بسم الله الرحمن الرحيم

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

UNIFIED SHARI'A SUPERVISORY BOARD REPORT, REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL BARAKA ISLAMIC BANK B.S.C. (c)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Al Baraka Islamic Bank B.S.C (c) ("the Bank") and its subsidiary ("the Group") as of 31 December 2018 and the related consolidated statements of income, changes in owners' equity, cash flows and changes in off-balance sheet equity of investment accountholders for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). 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 statements 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 of 31 December 2018, the results of its operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL BARAKA ISLAMIC BANK B.S.C. (c) (continued)

Report on other regulatory requirements

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

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

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

Except for what has been reported in note 2 to the consolidated financial statements,we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2018 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst + Young

Partner's registration no. 115
21 February 2019
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	*2018* *BD '000*	*2017* *BD '000*
ASSETS			
Cash and balances with banks and financial institutions	3	**70,622**	82,544
Receivables	4	**268,567**	274,677
Ijara Muntahia Bittamleek & Ijara receivables	5	**107,330**	116,454
Musharakas	6	**102,502**	128,045
Investments	7	**205,328**	195,187
Investment in joint venture	8	**5,531**	5,518
Investments in real estate	9	**1,975**	2,252
Premises and equipment	10	**20,965**	13,471
Goodwill	11	**6,096**	7,666
Other assets	12	**33,100**	40,131
TOTAL ASSETS		**822,016**	865,945
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY			
Liabilities			
Due to banks and financial institutions		**21,724**	19,637
Current accounts		**103,897**	111,078
Medium term financing		**23,026**	37,631
Other liabilities	13	**42,879**	48,059
Total liabilities		**191,526**	216,405
Equity of investment accountholders	14	**531,864**	555,774
Subordinated debts	15	**6,589**	21,501
Owners' Equity	16		
Share capital		**46,167**	46,167
Additional tier-1 capital		**41,470**	-
Reserves		**1,805**	7,356
(Accumulated losses) / retained earnings		**(8,210)**	4,500
Equity attributable to parent's shareholders		**81,232**	58,023
Non-controlling interest		**10,805**	14,242
Total owners' equity		**92,037**	72,265
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY		**822,016**	865,945
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS		**32,708**	32,272
CONTINGENCIES AND COMMITMENTS	17	**113,890**	115,450

Khalid Rashid Al-Zayani Chairman	Adnan Ahmed Yousif Deputy Chairman	Tariq Mahmood Kazim Acting Chief Executive Officer

The attached explanatory notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2018

	Notes	**2018 BD '000**	2017 BD '000
INCOME			
Income from jointly financed sales		**17,000**	15,187
Income from jointly financed, other financings and investments	18	**17,981**	18,856
Income from jointly financed assets		**34,981**	34,043
Return on equity of investment accountholders before Group's share as a Mudarib		**(26,250)**	(26,159)
Group's share as a Mudarib		**6,212**	6,902
Return on equity of investment accountholders		**(20,038)**	(19,257)
Group's share as a Mudarib and Rabalmal		**14,943**	14,786
Group's income from self financed sales		**646**	552
Group's income from self financed, other financings and investments	18	**10,899**	8,212
Revenue from banking services	19	**4,629**	4,123
Other income	20	**1,463**	1,372
Group's Mudarib / agency fee from off-balance sheet equity of investment account holders		**34**	40
TOTAL OPERATING INCOME		**32,614**	29,085
OPERATING EXPENSES			
Staff expenses		**(12,698)**	(13,486)
Depreciation	10	**(2,117)**	(1,985)
Other operating expenses	21	**(12,191)**	(14,481)
TOTAL OPERATING EXPENSES		**(27,006)**	(29,952)
NET OPERATING INCOME / (LOSS)		**5,608**	(867)
Allowances for impairment - net	22	**(12,235)**	(1,657)
LOSS BEFORE TAXATION		**(6,627)**	(2,524)
Taxation	23	**(247)**	488
LOSS FOR THE YEAR		**(6,874)**	(2,036)
Attributable to:			
Equity shareholders of the parent		**(6,983)**	(1,616)
Non-controlling interest		**109**	(420)
		(6,874)	(2,036)

Khalid Rashid Al-Zayani Chairman	Adnan Ahmed Yousif Deputy Chairman	Tariq Mahmood Kazim Acting Chief Executive Officer

The attached explanatory notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2018

	Equity attributable to shareholders of the parent											
			Reserves									
	Share capital BD '000	Additional tier-1 capital BD '000	Statutory BD '000	General BD '000	Employee defined benefit plan BD '000	Cumulative changes in fair value of investments BD '000	Revaluation of premises and equipment BD '000	Foreign exchange BD '000	Accumulated losses /retained earnings BD '000	Total BD '000	Non-controlling interest BD '000	Total owners' equity BD '000
Balance at 1 January 2018	46,167	-	8,557	3,275	(44)	364	450	(5,246)	4,500	58,023	14,242	72,265
Impact of adopting FAS 30	-	-	-	-	-	-	-	-	(4,469)	(4,469)	(728)	(5,197)
Restated balances as at 1 January 2018	46,167	-	8,557	3,275	(44)	364	450	(5,246)	31	53,554	13,514	67,068
Cumulative changes in fair value	-	-	-	-	-	26	-	-	-	26	18	44
Foreign currency translation reserve	-	-	-	-	-	-	-	(5,428)	-	(5,428)	(2,858)	(8,286)
Changes in fair value of premises and equipment	-	-	-	-	-	-	(181)	-	-	(181)	-	(181)
Net loss for the year	-	-	-	-	-	-	-	-	(6,983)	(6,983)	109	(6,874)
Remeasurement gain on defined benefit plan	-	-	-	-	32	-	-	-	-	32	22	54
Issuance of Additional Tier 1 Capital	-	41,470	-	-	-	-	-	-	-	41,470	-	41,470
Profit distribution on Additional Tier 1 Capital	-	-	-	-	-	-	-	-	(1,258)	(1,258)	-	(1,258)
Balance at 31 December 2018	**46,167**	**41,470**	**8,557**	**3,275**	**(12)**	**390**	**269**	**(10,674)**	**(8,210)**	**81,232**	**10,805**	**92,037**
Balance at 1 January 2017	46,167	-	8,557	3,275	(43)	756	450	(3,512)	5,836	61,486	16,432	77,918
Cumulative changes in fair value	-	-	-	-	-	(407)	-	-	-	(407)	(296)	(703)
Foreign currency translation reserve	-	-	-	-	-	-	-	(1,523)	-	(1,523)	(812)	(2,335)
Net loss for the year	-	-	-	-	-	-	-	-	(1,616)	(1,616)	(420)	(2,036)
Effect of change in controlling interest in lieu of merger and acquisition	-	-	-	-	(1)	15	-	(211)	280	83	(662)	(579)
Balance at 31 December 2017	46,167	-	8,557	3,275	(44)	364	450	(5,246)	4,500	58,023	14,242	72,265

The attached explanatory notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 *BD '000*	*2017* *BD '000*
OPERATING ACTIVITIES		
Net loss before taxation	**(6,627)**	(2,524)
Adjustments for:		
Depreciation	**2,117**	1,985
Provision for impairment - net	**12,235**	1,657
Gain on sale of premises and equipment	**(5)**	(202)
Share of income from investment in joint venture	**(13)**	(23)
Gain on sale of investments	**(536)**	(775)
Unrealized loss on revalution of investment properties	**277**	-
Operating profit before changes in operating assets and liabilities	**7,448**	118
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	**(7,927)**	38,520
Receivables	**(2,496)**	(9,669)
Mudaraba financing	**-**	293
Ijara Muntahia Bittamleek & Ijara receivables	**4,767**	307
Musharakas	**23,988**	(8,824)
Other assets	**7,856**	652
Other liabilities	**(5,375)**	13,572
Due to banks and other financial institutions	**2,085**	(2,408)
Current accounts	**(7,181)**	501
Equity of investment accountholders	**(23,050)**	(46,765)
Taxation paid	**(94)**	(146)
Net cash generated from / (used in) operating activities	**21**	(13,849)
INVESTING ACTIVITIES		
Purchase of investments	**(56,104)**	(88,887)
Investments sold / matured	**45,033**	100,159
Net investment in merger / acquisition	**-**	(580)
Purchase of premises and equipment	**(694)**	(2,493)
Sale of premises and equipment	**51**	545
Net cash (used in) / generated from investing activities	**(11,714)**	8,744
FINANCING ACTIVITIES		
Subordinated debts	**(3,225)**	3,979
Receipt of additional tier-1 capital	**18,850**	-
Dividend distribution on additional tier-1 capital	**(1,258)**	-
Medium term financing	**(14,605)**	3,481
Net cash (used in) / generated from financing activity	**(238)**	7,460
Foreign currency translation adjustments	**(4,925)**	(1,366)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(16,856)**	989
Cash and cash equivalents at 1 January	**120,556**	119,567
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (note 24)	**103,700**	120,556

