ITHMAAR BANK B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

ITHMAAR BANK B.S.C. (C)
Consolidated financial statements for the year ended 31 December 2018

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In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. (c) and subsidiaries for the Financial Year from 1 January 2018 until 31 December 2018, corresponding to the Period from 14 Rabi Al-Akher 1439 H until 24 Rabi Al-Akher 1440 H.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Bank B.S.C. (c) and subsidiaries (the Bank) performed the following during the financial year ended at 31 December 2018:

1. Issued fatwas and Sharia resolutions related to products and activities of the Bank and followed them up through Sharia Coordination and Implementation Department while also guiding the different departments towards Sharia-compliant transactions.

2. Studied different mechanisms of financing, investing and different mudaraba investments and prepare its documents with the concerned departments that develop and present products.

3. Examined the books, records and transactions through the Sharia Coordination and Implementation Department and auditing some of their samples through Internal Sharia Audit Department as per established sharia auditing standards.

4. Examined sources of income and expenditures through reviewing the consolidated statement of financial position, income statement and the Bank's overall banking activities.

5. Examined and approved periodic Sharia reports which are published by the Sharia Coordination and Implementation Department and Internal Sharia Audit Department.

We have reviewed the principles and contracts relating to transactions and products launched by the Bank during the year ended at 31 December 2018. We have also conducted the required inspection to provide our opinion on whether the Bank had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us.

The management is responsible for ensuring that the Bank operates in accordance with the provisions and principles of Islamic Sharia. Our responsibility is to express an independent opinion based on our observation of the Bank's operations, and prepare a report.

In view of the above the Sharia Supervisory Board hereby resolves as follows:

i: With regard to the Bank business in general:

a. Ithmaar's overall operations and activities were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board approved standard contracts.

b. Gains made from sources prohibited by Sharia were identified and transferred to the Charity Fund.

c. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Shareholders are responsible for payment of Zakat on their shares.

ITHMAAR BANK B.S.C. (c)
In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. (c) and subsidiaries for the Financial Year from 1 January 2018 until 31 December 2018, corresponding to the Period from 14 Rabi Al-Akher 1439 H until 24 Rabi Al-Akher 1440 H.

ii: What has been transferred to the Bank after reorganization:

The Sharia Supervisory Board has reviewed the structure of the Bank, its projects and its subsidiaries following the establishment of the Holding Company (Ithmaar) and the setting up of Ithmaar Bank B.S.C. (c) as subsidiary (for commercial operations in Bahrain and Pakistan) and to ensure compliance with its Fatwas and directions, the Sharia Supervisory Board has reviewed the income statement of Ithmaar for the year ended 31 December 2018 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities, according to Note 38, the Sharia Supervisory Board guides the shareholders of Bank to dispose of impermissible earnings which has been calculated, in the current years financial statements, at 7.68 (31 December 2017: 7.73) Bahraini fils per share.

We pray to Almighty Allah to grant success to Ithmaar and whom are responsible and grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

His Eminence Shaikh Abdulla Al Manee'a
Chairman

His Eminence Shaikh Dr. Nizam Yacooby
Member

His Eminence Shaikh Mohsin Al-Asfoor
Member

His Eminence Shaikh Dr. Osama Bahar
Member

Manama
Kingdom of Bahrain
10 February 2019

ITHMAAR BANK B.S.C. (C)
Directors' Report for the year ended 31 December 2018

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C. (C) ("the Bank") for the year ended 31 December 2018, together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the year ended.

Principal activities

Ithmaar Bank B.S.C. (C) (the "Bank") was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry & Commerce under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (the "CBB") on 14 August 2016. As part of reorganization of erstwhile Ithmaar Bank B.S.C (now Ithmaar Holding B.S.C.), the identified assets & liabilities were transferred to the Bank on 2 January 2017.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, investment banking and private banking.

Consolidated financial position and results

The consolidated financial position of the Group as at 31 December 2018, together with the consolidated results for the year ended is set out in the accompanying consolidated financial statements.

The Group has reported a net profit of BD1.4 million for the year ended 31 December 2018 attributable to the equity shareholders of the Group, as compared to a net profit of BD1.6 million for 2017. Total assets at 31 December 2018 amounted to BD3,128 million (31 December 2017: BD3,242 million).

The consolidated Capital adequacy ratio of the Bank under Basel III as at 31 December 2018 was 13.43% (31 December 2017: 13.92%) as compared to a minimum regulatory requirement of 12.5%. The Group's risk weighted exposures and eligible capital are set out in note 36 of the accompanying consolidated financial statements.

Directors

The following served as Directors of the Bank during the year ended 31 December 2018:

HRH Prince Amr Mohamed Al Faisal (Chairman)
Mr. Abdel Hamid Abo Moussa
Sheikh Zamil Abdullah Al-Zamil
Mr. Mohammed Bucheerei
Mr. Abdulellah Ebrahim Al-Qassimi
Mr. Omar Abdi Ali
Dr. Amani Khaled Bouresli
Mr. Abdulshakoor Hussain Tahlak
Mr. Mohammed Elkhereiji
Ms. Elham Ebrahim Abdulla Hasan (Appointed with effect from 28 March 2018)
Mr. Nabeel Khalid Kanoo (Resigned with effect from 7 January 2019)

Directors' sitting fees

Directors' sitting fees for 2018 amounted to BD125,541 (2017: BD127,803).

Dividend

No dividend has been proposed for 2018 (2017: Nil).

Auditors

The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of the Bank for the year ending 31 December 2019.

By order of the Board of Directors

HRH Prince Amr Mohamed Al Faisal
Chairman
13 February 2019

Ithmaar Bank B.S.C. (c)
Independent Auditor's Report to the Shareholders of Ithmaar Bank B.S.C. (c)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Ithmaar Bank B.S.C. (c) (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2018 and the related consolidated income statement, changes in owners' equity, cash flows, and changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Sharia rules and principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Auditing Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018 and the results of its operations, its cash flows, changes in owners' equity and changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

Report on regulatory requirements and other matters

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

(i) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

(ii) the financial information contained in the directors' report is consistent with the consolidated financial statements;

(iii) during the period ended 31 December 2018, the Bank has not complied with the requirements of the CBB's Rule Book Volume 2 – Licensing Requirements module – LR-2.5.2A which states that an Islamic retail bank licensee must maintain a minimum total shareholders' equity of BD 100 million.

Except for the matter decsribed above, we are not aware of any other violation of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2) and CBB directives, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association, having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position.

(iv) satisfactory explanations and information have been provided to us by the management in response to all our requests.

The Bank has also complied with the Islamic Sharia rules and principles as determined by the Sharia Supervisory Board of the Group.

Pricewaterhousecoopers

Partner's Registration No: 216
13 February 2019
Manama, Kingdom of Bahrain

ITHMAAR BANK B.S.C. (C)
Consolidated statement of financial position
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	At 31 December 2018 (Audited)	At 31 December 2017 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	217,138	263,819
Commodity and other placements with banks, financial and other institutions	4	86,055	98,545
Murabaha and other financings	5	1,683,865	1,809,684
Musharaka financing		186,851	138,409
Sukuk and investment securities	6	576,171	617,156
Restricted investment accounts	7	-	27,183
Assets acquired for leasing	8	154,859	131,106
Other assets	9	79,085	69,150
Investment in real estate		3,359	3,994
Development Properties	10	79,296	-
Fixed assets	11	17,802	22,252
Intangible assets	12	43,314	61,121
Total assets		**3,127,795**	**3,242,419**
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts	13	561,506	676,888
Due to banks, financial and other institutions	14	578,842	434,635
Due to investors	15	639,005	719,303
Other liabilities	16	198,797	147,551
Total liabilities		**1,978,150**	**1,978,377**
Equity of unrestricted investment accountholders	17	994,780	1,064,898
Minority interest	18	69,480	44,541
Total liabilities, equity of unrestricted investment accountholders and minority interest		**3,042,410**	**3,087,816**
Share capital	19	100,000	100,000
Reserves		14,178	31,902
(Accumulated losses) / Retained earnings		(28,793)	22,701
Total owners' equity		**85,385**	**154,603**
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		**3,127,795**	**3,242,419**

These consolidated financial statements were approved by the Board of Directors on 13 February 2019 and signed on their behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Dr. Amani Khaled Bouresli
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 41 on pages 16 to 61 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)
Consolidated income statement
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2018 (Audited)	Period ended 31 December 2017 (Audited)
INCOME			
Income from unrestricted investment accounts		67,949	62,190
Less: return to unrestricted investment accounts and impairment provisions		(40,959)	(33,214)
Group's share of income from unrestricted investment accounts as a Mudarib		26,990	28,976
Income from murabaha and other financings	22	70,328	60,915
Income from other investments	23	34,729	43,912
Other income	24	19,735	17,910
Total income		**151,782**	**151,713**
Less: profit paid to banks, financial and other institutions		(67,967)	(62,514)
Operating income		**83,815**	**89,199**
EXPENSES			
Administrative and general expenses	25	(61,347)	(61,023)
Depreciation and amortization	11,12	(8,768)	(9,145)
Total expenses		**(70,115)**	**(70,168)**
Net income before provision for impairment and overseas taxation		**13,700**	**19,031**
Gain arising on acquisition of a business (net)		19,194	-
Provision for impairment (net)		(8,260)	(3,010)
Net income before overseas taxation		**24,634**	**16,021**
Overseas taxation	27	(10,494)	(9,783)
NET PROFIT FOR THE YEAR/PERIOD		**14,140**	**6,238**
Attributable to:			
Equity holders of the Bank		1,409	1,582
Minority interests	18	12,731	4,656
		14,140	**6,238**
Basic and diluted earnings per share	20	**Fils 1.41**	**Fils 1.58**

These consolidated financial statements were approved by the Board of Directors on 13 February 2019 and signed on their behalf by:

HRH Prince Amr Mohamed Al Faisal Chairman	Dr. Amani Khaled Bouresli Director	Ahmed Abdul Rahim CEO

