

Bank Alkhair B.S.C. (c)

**Condensed consolidated interim financial
information for the quarter and six
months period ended 30 June 2021
(Reviewed)**

BANK ALKHAIR B.S.C (C)
CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2021

CONTENTS	Page
Administration and contact details	2
Review report by the independent auditor	3
Condensed consolidated interim financial information	
Condensed consolidated interim statement of financial position	4
Condensed consolidated interim statement of income	5
Condensed consolidated interim statement of changes in owners' equity	6
Condensed consolidated interim statement of cash flows	7
Notes to the condensed consolidated interim financial information	8 - 22

Bank Alkhair B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2021 (REVIEWED)

Commercial registration no.	53462-1 obtained on 29 April 2004	
CBB Licence no.	WB/050 obtained on 6 January 2004	
Board of Directors	Yousef A. S Al Shelash Majed Abdulrahman Alqasem Dr. Ahmed Saleh S. Al Dehailan Khaled Shaheen Saqer Shaheen	- Chairman - Vice Chairman
Audit & Risk Committee	Khaled Shaheen Saqer Shaheen Majed Abdulrahman Alqasem Dr. Ahmed Saleh S. Al Dehailan	- Chairman
Shari'a Supervisory Board	Dr. Nizam Mohammad Saleh Dr. Ali Muhyealdin Al-Quradaghi Dr. Mohammad Daud Bakar	- Chairman - Vice Chairman
Registered office	Flat No. 2601, Building No. 1459 Road No. 4626, Block No. 346 Manama Sea Front PO Box 31700 Kingdom of Bahrain	
Principal bankers	Al Salam Bank Ahli United Bank Bahrain Middle East Bank	
Auditors	BDO 17 th Floor Diplomat Commercial Office Tower PO Box 787 Manama Kingdom of Bahrain	

Review report on the condensed consolidated interim financial information to the Board of Directors of Bank Alkhair B.S.C. (c)

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Bank Alkhair B.S.C. (c) (“the Bank”) and its subsidiaries (collectively referred to as “the Group”) as at 30 June 2021, the condensed consolidated interim statement of income, the condensed consolidated interim statement of changes in owners’ equity, the condensed consolidated interim statement of cash flows for the quarter and six months period then ended and selected explanatory notes. The Board of Directors is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari’a Rules and Principles as determined by the Shari’a Supervisory Board of the Group. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 - “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of condensed consolidated 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 condensed consolidated interim financial information does not present fairly, in all material respects, the financial position of the Group as at 30 June 2021, and of its financial performance and its cash flows for the quarter and six months period then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Sharia’a Rules and Principles as determined by the Sharia’a Supervisory Board of the Group.

Emphasis of matter

We draw attention to Note 2 to the condensed consolidated interim financial information which explains certain matters relating to the Group’s liquidity position, accumulated losses and regulatory capital adequacy requirements, implications of these matters on the basis of preparation of these condensed consolidated interim financial information and management’s action plans to deal with these matters. Our conclusion is not modified in respect of these matters.



Manama, Kingdom of Bahrain
12 August 2021



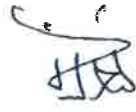
Bank Alkhair B.S.C. (c)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF
 FINANCIAL POSITION

As at 30 June 2021 (Reviewed)

	Notes	30 June 2021 US\$ '000 (Reviewed)	31 December 2020 US\$ '000 (Audited)
ASSETS			
Cash and balances with banks	5	5,738	9,298
Financing receivables	6	-	782
Investments	7	63,596	63,596
Investment in associates	8	123,499	126,978
Investments in real estate	9	177,069	177,059
Other assets	10	11,758	12,340
Assets held-for-distribution		257	1,878
Equipment		33	38
TOTAL ASSETS		381,950	391,969
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Due to financial institutions and Customers	11	263,825	264,596
Other liabilities	12	10,820	11,697
Total liabilities		274,645	276,293
Owners' equity			
Share capital		207,962	207,962
Statutory reserve		664	664
Fair value reserve		140	179
Foreign currency translation reserve		(2,095)	(2,470)
Accumulated losses		(175,236)	(164,911)
Equity attributable to the shareholders of the Bank		31,435	41,424
Non-controlling interests		75,870	74,252
Total owners' equity		107,305	115,676
TOTAL LIABILITIES AND OWNERS' EQUITY		381,950	391,969

