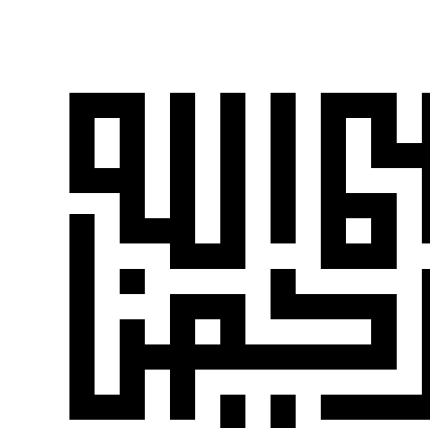
BANK ALKHAIR


بسم الله الرحمن الرحيم

Contents

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

His Royal Highness
Prince Khalifa bin Salman
Al Khalifa

The Prime Minister of
the Kingdom of Bahrain

His Majesty King
Hamad bin Isa
Al Khalifa

The King of
the Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa

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

VISION

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

VALUES

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

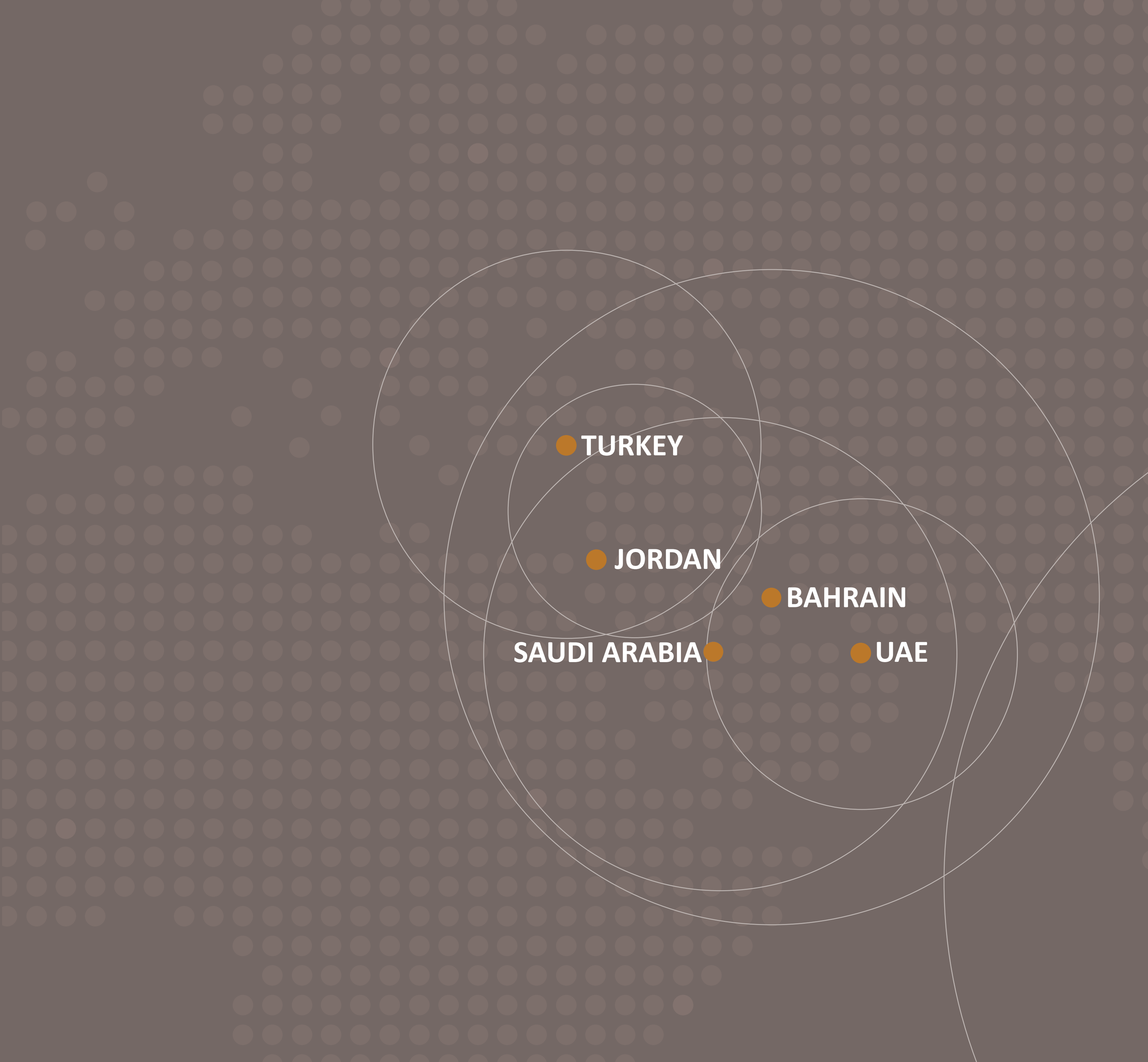
Established in 2004 in the Kingdom of Bahrain, Bank Alkhair is a wholesale Islamic bank with an international presence in Saudi Arabia, Malaysia, Turkey, and UAE.

The Bank's primary focus is to provide clients with access to innovative alternative investment opportunities in the MENASAT region. Bank Alkhair offers a select range of investment banking-related products and services, including asset management, private equity, corporate finance, and capital markets advisory.

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

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

INTERNATIONAL PRESENCE



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

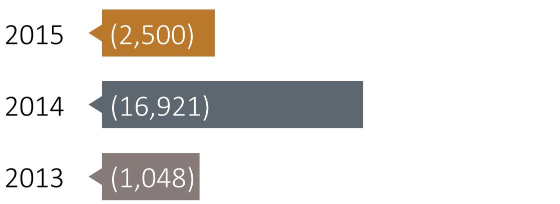
MALAYSIA

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

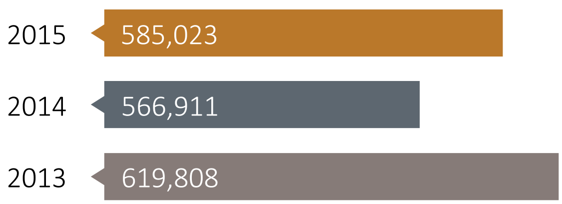
(Amounts in US $ thousands)	**2015**	2014 (restated)	2013 (restated)	2012 (restated)	2011
(Loss) / profit for the year before Zakah and impairment	**(14,974)**	(8,740)	1,114	(38,921)	(15,538)
(Loss) / profit for the year	**(2,500)**	(16,921)	(1,048)	(39,476)	1,169
Total assets	**585,023**	566,911	619,808	438,780	483,032
Placements with financial institutions	**9,648**	42,250	74,390	63,733	66,477
Financing receivables	**66,713**	9,151	52,309	86,623	95,838
Investment securities	**64,930**	85,323	79,186	112,905	130,383
Total liabilities	**360,229**	337,538	380,004	246,275	247,866
Due to financial institutions	**123,252**	106,987	130,763	153,121	143,178
Due to customers	**208,250**	197,552	217,594	68,176	88,483
Equity attributable to the shareholders of the Bank	**134,609**	142,629	161,343	163,738	203,483
Total equity	**224,794**	229,373	239,804	192,505	235,166
Return on average assets (per cent)	**-0.4%**	-2.9%	-0.2%	-8.6%	0.2%
Return on average shareholders' equity (per cent)	**-1.1%**	-7.2%	-0.5%	-18.5%	0.5%
Cost to income ratio (per cent)*	**129.9%**	119.0%	96.7%	n/a	159.6%
Financial leverage (per cent)	**246.3%**	213.5%	215.9%	135.2%	113.8%
Capital adequacy ratio (per cent)	**5.2%**	8.4%	15.2%	22.6%	21.6%

Note: Figures of previous years have been reclassified for comparative purposes.
* Cost excludes impairment and provision for zakah

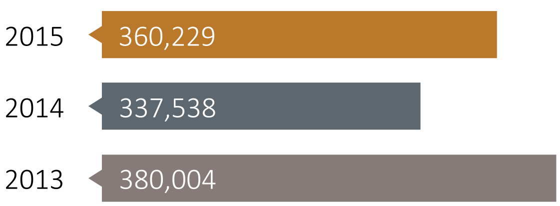
Net Loss
(2,500)



Total Assets
585,023



Total Liabilities
360,229



BOARD OF DIRECTORS

Yousef A. Al-Shelash
Chairman
Non-Executive Director

Ayman Ismail Abudawood
Independent Director

Hethloul Saleh Al-Hethloul
Non-Executive Director

Abdullatif Abdullah Al-Shalash
Non-Executive Director

Dr. Ahmed Al-Dehailan
Independent Director

Dr. Abdulaziz Al Orayer
Independent Director

Khalid Shaheen
Independent Director

Ali Al Othaim
Independent Director

Sultan Abalkheel
Non-Executive Director

BOARD OF DIRECTORS

Abdullah Aldubaikhi
Independent Director

Khaled Abdulrahim
Independent Director

Abdulrazaq Al Wohaib
Non-Executive Director

Majed Al Qasem
Non-Executive Director

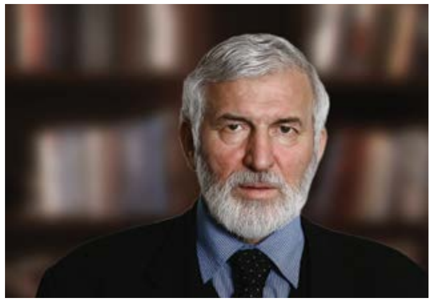
Dr. Khalid Ateeq
Independent Director

Hamad Abdulrazak Al-Turkait
Independent Director

SHARI'AH SUPERVISORY BOARD

Dr. Khalid Mathkoor Al-Mathkoor
Chairman

Dr. Aagil Jasim Al-Nashmy
Deputy Chairman
(Until November 2015)



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

Dr. Ali Muhyealdin Al-Quradaghi

Dr. Mohammad Daud Bakar

Dr. Nizam Mohammad Saleh Yaqouby
Deputy Chairman
(Effective December 2015)

EXECUTIVE MANAGEMENT TEAM

Ayman Amin Sejiny
Group Chief Executive Officer

Dr. Muhammad Al-Bashir M. Al-Amine
Group Head of Shari'ah
(Until December 2015)

Wissam Soubra
Chief Financial Officer /
Coordinator – Back Office Function
(Effective March 2015)

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

Adissadikin Bin Ali
Chief Executive Officer Alkhair International
Islamic Bank Berhad
(Effective June 2015)

Mahmud Abu Bakar
Acting Chief Executive Officer
Alkhair International Islamic Bank Berhad
(Until May 2015)

EXECUTIVE MANAGEMENT TEAM

Ali İlhan
General Manager, Alkhair Portfoy Turkey

Gülsevim Kahraman
General Manager, Alkhair Capital Menkul Değerler A.Ş.

Nabeel Noor Al Nabi
Senior Regional Director – Head of Investment Development & Distribution

Aziz Rehman Sheikh
Chief Financial Officer (Until February 2015)

Kubra Ali Mirza
Chief Compliance Officer, MLRO & Board Secretary

Dr. Nasreen Hassan Al Qaseer
Chief Risk Officer (Until October 2015)

Ayham Gharaibeh
General Counsel

Muhammad Abbas Khan
Head of Group Internal Audit

Bank Alkhair is focused on providing capital markets and corporate finance advisory, as well as exiting mature investments at fair value to our investors and shareholders at the most propitious time.

CHAIRMAN'S MESSAGE

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Mohammed, His Companions and Relatives.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Bank Alkhair for the year ended 31st December 2015 after eleven illustrious years of operation.

I am pleased to report that Bank Alkhair, by the grace of Allah the Almighty, has been able to achieve organisational synergies and financial efficiencies across our geographies of Bahrain, KSA, UAE, Turkey and Malaysia as well as managing to safeguard the interests and investments of our shareholders and investors.

In spite of a very challenging 2015 for the banking industry with a global economic slowdown driven in no small measure by falling oil prices, market volatility and reduced liquidity, Bank Alkhair remained focused on enhancing the value of our investments and took a pragmatic stance through providing Islamic capital market advisory services entrenched in our track record of successful sukuk issuances. Allied to this, throughout the year, we worked to secure debut issuances for non-conventional sovereign and corporate sukuk. Enabled by our geo-offices, we were well positioned to provide buy-side advisory work through originating attractive private equity investments on behalf of our institutional client base.

In terms of economic landscape and in relation to previous years, 2015 witnessed a downturn on lending and M&A activity regionally, with further pressure applied by central banks through issuing sukuk at attractive yields. The global economic slowdown perpetuated consolidation in the investment banking and private equity sectors in order to adapt to the increasingly competitive economic environment.

In spite of Bank Alkhair and its subsidiaries making considerable progress during the year, the Group reported a net loss of USD2.5 million for the year, ended 31 December 2015. However, this compared favourably to the net loss of USD16.92 million in 2014 and should be considered in conjunction with the phenomenally challenging global economic conditions for 2015. The improvement the Bank has shown has been in no small measure attributable to significant improvements in our underlying investments. While the year provided many challenges for Bank Alkhair, I am gratified to report that the Bank has not resorted to selling any assets below their intrinsic value. Moreover, we continued to maximise the value of our investments and enhance the saleability prospects of those investments as required.

I am further heartened to report that the Bank, through its perpetual diligence and application of intelligence, continues to achieve organic growth in our investee companies. As evidence of this, the Bahrain Financing Company investment has proved to be one of the largest Money Service Businesses in the region, with additional expansion expected. Furthermore, Taj Mall, our premier shopping mall and entertainment complex, has not only become fully operational and achieved 96% leasing at premium rates; it has now emerged as one of the highest-yielding shopping malls in the Middle East, with footfall more than doubling since inauguration.

During the past year, we moved our headquarters to the renowned and prestigious address at the Bahrain Financial Harbour, affording the Bank an excellent opportunity to establish roots in a relevant and respected environment and, importantly in the process, helping to elevate the Bank Alkhair brand.

Looking forward, for the short term, Bank Alkhair is focused on providing capital markets and corporate finance advisory, as well as exiting mature investments at fair value to our investors and shareholders at the most propitious time. Taking the longer-term perspective, the Bank foresees market stability and increased liquidity accrued from the near term enabling the Bank to realise potential in private equity and capital market transactions.

To conclude, on behalf of the Bank's Board of Directors and Executive Management Team, I would like to extend our sincere appreciation to our valued Shareholders for their unwavering support and confidence, our exceptional Shari'ah Supervisory Board for its proactive involvement in our product development and investment decisions, our dedicated and motivated employees across our geographies for the achievements of the past year and to all of the above for their enduring commitment to our progress.

Bank Alkhair wishes to extend appreciation to the governments of the countries in which our associates and subsidiaries operate for the honour of conducting our businesses therein. We also forward our appreciation to the Government of Bahrain for its unwavering support of the financial services industry and in particular the perpetual development of Islamic finance, and to the Central Bank of Bahrain for its prudent regulation and valuable direction.

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

Yousef Abdullah Al-Shelash
Chairman of the Board

30 March 2016

Bank Alkhair currently manages assets of over USD690 million and operates concurrently in key Islamic jurisdictions in the Kingdom of Bahrain, Malaysia, Saudi Arabia, UAE and Turkey, which help synergise our capabilities in these geographies.

CEO'S MESSAGE

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

I am pleased to report that, by the grace of Allah the Almighty, after 11 years the Bank Alkhair Group continues to play its part as a major force within the global Islamic Banking and Shari'ah compliant investments management market, this is in no small measure due to our application of prudent investments not simply in financial terms, but through investing in long-term partnerships with our stakeholders.

Bank Alkhair currently manages assets of over USD690 million and operates concurrently in key Islamic jurisdictions in the Kingdom of Bahrain, Malaysia, Saudi Arabia, UAE and Turkey, which help synergise our capabilities in these geographies.

As the chairman has rightly referenced in his message, 2015 has been a year of challenges and yet opportunities. The macro economic downturn in global and regional economies has put financial institutions under pressure. However, despite a lack of capital and liquidity issues being challenges for all, Bank Alkhair introduced a new strategy to address these precise concerns. We identified opportunities in the market to provide advisory support in the traditional Investment Banking Division income model, providing debt capital market instruments to non-traditional debut clients such as western sovereign and corporate clients seeking to tap into sukuk markets.

Our 2015 financial results directly reflect how we adapted to these changing and challenging times through our strategic approach in order to achieve a number of quantifiable efficiencies and improvements. Primarily, these were achieved by being selective with resources to ensure they were directly aligned to achieving our strategic objectives. Specifically they were achieved through the subsequent measures: Firstly, by right-sizing the Bank through cost measures and implementing KPIs across the board. Secondly, by improving our asset quality across the board, something that was evidenced through third party valuations. Thirdly, by undergoing a vigorous exercise that reinforced our corporate governance structure and institutionalised the functional framework. Fourthly, by enhancing our private equity portfolio through investment team support and board representation in each of these companies. And, finally by introducing proper succession planning that went beyond the Bank into our private equity investment areas.

In order to meet our strategic objectives, Bank Alkhair's board has worked diligently with management to reduce costs, improve capital adequacy ratio and manage our liquidity. Specifically this can be attributed to enhancing value in our investee companies through giving proper delegation of authority to managers. In doing so, we managed to enhance and consequently arrive at the exit multiples achieved.
There are not always quick fixes that reap immediate rewards, but put simply Bank Alkhair does not take the short-term view. Our belief is that prudence and patience aligned to long-term objectives will achieve value for all stakeholders. Immediate examples of such long-term investment thinking being Taj Mall in Jordan, Bahrain Financing Company in Bahrain and Tintoria in the UAE (Dubai), which have now become premier assets in their sectors or regions - but didn't happen overnight. In order to deliver value to our stakeholders, our modus operandi is not aligned to focusing on a few high-performing investments in a portfolio that carries a lacklustre remainder, but rather by concentrating on yielding profitable businesses throughout, run by experienced managers who are also stakeholders of the business. That way, by investing in long-term partnerships with vested interests, we are more likely to bring long-term value to our stakeholders.

Moving forward, we are on a perpetual lookout for undervalued assets across various asset classes that have the capacity to deliver exceptional returns to investors – in other words, the right asset at the right price to realise the right value for the right buyer. We will continue to set KPIs, which are results based and maintain our priority of listening to our clients. Our focus is to ascertain appropriate targets for buy-side advisory in equity and debt capital markets and fee income business without deploying additional capital. Following the efficiencies and improvements we have instigated, the strict oversight of investee companies to align them to the Bank's long-term objectives, in addition to constant risk-mitigation and assessment of the geo-political and economic environments - we are now extremely well prepared to predict and adapt to what's next.

In summary, I wish to acknowledge the Government of Bahrain for its tireless efforts in creating a stable, open and approachable environment for growth and enterprise and its leaders for their encouragement and support of the Islamic banking sector. Our appreciation extends to the Central Bank of Bahrain for its wisdom and counsel, and particularly for its regulatory guidance in regard to the new Basel III requirements, which will help to safeguard the sustainability of our business in the long term.

I also offer our gratitude to the governments of all the countries and jurisdictions in which we operate for their support and the privilege of conducting our business in their countries.

Furthermore, I would like to extend my special thanks to our Chairman, members of the Board and shareholders for their continued guidance and support. Special acknowledgement and appreciation is due to our able Shari'ah Supervisory Board, their commitment to the study and interpretation of the law has helped us immensely throughout the year.

And finally I offer my sincere appreciation to our executives and teams across the globe, all of whom deserve recognition for their endurance, commitment and unconditional support in meeting our objective of achieving a successful business platform - all while upholding our values as well as helping to drive forward our vision.

