

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

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**30 June 2018 (REVIEWED)**

## **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 30 June 2018, and the related interim consolidated statements of income, changes in owners' equity and cash flows for the six 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 these matters.



14 August 2018  
Manama, Kingdom of Bahrain

Bank Alkhair B.S.C. (c)

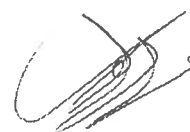
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018 (Reviewed)

		<i>Reviewed</i> <b>30 June</b> <b>2018</b> <b>US\$ '000</b>	<i>Audited</i> <b>31 December</b> <b>2017</b> <b>US\$ '000</b>
<b>ASSETS</b>			
Cash and balances with banks		5,512	8,172
Placements with financial institutions		23,566	6,588
Financing receivables	5	3,333	8,956
Investments	6	48,385	70,644
Investment in associates	7	125,077	125,035
Investments in real estate	8	224,882	224,873
Other assets	9	37,976	28,483
Equipment		9,018	9,491
<b>TOTAL ASSETS</b>		<b>477,749</b>	<b>482,242</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Due to financial institutions		56,631	71,342
Due to customers		179,620	167,372
Other liabilities	10	54,353	53,570
<b>Total liabilities</b>		<b>290,604</b>	<b>292,284</b>
<b>Owners' equity</b>			
Share capital		207,962	207,962
Statutory reserve		664	664
Fair value reserve		244	487
Foreign currency translation reserve		(5,600)	(5,179)
Accumulated losses		(121,352)	(115,687)
<b>Equity attributable to the shareholders of the Bank</b>		<b>81,918</b>	<b>88,247</b>
Non-controlling interests		105,227	101,711
<b>Total owners' equity</b>		<b>187,145</b>	<b>189,958</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>477,749</b>	<b>482,242</b>



Yousef Abdullah Al-Shelash  
Chairman



Majid Al Qasem  
Vice Chairman

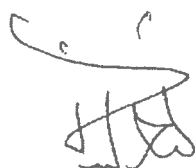
The notes 1 to 15 form an integral part of these condensed consolidated interim financial information.

Bank Alkhair B.S.C. (c)

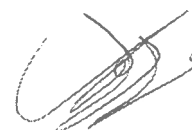
INTERIM CONSOLIDATED STATEMENT OF INCOME

For the six month period ended 30 June 2018 (Reviewed)

	Note	Three months ended		Six months ended	
		30 June		30 June	
		2018	2017	2018	2017
		US\$ '000	US\$ '000	US\$ '000	US\$ '000
Income from non-banking operations		7,610	7,468	15,657	14,928
Fees and commission		4,172	6,143	6,716	8,407
Net income / (loss) from investments	11	4,431	(3,122)	4,696	(2,049)
Rental income		605	605	1,211	1,211
Finance income		88	281	339	617
Share of profit / (loss) from associates, net		642	434	557	(947)
Other income		171	258	327	258
Foreign exchange (loss) / gain		(361)	167	(297)	158
<b>Total income</b>		<b>17,358</b>	<b>12,234</b>	<b>29,206</b>	<b>22,583</b>
Expenses of non-banking operations		5,370	4,831	10,585	9,648
Staff cost		3,558	3,347	7,462	6,910
Finance cost		3,069	2,831	6,055	5,573
Legal and professional expenses		242	553	2,558	1,013
Depreciation		480	381	884	947
Premises cost		280	248	547	477
Business development expenses		127	80	264	134
Other operating expense		947	1,346	2,063	2,161
<b>Total expenses</b>		<b>14,073</b>	<b>13,617</b>	<b>30,418</b>	<b>26,863</b>
<b>Income / (loss) for the period before impairment provision</b>		<b>3,285</b>	<b>(1,383)</b>	<b>(1,212)</b>	<b>(4,280)</b>
Impairment (charge) / reversal		(1,003)	-	(937)	994
<b>Income / (loss) for the period</b>		<b>2,282</b>	<b>(1,383)</b>	<b>(2,149)</b>	<b>(3,286)</b>
Attributable to:					
Shareholders of the Bank		9	(4,152)	(5,665)	(7,293)
Non-controlling interests		2,273	2,769	3,516	4,007
		<b>2,282</b>	<b>(1,383)</b>	<b>(2,149)</b>	<b>(3,286)</b>



Yousef Abdullah Al-Shelash  
Chairman



Majid Al Qasem  
Vice Chairman

The notes 1 to 15 form an integral part of these interim condensed consolidated financial information.