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

For the year ended 31 December 2018

	Balance at 1 January 2018 BD '000	***Net deposits / withdrawals BD '000***	***Gross income BD '000***	***Mudarib's / agency fee BD '000***	***Balance at 31 December 2018 BD '000***
Receivables	**28,654**	**54**	**443**	**(34)**	**29,117**
Investments	**3,618**	**(27)**	**-**	**-**	**3,591**
	32,272	**27**	**443**	**(34)**	**32,708**

	Balance at 1 January 2017 BD '000	*Net deposits / withdrawals BD '000*	*Gross income BD '000*	*Mudarib's / agency fee BD '000*	*Balance at 31 December 2017 BD '000*
Receivables	25,102	3,030	562	(40)	28,654
Investments	3,546	72	-	-	3,618
	28,648	3,102	562	(40)	32,272

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 Bank's 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 ("Ultimate Parent").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara financing 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.

The consolidated financial statements were approved by the Board of Directors on 21 February 2019.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

The consolidated financial statements are presented in Bahraini Dinars, being the reporting currency of the Group. All values are rounded of nearest Bahraini Dinars (BD) thousand unless otherwise indicated. However, the functional currency of the Bank is Bahraini Dinars and the subsidiary is Pakistani Rupees. Items included in the consolidated financial statements of each entity are measured using respective functional currency.

2.2 Statement of compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group and in conformity with the Bahrain Commercial Companies Law, the CBB and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. In accordance with the requirements of AAOIFI, for matters which are not covered by the AAOIFI standards, the Group uses the relevant International Financial Reporting Standards ('the IFRS') issued by International Accounting Standards Board.

2.3 Regulatory non-compliance

CBB rule book volume 2 - Capital Adequacy Module

The Bank breached rule CA-2.2.1 and CA 2.2.1A as the consolidated and solo core equity tier 1 (CET1) ratio is declined below 9% and 4.5% respectively as prescribed by the CBB rule book volume 2 - capital adequacy module. Rule CA-2.2.1 and CA 2.2.1A requires consolidated and solo CET1 to be minimum of 9% and 4.5% respectively of risk-weighted assets at all times.

CBB rule book volume 2 - High level standards

The Bank breached rule LR-2.5.2A as the consolidated shareholder' equity is below minimum capital requirement of BD 100 million (USD 265.252 million). Rule LR-2.5.2A requires all bahraini islamic retail bank licensees to maintain a minimum total shareholders' equity of BD 100 million.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at and for the year ended 31 December each year. The financial statements of the subsidiary is prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses are eliminated in full on consolidation.

2 ACCOUNTING POLICIES (continued)

2.4 Basis of consolidation (continued)

Subsidiary is fully consolidated from the date control is transferred to the Bank and continue to be consolidated until the date that control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Sale of participations to non-controlling interests result in a gain or loss that is recognised in the consolidated statement of income. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

The principal subsidiary of the Bank, which is consolidated in these consolidated financial statements is follows:

Bank	*Ownership for 2018 / 2017*	*Year of incorporation*	*Country of incorporation*	*No. of branches/ offices at 31 December 2018 / 2017*
Held directly by the Bank				
Al Baraka Bank (Pakistan) Limited*	59.13%/ 59.13%	2004	Pakistan	188/ 188

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

Investment in Itqan Capital

The Bank has ownership interest of 83.07% in 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.

2.5 New standards, interpretations and amendments adopted by the Group

These 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 ACCOUNTING POLICIES (continued)

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

2.5.1 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 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.

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

	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**	**(857)**	**554,916**
Receivables	**274,677**	**(3,514)**	**271,163**
Musharaka financing	**128,045**	**(1,231)**	**126,814**
Investments - Debt-type instruments at amortised cost	**165,064**	**(152)**	**164,913**
Ijarah Muntahia Bittamleek and Ijara Receivables	**116,453**	**(1,650)**	**114,803**
Other liabilities	**48,059**	**489**	**48,548**
Other assets	**40,130**	**982**	**41,112**

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

a) Financial contracts
Financial contracts consist of cash and balances with banks, receivables and Musharaka financing, Investmetns - deb type instruments at amortised cost, Ijarah Muntahia Bittamleek and certain other assets. 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.

2 ACCOUNTING POLICIES (continued)

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

2.5.1 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 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).

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.

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 losses 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 this respect, the Bank recognises the lifetime expected credit losses for these financing with the PD set at 100%.

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; or
- probability that the borrower will enter bankruptcy or other financial reorganization.

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 follows.

2 ACCOUNTING POLICIES (continued)

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

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

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

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.

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.

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 magnitude 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.

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. For Estimation of LGD, the Group considers use of any of the following methods:

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

BASEL LGD: local regulatory recommended Basel LGD adjusted depending on the available collateral.

2 ACCOUNTING POLICIES (continued)

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

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

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

Loss Given Default (continued)
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. However, the Bank applies 10% floor regardless of collateral coverage of the exposure.

Exposure At Default (EAD)
EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is converted to consolidated statement of financial position equivalents.

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.

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 letter of Credit (LCs) and letter of guarantees (LGs) issued, units 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 same as 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 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 combines its exposures into segments on the basis of shared credit risk characteristics, such as geography, type of customer, industry, rating, date of initial recognition, 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, , including days past due and risk rating.

2 ACCOUNTING POLICIES (continued)

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

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

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

Significant Increase in Credit Risk (continued)
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 facing 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.

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.

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.

2 ACCOUNTING POLICIES (continued)

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

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

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

Credit Conversion Factor (continued)
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.

Presentation of allowance for credit losses in the consolidated statement of financial position
Allowance for credit losses are presented in the 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.

2.5.2 New standards, amendments and interpretations issued but not yet effective

FAS 28 Murabaha and other deferred payment sales
This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale". This standard shall be effective beginning on or after 1 January 2019, with early adoption permitted.

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)
This standard intends to define the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent. This standard shall be effective beginning on or after 1 January 2020, with early adoption permitted.

2.6 Summary of significant accounting policies
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

2.6.1 Cash and cash equivalents
Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash in hand, balances with central banks in non-restricted accounts, balances with other banks and financial institutions and receivables with an original maturity of three months or less.

2 ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.2 Receivables

Murabaha receivable
Murabaha receivable are stated net of deferred profits, any amounts written off and allowances for ECL, if any.

Murabaha receivable are sales on deferred payment terms. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then sells this commodity to murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. (Promise made in the murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the murabaha to the purchase orderer as obligatory).

Wakala receivable
Wakala receivable are stated cost plus accrued profit, less expected credit losses.

Salam receivable
Salam receivable is the outstanding amount at the end of the year less any expected credit losses.

Istisna'a receivable
Istisna'a receivable is the outstanding amount at the end of the year less any expected credit losses.

2.6.3 Mudaraba financing and Musharaka
Mudaraba financing and Musharaka are partnerships in which the Group contributes capital. These contracts are stated at the fair value of consideration given less impairment.

2.6.4 Ijara Muntahia Bittamleek and Ijara income receivable
Ijara muntahia bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease) term, provided that all Ijarah instalments are settled.

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the period of the lease or useful life whichever is lower.

Ijara income receivable represent outstanding rentals at the end of the year less any expected credit losses.

2.6.5 Investments
Investments comprise equity-type instruments at fair value through statement of income and through equity, debt-type instruments at amortised cost and through statement of income and investment in real estate.

Investment in real estate
Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, Investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

2 ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.5 Investments (continued)

Equity-type instruments at fair value through profit and loss
Investments at fair value through statement of income include investments held for trading and investments designated upon initial recognition as investments at fair value through statement of income. An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.Investments classified as 'fair value through statement of income' are subsequently measured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the consolidated statement of income.