These reviewed condensed consolidated interim financial information were approved for issue by the Board of Directors and signed on their behalf by:



Yousef Abdullah Al-Shelash
 Chairman



Majid Al Qasem
 Vice Chairman

The notes 1 to 19 form an integral part of these condensed consolidated interim financial information.

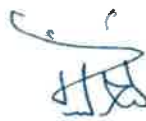
Bank Alkhair B.S.C. (c)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

For the quarter and six month period ended 30 June 2021 (Reviewed)

	Notes	Quarter ended 30 June		Six months ended 30 June	
		2021	2020	2021	2020
		US\$ '000 (Reviewed)	US\$ '000 (Reviewed)	US\$ '000 (Reviewed)	US\$ '000 (Reviewed)
Income from non-banking operations	13	3,910	2,144	7,817	5,921
Gain on sale of investment in real estate		-	850	-	850
Share of (loss) / profit from associates, net		(3,558)	1,347	(3,462)	729
Other income		7	29	132	69
Total income		359	4,370	4,487	7,569
Expenses of non-banking operations	13	2,150	1,933	4,534	4,242
Finance cost		4,004	3,859	7,979	7,608
Net loss from investments		-	2,878	-	5,639
Staff cost		278	235	559	488
General & Administrative Expenses		245	399	499	750
Foreign exchange (loss) / gain		-	31	-	31
Depreciation and amortisation		19	4	23	9
Total expenses		6,696	9,339	13,594	18,767
Loss for the period		(6,337)	(4,969)	(9,107)	(11,198)
Income / (loss) from assets held for distribution and discontinued operations		300	(31)	400	(31)
Net loss for the period		(6,037)	(5,000)	(8,707)	(11,229)
Loss attributable to:					
Shareholders of the Bank		(6,904)	(5,522)	(10,325)	(12,474)
Non-controlling interests		867	522	1,618	1,245
		(6,037)	(5,000)	(8,707)	(11,229)

These reviewed condensed consolidated interim financial information were approved for issue by the Board of Directors and signed on their behalf by:



Yousef Abdullah Al-Shelash
Chairman



Majid Al Qasem
Vice Chairman

The notes 1 to 19 form an integral part of these condensed consolidated interim financial information.

Bank Alkhair B.S.C. (c)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN OWNER'S EQUITY

For the six month period ended 30 June 2021 (Reviewed)

	<i>Equity attributable to the shareholders of the Bank</i>							<i>Total equity</i> US\$ '000
	<i>Share capital</i> US\$ '000	<i>Statutory reserve</i> US\$ '000	<i>Investments fair value reserve</i> US\$ '000	<i>Foreign currency translation reserve</i> US\$ '000	<i>Accumulated losses</i> US\$ '000	<i>Total</i> US\$ '000	<i>Non-controlling interests</i> US\$ '000	
As at 1 January 2021 (Audited)	207,962	664	179	(2,470)	(164,911)	41,424	74,252	115,676
Net (loss) / profit for the period	-	-	-	-	(10,325)	(10,325)	1,618	(8,707)
Foreign currency translation differences	-	-	(39)	375	-	336	-	336
As at 30 June 2021 (Reviewed)	207,962	664	140	(2,095)	(175,236)	31,435	75,870	107,305
As at 1 January 2020 (Audited)	207,962	664	207	(2,726)	(153,535)	52,572	71,792	124,364
Net (loss) / profit for the period	-	-	-	-	(12,474)	(12,474)	1,245	(11,229)
Foreign currency translation differences	-	-	-	(3)	-	(3)	-	(3)
Share of changes in reserves of investment in associates	-	-	(40)	(1,241)	-	(1,281)	-	(1,281)
As at 30 June 2020 (Reviewed)	207,962	664	167	(3,970)	(166,009)	38,814	73,037	111,851

The notes 1 to 19 form an integral part of these condensed consolidated interim financial information.

