 | 65.4 |
| | | | |
| **Tier 2 capital** | | | |
| Less: 50% of significant minority investments in banking, securities and other financial entities unless pro-rata consolidated | **NA** | (6.5) | (10.8) |
| Less: 50% of investment in insurance entity greater than or equal to 20% | **NA** | (4.8) | (6.5) |
| Less: excess amounts over maximum permitted large exposure limits | **NA** | (26.6) | (18.6) |
| Addition to Tier 2 to absorb Tier 2 capital deficiency | **NA** | 37.9 | 35.9 |
| **Total qualifying Tier 2 capital** | **-** | - | - |
| **Total capital** | **70.4** | 33.9 | 65.4 |

**Bank Alkhair has used the amended capital adequacy guidelines promulgated by the CBB with effect from 1st January 2015 whereas the prior year numbers are based on the regulations applicable during that period.*

***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 2015, 31 December 2014 and 31 December 2013. The figures for the period ending 30 June 2015 are based on the standardised approach for credit risk and market risk, and the 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 **30 June 2015** | 31 December 2014 | 31 December 2013 | **Risk-weightings for 2015** |
|---|---|---|---|---|
| Claims on Public sector entities | **-** | - | 0.4 | 20% |
| Claims on banks | **9.8** | 28.4 | 43.7 | 20%-100% |
| Claims on corporates including Takaful companies & category 3 investment firms | **146.0** | 27.5 | 62.4 | 20%-800% |
| Investments in securities, funds & sukuk: | | | | |
| - Investments in listed equities | **18.1** | 17.0 | 20.6 | 100% |
| - Investments in unlisted equities | **24.9** | 33.1 | 38.1 | 150% |
| -Significant investment in the common shares of financial entities > 10% | **158.5** | NA | NA | 250% |
| -Significant investment in the common shares of commercial entities | **410.7** | NA | NA | 800% |
| - Other investment with excess amount over 15% | **558.5** | NA | NA | 800% |
| - Investments in unrated funds | **20.9** | 33.1 | 41.0 | 100%-150% |
| Real estate holdings | **61.0** | 123.3 | 98.3 | 200% |
| Other assets and specialised financing | **12.1** | 21.7 | 21.0 | 100% |
| **Credit risk-weighted assets** | **1,420.5** | 284.1 | 325.5 | |

**Minimum Capital Requirements for Islamic Financing Contracts**

| *(US$ millions)* | **30 June 2015** | | 31 December 2014 | |
|---|---|---|---|---|
| | **Risk-weighted equivalents** | **Minimum capital requirements** | Risk-weighted equivalents | Minimum capital requirements |
| Murabaha | **67.5** | **8.4** | 8.3 | 1.0 |
| Wakala | **3.5** | **0.4** | 6.3 | 0.8 |
| Mudaraba | **-** | **-** | 8.5 | 1.1 |

**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 2015, 31 December 2014 and 31 December 2013, are as follows:

| *(US$ millions)* | **30 June 2015** | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| Price risk | **-** | - | - |
| Equities position risk | **-** | - | - |
| Sukuk risk | **-** | - | - |
| Foreign exchange risk | **4.98** | 2.77 | 2.5 |
| Commodities risk | **-** | - | - |
| Total capital requirement for market risk | **4.98** | 2.77 | 2.5 |
| Multiplier | **12.5** | 12.5 | 12.5 |
| **Total Market risk-weighted exposures** | **62.3** | 34.6 | 31.3 |

The details of the Group's maximum and minimum value for each category of the market risk during the period ended 30 June 2015 and 31 December 2014 are:

| | **30 June 2015** | | 31 December 2014 | |
|---|---|---|---|---|
| *(US$ millions)* | **Maximum Capital Charge** | **Minimum Capital Charge** | Maximum Capital Charge | Minimum Capital Charge |
| Price risk | **-** | **-** | - | - |
| Equities position risk | **-** | **-** | - | - |
| Sukuk risk | **-** | **-** | - | - |
| Foreign exchange risk | **4.98** | **4.97** | 3.1 | 2.7 |
| Commodities risk | **-** | **-** | - | - |
| Total capital requirement for market risk | **4.98** | **4.97** | 3.1 | 2.7 |
| Multiplier | **12.5** | **12.5** | 12.5 | 12.5 |
| **Total Market risk-weighted exposures** | **62.3** | **62.1** | 38.8 | 33.8 |