Bank Alkhair B.S.C. (c)

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

For the six month period ended 30 June 2018 (Reviewed)

	Equity attributable to the shareholders of the Bank							Total equity US\$ '000
	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	
As at 1 January 2018	207,962	664	487	(5,179)	(115,687)	88,247	101,711	189,958
(Loss) / income for the period	-	-	-	-	(5,665)	(5,665)	3,516	(2,149)
Foreign currency translation differences	-	-	-	(100)	-	(100)	-	(100)
Share of changes in reserves of investment in associates	-	-	(243)	(321)	-	(564)	-	(564)
<b>As at 30 June 2018</b>	<b>207,962</b>	<b>664</b>	<b>244</b>	<b>(5,600)</b>	<b>(121,352)</b>	<b>81,918</b>	<b>105,227</b>	<b>187,145</b>
As at 1 January 2017	207,962	664	151	(6,469)	(98,478)	103,830	94,246	198,076
(Loss) / income for the period	-	-	-	-	(7,293)	(7,293)	4,007	(3,286)
Foreign currency translation differences	-	-	-	18	-	18	-	18
Share of changes in reserves of investment in associates	-	-	403	688	-	1,091	-	1,091
As at 30 June 2017	207,962	664	554	(5,763)	(105,771)	97,646	98,253	195,899

The notes 1 to 15 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 six month period ended 30 June 2018 (Reviewed)

	<i>Six months ended</i>	
	<i>30 June</i>	
	<b>2018</b>	<b>2017</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>OPERATING ACTIVITIES</b>		
Loss for the period	(2,149)	(3,286)
Adjustments for:		
Gain on sale of investments	(4,872)	(338)
Fair value loss on investments	191	2,410
Share of (profit) / loss from associates	(557)	947
Depreciation	884	947
Sukuk amortisation	(85)	(15)
Charge / (reversal) of Impairment	937	(994)
	<b>(5,651)</b>	<b>(329)</b>
Changes in:		
Financing receivables	4,686	6,961
Other assets	(9,693)	(5,765)
Due to financial institutions	(13,151)	(4,196)
Due to customers	12,248	6,274
Other liabilities	783	5,487
Net cash (used in) / from operating activities	<b>(10,778)</b>	<b>8,432</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment, net	(211)	(804)
Proceeds from sale of investments	33,872	22,310
Purchase of investment securities	(6,848)	(11,871)
Purchase of investments in real estate	(9)	(23)
Net cash from investing activities	<b>26,804</b>	<b>9,612</b>
<b>FINANCING ACTIVITY</b>		
Repayment of financing liabilities	(1,608)	(3,880)
Net cash used in financing activity	<b>(1,608)</b>	<b>(3,880)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>14,418</b>	<b>14,164</b>
Effect of exchange rate changes on cash and cash equivalents	(100)	18
Cash and cash equivalents at the beginning of the period	14,760	23,881
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>29,078</b>	<b>38,063</b>
Cash and cash equivalents comprise:		
Cash and balances with banks	5,512	26,581
Placements with financial institutions	23,566	11,482
	<b>29,078</b>	<b>38,063</b>

The notes 1 to 15 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 30 June 2018 (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.

Shareholders of the Bank at an Extra Ordinary General Meeting held on 22 February 2018 have approved a restructuring which will, inter alia, involve the surrender of the banking license and the conversion of the Bank into a holding company. The appropriate application has been submitted with the CBB and the process is expected to be completed by the end of December subject to CBB and other required approvals. The Group through its regulated subsidiaries will continue to undertake Islamic Capital Market activities in Saudi Arabia and Dubai.

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.

**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 2017. 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 2017.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2018 (Reviewed)

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.1 Basis of Preparation (continued)***Going concern*

As at 30 June 2018, 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 and equity as of 30 June 2018 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 particularly the ongoing support from major shareholders who have also in the past provided support when it was needed. The management is also working on the conversion of the Bank into a holding company as approved by the shareholders. 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. Moreover, the accumulated deficit of the Group exceeded 50% of its paid-up capital as at the reporting date. The Bahrain Commercial Companies Law requires that, where the accumulated losses of the Group exceed its share capital by more than 50%, the shareholders should resolve to continue with the operations of the Group.