Equity-type instruments at fair value through equity
This includes all equity-type instruments that are designated as fair value through equity upon initial recognition. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

Debt-type instruments at fair value through statement of income
These include debt-type investments held for trading purposes and those investments that are designated under this category on initial recognition. Subsequent to acquisition, investments designated at fair value through consolidated statement of income are re-measured at fair value with unrealised gains or losses recognised in consolidated statement of income.

Debt-type instruments at amortised cost
Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

2.6.6 Premises and equipment
Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value except for land which is carried at fair value subsequent to initial recognition. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method at rates intended to write-off the cost of the assets over their estimated useful lives. Any subsequent change in fair value of land is recognised in the consolidated statement of changes in owner's equity as per the revised policy.

2.6.7 Fair values
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability, the principal or the most advantageous market must be accessible to by the Group.

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.

2 ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.7 Fair values (continued)

(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.

2.6.8 Business combination and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets and liabilities (including contingent liabilities) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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. Impairment losses relating to goodwill cannot be reversed in future periods.

2.6.9 Equity of investment accountholders

All equity of investment accountholders are measured by the amount received during the time of contracting. At the end of the financial period equity of investment accountholders is measured at the amount received plus accrued profit and related reserves less amounts settled.

2.6.10 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the mudarib share, in order to cater against future losses for equity of investment accountholders.

2.6.11 Profit equalisation reserve

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for equity of investment accountholders.

2 ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.12 Off-balance sheet equity of investment accountholders

Off-balance sheet equity of investment accountholders represent funds received by the Group from third parties for investment in specified products as directed by the investment accountholders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Off-balance sheet equity of investment accountholders are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and off-balance sheet equity of investment accountholders.

2.6.13 Revenue recognition

Murabaha receivable
Profit from sales transactions (murabaha) is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Mudaraba financing
Income on mudaraba financing is recognised when the right to receive payment is established or on distribution by the mudarib, whereas losses are charged to income on declaration by the mudarib.

Wakala financing
Income on Wakala financing is accrued on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Ijara Muntahia Bittamleek
Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation. Income related to non-performing ijara muntahia bittamleek accounts that are above 90 days is excluded from the consolidated statement of income.

Musharaka
Income on musharaka is recognised when the right to receive payment is established or on distribution.

Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)
The Group's share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related Mudarib agreements.

Fees and commission income
Fees and commission income including structuring fees is recognised when earned.

Dividends
Dividends are recognised when the right to receive payment is established.

Mudarib's share of off-balance sheet equity of investment accountholders
The Group shares profit for managing off-balance sheet equity of investment accountholders based on the terms and conditions of related contracts.

Income from investments
Income from investments is recognised when earned.

Rental income
Rental income is accounted for on a straight-line basis over the Ijara terms.

2 ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.14 Return on equity of investment accountholders
Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff costs and depreciation. The Group's "mudarib profit" is deducted from the investors' share of income before distributing such income. In some cases, equity of investment accountholders withdrawn before maturity are entitled to income only after deducting a penalty charge.

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and investment accountholders) times average funds of equity of investment accountholders].

2.6.15 Investment pool expenses
Investment pool expenses include business, administrative, general and other expenses.

2.6.16 Taxation
There is no tax on corporate income in the Kingdom of Bahrain. The subsidiary in Pakistan pays tax as per Pakistan tax regulations.

Current
Provision for current taxation is based on taxable income in accordance with the tax laws as applicable in Pakistan.

Deferred
The Group accounts for deferred taxation on material temporary differences using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences. Deferred tax assets are recognised only if there is a reasonable expectation of realisation in the foreseeable future. Deferred tax is reduced to the extent that it is no longer probable that related tax benefits will be realised.

2.6.17 Contingencies and Commitments
Contingencies are possible obligation or assets that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Further, the obligation arisen from past events where the liability cannot be determined with reasonable certainty or probability of outflow of resources cannot be determined are also contingencies.

A commitment is a binding contract for the exchange of a specified quantity of resources at a specific price on a specified future dates or date.

2.6.18 Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(i) the right to receive cash flows from the asset has expired;

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2 ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.18 Derecognition (continued)
When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

2.6.19 Earnings prohibited by Shari'a
The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

2.6.20 Foreign currencies
Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to consolidated statement of income at the entity level.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollar) at the rate of exchange ruling at the consolidated statement of financial position date and their income and expenses are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity. On disposal of a foreign operation, the deferred cumulative amount recognised in owners' equity relating to that particular foreign operation is recognised in the consolidated statement of income.

2.6.21 Employees' end of service benefits

Defined contribution plan
Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date. Moreover provision for indemnity payable is also made for Bahraini employees.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation (SIO) as a percentage of the employees' salaries. the Group's obligations are limited to these contributions, which are expensed when due.

The subsidiary in Pakistan also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the subsidiary and the employees, to the fund at a rate of 10 percent of basic salary.

Defined benefit plan
The subsidiary in Pakistan operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendation. The actuarial valuation is carried out using the projected unit credit method.

2.6.22 Zakah
The responsibility of payment of zakah is on individual shareholders and investment accountholders. In Pakistan, zakah is deducted at source from accountholders as required by local laws. Zakah per share is presented in the Shari'a Supervisory Board Report.

2 ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.23 Joint and self financed

Investments, financing and receivable that are jointly owned by the Group and the equity of investment accountholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivable that are financed solely by the Group are classified under "self financed".

2.6.24 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legal or religious enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.6.25 Shari'a supervisory board

The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of three members appointed by the general assembly of shareholders.

2.6.26 Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

2.7 Judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Impairment and uncollectibility of financial assets

In determining impairment on receivables, judgment is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contract has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL").

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of consolidated financial statements.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as equity-type instrument at fair value through statement of income, equity-type instrument at fair value through equity, debt-type instrument at fair value through statement of income or debt-type instrument at amortised cost.

Impairment of Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2018 BD '000	2017 BD '000
Cash in hand	13,259	14,820
Balances with State Bank of Pakistan		
Current account	2,659	2,494
Placement	-	17,397
Mandatory reserves	26,147	17,333
	28,806	37,224
Balances with CBB		
Current account	2,216	3,698
Mandatory reserves	9,763	10,650
	11,979	14,348
Balances with other banks and financial institutions	16,578	16,152
	70,622	82,544

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

4 RECEIVABLES

	2018			2017		
	Self financed BD '000	Jointly financed BD '000	Total BD '000	Self financed BD '000	Jointly financed BD '000	Total BD '000
Commodities	1,755	67,416	69,171	863	65,222	66,085
Salam financing	-	29,151	29,151	-	32,757	32,757
Istisna'a financing	-	34,327	34,327	-	33,458	33,458
Murabaha and others	955	125,204	126,159	955	149,662	150,617
Wakala and others	-	48,123	48,123	-	19,799	19,799
Gross sales receivable	2,710	304,221	306,931	1,818	300,898	302,716
Deferred profits	(21)	(10,073)	(10,094)	(21)	(8,767)	(8,788)
	2,689	294,148	296,837	1,797	292,131	293,928
Allowances for credit losses	(140)	(28,130)	(28,270)	-	(19,251)	(19,251)
Net sales receivable	2,549	266,018	268,567	1,797	272,880	274,677

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.

	2018				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
Good (1-4)	74,854	9,644	-	84,498	120,281
Satisfactory (5-7)	67,509	109,264	-	176,773	137,192
Default (8-10)	-	-	35,566	35,566	36,455
	142,363	118,908	35,566	296,837	293,928

4 RECEIVABLES (continued)

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

	2018				*2017*
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***	*Total*
	BD '000	***BD '000***	***BD '000***	***BD '000***	*BD '000*
Balance at 1 January on adoption of FAS 30	901	2,145	19,719	22,765	18,925
Changes during the year:					
- transferred to Stage 1: 12 month ECL	10	(10)	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(66)	66	(1)	(1)	-
- transferred to Stage 3: Lifetime	-				
ECL credit-impaired	(18)	(51)	69	-	-
Net remeasurement of loss allowance	(283)	946	8,453	9,116	2,798
Recoveries / write-backs	-	-	(1,030)	(1,030)	(2,135)
Allowances for credit losses	(357)	951	7,491	8,085	663
Allocation from investment risk reserve	-	-	-	-	230
Amounts written off during the year	-	-	(13)	(13)	-
FX translation	(39)	(24)	(2,504)	(2,567)	(567)
Balance at 31 December	**505**	**3,072**	**24,693**	**28,270**	19,251

5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

	2018			*2017*		
	Self financed	***Jointly financed***	***Total***	*Self financed*	*Jointly financed*	*Total*
	BD '000	***BD '000***	***BD '000***	*BD '000*	*BD '000*	*BD '000*
Ijara Muntahia Bittamleek	**10,623**	**88,731**	**99,354**	9,912	90,224	100,136
Ijara receivables	**2,216**	**11,418**	**13,634**	1,211	16,761	17,972
	12,839	**100,149**	**112,988**	11,123	106,985	118,108
Allowance for credit losses	**(44)**	**(5,614)**	**(5,658)**	-	(1,654)	(1,654)
	12,795	**94,535**	**107,330**	11,123	105,331	116,454

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.

