بسم الله الرحمن الرحيم

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2018 (REVIEWED)

EY
Building a better working world

Ernst & Young Middle East
P.O. Box 140
10th Floor, East Tower
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
C.R. No. 29977

REVIEW REPORT TO THE BOARD OF DIRECTORS OF AL BARAKA ISLAMIC BANK B.S.C. (c)

Introduction
We have reviewed the accompanying interim consolidated statement of financial position of Al Baraka Islamic Bank B.S.C.(c) (the "Bank") and its subsidiary ("the Group") as of 30 June 2018, and the related interim consolidated statements of income, changes in owners' equity, cash flows and changes in off-balance sheet equity of investment accountholders for the six month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

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

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

Ernst + Young

8 August 2018
Manama, Kingdom of Bahrain

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018 (Reviewed)

	Notes	30 June 2018 BD '000	Audited 31 December 2017 BD '000
ASSETS			
Cash and balances with banks and financial institutions	3	**85,173**	82,544
Receivables	4	**271,604**	274,676
Ijara Muntahia Bittamleek and ijara income receivable	5	**109,593**	116,453
Musharaka	6	**117,081**	128,044
Investments	7	**222,663**	195,186
Investments in real estate		**2,252**	2,252
Investment in joint venture		**5,529**	5,518
Premises and equipment		**22,951**	13,471
Goodwill		**6,968**	7,667
Other assets	8	**39,497**	40,134
TOTAL ASSETS		**883,311**	865,945
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY			
Liabilities			
Due to banks and financial institutions		**17,402**	19,637
Current accounts		**113,631**	111,078
Medium term financing		**36,095**	37,631
Other liabilities	9	**48,788**	48,060
Total liabilities		**215,916**	216,406
Equity of investment accountholders		**555,198**	555,773
Subordinated debts	10	**7,940**	21,501
Owners' equity			
Share capital		**46,167**	46,167
Perpetual tier 1 capital	11	**41,470**	-
Reserves		**5,044**	7,356
(Accumulated losses) / retained earnings		**(749)**	4,500
Equity attributable to parent's shareholders		**91,932**	58,023
Non-controlling interest		**12,325**	14,242
Total owners' equity		**104,257**	72,265
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY		**883,311**	865,945
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDERS		**32,626**	32,272
CONTINGENCIES AND COMMITMENTS	12	**130,113**	115,449

Khalid Rashid Al-Zayani Chairman	Adnan Ahmed Yousif Deputy Chairman	Mohammed Isa Al Mutaweh Chief Executive Officer & Board Member

The attached explanatory notes 1 to 19 form part of these interim condensed consolidated financial statements.

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF INCOME

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

		Three months ended 30 June		*Six months ended 30 June*	
		2018	*2017*	***2018***	*2017*
	Notes	***BD '000***	*BD '000*	***BD '000***	*BD '000*
INCOME					
Income from jointly financed sales		**4,024**	3,893	**8,286**	7,446
Income from jointly financed, other financings and investments	13	**4,281**	4,599	**9,131**	9,843
Income from jointly financed assets		**8,305**	8,492	**17,417**	17,289
Return on equity of investment accountholders before Group's share as a Mudarib		**(6,283)**	(6,891)	**(13,238)**	(13,742)
Group's share as a Mudarib		**1,269**	1,772	**3,409**	3,709
Return on equity of investment accountholders		**(5,014)**	(5,119)	**(9,829)**	(10,033)
Group's share as a Mudarib and Rabalmal		**3,290**	3,373	**7,588**	7,256
Group's income from self financed sales		**138**	49	**264**	155
Group's income from self financed, other financings and investments	13	**3,043**	2,374	**4,722**	4,702
Revenue from banking services	14	**1,479**	977	**2,442**	2,067
Other income	15	**444**	320	**825**	671
Group's Mudarib / Agency fee from off-balance sheet equity of investment account holders		**3**	4	**9**	12
TOTAL OPERATING INCOME		**8,397**	7,097	**15,850**	14,863
OPERATING EXPENSES					
Staff expenses		**(3,339)**	(3,287)	**(6,661)**	(6,600)
Depreciation		**(581)**	(438)	**(1,059)**	(858)
Other operating expenses		**(2,761)**	(3,416)	**(5,646)**	(6,814)
TOTAL OPERATING EXPENSES		**(6,681)**	(7,141)	**(13,366)**	(14,272)
NET OPERATING INCOME / (LOSS)		**1,716**	(44)	**2,484**	591
Net allowance for credit losses / impairment	16	**(3,147)**	345	**(3,319)**	(147)
NET (LOSS) / INCOME BEFORE TAXATION		**(1,431)**	301	**(835)**	444
Taxation		**42**	(104)	**65**	(101)
(LOSS) / INCOME FOR THE PERIOD		**(1,389)**	197	**(770)**	343
Attributable to:					
Equity shareholders of the Parent		**(1,386)**	84	**(780)**	208
Non-controlling interest		**(3)**	113	**10**	135
		(1,389)	197	**(770)**	343

Khalid Rashid Al-Zayani	Adnan Ahmed Yousif	Mohammed Isa Al Mutaweh
Chairman	Deputy Chairman	Chief Executive Officer & Board Member

The attached explanatory notes 1 to 19 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