Ayman Amin Sejiny
Group Chief Executive Officer

30 March 2016

BUSINESS LINES
INVESTMENT BANKING

In 2015, Bank Alkhair completed the consolidation of its Bahrain based banking division to spearhead its growth strategy. The bank has positioned itself in its two core strengths, namely private equity and capital markets. In the private equity space, we are focusing on our existing portfolio and also building a pipeline of transactions in the oil and gas, industrial services, logistic, utilities, infrastructure, agriculture business and food-related industries.

2016 should see some of these transactions materialise. We continue to source transactions where we have direct relationships with the principals.

Bank Alkhair follows a typical merchant-banking model, whereby it engages in transaction origination, investment structuring, co-investments, and post-acquisition management and asset realisation. It places particular emphasis on enhancing value at each stage of the investment cycle with active management; focused on a primary aim of exiting successfully.

The Capital Markets business has historically been the most profitable for Bank Alkhair as it is a fee-generating business without using the Bank's balance sheet. Bank Alkhair's strategy for 2016 is to capitalise on its track record for arranging successful regional and cross-border Sukuk issuances.

During 2015, there were prolonged negotiations on the exit of Burj Bank, however, ultimately, this did not come to fruition. Bank Alkhair is continuing its efforts to find a potential buyer for Burj Bank. Al-Tajamouat is another asset that is earmarked for divesture. Such exits will provide additional liquidity for pursuing the merchant-banking model through select investments in preferred industry sectors and core geographies.

The Bank also plans to close its Global Private Equity Fund in 2016, since it is nearing the term-end. Launched in 2006, the Fund, having weathered the global financial crisis, is likely to close with a performance higher than most peers who launched a vintage 2006 PE fund.

Al Tajamouat for Touristic Projects Company

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

Al Tajamouat Mall (Taj Mall), the premier upscale shopping mall and entertainment complex in Amman, Jordan is now fully operational, and has achieved an occupancy rate of 96 Per cent at premium lease rates, with active interest in the remaining space. One of the highest yielding shopping malls in the Middle East, its footfall has more than doubled since opening.

t’azur Company

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

In 2013, t’azur was instrumental in the establishment of Takaful Oman, the first Shari’ah compliant insurance company in the Sultanate. The Company’s initial public offering raised US$60 million, and was 5.5 times oversubscribed.

SUBSIDIARIES

Malaysia

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

In June 2015, Dato' Adissadikin Ali joined the Bank as Chief Executive Officer, bringing with him extensive professional experience in corporate banking and cross- border banking. Under the new leadership, the Bank was introduced with a revised Strategic Direction in an effort to make the bank more relevant and significant in the context of regional economic areas as well as contribution to the Group.

For Financial Year 2015 ("FY") to FY2017, the Bank will be concentrating in solidifying the organisational foundation, which includes the following:

A) Strengthening governance and operational frameworks;
B) Elevating business presence domestically;
C) Building commercial banking business competencies;
D) Growth is to be funded mainly via equity; and
E) Elevating Private Equity and Corporate Investment Banking business presence via strategic collaboration.

The Bank braced through a volatile 2015, with an improved balance sheet as well as income statement positions as opposed to FY2014. We have witnessed an upward trend in US Dollar financing application - this was mainly driven by aggressive marketing towards local companies with US Dollar requirement. Nevertheless, given the global liquidity tightening, funding continued to pose challenges for the Bank.

Apart from capital, our main sources of funds include deposits and Interbank lines. We recognised that it is pertinent to:

A) Build strong relationships with US Dollar base domestic customers to improve our deposits; and
B) Continually register healthy profitability to maintain / secure interbank lines.

Hence, for 2016, supported by an enhanced risk management framework and the revised Strategic Direction, the Bank shall continue to focus on improving our liquidity position, whilst business growth shall be cautiously pursued. We look forward to another challenging yet interesting year ahead.

Turkey

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

In 2015, rising geopolitical risks and the unfavourable environment for emerging economies were the two main topics for the markets. In addition, Turkey had two general elections in 6 months to stabilise the political uncertainties. Given these unpredictable and volatile conditions, Turkish Lira depreciated 25% against US$ and the stock market fell 16%. However, the economy managed to stay intact and continued to grow at 3.4% by the end of Q3.

Alkhair Portföy completed its transition to the new regulatory environment as required by the Capital Markets Board. Furthermore, all three mutual funds have been adapted to the new regulation with Alkhair Portföy having taken founder status. In this context, all the names and the asset allocations of all funds have also been changed. The new funds are as follows: Alkhair Portföy Participation Equity Fund, Alkhair Portföy Sukuk Fund and Alkhair Portföy First Participation Fund.

Alkhair Portföy has also continued its efforts in private equity and capital markets fields together with Bank Alkhair. Focusing on sukuk issuance for Turkish corporates will be one of the main motivations for the Alkhair team in Turkey in 2016.

Saudi Arabia

Alkhair Capital Saudi Arabia is a closed joint stock company established in 2009 under the laws of Saudi Arabia with commercial registration number 1010264915 issued in Riyadh. It is licensed by the Capital Market Authority under license number 08120-37, and has a registered office at P.O.Box 69410, Riyadh 11547, Kingdom of Saudi Arabia.

Alkhair Capital Saudi Arabia operates across three (3) business lines: Asset Management, Corporate Finance & Investment Banking, and Brokerage.

It seeks to provide its clients with an integrated and comprehensive range of Shari'ah compliant investment products and corporate finance services, specialising in mergers and acquisitions, structured finance solutions and debt and equity arranging, with an emphasis on delivering differentiated value and tailored solutions to its clients through adopting a creative and consistent approach.

In 2015, Alkhair Capital Saudi was successful in attracting new clients and securing new business across its three core business lines. The Company launched its Saudi IPO Fund and Private Placement Fund besides the Murabaha Fund and Sukuk Fund, which were launched during 2014, and grew its discretionary assets under management from new and existing clients.

The Company also launched its first private equity fund "Alkhair KSA Healthcare Fund" with KIMS Group targeting the healthcare sector in Saudi with a size of SAR 50 million. During 2016, Alkhair Capital Saudi is planning to launch its Hospitality Fund for the main purpose of developing a 4-star branded hotel in Riyadh to be operated by one of the leading international operators.

During 2015, the Company also secured three (3) new corporate advisory mandates which are still under execution: an equity-arranging deal in the technical and vocational training sector, a buy-side transaction for a company operating in the industrial sector, and a debt arranging transaction.

Alkhair Capital Saudi Arabia also increased its institutional brokerage client base and trading value, introduced a new service for high net-worth individuals and is planning to launch its margin Shari'ah compliant lending product in 2016.

SUBSIDIARIES (continued)

United Arab Emirates

During 2014, Alkhair Capital Saudi Arabia opened an office in Dubai International Financial Centre (DIFC), following the approval from the Dubai Financial Services Authority (DFSA) for a Category 4 license, which allows it to operate as an authorised entity from the DFSA. Alkhair Capital Saudi was the first Saudi entity licensed by the Capital Market Authority to get a licence to operate in the DIFC. The Company is now in the process of updating its licence to asset management (managing) pending the approval of the DFSA.

In terms of transactions, the Company has secured two (2) advisory mandates which are under execution: sell-side mandate for a leading company operating in the travel and tourism sector and another sell-side mandate for a company operating in the industrial sector.

Al Tajamouat for Touristic Projects Co. Plc., Jordan

Al-Tajamouat for Touristic Projects Co. Plc. is listed on the Amman Stock Exchange and owns and operates the Al-Tajamouat Lifestyle Centre (Al Taj) launched in 2012. This premier upscale shopping mall and entertainment complex in Amman, Jordan is fully operational and has an occupancy rate of 97 per cent at premium lease rates. It is one of the highest-yielding shopping malls in the Middle East region and footfall has more than doubled since opening to over 8 million visitors a year.

Tintoria International, Dubai, United Arab Emirates

Tintoria International runs Clean Swift, a leading industrial laundry and textile services provider, operating out of a new state-of-the-art facility in Dubai Investment Park. It has a capacity of 45 tonnes of hotel linen per day and utilises leading-edge laundry equipment from Germany that reduces water consumption by 75 per cent, incorporates a barrier wall concept and is in line with WHO hygiene standards. The Company has been appointed as the exclusive laundry provider to the Office of the Prime Minister of the UAE. It also extends its specialist textile care services to the areas of laboratory fabric testing, linen procurement support, training for hotel housekeeping staff, and linen leasing.

ASSOCIATE COMPANIES AND AFFILIATES

BFC Group Holdings

BFC Group was acquired by Bank Alkhair in January 2009. Founded in 1917, it is one of the leading foreign exchange and remittance houses in the GCC region. In 2015, the Group applied for their own banking operation, BFC Bank to cater to customers who require international payment solutions as well as domestic banking products. Launch of the banking operations is expected within the first half of 2016.

t'azur Company

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

Its regional presence extends to Kuwait, Qatar and Oman. In 2013, t'azur established Takaful Oman, the first Shari'ah-compliant insurance company in the Sultanate. Its initial public offering raised US$60 million and was 5.5 times oversubscribed.

Burj Bank

Burj Bank is one of the five full-fledged Islamic commercial banks in Pakistan and Bank Alkhair is the largest shareholder with a 37.91 per cent stake, followed by Jeddah-based ICD – the private sector arm of the Islamic Development Bank Group – with a shareholding of 33.90 per cent. It has a network of 75 branches in 25 cities in Pakistan offering a comprehensive range of Shari'ah-compliant banking products and services for individuals, corporate clients, and small-and-medium enterprises (SMEs). Burj Bank was named as the 'Best Islamic Bank - Pakistan' at the 2013 World Finance Awards.

Open Silicon

Established in 2003 by the founders of Intel Microelectronics, a subsidiary of Intel, Open Silicon is a leading semiconductor solutions provider, specialising in application-specific integrated circuit (ASIC) design and outsourced manufacturing services. Based in Silicon Valley, California, the Company has design centres across the USA, Taiwan and India. Its clients include HP, Cisco, Sony, Fuji, Panasonic and Hitachi. Since inception, Open Silicon has completed over 300 designs, and shipped more than 90 million chips with a defect return rate of only 0.0003 per cent.

Turquoise Coast Investment Company

Established in 2008, Turquoise Coast has a 23-acre mixed hospitality and residential real estate development at Bodrum, The luxury project includes beachfront apartments and villas, beachfront suites, and hotel guest rooms. Phase one is complete. Phase two, now underway, includes a 5-star hotel and spa and the second tranche of residences. Phase three will see the completion of additional residences.

Amenities include a private beach, swimming pools, nature paths, spa and fitness centre and several signature restaurants.

BFC Group Holdings	
Sector/Industry:	Financial services
Location:	Bahrain, Kuwait, Malaysia, India and the UK
Shareholding:	**43.36%**

The BFC Group currently operates in the United Kingdom, Malaysia, India, Kuwait and Bahrain through a global network of 122 retail branches. In addition, through its proprietary EzRemit money transfer service, BFC is present in 30 countries with over 44,000 correspondent agent locations. The Group also has an extensive global reach of more than 200 countries through its partnership with MoneyGram, a leading international remittance company.

CLEAN SWIFT Laundry and Textile Services كلينسويفت خدمات غسيل الملابس و المنسوجات

Tintoria International	
Sector/Industry:	Laundry and textile services
Location:	Dubai, UAE
Shareholding:	**52.06%**

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

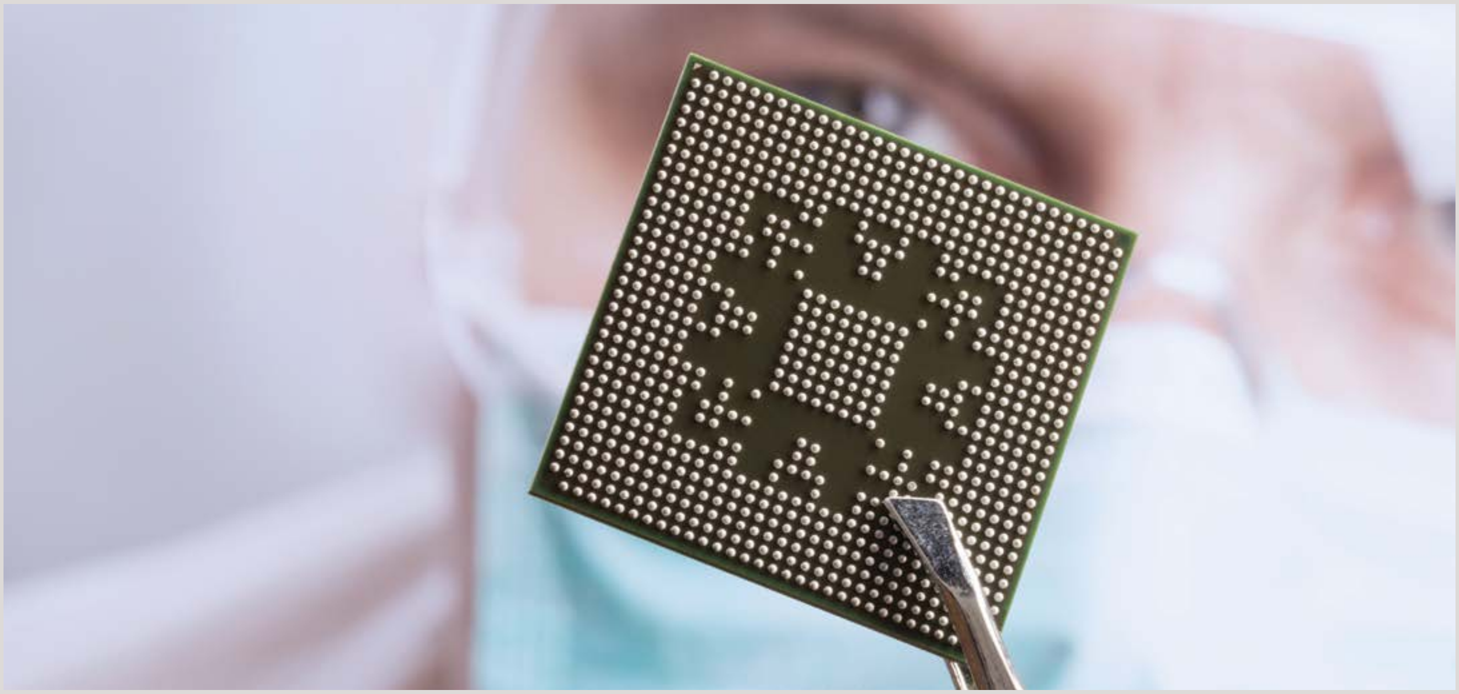
Turquoise Coast Investment Company

Sector/Industry:	Real estate - residential and hospitality
Location:	Bodrum, Turkey
Shareholding:	**4.51%**

The Turquoise Coast Investment Company was established in 2008 to provide investors with an opportunity to capitalise on the strong demand for vacation homes in Turkey. The Company is developing a 23-acre mixed hospitality and residential real estate development at Bodrum, overlooking the turquoise waters of Koyunbaba Bay.

Open Silicon	
Sector/Industry:	Technology
Location:	USA, India and Taiwan
Shareholding:	28.49%

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



The Bank continues to pursue a strategy to streamline its operations and focus on one primary business function - investment banking.

For the year ended 31 December 2015, the Bank made a Net Loss of US$2.5 million down from a loss of US$16.92 million for the year ended 31 December 2014; Strict measures taken in 2015 have substantially helped to strengthen the Bank's operations and investment portfolio leading to the impressive turnaround.

Fee and Asset-based Income

US$ millions	**31 December 2015**	31 December 2014 (restated)
Income from investment securities	**(3.4)**	2.1
Fees and commission income	**5.4**	5.1
Share of profit of equity-accounted investees	**5.3**	5.8
Sub-total	**7.3**	13.0
Income from non-banking operations	**32.4**	26.6
Finance Income	**4.3**	2.3
Rental Income	**3.4**	3.4
Other Income	**2.7**	0.5
TOTAL	**50.1**	**45.8**

Total Fees and Asset-based Income amounted to US$50.1 million in 2015 compared to US$45.8 million in 2014 representing a 10% increase. The (Loss) from investment securities amounting to US$(3.4) million compared to income of US$2.1 million in 2014 was mainly due to fair value movement in investment securities.

In 2015, the Group maintained the controlling stake in Al-Tajamouat for Touristic Project Company with an overall shareholding of 50.63%.

The Bank also maintained the 37.91% stake (2013: 37.91%) in Burj Bank Limited, an unlisted Islamic commercial bank in Pakistan that had been reclassified from assets held-for-sale to held-for-use in 2014.

On 13 May 2014, the Group acquired an additional stake of 20.41% in Tintoria International Limited (TI), a company incorporated and operating from the United Arab Emirates and in which the Group already owned 41.44%, which resulted in TI becoming a subsidiary. On 4 December 2014, the Group disposed of a stake of 9.79% to TI current shareholders without consideration. In 2015, because the investment no longer met the criteria to be classified as held-for-sale, this was re-classified as held-for-use. In accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations, upon reclassification as held-for-use, the subsidiary was consolidated on a line-by-line basis including earlier periods resulting in restatement of the prior year as if the subsidiary had always been consolidated. The reclassification resulted in additional Depreciation on equipment costs amounting to US$0.89 million (2014: US$0.53 million) being recognised and increasing the previously reported loss by the same amount.

The Bank has a 43.36% stake (2013: 43.36%) in BFC Group Holdings Ltd. (“BFC”), a company incorporated in the United Arab Emirates. BFC is a holding company of a group of money-changers in different jurisdictions. BFC is engaged in buying and selling foreign currencies and travellers cheques, handling of remittance business and provision of other exchange house services in both local and foreign currencies.

The Group has a 25.86% stake (2014: 25.86%) in t’azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain. t’azur Company B.S.C (c) has a commitment to provide a Qard Hassan to the extent of the accumulated deficit in the participants’ fund of US$33.3 million at 31 December 2015 (31 December 2014: US$34.0 million). The Group’s share of the commitment is US$8.6 million (31 December 2014: US$8.8 million).

In 2015, Bank Alkhair continued to focus its efforts on managing and bolstering the performance of its portfolio investments and positioning them for sustainable growth and profitable exits over the coming years. The Bank reported profit from its share of profit of equity accounted investees’ activities of US$5.3 million in 2015, down slightly from a profit of US$5.8 million in 2014.

During the year, the Bank’s net finance income decreased, mainly due to negative funding charges, financing expense came in at a net of US$11.0 million in 2014 against a net expense of US$9.4 million in 2014.

Operating Expenses

US$ millions	31 December 2015	31 December 2014 (restated)
Staff Cost	**14.1**	12.8
Finance expense	**11.0**	9.4
Legal and professional expenses	**7.2**	2.4
Premises cost	**1.2**	1.6
Business Development expenses	**0.5**	0.5
Depreciation	**3.0**	2.7
Expence from non-banking operations	**23.8**	20.9
Other operating expenses	**4.3**	4.2
Non-staff cost	**51.0**	41.7
Total expenses	**65.1**	54.5
Cost: Income ratio (Per cent)	**129.9%**	119.0%
Period-end headcount	**346**	328

Note : Headcount includes full time employees of Al-Tajamouat for Touristic Project Company and Tintoria International Limited.