	2018				*2017*
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***	*Total*
	BD '000	***BD '000***	***BD '000***	***BD '000***	*BD '000*
Good (1-4)	**84,666**	**2,043**	**-**	**86,709**	91,861
Satisfactory (5-7)	**999**	**15,426**	**-**	**16,425**	17,461
Default (8-10)	**-**	**-**	**9,854**	**9,854**	8,786
	85,665	**17,469**	**9,854**	**112,988**	118,108

5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

5.1 Ijara muntahia bittamleek

	2018			*2017*		
	Self financed BD '000	***Jointly financed BD '000***	***Total BD '000***	*Self financed BD '000*	*Jointly financed BD '000*	*Total BD '000*
Building						
Cost	**-**	**112,812**	**112,812**	-	102,323	102,323
Accumulated depreciation	**-**	**(28,595)**	**(28,595)**	-	(22,908)	(22,908)
Net book value	**-**	**84,217**	**84,217**	-	79,415	79,415
Equipment						
Cost	**14,072**	**2,497**	**16,569**	11,623	12,828	24,451
Accumulated depreciation	**(3,449)**	**(1,410)**	**(4,859)**	(1,711)	(9,354)	(11,065)
Net book value	**10,623**	**1,087**	**11,710**	9,912	3,474	13,386
Others						
Cost	**-**	**6,611**	**6,611**	-	12,288	12,288
Accumulated depreciation	**-**	**(3,184)**	**(3,184)**	-	(4,953)	(4,953)
Net book value	**-**	**3,427**	**3,427**	-	7,335	7,335
TOTAL						
Cost	**14,072**	**121,920**	**135,992**	11,623	127,439	139,062
Accumulated depreciation	**(3,449)**	**(33,189)**	**(36,638)**	(1,711)	(37,215)	(38,926)
Net book value	**10,623**	**88,731**	**99,354**	9,912	90,224	100,136

5.2 Ijara receivables

	2018			*2017*		
	Self financed BD '000	***Jointly financed BD '000***	***Total BD '000***	*Self financed BD '000*	*Jointly financed BD '000*	*Total BD '000*
Ijara receivable	**2,216**	**11,418**	**13,634**	1,211	16,761	17,972
Allowances for credit losses	**(44)**	**(5,614)**	**(5,658)**	-	(1,654)	(1,654)
	2,172	**5,804**	**7,976**	1,211	15,107	16,318

5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

5.3 Allowances for credit losses

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

	2018				2017
	Stage 1: 12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	*Total*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Balance at 1 January on adoption of FAS 30	113	832	2,358	3,303	1,466
Changes during the year:					
- transferred to Stage 1: 12 month ECL	388	(388)	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(22)	22	-		-
- transferred to Stage 3: Lifetime ECL credit-impaired	(2)	(267)	268	(1)	-
Net remeasurement of loss allowance	(386)	87	3,198	2,899	281
Recoveries / write-backs	-	-	(192)	(192)	(29)
Allowances for credit losses	(22)	(546)	3,274	2,706	252
Allocation from investment risk reserve	-	-	-	-	11
FX translation	(8)	(3)	(340)	(351)	(75)
Balance at 31 December	**83**	**283**	**5,292**	**5,658**	1,654

6 MUSHARAKA

	2018			2017		
	Self financed	*Jointly financed*	*Total*	*Self financed*	*Jointly financed*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Musharaka	**18,163**	**87,210**	**105,373**	24,177	105,840	130,017
Allowances for credit losses	**-**	**(2,871)**	**(2,871)**	-	(1,972)	(1,972)
	18,163	**84,339**	**102,502**	24,177	103,868	128,045

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.

	2018				2017
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Good (1-4)	91,526	1,837	-	93,363	121,623
Satisfactory (5-7)	4,319	5,070	-	9,389	4,366
Default (8-10)	-	-	2,621	2,621	4,028
	95,845	**6,907**	**2,621**	**105,373**	130,017

6 MUSHARAKAS (continued)

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

	2018				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 during the year:					
- transferred to Stage 1: 12 month ECL	11	(11)	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(11)	11	-	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	-	-	-	-
Net remeasurement of loss allowance	161	(58)	455	558	300
Recoveries / write-backs	-	-	(234)	(234)	(116)
Allowances for credit losses	161	(58)	221	324	184
FX translation	(108)	(130)	(418)	(656)	(99)
Balance at 31 December	**581**	**448**	**1,842**	**2,871**	1,972

7 INVESTMENTS

	2018			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	-	**296**	**296**	-	92	92
ii) Debt-type instruments at amortised cost (Note 7.1)						
Quoted						
Sukuk	**69,505**	**34,388**	**103,893**	37,754	37,846	75,600
Unquoted						
Sukuk	**67,691**	**5,730**	**73,421**	77,739	12,439	90,178
	137,196	**40,118**	**177,314**	115,493	50,285	165,778
Less: Allowances for credit losses	**(883)**	**(138)**	**(1,021)**	(714)	-	(714)
	136,313	**39,980**	**176,293**	114,779	50,285	165,064
iii) Equity-type instruments at fair value through equity (Note 8.2)						
Quoted						
Listed equity shares	**3,312**	**140**	**3,452**	3,624	176	3,800
Unquoted						
Equity investments	**22,719**	**142**	**22,861**	22,752	178	22,930
Managed funds	**377**	**-**	**377**	377	-	377
Real estate funds	**3,558**	**566**	**4,124**	1,748	2,160	3,908
	29,966	**848**	**30,814**	28,501	2,514	31,015
Less: Provision for impairment	**(1,891)**	**(184)**	**(2,075)**	(766)	(218)	(984)
	28,075	**664**	**28,739**	27,735	2,296	30,031
Total investments	**164,388**	**40,940**	**205,328**	142,514	52,673	195,187

The investments in quoted equity type instruments, amounted to BD 1 million (2017: BD 3.4 million) 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 10 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 176.3 million (2017: BD 165.1 million) has a fair value amounting to BD 176 million (2017: BD 164.3 million).

Investments stated at a carrying amount of BD 95.2 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 Nil (2017: BD 17 million) were also pledged to secure additional financing line.

7 INVESTMENTS (continued)

7.1 Debt-type instruments at amortised cost

	2018				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
Good (1-4)	62,576	-	-	62,576	92,379
Satisfactory (5-7)	100,116	13,754	-	113,870	72,531
Default (8-10)	-	-	868	868	868
	162,692	**13,754**	**868**	**177,314**	165,778

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

	2018				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	151	-	714	865	556
Changes during the year					
- transferred to Stage 1: 12 month ECL	-	-	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(35)	35	-	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	-	-	-	-
Net remeasurement of loss allowance	105	51	-	156	158
Recoveries / write-backs	-	-	-	-	-
Allowance for credit losses	70	86	-	156	158
FX translation	-	-	-	-	-
Balance at 31 December	**221**	**86**	**714**	**1,021**	714

8 INVESTMENT IN JOINT VENTURE

	2018 BD	2017 BD
Balance at 1 January	**5,518**	5,495
Net share of income for the year	**13**	23
Balance at 31 December	**5,531**	5,518

8 INVESTMENT IN JOINT VENTURE (continued)

Name	*Nature of Business*	*Ownership* 2018	2017
Danat-ul- Barakat	Real estate development	**51.00%**	51.00%

Summarised statement of of financial position

	2018 *BD*	*2017* *BD*
Non-current assets	**6,978**	6,724
Current assets	**3,953**	4,133
Current liabilities	**(87)**	(37)
Net assets	**10,844**	10,820
Group's ownership in equity	**5,531**	5,518
Net carrying amount	**5,531**	5,518
Summarised statement of profit and loss		
Total income	**81**	85
Total expenses	**(55)**	(40)
Total comprehensive income	**26**	45
Group's net share of profit	**13**	23

9 INVESTMENTS IN REAL ESTATE

	2018 *BD '000*	*2017* *BD '000*
Land and buildings	**2,252**	2,252
Unrealized loss on remeasurement	**(277)**	-
Closing	**1,975**	2,252

During 2018, the Group has revalued its investment in real estate based on valuation performed by independent valuers. The carrying values of the investment was adjusted to reflect the changes in fair value.

