

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

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**31 March 2017 (REVIEWED)**



Ernst & Young  
P.O. Box 140  
10th Floor, East Tower  
Bahrain World Trade Center  
Manama  
Kingdom of Bahrain

Tel: +973 1753 5455  
Fax: +973 1753 5405  
manama@bh.ey.com  
ey.com/mena  
C.R. No. 6700 / 29977

## **REVIEW REPORT TO THE BOARD OF DIRECTORS OF BANK ALKHAIR B.S.C. (c)**

### *Introduction*

We have reviewed the accompanying interim consolidated statement of financial position of Bank AlKhair B.S.C.(c) (the "Bank") and its subsidiaries ("the Group") as of 31 March 2017, and the related interim consolidated statements of income, cash flows and changes in owners' equity for the three month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the accounting policies disclosed in note 2.

### *Emphasis of matter*

Without qualifying our conclusion, we draw attention to note 2 to the interim condensed consolidated financial statements 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 the interim condensed consolidated financial statements and management's action plans to deal with these matters. Our opinion is not modified in respect of this matter.

### *Other Matters*

The consolidated financial statements of the Group for the year ended 31 December 2016 and the interim condensed consolidated financial statements for the three month period ended 31 March 2016 were audited by another auditor who expressed an unmodified audit opinion dated 26 March 2017 on those consolidated financial statements.

13 June 2017

Manama, Kingdom of Bahrain

**Bank AlKhair B.S.C. (c)**

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 March 2017 (Reviewed)

	<i>Reviewed</i>	<i>Audited</i>
	<i>31 March</i>	<i>31 December</i>
	<i>2017</i>	<i>2016</i>
<i>Note</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>ASSETS</b>		
Cash and balances with banks	16,153	15,479
Placements with financial institutions	11,034	8,402
Financing receivables	4 11,684	16,075
Investment securities	5 64,934	61,603
Investment in associates	6 124,277	124,994
Investments in real estate	7 224,448	224,448
Other assets	8 33,475	29,226
Equipment	9,212	9,466
<b>TOTAL ASSETS</b>	<b>495,217</b>	<b>489,693</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>		
<b>Liabilities</b>		
Due to financial institutions	86,437	87,566
Due to customers	153,615	151,034
Other liabilities	9 58,363	53,017
<b>Total liabilities</b>	<b>298,415</b>	<b>291,617</b>
<b>Owners' equity</b>		
Share capital	207,962	207,962
Statutory reserve	664	664
Fair value reserve	554	151
Foreign currency translation reserve	(6,243)	(6,469)
Accumulated losses	(101,619)	(98,478)
<b>Equity attributable to the shareholders of the Bank</b>	<b>101,318</b>	<b>103,830</b>
<b>Non-controlling interests</b>	<b>95,484</b>	<b>94,246</b>
<b>Total owners' equity</b>	<b>196,802</b>	<b>198,076</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>495,217</b>	<b>489,693</b>



Yousef Abduliah Al-Shelash  
Chairman



Majid Al Qasem  
Vice Chairman

The notes 1 to 14 form an integral part of these condensed consolidated interim financial statements.

**Bank AlKhair B.S.C. (c)**

**INTERIM CONSOLIDATED STATEMENT OF INCOME**

For the three months period ended 31 March 2017 (Reviewed)

	Note	Three months ended	
		31 March	
		2017	2016
		US\$ '000	US\$ '000
Income from non-banking operations		7,460	8,017
Fees and commission		2,264	1,837
Income / (loss) from investment securities	10	1,073	(1,118)
Rental income		606	606
Finance income		336	884
Share of (loss) / income from associates, net		(1,381)	242
Foreign exchange loss		(9)	(124)
<b>Total income</b>		<b>10,349</b>	<b>10,344</b>
Expenses of non-banking operations		4,817	5,380
Staff cost		3,563	3,408
Finance cost		2,742	2,996
Depreciation		566	379
Legal and professional expenses		460	462
Premises cost		229	283
Business development expenses		54	115
Other operating expense		815	1,328
<b>Total expenses</b>		<b>13,246</b>	<b>14,351</b>
<b>Loss for the period before impairment provision</b>		<b>(2,897)</b>	<b>(4,007)</b>
Reversal of impairment		994	-
<b>Loss for the period</b>		<b>(1,903)</b>	<b>(4,007)</b>
Attributable to:			
Shareholders of the Bank		(3,141)	(4,999)
Non-controlling interests		1,238	992
		<b>(1,903)</b>	<b>(4,007)</b>



Yousef Abdullah Al-Shelash  
Chairman



Majid Al Qasem  
Vice Chairman

The notes 1 to 14 form an integral part of these condensed consolidated interim financial statements.