The notes 1 to 41 on pages 16 to 61 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)
Consolidated statement of changes in owners' equity for the year ended 31 December 2018
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Reserves							
	Share capital	**Statutory reserve**	**Investments fair value reserve**	**Investment in real estate fair value reserve**	**Foreign currency translation**	**Share premium**	**Total reserves**	**Accumulated losses**	**Total owners' equity**
At 1 January 2018 (Audited)	**100,000**	**158**	**3,815**	**890**	**(13,241)**	**40,280**	**31,902**	**22,701**	**154,603**
Impact of FAS 30 (note - 2)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(52,762)	**(52,762)**
Adjusted balance at 1 January 2018	**100,000**	**158**	**3,815**	**890**	**(13,241)**	**40,280**	**31,902**	**(30,061)**	**101,841**
Net income for the year	-		-	-	-		**-**	1,409	**1,409**
Transfer to statutory reserve	-	141	-	-	-	-	**141**	(141)	**-**
Movement in fair value of sukuk and investment securities	-	-	(471)	-	-	-	**(471)**	-	**(471)**
Movement in fair value of investment in real estate	-	-	-	(82)	-	-	**(82)**	-	**(82)**
Foreign currency translation adjustments	-	-	102	-	(17,414)	-	**(17,312)**	-	**(17,312)**
At 31 December 2018 (Audited)	**100,000**	**299**	**3,446**	**808**	**(30,655)**	**40,280**	**14,178**	**(28,793)**	**85,385**

The notes 1 to 41 on pages 16 to 61 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)
Consolidated statement of changes in owners' equity for the period ended 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Reserves							
	Share capital	**Statutory reserve**	**Investments fair value reserve**	**Investment in real estate fair value reserve**	**Foreign currency translation**	**Share premium**	**Total reserves**	**Retained earnings**	**Total owners' equity**
Balances transferred as part of reorganization (2 January 2017)	**100,000**	**-**	**5,428**	**797**	**(8,823)**	**40,280**	**37,682**	**21,277**	**158,959**
Net income for the period	-		-	-	-		**-**	1,582	**1,582**
Transfer to statutory reserve	-	158	-	-	-	-	**158**	(158)	**-**
Movement in fair value of sukuk and investment securities	-	-	(1,609)	-	-	-	**(1,609)**	-	**(1,609)**
Movement in fair value of investment in real estate	-	-	-	93	-	-	**93**	-	**93**
Foreign currency translation adjustments	-	-	(4)	-	(4,418)	-	**(4,422)**	-	**(4,422)**
At 31 December 2017 (Audited)	**100,000**	**158**	**3,815**	**890**	**(13,241)**	**40,280**	**31,902**	**22,701**	**154,603**

The notes 1 to 41 on pages 16 to 61 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)
Consolidated statement of cash flows
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2018 (Audited)	Period ended 31 December 2017 (Audited)
OPERATING ACTIVITIES			
Net income before overseas taxation		24,634	16,021
Adjustments for:			
Depreciation and amortization	11,12	8,768	9,145
Gain arising on acquisition of a business (net)		(19,194)	-
Provision for impairment (net)		8,260	3,010
Income from other investments		(34,729)	(43,912)
(Gain)/loss on sale of fixed assets		94	(205)
Operating income before changes in operating assets and liabilities		(12,167)	(15,941)
(Increase)/decrease in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		(173)	(3,489)
Changes in operating assets and liabilities:			
Murabaha and other financings		(74,565)	(689)
Musharaka financing		(88,632)	(58,323)
Other assets		(18,210)	(1,893)
Customers' current accounts		(21,561)	65,389
Due to banks, financial and other institutions		201,659	15,094
Due to investors		85,097	39,176
Other liabilities		46,017	12,493
(Decrease)/Increase in equity of unrestricted investment accountholders		(45,351)	33,260
Taxes paid		(7,002)	(8,570)
Net cash provided by operating activities		**65,112**	**76,507**
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Assets acquired for leasing		(23,753)	(34,634)
Sukuk and investment securities		(67,545)	7,488
Purchase of fixed assets		(2,846)	(2,686)
Net cash used in investing activities		**(94,144)**	**(29,832)**
FINANCING ACTIVITIES			
Minority interest		(300)	(500)
Net cash used in financing activities		**(300)**	**(500)**
Foreign currency translation adjustments		(34,499)	(9,314)
Net (decrease)/increase in cash and cash equivalents		**(63,831)**	**36,861**
Cash and cash equivalents at the beginning of the year/period		**297,854**	**260,993**
Cash and cash equivalents at the end of the year/period	4	**234,023**	**297,854**

The notes 1 to 41 on pages 16 to 61 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2018

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2018	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net Deposits / (Redemptions)	Movement due to acquisition of a subsidiary (note - 39)	At 31 December 2018
Dilmunia Development Fund I L.P.*	54,789	4,766	-	-	(8,125)	(51,430)	-
Shamil Bosphorus Modaraba*	2,356	-	-	-	-	-	2,356
European Real Estate Placements*	6,184	-	-	-	(288)	-	5,896
US Real Estate Placements*	9,514	-	-	-	-	-	9,514
TOTAL	72,843	4,766	-	-	(8,413)	(51,430)	17,766
FUNDS MANAGED ON AGENCY BASIS	23,864	-	-	-	(16)	-	23,848
	96,707	**4,766**	**-**	**-**	**(8,429)**	**(51,430)**	**41,614**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 41 on pages 16 to 61 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)

Consolidated statement of changes in restricted investment accounts for the period ended 31 December 2017

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 2 January 2017	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net Deposits / (Redemptions)	At 31 December 2017
Dilmunia Development Fund I L.P.*	56,358	72	-	-	(1,641)	54,789
Shamil Bosphorus Modaraba*	2,356	-	-	-	-	2,356
European Real Estate Placements*	6,085	121	(26)	639	(635)	6,184
US Real Estate Placements*	10,388	-	-	-	(874)	9,514
TOTAL	75,187	193	(26)	639	(3,150)	72,843
FUNDS MANAGED ON AGENCY BASIS	24,601	-	-	-	(737)	23,864
	99,788	**193**	**(26)**	**639**	**(3,887)**	**96,707**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 41 on pages 16 to 61 form an integral part of the consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Ithmaar Bank B.S.C. (C) (the "Bank") was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry & Commerce under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (the "CBB") on 14 August 2016.

Ithmaar Holding B.S.C.(formerly Ithmaar Bank B.S.C.) ["Ithmaar"], a Category 1 investment firm licensed and regulated by the Central Bank of Bahrain (CBB) is the immediate parent company of the Bank. Dar Al-Maal Al-Islami Trust ("DMIT"), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of the Bank.

Pursuant to the reorganisation of Ithmaar at its Extraordinary General Meeting (EGM) held on 28 March 2016 where shareholders approved to restructure Ithmaar Bank B.S.C. into a holding company and two subsidiaries to segregate core and non-core assets, the core assets and liabilities of Ithmaar were transferred to the Bank along with control over the below mentioned subsidiaries on 2 January 2017. Since Ithmaar remained the ultimate parent before and after this reorganization, this transaction has been accounted as a business combination under common control and the related assets and liabilities have been transferred at their book values. No financial transactions were incurred by the Bank between the date of incorporation 12 May 2016 and 1 January 2017. The comparative period in this financial statements cover the period from date of incorporation (12 May 2016) to 31 December 2017.

Subsequent to reorganization, the transfer of the legal ownership of certain assets and liabilities from Ithmaar to the Bank are in progress.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful and real estate development.

The Bank's activities are regulated by the CBB and are subject to the supervision of Sharia Supervisory Board.

The Group's activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment accountholder authorises the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through the Bank's head office, 16 commercial branches in Bahrain and its following principal subsidiary companies:

	% owned			
	Voting	**Economic**	**Country of Incorporation**	**Principal business activity**
Faysal Bank Limited	67	67	Pakistan	Banking
Dilmunia Development Fund I L.P.	57	57	Cayman Islands	Real estate
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana) [under Voluntary Liquidation]	63	50	Kingdom of Bahrain	Mortgage finance

2 SIGNIFICANT GROUP ACCOUNTING POLICIES

The consolidated financial statements of the Group are prepared under Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards in the consolidated financial statements for the year ended 31 December 2018 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 38.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:

(i) New accounting standard: Issued and not effective

FAS 33 "Investments in Sukuk, Shares and Similar Instruments"

FAS 33 "Investments in Sukuk, Shares and Similar Instruments" was issued on 31 December 2018. FAS 33 (which supersedes earlier FAS 25) sets out the improved principles for classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institutions (IFIs / the institutions), in line with Sharia principles. It defines the key types of instruments of Sharia compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption being permitted. The Group is in process of assessing impact on its accounting policies.

FAS 34 "Financial Reporting for Sukuk-holders"

FAS 34 "Financial Reporting for Sukuk-holders" was issued on 31 December 2018. FAS 34 aims to establish the principles of accounting and financial reporting for assets and businesses underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders, particularly including Sukuk-holders. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption being permitted. The standard is not applicable for the Group's consolidated financial statements.

(ii) New accounting standard: Issued and effective

FAS 35 "Risk reserves"

Financial Accounting Standard (FAS) 35 – Risk reserves was issued in August 2018 and effective from the financial periods beginning on or after 1 January 2021. The aim of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risk faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions. The Group has early adopted this standard from 1 January 2018 and there is no material impact on the recognition and measurement of the Group's risk reserves.

FAS 30 "Impairment, credit losses & onerous commitments"

Financial Accounting Standard (FAS) 30 – Impairment, credit losses & onerous commitments was issued in November 2017 and effective from the financial periods beginning on or after 1 January 2020. This standard supersedes the earlier FAS 11 - Provisions and Reserves. The Group has early adopted this standard from 1 January 2018. The requirements of FAS 30 represent a significant change in accounting for impairment and credit losses. The aim of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions, and related provisions, enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. This standard also specifies how such impairment and credit losses shall be recognized and when and how the same shall be reversed.

