BANK ALKHAIR

Bank Alkhair B.S.C. (c)

Disclosures under PD Module

30 JUNE 2016

CONSOLIDATED FINANCIAL PERFORMANCE SUMMARY

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

(Amounts in US $ thousands)	H1-2016	2015	2014 (restated)	2013 (restated)	2012 (restated)	2011
(Loss) / profit for the period before Zakah and impairment	(9,975)	(14,974)	(8,740)	1,114	(38,921)	(15,538)
(Loss) / profit for the period	(13,244)	(2,500)	(16,921)	(1,048)	(39,476)	1,169
Total assets	562,735	585,023	566,911	619,808	438,780	483,032
Placements with financial institutions	19,402	9,648	42,250	74,390	63,733	66,477
Financing receivables	32,584	66,713	9,151	52,309	86,623	95,838
Investment securities	72,378	64,930	85,323	79,186	112,905	130,383
Total liabilities	350,841	360,229	337,538	380,004	246,275	247,866
Due to financial institutions	107,697	123,252	106,987	130,763	153,121	143,178
Due to customers	182,856	208,250	197,552	217,594	68,176	88,483
Equity attributable to the shareholders of the Bank	119,563	134,609	142,629	161,343	163,738	203,483
Total equity	211,894	224,794	229,373	239,804	192,505	235,166
Capital adequacy ratio- *(percent)*	1.1%	5.2%	8.4%	15.2%	22.6%	21.6%

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 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 2016, 31 December 2015 and 31 December 2014 for Tier 1 and Tier 2 capital.

Components of Capital

(US$ millions)	**30 June 2016**	31 December 2015*	31 December 2014
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	**(76.1)**	(58.5)	(53.5)
Foreign Currency Translation reserve	**(15.2)**	(15.3)	(13.3)
Total CET1 capital prior to regulatory adjustments	**117.3**	134.6	NA
Less : Goodwill	(32.0)	(32.1)	NA
Total common equity Tier 1 capital after the regulatory adjustments above (CET1 C)	85.2	102.6	NA
Less-Significant investments in the common stock of financial entities (amount above 10% of the CET1 C)	(39.7)	(19.5)	NA
-Aggregated amount of exposures exceeding the 15% of CET1 C	(22.1)	(14.6)	NA
Previous deductions			
Less: Goodwill**	**NA**	NA	(32.0)
Less: 50% of significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	**NA**	NA	(6.5)
Less: 50% of investment in insurance entity greater than or equal to 20%	**NA**	NA	(4.8)
Less: excess amounts over maximum permitted large exposure limits	**NA**	NA	(26.6)

Less: additional deduction from Tier 1 to absorb deficiency in Tier 2 capital	**NA**	NA	(37.9)
Total common equity Tier 1 capital after the regulatory adjustments	**23.3**	68.5	33.9
Tier 2 capital			
Total Available T2 Capital	**0.8**	0.8	NA
Less: 50% of significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	**NA**	NA	(6.5)
Less: 50% of investment in insurance entity greater than or equal to 20%	**NA**	NA	(4.8)
Less: excess amounts over maximum permitted large exposure limits	**NA**	NA	(26.6)
Addition to Tier 2 to absorb Tier 2 capital deficiency	**NA**	NA	37.9
Total qualifying Tier 2 capital	**0.8**	0.8	-
Total capital	**24.1**	69.4	33.9

**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 2016, 31 December 2015 and 31 December 2014. The figures for the period ending 30 June 2016 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. 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.