Bank AIKhair B.S.C. (c)

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**

For the three months period ended 31 March 2017 (Reviewed)

	Equity attributable to the shareholders of the Bank							
	Share capital US\$ '000	Statutory reserve US\$ '000	Investments fair value reserve US\$ '000	Foreign currency translation reserve US\$ '000	Accumulated losses US\$ '000	Total US\$ '000	Non-controlling interests US\$ '000	Total equity US\$ '000
As at 1 January 2017	207,962	664	151	(6,469)	(98,478)	103,830	94,246	198,076
Loss for the period	-	-	-	-	(3,141)	(3,141)	1,238	(1,903)
Foreign currency translation differences	-	-	-	(1)	-	(1)	-	(1)
Share of changes in reserves of investment in associates	-	-	403	227	-	630	-	630
<b>As at 31 March 2017</b>	<b>207,962</b>	<b>664</b>	<b>554</b>	<b>(6,243)</b>	<b>(101,619)</b>	<b>101,318</b>	<b>95,484</b>	<b>196,802</b>
As at 1 January 2016	207,962	664	(249)	(15,290)	(58,478)	134,609	90,185	224,794
Loss for the period	-	-	-	-	(4,999)	(4,999)	992	(4,007)
Foreign currency translation differences	-	-	-	33	-	33	-	33
Share of changes in reserves of investment in associates	-	-	35	114	-	149	-	149
<b>As at 31 March 2016</b>	<b>207,962</b>	<b>664</b>	<b>(214)</b>	<b>(15,143)</b>	<b>(63,477)</b>	<b>129,792</b>	<b>91,177</b>	<b>220,969</b>

The notes 1 to 14 form an integral part of these condensed consolidated interim financial information.

**Bank AlKhair B.S.C. (c)**

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

For the three months period ended 31 March 2017 (Reviewed)

	<i>Three months ended</i>	
	<i>31 March</i>	
	<b>2017</b>	<b>2016</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>OPERATING ACTIVITIES</b>		
Loss for the period	<b>(1,903)</b>	<b>(4,007)</b>
Adjustments for:		
Gain on sale of investment securities	<b>(100)</b>	<b>150</b>
Fair value changes in investment securities	<b>(959)</b>	<b>981</b>
Share of loss / (income) from associates	<b>1,381</b>	<b>(242)</b>
Depreciation and amortisation	<b>566</b>	<b>379</b>
Sukuk amortisation	<b>(5)</b>	<b>(13)</b>
Impairment allowance	<b>(994)</b>	<b>-</b>
	<b>(2,014)</b>	<b>(2,752)</b>
Changes in:		
Financing receivables	<b>5,385</b>	<b>12,238</b>
Other assets	<b>(4,328)</b>	<b>(4,237)</b>
Due to financial institutions	<b>777</b>	<b>180</b>
Due to customers	<b>2,581</b>	<b>(30,946)</b>
Other liabilities	<b>5,346</b>	<b>31,951</b>
<b>Net cash generated from operating activities</b>	<b>7,747</b>	<b>6,434</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment, net	<b>(233)</b>	<b>(56)</b>
Proceeds from sale of investment securities	<b>8,423</b>	<b>17,518</b>
Purchase of investment securities	<b>(10,690)</b>	<b>(28,522)</b>
Purchase of investments in real estate	<b>-</b>	<b>(42)</b>
<b>Net cash used in investing activities</b>	<b>(2,500)</b>	<b>(11,102)</b>
<b>FINANCING ACTIVITY</b>		
Repayment of financing liabilities	<b>(1,940)</b>	<b>(1,940)</b>
<b>Net cash used in financing activity</b>	<b>(1,940)</b>	<b>(1,940)</b>
<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,307</b>	<b>(6,608)</b>
Effect of exchange rate changes on cash and cash equivalents	<b>(1)</b>	<b>33</b>
Cash and cash equivalents at the beginning of the period	<b>23,881</b>	<b>26,669</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>27,187</b>	<b>20,094</b>
Cash and cash equivalents comprise:		
Cash and balances with banks	<b>16,153</b>	<b>13,577</b>
Placements with financial institutions	<b>11,034</b>	<b>6,517</b>
	<b>27,187</b>	<b>20,094</b>

The notes 1 to 14 form an integral part of these condensed consolidated interim financial information.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 March 2017 (Reviewed)

**1 INCORPORATION AND PRINCIPAL ACTIVITY**

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 26<sup>th</sup> 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.