10 PREMISES AND EQUIPMENT

	Land and Buildings BD '000	*Computer Software & license BD '000*	*Office furniture and equipment BD '000*	*Vehicles BD '000*	*Total BD '000*
Cost:					
At 1 January 2018	10,725	7,848	11,999	392	**30,964**
Additions	8,400	185	3,043	-	**11,628**
Disposals	(33)	-	(12)	(65)	**(110)**
Revaluation	(181)	-	-	-	**(181)**
Exchange difference on opening balance	(1,332)	(1,021)	(1,363)	(61)	**(3,777)**
At 31 December 2018	**17,579**	**7,012**	**13,667**	**266**	**38,524**
Depreciation:					
At 1 January 2018	3,684	5,075	8,458	276	**17,493**
Provided during the year	536	502	1,051	28	**2,117**
Disposals	(23)	-	(9)	(32)	**(64)**
Exchange difference on opening balance	(406)	(526)	(1,018)	(37)	**(1,987)**
At 31 December 2018	**3,791**	**5,051**	**8,482**	**235**	**17,559**
Net book values:					
At 31 December 2018	**13,788**	**1,961**	**5,185**	**31**	**20,965**
At 31 December 2017	7,041	2,773	3,541	116	13,471
Estimated useful lives for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	

11 GOODWILL

	***2018* BD '000**	*2017 BD '000*
At 1 January	**7,667**	10,623
Allocation to intangible	**-**	(2,397)
Foreign exchange translations	**(1,571)**	(560)
Balances at 31 December	**6,096**	7,666

Goodwill acquired through business combination has been entirely allocated to a single cash generating unit (CGU), Al Baraka Bank (Pakistan) Limited by the Group's management.

The recoverable amount of the CGU was determined based on value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. Management determined budgeted spreads based on the CGU's past performance and its expectation of market development.

The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value in use calculations. Accordingly, management believes that reasonable changes in key assumptions used to determine the recoverable amount of the Group's cash generating units will not result in an impairment.

12 OTHER ASSETS

	2018 BD '000	2017 BD '000
Collaterals pending sale	**8,199**	8,063
Deferred tax (12.1)	**9,503**	11,036
Advance against financing transactions	**5,459**	11,017
Advance against capital expenditure	**2,204**	2,588
Accounts receivable	**1,347**	1,807
Advance tax	**854**	1,201
Income receivables	**115**	584
Others	**6,505**	5,200
Total	**34,186**	41,496
Provision for impairment	**(1,086)**	(1,365)
	33,100	40,131

12.1 The above net deferred tax asset has been recognised in accordance with the Group's accounting policy. The management based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realised.

13 OTHER LIABILITIES

	2018 BD '000	2017 BD '000
Accounts payable	**5,653**	6,611
Margins received	**23,221**	21,252
Security deposit against Ijara Muntahia Bittamleek	**2,234**	4,145
Bills payable	**3,750**	5,774
Provision for employees benefits	**2,949**	3,079
Charity fund	**208**	320
Allowance for credit losses-unfunded facilities	**225**	-
Others	**4,639**	6,878
	42,879	48,059

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Bank to exercise its fiduciary responsibilities. The Group is authorised by Equity of Investment Accountholders to invest the funds on the basis of mudaraba, murabaha, salam, ijara transactions and other forms of contract 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.

	2018 BD '000	2017 BD '000
IAH - Non-banks	**393,847**	463,856
IAH - Banks	**137,974**	91,061
Profit equalisation reserve (note 14.1)	**43**	216
Investment risk reserve (note 14.2)	**-**	641
	531,864	555,774

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

14.1 Movement in profit equalisation reserve

	2018	*2017*
	BD '000	*BD '000*
Balance at 1 January	**216**	207
Effect of implementation of FAS 30	**(216)**	-
Restated balances as on 1 Janaury	-	207
Amount apportioned from income allocable to equity of investment accountholders	**43**	-
Exchange difference	**-**	9
Balance at 31 December	**43**	216

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

14.2 Movement in investment risk reserve

	2018	*2017*
	BD '000	*BD '000*
Balance at 1 January	**641**	**882**
Effect of implementation of FAS 30	**(641)**	-
Restated balances as on 01 Janaury	**-**	882
Exchange difference	-	-
Amount apportioned to provision	-	(241)
Balance at 31 December	**-**	641

Balance at 31 December

The Group deducts investment risk reserve as per approved policy from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to meet future losses for equity of IAH.

The profit equalisation reserve and investment risk reserve will revert to investment accountholders as per terms and conditions of the Mudaraba contract.

As investment accountholder's funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of equity of investment accountholders is upto a maximum of 70% (2017: upto 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of BD 4 million (2017: BD 2.6 million) to equity of investment account holders for the year ended 31 December 2018.

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

14.3 Equity of Investment Accountholders rate of return

	Average 2018 Rate of return %			*Average 2017 Rate of return %*		
	Bahrain		***Pakistan***	*Bahrain*		*Pakistan*
	BD	***USD***		*BD*	*USD*	
Saving Accounts	**0.11%**	**0.08%**	**4.27%**	**0.11%**	**0.08%**	**3.46%- 3.66%**
One Month Investment Account	**0.56%**	**0.49%**	**3.74%**	**0.56%**	-	**3.46% - 4.31%**
Three Months Investment Account	**0.65%**	**0.53%**	**4.24%**	**0.66%**	**0.66%**	**1.71% - 4.82%**
Six Months Investment Account	**0.77%**	**0.62%**	**4.27%**	**0.77%**	**0.76%**	**3.01% - 4.71%**
Nine Months Investment Account	**0.81%**	**0.69%**	-	**0.84%**	-	-
1 Year Investment Account	**0.89%**	**0.72%**	**5.75%**	**0.89%**	**0.93%**	**3.13% - 5.35%**
2 Years Investment Account	**1.00%**	**0.78%**	**6.08%**	**1.00%**	**1.14%**	**4.78%**
3 Years Investment Account	**1.55%**	-	**6.65%**	**1.52%**	-	**5.19%**
4 Years Investment Account	-	-	**6.15%**	-	-	**4.80%**
5 Years Investment Account	-	**1.00%**	**7.01%**	-	-	**5.67%**

14.4 Equity of Investment Accountholders by type

	2018 BD '000	*2017 BD '000*
Saving Accounts	**216,871**	254,884
One Month Investment Account	**61,755**	47,440
Three Months Investment Account	**101,647**	12,020
Six Months Investment Account	**17,777**	70,294
Nine Months Investment Account	**288**	2,068
1 Year Investment Account	**110,630**	100,799
2 Years Investment Account	**4,491**	41,402
3 Years Investment Account	**10,261**	14,296
4 Years Investment Account	**8**	1,822
5 Years Investment Account	**8,136**	10,749
	531,864	555,774

14.5 Equity of Investment Accountholders by maturity

	2018 BD '000	*2017 BD '000*
Accounts on demand	**216,870**	254,883
Accounts on a contractual basis *	**314,994**	300,891
	531,864	555,774

* These can be withdrawn subject to deduction of profit upon management discretion.

15 SUBORDINATED DEBT

	2018 BD '000	2017 BD '000
Subordinated Mudaraba and Murabaha by Ultimate Parent	-	12,273
Subordinated Mudaraba Sukuk	**6,589**	9,228
	6,589	21,501

16 OWNERS' EQUITY

	2018 BD '000	2017 BD '000
(i) Share capital		
Authorised 6,000,000 ordinary shares (2017: 6,000,000) of US$ 100 each	**226,200**	226,200

	2018 BD '000	2017 BD '000
Issued and fully paid 1,224,578 ordinary shares (2017: 1,224,578) of US $ 100 each	**46,167**	46,167

Additional information on shareholding pattern

Names and nationalities of the major shareholder and the number of shares where they have an interest of 5% or more of outstanding shares:

Name	*Domicile*	*No. of shares*	*% holding*
Al Baraka Banking Group B.S.C.	Bahrain	1,115,755	91.11%

The Bank has only one class of shares and the holders of these shares have equal voting rights.