The key changes to the Bank's accounting policies resulting from its adoption of FAS 30 are summarized below.

FAS 30 replaces the 'incurred loss' model with an 'expected credit loss' model ("ECL"). The new impairment model also applies to certain financing commitments and financial guarantees. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case the allowance is based on the change in the ECLs over the life of the asset. Under FAS 30, credit losses are recognized earlier than under the previous standard.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Basis of Preparation - Measurement of the expected credit loss allowance
The measurement of the expected credit loss allowance of a receivable or exposure measured with the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

• Determining the criteria for significant increase in credit risk;
• Determining the criteria for definition of default;
• Choosing appropriate models and assumptions for the measurement of ECL;
• Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL and
• Establishing groups of similar receivables for the purpose of measuring ECL

Transition
Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except as described below.

Comparative periods have not been restated. Relevant difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 are recognized in retained earnings and minority interest as at 1 January 2018. Accordingly, the information presented for 2017 is not directly comparable to the information presented for 2018 under FAS 30.

Reconciliation of carrying amounts as at 31 December 2017 & carrying amount as at 1st January 2018

The following table reconciles the carrying amounts as of 31 December 2017 to the carrying amounts under FAS 30 on transition to FAS 30 on 1 January 2018.

Financial assets - amortized cost	**Carrying amount as at 31 December 2017**	**Re-measurement of impairment allowance***	**FAS 30 carrying amount as at 1 January 2018**
Cash, Commodity and other placements with banks, financial and other institutions	362,364	(54)	362,310
Financing assets (funded & unfunded)	3,050,607	(54,193)	2,996,414
Sukuk and investment securities	483,426	(44)	483,382
Other receivables	64,185	(6,450)	57,735
Total Financial assets - amortized cost	**3,960,582**	**(60,741)**	**3,899,841**

*Impairment allowance is increased due to change from incurred to expected credit loss (ECL).

Impact on retained earnings and other reserves

	Retained earnings
Opening balance as at 1 January 2018	154,603
Recognition of expected credit losses under FAS 30	(52,762)
Adjusted opening balance as at 1 January 2018	**101,841**

Relevant differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 and attributable to unrestricted investment account holders amounted to BD26.5 million as of 1 January 2018. This amount has been adjusted against the balance of Investment Risk Reserve (IRR) of BD6.8 million which was attributable to unrestricted investment holders and the balance amount of BD19.7 million has been adjusted against the retained earnings attributable to shareholders based on appropriate approvals as per the Bank's policy. The FAS 30 impact attributable to unrestricted investment account holders for the year ended 31 December 2018 was also absorbed by shareholders.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

The following table reconciles the provision recorded as at 31 December 2017 to that of FAS 30 as at 1 January 2018:

	31 December 2017	Re-measurement	FAS 30 1 January 2018
Financial assets			
Cash, Commodity and other placements with banks, financial and other institutions	-	(54)	(54)
Financing assets (funded & unfunded)	(113,952)	(54,193)	(168,145)
Sukuk and investment securities	(7,233)	(44)	(7,277)
Other receivables	(12,507)	(6,450)	(18,957)
	(133,692)	**(60,741)**	**(194,433)**

ECL – Significant increase in credit risk (SICR)

To determine whether credit risk has significantly increased since initial recognition, the Bank will compare the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date.

For the Corporate portfolio, the Bank assess for significant increase in credit risk (SICR) at a counterparty level as the internal rating is currently carried out at a counterparty level and rating is not assigned at facility level. The Bank maintains a facility level rating being the counterparty's internal rating at date of facility origination and date of assessment.

For the Retail portfolio, the Bank currently manages its retail portfolio at a facility level, therefore assessment for SICR on the retail portfolio is done on a facility level. Days past due (DPD) of individual facilities will reflect on the counterparty SICR assessment.

Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Bank uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, restructuring, expert credit judgement and, where possible, relevant historical experience.

Using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

The Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews and validations.

The Bank classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

• Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Bank recognises an allowance based on the 12-month ECL.

• Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Bank recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.

• Stage 3: for credit-impaired financial instruments, the Bank recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as stage 3.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Default

FAS 30 seeks to align accounting for impairment of financial instruments with the manner in which credit risk is internally managed within the banks. In this context, the 'risk of default' of a financial instrument is a key component of the expected loss model under FAS 30.

In general, counterparties with facilities exceeding 90 days past due are considered in default.

Non-Retail:
The Bank has set out the following definition of default (as provided by the Basel document and FAS 30 guidelines):

Non-retail customers with the following characteristics:

• All or any of the facility/ies in which any instalment or part thereof is outstanding for a period of 90 days or more
• All or any of the facility/ies put on non-accrual status (i.e. profit suspended)
• All or any of the facility/ies wherein 'specific provision' is set aside individually
• Event driven defaults such as declaration of bankruptcy, death of borrower (in absence of succession plan or professional management), and other specific events which would significantly impact the borrower's ability the Bank.

The Bank will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

Retail:

The Bank has set out the following definition of default:

• All facilities in which any instalment or part thereof is outstanding for a period of 90 days or more

The Bank will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

Measurement of ECL
ECL is a probability-weighted estimate of credit losses. It is measured as follows:

• financial assets that are not credit-impaired at the reporting date: as the value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

• financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

• financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The Bank measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, Credit Conversion Factor (CCF) and discount rate. For portfolios wherein instrument level information is not available, the Bank carries out ECL estimation on a collective basis.

The key inputs into the measurement of ECL are the term structure of the following variables:

i Probability of default (PD);
ii Loss given default (LGD);
iii Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Measurement of ECL (continued)

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Bank has internally estimated the LGD. The LGD in further will be computed based on the history of recovery rates of claims against defaulted counterparties.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount currently outstanding.

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank annually source macro-economic forecast data from the International Monetary Fund (IMF) database for the relevant exposure country.

Macro-economic variables checked for correlation with the probability of default for the past five years and only those variables for which the movement can be explained are used. Management judgement is exercised when assessing the macroeconomic variables. The macro economic variables used for FAS 30 PD modelling include, among others, GDP, population and net lending.

Generating the term structure of PD

Credit risk grades and days past due (DPD) are primary inputs into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by type of borrower, days past due and as well as by credit risk grading.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP, Net Lending and Population.

Based on consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (i.e. on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its

For Corporate portfolio, through the yearly review of the corporate portfolio, the Bank observes yearly performances to compute a count based PD over the one-year horizon for the past 5 years. These PDs are grouped as per internal risk ratings (i.e. from 1 to 7). An average default rate of the 5 yearly observed default provides the through the cycle PDs.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Generating the term structure of PD (continued)

The retail portfolio is segmented based on products that exhibit distinguished behavior into the following categories:

• Auto finance;
• Mortgage finance;
• Personal Finance; and
• Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

The PD's derived are adjusted with forward looking information based on macro-economic variables and calibrated to derive the final PD's separately for Corporate and Retail portfolio.

Impairment

The Bank recognizes loss allowances for ECL on the following type of financial instruments:

• All Islamic financing and certain other assets (including Commodity and Murabaha receivables)
• Debt instruments that are measured at amortised cost or at fair value through equity.
• Financing commitments that are not measured at fair value through profit and loss (FVTPL)
• Financial guarantee contracts that are not measured at fair value through profit and loss (FVTPL)
• Lease receivables and contract assets
• Balances with banks
• Related party balances
• Contingent liabilities

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the other financial instruments on which credit risk has not increased significantly since their initial recognition, for which ECL is measured as 12-month ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

• If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

• If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

• significant financial difficulty of the borrower or issuer;
• a breach of contract such as a default or past due event;
• the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise; or
• it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL in case of financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.

Write-off

The Bank's existing policy remains the same under FAS 30. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The Bank writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on a collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Bank may however write-off financial assets that are still subject to enforcement activity.

Risk Management in the Bank

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Risk Management Department under policies approved by the Board of Directors. The Risk Management Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The most important types of risks identified by the Group are credit risk, liquidity risk, market risk, reputational risk and operational risk. Market risk includes currency risk, profit rate risk, and price risk.

Credit Risk

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks and financial institutions. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the Risk Management Department which sets parameters and thresholds for the Bank's financing and off-balance sheet financial instruments.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Liquidity risk

Liquidity risk is the risk that Ithmaar is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows.

Liquidity risk arises either:

• From the inability to manage unplanned decreases or changes in funding sources; or
• from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk management ensures that funds are available at all times to meet the funding requirements, Funding and liquidity management is performed centrally by the Asset and Liability Management Committee (ALCO). Group's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses. Ithmaar regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified.

Market risk

Market risk is the risk of potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

Management of market risk is the responsibility of the relevant business units with the group companies with oversight by the Asset-Liability Committee (ALCO).

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.

Through a control framework and by monitoring and responding to potential risks, Ithmaar is able to manage the operational risks to an acceptable level.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Loss allowance

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

31 December 2018

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, Commodity and other placements with banks, financial and other institutions	**303,248**	**-**	**-**	**303,248**
Financings (Funded and unfunded exposure) Corporate				
Low risks (1-3)	353,006	30,214	-	383,220
Acceptable risks (4-6)	1,143,480	137,679	-	1,281,159
Watch list (7)	2,349	64,068	-	66,417
Non performing (8-10)	-	-	159,128	159,128
Carrying amount - Corporate	**1,498,835**	**231,961**	**159,128**	**1,889,924**
Retail (un-rated)	537,484	7,668	6,489	551,641
Carrying amount including unfunded	**2,036,319**	**239,629**	**165,617**	**2,441,565**
Sukuk and investment securities	**469,894**	**-**	**5,872**	**475,766**
Other receivables	**76,693**	**-**	**14,530**	**91,223**
Loss allowance	**(49,267)**	**(4,546)**	**(119,981)**	**(173,794)**
Total Financial assets carrying amount	**2,836,887**	**235,083**	**66,038**	**3,138,008**

Gross financings (funded) as of 31 December 2018 amounted to BD1.2 billion, BD0.3 billion and BD0.2 billion for Stage 1, Stage 2 and Stage 3 respectively (1 January 2018: BD1.2 billion, BD0.3 billion and BD0.2 billion). Collateral coverage for gross financing as of 31 December 2018 was 132%, 17% and 46% for Stage 1, Stage 2 and Stage 3 respectively (1 January 2018: 128%, 18% and 48%).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Basis of preparation

The consolidated financial statements are prepared on a historical cost convention except for investments carried at fair value through income statement and equity and investment in real estate.