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

	Equity attributable to shareholders of the Parent											
			Reserves									
	Share capital BD '000	*Perpetual Tier1 capital BD '000*	*Statutory BD '000*	*General BD '000*	*Employee defined benefit plan BD '000*	*Cumulative changes in fair value BD '000*	*Revaluation of premises and equipment BD '000*	*Foreign exchange BD '000*	*Retained earnings / (accumulated losses) BD '000*	*Total BD '000*	*Non-controlling interest BD '000*	*Total owners' equity BD '000*
Balance at 1 January 2018	**46,167**	-	**8,558**	**3,275**	**(44)**	**364**	**450**	**(5,246)**	**4,500**	**58,024**	**14,242**	**72,266**
Transition adjustment on adoption of FAS 30 as of 1 January 2018 (note. 2.4.1)	-	-	-	-	-	-	-	-	**(4,469)**	**(4,469)**	**(728)**	**(5,197)**
Restated balance as of 1 January 2018	**46,167**	-	**8,558**	**3,275**	**(44)**	**364**	**450**	**(5,246)**	**31**	**53,555**	**13,514**	**67,069**
Cumulative changes in fair value	-	-	-	-	-	**53**	-	-	-	**53**	**37**	**90**
Foreign currency translation reserve	-	-	-	-	-	-	-	**(2,369)**	-	**(2,369)**	**(1,239)**	**(3,608)**
Remeasurement gains on defined benefit plan	-	-	-	-	**3**	-	-	-	-	**3**	**3**	**6**
Perpetual tier 1 capital (note 11)	-	**41,470**	-	-	-	-	-	-	-	**41,470**	-	**41,470**
Net (loss) / income for the period	-	-	-	-	-	-	-	-	**(780)**	**(780)**	**10**	**(770)**
Balance at 30 June 2018	**46,167**	**41,470**	**8,558**	**3,275**	**(41)**	**417**	**450**	**(7,615)**	**(749)**	**91,932**	**12,325**	**104,257**
Balance at 1 January 2017	46,167	-	8,558	3,275	(43)	757	450	(3,512)	5,837	61,489	16,432	77,921
Cumulative changes in fair value	-	-	-	-	-	(271)	-	-	-	(271)	(201)	(472)
Foreign currency translation reserve	-	-	-	-	-	-	-	(69)	-	(69)	(39)	(108)
Remeasurement gains on defined benefit plan	-	-	-	-	9	-	-	-		9	6	15
Effects of changes in controlling interest in lieu of accquistion - net	-	-	-	-	(1)	15	-	(211)	280	83	(663)	(580)
Net income for the period	-	-	-	-	-	-	-	-	208	208	135	343
Balance at 30 June 2017	46,167	-	8,558	3,275	(35)	501	450	(3,792)	6,325	61,449	15,670	77,119

The attached explanatory notes 1 to 19 form part of these interim condensed consolidated financial statements.

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Six months ended 30 June	
	2018	*2017*
	BD '000	*BD '000*
OPERATING ACTIVITIES		
Net (loss) / income before taxation	**(835)**	445
Adjustments for :		
Depreciation	**1,059**	858
Provision for impairment - net	**3,319**	147
Gain on sale of premises and equipment	**-**	(11)
Gain on sale of investments	**(68)**	(1,355)
Dividend income	**-**	(69)
Share of gain from investment in joint venture	**(11)**	(8)
Operating profit before changes in operating assets and liabilities	**3,464**	7
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	**(15,327)**	32,804
Receivables	**(3,862)**	(13,329)
Mudaraba financing	**-**	293
Ijara Muntahia Bittamleek and ijara income receivable	**2,766**	1,634
Musharaka	**9,695**	(1,210)
Ijara income receivables	**(851)**	(2,506)
Other assets	**3,827**	(3,076)
Other liabilities	**246**	5,753
Due to banks and financial institutions	**(2,234)**	202
Current accounts	**2,553**	23,342
Equity of investment accountholders	**284**	(24,780)
Tax paid	**(65)**	(103)
Net cash from operating activities	**496**	19,031
INVESTING ACTIVITIES		
Purchase of investments	**(30,912)**	(76,021)
Sale of investments	**3,086**	89,829
Acquisition of shares in subsidiary from minority shareholders	**-**	(580)
Dividend received		73
Net sale / (purchase) of premises and equipment	**395**	(1,765)
Net cash (used in) / from investing activities	**(27,431)**	11,536
FINANCING ACTIVITIES		
Subordinated debts	**(1,874)**	(885)
Medium term financing	**(1,535)**	4,440
Issuance of perpetual teir 1 capital	**18,850**	-
Net cash from financing activities	**15,441**	3,555
Foreign currency translation adjustments	**(2,909)**	(83)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(14,403)**	34,039
Cash and cash equivalents at 1 January	**120,557**	119,567
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**106,154**	153,606

For the purpose of the interim cash flows statement, cash and cash equivalents comprise the following:

Cash in hand	**13,852**	18,684
Balances with central banks in unrestricted account	**6,334**	5,948
Balances with other banks and financial institutions	**21,681**	34,595
Receivables - international commodities	**64,287**	94,379
	106,154	153,606

The attached explanatory notes 1 to 19 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