Distribution schedule of shares, setting out the number and percentage of holders in the following categories;

	2018 Number of shares	2018 Number of shareholders	2018 % of total outstanding shares	2017 Number of shares	2017 Number of shareholders	2017 % of total outstanding shares
Less than 1%	**58,823**	**12**	**4.81%**	58,823	12	4.81%
1% up to less than 5%	**50,000**	**1**	**4.08%**	50,000	1	4.08%
	108,823	**13**	**8.89%**	108,823	13	8.89%

(ii) Additional Tier 1 (AT1) Capital

	2018 BD '000	2017 BD '000
Subordinated Mudaraba debt	**41,470**	-

On 29 March 2018, the Bank received BD 41.5 million (BD 18.9 million cash, BD 11.7 million conversion of subordinated debt, BD 10.9 million in-kind property and equipment) Additional Tier 1 Capital, in compliance with CBB regulations, from its Ultimate Parent. In this respect, the profit shall be payable subject to and in accordance with terms and conditions, on the outstanding nominal amount of the instrument at an expected rate ranging from 6% to 9% per annum, on a semi-annual basis. This instrument recognized under equity in the consolidated statement of financial position and the corresponding Profit payable on such balances are accounted as appropriation of profits. As per the terms and conditions, the parent 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.

16 OWNERS' EQUITY (continued)

(iii) Statutory reserve
In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. As the Bank incurred losses in year ended 31 December 2018 and comparative year closing on 31 December 2017, there is no amount transferred in statutory reserves.

(iv) General reserve
In accordance with the Bank's articles of association, the Bank may transfer any amount, as approved by the General Assembly, out of net income for the year to the general reserve after appropriating statutory reserve. The general reserve is distributable, subject to the approval of the CBB.

(v) Cumulative changes in fair value
This represents the net unrealised fair value changes relating to the equity of the parent on equity-type instruments at fair value through equity and investment in real estate.

(vi) Revaluation reserve on premises and equipment
This represents the net surplus on revaluation relating to the equity of the parent on premises and equipipment carried at fair value in books of accounts.

(vii) Foreign exchange reserve
This represents the translation reserve arising as a result of consolidation of the foreign subsidiary.

(viii) Employee defined benefit plan reserve
This represents the reserve created in lieu of acturial gains or losses on defined benefit liabilities and planned assets.

17 CONTINGENCIES AND COMMITMENTS

	2018	*2017*
	BD '000	*BD '000*
Letters of credit	**32,827**	41,825
Guarantees	**22,286**	31,242
Foreign exchange contracts	**46,245**	29,964
Acceptances	**11,874**	11,632
Taxation	**626**	787
Others	**32**	-
	113,890	115,450

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

	2018	*2017*
	BD '000	*BD '000*
Income from investments	**9,735**	8,431
Ijara Muntahia Bittamleek (note 18.1) - net	**6,994**	7,239
Musharakas	**11,447**	10,369
Gain on sale of investments	**536**	775
Dividends	**112**	170
Rental income	**57**	84
	28,881	27,068

	2018	*2017*
	BD '000	*BD '000*
Income from jointly financed, other financings and investments	**17,981**	18,856
Income from self financed, other financings and investments	**10,899**	8,212
	28,880	27,068

18 INCOME FROM JOINTLY AND SELF FINANCED, OTHER FINANCINGS AND INVESTMENTS (continued)

18.1 Ijara Muntahia Bittamleek

	2018 *BD '000*	*2017* *BD '000*
Income from Ijara Muntahia Bittamleek	**22,214**	28,887
Depreciation on Ijara Muntahia Bittamleek	**(15,220)**	(21,648)
	6,994	7,239

19 REVENUE FROM BANKING SERVICES

	2018 *BD '000*	*2017* *BD '000*
Fees and commissions	**2,359**	2,337
Letters of credit and acceptances	**2,069**	1,426
Guarantees	**201**	360
	4,629	4,123

20 OTHER INCOME

	2018 *BD '000*	*2017* *BD '000*
Foreign exchange gain - net	**1,407**	846
Unrealised fair value loss on investment in real estate (note 9)	**(277)**	-
Others	**333**	526
	1,463	1,372

21 OTHER OPERATING EXPENSES

	2018 *BD '000*	*2017* *BD '000*
Administrative expenses	**2,566**	2,820
Premises costs	**4,906**	6,256
Business expenses	**4,022**	4,430
General expenses	**697**	975
	12,191	14,481

22 ALLOWANCES FOR IMPAIRMENT - NET

	2018 *BD '000*	*2017* *BD '000*
Receivables (note 4)	**(8,085)**	(663)
Ijara Muntahia Bittamleek and Ijara Receivables (note 5)	**(2,706)**	(252)
Musharaka (note 6)	**(324)**	(184)
Allowance for credit losses for investments at amortized cost (note 7)	**(156)**	(158)
Impairement on investments classifed as fair value through equity	**(1,202)**	(388)
Contingencies and commitments	**238**	-
Other assets	**-**	(12)
	(12,235)	(1,657)

23 TAXATION

Taxation relates to subsidiary in Pakistan and comprise:	*2018*	*2017*
	BD '000	*BD '000*
Consolidated statement of financial position:		
Advance tax - net	**854**	1,201
Consolidated statement of income:		
Current tax	**(312)**	(328)
Deferred tax	**65**	816
	(247)	488

24 CASH AND CASH EQUIVALENTS

For the purpose of cash flows, cash and cash equivalents represent:	***2018***	*2017*
	BD '000	*BD '000*
Cash in hand	**13,259**	14,820
Balances with central banks (unrestricted accounts)	**4,875**	6,192
Balances with other banks and financial institutions	**16,578**	16,152
Placements with central banks	**-**	17,397
Receivables - international commodities (with an original maturity of 90 days or less)	**68,988**	65,995
	103,700	120,556

25 RELATED PARTY BALANCES AND 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 at 31 December were as follows:

	Shareholders		*Other Related Parties*		*Total*	
Assets:	***2018***	*2017*	***2018***	*2017*	***2018***	*2017*
	BD '000	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*
Cash and balances with banks and financial institutions	**16**	24	**68**	61	**84**	85
Receivables	**-**	-	**3,029**	4,012	**3,029**	4,012
Ijara Muntahia Bittamleek	**-**	-	**77**	144	**77**	144
Musharaka	**82**	309	**717**	756	**799**	1,065
Ijara receivables	**-**	-	**20**	27	**20**	27
Investments	**-**	-	**32,742**	32,813	**32,742**	32,813
Other assets	**247**	218	**60**	45	**307**	263
	345	551	**36,713**	37,858	**37,058**	38,409
Liabilities:						
Due to banks and financial institutions	**1,544**	1,284	**235**	1,448	**1,779**	2,732
Current account	**60**	67	**7,283**	1,661	**7,343**	1,728
Other liabilities	**2**	22	**97**	198	**99**	220
	1,606	1,373	**7,615**	3,307	**9,221**	4,680
Equity of investment accountholders	**3,391**	2,260	**32,253**	21,429	**35,644**	23,689
Subordinated debts	**-**	12,273	**-**	-	**-**	12,273
Off-balance sheet equity of investment accountholders	**-**	-	**23,997**	25,730	**23,997**	25,730
Contingencies and commitments	**-**	-	**1,442**	2,034	**1,442**	2,034

25 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	**-**	-	**238**	412	**238**	412
Income from jointly financed, other financings and investments	**-**	-	**394**	481	**394**	481
Other income	**120**	120	**-**	-	**120**	120
investment account holders	**17**	23	**17**	17	**34**	40
	137	143	**649**	910	**786**	1,053
Expenses						
Return on equity of investment accountholders before Group's share as a Mudarib	**229**	716	**658**	595	**887**	1,311
Other expenses	**340**	880	**867**	1,024	**1,207**	1,904
	569	1,596	**1,525**	1,619	**2,094**	3,215

Compensation of key management personnel is as follows:

Key management personnel includes the staff in grade of senior manager and above.