(iii) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Sharia rules and principles as determined by the Sharia Supervisory Board of the Bank, the Bahrain Commercial Companies Law, the CBB and the Financial Institutional Law. In accordance with the requirement of AAOIFI, for matters where no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards (IFRS).

(iv) Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Subsidiaries, including Special Purpose entities that are controlled by the Bank, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

For business combinations involving entities under common control, the directors of the Group are responsible for determining a suitable accounting policy for such business combinations. The directors have elected to use the uniting of interests method to account for business combinations involving entities under common control and to account for such business combinations prospectively, under the predecessor basis of accounting. Under the uniting of interests method, there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill arises on consolidation. The difference between the cost of the acquisition and the Group's share of the issued and paid up share capital of the acquired entity is recognised as share premium in equity.

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners equity.

In case of associates where audited financial statements are not available, the Group's share of profit or loss is arrived at by using the latest available management accounts. Available upto a date not earlier than three months before the date of Statement of Financial Position.

Intra-Group balances and minority interest

The consolidated financial statements include the assets, liabilities and results of operations of the Bank, its subsidiary companies after adjustment for minority interest and equity of unrestricted investment accountholders managed by the Group for both subsidiaries and associates. All significant intra-group balances and transactions have been eliminated. The financial statements of the subsidiaries are prepared on the same reporting periods as the Bank, using consistent accounting policies.

(b) Foreign currency transactions and balances

Functional and presentation currency

Items included in the consolidated financial statement of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(b) Foreign currency transactions and balances (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain sukuk and investment securities are included in investments fair value reserve.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;

2. Income and expenses for each income statement are translated at average exchange rates; and

3. All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, are recognised in the first place as a charge against any credit balance on the separate component of the shareholders equity and any remaining amount is recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(c) Accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

1. Classification of investments

   In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

2. Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPEs activities, Group's exposure to the risks and rewards, as well as its ability to make operational decisions of the SPEs.

3 Goodwill and intangible assets

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2. The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) and Fair Value Less Cost to Sell (FVLCTS) methods. These calculations require the use of estimates, which are subject to judgement. Changes in the underlying assumptions may impact the reported numbers.

The following valuation methodology for the separately identified cash generating units of the Group [Ex-Shamil Bank of Bahrain B.S.C. (c) and Faysal Bank Limited] was used based on the operational activities:

- VIU calculations using cash flow projections from financial budgets approved by the Group's senior management covering a three year period.

- FVLCTS calculations using the Comparable Companies Multiple (CCM) method whereby the price to book value multiple of the listed Islamic banks operating in the region was considered.

4. Impairment on financing assets and investments

Each financing and investment exposure is evaluated individually for impairment. In assessing impairment, the Group exercises judgment in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contracts has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL") in accordance with note 2 (ii).

5. Liquidity mismatch

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Group to meet its liquidity mismatch. The stress testing also incorporates judgement based behavioural approach for various sources of funding and estimated inflows from disposal of assets.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(d) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

(e) Murabaha and other financings

Murabaha financing is stated at cost less allowance for doubtful receivables.

The Group considers the promise made in Murabaha to the purchase orderer as obligatory.

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Provision are made in accordance with FAS 30 in accordance with note 2 (ii).

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

Provision are made in accordance with FAS 30 in accordance with note 2 (ii).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) Investments

1. Investments carried at amortised cost

Sukuk and debt-type instruments are carried at amortised cost where the investment is managed on a contractual yield basis and their performance evaluated on the basis of contractual cash flows. These investments are measured using effective profit method at initial recognition minus capital/redemption payments and minus any reduction for impairment.

2. Investments carried at fair value through equity

Equity-type instruments are investments that do not exhibit the feature of debt type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Equity-type investments carried at fair value through equity are those equity instruments which are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity; these are designated as such at inception. Regular-way purchases and sales of these investments are recognised on the trade date which is the date on which the Group commits to purchase or sell the asset.

These investments are initially recognised at fair value transaction costs. These investments are subsequently re-measured at fair value at the end of each reporting period and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity under “Investments fair value reserve”, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm’s length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets. In certain rare circumstances where the Group is unable to determine reliable measure of fair value of equity instrument on a continuing basis, the instrument is measure at cost.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as financial assets carried at fair value through equity, a significant or prolonged decline in fair value of the security below the cost is considered in determining whether the assets are impaired. If any evidence exists of significant impairment for the investment carried at fair value through equity, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the consolidated income statement is removed from the equity and recognised in the consolidated income statement. Impairment losses on equity instruments previously recognised in the consolidated income statement are not subsequently reversed through the consolidated income statement.

3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealers margin. These investments are recognised on the acquisition date at fair value. At the end of each reporting period, investments are re-measured at their fair value and the gain/loss is recognised in the consolidated income statement.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) Investments (continued)

4. Restricted investment accounts

Investment in restricted investment accounts is initially recorded at cost and subsequently re-measured at fair value. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration the portion related to owner's equity and equity of unrestricted investment accountholders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated income statement.

5. Investment in real estate

All properties held for rental income or for capital appreciation purposes or both are classified as investment in real estate. Investment in real estate held for capital appreciation are initially recognised at cost and subsequently re-measured at fair value in accordance with the fair value model with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the investment in real estate fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement. The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account is recognised in the consolidated income statement for the current financial period.

Investment in real estate held for rental purposes are stated at cost less accumulated depreciation. Development properties are stated at lower of cost or estimated net realizable value.

6. Development properties

Development properties represents land held by the Group for development and sale in the ordinary course of business, and includes expenditure incurred in acquiring the land and other costs incurred in bringing them to their existing condition. Development properties are stated at lower of cost or estimated net realizable value. Estimated realizable value is determined using the estimated selling price in the ordinary course of business, less estimated development expenses.

7. Investment in mudaraba

Mudaraba investments are recorded at cost. Decline in the value of investment which is not temporary is charged directly to the consolidated income statement.

7. Fair value

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investments where there are no quoted market prices, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows or at net asset value. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

(h) Assets acquired for leasing (Ijarah)

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

Provision are made in accordance with FAS 30 in accordance with note 2 (ii).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of fixed assets are determined by comparing proceeds with carrying amounts.

(j) Intangible assets

1. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for an impairment on an annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Negative goodwill resulting from the acquisition of a business or entity is reported in the consolidated income statement.

Acquisition of minority interest is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(j) Intangible assets

2. Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

3. Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships has been determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization and impairment if any.

(k) Current taxation

There is no tax on corporate income in the Kingdom of Bahrain. However, the subsidiaries incorporated in tax jurisdictions pay tax as per local regulations.

(l) Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(m) Provision for staff benefits

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction.

For variable remuneration, a provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

(n) Due to investors

Funds received from depositors who take the corporate risk of the Bank or its subsidiaries are classified as "Due to investors"

(o) Equity of unrestricted investment accountholders

Under the equity of unrestricted investment accountholders (URIA), the investment account holder authorizes the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The assets included in the equity of unrestricted investment accountholders are measured on the same basis of various category of the assets as set out above. The amount appropriated to investment risk reserve are out of the total income from URIA assets before charging any expense relating to the management fee, mudarib share of profit, profit equalization reserve and profit to investment accountholders. Profit equalisation reserve is created to maintain a certain level of return on investments for investment accountholders.

(p) Restricted investment accounts

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. The assets included in the restricted investment accounts are recorded at Net Asset Value (NAV).

(q) Treasury shares

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(r) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 10% of the Group's net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(s) Revenue recognition

1. Profit participation and management fees

   Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on Murabaha and other financings

   Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of the Bank, the accrual is justified.

   Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

3. Income from assets acquired for leasing

   Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

   Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

   In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Dividend income

   Dividend income is recognised when the right to receive payment is established.

7. Fees and commissions

   Fees and commissions (including banking services) are recognised when earned.

   Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

   Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Bank has fulfilled all its obligations in connection with the related transaction.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(t) Profit allocation between group and investment accountholders

The Group maintains separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting impairment provisions, profit equalization reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Impairment provision is made when the management considers that there is impairment in the carrying amount of assets financed by the investment account.

(u) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	62,403	805	63,208	63,686	824	64,510
Cash and balances with banks and central banks	133,028	20,902	153,930	173,386	25,923	199,309
	195,431	**21,707**	**217,138**	**237,072**	**26,747**	**263,819**

4 COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	80,142	5,967	86,109	98,545	-	98,545
Less: Provision for impairment	(54)	-	(54)	-	-	-
	80,088	**5,967**	**86,055**	**98,545**	**-**	**98,545**

Cash and cash equivalents for the purpose of cash flow statement are as under:

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	195,431	21,707	217,138	237,072	26,747	263,819
Commodity and other placements with banks, financial and other institutions	80,088	5,967	86,055	98,545	-	98,545
Less: Placement maturing after ninety days	5	(5,967)	(5,962)	-	-	-
Less: Balances with central bank relating to minimum reserve requirement	(62,403)	(805)	(63,208)	(63,686)	(824)	(64,510)
	213,121	**20,902**	**234,023**	**271,931**	**25,923**	**297,854**

5 MURABAHA AND OTHER FINANCINGS

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	1,287,322	540,446	1,827,768	1,361,141	562,496	1,923,637
Less: Provision for impairment	(131,029)	(12,874)	(143,903)	(108,323)	(5,630)	(113,953)
	1,156,293	**527,572**	**1,683,865**	**1,252,818**	**556,866**	**1,809,684**

Other financings represents conventional loans and advances totalling BD592.4 million (31 December 2017: BD634.4 million) made by a subsidiary of the Bank.