**2.2 Accounting convention**

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

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:

	<i>Ownership for 2018</i>	<i>Ownership for 2017</i>	<i>Year of Incorporation/ acquisition</i>	<i>Country of incorporation</i>
<b>Subsidiaries</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.	99.6%	99.6%	2007	Turkey
Al-Tajamouat for Touristic Projects Co Plc	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



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2018 (Reviewed)

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****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 2017. There have been no new standards, interpretations and amendments effective during the period that might have any material impact on the interim condensed consolidated financial statements of the Group.

**3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES****New standard issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Group's interim condensed consolidated financial statements are listed below. This listing is of the relevant standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

**FAS 30 - Impairment, credit losses and onerous commitments**

FAS 30 was issued in November 2017. The requirements relating to impairment and credit losses of FAS 30 represent a significant change from FAS 11 "Provisions and Reserves". The standard is effective from the financial periods beginning on or after 1 January 2020, where early adoption is permitted. However based on CBB circular EDBS/KH/C/57/2017 dated 29 November 2017, the CBB required banks to implement FAS 30 with effect from 1 January 2018. However the Group has sought an extension from CBB until 1 January 2019 in its letter dated 18 March 2018.

**4 SEASONALITY**

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

**5 FINANCING RECEIVABLES**

	<i>Reviewed</i> <b>30 June</b> <b>2018</b> <i>US\$ '000</i>	<i>Audited</i> <b>31 December</b> <b>2017</b> <i>US\$ '000</i>
Gross murabaha receivables	<b>13,423</b>	18,216
Less: Deferred profits	<b>(1)</b>	(107)
<b>Net murabaha receivables</b>	<b>13,422</b>	18,109
Less: Specific impairment allowances	<b>(10,055)</b>	(9,070)
Less: Collective impairment allowances	<b>(34)</b>	(83)
	<b>3,333</b>	8,956

Bank Alkhair B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2018 (Reviewed)

**6 INVESTMENTS**

	<i>Reviewed 30 June 2018 US\$ '000</i>	<i>Audited 31 December 2017 US\$ '000</i>
<b>Equity type instruments</b>		
At fair value through statement of income		
Equity securities		
- Quoted	-	18,477
- Unquoted	<b>4,480</b>	9,573
Total equity securities	<b>4,480</b>	28,050
Mutual funds		
- Quoted	<b>4,572</b>	4,158
- Unquoted	<b>28,390</b>	29,121
Total mutual funds	<b>32,962</b>	33,279
Total fair value through statement of income	<b>37,442</b>	61,329
<b>Debt type instruments</b>		
At amortised cost :		
- Sukuk	<b>10,943</b>	9,315
	<b>48,385</b>	70,644

The fair value of the investments carried at amortised cost as at 30 June 2018 is US\$ 10,437 thousands (31 December 2017: US\$ 9,023 thousands).

**7 INVESTMENT IN ASSOCIATES**

	<i>Reviewed 30 June 2018 US\$ '000</i>	<i>Audited 31 December 2017 US\$ '000</i>
BFC Group Holdings Ltd.	<b>116,339</b>	116,296
T'azur Company B.S.C. (c)	<b>8,738</b>	8,739
	<b>125,077</b>	125,035

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\$ 47.1 million. The Group's share of the commitment is US\$ 12.2 million.

**8 INVESTMENTS IN REAL ESTATE**

	<i>Reviewed 30 June 2018 US\$ '000</i>	<i>Audited 31 December 2017 US\$ '000</i>
Land and building – Jordan	<b>186,361</b>	186,352
Land and building – Kingdom of Saudi Arabia	<b>38,521</b>	38,521
	<b>224,882</b>	224,873

Bank Alkhair B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2018 (Reviewed)