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

	Balance at 1 January 2018 BD '000	***Net Deposits BD '000***	***Gross income BD '000***	***Mudarib's/ agency fee BD '000***	***Balance at 30 June 2018 BD '000***
Receivables	**28,655**	**170**	**214**	**(9)**	**29,030**
Investments	**3,617**	**(20)**	**-**	**-**	**3,597**
	32,272	**150**	**214**	**(9)**	**32,627**

	Balance at 1 January 2017 BD '000	*Net Deposits BD '000*	*Gross income BD '000*	*Mudarib's/ agency fee BD '000*	*Balance at 30 June 2017 BD '000*
Receivables	25,103	(1,457)	272	(12)	23,906
Investments	3,546	43	-	-	3,589
	28,649	(1,414)	272	(12)	27,495

1 INCORPORATION AND PRINCIPAL ACTIVITY

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Bank operates under a Retail Banking licence number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has eight commercial branches in the Kingdom of Bahrain. The Bank is 91% owned by Al Baraka Banking Group B.S.C. ("the Parent").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

These interim condensed consolidated financial statements were approved by the Board of Directors on 8 August 2018.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six month period ended 30 June 2018 have been prepared in accordance with the guidance given by International Accounting Standard 34 "Interim Financial Reporting". The interim condensed consolidated financial statements do not contain all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017. In addition, results for the six month period ended 30 June 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

2.2 Accounting convention

The interim condensed consolidated financial statements are prepared on historical cost basis, except for investment in real estate, equity-type instruments through equity, equity-type instruments through profit or loss and land owned by the Bank (classifed as premises and equipment) that have been measured at fair value.

The interim condensed consolidated financial statements are presented in Bahraini Dinars, being the reporting currency of the Group. All values are rounded off to the nearest Bahraini Dinar (BD) thousand unless otherwise indicated.

2.3 Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and its subsidiary after elimination of inter company transactions and balances.

The following is the principle subsidiary of the Bank, which is consolidated in these interim consolidated financial statements:

	Ownership for 2018 / 2017	*Year of incorporation*	*Country of incorporation*	*No. of branches/ offices at 30 June 2018*
Held directly by the Bank				
Al Baraka Bank (Pakistan) Limited*	59.13%	2004	Pakistan	188

*Al Baraka Bank (Pakistan) Limited became a subsidiary on 21 December 2010.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

Investment in Itqan Capital

The Bank has ownership interest of 83.07% with Itqan Capital (the "Company"). The Bank via a management agreement dated 1 July 2012 assigned the control to govern the financial and operating policies of the Company to the Ultimate Parent. The Bank has authorised the Ultimate Parent to represent it in the shareholders' meetings and to exercise control on the Company to do any or all acts and deeds and exercise all powers of the Bank pursuant to the Charter Document referred in the management agreement and or under any applicable laws.

The financial statements of the Company are not consolidated as it is controlled by the Ultimate Parent pursuant to the terms of the management agreement. The Ultimate Parent consolidates the financial statements of the Company in its consolidated financial statements which are prepared in accordance with AAOIFI standards and the same was approved by the CBB.

The investment acquired is initially recognised at cost, being the fair value of consideration given including acquisition charges associated with the investment. Subsequently, the investment is carried at cost less impairment losses, if any.

2.4 New standards, interpretations and amendments adopted by the Group

These interim condensed consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018.

2.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30")

The Group has early adopted FAS 30, effective from 1 January 2018 which has a mandatory date of initial application of 1 January 2020. The requirements of FAS 30 represent a significant change from FAS 11 "Provisions and Reserves".

As permitted by FAS 30, the standard has been applied retrospectively and the comparative amounts have not been restated. The impact of the early adoption of FAS 30 has been recognised in retained earnings and non-controlling interest in the consolidated statment of changes in owners' equity. The standard eliminates the use of the existing FAS 11 incurred loss impairment model approach.

Transition

Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except comparative periods which have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 are recognised in retained earnings and non-controlling interest as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of FAS 30 and therefore is not comparable to the information presented for 2018 under FAS 30.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 New standards, interpretations and amendments adopted by the Group (continued)

2.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

Impact of adopting FAS 30
Following is the impact of early adoption of FAS 30:

	Balance 31 December 2017	*Transition adjustment*	*Restated balance 1 January 2018*
	BD '000	*BD '000*	*BD '000*
Retained earnings	**4,500**	(4,469)	31
Non-controlling interest	**14,242**	(728)	13,514
Equity of investment accountholders	**555,773**	(859)	554,914
Other liabilities	**48,060**	489	48,549
Receivables	**274,676**	(3,514)	271,162
Musharaka financing	**128,044**	(1,231)	126,813
Investments - debt-type instruments at amortised cost	**165,065**	(152)	164,913
Ijarah Muntahia Bittamleek and Ijara Receivables	**116,453**	(1,650)	114,803
Other assets	**40,134**	980	41,114

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

a) Financial contracts
Financial contracts consist of cash and balances with banks, receivables, Musharaka financing, Investments - deb type instruments at amortised cost, Ijarah Muntahia Bittamleek and ijara receivables certain other assets and contengencies and commitments. Balances relating to these contracts are stated net of allowance for credit losses.

b) Impairment assessment (policy applicable from 1st January 2018)

Impairment of financial assets
FAS 30 replaces the 'incurred loss' model in FAS 11 with Expected Credit Loss (ECL) model. The new impairment model also applies to certain financing commitments and financial guarantee contracts but not to equity investments.