Overall operating expenses increased to US$65.1 million in 2015 from US$54.5 million in 2014. The increase was mainly due to: Staff re-structuring costs amounting to US$1.8 million (in 2015 the Bank decreased staff from 51 to 38) where severance payments needed to be made; it is noteworthy that the staff restructuring would lead to a decrease in Staff Costs of US$3.2 million in 2016 and ensures the Bank is operating at higher levels given the functions re-alignment and efficient deployment of resources across the Group. Further increase in the Bank Operating Expenses represented legal expenses for various legal proceedings and actions filed by the Bank. Also there was a US$3.0 million increase in expenses from real estate operations (namely investment in Al-Tajamouat for Touristic Project Company).

The Bank continues to pursue a strategy to streamline its operations and focus on one primary business function – investment banking. The Bank still remains cautious given various other economic factors may come into play in 2016 and impact on deal-flow and business activity.

Financial Position Analysis

Selected financial position data (US$ millions)	31 December 2015	31 December 2014 (restated)
Cash and balances with banks	**17.0**	22.9
Placements with financial institutions	**9.6**	42.3
Total cash and cash equivalents	**26.6**	65.2
Financing receivable	**66.7**	9.2
Investment securities	**64.9**	85.3
Equity-accounted investees	**139.7**	122.0
Investment Property	**241.5**	256.6
Premises and equipment	**13.3**	14.5
Other assets	**32.3**	14.2
Due to financial institutions & customers	**331.5**	304.6
Other liabilities	**28.7**	33.0
Equity attributable to the shareholders of the Bank	**134.7**	142.7
Non-controlling interests	**90.2**	86.7
Total equity	**224.9**	229.4
Total Liabilities and equity	**585.1**	567.0
Return on average shareholders' equity (per cent)	**-1.1%**	-7.2%
Return on average assets (per cent)	**-0.4%**	-2.9%
Liquidity ratio (per cent)	**28.1%**	24.4%
Leverage ratio (per cent)	**246.3%**	213.5%

As at 31 December 2015, Bank Alkhair's total assets increased by US$18.1 million to US$585.1 million from US$567.0 million at the end of 2014. The increase was mainly due to the impairment reversal on investment in BFC for an amount of US$16.1 million that increased the carrying value of Equity-accounted investees. An increase of US$18 million in Other Assets is due to receivable against disposal of investment property and is netted off by the decrease in the same.

Cash and bank balances decreased to US$17.0 million from US$22.9 million in 2014 and placements with financial institutions were reduced to US$9.6 million (2014: US$42.3 million), mainly attributable to placements liquidated during the year.

Finally, as at 31 December 2015, the Bank had total bank and non-bank borrowings of US$331.5 million, in the form of reverse Murabaha and Wakala deposits, an increase of US$26.9 million from US$304.6 million in 2014.

BFC Group Holdings

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

The BFC Group, founded in 1917 and acquired by Bank Alkhair in January 2009, is a leading foreign exchange and remittance group in the GCC. Its rapidly growing network of over 122 branches are located in: Bahrain 40 branches, Kuwait 34, India 26, the UK 14 and Malaysia 8. Both Bahrain Finance Company and Bahrain Exchange Company, Kuwait recorded substantial growth in their transaction figures in 2015.

t'azur Company

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

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

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

Burj Bank

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

Burj Bank is one of the five full-fledged Islamic commercial banks in Pakistan. It was established in 2007 as the Dawood Islamic Bank, and renamed in 2011. Bank Alkhair is the largest shareholder with a 37.91 per cent stake, followed by the Jeddah-based ICD – the private sector arm of the Islamic Development Bank Group – with a shareholding of 33.90 per cent. Burj Bank operates through a network of 75 branches in 25 cities in Pakistan. It provides a comprehensive range of Shari'ah-compliant banking products and services for individual customers and corporate clients, including small-and-medium enterprises (SMEs). Burj Bank was named the 'Best Islamic Bank - Pakistan' at the 2013 World Finance Awards.

Al Tajamouat for Touristic Projects Company

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

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

Launched in 2012, Al Taj is now fully operational, and has achieved an occupancy rate of 96 per cent at premium lease rates, with significant interest in the remaining space. One of the highest yielding shopping malls in the Middle East region, its footfall has more than doubled since opening.

On 31 May 2013, the Group acquired a controlling stake in Al-Tajamouat for Touristic Project Company, bringing its overall shareholding to 50.63%, and resulting in Al-Taj becoming a subsidiary.

Tintoria International

Shareholding	**52.06%**
Sector/Industry	**Laundry and textile services**
Location	**Dubai, UAE**

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

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

Open Silicon

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

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

Based in Silicon Valley, California, the Company has design centres in various locations across the USA, as well as in Taiwan and India. Its blue chip clients include HP, Cisco, Sony, Fuji, Panasonic and Hitachi. Since inception, Open Silicon has completed over 300 designs, and shipped more than 90 million chips with a defect return rate of only 0.0003 per cent.

Turquoise Coast Investment Company

Shareholding	**4.51%**
Sector/Industry	**Real estate - residential and hospitality**
Location	**Bodrum, Turkey**

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

The superbly designed accommodations at the luxury project include private beachfront apartments and villas, beachfront suites, and superb hotel guest rooms. Phase one of the project, comprising luxury residences for sale, has been completed. Phase two, which is now underway, will include a 5-star hotel and spa managed by a five star branded operator, and the second tranche of residences will be for sale. Phase three will see the completion of additional residences. Comprehensive amenities include a private beach, swimming pools, nature paths, spa and fitness center, together with several signature restaurants.

Risk is an inherent part of Bank Alkhair's business and the Bank's ability to properly identify, anticipate, assess, mitigate and actively manage risk is a core element of its operating philosophy and profitability. The Bank's approach to managing risk involves the establishment of a risk management framework that includes:

- Risk governance arrangements through an independent risk management function.
- Risk strategy formulation in support of the Bank's strategy and risk appetite.
- Risk management infrastructure and resourcing.
- Risk management policies, limits and processes and control.

The Bank's risk management and governance framework is intended to provide progressive controls and continuous management commensurate with all risks involved in the Bank's activities.

Developments in 2015

The key focus during the year was on further strengthening the risk management infrastructure:

- Significant revision of management-level committees' charters to enhance and streamline governance processes.
- Detailed Board-level reporting to enhance transparency.
- Enhanced post acquisition monitoring and investments review process.
- Adoption of risk-adjusted remuneration policies.

Risk Governance

Board Risk Management Oversight
The Board of Directors is ultimately responsible for risk management oversight. In recognition of this responsibility, the Board Risk Committee provides exclusive focus on risk management issues. The Risk Management function, through the Chief Risk Officer, reports functionally and administratively to the Board Risk Committee. The Board is responsible for approving the Bank's risk management framework, risk strategy, and risk appetite to ensure consistency with the Bank's long-term objectives.

The Board is also responsible for setting and overseeing the Bank's compliance with discretionary authority limits, and approving all policies.

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

Shari'ah Supervisory Board
Shari'ah compliance is the ultimate responsibility of the Shari'ah Board of directors while the Group's Shari'ah Supervisory Board is vested with the responsibility of issuing binding resolutions, guidelines and pronouncements to ensure that the Group complies with the Shari'ah rules and principles in its transactions, activities and general philosophy.

Senior Management Risk Oversight
The Risk Committee's responsibility is to ensure the Bank develops an appropriate risk framework, including policies, resourcing, information systems, culture, and incentive structures for all business activities in compliance with regulations, the Bank's strategy and risk appetite. The Committee oversees the risk management, compliance and internal controls for all operational activities of the Bank; and reviews management policies, and approves risk processes and procedures.

Risk Management Function
The Risk Management function, headed by the Chief Risk Officer, is responsible for designing and implementing the Bank's Risk Management Framework, including risk strategy, policies, processes and systems.

Risk Management conducts independent forward-looking risk assessments of strategic developments, business plans, products and services, and individual transactions (including their respective credit, investment, counterparty and operational risks). It is also responsible for ensuring the Bank's processes capture all sources of transaction risk; and that appropriate limit methodologies are developed for use in the management of business risk.

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

Investment Monitoring & Reporting
Post-acquisition investment management is rigorously exercised, mainly via board representation within each investee company, throughout the life of each investment transaction. Investment risks are identified and assessed by the departments responsible for representing the Bank and its clients. The management-level Investment and Credit Committee oversees the latest reports, obtains regular updates from investee company board members, and provides strategic guidance and advisory.

Risk Policy Framework

The Bank's risk strategy defines risk appetite in line with business strategy, factoring in the following measures: capital adequacy, long-term return on equity, maximum allowable loss, liquidity limits. As part of the Bank's risk strategy, countries are clustered into:

- Core countries: expected to generage most of the Bank's revenue;
- Network countries: with future expansion targets;
- And extended countries – where the Bank takes an opportunistic view, but with a very limited revenue targets.

The risk strategy forms a critical part of the risk policy framework for the Bank, and is continuously reviewed and updated in line with changes in the business strategy. Additional information is available in Note 22 to the Consolidated Financial Statements on page no. 90 and 91.

Risk Management Process
The Bank has established a number of supporting risk policies covering credit, operational, large exposure, and liquidity management and outsourcing risks. The policies are subject to review and updated on a periodic basis.

Basel III and Capital Management
In 2014, the Bank established a Group-wide monitoring of Basel III metrics. The Bank's ICAAP efforts are led by the Risk Management function under the auspices of the Group Risk Committee.

Risk Exposure
The Group's main risk exposure categories are investment, credit, liquidity and operational risk. Information about the Group's exposure to each of these risks, its objectives, policies and processes for measuring and managing risk, and the Bank's management of capital, is explained in Notes 22 to 26 and 34 to the Consolidated Financial Statements on pages 90 to 99 and 105.

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 31 December 2015, 31 December 2014 and 31 December 2013 for Tier 1 and Tier 2 capital.

Components of Capital

(US$ millions)	31 December 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	**(58.5)**	(53.5)	(29.8)
Foreign Currency Translation reserve	**(15.3)**	(13.3)	(9.5)
Total CET1 capital prior to regulatory adjustments	**134.6**	NA	NA
Less : Goodwill	**(32.1)**	NA	NA
Total common equity Tier 1 capital after the regulatory adjustments above (CET1 C)	**102.6**	NA	NA
Less-Significant investments in the common stock of financial entities (amount above 10% of the CET1 C)	**(19.5)**	NA	NA
-Aggregated amount of exposures exceeding the 15% of CET1 C	**(14.6)**	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	**68.5**	33.9	65.4

Tier 2 capital			
Total Available T2 Capital	**0.8**	NA	NA
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	**0.8**	-	-
Total capital	**69.4**	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 31 December 2015, 31 December 2014 and 31 December 2013. The figures for the period ending 31 December 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.

	Risk-weighted equivalents			Risk-weightings for 2015
(US$ millions)	**31 December 2015**	31 December 2014	31 December 2013	
Claims on Public sector entities	**-**	-	0.4	20%
Claims on banks	**4.6**	28.4	43.7	20%-100%
Claims on corporates including Takaful companies & category 3 investment firms	**83.5**	27.5	62.4	20%-800%
Investments in securities, funds & sukuk:				
- Investments in listed equities	**11.1**	17.0	20.6	100%
- Investments in unlisted equities	**24.3**	33.1	38.1	150%
-Significant investment in the common shares of financial entities > 10%	**184.0**	NA	NA	250%
-Significant investment in the common shares of commercial entities	**383.2**	NA	NA	800%
- Other investment with excess amount over 15%	**368.8**	NA	NA	800%
- Investments in unrated funds	**26.4**	33.1	41.0	100%-150%
Real estate holdings	**87.5**	123.3	98.3	200%-400%
Other assets and specialised financing	**22.8**	21.7	21.0	100%
Credit risk-weighted assets	**1,196.2**	284.1	325.5	

Minimum Capital Requirements for Islamic Financing Contracts

(US$ millions)	**31 December 2015**		31 December 2014	
	Risk-weighted equivalents	**Minimum capital requirements**	Risk-weighted equivalents	Minimum capital requirements
Murabaha	**64.0**	**8.0**	8.3	1.0
Wakala	**3.8**	**0.5**	6.3	0.8
Mudaraba	**-**	**-**	8.5	1.1

Past due Islamic financing contracts as at 31 December 2015 amounted to US$1.22 million, and the breakdown by industry and geographic region is shown below:

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

Past due and fully impaired Islamic financing contracts as at 31 December 2015 amounted to US$6.4 million, which was due from a Company in the mining industry in the Southeast Asian region.

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 31 December 2015, 31 December 2014 and 31 December 2013 are:

(US$ millions)	**31 December 2015**	31 December 2014	31 December 2013
Price risk	**-**	-	-
Equities position risk	**-**	-	-
Sukuk risk	**-**	-	-
Foreign exchange risk	**4.9**	2.8	2.5
Commodities risk	**-**	-	-
Total capital requirement for market risk	**4.9**	2.8	2.5
Multiplier	**12.5**	12.5	12.5
Total Market risk-weighted exposures	**61.5**	34.6	31.3

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

	31 December 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	**5.0**	**4.9**	3.1	2.7
Commodities risk	**-**	**-**	-	-
Total capital requirement for market risk	**5.0**	**4.9**	3.1	2.7
Multiplier	**12.5**	**12.5**	12.5	12.5
Total Market risk-weighted exposures	**62.2**	**61.5**	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 31 December 2015 is shown below:

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

Risk-Weighted Exposures

Risk-weighted exposures increased by US$927.5 million (229%) in 2015, from US$405 million as at 31 December 2014 to US$1,332.5 million as at 31 December 2015, as detailed below:

(US$ millions)	31 December 2015	31 December 2014	31 December 2013
Credit risk-weighted exposures	**1,196.3**	284.1	325.5
Market risk-weighted exposures	**61.5**	34.6	31.3
Operational risk-weighted exposures	**74.7**	86.3	73.8
Total risk-weighted exposures	**1,332.5**	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	53.3%	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
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% of Group Regulatory Capital.

(Percent)	31 December 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	**5.2**	**5.1**	8.4	8.4	15.2	15.2
Alkhair International Islamic Bank Berhad	**33.6**	**32.6**	72.8	71.9	38.5	38.1
Alkhair Capital Saudi Arabia	**55.3**	**55.3**	47.9	47.9	47.7	47.7
Alkhair Capital Menkul Degerler A.S.	**35.8**	**35.8**	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)	31 December 2015	31 December 2014	31 December 2013
	BASEL III	BASEL II	BASEL II
Credit risk	**149.5**	35.5	40.7
Market risk	**7.7**	4.4	3.9
Operational risk	**9.3**	10.8	9.2
Total capital requirements	**166.5**	50.7	53.8

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)	31 December 2015	31 December 2014	31 December 2013
Investments in listed equities	**1.4**	2.1	2.6
Investments in unlisted equities	**3.0**	4.1	4.8
Significant investment in the common shares of financial entities > 10%	**23.0**	NA	NA
Significant investment in the common shares of commercial entities	**47.9**	NA	NA
Other investment with excess amount over 15%	**46.1**	NA	NA
Investments in unlisted real estate companies	**3.7**	NA	NA
Investments in unrated funds	**3.3**	4.1	5.1
Total capital requirements	**128.4**	10.3	12.5

RISK MANAGEMENT

Credit Risk

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations and arises principally from the Group's balances with banks, placements with financial institutions, financing receivables, investment securities – Sukuk and other receivables. Capital Markets proposes limits for its interbank placement activities and other client groups for review and approval by Risk Committee. Further, Risk Management independently analyses the applications and rates the respective counterparties. Based on this an independent recommendation is forwarded to the Risk Committee for approval. Risk Committee periodically reviews these limits for appropriateness in prevailing market conditions.

Gross and average credit risk

The table below shows the average gross credit risk exposure of the Bank as at 31 December 2015, classified as per the disclosure in the financial statements:

Balance sheet items (US$ thousands)	**Funded exposure**	Unfunded exposure	Total gross credit exposure	Average gross credit exposure*
Balances with banks	17,016	-	17,016	18,737
Placements with financial institutions	9,648	-	9,648	20,431
Financing Receivables	66,713	-	66,713	56,505
Investment securities - Sukuk	5,319	-	5,319	13,876
Other assets	3,233	-	3,233	5,016
	101,929	-	101,929	114,565
Commitment to invest	-	10,030	10,030	10,636
Guarantees	-	5,311	5,311	5,311
Total credit risk exposure	**101,929**	**15,341**	**117,270**	**130,512**

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the year ended 31 December 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 31 December 2015 was US$119.2 million (31 December 2014: US$99.2 million).

Exposures in excess of the 15% limit for the year ended 31 December 2015 are as follows:

Counterparties	**Amount of exposures In US$'000**	% of exposure To capital	Type of Exposures
Counterparty # 1	**119,168**	171.78%	Investment and Receivable
Counterparty # 2	**50,424**	72.69%	Investment and Receivable
Counterparty # 3	**38,522**	55.53%	Investment
Counterparty # 4	**27,501**	39.64%	Investment, Guarantee and Receivable.
Counterparty # 5	**22,116**	31.88%	Investment, Guarantee and Receivable.
Counterparty # 6	**19,788**	28.52%	Investment
Counterparty # 7	**18,816**	27.12%	Investment, Wakala, Receivable and Commitment
Counterparty # 8	**12,411**	17.89%	Investment and Bank Balance
Counterparty # 9	**11,252**	16.22%	Bank Balance

The exposure to Counterparty # 9 is exempted short-term interbank exposures.

Credit quality per class of financial assets

Specific provisions

	Specific Provision against				
(US$ thousands)	Financing Receivable	Other Assets	Investment Securities	Equity-accounted investees	Total
At the beginning of the year	6,174	1,902	30,007	21,100	59,183
New Provision made	3,095	-	-	3,500	6,595
Write off	-	-	-	-	-
Recoveries / Write backs	-	-	-	(16,100)	(16,100)
Balance at the end of the year	9,269	1,902	30,007	8,500	49,678

Collective provisions

	Collective Provision against				
(US$ thousands)	Financing Receivable	Other Assets	Investment Securities	Equity-accounted investees	Total
At the beginning of the year	300	-	-	-	300
New Provision made	531	-	-	-	531
Write off	-	-	-	-	-
Recoveries / Write backs	-	-	-	-	-
Balance at the end of the year	831	-	-	-	831

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.

