

Bank Alkhair B.S.C. (c)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 June 2017 (REVIEWED)



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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 2017, and the related interim consolidated statements of income, cash flows and changes in owners' equity 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, accumulated losses 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 six month period ended 30 June 2016 ("Consolidated Financial Statements") were audited and reviewed respectively by another auditor who expressed an unmodified audit and review opinion dated 26 March 2017 and 18 August 2016 respectively on those Consolidated Financial Statements.

13 August 2017

Manama, Kingdom of Bahrain

A member firm of Ernst & Young Global Limited

Bank AlKhair B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017 (Reviewed)

		<i>Reviewed</i>	<i>Audited</i>
		30 June	31 December
		2017	2016
	<i>Note</i>	US\$ '000	US\$ '000
ASSETS			
Cash and balances with banks		26,581	15,479
Placements with financial institutions		11,482	8,402
Financing receivables	4	10,108	16,075
Investment securities	5	49,107	61,603
Investment in associates	6	125,198	124,994
Investments in real estate	7	224,471	224,448
Other assets	8	34,838	29,226
Equipment		9,476	9,466
TOTAL ASSETS		491,261	489,693
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Due to financial institutions		79,550	87,566
Due to customers		157,308	151,034
Other liabilities	9	58,504	53,017
Total liabilities		295,362	291,617
Owners' equity			
Share capital		207,962	207,962
Statutory reserve		664	664
Fair value reserve		554	151
Foreign currency translation reserve		(5,763)	(6,469)
Accumulated losses		(105,771)	(98,478)
Equity attributable to the shareholders of the Bank		97,646	103,830
Non-controlling interests		98,253	94,246
Total owners' equity		195,899	198,076
TOTAL LIABILITIES AND OWNERS' EQUITY		491,261	489,693

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 information.

Bank AlKhair B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the six month period ended 30 June 2017 (Reviewed)

	Note	Three months ended		Six months ended	
		30 June		30 June	
		2017	2016	2017	2016
		US\$ '000	US\$ '000	US\$ '000	US\$ '000
Income from non-banking operations		7,468	7,778	14,928	15,795
Fees and commission		6,143	2,067	8,407	3,904
(Loss) / income from investment securities	10	(3,122)	12	(2,049)	(1,106)
Rental income		605	605	1,211	1,211
Finance income		281	657	617	1,541
Share of income / (loss) from associates, net		434	(399)	(947)	(157)
Loss on sale of investment property		-	(2,239)	-	(2,239)
Other Income		258	15	258	15
Foreign exchange gain / (loss)		167	(288)	158	(412)
Total income		12,234	8,208	22,583	18,552
Expenses of non-banking operations		4,831	5,394	9,648	10,774
Staff cost		3,347	3,564	6,910	6,972
Finance cost		2,831	2,557	5,573	5,553
Depreciation		381	564	947	943
Legal and professional expenses		553	766	1,013	1,228
Premises cost		248	254	477	537
Business development expenses		80	147	134	262
Other operating expense		1,346	930	2,161	2,258
Total expenses		13,617	14,176	26,863	28,527
Loss for the period before impairment provision		(1,383)	(5,968)	(4,280)	(9,975)
(Charge) / reversal of impairment		-	(3,269)	994	(3,269)
Loss for the period		(1,383)	(9,237)	(3,286)	(13,244)
Attributable to:					
Shareholders of the Bank		(4,152)	(10,391)	(7,293)	(15,390)
Non-controlling interests		2,769	1,154	4,007	2,146
		(1,383)	(9,237)	(3,286)	(13,244)


 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 information.

Bank AlKhair B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the six month period ended 30 June 2017 (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 2017	207,962	664	151	(6,469)	(98,476)	103,830	94,246	198,076
(Loss) / profit 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)	(105,774)	97,646	98,253	195,899
As at 1 January 2016	207,962	664	(249)	(15,290)	(61,383)	131,704	90,185	221,889
(Loss) / profit for the period	-	-	-	-	(15,390)	(15,390)	2,146	(13,244)
Foreign currency translation differences	-	-	-	9	-	9	-	9
Share of changes in reserves of investment in associates	-	-	240	95	-	335	-	335
As at 30 June 2016	207,962	664	(9)	(15,186)	(76,773)	116,658	92,331	208,989

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 six month period ended 30 June 2017 (Reviewed)