The movement in provision for impairment is as follows:

	31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	108,323	5,630	113,953
Impact of FAS 30	47,090	336	47,426
Transfer from Investment Risk Reserve for FAS 30 (note 17)	-	6,767	6,767
Charge for the year	6,068	2,490	8,558
Write back during the year	(11,883)	(107)	(11,990)
Utilised during the year	(147)	(2,164)	(2,311)
Reclassification	(1,061)	34	(1,027)
Exchange differences and other movements	(17,361)	(112)	(17,473)
At 31 December	**131,029**	**12,874**	**143,903**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6 SUKUK AND INVESTMENT SECURITIES

	31 December 2018			31 December 2017		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Investment securities at fair value through income statement						
Held for trading						
Debt-type instruments – unlisted	85,294	-	85,294	114,945	-	114,945
Equity-type securities – listed	728	-	728			
	86,022	**-**	**86,022**	**114,945**	**-**	**114,945**
Investment securities at fair value through equity						
Equity-type securities – listed	21,993	-	21,993	20,837	-	20,837
Equity-type securities – unlisted	1,837	-	1,837	2,323	-	2,323
	23,830	-	23,830	23,160	-	23,160
Provision for impairment	(3,721)		(3,721)	(4,375)	-	(4,375)
	20,109	**-**	**20,109**	**18,785**	**-**	**18,785**
Investment securities carried at amortised cost						
Sukuk – unlisted	4,263	71,146	75,409	6,570	87,798	94,368
Other debt-type instruments – listed	3,160	**-**	3,160	2,098	**-**	2,098
Other debt-type instruments – unlisted	397,197	-	397,197	394,193	-	394,193
	404,620	71,146	475,766	402,861	87,798	490,659
Provision for impairment	(5,726)	-	(5,726)	(7,233)	-	(7,233)
	398,894	**71,146**	**470,040**	**395,628**	**87,798**	**483,426**
	505,025	**71,146**	**576,171**	**529,358**	**87,798**	**617,156**

Sukuk and investment securities include conventional investments totalling BD502.9 million (31 December 2017: BD528.7 million) made by a subsidiary of the Bank.

The fair value of investment securities carried at amortised cost was BD470.6 million (31 December 2017: BD491 million) and these are tradable

	31 December 2018		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**
At 1 January	11,608	-	11,608
Impact of FAS 30	42	-	42
Charge for the year	785	-	785
Write back during the year	(502)	-	(502)
Exchange differences and		-	
other movements	(2,486)	-	(2,486)
At 31 December	**9,447**	**-**	**9,447**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6 SUKUK AND INVESTMENT SECURITIES (continued)

FAS 25 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 December 2018				
Investment securities at fair value through income statement				
Debt-type instruments	-	85,294	-	85,294
Equity-type securities – listed	728	-	-	728
Investment securities at fair value through equity				
Equity securities	19,893	216	-	20,109
	20,621	**85,510**	**-**	**106,131**

	Level 1	Level 2	Level 3	Total
At 31 December 2017				
Investment securities at fair value through income statement				
Debt-type instruments	-	114,945	-	114,945
Investment securities at fair value through equity				
Equity securities	18,511	274	-	18,785
	18,511	**115,219**	**-**	**133,730**

There was no movement between level 1 and level 2 during the year

Total gains for the year included in consolidated income statement for 31 December 2018 BD0.6 million (31 December 2017: BD2.4 million).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7 RESTRICTED INVESTMENT ACCOUNTS

	31 December 2018			31 December 2017		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Investment in restricted investment accounts	-	-	-	30,819	2,828	33,647
Less: Provision for impairment	-	-	-	(6,464)	-	(6,464)
	-	**-**	**-**	**24,355**	**2,828**	**27,183**

During the year, investment in restricted investment accounts has been reclassified to subsidiary.

8 ASSETS ACQUIRED FOR LEASING

	31 December 2018			31 December 2017		
	Cost	**Accumulated depreciation**	**Net book amount**	**Cost**	**Accumulated depreciation**	**Net book amount**
Property & Equipment	173,242	(18,383)	154,859	144,281	(13,175)	131,106

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2018	**31 December 2017**
Relating to owners	1,310	2,464
Relating to unrestricted investment accounts	153,549	128,642
	154,859	131,106

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

9 OTHER ASSETS

	31 December 2018			31 December 2017		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Account receivable	54,440	13,226	67,666	37,311	15,102	52,413
Due from related parties	12,135	-	12,135	3,916	-	3,916
Taxes – deferred	3,664	-	3,664	8,476	-	8,476
Taxes – current	9,390	20	9,410	10,338	-	10,338
Assets acquired against claims	5,019	-	5,019	6,514	-	6,514
	84,648	13,246	97,894	66,555	15,102	81,657
Provision for impairment	(14,227)	(4,582)	(18,809)	(7,887)	(4,620)	(12,507)
	70,421	**8,664**	**79,085**	**58,668**	**10,482**	**69,150**

The movement in provision for impairment is as follows:

	31 December 2018		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**
At 1 January	7,887	4,620	12,507
Impact of FAS 30	6,450	-	6,450
Charge for the year	679	-	679
Write back during the year	(82)	(34)	(116)
Reclassification	(447)	-	(447)
Exchange differences and other movements	(260)	(4)	(264)
At 31 December	**14,227**	**4,582**	**18,809**

10 DEVELOPMENT PROPERTIES

	31 December 2018
Land	54,671
Development costs	24,625
	79,296

Development costs represent the infrastructure costs incurred such as roads and networks, electricity stations and design and supervision costs and the infrastructure cost commitments. The infrastructure cost commitments are expected to be met by anticipated sale of plots. Based on this, the management has estimated that the current carrying value is lower that the net realisable value, and accordingly, no impairment has been considered necessary.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

11 FIXED ASSETS

	Relating to owners			Relating to owners		
			31 December 2018			31 December 2017
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Land and building	13,396	(3,986)	9,410	16,756	(4,868)	11,888
Leasehold improvements	11,163	(7,805)	3,358	13,066	(8,208)	4,858
Furniture and equipment	24,105	(19,376)	4,729	26,306	(21,206)	5,100
Motor vehicles	915	(610)	305	1,141	(735)	406
	49,579	**(31,777)**	**17,802**	**57,269**	**(35,017)**	**22,252**

Depreciation charge for the year ended 31 December 2018 amounted to BD2.8 million (31 December 2017: BD2.8 million).

12 INTANGIBLE ASSETS

	Relating to owners				
					31 December 2018
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	34,223	-	(17,908)	(3,588)	12,727
Customer relations	42,814	(25,372)	-	(5,061)	12,381
Core deposits	58,641	(36,287)	-	(7,361)	14,993
Others	14,336	(11,123)	-	-	3,213
	150,014	**(72,782)**	**(17,908)**	**(16,010)**	**43,314**

	Relating to owners				
					31 December 2017
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	33,112	-	(3,205)	(3,480)	26,427
Customer relations	42,814	(23,166)	-	(4,430)	15,218
Core deposits	58,641	(33,355)	-	(7,662)	17,624
Others	12,113	(10,261)	-	-	1,852
	146,680	**(66,782)**	**(3,205)**	**(15,572)**	**61,121**

Amortisation charge for the year ended 31 December 2018 amounted to BD6 million (31 December 2017: BD6.3 million).

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2018	31 December 2017
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	8,886	23,589
Faysal Bank Limited	3,841	2,838
	12,727	**26,427**

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) and Fair Value Less Cost to Sell (FVLCTS). VIU calculations were determined using cash flow projections from financial budgets approved by the Group's senior management covering a three year period. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. For FVLCTS calculations, the Comparable Companies Multiple (CCM) method was used, whereby the price to book value multiple of the listed Islamic banks operating in the region was considered. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement.

13 CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a counterparty amounting to BD78 million which is subject to sanctions under US measures (31 December 2017: BD81.2 million).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

14 DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	504,106	30,133	534,239	399,937	15,220	415,157
Due to financial and other institutions	44,603	-	44,603	19,478	-	19,478
	548,709	**30,133**	**578,842**	**419,415**	**15,220**	**434,635**

Due to banks, financial and other institutions include balances totalling BD161.5 million from two counterparties which are subject to sanctions under US measures and having contractual maturity ranging to up to one month (31 December 2017: BD162.9 million).

Due to banks, financial and other institutions include conventional deposits totalling BD235.8 million (31 December 2017: BD173.2 million), accepted by a subsidiary of the Bank.

At 31 December 2018, there were collateralized borrowings in aggregate BD67.4 million (31 December 2017: BD44.4 million).

15 DUE TO INVESTORS

	Relating to owners	
	31 December 2018	31 December 2017
Due to corporate institutions	283,143	372,406
Due to individuals	270,305	320,279
Due to financial institutions	85,557	26,618
	639,005	**719,303**

Due to investors represent conventional deposits accepted by a subsidiary of the Group.

16 OTHER LIABILITIES

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	133,165	40,703	173,868	85,293	40,149	125,442
Due to related parties	24,929	-	24,929	22,109	-	22,109
	158,094	**40,703**	**198,797**	**107,402**	**40,149**	**147,551**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

17 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

The funds received from Unrestricted Investment Accountholders (URIA) are invested on their behalf without recourse to the Group as follows:

	Notes	31 December 2018	31 December 2017
Cash and balances with banks and central banks	3	21,707	26,747
Commodity and other placements with banks, financial and other institutions		5,967	-
Murabaha and other financings	5	527,572	556,866
Musharaka financing		186,635	134,531
Sukuk and investment securities	6	71,146	87,798
Restricted investment accounts	7	-	2,828
Assets acquired for leasing	8	153,549	128,642
Other assets	9	8,664	10,482
Due from the Group (net)		172,957	280,093
		1,148,197	1,227,987
Customers' current accounts		(82,581)	(107,720)
Due to banks, financial and other institutions	13	(30,133)	(15,220)
Other liabilities	15	(40,703)	(40,149)
Equity of unrestricted investment accountholders		**994,780**	**1,064,898**

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provision amounting to BD18.8 million (31 December 2017: BD11.1 million). The movement of impairment provision relating to unrestricted investment accountholders has been disclosed in note 26.