The interim condensed consolidated financial statements were approved by the Board of Directors on 13 June 2017.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES**

**2.1 Basis of Preparation**

The interim condensed 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. Accordingly, the interim condensed consolidated financial statements have been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – '*Interim Financial Reporting*'. The interim condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2016. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2016.

*Going concern*

As at 31 March 2017, 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 March 2017 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 taken 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 interim condensed consolidated financial statements".

**2.2 Accounting convention**

The interim condensed consolidated financial statements are prepared on historical cost basis, except for investment in real estate and equity-type instruments carried at fair value through income and through equity that have been measured at fair value.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017 (Reviewed)

### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

#### 2.2 Accounting convention (continued)

The interim condensed consolidated financial statements have been presented in United States Dollars ("US\$"), being the functional and presentation currency of the Group. All values are rounded to the nearest thousand (US\$ '000) except when indicated otherwise.

#### 2.3 Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and its subsidiaries after elimination of inter company transactions and balances.

The following are the principle subsidiaries of the Bank, which are consolidated in these interim condensed consolidated financial statements:

<b>Subsidiaries</b>	<b>Ownership for 2017</b>	<b>Ownership for 2016</b>	<b>Year of Incorporation/ Acquisition</b>	<b>Country of incorporation</b>
Alkhair International Islamic Bank Malaysia Berhad	100%	100%	2004	Malaysia
Alkhair Capital Menkul Degerler A.S.	95.8%	95.8%	2007	Turkey
Alkhair Portfoy Yonetimi A.S.	98.9%	98.9%	2007	Turkey
Al-Tajamouat for Touristic Projects Co Pie	50.6%	50.6%	2013	Jordan
Tintoria International Limited	52.1%	52.1%	2014	UAE
Alkhair Capital Saudi Arabia	53.3%	53.3%	2009	Kingdom of Saudi Arabia

#### 2.4 Significant accounting policies

These interim condensed consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016.

### 3 SEASONALITY

Due to nature of the Group's business, the three months results reported in the interim condensed consolidated financial statements may not represent a proportionate share of the overall annual results.

### 4 FINANCING RECEIVABLES

	<b>Reviewed 31 March 2017 US\$ '000</b>	<b>Audited 31 December 2016 US\$ '000</b>
Gross murabaha receivables	24,314	29,733
Less: Deferred profits	(131)	(165)
<b>Net murabaha receivables</b>	<b>24,183</b>	<b>29,568</b>
Less: Specific impairment allowances	(11,685)	(12,679)
Less: Collective impairment allowances	(814)	(814)
	<b>11,684</b>	<b>16,075</b>



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017 (Reviewed)

## 5 INVESTMENT SECURITIES

	<i>Reviewed</i> <b>31 March</b> 2017 <i>US\$ '000</i>	<i>Audited</i> <b>31 December</b> 2016 <i>US\$ '000</i>
<b>Equity type instruments</b>		
At fair value through income statement:		
- Unquoted equity securities	15,839	15,840
- Quoted funds	15,679	14,105
- Unquoted funds	29,778	28,822
<b>Total equity type instruments</b>	<b>61,296</b>	<b>58,767</b>
<b>Debt type instruments</b>		
At amortised cost :		
- Sukuk	3,638	2,836
	<b>64,934</b>	<b>61,603</b>

The fair value of the investments carried at amortised cost at 31 March 2017 is US\$ 3,606 thousands (31 December 2016: US\$ 2,809 thousands).

## 6 INVESTMENT IN ASSOCIATES

	<i>Reviewed</i> <b>31 March</b> 2017 <i>US\$ '000</i>	<i>Audited</i> <b>31 December</b> 2016 <i>US\$ '000</i>
BFC Group Holdings Ltd.	114,570	115,606
T'azur Company B.S.C. (c)	9,707	9,388
	<b>124,277</b>	<b>124,994</b>

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\$ 35.1 million. The Group's share of the commitment is US\$ 9.1 million.