The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: twelve months ECL
For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months) of the lifetime ECL associated with the probability of default events occurring within next twelve months after the reporting date is recognised.

Stage 2: lifetime ECL – not credit impaired
For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract.

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 New standards, interpretations and amendments adopted by the Group (continued)

2.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

b) Impairment assessment (policy applicable from 1st January 2018) (continued)

Stage 3: Lifetime ECL – credit impaired
Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. As this uses the same criteria as under FAS 11, the Group methodology for specific allowance for credit losses remains largely unchanged.

In case where there is no collaterals or guarantees which the Group can recover its exposure, the past due rules as per Group's policy or local requirements, whichever is more strict, are applied for allowance for credit losses calculation.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- probability that the borrower will enter bankruptcy or other financial reorganization; or
- the restructuring of a facility by the Group on terms that the Group would not consider otherwise.

Measurement of ECL
Following are the key inputs into the measurement of ECL:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

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

Definition of default
The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the borrower is past due more than 90 days or any material credit obligation to the Group. In assessing whether a borrower is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Group.

Probability of default
Credit risk grades are a primary input into the determination of the term structure of Probability of Default (PD) for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs statistical models for analysing the data collected and generate estimates of 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 changes in key macro-economic factors, across various geographies in which the Group operates.

The subsidiary of the Group uses combination of key macro-economic indicators including, fiscal surplus/deficit as a percentage of GDP, gross domestic product (GDP) growth, oil prices, government spending, stock market volatility, cost of funding, lending rates credit growth, inflation rate and unemployment.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 New standards, interpretations and amendments adopted by the Group (continued)

2.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

b) Impairment assessment (policy applicable from 1st January 2018) (continued)

Probability of default (continued)

Types of PDs used for ECL computaion

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.
- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2'.

Incorporation of forward - looking information

The Group considers latest available economic forecasts published by the International Monetary Fund (IMF) or other reputed service providers, for 5 years. The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio as per the diagnostic tool.

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). As per the policy the, methodologies and assumptions involved, including any forecasts of future economic conditions, are required to be reviewed periodically.

Loss Given Default

LGD is a percentage that determine the amount of loss that will arise if the borrower was to default. This is calculated by looking at the collateral and other resources available to the Group that can be used to recover the asset in case of default.

Internal default history: When data is available, the Group can estimate LGDs using the historical default information and corresponding recovery data.

Basel LGD: local regulatory recommended Basel LGD adjusted for market conditions and depending on the available collateral.

Collateral-based LGD: for secured financing the Group uses collateral-based LGD, where the Group has effective collateral management framework that is able to assess and provide up to date collateral valuation and establish legal charge and enforceability .

Exposure At Default

EAD represents estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, and expected drawdowns on committed facilities.

On-balance sheet EADs

EADs for on-balance sheet items are the amount that is outstanding at the time of default. Outstanding of an on-balance sheet exposure shall be directly taken subject to inclusion of its repayment structure.

Prepayments have to be estimated using previous trends and deducted from EAD while calculating ECL.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 New standards, interpretations and amendments adopted by the Group (continued)

2.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

b)Impairment Assessment (policy applicable from 1st January 2017) (continued)

Exposure At Default (continued)

Off-balance sheet EADs
Off-balance sheet exposures do not have fixed payout date; thus, the EAD for off-balance sheet is calculated after applying the Credit Conversion Factor (CCF) to the nominal amount of the Off-balance sheet exposure. The Group uses following methods to work out CCF for off- balance sheet EADs;

CCF based on internal data - The Group performs off-balance sheet product-based analysis to study the average percentage utilization/conversion over a period of 3-5 years. Based on the analysis, product wide conversion/utilization factors is estimated. For letters of Credit (LCs) and letters of guarantees (LGs) issued, the Group determines CCF by estimating total amount of LCs/LGs devolved/converted over last 3-5 years, as a percentage of total LC/LG issued, to arrive at the expected exposure over the future for these off-balance sheet items.

Regulatory CCFs - In absence of internal data, The Group uses the same Basel CCF that are used for calculating the Capital Adequacy Ratio (CAR) as per the CBB regulations. These rates are 20% for exposures with maturity equal to or less than 1 year and 50% for exposures with maturity of more than 1 year.

Collective ECL computation and staging
ECL on individually large exposures and credit-impaired loans are generally measured individually. For retail exposures and other exposures to small and medium-sized enterprises, where less client-specific information is available, ECL is measured on a collective basis. This incorporates borrower-specific information, such as delinquency, collective historical experience of losses and forward-looking macroeconomic information.

To assess the staging of exposures and to measure a loss allowance on a collective basis, the Group classifies its exposures into segments on the basis of shared credit risk characteristics, such as geography, type of customer, industry, rating, date of initial recognitio, maturity and collateral value.

Significant Increase in Credit Risk
When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost and efforts. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information.

The assessment is carried out for specific instrument rather than a counterparty, as each instrument may have had different credit risk at initial recognition.

The application of above requirements of SICR to various locations of the Group varies depending on a number of circumstances faced by each location and each location applies a robust risk assessment methodology that is commensurate with the size, complexity, structure, economic significance and risk profile of its portfolio.