Other liabilities include profit equalization reserve and the movement is as follows:

	31 December 2018
At 1 January	6,616
Net addition during the year	1,697
At 31 December	**8,313**

Other liabilities include investment risk reserve and the movement is as follows:

	31 December 2018
At 1 January	6,767
Net addition during the year	566
Utilized for FAS 30	(6,767)
At 31 December	**566**

The average gross rate of return in respect of unrestricted investment accounts was 4.9% for 31 December 2018 (31 December 2017: 5.0%) of which 2.7% (31 December 2016: 2.9%) was distributed to the investors and the balance was either set aside as provision for impairment, management fees (up to 1.5% of the total invested amount per annum to cover administration and other expenses related to the management of such funds) and/or retained by the Group as share of profits in its capacity as a Mudarib.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

18 MINORITY INTEREST

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries.

	31 December 2018		31 December 2017	
	Minority %		Minority %	
Faysal Bank Limited	33	38,013	33	42,971
Dilmunia Development Fund I L.P.	43	30,263	-	-
Sakana Holistic Housing Solutions B.S.C. (C)	50	1,204	50	1,570
		69,480		**44,541**

Minority interest in the consolidated income statement of BD12.7 million (31 December 2017: BD4.7 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

19 SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	7,540,000	754,000
Issued and fully paid		
Total outstanding as at 2 January 2017	1,000,000	100,000
At 31 December 2017 (Audited)	**1,000,000**	**100,000**
Issued and fully paid		
Total outstanding as at 1 January 2018	1,000,000	100,000
At 31 December 2018 (Audited)	**1,000,000**	**100,000**

The Bank’s total issued and fully paid share capital at 31 December 2018 comprises 1,000,000,000 shares at 100 fils per share amounting to BD100,000,000. Chief Executive Officer owns 1 share and remaining shares are held by Ithmaar Holding B.S.C. The share capital of the Bank is denominated in Bahraini Dinars.

The Bank grants shadow shares to employees calculated based on the net asset value of the Bank since the Bank is not listed. The number of shadow shares granted to employees as of 31 December 2018 was 6.5 million (31 December 2017: 4.2 million) of which the unvested shadow shares amount to 3.9 million (31 December 2017: 3.2 million).

20 EARNINGS PER SHARE (BASIC & DILUTED)

Earnings per share (Basic & Diluted) are calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	Year ended 31 December 2018	Period ended 31 December 2017
Net profit attributable to shareholders (BD ’000)	1,409	1,582
Weighted average number of issued and fully paid up ordinary shares (’000)	1,000,000	1,000,000
Earnings per share (Basic & Diluted) - Fils	**1.41**	**1.58**

Earnings per share on non-sharia compliant income and expenses is included under note 38.

21 INCOME FROM RESTRICTED INVESTMENT ACCOUNTS AS A MUDARIB

Income from restricted investment accounts comprises profit participation as a Mudarib and investment management fees net of contribution made to certain restricted funds.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

22 INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners Year ended 31 December 2018	Relating to owners Period ended 31 December 2017
Income from murabaha financing	11,888	11,042
Income from other financings	58,440	49,873
	70,328	**60,915**

23 INCOME FROM OTHER INVESTMENTS

	Relating to owners Year ended 31 December 2018	Relating to owners Period ended 31 December 2017
Income from investment securities at amortised cost	22,514	30,411
Income from investment securities at fair value through equity	1,135	3,077
Income from investment securities at fair value through income statement	10,455	9,878
Income from investment in real estate	625	546
	34,729	**43,912**

24 OTHER INCOME

	Relating to owners Year ended 31 December 2018	Relating to owners Period ended 31 December 2017
Income from banking services	17,113	17,310
Income from commodity placements	2,182	989
Foreign exchange income	346	(527)
Other income	94	138
	19,735	**17,910**

25 ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners Year ended 31 December 2018	Relating to owners Period ended 31 December 2017
Salaries and other benefits	29,041	30,140
Office expenses	21,659	20,659
Professional fees	2,803	2,596
Other administrative expenses	7,844	7,628
	61,347	**61,023**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

26 PROVISION FOR IMPAIRMENT

	31 December 2018		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**
At 1 January	141,004	11,094	152,098
Impact of FAS 30	53,639	335	53,974
Transfer from Investment Risk Reserve (note 16)	-	6,767	6,767
Charge for the year	20,726	3,348	24,074
Write back during the year	(12,466)	(149)	(12,615)
Utilised during the year	(143)	(2,164)	(2,307)
Movement due to acquisition of subsidiary	(6,464)	-	(6,464)
Exchange differences	(20,112)	(401)	(20,513)
At 31 December	**176,184**	**18,830**	**195,014**

The allocation of the provision for impairment to the respective assets is as follows:

	31 December 2018			**31 December 2017**		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Murabaha and other financings	131,029	12,874	143,903	108,323	5,630	113,953
Commodity and other placements with banks, financial and other institutions	54	-	54			
Musharaka financing	3,519	1,374	4,893	3,519	842	4,361
Sukuk and investment securities	9,447	-	9,447	11,608	-	11,608
Restricted investment accounts	-	-	-	6,464	-	6,464
Other assets	14,227	4,582	18,809	7,887	4,620	12,507
Intangible assets	17,908	-	17,908	3,205	-	3,205
	176,184	**18,830**	**195,014**	**141,006**	**11,092**	**152,098**

Total provision for impairment of BD195 million (31 December 2017: BD152 million) includes Nil (31 December 2017: BD6 million) held as general provision for impairment .

27 OVERSEAS TAXATION

	Relating to owners	
	Yera ended 31 December 2018	**Period ended 31 December 2017**
Current taxes	6,026	6,346
Deferred taxes	4,468	3,437
	10,494	**9,783**

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

28 SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) Retail and Corporate banking, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.

(ii) Trading Portfolio, where the Group trades in equity deals, foreign exchange and other transactions with the objective of realizing short-term gains.

(iii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

	31 December 2018					31 December 2017				
	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total
Operating income	56,910	25,496	864	545	**83,815**	72,668	16,257	354	(80)	**89,199**
Total expenses	(55,387)	(11,613)	(2,849)	(266)	**(70,115)**	(63,636)	(4,209)	(2,323)	-	**(70,168)**
Net income/(loss) before provision and overseas taxation	**1,523**	**13,883**	**(1,985)**	**279**	**13,700**	**9,032**	**12,048**	**(1,969)**	**(80)**	**19,031**
Gain arising on acquisition of a business (net)	**-**	**-**	19,194	**-**	**19,194**	**-**	**-**	**-**	**-**	**-**
Provision and overseas taxation	(11,459)	(7,242)	(53)	-	**(18,754)**	(7,985)	(4,763)	(74)	29	**(12,793)**
Net income/(loss) for the year/period	**(9,936)**	**6,641**	**17,156**	**279**	**14,140**	**1,047**	**7,285**	**(2,043)**	**(51)**	**6,238**
Attributable to:										
Equity holders of the Bank	(12,687)	4,421	9,477	198	**1,409**	(1,143)	4,850	(2,091)	(34)	**1,582**
Minority interests	2,751	2,220	7,679	81	**12,731**	2,190	2,435	48	(17)	**4,656**
	(9,936)	**6,641**	**17,156**	**279**	**14,140**	**1,047**	**7,285**	**(2,043)**	**(51)**	**6,238**
Total assets	**2,437,207**	**589,456**	**98,860**	**2,272**	**3,127,795**	**2,549,697**	**687,261**	**2,660**	**2,801**	**3,242,419**
Total liabilities and equity of unrestricted investment account holders	**2,676,461**	**268,059**	**28,410**	**-**	**2,972,930**	**2,844,880**	**198,216**	**179**	**-**	**3,043,275**

The Group constitutes of two geographical segments which are Middle East & Africa, Asia and others

	31 December 2018			31 December 2017		
	Middle East & Africa	Asia	Total	Middle East & Africa	Asia	Total
Operating income	13,657	70,158	**83,815**	18,137	71,062	**89,199**
Total expenses	(24,169)	(45,946)	**(70,115)**	(23,697)	(46,471)	**(70,168)**
Net income/(loss) before provision and overseas taxation	**(10,512)**	**24,212**	**13,700**	**(5,560)**	**24,591**	**19,031**
Gain arising on acquisition of a business (net)	19,194	**-**	**19,194**			**-**
Provision and overseas taxation	(9,394)	(9,360)	**(18,754)**	(4,136)	(8,657)	**(12,793)**
Net income/(loss) for the year/period	**(712)**	**14,852**	**14,140**	**(9,696)**	**15,934**	**6,238**
Attributable to:						
Equity holders of the Bank	(8,293)	9,702	**1,409**	(9,041)	10,623	**1,582**
Minority interests	7,581	5,150	**12,731**	(655)	5,311	**4,656**
	(712)	**14,852**	**14,140**	**(9,696)**	**15,934**	**6,238**
Total assets	**1,528,954**	**1,598,841**	**3,127,795**	**1,572,947**	**1,669,472**	**3,242,419**
Total liabilities and equity of unrestricted investment account holders	**1,501,808**	**1,471,122**	**2,972,930**	**1,512,418**	**1,530,857**	**3,043,275**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29 ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. The Bank does not collect or pay Zakah on behalf of its owners and its investment accountholders.