Bank Alkhair B.S.C. (c)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six month period ended 30 June 2021 (Reviewed)

	<i>Six months ended</i>	
	<i>30 June</i>	
	2021	2020
	US\$ '000	US\$ '000
OPERATING ACTIVITIES		
Loss for the period	(8,707)	(11,229)
Adjustments for:		
Loss on sale of investments	-	2,761
Fair value loss on investments	-	2,878
Gain on sale of investment in real estate	-	(850)
Share of loss / (profit) from associates	3,462	(729)
Depreciation	23	9
	(5,222)	(7,160)
Changes in:		
Financing receivables	782	-
Other assets	565	(397)
Assets held-for-distribution	1,621	-
Due to financial institutions and customers	(771)	7,867
Other liabilities	(877)	(846)
Net cash used in operating activities	(3,902)	(536)
INVESTING ACTIVITIES		
Purchase of equipment, net	-	(56)
Purchase of investment securities	-	(297)
Net (purchase of) / proceeds from investments in real estate	(10)	7,909
Dividend received	352	351
Net cash generated from investing activities	342	7,907
FINANCING ACTIVITY		
Repayment of financing liabilities	-	(221)
Net cash used in financing activity	-	(221)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(3,560)	7,150
Effect of exchange rate changes on cash and cash equivalents	-	(3)
Cash and cash equivalents at the beginning of the period	9,298	1,265
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5,738	8,412
Cash and cash equivalents comprise:		
Cash and balances with banks	5,738	8,412

The notes 1 to 19 form an integral part of these condensed consolidated interim financial information.

Bank Alkhair B.S.C. (c)

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

1 CORPORATE INFORMATION AND ACTIVITIES

a) Incorporation

Bank Alkhair B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, 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 was submitted with the CBB and is in process.

b) Activities

The Bank and its subsidiaries (together referred to as "the Group") are in the process of restructuring and converting to a holding company as approved by its shareholders. During the year ended 31 December 2020, based on the CBB letter dated May 17, 2020 the bank has exited out of the Bodrum Project in Turkey and completed the liquidation of its Private Equity fund. The liquidation of the Strategic Acquisition Fund has been initiated and it currently with the liquidator. The Bank is not currently carrying out any regulated activities.

These condensed consolidated interim financial information, set out on pages 4 to 22, were approved and authorised for issue by the Board of Directors on August 12, 2021.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of Preparation

The condensed consolidated interim financial information have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Advisor of the Group. For matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ('the IFRS') issued by International Accounting Standards Board.

Accordingly, in absence of relevant standards in AAOIFI relating to interim financial statements, the guidance from International Accounting Standard 34 - "Interim Financial Reporting" is used in preparation of this interim condensed consolidated financial information for the quarter and six months period ended 30 June 2021.

Going concern

As at 30 June 2021, 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 as evidenced by the sale of the Bodrum project in Turkey 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 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. The fact was conveyed to the shareholders during the last annual general meeting of the Bank held on 10 May 2018.

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

	<i>Ownership for 2021</i>	<i>Ownership for 2020</i>	<i>Year of Incorporation/ acquisition</i>	<i>Country of incorporation</i>
Subsidiaries				
AKIIM Sdn Bhd (formerly Alkhair International Islamic Bank Malaysia Berhad) (Under liquidation)	100%	100%	2004	Malaysia
Alkhair Gayrimenkul Yatirim Ve Ticaret A.S (formerly Alkhair Portfoy Yonetimi)	99.6%	99.6%	2007	Turkey
Al-Tajamouat for Touristic Projects Co Plc	50.6%	50.6%	2013	Jordan

Bank Alkhair B.S.C. (c)

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group audited consolidated financial statements as at and for the year ended 31 December 2020, except for adoption of following standards and amendments to standards effective from 1 January 2021. Adoption of these standards and amendments did not result in changes to previously reported net profit or equity of the Group, however it has resulted in additional disclosures.