Renegotiated financial assets
The contractual terms of a financing may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in a derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 New standards, interpretations and amendments adopted by the Group (continued)

2.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

b)Impairment Assessment (policy applicable from 1st January 2017) (continued)

Renegotiated financial assets (continued)

The Group renegotiates financing to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing (prior to restructuring), then such restructured accounts are categorized under stage 3.

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

Backward transition

FAS 30 staging model is of symmetrical nature as movement across stages is a "Two Way" phenomenon. However, backward movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off period, SICR indicators and payment history are considered for migrating customers to Stage 2 or Stage 1. Following factors including cure period are considered for any backward transition:

From Stage 2 to stage 1

- The criteria to classify the exposure into Stage 2 (criteria covered in SICR section above) is no longer present;
- Up to date payment with no arrears;
- A minimum cool-off/cure period of 6 months for any stage 2 accounts;
- A minimum cool-off/cure period of 12 months for restructured accounts

From stage 3 to stage 2

- The criteria to classify the exposure into Stage 3 (criteria covered in default section above) is no longer present.
- Up to date payment with no arrears.
- A minimum cool-off/cure period of 12 months for non-performing and restructured facilities.

Credit Conversion Factor

The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including expected drawdowns on committed facilities through the application of a credit conversion factor (CCF). The EAD is estimated using the outstanding exposure adjusted by CCF times undrawn portion of the facilities.

The outstanding exposure is calculated as principal plus profit less expected prepayments. The undrawn portion refers to the portion of the unutilized credit limit. CCF applied to the facilities would be the higher of average behavioral utilization over the last five years or capital charge.

Write-offs

Financing facilities are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 New standards, interpretations and amendments adopted by the Group (continued)

2.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

b) Impairment assessment (policy applicable from 1st January 2018) (continued)

Presentation of allowance for credit losses in the interim consolidated statement of financial position

Allowance for credit losses are presented in the interim consolidated statement of financial position as follows:

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision included in other liabilites; and
- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, allowance for credit losses on undrawn component is presented as a provision in other liabilities.

3 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	30 June 2018 BD '000	*Audited 31 December 2017 BD '000*
Cash in hand	**13,849**	14,820
Balances with State Bank of Pakistan		
Current account	**2,430**	2,494
Placements	**-**	17,333
Mandatory reserves	**32,915**	17,397
	35,345	37,224
Balances with CBB		
Current account	**3,903**	3,698
Mandatory reserves	**10,395**	10,650
	14,298	14,348
Balances with other banks and financial institutions	**21,681**	16,152
	85,173	82,544

The mandatory reserves with central banks are not available for use in the day-to-day operations.

4 RECEIVABLES

	30 June 2018			*Audited 31 December 2017*		
	Self financed BD	*Jointly financed BD*	*Total BD*	*Self financed BD*	*Jointly financed BD*	*Total BD*
Commodities	**1,303**	**63,150**	**64,453**	863	65,222	66,085
Salam financing	**-**	**38,745**	**38,745**	-	32,757	32,757
Istisna'a financing	**-**	**24,711**	**24,711**	-	33,458	33,458
Murabaha	**955**	**138,926**	**139,881**	955	149,662	150,617
Wakala	**-**	**37,215**	**37,215**	-	19,798	19,798
Gross receivable	**2,258**	**302,747**	**305,005**	1,818	300,897	302,715
Deferred profits	**(21)**	**(10,258)**	**(10,279)**	(21)	(8,767)	(8,788)
	2,237	**292,489**	**294,726**	1,797	292,130	293,927
Less: Allowance for credit losses	**(93)**	**(23,029)**	**(23,122)**	-	(19,251)	(19,251)
Net receivable	**2,144**	**269,460**	**271,604**	1,797	272,879	274,676

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of credit losses allowances.

	30 June 2018				*Audited 31 December 2017*
	Stage 1 BD '000	*Stage 2 BD '000*	*Stage 3 BD '000*	*Total BD '000*	*Total BD '000*
Good (1-4)	95,472	12,978	-	108,450	120,281
Satisfactory (5-7)	105,151	45,905	-	151,056	137,193
Default (8-10)	-	-	35,220	35,220	36,454
	200,623	**58,883**	**35,220**	**294,726**	293,928

An analysis of the changes in ECL allowances, is as follows:

	30 June 2018				*Audited 31 December 2017*
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*	*Total BD '000*
Balance at 1 January on adoption of FAS 30	901	2,145	19,719	22,765	18,926
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1: 12 month ECL	108	(108)	-	-	-
- transferred to Stage 2: Lifetime	-	-	-		
ECL not credit-impaired	(79)	82	(3)	-	-
- transferred to Stage 3: Lifetime	-	-	-		
ECL credit-impaired	(13)	(51)	63	(1)	-
Net remeasurement of loss allowance	288	(561)	2,120	1,847	2,798
Recoveries / write-backs	-	-	(334)	(334)	(2,135)
Allowance for credit losses	288	(561)	1,786	1,513	663
Allocation from investment risk reserve	-	-	-	-	230
Amounts written off during the period / year	-	-	(10)	(10)	-
FX translation	(17)	(10)	(1,119)	(1,146)	(568)
Balance at the end of the period / year	**1,188**	**1,497**	**20,436**	**23,121**	19,251