**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 CBB capital adequacy regulation, 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 30 June 2015 is shown below:

| *(US$ millions)* | 31 December 2014 |
|---|---|
| Gross income | 31.8 |
| Average gross income for three years | 29.3 |
| Alpha | 15% |
| Capital charge for operational risk | 4.39 |
| Multiplier | 12.5 |
| **Total operational risk-weighted exposures** | 54.9 |

**Risk-Weighted Exposures**

Risk-weighted exposures increased by US$ 1,132.7 million (279.7%) in 2015, from US$ 405 million as at 31 December 2014 to US$ 1,537.7 million as at 30 June 2015, as detailed below:

| *(US$ millions)* | **30 June 2015** | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| Credit risk-weighted exposures | **1420.5** | 284.1 | 325.5 |
| Market risk-weighted exposures | **62.3** | 34.6 | 31.3 |
| Operational risk-weighted exposures | **54.9** | 86.3 | 73.8 |
| **Total risk-weighted exposures** | **1,537.7** | 405.0 | 430.6 |

**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 consolidation, risk weighting as well as regulatory adjustment (deductions).

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

| | **Domicile** | **Ownership** | **Consolidation basis** |
|---|---|---|---|
| **Subsidiaries** | | | |
| Alkhair International Islamic Bank Malaysia Berhad | Malaysia | 100% | Full Consolidation |
| Alkhair Capital Menkul Degerler A.S. | Turkey | 91.9% | Full Consolidation |
| Alkhair Portföy Yönetimi A.Ş. | Turkey | 96.4% | Full Consolidation |
| Alkhair Capital Saudi Arabia | Kingdom of Saudi Arabia | 53.4% | Full Consolidation |
| Al-Tajamouat for Touristic Projects Co Plc | Jordan | 50.6% | Risk Weighting |
| Tintoria international Limited | United Arab Emirates | 52.06% | Risk Weighting |
| **Associates** | | | |
| BFC Group Holdings Ltd. | United Arab Emirates | 43.36% | Regulatory Adjustment |
| Burj Bank Limited | Pakistan | 37.91% | Regulatory Adjustment |
| t'azur Company B.S.C. (c) | Kingdom of Bahrain | 25.86% | Regulatory Adjustment |

**Capital Adequacy Ratio**

Capital Ratios - Consolidated & Subsidiaries above 5 per cent of Group Regulatory Capital.

| *(Percent)* | **30 June 2015** | | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|---|---|
| | **Total Capital Ratio** | **Tier 1 Capital Ratio** | Total Capital Ratio | Tier 1 Capital Ratio | Total Capital Ratio | Tier 1 Capital Ratio |
| Bank Alkhair Group | **4.6** | **4.6** | 8.4 | 8.4 | 15.2 | 15.2 |
| Alkhair International Islamic Bank Berhad | **31.3** | **30.8** | 72.8 | 71.9 | 38.5 | 38.1 |
| Alkhair Capital Saudi Arabia | **48.8** | **48.8** | 47.9 | 47.9 | 47.7 | 47.7 |
| Alkhair Capital Menkul Degerler A.S. | **36.6** | **36.6** | 37.8 | 37.8 | 41.8 | 41.8 |

Based on the planned asset sales program and operating cash flow projections, the Group expects to improve its risk weighted assets profile and capital adequacy ratio. The Bank's Board of Directors and senior management are actively looking for other long-term options to enhance the capital position of the Bank to meet the amended capital requirements set by the CBB.