30 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2018	31 December 2017
Acceptances and endorsements	29,436	23,685
Guarantees and irrevocable letters of credit	231,088	261,777
Customer and other claims	91,928	117,547
	352,452	**403,009**

Commitments

	31 December 2018	31 December 2017
Undrawn facilities, financing lines and other commitments to finance	**751,245**	**680,981**

31 CURRENCY RISK

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarized below:

	PKR	EUR	USD
As at 31 December 2018			
Total currency exposure	44,583	76,444	226,059
Reasonable shift	1.72%	3.36%	0.73%
Total effect on income/equity	**767**	**2,569**	**1,650**

	PKR	EUR	USD
As at 31 December 2017			
Total currency exposure	56,611	12,240	202,197
Reasonable shift	1.36%	2.47%	0.55%
Total effect on income/equity	**770**	**302**	**1,112**

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate as compared to the one year forward rate for the same period.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

31 CURRENCY RISK (continued)

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2018	United States Dollar	Pakistan Rupee	Bahraini Dinar	Euro	UAE Dirham	Other	Total
Cash and balances with banks and central banks	30,079	97,022	63,401	22,494	597	3,545	217,138
Commodity and other placements with banks, financial and other institutions	4,901	14,052	42,955	24,147	-	-	86,055
Murabaha and other financings	582,314	615,815	450,249	3,602	7,355	24,530	1,683,865
Musharaka financing	-	186,851	-	-	-	-	186,851
Sukuk and investment securities	619	574,042	1,510	-	-	-	576,171
Assets acquired for leasing	73	-	154,786	-	-	-	154,859
Other assets	18,423	39,423	21,014	-	3	222	79,085
Investment in real estate	-	3,359	-	-	-	-	3,359
Development Properties	-	-	79,296	-	-	-	79,296
Fixed assets	-	17,065	737	-	-	-	17,802
Intangible assets	38,611	4,703	-	-	-	-	43,314
Total assets	**675,020**	**1,552,332**	**813,948**	**50,243**	**7,955**	**28,297**	**3,127,795**
Customer current accounts	44,683	325,042	100,713	85,076	52	5,940	561,506
Due to banks, financial and other institutions	125,210	232,684	58,155	38,487	124,291	15	578,842
Due to investors	41,416	589,718	-	2,349	-	5,522	639,005
Other liabilities	2,768	93,773	101,450	731	60	15	198,797
Total liabilities	**214,077**	**1,241,217**	**260,318**	**126,643**	**124,403**	**11,492**	**1,978,150**
Equity of unrestricted investment accountholders	149,499	105,629	739,608	44	-	-	994,780
Total liabilities and equity of unrestricted investment accountholders	**363,576**	**1,346,846**	**999,926**	**126,687**	**124,403**	**11,492**	**2,972,930**
Contingent liabilities and commitments	289,499	650,988	89,515	33,948	881	38,866	**1,103,697**
31 December 2017							
Total assets	714,752	1,618,794	735,988	126,950	11,824	34,111	3,242,419
Total liabilities and equity of unrestricted investment accountholders	357,952	1,425,138	983,000	139,190	124,002	13,993	3,043,275
Contingent liabilities and commitments	234,451	706,248	89,545	32,516	2,331	18,899	1,083,990

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

32 MATURITY PROFILE

The contractual maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2018	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Cash and balances with banks and central banks	217,138	-	-	-	-	217,138
Commodity and other placements with banks, financial and other institutions	69,529	10,564	-	5,962	-	86,055
Murabaha and other financings	236,204	129,953	181,610	888,043	248,055	1,683,865
Musharaka financing	1,461	4,372	28,800	117,308	34,910	186,851
Sukuk and investment securities	184,550	285,159	100,826	5,636	-	576,171
Assets acquired for leasing	48	209	543	1,777	152,282	154,859
Other assets	38,794	7,792	14,763	8,421	9,315	79,085
Investment in real estate	-	-	3,359	-	-	3,359
Development Properties	-	-	-	79,296	-	79,296
Fixed assets	-	-	93	11,212	6,497	17,802
Intangible assets	-	-	-	-	43,314	43,314
Total assets	**747,724**	**438,049**	**329,994**	**1,117,655**	**494,373**	**3,127,795**
Customer current accounts	561,506	-	-	-	-	561,506
Due to banks, financial and other institutions	415,471	36,640	49,726	71,990	5,015	578,842
Due to investors	444,903	85,202	104,320	4,580	-	639,005
Other liabilities	73,019	61,404	3,062	41,768	19,544	198,797
Total liabilities	**1,494,899**	**183,246**	**157,108**	**118,338**	**24,559**	**1,978,150**
Equity of unrestricted investment accountholders	524,259	112,295	275,800	82,426	-	994,780
Total liabilities and equity of unrestricted investment accountholders	**2,019,158**	**295,541**	**432,908**	**200,764**	**24,559**	**2,972,930**
Contingent liabilities and commitments	655,751	114,140	180,111	126,621	27,074	**1,103,697**
31 December 2017						
Total assets	**824,396**	**472,552**	**244,791**	**1,052,159**	**648,521**	**3,242,419**
Total liabilities and equity of unrestricted investment accountholders	**1,992,224**	**307,055**	**559,617**	**179,252**	**5,127**	**3,043,275**
Contingent liabilities and commitments	**571,889**	**148,886**	**215,830**	**140,399**	**6,986**	**1,083,990**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

33 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

31 December 2018	Banks and Financial Institutions	Trading and Manu-facturing	Property and Cons-truction	Services	individuals	Textile	Other	Total
Cash and balances with banks and central banks	217,138	-	-	-	-	-	-	217,138
Commodity and other placements with banks, financial and other institutions	86,055	-	-	-	-	-	-	86,055
Murabaha and other financings	729,123	367,043	33,631	58,589	369,953	62,275	63,251	1,683,865
Musharaka financing	24,606	54,370	16,392	19,509	57,021	3,955	10,998	186,851
Sukuk and investment securities	556,145	12,306	-	7,585	-	-	135	576,171
Assets acquired for leasing	1,039	10,105	198	91	143,426	-	-	154,859
Other assets	39,592	7,150	12,991	10,533	6,588	-	2,231	79,085
Investment in real estate	-	-	3,359	-	-	-	-	3,359
Development Properties	-	-	79,296	-	-	-	-	79,296
Fixed assets	17,065	-	737	-	-	-	-	17,802
Intangible assets	43,314	-	-	-	-	-	-	43,314
Total assets	**1,714,077**	**450,974**	**146,604**	**96,307**	**576,988**	**66,230**	**76,615**	**3,127,795**
Customer current accounts	41,085	141,770	19,039	51,863	180,402	23	127,324	561,506
Due to banks, financial and other institutions	489,524	-	-	89,318	-	-	-	578,842
Due to investors	58,120	136,914	22,659	109,933	167,182	-	144,197	639,005
Other liabilities	137,022	-	-	-	6,756	-	55,019	198,797
Total liabilities	**725,751**	**278,684**	**41,698**	**251,114**	**354,340**	**23**	**326,540**	**1,978,150**
Equity of unrestricted investment accountholders	96,410	90,805	22,946	49,211	650,763	-	84,645	994,780
Total liabilities and equity of unrestricted investment accountholders	**822,161**	**369,489**	**64,644**	**300,325**	**1,005,103**	**23**	**411,185**	**2,972,930**
Contingent liabilities and commitments	**411,683**	**330,349**	**14,729**	**148,314**	**2,845**	**13,117**	**182,660**	**1,103,697**
31 December 2017								
Total assets	**1,844,281**	**415,986**	**97,345**	**21,687**	**689,375**	**94,715**	**79,030**	**3,242,419**
Total liabilities and equity of unrestricted investment accountholders	**626,824**	**424,656**	**128,808**	**322,727**	**1,052,495**	**11,341**	**476,424**	**3,043,275**
Contingent liabilities and commitments	**352,567**	**417,563**	**16,796**	**11,526**	**6,115**	**24,635**	**254,788**	**1,083,990**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

33 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)

31 December 2018	Asia / Pacific	Middle East	Europe	Others	Total
Cash and balances with banks and central banks	122,443	64,729	23,236	6,730	217,138
Commodity and other placements with banks, financial and other institutions	14,052	72,003	-	-	86,055
Murabaha and other financings	636,885	1,026,976	9,046	10,958	1,683,865
Musharaka financing	186,851	-	-	-	186,851
Sukuk and investment securities	574,042	2,129	-	-	576,171
Assets acquired for leasing	-	154,859	-	-	154,859
Other assets	39,442	39,497	146	-	79,085
Investment in real estate	3,359	-	-	-	3,359
Development Properties	-	79,296	-	-	79,296
Fixed assets	17,065	737	-	-	17,802
Intangible assets	4,702	38,612	-	-	43,314
Total assets	**1,598,841**	**1,478,838**	**32,428**	**17,688**	**3,127,795**
Customer current accounts	363,899	113,033	81,437	3,137	561,506
Due to banks, financial and other institutions	265,979	310,011	1,648	1,204	578,842
Due to investors	639,005	-	-	-	639,005
Other liabilities	96,546	98,883	3,368	-	198,797
Total liabilities	**1,365,429**	**521,927**	**86,453**	**4,341**	**1,978,150**
Equity of unrestricted investment accountholders	105,693	889,087	-	-	994,780
Total liabilities and equity of unrestricted investment accountholders	**1,471,122**	**1,411,014**	**86,453**	**4,341**	**2,972,930**
Contingent liabilities and commitments	**1,008,263**	**95,396**	**-**	**38**	**1,103,697**
31 December 2017					
Total assets	**1,669,472**	**1,513,422**	**41,110**	**18,415**	**3,242,419**
Total liabilities and equity of unrestricted investment accountholders	**1,530,857**	**1,411,279**	**90,929**	**10,210**	**3,043,275**
Contingent liabilities and commitments	**987,993**	**95,931**	**-**	**66**	**1,083,990**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

34 RISK MANAGEMENT

Credit risk

The significant concentration of credit risk at 31 December 2018 is set out in note 34.