5 IJARA MUNTAHIA BITTAMLEEK AND IJARA INCOME RECEIVABLE

	30 June 2018			Audited 31 December 2017		
	Self financed US $	Jointly financed US $	Total US $	Self financed US $	Jointly financed US $	Total US $
Ijara Muntahia Bittamleek	**10,087**	**85,185**	**95,272**	9,912	90,223	100,135
Ijara income receivables	**1,680**	**17,133**	**18,813**	1,211	16,761	17,972
	11,767	**102,318**	**114,085**	11,123	106,984	118,107
Less: Allowance for credit losses	**(61)**	**(4,431)**	**(4,492)**	-	(1,654)	(1,654)
	11,706	**97,887**	**109,593**	11,123	105,330	116,453

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of credit losses allowances.

	30 June 2018				Audited 31 December 2017
	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000	Total BD '000
Good (1-4)	93,372	570	-	93,942	91,861
Satisfactory (5-7)	1,791	7,880	-	9,671	17,461
Default (8-10)	-	-	10,473	10,473	8,786
	95,163	**8,450**	**10,473**	**114,086**	118,108

An analysis of the changes in ECL allowances, is as follows:

	30 June 2018				Audited 31 December 2017
	Stage 1: 12-month ECL US '000	Stage 2: Lifetime ECL not credit-impaired US '000	Stage 3: Lifetime ECL credit-impaired US '000	Total US '000	Total US '000
Balance at 1 January on adoption of FAS 30	113	832	2,358	3,303	1,466
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1: 12 month ECL	386	(386)	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	- (18)	- 18	-	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	- (2)	- (267)	268	(1)	-
Net remeasurement of loss allowance	(330)	(35)	1,898	1,533	275
Recoveries / write-backs	-	-	(188)	(188)	(24)
Allowance for credit losses	(330)	(35)	1,710	1,345	251
Allocation from investment risk reserve	-	-	-	-	11
FX translation	(3)	(1)	(153)	(157)	(74)
Balance at the end of the period / year	**146**	**161**	**4,183**	**4,490**	**1,654**

6 MUSHARAKA

	30 June 2018			Audited 31 December 2017		
	Self financed BD	*Jointly financed BD*	*Total BD*	*Self financed BD*	*Jointly financed BD*	*Total BD*
Musharaka	**21,864**	**98,169**	**120,033**	24,176	105,840	130,016
Less: Allowance for credit losses	**-**	**(2,952)**	**(2,952)**	-	(1,972)	(1,972)
	21,864	**95,217**	**117,081**	24,176	103,868	128,044

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of credit losses allowances.

	30 June 2018				Audited 31 December 2017
	Stage 1 BD '000	*Stage 2 BD '000*	*Stage 3 BD '000*	*Total BD '000*	*Total BD '000*
Good (1-4)	97,481	2,994	-	100,475	121,622
Satisfactory (5-7)	9,161	7,965	-	17,126	4,366
Default (8-10)	-	-	2,432	2,432	4,029
	106,642	**10,959**	**2,432**	**120,033**	130,017

An analysis of the changes in ECL allowances, is as follows:

	30 June 2018				Audited 31 December 2017
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*	*Total BD '000*
Balance at 1 January on adoption of FAS 30	528	636	2,039	3,203	1,887
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1: 12 month ECL	2	(2)	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	- (11)	- 11	-	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	- -	- -	- -	- -	- -
Net remeasurement of loss allowance	22	(156)	406	272	300
Recoveries / write-backs	-	-	(231)	(231)	(116)
Allowance for credit losses	22	(156)	175	41	184
FX translation	(48)	(58)	(186)	(292)	(100)
Balance at the end of the period / year	**493**	**431**	**2,028**	**2,952**	1,971

7 INVESTMENTS

	30 June 2018			Audited 31 December 2017		
	Self financed BD '000	Jointly financed BD '000	Total BD '000	Self financed BD '000	Jointly financed BD '000	Total BD '000
i) Equity-type instruments at fair value through statement of income						
Quoted						
Listed equity shares	-	44	44	-	92	92
	-	44	44	-	92	92
ii) Equity-type instruments at fair value through equity						
Quoted						
Listed equity shares	3,625	160	3,785	3,624	176	3,800
Unquoted						
Unlisted equity shares	22,719	162	22,881	22,752	178	22,930
Managed funds	377	-	377	377	-	377
Real estate funds	3,004	1,129	4,133	1,748	2,159	3,907
	29,725	1,451	31,176	28,501	2,513	31,014
Less: Provision for impairment	(1,037)	(252)	(1,289)	(766)	(218)	(984)
Total equity investments	28,688	1,243	29,931	27,735	2,387	30,122
iii) Debt-type instruments at amortised cost						
Quoted						
Sukuk	66,806	37,639	104,445	37,754	37,846	75,600
Unquoted						
Sukuk	81,898	7,346	89,244	77,739	12,439	90,178
	148,704	44,985	193,689	115,493	50,285	165,778
Less: Allowance for credit losses	(844)	(113)	(957)	(714)	-	(714)
Total debt-type investments	147,860	44,872	192,732	114,779	50,285	165,064
Total investments	176,548	46,115	222,663	142,514	52,672	195,186