## 7 INVESTMENTS IN REAL ESTATE

	<i>Reviewed</i> <b>31 March</b> 2017 <i>US\$ '000</i>	<i>Audited</i> <b>31 December</b> 2016 <i>US\$ '000</i>
Land and building – Jordan	185,927	185,927
Land and building – Kingdom of Saudi Arabia	38,521	38,521
	<b>224,448</b>	<b>224,448</b>

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 March 2017 (Reviewed)

**8 OTHER ASSETS**

	<i>Reviewed</i> <b>31 March</b> 2017 <i>US\$ '000</i>	<i>Audited</i> <b>31 December</b> 2016 <i>US\$ '000</i>
Rental income receivable	16,501	10,264
Prepayments and advances	7,379	7,061
Fees and expenses recoverable	2,597	3,240
Accounts receivable	4,240	6,509
Intangible assets	3	11
Others	5,024	4,410
	<hr/> <b>35,744</b>	<hr/> <b>31,495</b>
Less: Provision for impairment	<b>(2,269)</b>	<b>(2,269)</b>
	<hr/> <b>33,475</b> <hr/>	<hr/> <b>29,226</b> <hr/>

**9 OTHER LIABILITIES**

	<i>Reviewed</i> <b>31 March</b> 2017 <i>US\$ '000</i>	<i>Audited</i> <b>31 December</b> 2016 <i>US\$ '000</i>
Advance received for partial sale of a subsidiary*	20,143	20,143
Advance rental income	14,760	9,310
Trade and other payables	10,582	10,552
Deal-related payables	4,725	4,725
Accruals and other provisions	4,430	4,828
Staff-related payables	3,104	2,840
Restructuring provision	419	419
Provision for legal and professional expenses	200	200
	<hr/> <b>58,363</b> <hr/>	<hr/> <b>53,017</b> <hr/>

\* This represents advance received for sale of 33% of a subsidiary in which Group owns 53%. The sale is pending regulatory approvals.

**10 INCOME / (LOSS) FROM INVESTMENT SECURITIES**

	<i>Reviewed</i>	
	<b>31 March</b> 2017	<b>31 March</b> 2016
Fair value gain / (loss) on investment	959	(981)
Gain / (loss) on sale of investment	97	(148)
Sukuk income		
- Sukuk profit	14	13
- Gain / (loss) on sale of Sukuk	3	(2)
	<hr/> <b>1,073</b> <hr/>	<hr/> <b>(1,118)</b> <hr/>

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 March 2017 (Reviewed)

**11 COMMITMENTS AND CONTINGENCIES**

	<i>Reviewed</i> <b>31 March</b> <b>2017</b> <b>US\$ '000</b>	<i>Audited</i> <b>31 December</b> <b>2016</b> <b>US\$ '000</b>
Commitment to invest	10,030	10,030
Guarantees	5,127	5,131
Lease commitments	323	404
	<hr/> <b>15,480</b> <hr/>	<hr/> <b>15,565</b> <hr/>

*Litigations and claims*

The Group 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 Group in a number of the civil and criminal cases. The case in the UK was filed by the Group 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 the interim condensed consolidated financial statements. In 2015, the Group paid US\$ 8 million to the UK court, of which US\$ 4 million was utilised to pay legal expenses of the counterparties and the balance is included under "prepayment and advances" pending outcome of the case.

A number of employment claims have been filed against the Group by former employees. The Group's external legal counsel has confirmed that the Group 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 Group believe that such disclosures may be prejudicial to the Group's legal position.

The Group's share of commitments arising from its investment in associates is disclosed in note 6.

**12 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 Group and shareholders exercise significant influence, directors, members of Shari'ah Supervisory Board, executive management and external auditors of the Group.