3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards, amendments and interpretations effective and adopted in 2021

The following new standard, amendment to existing standard or interpretation to published standard is mandatory for the first time for the financial year beginning 1 January 2021 and has been adopted in the preparation of these consolidated financial statements:

Standard or interpretation	Title	Effective for annual periods beginning on or after
FAS 32	Ijarah	1-Jan-21

FAS 32 Ijarah

FAS 32 sets out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah (Ijarah asset, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic financial institutions as a lessor and lessee.

The Group has applied FAS 32 "Ijarah" from 1 January 2021. The impact of adoption of this standard is disclosed in (b) below.

(a) Change in accounting policy

Identifying an Ijarah

At inception of a contract, the Bank assesses whether the contract is Ijarah, or contains an Ijarah. A contract is Ijarah, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration. For Ijarah contracts with multiple components, the Bank accounts for each Ijarah component within a contract separately from non-Ijarah components of the contract (e.g. service fee, maintenance charges, toll manufacturing charges etc.).

Measurement

For a contract that contains an Ijarah component and one or more additional Ijarah or non-Ijarah components, the Bank allocates the consideration in the contract to each Ijarah component on the basis of relative stand-alone price of the Ijarah component and the aggregate estimated stand-alone price of the non-Ijarah components, that may be charged by the lessor, or a similar supplier, to the lessee.

At the commencement date, a lessee shall recognise a right-of-use (usufruct) asset and a net Ijarah liability.

i) Right-of-use (usufruct) asset

On initial recognition, the lessee measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:

- The prime cost of the right-of-use asset;
- Initial direct costs incurred by the lessee; and
- Dismantling or decommissioning costs.

The prime cost is reduced by the expected terminal value of the underlying asset. If the prime cost of the right-of-use asset is not determinable based on the underlying cost method (particularly in the case of an operating Ijarah), the prime cost at commencement date may be estimated based on the fair value of the total consideration paid/ payable (i.e. total Ijarah rentals) against the right-of-use assets, under a similar transaction. As per the group's assessment, at the time of implementation the fair value of right-of-use assets are equal to the net Ijarah liability.

After the commencement date, the lessee measures the right-of-use asset at cost less accumulated amortisation and impairment losses, adjusted for the effect of any Ijarah modification or reassessment.

Bank Alkhair B.S.C. (c)

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

Standards, amendments and interpretations effective and adopted in 2021 (continued)

FAS 32 Ijarah (continued)

i) Right-of-use (usufruct) asset (continued)

The Bank amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of-use asset, according to a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. The amortizable amount comprises of the right-of-use asset less residual value, if any.

The Bank determines the Ijarah term, including the contractually binding period, as well as reasonably certain optional periods, including:

- Extension periods if it is reasonably certain that the Bank will exercise that option; and/ or
- Termination options if it is reasonably certain that The Bank will not exercise that option.

The Bank carries out impairment assessment in line with the requirements of FAS 30 "Impairment, Credit Losses and Onerous Commitments" to determine whether the right-of-use asset is impaired and to account for any impairment losses. The impairment assessment takes into consideration the salvage value, if any. Any related commitments, including promises to purchase the underlying asset, are also considered in line with FAS 30 "Impairment, Credit Losses and Onerous Commitments".

ii) Net Ijarah liability

The net Ijarah liability comprises of the gross Ijarah liability, plus deferred Ijarah cost (shown as a contra-liability).