	Gross Amount	**Risk-weighted equivalents**			**Risk-weightings for 2016**
(US$ millions)	**30 June 2016**	**30 June 2016**	31 December 2015	31 December 2014	
Claims on Public sector entities	**-**	**-**	-	-	20%
Claims on banks	**26.9**	**9.5**	4.6	28.4	20%-100%
Claims on corporates including Takaful companies & category 3 investment firms	**30.5**	**113.7**	83.5	27.5	20%-800%
Past Due Facilities	**4.8**	**6.2**	-	-	100%-150%
Investments in securities, funds & sukuk:					
- Investments in listed equities	**-**	**-**	11.1	17.0	100%
- Investments in unlisted equities	**10.3**	**15.4**	24.3	33.1	150%
-Significant investment in the common shares of financial entities > 10%	**46.0**	**115.0**	184.0	NA	250%
-Significant investment in the common shares of commercial entities	**13.9**	**111.5**	383.2	NA	800%
- Other investment with excess amount over 15%	**194.1**	**1,553.4**	368.8	NA	800%
- Investments in unrated funds	**21.9**	**24.7**	26.4	33.1	100%-150%
Real estate holdings	**9.8**	**29.7**	87.5	123.3	200%-400%
Holding of Sukuk Securitizations and Securitisations	**4.0**	**5.9**	-	-	20%-1,250%
Other assets and specialised financing	**21.0**	**21.0**	22.8	21.7	100%

Credit risk-weighted assets	**383.2**	**2,005.9**	1,196.2	284.1

Minimum Capital Requirements for Islamic Financing Contracts

(US$ millions)	**30 June 2016**		31 December 2015	
	Risk-weighted equivalents	**Minimum capital requirements**	Risk-weighted equivalents	Minimum capital requirements
Murabaha	**32.6**	**4.1**	64.0	8.0
Wakala	**-**	**-**	3.8	0.5
Mudaraba	**-**	**-**	-	-
Sukuks	**6.3**	**0.8**	5.3	0.7

Past due Islamic financing contracts as at 30 June 2016 amounted to US$2.25 million, and the breakdown by industry and geographic region is shown below:

Industry Classification	**Amount as at 30 June 2016 (in US$ millions)**	**Amount as at 31 December 2015 (in US$ millions)**	**Geographical classification**
Construction	1.34	0.29	Middle East
Trade	0.07	0.07	Middle East
Others	0.84	0.86	Middle East
Total	**2.25**	1.22	

Past due and fully impaired Islamic financing contracts as at 30 June 2016 amounted to US$ 6.4 million, which was due from a Company in the mining industry in the Southeast Asian region, the bank does not have restructured facility as of 30 June 2016.

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, and 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 2016, 31 December 2015 and 31 December 2014 are:

(US$ millions)	**30 June 2016**	31 December 2015	31 December 2014
Price risk	**-**	-	-
Equities position risk	**-**	-	-
Sukuk risk	**-**	-	-
Foreign exchange risk	**4.4**	4.9	2.8

Commodities risk	**-**	-	-
Total capital requirement for market risk	**4.4**	4.9	2.8
Multiplier	**12.5**	12.5	12.5
Total Market risk-weighted exposures	**55.0**	61.5	34.6

The details of the Group's maximum and minimum value for each category of the market risk during the years ended 30 June 2016 and 31 December 2015 are:

	30 June 2016		31 December 2015	
(US$ millions)	**Maximum Capital Charge**	**Minimum Capital Charge**	Maximum Capital Charge	Minimum Capital Charge
Price risk	**-**	**-**	-	-
Equities position risk	**-**	**-**	-	-
Sukuk risk	**-**	**-**	-	-
Foreign exchange risk	**4.5**	**4.4**	5.0	4.9
Commodities risk	**-**	**-**	-	-
Total capital requirement for market risk	**4.5**	**4.4**	5.0	4.9
Multiplier	**12.5**	**12.5**	12.5	12.5
Total Market risk-weighted exposures	**56.3**	**55.0**	62.2	61.5

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 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 2016 is shown below:

(US$ millions)	31 December 2015	31 December 2014	31 December 2013
Gross income	35.9	31.8	51.9
Average gross income for three years	39.9	29.3	39.0
Alpha	15%	15%	15%
Capital charge for operational risk	6.0	4.4	5.9
Multiplier	12.5	12.5	12.5
Total operational risk-weighted exposures	74.7	54.9	61.3

