

Bank Alkhair B.S.C. (c)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

31 March 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 31 March 2018, and the related interim consolidated statements of income, cash flows and changes in owners' equity for the three month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

Emphasis of matter

Without qualifying our conclusion, we draw attention to note 2 to the interim condensed consolidated financial statements which discusses certain matters relating to the Group's liquidity position and regulatory capital adequacy requirements, implications of these matters for the basis of preparation of the interim condensed consolidated financial statements and management's action plans to deal with these matters. Our opinion is not modified in respect of these matters.



14 June 2018
Manama, Kingdom of Bahrain

Bank Alkhair B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018 (Reviewed)

		<i>Reviewed</i> 31 March 2018 US\$ '000	<i>Audited</i> 31 December 2017 US\$ '000
ASSETS			
Cash and balances with banks		8,864	8,172
Placements with financial institutions		6,806	6,588
Financing receivables	5	4,330	8,956
Investments	6	60,082	70,644
Investment in associates	7	125,502	125,035
Investments in real estate	8	224,882	224,873
Other assets	9	39,236	28,483
Equipment		9,245	9,491
TOTAL ASSETS		478,947	482,242
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Due to financial institutions		67,847	71,342
Due to customers		169,112	167,372
Other liabilities	10	55,919	53,570
Total liabilities		292,878	292,284
Owners' equity			
Share capital		207,962	207,962
Statutory reserve		664	664
Fair value reserve		487	487
Foreign currency translation reserve		(4,637)	(5,179)
Accumulated losses		(121,361)	(115,687)
Equity attributable to the shareholders of the Bank		83,115	88,247
Non-controlling interests		102,954	101,711
Total owners' equity		186,069	189,958
TOTAL LIABILITIES AND OWNERS' EQUITY		478,947	482,242



Yousef Abdullah Al-Shelash
Chairman



Majid Al Qasem
Vice Chairman

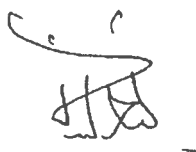
The notes 1 to 15 form an integral part of these condensed consolidated interim financial information.

Bank Alkhair B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three months period ended 31 March 2018 (Reviewed)

	Note	Three months ended	
		31 March	
		2018	2017
		US\$ '000	US\$ '000
Income from non-banking operations		8,047	7,460
Fees and commission		2,544	2,264
Net income from investments	11	265	1,073
Rental income		606	606
Finance income		251	336
Share of loss from associates, net		(85)	(1,381)
Other income		156	-
Foreign exchange gain / (loss)		64	(9)
Total income		11,848	10,349
Expenses of non-banking operations		5,215	4,817
Staff cost		3,904	3,563
Finance cost		2,986	2,742
Legal and professional expenses		2,316	460
Depreciation		404	566
Premises cost		267	229
Business development expenses		137	54
Other operating expense		1,116	815
Total expenses		16,345	13,246
Loss for the period before impairment provision		(4,497)	(2,897)
Reversal of impairment		66	994
Loss for the period		(4,431)	(1,903)
Attributable to:			
Shareholders of the Bank		(5,674)	(3,141)
Non-controlling interests		1,243	1,238
		(4,431)	(1,903)



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 three months period ended 31 March 2018 (Reviewed)

	Equity attributable to the shareholders of the Bank							
	Share capital US\$ '000	Statutory reserve US\$ '000	Investments fair value reserve US\$ '000	Foreign currency translation reserve US\$ '000	Accumulated losses US\$ '000	Total US\$ '000	Non- controlling interests US\$ '000	Total equity US\$ '000
As at 1 January 2018	207,962	664	487	(5,179)	(115,687)	88,247	101,711	189,958
(Loss) / income for the period	-	-	-	-	(5,674)	(5,674)	1,243	(4,431)
Foreign currency translation differences	-	-	-	18	-	18	-	18
Share of changes in reserves of investment in associates	-	-	-	524	-	524	-	524
As at 31 March 2018	207,962	664	487	(4,637)	(121,361)	83,115	102,954	186,069
As at 1 January 2017	207,962	664	151	(6,469)	(98,478)	103,830	94,246	198,076
(Loss) / income for the period	-	-	-	-	(3,141)	(3,141)	1,238	(1,903)
Foreign currency translation differences	-	-	-	(1)	-	(1)	-	(1)
Share of changes in reserves of investment in associates	-	-	403	227	-	630	-	630
As at 31 March 2017	207,962	664	554	(6,243)	(101,619)	101,318	95,484	196,802