**Compensation of key management personnel**

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

	<i>Reviewed</i>	
	<b>31 March</b> <b>2017</b> <b>US\$ '000</b>	<b>31 March</b> <b>2016</b> <b>US\$ '000</b>
Short term employee benefits	1,885	1,971
Post-employment benefits	222	185
	<hr/> <b>2,107</b> <hr/>	<hr/> <b>2,156</b> <hr/>

Bank AlKhair B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017 (Reviewed)

12 RELATED PARTY TRANSACTIONS (continued)

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

	31 March 2017 (Reviewed)		31 December 2016 (Audited)					
	Associates US\$ '000	Significant shareholders/ entities in which directors have interest US\$ '000	Key management US\$ '000	Other entities US\$ '000	Associates US\$ '000	Significant shareholders/ entities in which directors have interest US\$ '000	Key management US\$ '000	Other entities US\$ '000
<b>Assets</b>								
Financing receivables	-	-	-	986	-	-	-	986
Investment securities	41,128	-	-	10,991	40,171	-	-	13,013
Investment in associates	124,277	-	-	-	124,994	-	-	-
Other assets	1,549	-	566	1,218	1,580	-	639	1,179
<b>Liabilities</b>								
Due to financial institutions	8,979	-	-	-	14,708	-	-	-
Due to customers	918	144,609	-	-	918	131,690	-	-
Other liabilities	58	749	2,093	1	-	599	2,109	28
	<b>Three months ended 31 March 2017 (Reviewed)</b>		<b>Three months ended 31 March 2016 (Reviewed)</b>					
	Associates US\$ '000	Significant shareholders/ entities in which directors have interest US\$ '000	Key management US\$ '000	Other entities US\$ '000	Associates US\$ '000	Significant shareholders/ entities in which directors have interest US\$ '000	Key management US\$ '000	Other entities US\$ '000
<b>Income / (expenses)</b>								
Income from investment securities	957	-	-	105	(986)	-	-	27
Fees and commission	565	-	-	26	619	-	-	26
Net finance income / (expense)	(98)	(2,419)	-	(1)	(131)	(476)	-	186
Share of (loss) / income from associates	(1,381)	-	-	-	242	-	-	-
Directors' and Shari'ah board remuneration and expenses	-	(171)	-	(25)	-	(98)	-	(26)

Bank AlKhair B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017 (Reviewed)

13 SEGMENT INFORMATION

*For the three months ended 31 March 2017 (Reviewed)*

	<i>Investment Banking &amp; Alkhair Capital Menkul Degerler A.S US\$ '000</i>	<i>Alkhair Internationa l Islamic Bank Malaysia Berhad US\$ '000</i>	<i>Alkhair Capital Saudi Arabia US\$ '000</i>	<i>Inter- company US\$ '000</i>	<i>Total US\$ '000</i>
External revenue					
Net finance (expense) / income	(2,598)	192	-	-	(2,406)
Income from investment securities	1,056	12	5	-	1,073
Fees and commission	598	6	1,660	-	2,264
Share of loss from investment in associates	(1,381)	-	-	-	(1,381)
Income from non-banking operations	7,460	-	-	-	7,460
Rental income	-	-	606	-	606
Foreign exchange (loss) / gain	(10)	1	-	-	(9)
Inter-segment income	(63)	63	-	-	-
<b>Total income</b>	<b>5,062</b>	<b>274</b>	<b>2,271</b>	<b>-</b>	<b>7,607</b>
Total operating expenses	(7,836)	(516)	(2,152)	-	(10,504)
Reversal of impairment	-	994	-	-	994
<b>Loss for the period</b>	<b>(2,774)</b>	<b>752</b>	<b>119</b>	<b>-</b>	<b>(1,903)</b>
Investment in associates	124,277	-	-	-	124,277
Segment assets	397,180	45,547	70,500	(18,010)	495,217
Segment liabilities	285,190	24,452	6,783	(18,010)	298,415

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017 (Reviewed)