Risk-Weighted Exposures

Risk-weighted exposures increased by US$ 809.6 million (677%) in 2016, from US$ 1,196.3 million as at 31 December 2015 to US$ 2,005.9 million as at 30 June 2016, as detailed below:

(US$ millions)	**30 June 2016**	31 December 2015	31 December 2014
Credit risk-weighted exposures	**2,005.9**	1,196.3	284.1
Market risk-weighted exposures	**55.3**	61.5	34.6
Operational risk-weighted exposures	**74.7**	74.7	86.3
Total risk-weighted exposures	**2,135.9**	1,332.5	405.0

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	Regulatory treatment
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	53.3%	Full Consolidation
Al-Tajamouat for Touristic Projects Co Plc	Jordan	50.6%	Risk Weighting
Tintoria international Limited	United Arab Emirates	52.1%	Risk Weighting
Associates			
BFC Group Holdings Ltd.	United Arab Emirates	43.36%	Regulatory Adjustment & Risk weighting
Burj Bank Limited	Pakistan	37.91%	Regulatory Adjustment & Risk weighting
t'azur Company B.S.C. (c)	Kingdom of Bahrain	25.86%	Regulatory Adjustment & Risk weighting

Capital Adequacy Ratio

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

(Percent)	**30 June 2016**		31 December 2015		31 December 2014	
	Total Capital Ratio	**Tier 1 Capital Ratio**	Total Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Tier 1 Capital Ratio
Bank Alkhair Group	**1.1**	**1.1**	5.2	5.1	8.4	8.4
Alkhair International Islamic Bank Berhad	**52.8**	**50.3**	33.6	32.6	72.8	71.9
Alkhair Capital Saudi Arabia	**54.2**	**54.2**	55.3	55.3	47.9	47.9
Alkhair Capital Menkul Degerler A.S.	**37.3**	**37.3**	35.8	35.8	37.8	37.8

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 2016**	31 December 2015	31 December 2014

Credit risk	**250.6**	149.5	35.5
Market risk	**6.9**	7.7	4.4
Operational risk	**9.3**	9.3	10.8
Total capital requirements	**266.8**	166.5	50.7

The minimum capital requirements for equity investments of the Group, broken down by appropriate equity groupings, consistent with the methodology, as well as the aggregate amounts and type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirements is shown in the table below:

(US$ millions)	**30 June 2016**	31 December 2015	31 December 2014
Investments in listed equities	**-**	1.4	2.1
Investments in unlisted equities	**10.3**	3.0	4.1
Significant investment in the common shares of financial entities > 10%	**46.0**	23.0	NA
Significant investment in the common shares of commercial entities	**13.9**	47.9	NA
Other investment with excess amount over 15%	**194.2**	46.1	NA
Investments in unlisted real estate companies	**3.2**	3.7	NA
Investments in unrated funds	**21.9**	3.3	4.1
Total capital requirements	**289.5**	128.4	10.3

RISK MANAGEMENT

Credit Risk

Gross and average credit risk

The table below shows the average gross credit risk exposure of the Bank as at 30 June 2016, 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	8,048	-	8,048	12,532
Placements with financial institutions	19,402	-	19,402	14,525
Financing Receivables	32,584	-	32,584	49,649
Investment securities - Sukuk	6,342	-	6,342	5,831
Other assets	1,119	-	1,119	2,828
	67,495	**-**	**67,495**	**85,365**
Commitment to invest	-	10,030	10,030	10,030
Guarantees	-	5,311	5,311	5,311
Total credit risk exposure	**67,495**	**15,341**	**82,836**	**100,706**

* Average gross credit exposures have been calculated based on the average of balances outstanding on the period ended 30 June 2016.

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 2016 was US$ 120.7 million (31 December 2015: US$ 119.2 million).