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 three months period ended 31 March 2018 (Reviewed)

	<i>Three months ended</i>	
	<i>31 March</i>	
	2018	2017
	US\$ '000	US\$ '000
OPERATING ACTIVITIES		
Loss for the period	(4,431)	(1,903)
Adjustments for:		
Gain on sale of investments	(1,189)	(100)
Fair value changes in investments	931	(959)
Share of loss from associates	85	1,381
Depreciation and amortisation	404	566
Sukuk amortisation	(136)	(5)
Impairment allowance	(66)	(994)
	(4,402)	(2,014)
Changes in:		
Financing receivables	4,692	5,385
Other assets	(10,813)	(4,328)
Due to financial institutions	(1,915)	777
Due to customers	1,740	2,581
Other liabilities	2,349	5,346
Net cash generated (used in) / from operating activities	(8,349)	7,747
INVESTING ACTIVITIES		
Purchase of equipment, net	(98)	(233)
Proceeds from sale of investments	14,249	8,423
Purchase of investments	(3,293)	(10,690)
Purchase of investments in real estate	(9)	-
Net cash from / (used in) used in investing activities	10,849	(2,500)
FINANCING ACTIVITY		
Repayment of financing liabilities	(1,608)	(1,940)
Net cash used in financing activity	(1,608)	(1,940)
NET INCREASE IN CASH AND CASH EQUIVALENTS	892	3,307
Effect of exchange rate changes on cash and cash equivalents	18	(1)
Cash and cash equivalents at the beginning of the period	14,760	23,881
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	15,670	27,187
Cash and cash equivalents comprise:		
Cash and balances with banks	8,864	16,153
Placements with financial institutions	6,806	11,034
	15,670	27,187

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 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 26th 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 July 2018 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.

Going concern

As at 31 March 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 31 March 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. The Group is in the process of making necessary arrangements to meet the regulatory requirements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2018 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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:

Subsidiaries	Ownership for 2018	Ownership for 2017	Year of Incorporation/ Acquisition	Country of incorporation
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 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 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 the letter dated 18 March 2018. The Group is in the process of assessing the impact of adoption of FAS 30 on its interim condensed consolidated financial statements.

4 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 31 March 2018 (Reviewed)

5 FINANCING RECEIVABLES

	<i>Reviewed</i> 31 March 2018 <i>US\$ '000</i>	<i>Audited</i> 31 December 2017 <i>US\$ '000</i>
Gross murabaha receivables	13,416	18,216
Less: Deferred profits	(1)	(107)
Net murabaha receivables	13,415	18,109
Less: Specific impairment allowances	(9,069)	(9,070)
Less: Collective impairment allowances	(16)	(83)
	4,330	8,956

6 INVESTMENTS

	<i>Reviewed</i> 31 March 2018 <i>US\$ '000</i>	<i>Audited</i> 31 December 2017 <i>US\$ '000</i>
Equity type instruments		
At fair value through statement of income		
Equity securities		
- Quoted	7,265	18,477
- Unquoted	9,571	9,573
Total equity securities	16,836	28,050
Mutual funds		
- Quoted	5,445	4,158
- Unquoted	29,157	29,121
Total mutual funds	34,602	33,279
Total fair value through statement of income	51,438	61,329
Debt type instruments		
At amortised cost :		
- Sukuk	8,644	9,315
	60,082	70,644

The fair value of the investments carried at amortised cost as at 31 March 2018 is US\$ 8,570 thousands (31 December 2017: US\$ 9,023 thousands).