	2018	*2017*
	BD '000	*BD '000*
Salaries	**1,558**	1,753
Other benefits	**867**	968
	2,425	2,721

26 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors.

a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2018 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	Up to 3 months BD '000	*3 to 6 months BD '000*	*6 months to 1 year BD '000*	*1 to 3 years BD '000*	*3 to 5 years BD '000*	*5 to 10 years BD '000*	*10 to 20 years BD '000*	*Over 20 years BD '000*	*No fixed maturity BD '000*	*Total BD '000*
ASSETS										
Cash and balances with banks	27,714	-	-	6,998	-	-	-	-	35,910	70,622
Receivables	149,953	66,769	21,680	15,096	5,834	1,940	-	-	7,295	268,567
Ijara Muntahia Bittamleek and Ijara Receivables	564	2,953	6,185	23,071	13,596	20,605	30,135	6,025	4,196	107,330
Musharaka	161	521	4,988	35,019	42,901	12,907	5,227	-	778	102,502
Investments	24,452	14,194	9,298	43,748	5,535	83,758	377	-	23,966	205,328
Investments in real estate	-	-	-	1,975	-	-	-	-	-	1,975
Investment in Joint Venture	-	-	-	-	-	5,531	-	-	-	5,531
Premises and equipment	-	-	-	-	-	-	-	-	20,965	20,965
Goodwill	-	-	-	-	-	-	-	-	6,096	6,096
Other assets	11,636	3,417	1,871	4,408	10,354	-	-	-	1,414	33,100
Total assets	214,480	87,854	44,022	130,315	78,220	124,741	35,739	6,025	100,620	822,016
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED DEBT AND OWNERS' EQUITY										
Due to banks and financial institutions	15,442	6,282	-	-	-	-	-	-	-	21,724
Current accounts	103,897	-	-	-	-	-	-	-	-	103,897
Medium term financing	406	-	8,294	14,326	-	-	-	-	-	23,026
Other liabilities	40,050	189	1,160	1,420	60	-	-	-	-	42,879
Total liabilities	159,795	6,471	9,454	15,746	60	-	-	-	-	191,526
Equity of investment accountholders	299,810	53,715	71,230	52,325	26,424	21,270	7,090	-	-	531,864
Subordinated debts	586	-	378	1,553	-	4,072	-	-	-	6,589
Total owners' equity	-	-	-	-	-	-	-	-	92,037	92,037
Total liabilities, Equity of investment accountholders, subordinate debts and owner's equity	460,191	60,186	81,062	69,624	26,484	25,342	7,090	-	92,037	822,016
Net gap	(245,711)	27,668	(37,040)	60,691	51,736	99,399	28,649	6,025	8,583	-
Cumulative net gap	(245,711)	(218,043)	(255,083)	(194,392)	(142,656)	(43,257)	(14,608)	(8,583)	-	-
Off-balance sheet equity of investment accountholders	15,805	13,313	3,590	-	-	-	-	-	-	32,708

26 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2017 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	Up to 3 months BD '000	*3 to 6 months BD '000*	*6 months to 1 year BD '000*	*1 to 3 years BD '000*	*3 to 5 years BD '000*	*5 to 10 years BD '000*	*10 to 20 years BD '000*	*Over 20 years BD '000*	*No fixed maturity BD '000*	*Total BD '000*
ASSETS										
Cash and balances with banks	37,164	17,397	-	-	-	-	-	-	27,983	82,544
Receivables	150,855	51,878	22,600	24,237	5,347	1,295	-	-	18,465	274,677
Ijara Muntahia Bittamleek and Ijara Receivables	3,761	3,705	5,850	24,340	17,552	20,676	26,582	6,078	7,910	116,454
Musharakas	8,622	442	3,506	30,293	59,827	15,750	7,546	-	2,059	128,045
Investments	5,589	189	18,752	70,925	22,770	52,243	377	-	24,342	195,187
Investments in real estate	-	-	-	2,252	-	-	-	-	-	2,252
Investment in Joint Venture	-	-	-	-	-	5,518	-	-	-	5,518
Premises and equipment	-	-	-	-	-	-	-	-	13,471	13,471
Goodwill	-	-	-	-	-	-	-	-	7,666	7,666
Other assets	15,998	2,647	4,749	1,453	15,284	-	-	-	-	40,131
Total assets	221,989	76,258	55,457	153,500	120,780	95,482	34,505	6,078	101,896	865,945
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	19,637	-	-	-	-	-	-	-	-	19,637
Current accounts	111,078	-	-	-	-	-	-	-	-	111,078
Medium term finance	18,323	11,014	-	8,294	-	-	-	-	-	37,631
Other liabilities	43,396	139	1,276	1,880	1,368	-	-	-	-	48,059
Total liabilities	192,434	11,153	1,276	10,174	1,368	-	-	-	-	216,405
Equity of investment accountholders	255,742	76,049	81,374	71,422	34,233	27,716	9,238	-	-	555,774
Subordinated debts	663	-	281	2,187	3,238	15,132	-	-	-	21,501
Total owners' equity	-	-	-	-	-	-	-	-	72,265	72,265
Total liabilities, Equity of investment accountholders subordinated debts and owner's equity	448,839	87,202	82,931	83,783	38,839	42,848	9,238	-	72,265	865,945
Net gap	(226,850)	(10,944)	(27,474)	69,717	81,941	52,634	25,267	6,078	29,631	-
Cumulative net gap	(226,850)	(237,794)	(265,268)	(195,551)	(113,610)	(60,976)	(35,709)	(29,631)	-	-
Off-balance sheet equity of investment accountholders	10,236	18,420	3,616	-	-	-	-	-	-	32,272

26 RISK MANAGEMENT (continued)

b) Market risk
Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Profit rate risk
Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and IAH. The profit distribution to IAH is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

Foreign exchange risk
Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Following is the Group's exposure to different currencies in equivalent Bahraini dinars:

	2018
	Total equivalent BD '000
Pakistani Rupees	**35,514**
Euro	**(1,034)**
Kuwaiti Dinars	**874**
Pound Sterling	**(2,262)**

	2017
	Total equivalent BD '000
Pakistani Rupees	31,744
Euro	(5,053)
Kuwaiti Dinars	869
Pound Sterling	(1,573)

The strategic currency risk represents the amount of equity of the subsidiary.

Foreign currency risk sensitivity analysis
In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach, which calculates the effect on assets and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group.

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the Bahraini Dinar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

26 RISK MANAGEMENT (continued)

b) Market risk (continued)

Foreign currency risk sensitivity analysis (continued)

Currency	Particular	*Change*	*Exposures in BD '000*	*Effect on equity/ Income Statement res in BD '000*
2018				
Pakistani Rupees	Net long Position	**20.00%**	**35,514**	**7,103**
Euro	Net short Position	**20.00%**	**(1,034)**	**(207)**
Kuwaiti Dinars	Net long Position	**20.00%**	**874**	**175**
Pound Sterling	Net short Position	**20.00%**	**(2,262)**	**(452)**
2017				
Pakistani Rupees	Net long Position	20%	31,744	6,349
Euro	Net short Position	20%	(5,053)	(1,011)
Kuwaiti Dinars	Net long Position	20%	869	174
Pound Sterling	Net short Position	20%	(1,573)	(315)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

In order to measure the risk of equity on its financial position, the Group adopts a sensitivity analysis on its equity portfolio for 10% increase and decrease of the portfolio's value:

Market indices	***Change in equity price 2018 %***	***Effect on equity/ Income Statement 2018 BD '000***	*Change in equity price 2017 %*	*Effect on equity/ Income Statement 2017 BD '000*
Karachi Stock Exchange	**10%**	**375**	10%	380

As at the consolidated statement of financial position date, the Group had unquoted investments held at cost less provision for impairment of BD 26.5 million (31 December 2017: BD 26.7 million). The impact of changes in the value of these unquoted investments and the related impact on equity will only be reflected when the investment is sold or deemed to be impaired.

Concentration of investment portfolio

Concentration of an investment portfolio arises when a number of investments are made in entities engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would be affected by changes in economic, political or other conditions. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The industry and geographical concentration of the Group's investment portfolio is as follows:

31 December 2018	****GCC BD '000***	***Rest of the world BD '000***	***Total BD '000***
Banking	**10,695**	**13,669**	**24,364**
Government	**88,429**	**41,636**	**130,065**
Investment companies	**31,089**	**-**	**31,089**
Manufacturing	**-**	**3,896**	**3,896**
Real estate	**3,155**	**2,375**	**5,530**
Others	**1,115**	**9,269**	**10,384**
	134,483	**70,845**	**205,328**

26 RISK MANAGEMENT (continued)

b) Market risk (continued)

Concentration of investment portfolio (continued)

* GCC countries comprise members of the Gulf Co-operation Council being Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

31 December 2017	*GCC* *BD '000*	*Rest of the world* *BD '000*	*Total* *BD '000*
Banking	12,946	13,917	26,863
Government	59,200	58,101	117,301
Investment companies	31,262	-	31,262
Manufacturing	-	5,066	5,066
Real estate	2,084	3,290	5,374
Others	1,115	8,206	9,321
	106,607	88,580	195,187

c) Credit risk

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 controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

Type of credit risk

Financing contracts mainly comprise Sales receivable, Istisna'a receivable, Musharaka and Ijara Muntahia Bittamleek.