Exposures in excess of the 15% limit for the year ended 30 June 2016 are as follows:

Counterparties	Amount of exposures In US$ '000	% of exposure To capital	Type of Exposures
Counterparty # 1	120,656	500%	Investment and Receivable
Counterparty # 2	50,434	209%	Investment and Receivable
Counterparty # 3	38,535	160%	Investment
Counterparty # 4	27,217	113%	Investment, Guarantee and Receivable.
Counterparty # 5	22,133	92%	Investment, Guarantee and Receivable.
Counterparty # 6	18,695	77%	Investment
Counterparty # 7	14,871	62%	Investment, Wakala, Receivable and Commitment
Counterparty # 8	11,612	48%	Investment and Bank Balance
Counterparty # 9	10,033	42%	Bank Balance
Counterparty # 10	9,832	41%	Investment

Geographical Exposure Distribution

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

	30 June 2016					
Type of Assets/Region	**Bahrain**	**Other Middle East**	**North America**	**Asia**	**Europe**	**Grand Total**
Balances with banks	645	3,104	-	4,299	-	8,048
Placement with financial institutions	6,001	-	-	12,670	731	19,402
Financing Receivables	-	13,130	-	18,468	986	32,584
Investment securities - Sukuk	-	330	-	6,012	-	6,342
Other Assets	17,948	27,335	29	179	393	45,884
Guarantees	-	10,030	5,000	-	311	15,341
Total	**24,594**	**43,899**	**5,029**	**41,628**	**2,421**	**127,601**

	31 December 2015					
Type of Assets/Region	**Bahrain**	**Other Middle East**	**North America**	**Asia**	**Europe**	**Grand Total**
Balances with banks	772	5,973	-	10,271	-	17,016
Placement with financial institutions	3,040	-	-	6,010	598	9,648
Financing Receivables	1,927	-	-	64,786	-	66,713
Investment securities - Sukuk	-	857	-	4,462	-	5,319
Other Assets	2,072	22,466	11	162	233	25,311
Guarantees	-	10,030	5,000	-	311	15,341
Total	**7,858**	**39,668**	**5,011**	**85,669**	**1,142**	**139,348**

Industry Sector Exposure

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

	30 June 2016							
Type of Assets/Industry	**Banking and Finance**	**Industrial**	**Real Estate and Construction**	**Technology**	**Funds**	**Trade**	**Government**	**Total**
Funded:								
Balances with banks	8,048	-	-	-	-	-	-	8,048
Placement with FIs	19,402	-	-	-	-	-	-	19,402
Financing Receivables	-	6,136	7,507	8,042	-	10,899	-	32,584
Investment securities - Sukuk	6,012	-	330	-	-	-	-	6,342
Other Assets	757	73	41,344	29	1,409	2,272	-	45,884
Unfunded:								
Guarantees	311	-	10,030	5,000	-	-	-	15,341
Total	**34,530**	**6,209**	**49,181**	**13,071**	**1,409**	**13,171**	**-**	**127,601**

	31 December 2015							
Type of Assets/Industry	**Banking and Finance**	**Industrial**	**Real Estate and Construction**	**Technology**	**Funds**	**Trade**	**Government**	**Total**
Funded:								
Balances with banks	17,383	-	-	-	-	-	-	17,016
Placement with FIs	9,648	-	-	-	-	-	-	9,648
Financing Receivables	5781	4,612	8,488	8,525	-	39,307		66,713
Investment securities - Sukuk	4,463	-	856	-	-	-	-	5,319
Other Assets	689	2,156	20,353	11	1,629	106	-	25,311
Unfunded:								
Guarantees	311	-	10,030	5,000	-	-	-	15,341
Total	**38,275**	**6,768**	**39,727**	**13,536**	**1,629**	**39,413**	**-**	**139,348**

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 2016. Following is an analysis of credit quality by class of financial assets:

	30 June 2016

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments/ provisions	Total
Balances with banks	8,048	-	-	-	8,048
Placements with financial institutions	19,402	-	-	-	19,402
Financing receivables	17,114	13,077	15,397	(13,004)	32,584
Investment securities – Sukuk	6,342	-	-	-	6,342
Other assets	44,994	890	2,269	(2,269)	45,884
Guarantees	5,311	-	-	-	5,311
Total	101,211	13,967	17,666	(15,273)	117,571