7 INVESTMENT IN ASSOCIATES

	<i>Reviewed</i> 31 March 2018 <i>US\$ '000</i>	<i>Audited</i> 31 December 2017 <i>US\$ '000</i>
BFC Group Holdings Ltd.	116,763	116,296
T'azur Company B.S.C. (c)	8,739	8,739
	125,502	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\$ 41.3 million. The Group's share of the commitment is US\$ 10.7 million.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2018 (Reviewed)

8 INVESTMENTS IN REAL ESTATE

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

9 OTHER ASSETS

	<i>Reviewed</i> 31 March 2018 US\$ '000	<i>Audited</i> 31 December 2017 US\$ '000
Rental income receivable	13,025	10,529
Receivable from sale of investments	9,358	72
Accounts receivable	6,402	7,467
Prepayments and advances	6,145	6,572
Fees and expenses recoverable	2,721	2,320
Receivable from employees	1,446	1,449
Intangible assets	6	14
Others	2,402	2,329
	41,505	30,752
Less: Provision for impairment	(2,269)	(2,269)
	39,236	28,483

10 OTHER LIABILITIES

	<i>Reviewed</i> 31 March 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	13,141	10,217
Trade and other payables	12,027	11,530
Deal-related payables	4,725	4,725
Accruals and other provisions	2,344	3,394
Staff-related payables	2,996	3,056
Restructuring provision	419	419
Provision for legal and professional expenses	124	86
	55,919	53,570

* 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2018 (Reviewed)

11 NET INCOME FROM INVESTMENTS

	<i>Reviewed</i>	
	31 March 2017 US\$ '000	31 March 2016 US\$ '000
Fair value (loss) / gain on investment	(931)	959
Gain on sale of investment securities	1,208	97
Sukuk income		
- Sukuk profit	7	14
- (Loss) / gain on sale of sukuks	(19)	3
	265	1,073

12 COMMITMENTS AND CONTINGENCIES

	<i>Reviewed</i>	<i>Audited</i>
	31 March 2018 US\$ '000	31 December 2017 US\$ '000
Commitment to invest	10,030	10,030
Guarantees	5,098	5,103
Lease commitments	-	81
	15,128	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 period additional US\$ 2 million was expensed in the interim consolidated statement of income based on the lawyer's confirmation and the balance is included under "prepayment and advances" and is expected to be refunded to the Group.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS

As at 31 March 2018 (Reviewed)

13 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>	
	31 March	31 March
	2018	2017
	US\$ '000	US\$ '000
Short term employee benefits	2,080	1,885
Post-employment benefits	128	222
	2,208	2,107

Bank Alkhair B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 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:

	31 March 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
Assets								
Financing receivables	-	-	-	986	-	-	-	986
Investment securities	34,243	7,644	-	8,555	34,207	6,805	-	8,603
Investment in associates	125,502	-	-	-	125,035	-	-	-
Other assets	1,189	174	-	546	815	163	-	480
Liabilities								
Due to financial institutions	9,266	-	-	-	9,133	-	-	-
Due to customers	918	162,531	-	-	918	158,655	-	-
Other liabilities	273	715	1,969	-	75	882	2,062	140
	Three months ended 31 March 2018 (Reviewed)		Three months ended 31 March 2017 (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)								
Income / (loss) from investments	36	(18)	-	32	957	-	-	105
Fees and commission	274	-	-	1,191	565	-	-	26
Net finance expense	(80)	(2,794)	-	-	(98)	(2,419)	-	(1)
Share of loss from associates	(85)	-	-	-	(1,381)	-	-	-
Directors' and Shari'ah board remuneration and expenses	-	(106)	-	(16)	-	(171)	-	(25)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2018 (Reviewed)