	30 June 2018				31 December 2017
	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000	Total BD'000
Good (1-4)	92,669	-	-	92,669	92,380
Satisfactory (5-7)	100,152	-	-	100,152	72,531
Default (8-10)	-	-	868	868	868
	192,821	-	868	193,689	165,779

7 INVESTMENTS (continued)

An analysis of the changes in ECL allowances, is as follows:

	30 June 2018				31 December 2017
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*	*Total BD '000*
Balance at 1 January on adoption of FAS 30	152	-	714	866	556
Net remeasurement of loss allowance	91	-		91	158
Balance at the end of the period/year	**243**	**-**	**714**	**957**	714

Included in quoted equity type instruments, BD 3.1 million (2017: BD 3.4 million) of investments are fair valued using quoted prices in active markets.

Within unquoted investments which are held at fair value through equity are investments amounting to BD 26.9 million (2017: BD 26.7 million) which are held at cost less provision for impairment. These are mainly investments in unlisted companies whose shares are not traded on active markets. The investments are primarily in closely-held companies located in the Gulf Co-operation Council ("GCC"). The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for determining a reliable fair value.

The Group's investments in sukuk held at amortised cost amounting to BD 192.7 million (2017: BD 165.1 million) has a fair value amounting to BD 190.1 million (2017: BD 164.3 million).

Investments stated at a carrying amount of BD 93.5 million (2017: BD 67.5 million) are placed in custody of a financial institution to secure a financing line. Further, investments having a carrying amount of BD 17 million (2017: BD 17 million) are also pledged to secure additional financing line.

8 OTHER ASSETS

	30 June 2018 BD '000	*Audited 31 December 2017 BD '000*
Deferred tax	**11,070**	11,036
Collaterals pending sale	**9,071**	8,063
Advance against financing transactions	**6,854**	11,017
Advance against capital expenditure	**2,423**	2,588
Accounts receivable	**2,099**	1,807
Prepayments	**1,286**	2,274
Advance tax	**1,025**	1,201
Income receivable	**88**	584
Others	**6,822**	2,929
	40,738	41,499
Less: Provision for impairment	**(1,241)**	(1,365)
	39,497	40,134

9 OTHER LIABILITIES

	30 June 2018 BD '000	Audited 31 December 2017 BD '000
Margins received	**25,904**	21,252
Accounts payable	**6,004**	6,611
Bills payable	**4,515**	5,774
Security deposit against Ijara Muntahia Bittamleek	**3,079**	4,145
Provision for employees benefits	**3,069**	3,079
Advance payment from customers	**1,914**	2,489
ECL against contingencies and commitments	**438**	-
Charity fund	**313**	320
Others	**3,552**	4,390
	48,788	48,060

10 SUBORDINATED DEBT

	30 June 2018 BD '000	Audited 31 December 2017 BD '000
Subordinated Mudaraba and Murabaha by Ultimate Parent	**-**	12,273
Subordinated Mudaraba Sukuk	**7,940**	9,228
	7,940	21,501

11 PERPETUAL TIER 1 CAPITAL

On 29 March 2018, the Bank issued BD 41.5 million (BD 18.9 million cash,BD 11.2 million conversion of subordinated debt, BD 10.9 million in-kind property and equipment) Additional Tier 1 Mudaraba Sukuk in compliance with CBB regulations to its Ultimate Parent. Profit shall be payable subject to and in accordance with terms and conditions on the outstanding nominal amount of the Sukuk at an expected profit ranging from 6% to 9% per annum, payable on semi-annual basis. These Sukuks are recognised under equity in the interim consolidated statement of financial position and the corresponding Profit payable on those Sukuk are accounted as appropriation of profits. As per the terms and conditions, the Sukuk holders will not have a right to claim the profit and such event of non-payment of profit will not be considered as event of default.

12 CONTINGENCIES AND COMMITMENTS

	30 June 2018 BD '000	Audited 31 December 2017 BD '000
Letters of credit	**44,699**	41,825
Foreign exchange contracts	**43,698**	29,963
Guarantees	**25,064**	31,242
Acceptances	**15,888**	11,632
Taxation	**716**	787
Others	**48**	-
	130,113	115,449

13 INCOME FROM JOINTLY AND SELF FINANCED, OTHER FINANCINGS AND INVESTMENTS

	Six months ended 30 June	
	2018	*2017*
	BD '000	*BD '000*
Income from Musharaka	**5,617**	5,074
Income from investments	**4,483**	4,290
Income from Ijara Muntahia Bittamleek (note 13.1) - net	**3,613**	3,712
Gain on sale of investments	**68**	1,355
Dividend income	**52**	69
Rental income	**20**	45
	13,853	14,545

	Six months ended 30 June	
	2018	*2017*
	BD '000	*BD '000*
Income from jointly financed, other financings and investments	**9,131**	9,843
Group's income from self financed, other financings and investments	**4,722**	4,702
	13,853	14,545

13.1 Ijara Muntahia Bittamleek

	Six months ended 30 June	
	2018	*2017*
	BD '000	*BD '000*
Income from Ijara Muntahia Bittamleek	**11,468**	14,189
Depreciation on Ijara Muntahia Bittamleek	**(7,856)**	(10,476)
	3,612	3,713