Non performing financing exposures are conservatively considered as financing exposures which have been past due beyond 90 days and the profit on these assets is not recognized in the consolidated income statement. Following are the details of non performing financing exposures relating to the Group and its unrestricted investment accountholders:

	31 December 2018			31 December 2017		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Gross exposure						
Past due but performing financing exposures	67,870	45,011	112,881	196,062	50,812	246,874
Non performing financing exposures	97,034	64,823	161,857	123,146	58,630	181,776
	164,904	**109,834**	**274,738**	**319,208**	**109,442**	**428,650**
Fair value of collateral						
Past due but performing financing exposures	79,725	87,431	167,156	507,162	51,667	558,829
Non performing financing exposures	22,845	51,718	74,563	24,822	62,943	87,765
	102,570	**139,149**	**241,719**	**531,984**	**114,610**	**646,594**

Included in the performing financing exposures of the Group are facilities which have been restructured during the year which are as follows:

	31 December 2018			31 December 2017		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Restructured financings	3,452	4,196	**7,648**	1,656	14,887	**16,543**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

34 RISK MANAGEMENT (continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2018	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	7,952	-	-	-	-	209,186	217,138
Commodity and other placements with banks, financial and other institutions	69,524	10,564	-	5,967	-	-	86,055
Murabaha and other financings	271,509	129,783	781,465	335,694	165,414	-	1,683,865
Musharaka financing	1,462	4,373	28,800	117,309	34,907	-	186,851
Sukuk and investment securities	184,550	199,137	167,367	5,009	-	20,108	576,171
Assets acquired for leasing	-	11	543	808	153,497	-	154,859
Other assets	-	-	-	-	-	79,085	79,085
Total financial assets	**534,997**	**343,868**	**978,175**	**464,787**	**353,818**	**308,379**	**2,984,024**
Customer current accounts	-	-	-	-	-	561,506	561,506
Due to banks, financial and other institutions	394,662	16,665	8,904	975	-	157,636	578,842
Due to investors	164,082	340,242	127,286	7,395	-	-	639,005
Other liabilities	-	-	-	-	-	198,797	198,797
Total financial liabilities	**558,744**	**356,907**	**136,190**	**8,370**	**-**	**917,939**	**1,978,150**
Equity of unrestricted investment accountholders	432,288	114,600	353,939	93,953	-	-	994,780
Total financial liabilities and equity of unrestricted investment accountholders	**991,032**	**471,507**	**490,129**	**102,323**	**-**	**917,939**	**2,972,930**
Total repricing gap	**(456,035)**	**(127,639)**	**488,046**	**362,464**	**353,818**	**(609,560)**	**11,094**
31 December 2017							
Total financial assets	**667,811**	**478,479**	**887,903**	**437,705**	**432,403**	**223,568**	**3,127,869**
Total financial liabilities and equity of unrestricted investment accountholders	**837,085**	**305,512**	**935,273**	**150,047**	**5,127**	**810,231**	**3,043,275**
Total repricing gap	**(169,274)**	**172,967**	**(47,370)**	**287,658**	**427,276**	**(586,663)**	**84,594**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

34 RISK MANAGEMENT (continued)

	USD	PKR	AED
As at 31 December 2018			
Total profit rate exposure	272,833	180,359	116,544
Reasonable shift	0.92%	3.85%	1.34%
Total effect on income	**2,510**	**6,944**	**1,562**

	USD	PKR	AED
As at 31 December 2017			
Total profit rate exposure	272,853	164,143	112,178
Reasonable shift	0.17%	0.07%	0.09%
Total effect on income	**464**	**115**	**101**

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

Price risk

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the year and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices:

	Impact on other components of equity	
Index	**31 December 2018**	**31 December 2017**
Pakistan Stock Exchange (+/-10%)	1,646	1,163

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

35 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

(a) Directors and companies in which they have an ownership interest.
(b) Major shareholders of the Bank, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).
(c) Associated companies of the Bank.
(d) Senior management.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

	31 December 2018				
	Shareholders & Affiliates	**Associates and other investments**	**Directors and related entities**	**Senior management**	**Total**
Assets					
Murabaha and other financings	607,948	-	4,828	-	612,776
Other assets	11,971	-	-	164	12,135
Liabilities					
Customers' current accounts	940	-	-	456	1,396
Due to banks, financial and other institutions	-	44,603	-	-	44,603
Equity of unrestricted investment accounts	6,195	-	-	1,088	7,283
Other liabilities	24,929	-	-	-	24,929
Commitments	273	-	-	-	273

	31 December 2018				
	Shareholders & Affiliates	**Associates and other investments**	**Directors and related entities**	**Senior management**	**Total**
Income					
Return to unrestricted investment accounts	68	129	-	44	241
Income from murabaha and other financings	11,167	-	-	-	11,167
Profit paid to banks, financial and other institutions	933	1,243	-	-	2,176
Other Income - Management fees	268	-	-	-	268
Expenses					
Administrative and general expenses	207	-	18	-	225

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

35 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

					31 December 2017
	Shareholders & Affiliates	**Associates and other investments**	**Directors and related entities**	**Senior management**	**Total**
Assets					
Murabaha and other financings	616,153	-	4,828	-	620,981
Investment in associates	-	210	-	-	210
Other assets	3,576	164	-	176	3,916
Liabilities					
Customers' current accounts	-	30,862	-	346	31,208
Due to banks, financial and other institutions	-	19,479	-	-	19,479
Equity of unrestricted investment accounts	10,664	7,163	203	834	18,864
Other liabilities	22,109	-	-	-	22,109
Commitments	3,929	-	-	-	3,929

					31 December 2017
	Shareholders & Affiliates	**Associates and other investments**	**Directors and related entities**	**Senior management**	**Total**
Income					
Return to unrestricted investment accounts	303	293	7	33	636
Income from murabaha and other financings	9,185	-	-	-	9,185
Share of profit/(loss) after tax from associates	-	(217)	-	-	(217)
Profit paid to banks, financial and other institutions	409	506	-	-	915
Other Income - Management fees expenses	2,500	-	-	-	2,500
Expenses					
Administrative and general expenses	198	-	19	-	217

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

36 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The table below summarises the composition of regulatory capital and the ratios of the Group for the year ended. The capital adequacy ratio has been calculated in accordance with CBB guidelines & CBB directives incorporating credit risk, operational risk and market risk. The subsidiaries comply with the directives of the respective local regulators for their capital management. The minimum regulatory requirement is 12.5% under Basel III.

	31 December 2018	31 December 2017
Tier 1	134,509	191,347
Tier 2	20,778	21,106
Total Capital Base	**155,287**	**212,453**
Total Risk-Weighted Exposures	1,156,222	1,526,186
Capital Adequacy Ratio	**13.43%**	**13.92%**

37 PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2018 (31 December 2017: nil).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

38 NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are in accordance with the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended 31 December 2018	Period ended 31 December 2017
INCOME		
Income from other financings	58,440	49,873
Income from investments	35,023	43,739
Other income	10,125	11,312
Gross income	**103,588**	**104,924**
Less: profit paid to banks, financial and other institutions - note (ii)	(45,478)	(45,145)
Total income	**58,110**	**59,779**
EXPENSES		
Administrative and general expenses - note (ii)	(33,540)	(34,270)
Depreciation and amortisation	(4,539)	(5,238)
Total expenses	**(38,079)**	**(39,508)**
Net income before provision for impairment and overseas taxation	**20,031**	**20,271**
Provision for impairment (net)	1,135	1,098
Net income before overseas taxation	**21,166**	**21,369**
Overseas taxation	(9,637)	(9,755)
NET INCOME FOR THE PERIOD/YEAR	**11,529**	**11,614**
Attributable to:		
Equity holders of the Bank	7,675	7,732
Minority interests	3,854	3,882
	11,529	**11,614**
Basic and diluted earnings per share	**Fils 7.68**	**Fils 7.73**

Note (i) – The share of profit attributable to non-sharia compliant associates is based on their accounting policies which are different from the Group accounting policies. Since the non-sharia income is already disclosed separately and hence no adjustment is made on impact of dissimilar accounting policies.

Note (ii) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (iii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 254 (2017: 197) out of total 454 branches (2017: 404).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

39 ACQUISITION OF A BUSINESS

- Dilmunia Development Fund I L.P.

During December 2018, the Bank's interest in shareholding of Dilmunia increased to 53.54% from 40.56% resulting from in-kind redemption by investors of fund units against underlying development property. Further, the Bank acquired additional 3.61% interest on 31 December 2018 resulting from settlement of a financing, increasing its total shareholding in the Fund to 57.15%. Hence the Fund was classified as a subsidiary of the Bank from existing accounting as an investment in restricted investment accounts.

The resulting transaction of the Fund being classified as a subsidiary has been accounted for by applying the purchase method in accordance with the requirements of IFRS 3 'Business Combinations'. The cost of the transaction has been measured at the fair value of the consideration given. Identified assets acquired, liabilities assumed or incurred have been carried at the fair value as at the acquisition date as follows:

	Amount
Fair value of net assets as of 31 December 2018 (based on independent valuation of Development Properties)	70,624
Percentage if identifiable net assets acquired	57.15%
Fair value of net assets as of 31 December 2018	40,362
Less: Existing equity interest	(29,527)
Gain on bargain purchase	**10,835**
Minority interests	**8,359**
Total Gain on Bargain Purchase	**19,194**

The fair value of the net assets acquired are as follows:

	Acquiree's carrying value as of 31	**Fair value adjustments**	**Fair value as of 31 December 2018**
ASSETS			
Cash and balances with a financial institution	6,635	-	6,635
Other assets	14,830	(1,593)	13,237
Development properties	41,851	37,445	79,296
	63,316	**35,852**	**99,168**
LIABILITIES			
Other liabilities	11,886	16,658	28,544
	11,886	**16,658**	**28,544**
NET ASSETS	**51,430**	**19,194**	**70,624**

40 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and

41 COMPARATIVES

Certain comparatives figures have been reclassified to conform to the current year presentation.