14 SEGMENT INFORMATION

For the three months ended 31 March 2018 (Reviewed)

	<i>Investment Banking & Alkhair Capital Menkul Degerler A.S US\$ '000</i>	<i>Alkhair International Islamic Bank Malaysia Berhad US\$ '000</i>	<i>Alkhair Capital Saudi Arabia US\$ '000</i>	<i>Inter- company US\$ '000</i>	<i>Total US\$ '000</i>
External revenue					
Net finance (expense) / income	(2,933)	198	-	-	(2,735)
Income from investments	21	6	238	-	265
Fees and commission	299	2	2,243	-	2,544
Share of loss from investment in associates	(85)	-	-	-	(85)
Income from non-banking operations	8,047	-	-	-	8,047
Rental income	-	-	606	-	606
Other income	27	-	129	-	156
Foreign exchange gain	62	2	-	-	64
Inter-segment income	(56)	56	-	-	-
Total income	5,382	264	3,216	-	8,862
Total operating expenses	(9,422)	(692)	(3,245)	-	(13,359)
Reversal of impairment	-	66	-	-	66
Loss for the period	(4,040)	(362)	(29)	-	(4,431)
Investment in associates	125,502	-	-	-	125,502
Segment assets	385,457	26,056	79,662	(12,228)	478,947
Segment liabilities	289,288	5,753	10,065	(12,228)	292,878

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2018 (Reviewed)

14 SEGMENT INFORMATION (continued)

For the three months ended 31 March 2017 (Reviewed)

	<i>Investment Banking & Alkhair Capital Menkul Degerler A.S US\$ '000</i>	<i>Alkhair International Islamic Bank Malaysia Berhad US\$ '000</i>	<i>Alkhair Capital Saudi Arabia US\$ '000</i>	<i>Inter- company US\$ '000</i>	<i>Total US\$ '000</i>
External revenue					
Net finance (expense) / income	(2,598)	192	-	-	(2,406)
Income from investments	1,056	12	5	-	1,073
Fees and commission	598	6	1,660	-	2,264
Share of loss from investment in associates	(1,381)	-	-	-	(1,381)
Income from non-banking operations	7,460	-	-	-	7,460
Rental income	-	-	606	-	606
Foreign exchange (loss) / gain	(10)	1	-	-	(9)
Inter-segment income	(63)	63	-	-	-
Total income	5,062	274	2,271	-	7,607
Total operating expenses	(7,836)	(516)	(2,152)	-	(10,504)
Reversal of impairment	-	994	-	-	994
Loss for the period	(2,774)	752	119	-	(1,903)
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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2018 (Reviewed)

15 FINANCIAL INSTRUMENTS

Fair values

The Group's financial instruments are accounted for under the historical cost method with the exception of investment securities. By contrast, the fair value represents the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices and the use of valuation techniques such as discounted cash flow analysis.

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\$ 60,007 thousand against the carrying value of US\$ 60,082 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\$ 5.8 million. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

Financing receivables

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

Other financial instruments

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

Fair value hierarchy

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2018 (Reviewed)

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

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

31 March 2018 (Reviewed)	Level 1	Level 2	Level 3	Total
<i>Investment securities</i>				
Equity type instruments carried at fair value through statement of income	12,710	34,243	4,485	51,438
	12,710	34,243	4,485	51,438
<hr/>				
31 December 2017 (Audited)	Level 1	Level 2	Level 3	Total
<i>Investment securities</i>				
Equity type instruments carried at fair value through statement of income	22,635	34,207	4,487	61,329
	22,635	34,207	4,487	61,329
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The following table analyses the movement in Level 3 financial assets during the period:

	31 March 2018 (Reviewed) US\$ '000	31 March 2017 (Reviewed) US\$ '000
At 1 January	4,487	4,490
Loss recognised in income statement	(2)	(1)
	4,485	4,489
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