	<i>Six months ended</i>	
	<i>30 June</i>	
	2017	2016
	US\$ '000	US\$ '000
OPERATING ACTIVITIES		
Loss for the period	(3,286)	(13,244)
Adjustments for:		
Gain / (loss) on sale of investment securities	(338)	172
Fair value changes in investment securities	2,410	968
Share of loss from associates	947	157
Depreciation and amortisation	947	943
Sukuk amortisation	(15)	(24)
(Reversal) / charge of impairment	(994)	3,269
Loss on disposal of investment property	-	2,239
	(329)	(5,520)
Changes in:		
Financing receivables	6,961	31,195
Other assets	(5,765)	(5,739)
Due to financial institutions	(4,196)	(11,766)
Due to customers	6,274	(25,394)
Other liabilities	5,487	31,560
Net cash generated from operating activities	8,432	14,336
INVESTING ACTIVITIES		
Purchase of equipment, net	(804)	(335)
Proceeds from sale of investment securities	22,310	27,428
Purchase of investment securities	(11,871)	(35,978)
Purchase of investments in real estate	(23)	(641)
Net cash from / (used in) investing activities	9,612	(9,526)
FINANCING ACTIVITY		
Repayment of financing liabilities	(3,880)	(3,880)
Net cash used in financing activity	(3,880)	(3,880)
INCREASE IN CASH AND CASH EQUIVALENTS	14,164	930
Effect of exchange rate changes on cash and cash equivalents	18	(144)
Cash and cash equivalents at the beginning of the period	23,881	26,669
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	38,063	27,455
Cash and cash equivalents comprise:		
Cash and balances with banks	26,581	8,053
Placements with financial institutions	11,482	19,402
	38,063	27,455

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 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 26th floor, West Tower Bahrain Financial Harbour, Building No. 1459, Road No. 4626, Manama Sea Front 346, Kingdom of Bahrain.

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

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

The interim condensed consolidated financial statements were approved by the Board of Directors on 13 August 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 30 June 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 30 June 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".

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017 (Reviewed)

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

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 Group is in process of making necessary arrangements to meet the regulatory requirements.

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.

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 2017</i>	<i>Ownership for 2016</i>	<i>Year of Incorporation/ Acquisition</i>	<i>Country of incorporation</i>
Subsidiaries				
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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017 (Reviewed)

4 FINANCING RECEIVABLES

	<i>Reviewed</i> 30 June 2017 US\$ '000	<i>Audited</i> 31 December 2016 US\$ '000
Gross murabaha receivables	22,682	29,733
Less: Deferred profits	(75)	(165)
Net murabaha receivables	22,607	29,568
Less: Specific impairment allowances	(11,685)	(12,679)
Less: Collective impairment allowances	(814)	(814)
	10,108	16,075

5 INVESTMENT SECURITIES

	<i>Reviewed</i> 30 June 2017 US\$ '000	<i>Audited</i> 31 December 2016 US\$ '000
Equity type instruments		
At fair value through income statement:		
- Unquoted equity securities	12,439	15,840
- Quoted funds	4,471	14,105
- Unquoted funds	29,805	28,822
Total equity type instruments	46,715	58,767
Debt type instruments		
At amortised cost :		
- Sukuk	2,392	2,836
	49,107	61,603

The fair value of the investments carried at amortised cost at 30 June 2017 is US\$ 2,365 thousands (31 December 2016: US\$ 2,809 thousands).

6 INVESTMENT IN ASSOCIATES

	<i>Reviewed</i> 30 June 2017 US\$ '000	<i>Audited</i> 31 December 2016 US\$ '000
BFC Group Holdings Ltd.	115,492	115,606
T'azur Company B.S.C. (c)	9,706	9,388
	125,198	124,994

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017 (Reviewed)

7 INVESTMENTS IN REAL ESTATE

	<i>Reviewed</i> 30 June 2017 <i>US\$ '000</i>	<i>Audited</i> 31 December 2016 <i>US\$ '000</i>
Land and building – Jordan	185,950	185,927
Land and building – Kingdom of Saudi Arabia	38,521	38,521
	224,471	224,448

8 OTHER ASSETS

	<i>Reviewed</i> 30 June 2017 <i>US\$ '000</i>	<i>Audited</i> 31 December 2016 <i>US\$ '000</i>
Rental income receivable	14,681	10,264
Accounts receivable	7,731	6,509
Prepayments and advances	6,814	7,061
Fees and expenses recoverable	3,478	3,240
Intangible assets	30	11
Others	4,373	4,410
	37,107	31,495
Less: Provision for impairment	(2,269)	(2,269)
	34,838	29,226

9 OTHER LIABILITIES

	<i>Reviewed</i> 30 June 2017 <i>US\$ '000</i>	<i>Audited</i> 31 December 2016 <i>US\$ '000</i>
Advance received for partial sale of a subsidiary*	20,143	20,143
Advance rental income	13,737	9,310
Trade and other payables	11,543	10,552
Deal-related payables	4,725	4,725
Accruals and other provisions	4,536	4,828
Staff-related payables	3,276	2,840
Restructuring provision	419	419
Provision for legal and professional expenses	125	200
	58,504	53,017

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017 (Reviewed)