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

| *(US$ millions)* | **30 June 2015** | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| | **BASEL III** | BASEL II | BASEL II |
| Credit risk | **177.6** | 35.5 | 40.7 |
| Market risk | **7.8** | 4.4 | 3.9 |
| Operational risk | **6.9** | 10.8 | 9.2 |
| **Total capital requirements** | **192.3** | 50.7 | 53.8 |

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 2015** | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| Investments in listed equities | **2.3** | 2.1 | 2.6 |
| Investments in unlisted equities | **3.1** | 4.1 | 4.8 |
| Investments in unrated funds | **2.6** | 4.1 | 5.1 |
| **Total capital requirements** | **8.0** | 10.3 | 12.5 |

## 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. Capital Markets proposes limits for its interbank placement activities and other clients 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 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 2015** | Maximum exposure 31 December 2014 |
|---|---|---|
| **On balance sheet** | | |
| Balances with banks | 32,646 | 22,493 |
| Placements with financial institutions | 9,322 | 42,250 |
| Financing receivables | 68,621 | 9,151 |
| Investment securities – Sukuk | 14,825 | 20,192 |
| Other assets | 4,592 | 4,426 |
| **Off balance sheet** | | |
| Commitment to invest | 11,000 | 11,000 |
| Guarantees | 5,311 | 5,311 |
| | **146,317** | 114,823 |

**Gross and average credit risk**

The table below shows the average gross credit risk exposure of the Bank as at 30 June 2015, 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 | 32,646 | - | 32,646 | 20,287 |
| Placements with financial institutions | 9,322 | - | 9,322 | 27,858 |
| Financing Receivables | 68,621 | - | 68,621 | 46,880 |
| Investment securities - Sukuk | 14,825 | - | 14,825 | 16,468 |
| Other assets | 4,592 | - | 4,592 | 5,556 |
| | **130,006** | - | **130,006** | **117,049** |
| Commitment to invest | - | 11,000 | 11,000 | 11,000 |
| Guarantees | - | 5,311 | 5,311 | 5,311 |
| Total credit risk exposure | **130,006** | **16,311** | **146,317** | **133,360** |

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the six month period ended 30 June 2015.

**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 2015 was US$ 101.9 million (31 December 2014: US$ 99.2 million).

Exposures in excess of the 15 per cent limit for the period ended 30 June 2015 are as follows:

| Counterparties | Amount of exposures In US$ thousands | % of exposure To capital | Type of Exposures |
|---|---|---|---|
| Counterparty # 1 | 101,996 | 144.92% | Investment/ Receivable |
| Counterparty # 2 | 54,073 | 76.83% | Investment |
| Counterparty # 3 | 50,309 | 71.48% | Investment/ Receivable |
| Counterparty # 4 | 26,028 | 36.98% | Investment / Guarantee / Receivable |
| Counterparty # 5 | 23,184 | 32.94% | Investment/ Receivable |
| Counterparty # 6 | 18,625 | 26.46% | Investment/Wakala/ Receivable/Commitment |
| Counterparty # 7 | 17,706 | 25.16% | Investment |
| Counterparty # 8 | 16,182 | 22.99% | Investment/ Receivable/Murabaha. |
| Counterparty # 9 | 15,322 | 21.77% | Bank Balance |
| Counterparty # 10 | 12,464 | 17.71% | Investment/ Receivable/ Bank balance |

The exposure to Counterparty # 9 is exempted short-term inter-bank exposure.

***Geographical Exposure Distribution***

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

| | 30 June 2015 | | | | | |
|---|---|---|---|---|---|---|
| **Type of Assets/Region** | **Bahrain** | **Middle East** | **North America** | **Asia** | **Europe** | **Total** |
| Balances with banks | 15,456 | 4,480 | - | 12,710 | - | 32,646 |
| Placement with financial institutions | 8,126 | - | - | - | 1,196 | 9,322 |
| Financing Recivables | - | - | - | 66,731 | 1,890 | 68,621 |
| Investment securities - Sukuk | - | 10,578 | - | 3,254 | 993 | 14,825 |
| Other Assets | 1,807 | 2,607 | (9) | 3 | 185 | 4,592 |
| Off Balance sheet | - | - | 5,000 | - | 11,311 | 16,311 |
| **Total** | **25,389** | **17,665** | **4,991** | **82,698** | **15,574** | **146,317** |