**Total financing receivables includes USD 13,077k past due but not impaired which have been subsequently received.*

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 2015				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments/ provisions	Total
Balances with banks	17,383	-	-	-	17,383
Placements with financial institutions	9,679	-	-	(31)	9,648
Financing receivables	67,494	-	9,269	(10,050)	66,713
Investment securities – Sukuk	5,319	-	-	-	5,319
Other assets	24,391	553	1,902	(1,902)	24,944
Guarantees	5,311	-	-	-	5,311
Total	129,577	553	11,171	(11,983)	129,318

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

	30 June 2016			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Financing receivables	13,077	-	-	13,077
Other assets	890	-	-	890

	31 December 2015			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	317	108	128	553

Specific provisions

	Specific Provision against			
(US$ thousands)	Financing Receivable	Other Assets	Equity-accounted investees	Total
At the beginning of the year	9,269	1,902	8,500	19,671
New Provision made	2,921	367	-	3,288
Write off	-	-	-	-
Recoveries / Write backs	-	-	-	-
Balance at the end of the year	12,190	2,269	8,500	22,959

Collective provisions

	Collective Provision against			
(US$ thousands)	Financing Receivable	Other Assets	Equity-accounted investees	Total
At the beginning of the year	831	-	-	831
New Provision made	33	-	-	33
Write off	-	-	-	-
Recoveries / Write backs	(50)	-	-	(50)
Balance at the end of the year	814	-	-	814

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 indicators of the Group's exposure to liquidity risk.

	30 June 2016	31 December 2015
Short term assets (in US$ millions)	118,976	123,733
Short term liabilities (in US$ millions)	167,220	206,160
Liquidity ratios (in %)		
Liquid assets : Total assets	**8.9%**	6.9%
Liquid assets : Total deposits	**17.2%**	12.2%
Liquid assets : Total liabilities	**14.3%**	11.2%
Short term assets: Short term liabilities	**71.1%**	60.0%

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 2016					
Due to financial Institutions	22,098	25,683	-	47,781	47,554
Due to customers	11,198	174,996	78,485	264,679	242,999
Other liabilities	35,753	22,247	2,288	60,288	60,288
Total financial liabilities	**69,049**	**222,926**	**80,773**	**372,748**	**350,841**

(US$ thousands)	Gross undiscounted cash flows				
	Less than 3 months	3 to 12 months	Over 1 year	Total	Carrying value
At 31 December 2015					
Due to financial Institutions	49,736	22,442	72,762	144,940	123,252
Due to customers	128,795	81,192	-	209,987	208,250
Other liabilities	26,153	-	2,574	28,727	28,727
Total financial liabilities	204,684	103,634	75,336	383,654	360,229

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

(US$ thousands) **30 June 2016**	**On demand**	**3 to 12 months**	**Over 1 year**
Commitment to invest	10,030	-	-
Lease Commitments	-	323	242
Guarantees	5,311	-	-
Total	**15,341**	**323**	**242**

(US$ thousands) 31 December 2015	On demand	3 to 12 months	Over 1 year
Commitment to invest	10,030	-	-
Lease Commitments	-	323	404
Guarantees	5,311	-	-
Total	15,341	323	404

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 2016							
	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	8,053	-	-	-	8,053	-	-	8,053
Placements with financial institutions	19,402	-	-	-	19,402	-	-	19,402
Financing receivables	23,096	8,599	889	-	32,584	-	-	32,584
Investment securities	6,012	14,790	-	28,162	48,964	23,414	-	72,378
Equity-accounted investees	-	-	-	-	-	-	139,927	139,927
Investment properties	-	-	-	-	-	-	224,402	224,402
Other assets	20,498	18,526	-	14,107	53,131	-	-	53,131
Equipment	-	-	-	-	-	-	12,858	12,858
Total assets	**77,061**	**41,915**	**889**	**42,269**	**162,134**	**23,414**	**377,187**	**562,735**
LIABILITIES								
Due to financial institutions	22,072	16,670	8,812	7,760	55,314	52,383	-	107,697
Due to customers	18,320	74,405	87,961	2,170	182,856	-	-	182,856
Other liabilities	49	35,704	768	21,479	58,000	-	2,288	60,288
Total liabilities	**40,441**	**126,779**	**97,541**	**31,409**	**296,170**	**52,383**	**2,288**	**350,841**
Commitments & Guarantees	-	81	81	162	324	242	15,341	15,907
Net liquidity gap	**36,620**	**(84,945)**	**(96,733)**	**10,698**	**(134,360)**	**(29,211)**	**359,558**	**195,987**
Net cumulative gap	**36,620**	**(48,325)**	**(145,058)**	**(134,360)**	**-**	**(163,571)**	**195,987**	