	31 December 2015	31 December 2014
Short term assets (in US$ millions)	**123,733**	80,377
Short term liabilities (in US$ millions)	**206,160**	163,964
Liquidity ratios (in %)		
Liquid assets : Total assets	**6.9%**	16.8%
Liquid assets : Total deposits	**12.2%**	31.3%
Liquid assets : Total liabilities	**11.2%**	28.3%
Short term assets: Short term liabilities	**60.0%**	49.0%

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)	**31 December 2015**	31 December 2014	31 December 2013	31 December 2012	31 December 2011
Gross Income	**-**	-	15	91	758
Wakil Fee	**-**	-	(3)	(36)	(215)

Displaced Commercial Risk

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

Overview

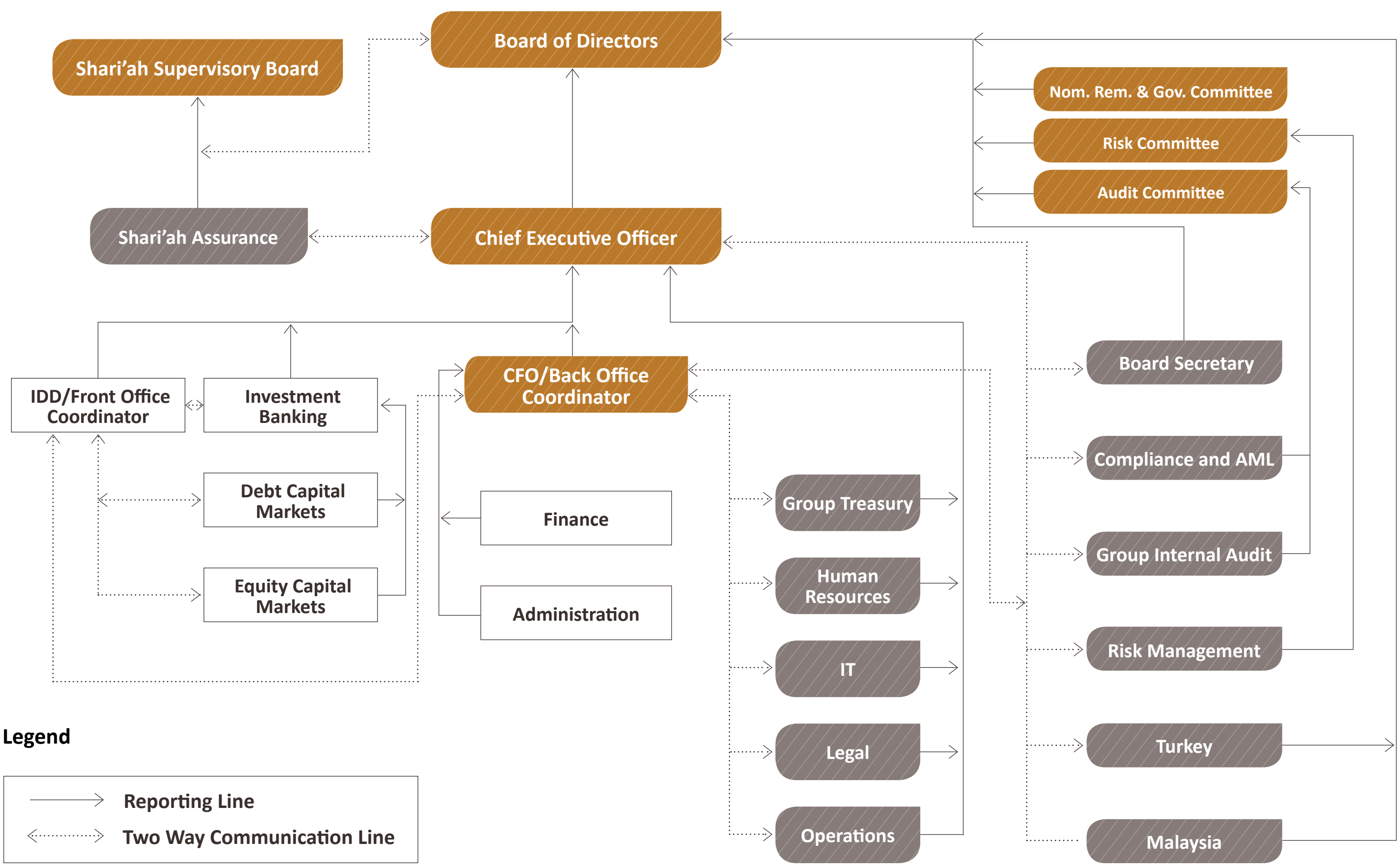
As a Bahrain-based bank, Bank Alkhair is subject to the corporate governance standards of the Central Bank of Bahrain (CBB) and the Bahrain Commercial Companies Law. The Bank aspires to the highest standards of ethical conduct based on sound corporate governance. In accordance with its commitment to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

Developments in 2015

During 2015, Bank Alkhair ensured compliance with the robust Corporate Governance framework established in 2011. Developments during the year included:

- Enhanced the Bank's organisation structure.
- Conducted a thorough Performance Evaluation of the Board, its members and its sub-committees, and highlighted areas to be strengthened in order to enhance the Board of Directors.
- Conducted Board training sessions on Basel III and Risk Management Practices, and another session on FATCA regulations and practices.
- Incorporated FATCA requirements into the Bank's AML Policy, and conducted group-wide training on FATCA.

Governance and Organisation Structure



Ownership by nationality

Nationality	No. of Shares	No. of Shareholders	Percentage (%)
Saudi Arabian	150,864,544	46	72.54%
Kuwaiti	38,099,800	35	18.32%
Bahraini	5,762,532	30	2.77 %
Cayman Islands	4,576,703	1	2.2 %
Qatari	3,456,006	3	1.66%
Others	5,202,329	56	2.5%
Total	207,961,914	171	100%

Ownership by percentage of equity

Class of Equity	No. of Shares	No. of Shareholders	Percentage (%)
Less than 1%	32,082,281	151	15.43%
1% to less than 5%	120,519,831	15	57.95%
5% to less than 10%	55,359,802	5	26.62%
Total	207,961,914	171	100%

Ownership of directors and senior management

Name	Position	Percentage (%) as of 31 December 2015
Yousef Abdullah Al-Shelash	Chairman	5.55%
Sultan Abdulrahman Abalkheel	Director	5.55%
Abdullatif Abdullah Al-Shalash	Director	5.18%
Hethloul Saleh Al-Hethloul	Director	5.18%
Ahmed Saleh Al-Dehailan	Director	4.99%
Majed Al Qassem	Director	4.81%
Khalid Abdulrahim	Director	0.44%
Ayham Yousef Gharaibeh	General Counsel	0.02%
Muhammad Al-Bashir Muhammad Al-Amine	Head of Shari'ah	0.01%

Ownership above 5%

Name	Percentage (%) as of 31 December 2014
Yousef Abdullah Al-Shelash	5.55%
Sultan Abdulrahman Abalkheel	5.55%
Abdullatif Abdullah Al-Shalash	5.18%
Hethloul Saleh Al-Hethloul	5.18%
Fahad Abdulaziz Al-Sekait	5.18%

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

Board of Directors

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

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

The Board comprises members from diverse backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity and professionalism. The current Board comprises fifteen members, nine of whom are independent non-executive directors, in accordance with the requirements of Bahrain's Code of Corporate Governance. As part of the Bank's Corporate Governance framework, the Bank introduced formal Board procedures, including the induction and training of new members, and continuous development and training of existing members. The Board, the Board's Committees, and each individual director must undergo a formal performance review and evaluation as required by the Code.

The election and termination of directors are governed by the Bahrain Commercial Companies Law and the Bank's Articles of Association, which require the election of directors by written ballot. The Board term for members is three years. Board members must meet and attend at least 75% of all Board meetings within a calendar year. Biographies of current directors are listed at the end of this Review.

Material transactions that need Board approval

All transactions of the Bank are subject to the limits and guidelines prescribed by the Bank's Discretionary Authority Limits (DAL), and for any type of transactions not covered by the DAL requires approval from the Board of Directors. All credit and investment proposals are subject to Risk Management function and management committees' review. Proposals exceeding certain pre-defined exposure levels require approval of the Board. Similarly, related party transactions relating to members of the Board require approval of the Board and / or the AGM, where applicable. The Corporate Governance charter of the Board specifically restricts the conflicted board member/s from voting on the transactions where any board member has any interest attached to such transaction. All transaction where any board member has any interest are identified and disclosed as required by the applicable rules and regulations.

Board Composition

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

Board of Directors Meeting Attendance 2015

Members	26 February	9 April	11 June	3 September	12 November	24 December
Yousef Al-Shelash	✔	✔	✔	✔	✔	✔
Hethloul Al-Hethloul	✔	✔	✔	✔	✔	✔
Abdullatif Al-Shalash	✔	✔	✔	✔	✔	✔
Ayman Abudawood	✔	✔	X	✔	✔	✔
Dr. Ahmed Al-Dehailan	✔	✔	✔	✔	✔	✔
Dr. Abdulaziz Al Orayer	✔	✔	✔	✔	✔	✔
Khalid Shaheen	✔	✔	✔	✔	✔	✔
Majed Al Qasem	✔	✔	✔	✔	✔	✔
Sultan Abalkheel	✔	✔	✔	✔	✔	✔
Ali Al Othaim	✔	✔	✔	✔	✔	X
Abdullah Al Dubaikhi	✔	✔	X	✔	✔	✔
Abdulrazaq Al Wohaib	✔	✔	✔	✔	✔	✔
Dr. Khalid Ateeq	✔	✔	✔	✔	✔	✔
Khalid Abdulrahim	✔	✔	X	✔	✔	✔
Hamad Al Turkait	✔	✔	✔	✔	✔	✔

Board Committees

Bank Alkhair's Board of Directors is assisted by three Board Committees: the Audit Committee, the Nomination, Remuneration & Governance Committee and the Risk Committee.

Audit Committee

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

No. of members	Four non-executive members and three independent directors including the Chairman of the Committee	
Members of the Committee	• Dr. Ahmed Al Dehailan (Chairman) • Abdullah Al Dubaikhi • Sultan Abalkheel • Ali Al Othaim	Independent Independent Non-Executive Independent
Minimum no. of meetings per year	Four	
Quorum	Two	
The Audit Committee's primary responsibilities include:	• Ensuring the integrity of the Bank's financial statements, financial reporting process and internal control systems; • Approving the appointment of the internal auditor and reviewing the activities of the internal audit function; • Oversee appointment of external auditors and annual independent audit of the Bank's financial statements; • Recommending to the Board the engagement of external auditors for non-audit services and evaluating the external auditors' independence and performance; and • Overseeing the Bank's compliance with legal and regulatory requirements, including the Bank's disclosure controls and procedures and compliance with the Bank's Code of Conduct.	

Meeting Attendance – Audit Committee, 2015

Members	26 February	8 April	10 June	2 September	11 November
Dr. Ahmed Al-Dehailan	✔	✔	✔	✔	✔
Ali Al Othaim	X	✔	✔	✔	✔
Sultan Abalkheel	✔	✔	✔	✔	✔
Abdullah Al Dubaikhi	✔	✔	X	✔	✔

Nomination, Remuneration & Governance Committee

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

No. of members	Five Non-Executive Directors, two of whom are independent	
Members of the Committee	• Yousef Al-Shelash • Abdullah Aldubaikhi • Dr. Abdulaziz Al Orayer (Chairman) • Majed Al Qasem • Dr. Nizam Yaqouby	Non-Executive Independent Independent Non-Executive Independent Shari'ah Advisor (required to attend one meeting per year to address Shari'ah governance issues)
Minimum no. of meetings per year	Four	
Quorum	Two	
The NR&GC's primary responsibilities include:	• Overseeing the Board of Directors' and individual directors' performance; • Ensuring the Bank's effectiveness and compliance with corporate governance policies and practices; • Succession planning for the Board and senior management; and • Assisting the Board in establishing staff remuneration policies and fees for non-executive directors and the Shari'ah Supervisory Board.	

NR&GC Meeting Attendance – November 2015

Members	26 February	9 April	11 June	3 September	12 November
Yousef Al-Shelash	✔	✔	✔	✔	✔
Hethloul Al-Hethloul (replaced by Abdulla Dubaikhi)	✔	✔	✔	X	NA
Abdulla Dubaikhi (appointed November 2015)	NA	NA	NA	NA	✔
Dr. Abdulaziz Al Orayer	✔	✔	✔	✔	✔
Majed Al Qasem	✔	✔	✔	✔	✔
Dr. Nizam Yaqouby	X	X	X	X	✔

Risk Committee

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

No. of members	Four Non-Executive Directors, two of whom are Independent	
Members of the Committee	• Majed Al Qasem (Chairman) • Abdullatif Al-Shalash • Khalid Abdulrahim • Dr. Khaled Ateeq	Non-Executive Non-Executive Independent Independent
Minimum no. of meetings per year	Four	
Quorum	Two	
The Risk Committee's primary responsibilities include:	• Overseeing the Group's risk policies, processes and infrastructure (including operational risk) related matters; and • Supervising the credit approval and investment review process.	

Risk Committee Meeting Attendance – 2015

Members	25 February	10 June	3 September	24 December
Majed Al Qasem (Chairman)	✔	✔	✔	✔
Abdullatif Al-Shalash	✔	✔	X	✔
Khalid Abdulrahim	✔	✔	✔	X
Dr. Khaled Ateeq	✔	✔	✔	✔

Shari’ah Supervisory Board

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

The Board is pro-actively involved in all product development and investment decisions relating to transactions; and all underlying contractual documentation is only finalised after obtaining the approval of the Shari’ah Assurance division under the direct oversight of the Shari’ah Supervisory Board. The Shari’ah Board sets out the Islamic opinions (Fatwas), which are required for approval of the structures of each financial transaction, service or investment product. Biographies of the Shari’ah Board members are listed at the end of this review.

Corporate Governance Policies and Procedures

Compensation of the Board of Directors, Shari'ah Supervisory Board and Executive Management

Compensation of the Board of Directors and Executive Management is recommended to the Board of Directors by the Nomination, Remuneration & Governance Committee, and the Board of Directors then make the recommendation to the shareholders at the annual general meeting.

The total remuneration of the Board of Directors is in accordance with the CBB and ministry of industry, commerce, and tourism regulations.

The Shari'ah Supervisory Board remuneration does not include sitting fees.

Executive Management members are entitled to fixed remuneration as per their contractual agreements, and any other performance-related incentives/bonuses must be approved by the Board. Details of the aggregate compensation (including benefits) for the Board of Directors and Executive Management for the year ended 31 December 2015 can be found in Note 21 to the Financial Statements on page no. 89 and 90.

Sound Remuneration Practices

The CBB issued new regulations regarding Sound Remuneration Practices, and the Bank ensures full compliance with all CBB guidelines and ministry of Industry, Commerce, and Tourism laws with regards to compensation.

Continuous Development of the Board and Board Committees

In line with the Bank's Board Induction and Training Policy, Board Members continuously attend seminars and workshops regionally and internationally to fulfil their duties in areas of Governance and Risk Management.

Board Performance Evaluation

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

The Board and Board Committee evaluation is facilitated by the Board Secretary, who reports the results to the Nomination, Remuneration and Governance Committee (NR&GC). The NR&GC may elect to hire an external consultant to evaluate the effectiveness of the Board and Board Committees. The NR&GC presents the results of the evaluation to the Board, and subsequently reports to the Shareholders during the next AGM. Board Evaluations for the Board of Directors, its members, and its Committees were conducted for the year ending 2015, and the results have been reported to the NR&GC, and subsequently to the Board of Directors, and reported to the shareholders in the AGM.

Code of Conduct

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

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

Conflict of Interest

Bank Alkhair has a formal Conflict of Interest policy that applies to all directors and employees and which includes a signed undertaking requiring directors to disclose their personal interests annually. The Conflict of Interest policy requires Board members to inform the entire Board of potential conflicts of interest between the Bank's activities and their personal interests, and abstain from voting on matters relating to them in accordance with the relevant provisions of the BCCL or any other Law. No conflicts of interest were identified and reported in 2015.

Related Party Transactions

The Bank has an approval process in place for related party transactions. The approval process is reflected in the Bank's Group Code of Conduct and Corporate Governance Policy. In this regard, the Bank has complied with Article 32(3) of the Bank's Articles of Association and Article 189 of the Bahrain Commercial Companies Law (CCL). Details of related party transactions are disclosed in Note 21 of the Financial Statements on page no 89 and 90.

Discretionary Authority Limits

The Bank has implemented a new Discretionary Authority Limit policy, which prescribes in detail the approval process for all transactions and processes within the Bank, as well as details the authority of the Board, Board Committees, Shari'ah Board, Management Committees and top Management.

Transactions including related party transactions with a monetary value between US$7 million and US$25 million require the approval of the Board Executive Committee, and any transaction above US$25 million requires Board approval. Details of related party transactions are disclosed in Note 21 of the Financial Statements on page no 89 and 90.

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

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

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

Corporate Social Responsibility
Bank Alkhair is committed to improving the well-being and quality of life of citizens of the Kingdom of Bahrain. During 2015, the Bank supported a number of charitable organisations, including the Bahrain Disabled Sports Federation, Children & Mother Welfare Society, the National Institute for the Disabled and the Smile Initiative. In addition, Bank Alkhair provided financial support to needy individuals, and other deserving causes in the community.

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

Compliance with Regulatory Guidelines
The Central Bank of Bahrain's (CBB's) High Level Controls Module (HC Module), which focuses on strengthening the corporate governance function of banks, contains rules that must be complied with; and guidance, which may be complied with; or in cases of non-compliance, must be disclosed in the annual report and explained to the CBB. For the year 2015, Bank Alkhair is fully compliant with the requirements of the CBB's HC Module, except for the following:

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

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

REMUNERATION RELATED DISCLOSURES

The Central Bank of Bahrain issued directives that the Remuneration policy has been effective as of 1st July 2014 and it was subsequently approved and adopted by the shareholders on 9th April 2015.

The Bank's total compensation policy, which includes the variable remuneration policy, sets out its practice on remuneration for directors and senior management and the key factors that were taken into account in establishing the policy.

The key features of the proposed remuneration framework are summarised below.

Remuneration strategy
It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance-based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of our objectives through balancing reward for both short-term results and long-term sustainable performance. Our strategy is designed to share our success, and to align employees' incentives with our risk framework and risk outcomes.

The quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of shareholders. The Bank's reward package comprises the following key elements:

1. fixed pay;
2. benefits;
3. annual performance bonus; and
4. the long term performance incentive plan

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Nomination Remuneration and Governance Committee of the Board (NR&GC).

The Bank's remuneration policy in particular, considers the role of each employee and has set guidelines depending on whether an employee is a Material Risk Taker and / or an Approved Person in business line, control or support functions. An Approved Person is an employee whose appointment would require prior regulatory approval because of the significance of the role within the Bank and an employee is considered a Material Risk Taker if they head significant business lines and any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what the Bank pays its people and its business strategy, individual performance is assessed against annual and long-term financial and non-financial objectives summarised in line with our performance management system. This assessment also takes into account adherence to the Bank's values, risk and compliance measures above all, and acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short- and long-term but also importantly on how it is achieved, as the NR&GC believes the latter contributes to the long-term sustainability of the business.

NR&GC role and focus

The NR&GC has oversight of all reward policies for the Bank's employees. The NR&GC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NR&GC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices and the business plan and risk profile of the Bank.

The responsibilities of the NR&GC with regard to the variable compensation policy of the Bank, and as stated in its mandate, include, but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as the total variable remuneration to be distributed, taking into account total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn the same short-run profit but take different amounts of risk on behalf of the Bank.
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NR&GC will question pay-outs for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial controls and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves to not using personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive directors are independent including the NR&GC members.

The NR&GC Members did not receive any remuneration during the year 2015.

Scope of application of the remuneration policy

The principles of this remuneration policy apply to all group entities in Bahrain.

Board remuneration

The remuneration of the Board of Directors shall be in accordance with the Bahrain Commercial Companies Law and the Central Bank of Bahrain's regulations.

The Board Remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

The variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of the staff's variable remuneration, the annual bonus reward is based on delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis that the combination of meeting both satisfactory financial performance and achievement of other non-financial factors, would, all other things being equal, deliver a target bonus pool for the employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted in determining the variable remuneration pool, the NR&GC aims to balance the distribution of the Bank's profits between shareholders and employees.

The key performance metrics at the Bank level include a combination of short-term and long-term measures and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the quantum of variable remuneration, the Bank has implemented a hybrid model by defining a Top Down (profit based) bonus pool funding for control and support staff and bottom-up (maximum earning opportunity based) pools for Risk Takers. The total bonus pool is capped at a percentage of profit before being assessed for risk. This approach is a starting position and the NR&GC may choose to implement a discretionary award for a given year based on affordability for the Bank and its assessment of the Bank's current and future resource requirements. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The NR&GC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NR&GC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NR&GC.