| | 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| **Type of Assets/Region** | **Bahrain** | **Middle East** | **North America** | **Asia** | **Europe** | **Total** |
| Balances with banks | 15,022 | 3,214 | - | 4,258 | - | 22,493 |
| Placement with financial institutions | 14,598 | - | - | 16,700 | 10,952 | 42,250 |
| Financing Recivables | - | - | - | 7,316 | 1,835 | 9,151 |
| Investment securities - Sukuk | - | 17,131 | - | - | 3,061 | 20,192 |
| Other Assets | 906 | 3,373 | 5 | (1) | 144 | 4,426 |
| Off Balance sheet | - | - | 5,000 | - | 11,311 | 16,311 |
| **Total** | **30,525** | **23,718** | **5,005** | **28,272** | **27,303** | **114,823** |

***Industry Sector Exposure***

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

| | 30 June 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Type of Assets/Industry** | **Banking and Finance** | **Industrial** | **Real Estate and Construction** | **Technology** | **Funds** | **Trade** | **Government** | **Total** |
| **Funded:** | | | | | | | | |
| Balances with banks | 32,646 | - | - | - | - | - | - | 32,646 |
| Placement with FIs | 9,322 | - | - | - | - | - | - | 9,322 |
| Financing Recivables | 6,121 | 6,509 | 14,973 | 4,251 | - | 36,766 | - | 68,621 |
| Investment securities - Sukuk | 5,250 | - | 9,575 | - | - | - | - | 14,825 |
| Other Assets | 333 | 71 | 2,315 | (9) | 1,810 | 73 | - | 4,592 |
| **UnFunded:** | | | | | | | | |
| Commitment to invest | - | - | 11,000 | - | - | - | - | 11,000 |
| Guarantees | 311 | - | - | 5,000 | - | - | - | 5,311 |
| **Total** | **53,983** | **6,581** | **37,863** | **9,242** | **1,810** | **36,839** | **-** | **146,317** |

| | 31 December 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Type of Assets/Industry** | **Banking and Finance** | **Industrial** | **Real Estate and Construction** | **Technology** | **Funds** | **Trade** | **Government** | **Total** |
| **Funded:** | | | | | | | | |
| Balances with banks | 22,493 | - | - | - | - | - | - | 22,493 |
| Placement with FIs | 42,250 | - | - | - | - | - | - | 42,250 |
| Financing Recivables | (300) | 3,631 | 1,835 | 3,984 | - | - | - | 9,151 |
| Investment securities - Sukuk | 4,064 | - | 13,100 | - | - | - | 3,028 | 20,192 |
| Other Assets | 420 | 65 | 2,959 | 5 | 908 | 69 | - | 4,426 |
| **UnFunded:** | | | | | | | | |
| Commitment to invest | - | - | 11,000 | - | - | - | - | 11,000 |
| Guarantees | 311 | - | - | 5,000 | - | - | - | 5,311 |
| **Total** | **69,238** | **3,696** | **28,895** | **8,989** | **908** | **69** | **3,028** | **114,823** |

***Collateral and other credit enhancements***
The Group utilizes collateral and other credit enhancements mostly on its credit facilities, in line with Shari'ah requirements. Before taking any form of collateral the Bank pre-assesses impediments that may restrict accessibility to collateral should the need arise as well as acceptability from a Shari'ah perspective. In this respect the Bank will formally agree with the customer at the time of signing the offer letter on the usage, redemption and utilization of collateral when the customer/counterparty defaults. In the past year, the Bank has obtained collateral including shareholders' personal guarantees, cash, real estate, unlisted equity shares and debentures. The Bank's credit policy discourages taking collateral value where there is positive correlation between collateral value and obligor's ability to pay.