The gross Ijarah liability are initially recognised as the gross amount of total Ijarah rental payables for the Ijarah term. The rentals payable comprise of the following payments for the right to use the underlying asset during the Ijarah term:

- Fixed Ijarah rentals less any incentives receivable;
- Variable Ijarah rentals including supplementary rentals; and
- Payment of additional rentals, if any, for terminating the Ijarah (if the Ijarah term reflects the lessee exercising the termination option).

Advance rentals paid are netted-off with the gross Ijarah liability.

Variable Ijarah rentals are Ijarah rentals that depend on an index or rate, such as payments linked to a consumer price index, financial markets, regulatory benchmark rates, or changes in market rental rates. Supplementary rentals are rentals contingent on certain items, such as additional rental charge after provision of additional services or incurring major repair or maintenance. As of 30 June 2021, the Bank did not have any contracts with variable or supplementary rentals.

After the commencement date, the Bank measures the net Ijarah liability by:

- Increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost);
- Reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid; and
- Re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or to reflect revised Ijarah rentals.

The deferred Ijarah cost is amortised to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method. After the commencement date, the Bank recognises the following in the income statement:

- Amortisation of deferred Ijarah cost; and
- Variable Ijarah rentals (not already included in the measurement of Ijarah liability) as and when the triggering events/ conditions occur

Ijarah contract modifications

After the commencement date, the Bank accounts for Ijarah contract modifications as follows:

- Change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or
- Change in future Ijarah rentals only: Recalculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of-use asset.

An Ijarah modification is considered as a new Ijarah component to be accounted for as a separate Ijarah for the lessee, if the modification both additionally transfers the right to use of an identifiable underlying asset and the Ijarah rentals are increased corresponding to the additional right-of-use asset.

Bank Alkhair B.S.C. (c)

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

Standards, amendments and interpretations effective and adopted in 2021 (continued)

Ijarah contract modifications (continued)

For modifications not meeting any of the conditions stated above, the Bank considers the Ijarah as a modified Ijarah as of the effective date and recognises a new Ijarah transaction. The Bank recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de-recognise the existing Ijarah transaction and balances.

Expenses relating to underlying asset

Operational expenses relating to the underlying asset, including any expenses contractually agreed to be borne by the Bank, are recognised by the Bank in income statement in the period incurred. Major repair and maintenance, takaful, and other expenses incidental to ownership of underlying assets (if incurred by lessee as agent) are recorded as receivable from lessor.

Recognition exemptions and simplified accounting for the lessee

The Group has elected not to apply the requirements of Ijarah recognition and measurement of recognizing right-of-use asset and net Ijarah liability for the following:

- Short-term Ijarah; and
- Ijarah for which The underlying asset is of low value.

Short-term Ijarah exemption is applied on a whole class of underlying assets which have similar characteristics and operational utility. However, low-value Ijarah exemption is applied on an individual asset! Ijarah transaction, and not on group/ combination basis.

(b) Impact on adoption of FAS 32

The management of the Bank has decided to apply FAS 32 using the modified retrospective approach (i.e. the impact of all the Ijarah contracts outstanding as at 31 December 2020 are reflected in the balances as of 1 January 2021) and therefore comparative information has not been restated. The impact of adoption of FAS 32 as at 1 January 2021 has resulted in an increase in right-of-use asset and an increase in net Ijarah liability by USD 146 thousand. The lease contracts comprise of the premises of the building and car park.

	Total Assets US\$ '000	Total liabilities US\$ '000
Closing balance (31 December 2020)	391,969	276,293
<i>Impact on adoption:</i>		
Right-of-use asset	146	-
Net Ijarah liability	-	146
Opening balance under FAS 32 on date of initial application of 1 January 2021	392,115	276,439

Standards, amendments and interpretations issued and effective in 2021 but not relevant

The following new amendments to existing standard and interpretation to published standard is mandatory for accounting period beginning on or after 1 January 2021 or subsequent periods, but is not relevant to the Group's operations:

Standard or interpretation	Title	Effective for annual periods beginning on or after
FAS 31	Investment agency (Al-Wakala Bi Al-Istithmar)	1-Jan-21
FAS 33	Investments in Sukuk, shares and similar instruments'	1-Jan-21
FAS 34	Financial reporting for sukuk-holders	1-Jan-21
FAS 35	Risk reserves	1-Jan-21
FAS 38	Wa'ad, khiyar and tahawwut	1-Jan-22

Early adoption of amendments or standards in 2021

The Group did not early-adopt any new or amended standards in 2021. There would have been no change in the operational results of the Group for the period ended 30 June 2021 had the Group early adopted any of the above standards applicable to the Group.

Bank Alkhair B.S.C. (c)**SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

For the quarter and six months period ended 30 June 2021 (Reviewed)

4 SEASONALITY

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

5 CASH AND BALANCES WITH BANKS

	30 June 2021 US\$ '000 (Reviewed)	31 December 2020 US\$ '000 (Audited)
Cash in hand	3	3
Balances with banks	5,735	9,295
	<u>5,738</u>	<u>9,298</u>

6 FINANCING RECEIVABLES

	30 June 2021 US\$ '000 (Reviewed)	31 December 2020 US\$ '000 (Audited)
Murabaha receivables	-	-
Add: Reversal of impairment allowance	-	782
	<u>-</u>	<u>782</u>

Financing receivables comprised due from customers under murabaha financing contract and were fully provided for in the prior years. However, in the year ended 31 December 2020, the impairment allowance had reversed. The funds have been received in the current period.

7 INVESTMENTS

	30 June 2021 US\$ '000 (Reviewed)	31 December 2020 US\$ '000 (Audited)
Equity type instruments		
At fair value through statement of income		
Equity securities		
- Unquoted	42,768	42,768
Total equity securities	<u>42,768</u>	<u>42,768</u>
Mutual funds		
- Unquoted	20,828	20,828
Total mutual funds	<u>20,828</u>	<u>20,828</u>
Total fair value through statement of income	<u>63,596</u>	<u>63,596</u>

Bank Alkhair B.S.C. (c)

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

8 INVESTMENT IN ASSOCIATES

	30 June 2021 US\$ '000 (Reviewed)	31 December 2020 US\$ '000 (Audited)
BFC Group Holdings Ltd.	113,786	113,666
T'azur Company B.S.C. (c)	4,340	7,789
Independent Logistics and Warehousing	5,373	5,523
	123,499	126,978

8 INVESTMENT IN ASSOCIATES (continued)

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\$ 25.145 million at June 30 2021 (31 December 2020: US\$ 38.185 million) and the Group's share of the commitment is US\$ 6.503 million (31 December 2020: US\$ 9.784 million).

9 INVESTMENTS IN REAL ESTATE

	30 June 2021 US\$ '000 (Reviewed)	31 December 2020 US\$ '000 (Audited)
Land and building – Jordan	177,069	177,059
	177,069	177,059

10 OTHER ASSETS

	30 June 2021 US\$ '000 (Reviewed)	31 December 2020 US\$ '000 (Audited)
Rental income receivable	11,187	8,521
Accounts receivable	1,992	1,986
Prepayments and advances	166	135
Fees and expenses recoverable	-	3,403
Right of Use Asset (note 10.1)	118	-
Others	193	193
	13,656	14,238
Less: Provision for impairment	(1,898)	(1,898)
	11,758	12,340

Note 10.1 RIGHT-OF-USE ASSET

	30 June 2021 US\$ '000 (Reviewed)
Recognition of right-of-use assets on initial application of FAS 32	146
Amortisation charge for the period	(28)
Balance as at 30 June	118

Bank Alkhair B.S.C. (c)

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

11 DUE TO FINANCIAL INSTITUTIONS AND CUSTOMERS

	30 June 2021 US\$ '000 (Reviewed)	31 December 2020 US\$ '000 (Audited)
Due to customers	232,430	231,552
Bank financing	31,395	33,044
	263,825	264,596

Due to customers included deposits on wakala basis with maturities ranging from 2 to 6 months from a corporate customers carried an average profit rate of 7% per annum and is secured against the Bank's assets.