For the overall Bank to have any funding for distribution of the bonus pool, thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk adjustment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not to be determined by the individual financial performance of the business area they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks that are specific to each unit.

Variable compensation for business units

The variable compensation for the business units is primarily decided by the key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory environment. The consideration of risk assessment in the performance evaluation of individuals ensures that any two employees who generate the same short-run profit but take different amounts of risk on behalf of the bank are treated differently by the remuneration system.

Risk assessment framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavour to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgement play a role in determining risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy designed reduces employees' incentives to take excessive and undue risk is symmetrical with risk outcomes and has an appropriate mix of remuneration that is consistent with risk alignment.

The Bank's NR&GC considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices, where potential future revenues whose timing and likelihood remain uncertain, are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base.

The bonus pool takes into account the performance of the Bank, which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events. The size of the variable remuneration pool and its allocation within the Bank takes into account the full range of current and potential risks, including:

- The cost and quantity of capital required to support the risks taken;
- The cost and quantity of the liquidity risk assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NR&GC keeps itself abreast of the Bank's performance against the risk management framework. The NR&GC will use this information when considering remuneration to ensure that the return, risk and remuneration are aligned.

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against risk assumptions.

In years where the Bank suffers material losses in the financial performance, the risk adjustment framework would work as follows:

- There would be considerable contraction of the Bank's total variable remuneration.
- At the individual level, poor performance by the Bank would mean individual KPIs are not met and hence employee performance ratings would be lower.
- Reduction in value of deferred shares or awards.
- Possible changes in vesting periods and additional deferral applied to unvested rewards.

- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or claw-back of previous bonus awards may be considered.

The NR&GC, with Board's approval, can rationalise and make the following discretionary decisions:

- Increase / reduce the ex-post adjustment.
- Consider additional deferrals or increase in the quantum of share awards.
- Recovery through malus and claw-back arrangements.

Malus and Claw-back framework
The Bank's malus and claw-back provisions allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited / adjusted or the delivered variable compensation could be recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be taken by the Bank's Board of Directors.

The Bank's malus and claw-back provisions allow the Bank's Board to determine that, if appropriate, vested / unvested elements under the deferred bonus plan can be adjusted / cancelled in certain situations. These events include the following:

- Reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the Bank / the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the concerned performance year.
- The employee deliberately misleads the market and / or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Claw-back can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of Variable remuneration
Variable remuneration has the following main components:

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Element of variable remuneration	CEO, his deputies and other 5 most highly paid business line employees	Other covered staff	Deferral period	Retention	Malus	Claw-back
Upfront cash	40%	50%	Immediate	-	-	Yes
Upfront share awards	-	10%	Immediate	6 months	Yes	Yes
Deferred cash	10%	-	Over 3 years	-	Yes	Yes
Deferred share awards	10%-50%	-	Over 3 years	6 months	Yes	Yes
Future performance awards	0%-40%	40%	Performance linked	6 months	Yes	Yes

The NR&GC, based on its assessment of role profiles and risk taken by an employee, could increase the coverage of employees that would be subject to deferral arrangements.

Deferred compensation
All employees above a certain grade shall be subject to deferral of variable remuneration as follows:

Details of remuneration paid

(a) Board of Directors
(In US$)

	2014	2015
Sitting Fees	619,000	412,000
Remuneration	Nil	Nil
Others	Nil	Nil

(b) Employee remuneration

2014											
BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Salaries & wages	Other Benefits/ Allowances	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	2	209	70								**279**
- Control & support	9	497	165								**662**
Other material risk takers	5	400	134								**534**
Other staff	37	1,228	211								**1,439**
Other Subsidiaries	56	1,359	542								**1,901**
Total	**109**	**3,693**	**1,122**								**4,815**

2015											
BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Salaries & wages	Other Benefits/ Allowances	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	2	410	408								**818**
- Control & support	8	520	338								**858**
Other material risk takers	5	502	261								**763**
Other staff	29	553	241								**794**
Other Subsidiaries	63	1,363	726								**2,089**
Total	**107**	**3,348**	**1,974**								**5,322**

(c) Deferred awards

	2015				
	Cash	Shares		Others	Total
	(BHD)	Number	(BHD)	(BHD)	(BHD)
Opening balance	Nil	Nil	Nil	Nil	Nil
Awarded during the period	Nil	Nil	Nil	Nil	Nil
Paid out / released during the period	Nil	Nil	Nil	Nil	Nil
Service, performance and risk adjustments	Nil	Nil	Nil	NIl	Nil
Changes in value of unvested opening awards	Nil	Nil	Nil	Nil	Nil
Closing balance	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

(c) Deferred awards

	2014				
	Cash	Shares		Others	Total
	(BHD)	Number	(BHD)	(BHD)	(BHD)
Opening balance	Nil	Nil	Nil	Nil	Nil
Awarded during the period	Nil	Nil	Nil	Nil	Nil
Paid out / released during the period	Nil	Nil	Nil	Nil	Nil
Service, performance and risk adjustments	Nil	Nil	Nil	NIl	Nil
Changes in value of unvested opening awards	Nil	Nil	Nil	Nil	Nil
Closing balance	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

(d) Severance pay

Severance payments were made to 9 Bank Alkhair staff totalling BD124,628.108 in the year 2015. This is end of service compensation in total out of which BD 12,392 is paid as termination. The highest amount paid to one person was BD4,290.

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.
Deferred share awards	The portion of variable compensation that is awarded and paid in the form of phantom shares on a pro-rata basis over a period of 3 years.
Future performance awards	The portion of variable compensation, which is awarded to select employees. The awards are contingent on the delivery of future performance targets for the Bank as well as service conditions on the part of employees. These could comprise individually or a combination of the following: • Phantom Shares, where the employees are compensated in the form of share-linked instruments (phantom shares) as a percentage of fixed salary on achievement of some future performance conditions. • Profit share, where the employees are compensated based on a specified percentage of targeted profit for a transaction. • Carried Interest, where the employees are compensated a specified percentage of fair value gain on investments once it achieves a specified hurdle rate on realisation. • Co-investment, wherein a portion of variable remuneration is awarded in the form of an investment made by the Bank which is cashable by the employee on Bank's exit from the investment. • Sales commission, where the employee is compensated on the basis of a specified percentage of a sales value of an investment on successful exit.

Control Functions

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

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

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

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

All transactions and dealings during the year ended 31 December 2015 were in compliance with the rules and principles of Islamic Shari'ah, except part of the investment in the Taj Mall project, Open Silicon and The Independent for Logistics & Warehousing. However, the Bank is in the process of refinancing these projects using Shari'ah-compliant financing. As at 2015, Bank Alkhair accumulated US$557,771 of non-Shari'ah income, which the Shari'ah Supervisory Board advised the Bank to donate to registered charities, and submit the list of beneficiaries to the Board.

Group Internal Audit
Group Internal Audit reports directly to the Board Audit Committee. The department is responsible for evaluating and providing assurance to the Board of Directors and Executive Management on the effectiveness of the Bank's control, risk management and governance processes. Its scope, authority and role has been defined and approved by the Audit Committee in the form of an Internal Audit Charter. The department also conducts strategic audit reviews of the Bank's subsidiaries in Turkey, Malaysia and Saudi Arabia. The audit assignments are carried out in accordance with a risk-based internal audit plan approved by the Audit Committee.

Group Internal Audit reports key audit findings and status of prioritised management action plans, through a structured process, to the Board Audit Committee on a quarterly basis. The department also provides Management and staff with preventive advice and guidance.

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

Management Committees

The Board of Directors has established various management-level committees for each entity to ensure appropriate control and oversight of all material risks to the Bank.

Asset and Liability Committee (ALCO)
ALCO is responsible for managing the Bank's Asset, Liability, Liquidity and Capital structure, in compliance with local Regulations and the Bank's Asset and Liability Management ("ALM") Policy, which covers Capital Adequacy, Funding, Liquidity, Profit rate and Market risk within the Bank's risk appetite. The Committee is composed of Heads of key business units including Treasury and Finance, together with control function representation It oversees all Treasury and Capital Market trading book activities, monitors macroeconomic outlook and market sentiment and regularly reviews business line investment plans to ensure sufficient funding is in place. ALCO ensures the development of a funding strategy to include an appropriate mix of maturities in conjunction with the Bank's Treasury and Capital Markets functions.

Investment and Credit Committee (ICC)
The ICC oversees proprietary and client pre- and post-investment management including recommendation and approval of new investments, due diligence, divestures, strategic investee board level decisions, along with review and monitoring throughout the investment cycle. It is also responsible for the end-to-end credit cycle oversight, including review and approval of new credits, renewals, settlements, provisioning, and restructuring. It ensures all medium- to long-term exposures are managed within the Bank's strategy and risk appetite.

Management Risk Committee (MRC)
The Management Risk Committee's responsibility is to ensure the Bank develops an appropriate risk framework, including policies resourcing, information systems, culture and incentive structures for all business activities in compliance with regulations, the Bank's strategy and risk appetite. The Committee oversees the risk management, compliance and internal controls for all operational activities of the Bank; and reviews and approves risk management policies, processes and procedures.

Professional Biographies

Board of Directors

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

A Saudi national, Mr. Yousef A. Al-Shelash is the Chairman of Dar Al Arkan Real Estate Development Company (Dar Al Arkan) Saudi Arabia. He is also the Chairman of the Strategic Acquisition Fund, Bahrain. Previously, Mr. Al-Shelash served as a member of the Investigation and Attorney General Bureau in Saudi Arabia, as well as a legal advisor to various legal consultancy firms in Saudi Arabia. He obtained an MSc in Law and Legal Proceedings from the Institute of Public Administration Al-Riyadh, and a BSc in Shari'ah from Mohamed Bin Saud Islamic University, Saudi Arabia.

He has received formal training in financial management and evaluation of investment projects, and has also earned diplomas in both Banking and Combating Financial Crimes. Mr. Al-Shelash is one of the pioneers of the real estate development industry in the Kingdom of Saudi Arabia, beginning over two decades ago in the early 1990s. He also initiated the real estate mortgage industry in Saudi Arabia in 1998.
Mr. Al-Shelash holds a directorship in the following companies; Dar Al Arkan Real Estate Development (Saudi Arabia), Saudi Home Loans (Saudi Arabia), Alkhair Capital (Saudi Arabia), Madaraat Development Company & Technology. (Saudi Arabia), Afwaf Investment (Saudi Arabia), Thimar Alarabiya (Saudi Arabia), and Eamar Al Byadir Dev. (Saudi Arabia).
Professional experience: over 20 years

Ayman Ismail Abudawood
Independent director since December 2008

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

Hethloul Saleh Al-Hethloul
Non-Executive Director since April 2004 and Founding Shareholder

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

Abdullatif Abdullah Al-Shalash
Non-Executive Director since April 2004

Mr. Al Abdullatif Al-Shalash is a Saudi national and has considerable experience in financial and information management systems. He occupies the position of Managing Director at Dar Al Arkan. He is also a Board member of t'azur and the Strategic Acquisition Fund, Bahrain. Mr. Al-Shalash holds a Bachelor's degree in Organisation Leadership and Supervision from Purdue University, USA; and an MBA from Findlay University, USA.
Professional experience: over 19 years

Dr. Ahmed Al-Dehailan
Chairman of the Audit Committee and founding shareholder
Independent director since February 2011

Dr. Ahmed Al-Dehailan served as the Chief Financial Officer and Advisor to the General Manager at Dar Al Arkan. He was also a lecturer at Al Emam Mohamed University in Riyadh. Dr. Al-Dehailan holds board memberships in several other companies including the Saudi Home Loan Company (Director); the Strategic Acquisition Fund Company (Member of the Investment Committee); Bahrain Financing Company (Director), BFC Group Holding Limited and BFC Group Holdings W.L.L. (Director); t'azur, Bahrain (Director); and t'azur, Kuwait (Chairman). Dr. Al-Dehailan holds a Doctoral Degree in Accounting and Finance from Cardiff University, UK.
Professional experience: over 20 years

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

A Saudi national, Dr. Abdulaziz Al Orayer brings to the Board extensive experience gained over 39 years of working in high-level positions in Saudi Arabia's public and private sectors. He has been a member of the Saudi Arabian Majlis Al-Shura since 1997. Dr. Al Orayer is the Chairman of t'azur's Board of Directors, a position he has held since the Company's inception. He has overseen the evolution of t'azur into one of the leading players in the GCC family and general Takaful industry. He is also a Board member of Alkhair International Bank Berhad, Malaysia. Previously, he was the Deputy Minister for the Saudi Ministry of Finance and National Economy. Dr. Al Orayer holds a Doctorate in Economics and Business Administration from the University of Wales, UK; a Masters degree in Economics and Banking from Southern Illinois University, USA; and a Bachelor of Arts from the University of California, Berkeley, USA.
Professional experience: over 40 years

Khalid Shaheen
Independent director since April 2012

Mr. Khalid Shaheen is currently a Board member and the Chairman of the Audit Committee of National Finance House, and a Board member of BFC Group Holdings in Bahrain. Throughout his career, Mr. Shaheen held various high-level positions in prominent financial institutions in Bahrain, including Bahraini Saudi Bank, Bahrain Development Bank, Shamil Bank and Gulf International Bank. He also held a series of Board and Committee memberships in various organisations in Bahrain's public and private sectors. Mr. Shaheen holds a Bachelor's degree in Business from the University of St. Thomas, Houston, Texas, USA; and he is a Fellow of the Institute of Directors, UK.
Professional experience: over 30 years

Ali Al Othaim
Independent director since June 2013

Mr. Ali Al Othaim holds a Bachelor's degree in Business Administration. He received extensive training in the Global Investment division of Merrill Lynch in the United Kingdom, as well as the NASDAQ Programme 2 stock trading and technical analysis, in addition to many advanced courses in senior management in the USA. Mr. Ali Al Othaim began his career as a key partner in the family group of companies, and then became a member of several companies, including ARCIL Group for the Cayman Islands and Investment, which invests equity, bonds and mutual funds in global markets. Taking advantage of his financial background and experience accumulated in this field. Mr. Ali Al Othaim is the Chairman of the National Committee of Young Businessmen Council of Saudi Chambers, and one of the founders of the Committee of Young Businessmen in Saudi Arabia. He is a Board Member of the Prince Salman Center for Young Entrepreneurs, and a member of the Executive Committee of the Prince Salman Award for Young Entrepreneurs. A member of the Young Arab Leaders, he is also a member of the Saudi Management Association. Mr. Ali Al Othaim is head of the entrepreneur programme to support entrepreneurs in the Riyadh Chamber of Commerce and Industry; and President of the International Forum of Investment Prospects.
Professional experience: Over 15 years

Sultan Abalkheel
Non-Executive Director since June 2013

A Saudi national, Mr. Abalkheel has successfully established various businesses over the years in conjunction with growing and managing his family's interests in real estate, equity and other financial market activities. In addition, he has business interests in leading construction and development companies and equity markets. Mr. Abalkheel holds a Master's Degree in Management from the University of Cardiff, UK.
Professional experience: over 15 years

Abdullah Aldubaikhi
Independent director since June 2013

Mr. Abdullah Aldubaikhi is the CEO of Saudi Agricultural and Livestock Investment Company (SALIC). Prior to joining SALIC he was President of Afwaf Investment, and President of AwalNet, one of the largest Internet providers in Saudi Arabia. Mr. Aldubaikhi co-founded DowLong Technologies in 1993 after working as a project manager at the Saudi Industrial Development Fund. He started his career as a communication engineer at Saudi Telecom in 1987. He is a member of the Joint Business Councils between Saudi Arabia and the nations of France, Poland, Switzerland and Qatar. Mr Abdullah Aldubaikhi holds an Executive MBA from Oxford University, UK: and a BSc degree in Electrical Engineering from King Fahad University of Petroleum and Minerals, Saudi Arabia.
Professional experience: over 20 years

Khaled Abdulrahim
Independent director since June 2013

Mr. Khaled Abdulrahim is founder and Chairman of the KAR Group of companies. The flagship, Cebarco, is a leading building construction and civil engineering company responsible for many landmark projects of varying size and complexity, notably the Bahrain International Circuit, Abu Dhabi Formula 1 Circuit, and Bahrain City Center, among other iconic projects. Mr. Abdulrahim was also Executive Director of Hafeera Contracting WLL and associated companies. He has been awarded many accolades during his career, including the prestigious 'HM the King of Bahrain Medal for Services to the Kingdom and its People'. Mr. Abdulrahim holds an MSc from the Glasgow Caledonian University, Scotland, UK; he is a Fellow of the Chartered Institute of Building, UK; and a Fellow of the Association of Cost Engineers, UK.
Professional experience: over 30 years

Abdulrazaq Al Wohaib
Non-Executive Director since June 2013

Mr. Abdulrazaq Al Wohaib serves as Chief Executive Officer and Managing Director of t'azur Takaful Insurance Company. He brings a wealth of experience and knowledge of the insurance industry gained through his many years in the sector. He has held senior positions with many high profile insurance providers in Kuwait, including Takaful Insurance Kuwait, Wethaq Insurance, and Gulf Insurance. Mr. Abdulrazaq Al Wohaib is a Board Member of Kuwait Insurance Federation, and a Member of the Executive Technical Committee of GCC Insurance Federation. He holds a BSc in Business Administration from Azusa Pacific University, California, USA; and is a Member of the Chartered Insurance Institute, London, UK.
Professional experience: over 20 years

Majed Al Qasem
Non-Executive Director since June 2013

A Saudi national, Mr. Majed Al Qasem is a Founding Shareholder and Non-executive Independent Director of Dar Al Arkan Real Estate Development Company. He is also a Board Member of Al Buraq Real Estate Company and Namaa Al-Sarah Company; and has spent almost 10 years as a Member of the Investigation & Attorney General Bureau in Saudi Arabia. Mr. Al Qasem holds a Bachelor's Degree in Islamic Studies from Imam Mohammed bin Saud Islamic University, Saudi Arabia.
Professional experience: over 15 years

Dr. Khalid Ateeq
Independent director since June 2013

A Bahraini national, Dr. Khalid Ateeq has over 30 years of experience in banking, finance, auditing and accounting. He is currently the CEO and an Independent Board Member at Family Bank, Bahrain; and Chairman of the Audit & Risk Committee. He is also an Independent Board Member and Chairman of the Audit & Risk Committee of MEDGULF Insurance Co., Bahrain; and Chairman of the Board of Trustees at Gulf University.

From 1993 to 2005, Dr. Ateeq was Executive Director of Banking Supervision at the Central Bank of Bahrain (CBB), where he was responsible for the licensing, inspection and supervision of financial institutions, ensuring that all banks and financial institutions, either operating or incorporated in Bahrain, complied with promulgated laws and regulations. Before joining the CBB, he was Assistant Professor of Accounting and Auditing at the University of Bahrain. Dr. Ateeq holds a PhD in the Philosophy of Accounting from Hull University, UK; an MBA from Armstrong University, Berkeley, USA; and a BSc in Accounting and Finance from the University of Kuwait.
Professional experience: over 30 years

Hamad Abdulrazak Al-Turkait
Independent director since April 2014

Mr. Hamad Al-Turkait joined Al Safwa Group Holding Company, Kuwait in 2006 and is currently Head of the Financial Services Department. Prior to Joining Safwa Group Holding Co. Mr. Al-Turkait held various positions within Kuwait Petroleum Corporation, one of the largest oil complexes in the world.