9 OTHER ASSETS

	<i>Reviewed</i> 30 June 2018 US\$ '000	<i>Audited</i> 31 December 2017 US\$ '000
Rental income receivable	12,354	10,529
Receivable from sale of investments	8,999	72
Accounts receivable	6,889	7,467
Prepayments and advances	5,502	6,572
Fees and expenses recoverable	1,945	2,320
Receivable from employees	5	7
Intangible assets	1	14
Others	4,550	3,771
	<b>40,245</b>	<b>30,752</b>
Less: Provision for impairment	<b>(2,269)</b>	<b>(2,269)</b>
	<b>37,976</b>	<b>28,483</b>

10 OTHER LIABILITIES

	<i>Reviewed</i> 30 June 2018 US\$ '000	<i>Audited</i> 31 December 2017 US\$ '000
Advance received for partial sale of a subsidiary*	20,143	20,143
Advance rental income	11,679	10,217
Trade and other payables	11,751	11,530
Deal-related payables	4,725	4,725
Accruals and other provisions	2,476	3,394
Staff-related payables	3,121	3,056
Restructuring provision	419	419
Provision for legal and professional expenses	39	86
	<b>54,353</b>	<b>53,570</b>

\* This represents advance received for sale of 33% stake of a subsidiary in Kingdom of Saudi Arabia. The sale is pending due to regulatory approvals from Capital Market Authority of Kingdom of Saudi Arabia.

11 NET INCOME / (LOSS) FROM INVESTMENTS

	<i>Reviewed</i>	
	<i>30 June</i> 2018 US\$ '000	<i>30 June</i> 2017 US\$ '000
Fair value loss on investments	(191)	(2,410)
Gain on sale of investments	4,854	333
Sukuk income		
- Sukuk profit	15	23
- Gain on sale of sukuks	18	5
	<b>4,696</b>	<b>(2,049)</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2018 (Reviewed)

**12 COMMITMENTS AND CONTINGENCIES**

	<i>Reviewed</i> <b>30 June</b> <b>2018</b> <b>US\$ '000</b>	<i>Audited</i> <b>31 December</b> <b>2017</b> <b>US\$ '000</b>
Commitment to invest	<b>10,030</b>	10,030
Guarantees	<b>5,085</b>	5,103
Lease commitments	<b>286</b>	81
	<b>15,401</b>	15,214

*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 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 which is now ended. In 2015, the Group paid US\$ 8 million to the UK court, of which US\$ 4 million was utilised in prior years to pay legal expenses of the counterparties, during the quarter ended 31 March 2018 additional US\$ 2 million was expensed in the interim consolidated statement of income and the balance is included under "prepayment and advances" and is to be refunded shortly to the Group based on the lawyer's confirmation,

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 7.

**13 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>30 June</b> <b>2018</b> <b>US\$ '000</b>	<b>30 June</b> <b>2017</b> <b>US\$ '000</b>
Short term employee benefits	<b>3,936</b>	3,460
Post-employment benefits	<b>391</b>	209
	<b>4,327</b>	3,669

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2018 (Reviewed)

## 13 RELATED PARTY TRANSACTIONS (continued)

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

	30 June 2018 (Reviewed)		31 December 2017 (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
Investment securities	28,390	10,542	-	7,679	34,207	6,805	-	8,603
Investment in associates	125,077	-	-	-	125,035	-	-	-
Other assets	473	174	-	2,453	815	163	-	480
<b>Liabilities</b>								
Due to financial institutions	5,069	-	-	-	9,133	-	-	-
Due to customers	909	175,268	-	-	918	158,655	-	-
Other liabilities	81	813	2,213	32	75	882	2,062	140
	<b>Six months ended 30 June 2018 (Reviewed)</b>		<b>Six months ended 30 June 2017 (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 / (loss) from investments	3,272	19	-	(19)	(2,418)	-	-	115
Fees and commission	548	-	-	4,457	1,130	-	-	52
Net finance expense	(137)	(5,714)	-	-	(176)	(5,006)	-	(1)
Share of income / (loss) from associates	557	-	-	-	(947)	-	-	-
Directors' and Shari'ah board remuneration and expenses	-	(212)	-	-	-	(342)	-	-

Bank Alkhair B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2018 (Reviewed)

14 SEGMENT INFORMATION

For the six months ended 30 June 2018 (Reviewed)