12 OTHER LIABILITIES

	30 June 2021 US\$ '000 (Reviewed)	31 December 2020 US\$ '000 (Audited)
Advance rental income	7,666	7,448
Trade and other payables	2,246	2,907
Accruals and other provisions	374	518
Staff-related payables	414	824
Net ijarah liability (note 12.1)	120	-
	10,820	11,697

Note 12.1 NET IJARAH LIABILITY

	30 June 2021 US\$ '000 (Reviewed)
Maturity analysis — Gross Ijarah liability	
Less than one year	60
More than one year	70
Total gross Ijarah liability	130
Maturity analysis — Net Ijarah liability	
Less than one year	53
More than one year	67
Total net Ijarah liability	120

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

13 INCOME FROM NON-BANKING OPERATIONS - NET

	30 June 2021 US\$ '000 (Reviewed)	30 June 2020 US\$ '000 (Reviewed)
Income from Al-Tajamouat for Touristic Projects Co Pie	7,817	5,921
Total Income	<u>7,817</u>	<u>5,921</u>
Expenses of Al-Tajamouat for Touristic Projects Co Pie	4,534	4,242
Total Expenses	<u>4,534</u>	<u>4,242</u>
Income from non-banking operations - net	<u>3,283</u>	<u>1,679</u>

14 COMMITMENTS AND CONTINGENCIES***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. The Bahraini Courts have ruled in favour of the Group in a number of the civil and criminal cases. Currently these rulings are being enforced in Kuwait, where the former Chief Executive Officer resides.

The Group's share of commitments arising from its associates is disclosed in note 8.

15 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>	
	30 June (Reviewed) US\$ '000	30 June (Reviewed) US\$ '000
Short term employee benefits	639	631
Post-employment benefits	62	59
	<u>701</u>	<u>690</u>

Bank Alkhair B.S.C. (c)

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

15 RELATED PARTY TRANSACTIONS (continued)

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

	30 June 2021 (Reviewed)				31 December 2020 (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
Assets								
Investment securities	20,828	42,768	-	-	20,828	42,768	-	-
Investment in associates	123,499	-	-	-	126,978	-	-	-
Other assets	-	-	-	15	-	-	-	3,418
						33,044		
Liabilities								
Due to financial institutions	-	31,395	-	-	-	-	-	-
Due to customers	-	232,430	-	-	-	231,552	-	-
Other liabilities	-	79	414	-	22	283	824	-
	Six months ended 30 June 2021 (Reviewed)				Six months ended 30 June 2020 (Reviewed)			
	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
Income / (expenses)								
Loss from investments	-	-	-	-	(5,639)	-	-	-
Net finance expense	-	(7,979)	-	-	-	(7,608)	-	-
Share of loss from associates	(3,462)	-	-	-	729	-	-	-
Directors' and Shari'ah board remuneration and expenses	-	-	(84)	-	-	(82)	-	-

Bank Alkhair B.S.C. (c)

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

16 SEGMENT INFORMATION

	<i>For the six months ended 30 June 2021 (Reviewed)</i>		
	<i>Investment Banking</i>	<i>AKIIM Sdn Bhd</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Net finance expense	(7,979)	-	(7,979)
Income from non-banking operations	7,817	-	7,817
Share of (loss) / profit from associates, net	(3,462)	-	(3,462)
Other income	132	-	132
Total income	(3,492)	-	(3,492)
Total operating expenses	(5,615)	-	(5,615)
Income from discontinued operations	-	400	400
Loss for the period	(9,107)	400	(8,707)
Investment in associates	123,499	-	123,499
Segment assets	381,693	257	381,950
Segment liabilities	274,645	-	274,645