Mr. Al-Turkait holds a B.S. Mechanical Engineering from Boston University, USA and was awarded the CFA Charter in January 2008 and CTA Charter (Certified Technical Analyst) in March 2008.
Professional experience: over 14 years

Shari'ah Supervisory Board

Dr. Khalid Mathkoor Al-Mathkoor
Chairman

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

Dr. Aagil Jasim Al-Nashmy
Deputy Chairman (until November 2015)

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

Dr. Abdul Sattar Abu Ghuddah

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

Dr. Ali Muhyealdin Al-Quradaghi

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

Dr. Mohammad Daud Bakar

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

Dr. Nizam Mohammad Saleh Yaqouby
Deputy Chairman (Effective December 2015)

Dr. Nizam Mohammad Saleh Yaqouby is a well-known Shari'ah Scholar recognised internationally. He sits on the Shari'ah Supervisory Board of many Islamic financial institutions including AAOIFI Shari'ah Board.

Dr. Nizam was awarded his PhD degree from Lahaye University in Holland.

Executive Management

Ayman Amin Sejiny
Group Chief Executive Officer

Mr. Ayman Amin Sejiny is the Group Chief Executive Officer of Bank Alkhair. He has over 22 years of corporate and investment banking experience, having worked with leading international institutions such as Barclays, CITI Bank and ABN Amro. Prior to joining Bank Alkhair, Mr. Sejiny was Chief Executive Officer of Barclays Saudi Arabia. During his five-year tenure he was responsible for managing Barclays Capital and Barclays Wealth.

Mr. Sejiny was Co-Founder of Bank Alkhair, (formerly Unicorn Investment Bank), and a member of its Board of Directors. He was also Managing Director and Chief Executive Officer of Alkhair Capital Saudi Arabia, (formerly Unicorn Capital Saudi Arabia). He has a BA in Finance from Eastern Michigan University, United States.

Wissam Soubra
Group Chief Financial Officer / Coordinator Back Office Functions (effective March 2014)

Mr. Wissam Soubra has a wealth of experience in Global Financial Control having spent a decade working for some of the leading multinational banking and investment management institutions in the GCC & MENA region. In his last tenure Mr. Soubra held the position of MENA CFO for Barclays Bank PLC, where he oversaw the Bank's financial control functions in Saudi Arabia, UAE & Qatar.

Mr. Soubra holds a Masters Degree in Public Economics from Beirut Arab University together with international professional certifications including Chartered Institute of Patent Attorneys(CIPA) & Islamic Finance Qualification (IFQ).

Dr. Muhammad Al-Bashir M. Al-Amine
Group Head of Shari'ah (Until December 2015)

Dr. Muhammad Al-Bashir has over 13 years' experience in the field of Islamic finance and Shari'ah compliance. He is responsible for overseeing the Shari'ah affairs of the Bank and its subsidiaries through close coordination with the Bank's Shari'ah Supervisory Board and senior management team. Prior to joining Bank Alkhair, he was the Head of Product Development and Shari'ah Compliance at the International Islamic Financial Market (IIFM). He was also a part-time lecturer at a number of universities and institutes in Malaysia and Bahrain; and is the author of numerous books and articles on Islamic banking and finance.

Dr. Muhammad holds an LLB (Shari'ah) from the Islamic University of Madina, Saudi Arabia; and a Master's of Comparative Law (MCL) and PhD in Law from the International Islamic University, Malaysia.

Dato' Adissadikin Ali
Chief Executive Officer, Alkhair International Islamic Bank Berhad (effective June 2015}

Dato' Adissadikin Ali is Chief Executive Officer of Alkhair International Islamic Bank Malaysia effective from 1st June 2015. Prior to his appointment as CEO at AKIIB, Malaysia, Dato' Adissadikin was CEO of EXIM Bank Malaysia since September 2010. Dato' Adissadikin started his career as the Management Trainee Executive with Renong Berhad in 1995. During his 4-year tenure with the Group, he served various departments within several subsidiaries of the Group namely Prolink Development Sdn Bhd, HBN Management Sdn Bhd and Projek Lebuhraya Utara Selatan Berhad in the areas of corporate finance, internal audit, sales and marketing and project management.

In April 1999, he joined Pengurusan Danaharta Nasional Berhad and served the Malaysian Government-owned Asset Management Corporation for four years in the areas of Non-Performing Loans (NPLs) Recovery and Corporate Recovery & Reconstruction. In March 2003, Dato' Adissadikin joined Bank Muamalat Malaysia Berhad as the Special Assistant to the Chief Executive Officer and later became the Head of Corporate Planning in January 2005. In June 2005, he joined Bank Islam Malaysia Berhad as Assistant General Manager, Managing Director's Office. In 2006, he was promoted to assume the position of Chief Financial Officer cum General Manager, Special Projects. He was responsible for managing NPL carving-out and bank-wide cost rationalization programme in Bank Islam.

Dato' Adissadikin bin Ali holds a Master Degree in Business Administration (Finance) from University of Malaya, Kuala Lumpur, a Bachelor Degree in Business (Banking & Finance)from Monash University, Melbourne, Australia and Diploma in Investment Analysis, UiTM, Shah Alam, Malaysia. He is a member of Harvard Business School alumni upon completing an Advanced Management Programme in Harvard Business School, Boston, USA in May 2014. He was also awarded with a Chartered Banker title by the Asian Institute of Chartered Banker and the Chartered Banker Institute, United Kingdom in November 2015.

Mahmud Abu Bakar
Acting Chief Executive Officer, Alkhair International Islamic Bank Berhad (Until June 2015)

Mr. Mahmud Abu Bakar has over 25 years of experience in corporate, offshore and investment banking. Previous posts held include Vice President of OCBC Singapore banking group in Malaysia and General Manager at the Lauban branch of OCBC Bank, Singapore. In 2002, he joined Malaysian Affin Investment Bank Bhd as First Vice President in the CEO's Office, where after spearheading corporate planning initiatives and re-defining its business strategy, he eventually headed its Capital Market division and led the structuring and execution of a number of high profile transactions on Private Debt Securities ("PDS"), involving Sukuk and other financing instruments.

Mr. Abu Bakar holds a BA in Business Administration and Economics from California State University, Sacramento (USA), and an MBA from the University of Leicester (UK).

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

Mr. Khalid Al-Mulhim has over 17 years of experience working for prominent financial institutions in Saudi Arabia, including Samba Financial Group. Prior to joining Alkhair Capital, he was Head of Operations at Arabian Capital.

Mr. Al-Mulhim holds a Bachelor's degree in Business Administration from the Central State University, California, USA.

Ali İlhan
General Manager, Alkhair Portfoy Turkey

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

Mr. İlhan has an MBA from the University of Scranton, USA; and a BSc in Civil Engineering from the Middle East Technical University, Turkey.

Gülsevim Kahraman
General Manager, Alkhair Capital Menkul Değerler A.Ş.

Ms. Gülsevim Kahraman has 25 years of experience in investment banking, covering operations, finance, reporting and management information systems (MIS). Prior to joining Alkhair Capital, Ms. Kahraman worked for Deniz Invest as Financial Controller and Financial Business Support Manager. Previously, she was Finance Manager for Kent Invest, where she was responsible for reporting to the Capital Markets Board and Istanbul Stock Exchange; as well as managing the business planning process and MIS systems.

A Certified Public Accountant, Ms Kahraman has a Bachelor's degree in Economics from Marmara University, Turkey; and an Advanced Level Licence and Derivatives Licence from the Turkish Capital Markets Board.

Nabeel Noor Al Nabi
Senior Regional Director – Head of Investment Development & Distribution

Mr. Nabeel Noor Al Nabi joined Bank Alkhair in 2006 and has over 20 years of experience in regional distribution. Prior to joining Bank Alkhair Nabeel worked with leading institutions including Ahli Commercial Bank, Daiwa Securities SMBC and Bank Muscat International.

Nabeel is responsible for driving Bank Alkhair business development, marketing and placement across all geographies. He also leads marketing initiatives for capital raising with strategic key clients and selected prospects across all asset classes and has been instrumental in fund raising from major quasi-government institutions and pension funds, among other institutions in the region. He is a voting-member of the Investment Committee and Coordinator of Front Office Functions. Nabeel also represents the Bank's interest on the board of several investee companies.

Nabeel holds a B.S.C. is Finance from San Jose State University in California, USA and has recently completed an Executive Leadership Program from Ivey Business School at Western University. He is also a certified FINRA Series 7 Investment Representative.

Aziz Rehman Sheikh
Chief Financial Officer (until February 2015)

Mr. Aziz Rehman Sheikh has over 20 years of financial services experience gained primarily within leading financial institutions in London. Before joining Bank Alkhair, Mr. Sheikh was Managing Director in the International Equities Division of Bear Stearns International Limited (UK). Prior to that he held senior roles within ABN AMRO Equities (UK), Abbey National Treasury Services and Warburg (Custody) Limited UK.

Mr. Aziz Rehman is a Fellow of the Association of Chartered Certified Accountants and a Member of the Chartered Institute of Securities & Investment. Mr. Rehman holds a BA (Hons) in Accountancy & Finance from Southampton University, UK and an MBA from London Metropolitan University, UK.

Kubra Ali Mirza
Chief Compliance Officer, MLRO & Board Secretary

Ms. Kubra Mirza has over 15 years of experience in investment banking, financial regulations, corporate governance, compliance, financial crimes and anti-money laundering. Prior to joining Bank Alkhair, she was the Head of Compliance, MLRO and Board Secretary; Secretary of the Corporate Governance Committee; and Secretary of the Finance & Investment Committee at Venture Capital Bank, Bahrain. Prior to that, she worked for Tatweer Consulting Company, and the Central Bank of Bahrain. She was also a member of several local and international regulatory working groups and task forces.

Ms Ali Mirza holds an Executive MBA and a Bachelor's degree in Accounting from the University of Bahrain.

Dr. Nasreen Hassan Al Qaseer
Chief Risk Officer (until October 2015)

Dr. Nasreen Al Qaseer, Chief Risk Officer of Bank Alkhair, has over 30 years of varied banking and financial services experience in Conventional, Retail Islamic and investment banking. She previously served as General Manager – Risk Management Department of Kuwait International Bank, Kuwait, where she was the first Bahraini woman to be appointed to such a position. Dr. Al Qaseer was previously Chief Risk Officer of Addax Bank B.S.C. (c) and has held senior positions at leading institutions like Bank of Bahrain & Kuwait (BBK), Bahrain Islamic Bank and the Credit Card Company – CrediMax.

Dr. Al Qaseer holds a PhD in Risk Management & Operational Risk from Liverpool John Moores University, United Kingdom and an MBA in Business Managerial Economics from The University of Hull, United Kingdom.

Ayham Gharaibeh
General Counsel

Mr. Ayham Gharaibeh has over 15 years of legal experience in investment banking, specialising in private equity, asset management, capital markets, mergers and acquisitions, and corporate finance transactions. He has structured and successfully closed over 30 sizeable transactions at Bank Alkhair to date. Prior to joining the Bank, Mr. Gharaibeh was the General Counsel and Chief Compliance Officer at Atlas Investment Group (AB Invest), the investment banking arm of Arab Bank, Amman, Jordan.

Mr. Gharaibeh holds a Master's and Bachelor's degree in International Business Law.

Muhammad Abbas Khan
Head of Group Internal Audit

Mr. Abbas Khan has over 19 years of experience in internal audit, forensic investigations, and operational risk management. Prior to joining Bank Alkhair, he worked at various offices in Ernst & Young, where he was instrumental in developing and enhancing corporate governance practices, enterprise risk management, and internal audit capabilities for various investment banks and financial institutions in the region.

Mr. Khan is a member of the Institute of the Chartered Accountants of Pakistan and holds Internal Audit Certification from the Institute of Internal Auditors, USA. He has recently been appointed as a Vice President of the Institute of Internal Auditors – Bahrain Chapter.

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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Consolidated financial statements

Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh

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

The Shari'ah Board, through the Shari'ah department, and under its direct supervision, reviewed the principles and the contracts relating to the transactions conducted by Bank Alkhair B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2015. The review was conducted in order to form an opinion as to whether the Group has complied with rules and principles of Islamic Shari'ah and also with the specific fatwa's, rulings and guidelines issued by us.

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

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

In our opinion:

a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2015 are in compliance with the rules and principles of Shari'ah except part of the investment in Taj Mall project, Open Silicon and Logistics & Warehousing which were not submitted to the Shari'ah Board for approval before its execution, and appear later to be having explicitly non-Shari'ah Compliance issues.

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

c) The Shari'ah Board resolved that all earnings that have been realized from sources or by means prohibited by rules and principles of Shari'ah shall be disposed of and given to charity under the supervision of the Shari'ah Board.

d) The calculation of Zakah is in compliance with the rules and principles of Islamic Shari'ah and as per AAOIFI's Shari'ah standard No.35 and Accounting standard No.9.

We supplicate to Allah the Almighty to grant us success and a straight path.

Wa Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh

Dr. Khalid Mathkoor Al Mathkoor	**chairman**	....
Sh. Nizam M. Yaqouby	**vice –Chairman**	....
Dr. Abdul Sattar Abu Ghuddah	**member**	....
Dr. Ali M. Al Qaradaghi	**member**	....
Dr. Mohamed Daud Bakar	**member**	....

3rd March, 2016

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bank Alkhair BSC (c) (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2015, and of its consolidated results of operations, its consolidated cash flows and its consolidated changes in equity for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 (b) to the consolidated financial information which discusses certain matters relating to the Group's liquidity position and regulatory capital adequacy requirements, implications of these matters for the basis of preparation of these consolidated financial statements and management's action plans to deal with these matters.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and Volume 2 of the Rule Book issued by the Central Bank of Bahrain (CBB), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) As disclosed in note 33, the Bank's capital adequacy ratio as of 31 December 2015 was below the minimum regulatory requirement. Except for this, we are not aware of any other violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position;
d) Except for the matters discussed in the Shari'a Supervisory Board Report dated 3 March 2016, we are not aware of any other breaches of the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank; and
e) satisfactory explanations and information have been provided to us by management in response to all our requests

KPMG

KPMG Fakhro
Partner Registration no. 100
30 March 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

(Amounts in US$ thousands)

	Note	**31 December 2015**	31 December 2014 (Restated-note 34)
ASSETS			
Cash and balances with banks	4	**17,021**	22,898
Placements with financial institutions		**9,648**	42,250
Financing receivables	5	**66,713**	9,151
Investment securities	6	**64,930**	85,323
Equity-accounted investees	7	**139,658**	121,974
Investment property	8	**241,466**	256,571
Other assets	9	**32,313**	14,243
Equipment		**13,274**	14,501
TOTAL ASSETS		**585,023**	566,911
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions	10	**123,252**	106,987
Due to customers	11	**208,250**	197,552
Other liabilities	12	**28,727**	32,999
TOTAL LIABILITIES		**360,229**	337,538
EQUITY			
Share capital	13	**207,962**	207,962
Statutory reserve		**664**	664
Fair value reserve		**(249)**	(185)
Foreign currency translation reserve		**(15,290)**	(13,333)
Accumulated losses		**(58,478)**	(52,479)
Equity attributable to the shareholders of the Bank		**134,609**	142,629
Non-controlling interests		**90,185**	86,744
TOTAL EQUITY (page 70)		**224,794**	229,373
TOTAL LIABILITIES AND EQUITY		**585,023**	566,911

The consolidated financial statements consisting of pages 65 to 105 were approved by the Board of Directors on 30 March 2016 and signed on its behalf by:

Yousef Abdullah Al-Shelash
Chairman

Hethloul Saleh Al-Hethloul
Board Member

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2015 (Amounts in US$ thousands)

	Note	2015	2014 (restated – note 34)
Income from investment securities	14	(3,371)	2,054
Finance income		4,321	2,342
Fees and commission income	15	5,383	5,093
Share of profit of equity-accounted investees	7	5,253	5,769
Income from non-banking operations	16	32,389	26,626
Rental income		3,361	3,361
Other income		2,661	547
Total income		**49,997**	45,792
Staff cost		14,112	12,771
Finance expense		10,967	9,445
Legal and professional expenses		7,150	2,431
Premises cost		1,205	1,580
Business development expenses		510	469
Depreciation		2,919	2,698
Expense of non-banking operations	16	23,823	20,949
Other operating expenses		4,285	4,189
Total expenses		**64,971**	54,532
Loss for the year before impairment allowance		**(14,974)**	(8,740)
Reversal of impairment allowance/(charge) for the year	17	12,474	(8,181)
Loss for the year		**(2,500)**	(16,921)
Attributable to:			
Shareholders of the Bank		(5,999)	(18,744)
Non-controlling interests		3,499	1,823
		(2,500)	(16,921)

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015 (Amounts in US$ thousands)

	Attributable to the shareholders of the Bank							
2015	Share capital	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Accumulat-ed losses	Total	Non-controlling interests	Total equity
As at 1 January 2015	207,962	664	(185)	(13,333)	(52,479)	142,629	86,744	229,373
(Loss) / profit for the year	-	-	-	-	(5,999)	(5,999)	3,499	(2,500)
Foreign currency translation differences	-	-		(333)	-	(333)	(58)	(391)
Share of changes in reserves of equity-accounted investees	-	-	(64)	(1,624)	-	(1,688)	-	(1,688)
Total recognised income and expense for the year	**-**	**-**	**(64)**	**(1,957)**	**(5,999)**	**(8,020)**	**3,441**	**(4,579)**
As at 31 December 2015	**207,962**	**664**	**(249)**	**(15,290)**	**(58,478)**	**134,609**	**90,185**	**224,794**

	Attributable to the shareholders of the Bank							
2014 (restated)	Share capital	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Accumulat-ed losses	Total	Non-controlling interests	Total equity
As at 1 January 2014	207,862	664	117	(12,784)	(34,516)	161,343	78,461	239,804
Prior year adjustments (note 36)	-	-	-	-	781	781	752	1,533
Restated balance at 1 January 2014	207,862	664	117	(12,784)	(33,735)	162,124	79,213	241,337
(Loss) / profit for the year	-	-	-	-	(18,744)	(18,744)	1,823	(16,921)
Foreign currency translation differences	-	-	-	(863)	-	(863)	61	(802)
Share of changes in reserves of equity-accounted investees	-	-	(302)	314	-	12	-	12
Total recognised income and expense for the year	-	-	(302)	(549)	(18,744)	(19,595)	1,884	(17,711)
Capital increase	100	-	-	-	-	100	-	100
Non-controlling interests on acquisition of a subsidiary	-	-	-	-	-	-	5,176	5,176
Changes in non-controlling interests	-	-	-	-	-	-	471	471
As at 31 December 2014	207,962	664	(185)	(13,333)	(52,479)	142,629	86,744	229,373

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2015 (Amounts in US$ thousands)

	2015	2014 (restated)
OPERATING ACTIVITIES		
Loss for the year	**(2,500)**	(16,921)
Adjustments for:		
Gain on sale of investment securities	(1,510)	(646)
Fair value changes in investment securities	5,220	(546)
Share of profit of equity-accounted investees	(5,253)	(5,769)
Depreciation and amortisation	2,919	2,698
Sukuk amortisation	141	11
Gain on sale of investment property	(721)	-
Impairment allowance	(12,474)	8,181
	(14,178)	(12,992)
Changes in:		
Financing receivables	(61,361)	39,449
Other assets	(18,100)	2,616
Due to financial institutions	24,617	(16,560)
Due to customers	10,696	(20,042)
Other liabilities	(4,170)	78
Net cash used in operating activities	**(62,496)**	(7,451)
INVESTING ACTIVITIES		
Payment for purchase of equipment	(157)	(389)
Proceeds from sale of investment securities	86,342	18,003
Purchase of investment securities	(69,794)	(30,174)
Investment property sale proceeds/(additions)	14,523	(714)
Dividends received from equity-accounted investees	2,168	2,168
Net cash on acquisition of subsidiary	-	1,317
Net cash generated from / (used) in investing activities	**33,082**	(9,789)
FINANCING ACTIVITIES		
Repayment of bank financing	(8,351)	(7,216)
Net cash used in financing activities	**(8,351)**	(7,216)
Net decrease in cash and cash equivalents during the year	**(37,765)**	(24,456)
Effect of exchange rate changes on cash and cash equivalents	(714)	(2,068)
Cash and cash equivalents at the beginning of the year	65,148	91,672
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**26,669**	65,148
Cash and cash equivalents comprise:		
Cash and balances with banks	17,021	22,898
Placements with financial institutions	9,648	42,250
	26,669	65,148

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

1. REPORTING ENTITY

Bank Alkhair B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under Commercial Registration No. 53462 on 29 April 2004 and operates under a wholesale Islamic banking license granted by the Central Bank of Bahrain (CBB). The Bank's registered office is at the 26th floor, West Tower Bahrain Financial Harbour, Building No. 1459, Road No. 4626, Manama Sea Front 346, Kingdom of Bahrain.