14 REVENUE FROM BANKING SERVICES

	Six months ended 30 June	
	2018	*2017*
	BD '000	*BD '000*
Fees and commissions	**1,281**	1,144
Letters of credit and acceptances	**1,056**	705
Guarantees	**105**	218
	2,442	2,067

15 OTHER INCOME

	Six months ended 30 June	
	2018	2017
	BD '000	US $ '000
Foreign exchange gain - net	**664**	401
Others	**161**	271
	825	672

16 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

	Six months ended 30 June	
	2018	2017
	BD '000	BD '000
Receivables	**1,513**	(48)
Ijara Muntahia Bittamleek and ijara income receivable	**1,345**	32
Musharaka	**41**	26
Investments - debt type	**91**	137
Investments - equity type	**355**	-
Contingencies and commitments	**(40)**	-
Other assets	**14**	-
	3,319	147

17 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors.

For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's interim condensed consolidated financial statements. Transactions between segments are conducted at estimated market rates on an arm's length basis.

The segmental results of the Group were as follows:

	Middle East		*Other Asian Countries*		*Total*	
	30 June 2018	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017
	BD '000	BD '000	**BD '000**	BD '000	**BD '000**	BD '000
Assets	**482,333**	448,201	**400,976**	417,744	**883,309**	865,945
Liabilities, equity of investment accountholders and Subordinated debts	**415,205**	418,453	**363,851**	375,227	**779,056**	793,680

17 SEGMENTAL INFORMATION (continued)

	Middle East		*Other Asian Countries*		*Total*	
	Six months ended 30 June		*Six months ended 30 June*		*Six months ended 30 June*	
	2018	2017	**2018**	2017	**2018**	2017
	BD '000	BD '000	**BD '000**	BD '000	**BD '000**	BD '000
Total operating income	**7,458**	6,046	**8,392**	8,818	**15,850**	14,864
Total operating expenses	**(5,727)**	(5,562)	**(7,639)**	(8,710)	**(13,366)**	(14,272)
Provision for impairment - net	**(2,525)**	(457)	**(794)**	310	**(3,319)**	(147)
Taxation	**-**	-	**65**	(102)	**65**	(102)
Net (loss) / income for the period	**(794)**	27	**24**	316	**(770)**	343

18 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Group, Shari'a supervisory board and external auditors.

The significant balances with related parties were as follows:

	Shareholders		*Other Related Parties*		*Total*	
	30 June 2018	*31 December 2017*	***30 June 2018***	*31 December 2017*	***30 June 2018***	*31 December 2017*
	US $ '000	*US $ '000*	***US $ '000***	*US $ '000*	***US $ '000***	*US $ '000*
Assets:						
Cash and balances with banks and financial institutions	**32**	24	**20**	61	**52**	85
Receivables	**-**	-	**3,233**	4,012	**3,233**	4,012
Ijara Muntahia Bittamleek and ijara inco	**-**	-	**110**	144	**110**	144
Musharaka	**187**	309	**707**	756	**894**	1,065
Ijara income receivables	**-**	-	**24**	27	**24**	27
Investments	**-**	-	**32,765**	32,813	**32,765**	32,813
Other assets	**833**	218	**40**	45	**873**	263
	1,052	551	**36,899**	37,858	**37,951**	38,409
Liabilities:						
Due to banks and financial institutions	**2,268**	1,284	**1,224**	1,448	**3,492**	2,732
Current accounts	**60**	67	**2,081**	1,661	**2,141**	1,728
Other liabilities	**5**	22	**1,197**	198	**1,202**	220
	2,333	1,373	**4,502**	3,307	**6,835**	4,680
Equity of investment accountholders	**4,238**	2,260	**21,285**	21,429	**25,523**	23,689
Subordinated Debts		12,273	**-**	-	**-**	12,273
Perpetual Tier 1 Capital	**41,470**	-	**-**	-	**41,470**	-
OFF-BALANCE SHEET ITEMS:						
Equity of investment accountholders	**-**	-	**26,279**	25,730	**26,279**	25,730
Contingencies and commitments	**-**	-	**5,588**	2,034	**5,588**	2,034

18 RELATED PARTY TRANSACTIONS (continued)

The transactions with the related parties included in the statement of income are as follows:

	Shareholders		*Other Related Parties*		*Total*	
	2018	*2017*	***2018***	*2017*	***2018***	*2017*
	BD '000	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*
Income						
Income from jointly financed sales	-	-	**135**	239	**135**	239
Income from jointly financed, other financings and investments	-	-	**177**	298	**177**	298
Other income	**60**	60	-	-	**60**	60
Group's Mudarib/agency fee from					-	
off-balance sheet equity of investment account holders	**9**	12		-	**9**	12
	69	72	**312**	537	**381**	609
Expenses						
Return on equity of investment accountholders before Group's share as a Mudarib	**200**	354	**214**	336	**414**	690
Other expenses	**17**	35	**758**	390	**775**	425
	217	389	**972**	726	**1,189**	1,115

Compensation of key management personnel is as follows:

	Six months ended 30 June	
	2018	*2017*
	BD '000	*BD '000*
Salaries	**852**	893
Other benefits	**491**	523
	1,343	1,416

19 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

(i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial position date.

(ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.

(iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

(iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.