10 (LOSS) / INCOME FROM INVESTMENT SECURITIES

	<i>Reviewed</i>	
	30 June 2017	30 June 2016
Fair value loss on investment securities	(2,410)	(968)
Gain / (loss) on sale of investment securities	333	(113)
Sukuk income		
- Sukuk profit	23	29
- Gain / (loss) on sale of sukuk	5	(59)
- Dividend income	-	5
	(2,049)	(1,106)

11 COMMITMENTS AND CONTINGENCIES

	<i>Reviewed</i>	<i>Audited</i>
	30 June 2017	31 December 2016
	US\$ '000	US\$ '000
Commitment to invest	10,030	10,030
Guarantees	5,131	5,311
Lease commitments	242	566
	15,403	15,907

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017 (Reviewed)

12 RELATED PARTY TRANSACTIONS (continued)**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 2017 US\$ '000	30 June 2016 US\$ '000
Short term employee benefits	3,460	4,651
Post-employment benefits	209	256
	3,669	4,907

Bank Aikhair B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 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:

	30 June 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
Assets								
Cash and balances with banks	-	-	-	-	-	-	-	-
Financing receivables	37,753	-	-	986	-	-	-	986
Investment securities	125,198	-	-	9,245	40,171	-	-	13,013
Investment in associates	1,508	-	-	1,245	124,994	-	-	-
Other assets	-	-	567	-	1,580	-	639	1,179
Liabilities								
Due to financial institutions	9,002	-	-	-	14,708	-	-	-
Due to customers	918	150,697	-	-	918	131,690	-	-
Other liabilities	-	931	2,269	35	-	599	2,109	28
	Six months ended 30 June 2017 (Reviewed)				Six months ended 30 June 2016 (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) / income from investment securities	(2,418)	-	-	115	(1,327)	-	-	343
Fees and commission	1,130	-	-	52	1,304	-	-	52
Net finance (expense) / income	(176)	(5,006)	-	(1)	(262)	(1,291)	-	57
Share of loss from associates	(947)	-	-	-	(157)	-	-	-
Directors' and Shari'ah board remuneration and expenses	-	(342)	-	(45)	-	(194)	-	(46)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017 (Reviewed)

13 SEGMENT INFORMATION

For the six months ended 30 June 2017 (Reviewed)

	<i>Investment Banking & 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	(5,340)	384	-		(4,956)
(Loss) / income from investment securities	(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 and other income	250		1,219		1,469
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)
Reversal of impairment	-	994	-	-	994
(Loss) / income for the period	(7,450)	639	3,525	-	(3,286)
Investment in associates	125,198	-	-	-	125,198
Segment assets	394,938	38,161	74,241	(16,079)	491,261
Segment liabilities	287,140	17,182	7,119	(16,079)	295,362

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017 (Reviewed)

13 SEGMENT INFORMATION (continued)*For the six months ended 30 June 2016 (Reviewed)*

	<i>Investment Banking & Alkhair Capital Merkul 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	(4,681)	669	-	-	(4,012)
(Loss) / income from investment	(1,262)	11	145	-	(1,106)
Fees and commission	1,372	173	2,359	-	3,904
Share of loss from investment in associates	(157)	-	-	-	(157)
Income from non-banking operations	15,795	-	-	-	15,795
Loss from sale of investment property	(2,239)	-	-	-	(2,239)
Rental income	-	-	1,211	-	1,211
Other (loss) / income	(420)	23	-	-	(397)
Inter-segment (loss) / income	(137)	137	-	-	-
Total income	8,271	1,013	3,715	-	12,999
Total operating expenses	(17,834)	(1,248)	(3,892)	-	(22,974)
Impairment allowance	(1,317)	(1,952)	-	-	(3,269)
Loss for the period	(10,880)	(2,187)	(177)	-	(13,244)
As at 31 December 2016					
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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2017 (Reviewed)

14 FINANCIAL INSTRUMENTS

Fair values

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. 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.

The fair values of the Group's financial assets and financial liabilities are not significantly different from their carrying values except for investment securities whose fair value is US\$ 49,078 thousand against the carrying value of US\$ 49,107 thousand (31 December 2016: fair value of US\$ 61,576 thousand against the carrying value US\$ 61,603 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\$ 6.3 million (31 December 2016: US\$ 7.5 million). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

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).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 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:

30 June 2017 (Reviewed)	Level 1	Level 2	Level 3	Total
<i>Investment securities</i>				
Equity type instruments carried at fair value through statement of income	4,471	37,754	4,490	46,715
	4,471	37,754	4,490	46,715
<hr/>				
31 December 2016 (Audited)	Level 1	Level 2	Level 3	Total
<i>Investment securities</i>				
Equity type instruments carried at fair value through statement of income	14,105	40,172	4,490	58,767
	14,105	40,172	4,490	58,767
	<hr/>	<hr/>	<hr/>	<hr/>