The Bank and its subsidiaries (together referred to as "the Group") aim to provide a full range of investment banking products and services that are compliant with Shari'ah principles. The principal products and services offered by the Group are:

- financial advisory services;
- private equity, equity structuring, private placements and initial public offerings;
- facility structuring, restructuring and placement including project finance, securitisation and Sukuk;
- structuring and marketing of both open-and closed-end mutual funds as well as client portfolio management and brokerage services that aim to meet investor driven return and asset criteria;
- advisory and investment services for takaful (Islamic insurance) and retakaful (Islamic reinsurance) providers; and
- mergers and acquisitions, including deal sourcing, structuring, valuations and advisory.

Consolidated financial statements
The consolidated financial statements comprise the results of the Bank and its subsidiaries.

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

Subsidiary	Ownership 2015	Ownership 2014	Year of incorporation / Acquisition	Country of incorporation	Principal activity
Alkhair International Islamic Bank Malaysia Berhad	100%	100%	2004	Malaysia	Alkhair International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. In 2007, Alkhair International Islamic Bank Malaysia Berhad was granted an investment banking license by Bank Negara Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit.
Alkhair Capital Menkul Degerler A.S.	91.9%	91.9%	2007	Turkey	The main activities of Alkhair Capital Menkul Degerler A.S. are to provide investment consultancy and asset management.
Alkhair Portföy Yönetimi A.Ş.	96.4%	96.4%	2007	Turkey	The main activities of Alkhair Portföy Yönetimi A.Ş. are to provide investment consultancy and asset management.
Al-Tajamouat for Touristic Projects Co Plc	50.6%	50.6%	2013	Jordan	Al-Tajamouat for Touristic Projects Co was incorporated in January 2004. Its principal activities are real estate property investment & development and ownership and operation of a shopping mall in Amman.
Tintoria International Limited	52.1%	52.1%	2014	UAE	General trading and investing in UAE and foreign companies.
Alkhair Capital Saudi Arabia	53.3%	53.3%	2009	Kingdom of Saudi Arabia	Alkhair Capital Saudi Arabia is registered with Capital Markets Authority. Its principal activities are Asset Management, Corporate Finance & Investment banking and Brokerage.

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

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards ('IFRS').

(b) Basis of measurement

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

Going concern

As at 31 December 2015, the current contractual liabilities of the Group exceeded its liquid assets. As a result, the ability of the Group to meet its obligations when due, depends on its ability to roll over short-term liabilities and timely disposal of assets. Further, the Bank's capital adequacy ratio as of 31 December 2015 was below the minimum regulatory capital requirements. These factors indicate the existence of material uncertainties, which may cast doubt about the Group's ability to continue as a going concern. To address these, the management has undertaken a number of initiatives including discussions with creditors who have shown willingness in the past to roll over short-term placements, putting together a robust assets sales plan and support from major shareholders who have also in the past provided support when it was needed. The Board of Directors has reviewed these initiatives and is satisfied with the appropriateness of the going concern assumption for preparation of the consolidated financial statements".

(c) Basis of consolidation

(i) Subsidiaries

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

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction and usually voting rights are relevant for the operating of such entities. An investor that has decision making power over all investees and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is linkage between power and return. When the decision maker is an agent, the link between power and return is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

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

Loss of control

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

Non-controlling interests

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

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

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

2. BASIS OF PREPARATION (continued)

(ii) Equity-accounted investees

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

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

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees.

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

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

(iii) Transactions eliminated on consolidation and equity accounting

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

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

(d) Business combination

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements except for change in subsequent measurement of investment property. The Group previously used to measure the investment property at cost. During the year, the Group voluntarily changed the accounting policy for remeasurement of investment property to fair value from previous measure of cost basis. This has been carried out to represent a more relevant presentation of the financial position. The Group has applied the change retrospective and recognised a loss of US$1,681 thousand in the income statement for 2014 representing an increase of impairment allowance in previous year.

Amendments to Financial Accounting Standard (FAS) No. 23 – Consolidation

During the period the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) issued amendments to FAS 23 which is effective from 1 January 2015. These amendments provide clarification and expand the scenarios for assessing control when an entity holds less than majority voting rights in an investee. In particular, the concept of de-facto control has been introduced. The amendment clarifies that where the IFI has less than majority voting rights in an investee, control may also exist through:

a) agreement with the entity's other shareholders or the entity itself;
b) rights arising from other contractual arrangements;
c) the IFI's voting rights (de facto power);
d) potential voting rights; or
e) a combination thereof.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Further, FAS 23 does not provide specific guidance for assessment of control over special purpose entities (SPEs) and the Bank was previously referring to the relevant guidance within International Financial Reporting Standards (IFRSs). As a result of revisions to IFRS 10 (consolidation), the Group has now also changed its accounting policy for determining whether it has control over SPEs. The new control model focuses on whether the Group has power over an SPE, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns. In particular, expanded guidance has been provided to assess whether the Group's decision making rights over an investee would be considered as those of a principal (primarily for its own benefit) and when it would be considered to be that of an agent (primarily for benefit of its investors).

In accordance with the transitional provisions of the amendments to FAS 23, the Group reassessed its control conclusions as of 1 January 2015. The Group has reassessed its investments considering the new control definition criteria and based on the assessment, management had concluded that the Group do not have power over relevant activities of the investee and do not have significant variability from its involvement with the investee.

There were no changes to the entities that were controlled and consolidated by the Group as of 31 December 2014. Accordingly, adoption of the new amendments did not have a significant impact on the consolidated financial statements or the amounts reported in the comparative periods.

New standards, amendments and interpretations issued but not yet effective for adoption
There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2016 that would be expected to have a material impact on the Group.

a) Foreign currency transactions

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

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

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

b) Investment securities

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

(i) Classification
The Group segregates its investment securities into debt-type instruments and equity-type instruments.

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

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

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

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

At fair value through income statement (FVTIS)
Equity-type instruments classified and measured at FVTIS include investments held-for-trading and those designated on initial recognition at FVTIS.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Recognition and de-recognition

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

(iii) Measurement

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

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

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

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

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active or the instrument is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis and other valuation models with accepted economic methodologies for pricing financial instruments.

c) Financing receivables

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

d) Placements with financial institutions

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

e) Due to financial institutions

These comprise funds from financial institutions received on Shari'ah compliant contracts. Placements from financial institutions are stated at their amortised cost.

f) Bank financing

Bank financing liabilities represents facilities from financial institutions that are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing costs, dividends and losses relating to financing liabilities are recognised in the consolidated income statement as finance expense. The Group derecognises a financing liability when its contractual obligations are discharged, cancelled or expire.

g) Due to customers

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

h) Impairment of assets

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

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

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

For FVTE investments carried at cost less impairment due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment. Currently, the Group does not have any investments under this category.

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

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

i) Investment property
Investment property comprises of land and building. Investment property is an investment that earns rental income and/or is expected to benefit from capital appreciation or land held for undetermined future use. Investment property is measured initially at cost, including directly attributable expenditures. Subsequently, investment property is carried at fair value.

Any unrealised gains arising from a change in the fair value of investment property is recognised directly in equity under "Investment Property Fair Value Reserve" for the period in which it arises. Any unrealised losses resulting from re-measurement at fair value of investment property is adjusted in equity against the investment property fair value reserve to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment property that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement.

Investment property is derecognised when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The realised profits or losses resulting from the sale of investment property are measured as the difference between the carrying value and the net cash or cash equivalent proceeds from the sale of each investment separately. The resulting profit or loss together with the available balance on the investment property fair value reserve account is recognised in the consolidated income statement for the current financial period.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Finance income and expense
Finance income and expense is recognised using effective profit rate.

Income from non-banking operations
This consists of income from Al-Tajamouat for Touristic Projects Company PLC (lease income) and Tintoria International Limited (income from contracts for laundry operations).

Lease income is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract, when the outcome of the transaction and related revenue and cost can be measured reliably, and that economic benefit flows to the Group.

l) Employee benefits

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

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

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

m) Earnings prohibited by Shari’ah
The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Bank uses these funds for charitable purposes.

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

o) Provision for taxation
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate.

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

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

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

r) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

obligation and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

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

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

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

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

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

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

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

Judgements

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

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

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

Estimations

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

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

- For an investment that is traded in an active market, fair value is determined by reference to the quoted bid market price prevailing on the reporting date;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(ii) Impairment of financing receivables

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

Financing receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

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

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

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

(iii) Impairment of cash generating units

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

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

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

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

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

for the year ended 31 December 2015 (Amounts in US$ thousands)

4. CASH AND BALANCES WITH BANKS

	31 December 2015	31 December 2014 (restated)
Cash on hand	**5**	17
Balances with banks	**17,016**	22,881
	17,021	22,898

5. FINANCING RECEIVABLES

	31 December 2015	31 December 2014
Gross murabaha receivables	77,338	15,579
Less: Deferred profits	(556)	(154)
Net murabaha receivables	**76,782**	15,425
Less: Specific impairment allowances	(9,269)	(5,974)
Less: Collective impairment allowances	(800)	(300)
	66,713	9,151

Financing receivables comprise due from customers under murabaha financing contracts. The average profit on these balances during the year was 5.9% per annum (2014: 7.0% per annum).

6. INVESTMENT SECURITIES

	31 December 2015	31 December 2014
Equity type instruments		
At fair value through income statement:		
- Quoted equity securities	673	1,028
- Unquoted equity securities	21,593	30,255
- Quoted funds	7,855	9,032
- Unquoted funds	29,490	24,816
Total equity type instruments	**59,611**	65,131
Debt type instruments		
At amortised cost:		
- Quoted Sukuk #	5,319	20,192
	64,930	85,323

The fair value of the investments carried at amortised cost at 31 December 2015 is US$5,267 thousands (2014: US$20,155)

for the year ended 31 December 2015 (Amounts in US$ thousands)

6. INVESTMENT SECURITIES (continued)

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

	At 1 January 2015	Additions during the year	Disposal during the year	Fair value changes	**At 31 December 2015**
Investment in associates	49,454	-	(828)	(2,042)	46,584
Quoted funds	9,032	7,904	(9,111)	30	7,855
Investments in equity shares					
Equity investments (< than 20% stake)	6,645	9,435	(7,700)	(3,208)	5,172
	65,131	**17,339**	**(17,639)**	**(5,220)**	**59,611**

7. EQUITY-ACCOUNTED INVESTEES

	31 December 2015	31 December 2014
BFC Group Holdings Ltd.	**119,160**	99,191
Burj Bank Limited	**11,215**	13,176
t'azur Company B.S.C. (c)	**9,283**	9,607
	139,658	121,974

(i) The Group has 43.36% stake (2014: 43.36%) in BFC Group Holdings Ltd. ("BFC"), a company incorporated in the United Arab Emirates. BFC is a holding company of a group of money changers in different jurisdictions. BFC is engaged in buying and selling foreign currencies and traveller's cheques, handling of remittance business and provision of other exchange house services in both local and foreign currencies. During the year, based on the latest valuation for the investment, the Group reversed an impairment allowance of USD 16.10 million recognised in previous years (note 17).

(ii) The Group has 37.91% stake (2014: 37.91%) in Burj Bank Limited, an unlisted Islamic commercial bank in Pakistan.

(iii) The Group has 25.86% stake (2014: 25.86%) in t'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain. t'azur Company B.S.C (c) has a commitment to provide a Qard Hassan to the extent of the accumulated deficit in the participants' fund of US$33.3 million at 31 December 2015 (31 December 2014: US$34.0 million). The Group's share of the commitment is US$8.6 million (31 December 2014: US$8.8 million) (note 18).

The movement on equity-accounted investees is as follows:

	2015	2014
At 1 January	**121,974**	121,662
Net share of profits of equity-accounted investees	**5,253**	5,769
Share of reserves of equity-accounted investees	**(1,501)**	211
Reversal of impairment allowance/(charge)	**16,100**	(3,500)
Dividends received	**(2,168)**	(2,168)
At 31 December	**139,658**	121,974

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7. EQUITY-ACCOUNTED INVESTEES (continued)

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

	2015	2014
Assets	**700,904**	695,395
Liabilities	**397,223**	396,646
Revenue	**90,975**	85,644
Profit for the year	**11,458**	13,197

8. INVESTMENT PROPERTY

	At 1 January 2015	Disposal	Fair value changes	At 31 December 2015
Land	36,119	-	-	36,119
Building	220,452	(15,105)	-	205,347
	256,571	**(15,105)**	**-**	**241,466**

The Group changed the accounting policy for investment property during the year from cost model to fair value. The management is of the view that fair value is the better presentation for the investment property. Accordingly the adjustments were made to comparative financials also to account for the retrospective effect of the change.

9. OTHER ASSETS

	31 December 2015	31 December 2014 (restated)
Fees and expenses recoverable	**2,980**	1,978
Prepayments and advances	**6,721**	4,953
Rental income receivable	**253**	960
Intangible assets	**19**	93
Others	**24,242**	8,161
	34,215	16,145
Less: Provision for impairment	**(1,902)**	(1,902)
	32,313	14,243

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10. DUE TO FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
Placements from financial institutions	**59,229**	34,613
Bank financing	**64,023**	72,374
	123,252	106,987

The average profit rate on placements from financial institutions was 2.70% per annum (2014: 3.36% per annum).

Bank financing represents a syndicated loan through the Housing Bank for Trade and Finance in Jordan secured by mortgage over the Group's investment property. The profit rate of the syndicated loan equals the prime lending rate of the Jordanian Dinar, plus an annual margin of 1.0%. The bank financing is repayable at US$7.76 million annually with the final payment of US$1.94 million in 2024.

11. DUE TO CUSTOMERS

This includes deposits from corporate customers on Wakala basis with maturities ranging from 1 month to 1 year (2014: 1 month to 1 year) and carries an average profit rate of 4.68% per annum (2014: 3.64% per annum).

12. OTHER LIABILITIES

	31 December 2015	31 December 2014 (Restated)
Provision for legal and professional expenses	**200**	820
Accruals and other provisions	**4,382**	6,330
Restructuring provision	**419**	419
Deal-related payables	**4,725**	4,725
Unearned rental income	**5,240**	5,266
Staff-related payables	**2,641**	2,823
Trade and other payables	**11,120**	12,616
	28,727	32,999

13. SHARE CAPITAL

	31 December 2015	31 December 2014
Authorised: 750,000,000 (2014: 750,000,000) ordinary shares of US$1 each	750,000	750,000
Issued and fully paid up: 186,170,234 (2014: 186,170,234) ordinary shares of US$1 each, issued against cash	186,170	186,170
20,371,807 (2014: 20,371,807) ordinary shares of US$1 each, issued in kind	20,372	20,372
1,419,873 (2014: 1,419,873) ordinary shares of US$1 each, granted to employees	1,420	1,420
	207,962	**207,962**

for the year ended 31 December 2015 (Amounts in US$ thousands)

14. INCOME FROM INVESTMENT SECURITIES

	2015	2014 (Restated)
Dividend income	**24**	21
Net fair value (loss)/gain on equity type investment securities	**(5,220)**	546
Gain on sale of equity type investment securities	**876**	517
Sukuk income:		
- Sukuk profit	**315**	841
- Gain on sale of sukuk	**634**	129
	(3,371)	2,054

15. FEES AND COMMISSION INCOME

	2015	2014 (Restated)
Arrangement fees	**794**	680
Management fees	**3,857**	3,610
Brokerage fees	**732**	803
	5,383	5,093

16. NET INCOME FROM NON-BANKING OPERATIONS

	2015	2014 (Restated)
Revenue from Al-Tajamouat for Touristic Projects Co Plc	24,383	23,667
Revenue from Tintoria International	8,006	2,959
	32,389	26,626
Expenses of Al-Tajamouat for Touristic Projects Co Plc	(15,864)	(17,061)
Expenses of Tintoria International	(7,959)	(3,888)
	(23,823)	(20,949)
Net income from non-banking operations	**8,566**	5,677

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17. IMPAIRMENT ALLOWANCE

	2015	2014 (Restated)
Impairment allowance on:		
Financing receivables	(3,626)	(3,000)
Equity-accounted investee	-	(3,500)
Investment property	-	(1,681)
Reversal of impairment allowance on:		
Equity-accounted investee (note 7)	16,100	-
	12,474	(8,181)

18. COMMITMENTS AND CONTINGENCIES

	31 December 2015	31 December 2014
Commitment to invest	10,030	11,000
Lease commitments	727	127
Guarantees	5,311	5,311
	16,068	16,438

Litigations and claims

The Bank has filed a number of legal cases against the former Chief Executive Officer before the Civil and Criminal Courts of the Kingdom of Bahrain and the UK. The former CEO has also filed a counter court case in the Bahraini courts for wrongful dismissal. The Bahraini Courts have ruled in favour of the Bank in a number of the civil and criminal cases. The case in the UK was filed by the Bank to remedy the damages resulting from defamation and unlawful conspiracy. The case is currently in progress and the ultimate outcome of the matter cannot presently be determined and, accordingly, no provision for any effects on the Group that may result has been made in these consolidated financial statements. During the year, the Group paid US$8.1 million to the UK court, of which US$4 million was utilised to pay legal expenses of the counterparties and the balance US$4.1 million is included under "prepayment and advances" pending outcome of the case.

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

The Group's share of commitments arising from its equity-accounted investees is given in note 7.

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19. FAIR VALUE

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

Valuation techniques

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

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

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

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

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

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

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments carried at fair value through				
- income statement	8,528	46,584	4,499	59,611
	8,528	**46,584**	**4,499**	**59,611**

31 December 2014	Level 1	Level 2	Level 3	Total
Investments carried at fair value through				
- income statement	10,060	49,453	5,618	65,131
	10,060	49,453	5,618	65,131

Movements in level 3 financial instruments

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

	At 1st January 2015	**Total losses recorded in consolidated income statement**	**Total gains recorded in equity**	**Additions**	**Sales/ transfers**	**At 31 December 2015**
Investments carried at fair value through:						
- income statement	5,618	(2,089)	-	970	-	4,499
	5,618	**(2,089)**	**-**	**970**	**-**	**4,499**

for the year ended 31 December 2015 (Amounts in US$ thousands)

19. FAIR VALUE (continued)

	At 1 January 2014	Total gains recorded in consolidated income statement	Total gains recorded in equity	Additions	Sales/ transfers	At 31 December 2014
Investments carried at fair value through:						
- income statement	8,709	(7)	-	4,000	(7,084)	5,618
	8,709	(7)	-	4,000	(7,084)	5,618

Transfers between level 1, level 2 and level 3
There were no transfers between the levels during the year ended 31 December 2015.