***Credit quality per class of financial assets***
The Group did not apply a standard credit rating to its investment business, as the Group assessed credit quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of standard quality as of 30 June 2015. Following is an analysis of credit quality by class of financial assets:

| *(US$ thousands)* | **30 June 2015** | | | | |
|---|---|---|---|---|---|
| | **Neither past due nor impaired** | **Past due but not impaired** | **Individually impaired** | **Impairments/ provisions** | **Total** |
| Balances with banks | 32,646 | - | - | - | 32,646 |
| Placements with financial institutions | 9,322 | - | - | - | 9,322 |
| Financing receivables | 66,130 | - | 9,107 | (6,616) | 68,621 |
| Investment securities – Sukuk | 14,825 | - | - | - | 14,825 |
| Other assets | 3,168 | 1,424 | 1,902 | (1,902) | 4,592 |
| Commitment to Invest | 11,000 | - | - | - | 11,000 |
| Guarantees | 5,311 | - | - | - | 5,311 |
| Total | **142,402** | **1,424** | **11,009** | **(8,518)** | **146,317** |

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.

| *(US$ thousands)* | 31 December 2014 | | | | |
|---|---|---|---|---|---|
| | Neither past due nor impaired | Past due but not impaired | Individually impaired | Impairments/ provisions | Total |
| Balances with banks | 22,493 | - | - | - | 22,493 |
| Placements with financial institutions | 42,250 | - | - | - | 42,250 |
| Financing receivables | 6,425 | - | 9,000 | (6,274) | 9,151 |
| Investment securities – Sukuk | 20,192 | - | - | - | 20,192 |
| Other assets | 3,980 | 446 | 1,902 | (1,902) | 4,426 |
| Commitment to Invest | 11,000 | - | - | - | 11,000 |
| Guarantees | 5,311 | - | - | - | 5,311 |
| Total | 111,651 | 446 | 10,902 | (8,176) | 114,823 |

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

| *(US$ thousands)* | **30 June 2015** | | | |
|---|---|---|---|---|
| | **Less than 120 days** | **Less than 365 days** | **More than 365 days** | **Total** |
| Other assets | 775 | 328 | 321 | 1,424 |

| *(US$ thousands)* | 31 December 2014 | | | |
|---|---|---|---|---|
| | Less than 120 days | Less than 365 days | More than 365 days | Total |
| Other assets | 221 | 152 | 73 | 446 |

**Specific provisions**

| *(US$ thousands)* | **Specific Provision against** | | | | |
|---|---|---|---|---|---|
| | **Financing Receivable** | **Other Assets** | **Investment Securities** | **Equity-accounted investees** | **Total** |
| At the beginning of the period | 6,174 | 1,902 | 5,407 | 24,600 | 38,083 |
| New Provision made | - | - | - | - | - |
| Write off | - | - | - | - | - |
| Recoveries / Write backs | - | - | - | - | - |
| Balance at the end of the period | 6,174 | 1,902 | 5,407 | 24,600 | 38,083 |

During the period, no specific provision was made against the financing receivables (2014: US$ 3.2 million) against the Financing Receivable. The Bank has restructured an Islamic financing facility of $6 million against which a provision of $3.2 million has already been made. The profit and the repayment against the facility have been suspended from March 2015 to November 2015 as part of the restructuring. During the period, the Group made general collective provisions of $ 0.13 million compared to existing provision of US$ 0.30 million against its Financing Receivables. Bahrain didn't provide for any impairment allowance during the period (2014: US$ 3.5 million) against its equity accounted-investees.

**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 2015** | 31 December 2014 |
|---|---|---|
| Liquid assets : Total assets | **10.6%** | 15.2% |
| Liquid assets : Total deposits | **18.6%** | 28.2% |
| Liquid assets : Total liabilities | **16.6%** | 25.5% |
| Short term assets: Short term liabilities | **60.8%** | 44.8% |

***Analysis of financial liabilities***

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

| *(US$ thousands)* | **Gross undiscounted cash flows** | | | | |
|---|---|---|---|---|---|
| | **Less than 3 months** | **3 to 12 months** | **Over 1 year** | **Total** | **Carrying value** |
| **At 30 June 2015** | | | | | |
| Due to financial Institutions | 26,954 | 25,976 | 64,417 | 117,347 | 100,307 |
| Due to customers | 150,372 | 97,973 | 779 | 249,124 | 246,341 |
| Other liabilities | 32,214 | - | 2,570 | 34,784 | 34,784 |
| **Total financial liabilities** | **209,540** | **123,949** | **67,766** | **401,255** | **381,432** |

| *(US$ thousands)* | Gross undiscounted cash flows | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | 3 to 12 months | Over 1 year | Total | Carrying value |
| At 31 December 2014 | | | | | |
| Due to financial Institutions | 26,309 | 28,304 | 72,510 | 127,123 | 106,987 |
| Due to customers | 114,547 | 85,308 | - | 199,855 | 197,552 |
| Other liabilities | 24,274 | - | 2,207 | 26,481 | 26,481 |
| Total financial liabilities | 165,130 | 113,612 | 74,717 | 353,459 | 331,020 |