	<i>Investment Banking &amp; Alkhair Capital Menkul Degerler A.S US\$ '000</i>	<i>Alkhair Internationa I 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>
Net finance (expense) / income	(5,980)	264	-	-	(5,716)
Income from investments	3,206	14	1,476	-	4,696
Fees and commission	612	3	6,101	-	6,716
Share of profit from investment in associates	557	-	-	-	557
Income from non-banking operations	15,657	-	-	-	15,657
Rental income	-	-	1,211	-	1,211
Other income	36	-	291	-	327
Foreign exchange (loss)	(285)	(12)	-	-	(297)
Inter-segment income	(70)	70	-	-	-
<b>Total income</b>	<b>13,733</b>	<b>339</b>	<b>9,079</b>	<b>-</b>	<b>23,151</b>
Total operating expenses	(16,948)	(1,109)	(6,306)	-	(24,363)
Impairment (charge) / reversal	(986)	49	-	-	(937)
<b>Loss for the period</b>	<b>(4,201)</b>	<b>(721)</b>	<b>2,773</b>	<b>-</b>	<b>(2,149)</b>
Investment in associates	125,077	-	-	-	125,077
Segment assets	385,723	21,354	82,908	(12,236)	477,749
Segment liabilities	290,924	1,411	10,505	(12,236)	290,604

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2018 (Reviewed)

## 14 SEGMENT INFORMATION (continued)

	<i>For the six months ended 30 June 2017 (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	(5,340)	384	-	-	(4,956)
(Loss) / income from investments	(2,263)	18	196	-	(2,049)
Fees and commission	1,237	10	7,160	-	8,407
Share of loss from investment in associates	(947)	-	-	-	(947)
Income from non-banking operations	14,928	-	-	-	14,928
Rental income	-	-	1,211	-	1,211
Other income	250	-	8	-	258
Foreign exchange gain / (loss)	155	11	(8)	-	158
Inter-segment (loss) / income	(120)	120	-	-	-
Total income	7,900	543	8,567	-	17,010
Total operating expenses	(15,350)	(898)	(5,042)	-	(21,290)
Impairment allowance	-	994	-	-	994
Loss for the period	(7,450)	639	3,525	-	(3,286)
As at 31 December 2017					
Investment in associates	125,035	-	-	-	125,035
Segment assets	383,412	31,574	79,372	(12,116)	482,242
Segment liabilities	283,747	10,909	9,744	(12,116)	292,284

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2018 (Reviewed)

**15 FINANCIAL INSTRUMENTS**

**Fair values**

As disclosed in note 2.2, the Group's financial instruments are accounted for under historical cost basis, except for equity-type instruments carried at fair value through income and through equity that have been measured at fair value.

The fair values of the Group's financial assets and financial liabilities are not significantly different from their carrying values except for investments whose fair value is US\$ 47,878 thousand against the carrying value of US\$ 48,385 thousand (31 December 2017: fair value of US\$ 70,352 thousand against the carrying value US\$ 70,644 thousand).

**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\$ 4.9 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.



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2018 (Reviewed)

**15 FINANCIAL INSTRUMENTS (continued)****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).

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

<b>30 June 2018 (Reviewed)</b>	<b>Level 1 US\$ '000</b>	<b>Level 2 US\$ '000</b>	<b>Level 3 US\$ '000</b>	<b>Total US\$ '000</b>
<i>Investment securities</i>				
Equity type instruments carried at fair value through statement of income	4,572	28,390	4,480	37,442
	<b>4,572</b>	<b>28,390</b>	<b>4,480</b>	<b>37,442</b>
<b>31 December 2017 (Audited)</b>	<b>Level 1 US\$ '000</b>	<b>Level 2 US\$ '000</b>	<b>Level 3 US\$ '000</b>	<b>Total US\$ '000</b>
<i>Investment securities</i>				
Equity type instruments carried at fair value through statement of income	22,635	34,207	4,487	61,329
	<b>22,635</b>	<b>34,207</b>	<b>4,487</b>	<b>61,329</b>

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

	<b>30 June 2018 (Reviewed) US\$ '000</b>	<b>30 June 2017 (Reviewed) US\$ '000</b>
At 1 January	<b>4,487</b>	4,490
Loss recognised in income statement	<b>(7)</b>	-
	<b>4,480</b>	<b>4,490</b>