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

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

	Carrying amount	Effects of reasonably possible alternative assumptions on carrying amount
31 December 2015		
Investments carried at fair value through income statement	**4,499**	**225**
31 December 2014		
Investments carried at fair value through income statement	5,618	281

20. ASSETS UNDER MANAGEMENT

	31 December 2015	31 December 2014
Proprietary	47,532	51,003
Clients	155,811	153,478
	203,343	204,481

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

for the year ended 31 December 2015 (Amounts in US$ thousands)

21. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include significant shareholders and entities over which the Bank and shareholders exercise significant influence, directors, members of Shari'ah Supervisory Board and executive management of the Bank.

Compensation of key management personnel

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation during the year is as follows:

	2015	2014
Short-term employee benefits	**7,166**	4,327
Post-employment benefits	**532**	941
	7,698	5,268

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

	2015				2014			
Assets	**Associates**	**Significant shareholders/ entities in which directors have interest**	**Key management**	**Other entities**	Associates	Significant shareholders/ entities in which directors have interest	Key management	Other entities
Cash and balances with banks	**22**	**-**	**-**	**-**				
Financing receivables	**-**	**-**	**-**	**15,070**	-	-	-	1,835
Investment securities	**46,584**	**-**	**-**	**6,910**	49,453	-	-	27,683
Equity-accounted investees	**139,658**	**-**	**-**	**-**	121,974			
Other assets	**1,849**	**-**	**497**	**366**	1,048	-	9	266
Liabilities								
Due to financial institutions	**14,570**	**-**	**-**	**-**	15,580	-	-	-
Due to customers	**918**	**-**	**-**	**30,461**	914	-	-	52,231
Other liabilities	**222**	**417**	**1,304**	**516**	64	1,233	941	374

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21. RELATED PARTY TRANSACTIONS (continued)

	2015			2014		
Income / (expenses)	**Associates**	**Significant shareholders/ entities in which directors have interest**	**Other entities**	Associates	Significant shareholders/ entities in which directors have interest	Other entities
Income from investment securities	**(4,467)**	**-**	**1,841**	(43)	-	1,405
Fees and commission	**2,320**	**-**	**195**	2,397	-	141
Net finance income / (expense)	**(524)**	**-**	**(1,027)**	(575)	-	(1,606)
Share of profit of equity-accounted investees	**5,253**	**-**	**-**	5,769	-	-
Directors' and Shari'ah board remuneration and expenses	**-**	**412**	**81**	-	619	124

22. RISK MANAGEMENT

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

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

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

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

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

22. RISK MANAGEMENT (continued)

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

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

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

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

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

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

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

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

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

The information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Bank's management of capital is explained in notes 23 to 26 and 33.

23. 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.

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. Furthermore, Risk Management independently analyses the applications and rates for the respective counterparties. Based on this, an independent recommendation is forwarded to REXCO for approval. REXCO periodically reviews these limits for appropriateness in prevailing market conditions.

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23. CREDIT RISK (continued)

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 2015	Maximum exposure 2014
On balance sheet		
Balances with banks	**17,016**	22,881
Placements with financial institutions	**9,648**	42,250
Financing receivables	**66,713**	9,151
Investment securities – Sukuk	**5,319**	20,192
Other assets	**25,311**	6,943
Off balance sheet		
Guarantees	**5,311**	5,311
	129,318	106,728

Risk Exposure Concentration

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

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

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2015 was US$10.2 million, relating to "cash and balances with banks" (2014: US$17.5 million).

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

	31 December 2015					
Type of Assets/Region	Bahrain	Other Middle East	North America	Asia	Europe	Grand Total
Balances with banks	819	5,948	-	10,249	-	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	22,833	11	162	233	25,311
Off Balance sheet	-	-	5,000	-	311	5,311
Grand Total	**7,858**	**29,638**	**5,011**	**85,669**	**1,142**	**129,318**

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23. CREDIT RISK (continued)

	31 December 2014					
Type of Assets/Region	Bahrain	Other Middle East	North America	Asia	Europe	Grand Total
Balances with banks	15,005	3,618	-	4,258	-	22,881
Placement with financial institutions	14,598	-	-	16,700	10,952	42,250
Financing receivables	-	-	-	7,316	1,835	9,151
Investment securities - Sukuk	-	17,131	-	-	3,061	20,192
Other assets	906	5,889	5	(1)	144	6,943
Off Balance sheet	-	-	5,000	-	311	5,311
Grand Total	30,509	26,638	5,005	28,273	16,303	106,728

Industry Sector Exposure

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

	31 December 2015							
Type of Assets/ Industry	**Banking and Finance**	**Industrial**	**Real Estate and Construction**	**Technology**	**Funds**	**Trade**	**Government**	**Total**
Funded:								
Balances with banks	17,016	-	-	-	-	-	-	17,016
Placement with financial institutions	9,648	-	-	-	-	-	-	9,648
Financing Receivables	5,781	4,612	8,488	8,525	-	39,307	-	66,713
Investment securities - Sukuk	4,463	-	856	-	-	-	-	5,319
Other Assets	1,056	2,156	20,353	11	1,629	106	-	25,311
UnFunded:								
Guarantees	311	-	-	5,000	-	-	-	5,311
Grand Total	**38,275**	**6,768**	**29,697**	**13,536**	**1,629**	**39,413**	**-**	**129,318**

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23. CREDIT RISK (continued)

	31 December 2014							
Type of Assets/ Industry	Banking and Finance	Industrial	Real Estate and Construction	Technology	Funds	Trade	Government	Total
Funded:								
Balances with banks	22,881	-	-	-	-	-	-	22,881
Placement with financial institutions	42,250	-	-	-	-	-	-	42,250
Financing Receivables	(300)	3,631	1,835	3,984	-	-	-	9,151
Investment securities - Sukuk	4,064	-	13,100	-	-	-	3,028	20,192
Other Assets	420	2,582	2,959	5	908	69	-	6,943
UnFunded:								
Guarantees	311	-	-	5,000	-	-	-	5,311
Grand Total	**69,626**	**6,213**	**17,894**	**8,989**	**908**	**69**	**3,028**	**106,728**

Collateral and other credit enhancements

The Group utilises 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 utilisation 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 31 December 2015. Following is an analysis of credit quality by class of financial assets:

	2015				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments/ provisions	Total
Balances with banks	17,016	-	-	-	17,016
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	24,758	553	1,902	(1,902)	25,311
Guarantees	5,311	-	-	-	5,311
Total	**129,577**	**553**	**11,171**	**(11,983)**	**129,318**

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.

for the year ended 31 December 2015 (Amounts in US$ thousands)

23. CREDIT RISK (continued)

	2014				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments/ provisions	Total
Balances with banks	22,881	-	-	-	22,881
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	6,497	446	1,902	(1,902)	6,943
Guarantees	5,311	-	-	-	5,311
Total	103,556	446	10,902	(8,176)	106,728

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

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

	2014			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	221	152	73	446

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24. LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

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

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

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

	Gross undiscounted cash flows				
	Less than 3 months	**3 to 12 months**	**Over 1 year**	**Total**	**Carrying value**
At 31 December 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**

	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	30,240	-	2,759	32,999	32,999
Total financial liabilities	171,096	113,612	75,269	359,977	337,538

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

	On demand	**3 to 12 months**	**Over 1 year**
31 December 2015			
Investment-related Commitments	**10,030**	**-**	**-**
Lease Commitments	**-**	**323**	**404**
Guarantees	**5,311**	**-**	**-**
Total	**15,341**	**323**	**404**

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24. LIQUIDITY RISK MANAGEMENT (continued)

	On demand	3 to 12 months	Over 1 year
31 December 2014			
Investment-related Commitments	11,000	-	-
Lease Commitments	-	127	-
Guarantees	5,311	-	-
Total	16,311	127	-

25. 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 significant 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 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.

	2015			2014		
	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	**9,648**	**200**	**105**	42,250	200	798
Financing receivables	**66,713**	**200**	**204**	9,151	200	108
Investment securities-Sukuk	**5,319**	**200**	**33**	20,192	200	21
Liabilities						
Due to financial institutions	**(123,252)**	**200**	**(1,759)**	(106,987)	200	(2,038)
Due to customers	**(208,250)**	**200**	**(682)**	(197,552)	200	(2,918)
Total			**(2,099)**			**(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.

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25. MARKET RISK MANAGEMENT (continued)

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

	2015			2014		
	Exposure (USD equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)	Exposure (USD equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Currency						
Kuwaiti Dinar	**(10,024)**	**(2,005)**	**-**	(10,017)	(2,003)	-
Turkish Lira	**1,136**	**106**	**121**	2,830	265	301
Malaysian Ringgit	**26**	**5**	**-**	45	9	-
Euro	**23**	**5**	**-**	12	2	-
Jordanian Dinar *	**50,424**	**10,085**	**-**	50,323	10,065	-
Pound Sterling	**4,065**	**813**	**-**	137	27	-

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

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

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

The effect on profit as a result of a change in the fair value of equity instruments at 31 December 2015 due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$7.8 million (2014: US$8.8 million). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

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

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26. 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.

27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	31 December 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	17,021	-	-	-	17,021	-	-	17,021
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	-	32,313	-	-	32,313	-	-	32,313
Equipment	-	-	-	-	-	-	13,274	13,274
Total assets	37,252	86,481	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	15,341	81	81	161	15,664	404	-	16,068
Net liquidity gap	(23,694)	(74,155)	(13,698)	(73,305)	(184,852)	(820)	394,398	208,726
Net cumulative gap	(23,694)	(97,849)	(111,547)	(184,852)	(184,852)	(185,672)	208,726	-

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27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	31 December 2014 (restated)							
	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	22,898	-	-	-	22,898	-	-	22,898
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
Equity-accounted investees	-	-	-	-	-	-	121,974	121,974
Investment properties	-	-	-	-	-	-	256,571	256,571
Other assets	-	13,979	-	171	14,150	93	-	14,243
Equipment	-	-	-	-	-	-	14,501	14,501
Total assets	65,278	15,099	3,263	27,066	110,706	63,159	393,046	566,911
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
Other liabilities	-	25,096	-	5,144	30,240	2,759	-	32,999
Total liabilities	90,898	73,068	75,083	37,274	276,323	61,215	-	337,538
Commitments	16,311	64	63	-	16,438	-	-	16,438
Net liquidity gap	(42,931)	(58,033)	(71,883)	(10,208)	(182,055)	1,944	393,046	212,935
Net cumulative gap	(42,931)	(100,964)	(172,847)	(183,055)	(182,055)	(180,111)	212,935	-

28. SEGMENT INFORMATION

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

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

Investment Banking & Alkhair Capital Menkul Degerler A.S	The Group's Investment banking business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. This segment focuses on stable companies, historically revenue-generating with positive profitability, requiring growth capital or partial exits. The segment focuses on specific sectors and geographies, whilst avoiding start-ups, venture capital, and greenfield investments. The segment targets businesses in the oil & gas services; industrial services; building materials; logistics; and agri-business; specifically in the MENA region including Turkey. The business manages Al-Tajamouat for Touristic Projects Co. "Taj" which own and operate a shopping mall in Amman. At 31 December 2015, the total assets of Taj are US$219 million and the total equity is US$143 million. In 2015, Taj reported a net profit of US$8.5 million. Alkhair Capital Menkul Degerler A.S originates Shari'ah compliant PE transactions, especially proprietary deals from direct contacts with a wide range of local sources. The Turkey office also provides post-investment management services (post management until successful exit, advisory for an IPO or trade sale) to co-investors. The business manages the Bank's Global Private Equity Fund. It also sources and manages investments on behalf of the Bank's Strategic Acquisition Fund.
Alkhair International Islamic Bank Malaysia Berhad	Alkhair International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group.
Alkhair Capital Saudi Arabia	Alkhair Capital Saudi Arabia was incorporated in March 2009 and registered with Capital Markets Authority. Its principal activities are Asset Management, Corporate Finance & Investment banking and Brokerage.

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28. SEGMENT INFORMATION (continued)

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

	For the year ended 31 December 2015				
	Investment Banking & Alkhair Capital Menkul Degerler A.S	Alkhair International Islamic Bank Malaysia Berhad	Alkhair Capital Saudi Arabia	Inter-company	Total
External revenue					
Income from investment securities	**(4,016)**	**350**	**295**	**-**	**(3,371)**
Net finance Income	**(8,945)**	**2,299**	**-**	**-**	**(6,646)**
Fees and commission	**2,497**	**528**	**2,358**	**-**	**5,383**
Share of profit of equity-accounted investees	**5,253**	**-**	**-**	**-**	**5,253**
Income from non-banking operations	**32,389**	**-**	**-**	**-**	**32,389**
Rental income	**-**	**-**	**3,361**	**-**	**3,361**
Other income	**1,940**	**-**	**721**	**-**	**2,661**
Total income	**29,118**	**3,177**	**6,735**	**-**	**39,030**
Total operating expenses	**(44,742)**	**(2,367)**	**(6,895)**	**-**	**(54,004)**
Impairment allowance	**16,049**	**(3,575)**	**-**	**-**	**12,474**
Profit/(loss) for the year	**425**	**(2,765)**	**(160)**	**-**	**(2,500)**
Equity-accounted investees	**139,658**	**-**	**-**	**-**	**139,658**
Segment assets	**433,453**	**85,865**	**65,705**	**-**	**585,023**
Segment liabilities	**294,327**	**80,842**	**5,821**	**(20,761)**	**360,229**

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28. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2014 (restated)				
	Investment Banking & Alkhair Capital Menkul Degerler A.S	Alkhair International Islamic Bank Malaysia Berhad	Alkhair Capital Saudi Arabia	Inter-company	Total
External revenue					
Income from investment securities	528	528	998	-	2,054
Net finance Income	(7,864)	761	-	-	(7,103)
Fees and commission	2,680	348	2,065	-	5,093
Share of profit of equity-accounted investees	5,769	-	-	-	5,769
Income from non-banking operations	26,626	-	-	-	26,626
Rental income	-	-	3,361	-	3,361
Other income	524	23	-	-	547
Total income	28,263	1,660	6,424	-	36,347
Total operating expenses	(35,190)	(3,626)	(6,271)	-	(45,087)
Impairment allowance	(5,181)	(3,000)	-		(8,181)
(Loss) / profit for the year	(12,108)	(4,966)	153	-	(16,921)
Equity-accounted investees	121,974	-	-	-	121,974
Segment assets	499,772	66,857	282	-	566,911
Segment liabilities	311,723	40,644	5,906	(20,735)	337,538

Geographic segment information:

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

31 December 2015	Bahrain	Other Middle East	Asia Pacific	Europe	Total
Total income	(5,005)	38,997	3,176	193	**37,361**
Net (loss) / profit for the year	(5,900)	7,383	(2,767)	(1,216)	**(2,500)**
Non-current assets *	18,128	236,312	207	93	**254,740**

31 December 2014 (restated)	Bahrain	Other Middle East	Asia Pacific	Europe	Total
Total income	9,293	24,849	1,660	545	**36,347**
Net (loss) / profit for the year	(14,779)	4,054	(4,966)	(1,230)	**(16,921)**
Non-current assets *	18,326	252,429	152	165	**271,072**

** includes equipment and investment property*

29. SHARI'AH SUPERVISORY BOARD

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

30. EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

The Group did not receive any significant income or incur significant expenses that were prohibited by the Shari'ah.

31. SOCIAL RESPONSIBILITIES

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

32. ZAKAH

The Bank is not obliged to pay Zakah. Payment of Zakah is the responsibility of the shareholders of the Bank. Zakah payable by shareholders on their holdings in the Bank is calculated on the basis of a method prescribed by the Bank's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of the year ended 31 December 2015 was US$0.00565 cents per share (2014: US$0.00581 cents per share).

33. CAPITAL MANAGEMENT

The Group is regulated by the Central Bank of Bahrain (CBB) which sets and monitors capital requirements for the Group as a whole. CBB required the Group to maintain a prescribed ratio of total capital (net of prudential deductions) to total risk-weighted assets (determined according to specified requirements to reflect the varying levels of risk attached to assets and off-balance sheet exposures).

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintaining capital ratios in order to support its business and to maximise shareholders' value. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

The Bank's capital adequacy ratio, is calculated in accordance with the amended capital adequacy rules set by the regulator from 1 January 2015. The Group's regulatory capital is analysed into two tiers:

- *Tier 1 capital*
  Tier 1 capital includes CET1 and AT1.
  CET1 comprise ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal/statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

  AT1 comprise instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

- *Tier 2 capital*
  It includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within regulatory adjustments applied in the calculation of Tier 2 capital.

The regulatory adjustments are subject to limits prescribed by the CBB requirements. These deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceed materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitisation transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of banking and financial entities, investment in the capital of banking and financial entities that are outside the scope of regulatory consolidation and where the Bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

for the year ended 31 December 2015 (Amounts in US$ thousands)

33. CAPITAL MANAGEMENT (continued)

The Bank's regulatory capital position at 31 December is as follows:

	2015	2014
Total risk-weighted exposures	**1,332,357**	405,059
CET1 capital	**68,541**	33,884
Tier1 capital	**831**	-
Total capital	**69,372**	33,884
% of Total Risk Weighted Exposures (CAR)		
CET1 capital adequacy ratio	**5.14%**	NA
Tier1 capital adequacy ratio	**5.14%**	8.37%
Total capital adequacy ratio	**5.21%**	8.37%

The capital adequacy ratio as at 31 December 2015 was below the minimum regulatory capital requirement of 12.5%. Based on the planned asset sales programme and operating cash flow projections, the Group expects to improve its risk weighted assets profile and capital adequacy ratio. The capital adequacy ratio as at 31 December 2015 has been calculated as per amended requirements whereas the same as at 31 December 2014 was based on previous requirements, hence the numbers are not comparable.

34. COMPARATIVES

In 2014, the Group had re-classified its investment in a subsidiary, Tintoria International, as assets held-for-sale. During the year, because the investment no longer meets the criteria to be classified as held-for-sale, this was re-classified as held-for-use. In accordance with IFRS 5 ***Non-current assets held-for-sale and discontinued operations***, upon reclassification as held-for-use, the subsidiary was consolidated on a line-by-line basis including earlier periods resulting in restatement of the prior year as if the subsidiary had always been consolidated. The reclassification has resulted in depreciation on equipment amounting to US$0.89 million (2014: US$0.53 million) being recognised and increasing the previously reported loss by the same amount.

The Group also changed its accounting policy for investment property from cost to fair value model. In accordance with FAS 26 and FAS 1, the earlier periods were restated to reflect the retrospective effect of the change. The change resulted in reversal of previously recognised fair value loss of US$1,681 thousands in the consolidated income statement for 2014 and for the earlier years by US$781 thousands adjusted in the accumulated losses as of 1 January 2014 being the earliest period reported.

Certain prior year figures were restated/regrouped to confirm current year's presentation which do not affect the previously reported loss for the period of total equity except to the extent included in the previous paragraphs.

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