Bank Alkhair B.S.C. (c)

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

16 SEGMENT INFORMATION (continued)

For the six months ended 30 June 2020 (Reviewed)

	Investment Banking US\$ '000	AKIIM Sdn Bhd US\$ '000	Total US\$ '000
Net finance (expense) / income	(7,608)	-	(7,608)
Income from investments	(5,639)	-	(5,639)
Gain on sale of investment in real estate	850	-	850
Share of profit from investment in associates	729	-	729
Income from non-banking operations	5,921	-	5,921
Other income	69	-	69
Foreign exchange (loss) / gain	(31)	-	(31)
Total income	(5,709)	-	(5,709)
Total operating expenses	(5,489)	-	(5,489)
Profit from discontinued operations	3	(34)	(31)
Net gain on sale of subsidiary	-	-	-
Loss for the period	(11,195)	(34)	(11,229)
Investment in associates	121,649	-	121,649
Segment assets	384,067	228	384,295
Segment liabilities	272,444	-	272,444

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

17 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.

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\$ 9.5 million. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

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)

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

30 June 2021 (Reviewed)	Level 1	Level 2	Level 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Investment securities</i>				
Equity type instruments carried at fair value through statement of income	-	20,828	42,768	63,596
	-	20,828	42,768	63,596

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

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

<i>31 December 2020 (Audited)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Investment securities</i>				
Equity type instruments carried at fair value through statement of income	-	20,828	42,768	63,596
	<u>-</u>	<u>20,828</u>	<u>42,768</u>	<u>63,596</u>
	<u>-</u>	<u>20,828</u>	<u>42,768</u>	<u>63,596</u>

18 SUBSEQUENT EVENTS

There were no significant events subsequent to 30 June 2021 and occurring before the date of signing of the condensed consolidated interim financial information that would have a significant impact on this condensed consolidated interim financial information.

19 NET STABLE FUNDING RATIO

The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items and promotes funding stability.

The NSFR is calculated in accordance with the Liquidity Risk Management Module guidelines issued by CBB and its effective from 31 December 2019. The minimum NSFR ratio as per CBB is 80%.

Bank Alkhair B.S.C. (c)

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

19 NET STABLE FUNDING RATIO (continued)

The NSFR (as a percentage) as at 30 June 2021 is calculated as follows:

Item	Unweighted Values (before applying factors)				US\$ '000
	No Specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total Weighted Value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	148,157	-	-	-	148,157
Other Capital Instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:					
Stable deposits	-	-	-	-	-
Less stable deposits	-	-	-	-	-
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	233,254	1,649	28,921	145,961
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	10,820	-	-	-
Total ASF	148,157	244,074	1,649	28,921	294,118
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	5,738	-	-	-	-
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	-	-	-	-
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	-	-	-	-
- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:					
- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	-	-	-	-	-
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	376,212	-	-	-	376,212
OBS items	-	-	-	-	-
Total RSF	381,950	-	-	-	376,212
NSFR (%)					78%

Bank Alkhair B.S.C. (c)

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the quarter and six months period ended 30 June 2021 (Reviewed)

19 NET STABLE FUNDING RATIO (continued)

The NSFR (as a percentage) as at 31 December 2020 is calculated as follows:

Item	Unweighted Values (before applying factors)				US\$ '000
	No Specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total Weighted Value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	140,297	-	-	-	140,297
Other Capital Instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:					
Stable deposits	-	-	-	-	-
Less stable deposits	-	-	-	-	-
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	232,377	1,649	30,570	147,031
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	11,697	-	-	-
Total ASF	140,297	244,074	1,649	30,570	287,328
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	9,298	-	-	-	-
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	-	-	-	-
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	-	-	-	-
- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:					
- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	-	-	-	-	-
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	381,889	-	-	-	381,889
OBS items	-	-	-	-	-
Total RSF	391,187	-	-	-	381,889
NSFR (%)					75%