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

| *(US$ thousands)* | **On demand** | **Less than 3 months** | **3 to 12 months** | **Over 1 year** | **Carrying value** |
|---|---|---|---|---|---|
| **30 June 2015** | | | | | |
| Commitment to invest | 11,000 | - | - | - | 11,000 |
| Lease Commitments | - | 81 | 243 | 565 | 889 |
| Guarantees | 5,311 | - | - | - | 5,311 |
| Total | **16,311** | **81** | **243** | **565** | **17,200** |

| *(US$ thousands)* | On demand | Less than 3 months | 3 to 12 months | Over 1 year | Carrying value |
|---|---|---|---|---|---|
| 31 December 2014 | | | | | |
| Commitment to invest | 11,000 | - | - | - | 11,000 |
| Lease Commitments | - | - | 127 | - | 127 |
| Guarantees | 5,311 | - | - | - | 5,311 |
| Total | 16,311 | - | 127 | - | 16,438 |

**MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

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

| *(US$ thousands)* | 30 June 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | 32,657 | - | - | - | 32,657 | - | - | 32,657 |
| Placements with financial institutions | 7,607 | 1,715 | - | - | 9,322 | - | - | 9,322 |
| Financing receivables | 28 | 584 | 994 | 64,646 | 66,252 | 2,369 | - | 68,621 |
| Investment securities | 880 | 3,254 | 1,714 | 33,493 | 39,341 | 36,109 | - | 75,450 |
| Assets held-for-sale | - | 15,545 | - | - | 15,545 | - | - | 15,545 |
| Equity-accounted investees | - | - | - | 12,456 | 12,456 | - | 111,523 | 123,979 |
| Investment properties | - | - | - | - | - | - | 252,058 | 252,058 |
| Other assets | - | 26,573 | - | 170 | 26,743 | 42 | - | 26,785 |
| Equipment | - | - | - | - | - | - | 1,811 | 1,811 |
| **Total assets** | **41,172** | **47,671** | **2,708** | **110,765** | **202,316** | **38,520** | **365,392** | **606,228** |
| **LIABILITIES** | | | | | | | | |
| Due to financial institutions | 16,012 | 9,448 | 16,391 | 5,568 | 47,419 | 52,888 | - | 100,307 |
| Due to customers | 65,462 | 84,247 | 76,907 | 19,725 | 246,341 | - | - | 246,341 |
| Liabilities related to assets held-for-sale | - | 1,798 | - | - | 1,798 | - | - | 1,798 |
| Other liabilities | - | 32,214 | - | 5,143 | 37,357 | 2,570 | - | 39,927 |
| **Total liabilities** | **81,474** | **127,707** | **93,298** | **30,436** | **332,915** | **55,458** | **-** | **388,373** |
| **Commitments & Guarantees** | 16,311 | 81 | 81 | 162 | 16,635 | 565 | - | 17,200 |
| **Net liquidity gap** | **(56,613)** | **(80,117)** | **(90,671)** | **80,167** | **(147,234)** | **(17,503)** | **365,392** | **200,655** |
| **Net cumulative gap** | **(56,613)** | **(136,730)** | **(227,401)** | **(147,234)** | **(147,234)** | **(164,737)** | **200,655** | |

*The maturity for the financial assets and liabilities were determined based on their residual maturity period and for the remaining assets and liabilities the maturity profile was determined based on expected timeline to recover or settle.*

*MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)*

| *(US$ thousands)* | 31 December 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 | 22,510 | - | - | - | 22,510 | - | - | 22,510 |
| Placements with financial institutions | 41,175 | 1,075 | - | - | 42,250 | - | - | 42,250 |
| Financing receivables | 35 | 45 | 1,835 | 2,258 | 4,173 | 4,978 | - | 9,151 |
| Investment securities | 1,170 | - | 1,428 | 24,637 | 27,235 | 58,088 | - | 85,323 |
| Assets held-for-sale | - | - | - | 15,082 | 15,082 | - | - | 15,082 |
| Equity-accounted investees | - | - | - | - | - | - | 121,974 | 121,974 |
| Investment properties | - | - | - | - | - | - | 254,109 | 254,109 |
| Other assets | - | 12,722 | - | 171 | 12,893 | 93 | - | 12,986 |
| Equipment | - | - | - | - | - | - | 1,598 | 1,598 |
| Total assets | 64,890 | 13,842 | 3,263 | 42,148 | 124,143 | 63,159 | 377,681 | 564,983 |
| LIABILITIES | | | | | | | | |
| Due to financial institutions | 11,014 | 13,665 | 17,545 | 6,307 | 48,531 | 58,456 | - | 106,987 |
| Due to customers | 79,884 | 34,307 | 57,538 | 25,823 | 197,552 | - | - | 197,552 |
| Liabilities related to assets held-for-sale | - | - | - | 1,374 | 1,374 | - | - | 1,374 |
| Other liabilities | - | 24,274 | - | 5,144 | 29,418 | 2,207 | - | 31,625 |
| Total liabilities | 90,898 | 72,246 | 75,083 | 38,648 | 276,875 | 60,663 | - | 337,538 |
| Commitments & Guarantees | 16,311 | 64 | 63 | - | 16,438 | - | - | 16,438 |
| Net liquidity gap | (42,319) | (58,468) | (71,883) | 3,500 | (169,170) | 2,496 | 377,681 | 211,007 |
| Net cumulative gap | (42,319) | (100,787) | (172,670) | (169,170) | (169,170) | (166,674) | 211,007 | |

**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.

*(Amounts in US$ thousands)*

| | **30 June 2015** | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | **Balance** | **Change in profit rate (+/-)** | **Effect on net profit (+/-)** | Balance | Change in profit rate (+/-) | Effect on net profit (+/-) |
| **Assets** | | | | | | |
| Placements with financial institutions | 9,322 | 200 | 78 | 42,250 | 200 | 798 |
| Financing receivables | 68,621 | 200 | 520 | 9,151 | 200 | 108 |
| Investment securities – Sukuk | 14,825 | 200 | 7 | 20,192 | 200 | 21 |
| **Liabilities** | | | | | | |
| Due to financial institutions | 100,307 | 200 | (914) | 106,987 | 200 | (2,038) |
| Due to customers | 246,341 | 200 | (1,334) | 197,552 | 200 | (2,918) |
| **Total** | | | **(1,643)** | | | (4,029) |

***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 2015 Exposure (USD equivalent) | Effect on net profit (+/-) | Effect on equity (+/-) | 31 December 2014 Exposure (US$ equivalent) | Effect on net profit (+/-) | Effect on equity (+/-) |
|---|---|---|---|---|---|---|
| Kuwaiti Dinar | (9,700) | (1,940) | - | (10,017) | (2,003) | - |
| Turkish Lira | 3,082 | 248 | 369 | 2,830 | 265 | 301 |
| Malaysian Ringgit | 68 | 14 | - | 45 | 9 | - |
| Euro | (52) | (10) | - | 12 | 2 | - |
| Jordanian Dinar * | 50,323 | 10,065 | - | 50,323 | 10,065 | - |
| Sterling Pounds | 8,852 | 1,770 | - | 137 | 27 | - |

* 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 2014: US$ Nil).

**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 2015** | 31 December 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.

**Disclosure Requirements Pertaining to Remuneration**

Quantitative disclosure requirements pertaining to remuneration under PD 1.3.10 B to PD 1.3.10 G for approved persons or material risk takers are not presented in this document as these related to the annual remuneration and would be disclosed in the annual report.