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

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)	31 December 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	17,388	-	-	-	17,388	-	-	17,388
Placements with financial institutions	9,614	34	-	-	9,648	-	-	9,648
Financing receivables	6,152	54,079	6,482	-	66,713	-	-	66,713
Investment securities	4,465	55	1,988	-	6,508	58,422	-	64,930
Equity-accounted investees	-	-	-	-	-	-	139,658	139,658
Investment properties	-	-	-	-	-	-	241,466	241,466
Other assets	-	31,946	-	-	31,946	-	-	31,946
Equipment	-	-	-	-	-	-	13,274	13,274
Total assets	**37,619**	**86,114**	**8,470**	**-**	**132,203**	**58,422**	**394,398**	**585,023**
LIABILITIES								
Due to financial institutions	30,057	18,363	6,090	12,478	66,988	56,264	-	123,252
Due to customers	15,548	116,039	15,997	60,666	208,250	-	-	208,250
Other liabilities	-	26,153	-	-	26,153	2,574	-	28,727
Total liabilities	**45,605**	**160,555**	**22,087**	**73,144**	**301,391**	**58,838**	**-**	**360,229**
Commitments & Guarantees	15,341	81	81	161	15,664	404	-	16,068
Net liquidity gap	**(23,327)**	**(74,522)**	**(13,698)**	**(73,305)**	**(184,852)**	**(820)**	**394,398**	**208,726**
Net cumulative gap	**(23,327)**	**(97,849)**	**(111,547)**	**(184,852)**	**(184,852)**	**(185,672)**	**208,726**	

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.

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 2016			31 December 2015		
	Balance	Change in profit rate bps (+/-)	Effect on net profit (+/-)	Balance	Change in profit rate bps (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	19,402	200	388	9,648	200	105
Financing receivables	32,584	200	652	66,713	200	204
Investment securities –Sukuk	6,342	200	127	5,319	200	33
Liabilities						
Due to financial institutions	(107,697)	200	(2,154)	(123,252)	200	(1,759)
Due to customers	(182,856)	200	(3,657)	(208,250)	200	(682)
Total			**(4,644)**			**(2,099)**

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 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 2016 Exposure (USD equivalent)	30 June 2016 Effect on net profit (+/-)	30 June 2016 Effect on equity (+/-)	31 December 2015 Exposure (US$ equivalent)	31 December 2015 Effect on net profit (+/-)	31 December 2015 Effect on equity (+/-)
Kuwaiti Dinar	(10,085)	(2,017)	-	(10,024)	(2,005)	-
Turkish Lira	1,225	115	130	1,136	106	121
Malaysian Ringgit	68	14	-	26	5	-
Euro	-	-	-	23	5	-
Pakistani Rupees	21	4	-	-	-	-
Jordanian Dinar *	50,323	10,065	-	50,424	10,085	-
Sterling Pounds	3,685	737	-	4,065	813	-

* Jordanian Dinar is officially pegged to International Monetary Fund (IMP) special drawing rights (SDR's). In practice this is fixed at 1US$=0.706 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.

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 2016**	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Gross Income	**-**	-	-	15	91
Wakil Fee	**-**	-	-	(3)	(36)

Displaced Commercial Risk

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

Penalties

The Bank have paid an amount of BHD 100/- to the Central Bank of Bahrain in settlement for late report submission fine incurred in 2015.