## 13 SEGMENT INFORMATION (continued)

	<i>For the three months ended 31 March 2016 (Reviewed)</i>				
	<i>Investment Banking &amp; Alkhair Capital Menkul Degerler A.S US\$ '000</i>	<i>Alkhair International Islamic Bank Malaysia Berhad US\$ '000</i>	<i>Alkhair Capital Saudi Arabia US\$ '000</i>	<i>Inter- company US\$ '000</i>	<i>Total US\$ '000</i>
External revenue					
Net finance (expense) / income	(2,497)	385	-	-	(2,112)
Expense from investment securities	(981)	(1)	(136)	-	(1,118)
Fees and commission	653	81	1,103	-	1,837
Share of gain from investment in associates	242	-	-	-	242
Income from non-banking operations	8,017	-	-	-	8,017
Rental income	-	-	606	-	606
Foreign exchange (loss) / gain	(136)	12	-	-	(124)
Inter-segment income	(68)	68	-	-	-
<b>Total income</b>	<b>5,230</b>	<b>545</b>	<b>1,573</b>	<b>-</b>	<b>7,348</b>
Total operating expenses	(8,713)	(598)	(2,044)	-	(11,355)
Impairment allowance	31	(31)	-	-	-
<b>Loss for the period</b>	<b>(3,452)</b>	<b>(84)</b>	<b>(471)</b>	<b>-</b>	<b>(4,007)</b>
<b>As at 31 December 2016</b>					
Investment in associates	124,994	-	-	-	124,994
Segment assets	392,738	47,489	70,146	(20,680)	489,693
Segment liabilities	278,601	27,151	6,545	(20,680)	291,617

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 March 2017 (Reviewed)

**14 FINANCIAL INSTRUMENTS****Fair values**

The Group's financial instruments are accounted for under the historical cost method with the exception of investment securities. By contrast, the fair value represents the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Differences therefore can arise between book values under the historical cost method and fair value estimates. 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.

Set out below is a comparison of the carrying amounts and fair values of financial instruments:

<b>31 March 2017 (Reviewed)</b>	<b>Carrying amount US\$ '000</b>	<b>Fair Value US\$ '000</b>
<b>Financial assets:</b>		
Balances with banks	16,153	16,153
Placements with financial institutions	11,034	11,034
Financing receivables	11,684	11,684
Investment securities	64,934	64,901
Other financial assets	30,439	30,439
	<u>134,244</u>	<u>134,211</u>
<b>Financial liabilities:</b>		
Due to financial institutions	86,437	86,437
Due to customers	153,615	153,615
Other financial liabilities	58,363	58,363
	<u>298,415</u>	<u>298,415</u>
 <b>31 December 2016 (Audited)</b>	 <b>Carrying amount US\$ '000</b>	 <b>Fair Value US\$ '000</b>
<b>Financial assets:</b>		
Balances with banks	15,479	15,473
Placements with financial institutions	8,402	8,402
Financing receivables	16,075	16,075
Investment securities	61,603	61,576
Other financial assets	26,215	23,382
	<u>127,774</u>	<u>124,908</u>
<b>Financial liabilities:</b>		
Due to financial institutions	87,566	87,566
Due to customers	151,034	151,034
Other financial liabilities	53,017	53,017
	<u>291,617</u>	<u>291,617</u>

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 March 2017 (Reviewed)

**14 FINANCIAL INSTRUMENTS (continued)**

**Valuation techniques**

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.

*Investment securities*

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

*Sensitivity analysis*

Unquoted securities and funds - 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 due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US\$ 6.8 million. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

*Financing receivables*

The fair values of financing receivables are principally estimated at their carrying amount less impairment provisions as these are for short term (i.e. less than 12 months). Hence, the present value of expected future cash flows is not expected to be different from their carrying values.

*Other financial instruments*

Placements with financial institutions, due to financial institutions and due to customers are for short term tenure hence their carrying value is not different from the fair value. Fair value of other financial assets and liabilities are not significantly different from their carrying values due to their short term nature.

**Fair value hierarchy**

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).



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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 March 2017 (Reviewed)

**14 FINANCIAL INSTRUMENTS (continued)****Fair value hierarchy**

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

<b>31 March 2017 (Reviewed)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Investment securities</i>				
Equity type instruments carried at fair value through statement of income	15,679	41,128	4,489	61,296
	<b>15,679</b>	<b>41,128</b>	<b>4,489</b>	<b>61,296</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>31 December 2016 (Audited)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Investment securities</i>				
Equity type instruments carried at fair value through statement of income	14,105	40,172	4,490	58,767
	<b>14,105</b>	<b>40,172</b>	<b>4,490</b>	<b>58,767</b>
	<hr/>	<hr/>	<hr/>	<hr/>

The following table analyses the movement in Level 3 financial assets during the period:

	<b>31 March 2017 (Reviewed)</b>	<b>31 March 2016 (Reviewed)</b>
At 1 January	4,490	4,499
(Loss) / gain recognised in income statement	(1)	2
	<b>4,489</b>	<b>4,501</b>
	<hr/>	<hr/>