Sales receivable

The Group finances these transactions through buying a commodity which represents the object of the murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. The transactions are secured at times by the object of the murabaha (in case of real estate finance) and other times by a total collateral package securing the facilities given to the client.

Istisna'a receivable

Istisna'a is a sale agreement between the Group as the seller and the customer as the ultimate purchaser whereby the Group undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date.

Musharaka

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

Ijara Muntahia Bittamleek

This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara installments are settled.

26 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk by type of Islamic financing contracts before the effect of mitigation through the use of collateral or other credit enhancements.

	Gross Maximum Exposure to Credit Risk	
	2018	*2017*
	BD '000	*BD '000*
Receivables	**268,565**	274,677
Musharakas	**102,503**	128,045
Ijara Muntahia Bittamleek and Ijara receivables	**107,330**	116,454
Investments at amortized cost	**176,294**	165,065
Contingencies and commitments	**113,232**	114,663

Credit quality by type of Islamic financing contracts

The table below shows the credit quality by type of Islamic financing contracts, based on the Group's Credit Rating System (CRS). The balances presented are gross of impairment provision.

	31 December 2018			
	Neither past due nor non performing	***Past due but performing***	***Non performing Islamic financing contracts***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Type of Islamic Financing Contract				
Receivables	**250,400**	**10,871**	**35,566**	**296,837**
Musharakas	**102,010**	**742**	**2,621**	**105,373**
Ijara Muntahia Bittamleek and Ijara receivables	**102,836**	**298**	**9,854**	**112,988**
	455,246	**11,911**	**48,041**	**515,198**

	31 December 2017			
	Neither past due nor non performing	*Past due but performing*	*Non performing Islamic financing contracts*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Type of Islamic Financing Contract				
Receivables	248,026	9,448	36,454	293,928
Musharakas	124,696	1,293	4,028	130,017
Ijara Muntahia Bittamleek and Ijara receivables	108,782	540	8,786	118,108
	481,504	11,281	49,268	542,053

Aging analysis of past due but performing Islamic financing contracts

	31 December 2018			
	Less than 30 days	***31 to 60 days***	***61 to 90 days***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Type of Islamic Financing Contracts				
Receivable	**8,135**	**1,981**	**754**	**10,870**
Musharaka	**548**	**158**	**37**	**743**
Ijara Muntahia Bittamleek & Ijara income receivable	**186**	**90**	**22**	**298**
	8,869	**2,229**	**813**	**11,911**

26 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Aging analysis of past due but performing Islamic financing contracts (continued)

	31 December 2017			
	Less than 30 days BD '000	31 to 60 days BD '000	61 to 90 days BD '000	Total BD '000
Type of Islamic Financing Contracts				
Receivable	6,135	1,456	1,857	9,448
Musharaka	476	278	539	1,293
Ijara Muntahia Bittamleek and Ijara receivable	426	92	21	539
	7,037	1,826	2,417	11,280

Aging of Non-Performing Facilities

	31 December 2018				
	3-6 Months BD '000	***6-12 Months BD '000***	***1-3 Years BD '000***	***3 Years & above BD '000***	***Total BD '000***
Receivable	**9,709**	**4,511**	**7,343**	**14,003**	**35,566**
Musharaka	**729**	**372**	**466**	**1,054**	**2,621**
Ijara Muntahia Bittamleek and Ijara receivable	**1,313**	**2,415**	**5,001**	**1,125**	**9,854**
	11,751	**7,298**	**12,810**	**16,182**	**48,041**

	31 December 2017				
	3-6 Months BD '000	*6-12 Months BD '000*	*1-3 Years BD '000*	*3 Years & Above BD '000*	*Total BD '000*
Receivable	10,566	2,775	13,856	9,258	36,455
Musharaka	1,517	804	432	1,275	4,028
Ijara Muntahia Bittamleek and Ijara receivable	4,949	93	2,628	1,116	8,786
	17,032	3,672	16,916	11,649	49,269

As at 31 December 2018 the fair value of the collateral that the Group holds relating to non performing facilities amounts to BD 18.5 million (2017: BD 24.7 million). The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

Credit Risk Mitigation

For exposures secured by real estate or other collateral, the Group carries out regular and periodic collateral verification and evaluation. This collateral verification is conducted by an independent qualified assessor or Collateral Analyst at the Group. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group allows cars, premises and equipment, plant and machinery etc, as collateral for a credit and investment product but does not accept perishable assets. The Group does not accept any assets as collateral if the assets are susceptible for obsolescence. The Group also ensure that these assets are insured in order to be accepted as collateral.

26 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Credit Risk Mitigation (continued)

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

1) Hamish Jiddiyyah (HJ) (Good faith deposit): The Group takes this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the Group has recourse to the HJ. HJ is taken by the Group at the inception of the transaction but before signing the contracts. HJ constitutes partial guarantee to the Group for the performance of the contract by the customer. The Group will still have recourse to the customers for the unsecured position in case of default.

2) Third party guarantee: The Group should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, should provide the Group with signed audited financial statements.

3) Underlying assets of the lease contract: The underlying asset must be of monetary value and the Group must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any kind of encumbrance. In the same lease contract a customer can pledge other assets that customers own other than the underlying assets in the contract. In order for the Group to consider these assets as pledged assets, it must meet all the conditions for the underlying assets under the lease contract. It must be legally enforceable, accessible, saleable and free of any kind of encumbrance. The value of the pledged asset must be used only to offset the amount against the customers.

   Any excess amount resulting from the closure of the pledge by the Group should be returned to the customer (pledger). The Group is conducting at least annual evaluation of the pledged assets and keeping adequate documentation of this evaluation.

4) Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.

5) Rated and unrated senior Sukuk issued by financial institutions or sovereigns.

Credit Quality

Countries, governments and financial institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating. Corporates will be rated on their senior unsecured medium term local currency obligations, unless the credit granted is across border or in foreign currency. In the latter case, the obligor's country's rating will be the ceiling on corporates' rating. Where all credit to a government is in local currency, the rating for that government is the best i.e. 1 on the rating scale, however, if the exposure to the government includes foreign currency, the rating for that government will be the same as the country's rating.

A rating is a forward looking indication of creditworthiness. It is based on an evaluation of past performance, present conditions and outlook for the future. For the purpose of rating, the Group is using only those External Credit Assessment Institutions (ECAIs) which are allowed/ approved by the CBB and are mainly used in Banking exposures.

26 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Credit Quality (continued)

The basic approach of the major credit rating agencies to rating is the same as what the Group credit policies require i.e. a comprehensive fundamental analysis of all relevant quantitative and non quantitative factors aimed at identifying actual and potential vulnerability. Credit rating will be applied to Countries and Single Obligors. Single Obligors, in turn are categorised as financial institutions, corporates and governments. CRS therefore rates obligors (issuers) and not facilities. The obligor rating of countries and single obligors will identify the relative probability of default but will not take into account the impact of collateral security, structure etc in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiary internally to also rate facilities).

During the year 2018, BD 5.2 million (2017: BD 17.6 million) of financing facilities were renegotiated. Exposures amounting to BD 4.7 million of the restructured facilities are non-performing as of 31 December 2018 (2017: BD 2.9 million).

d) Operational risk

The Group categorises operational risk loss events into the following categories:

Infrastructure risks

Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group might be disrupted and severe operational risks could occur.

In order to protect the Group from the infrastructure risk as outlined above, the Group is taking necessary measures as indicated in the Business Continuity Plan and/or Disaster Recovery Plan to cater for these risks.

Information technology risks

The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorized access, by third parties or employees, etc.

Staff risk

The main risks that might arise from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established a corporate culture which entails constructive ways of dealing with mistakes. The Group has also established an approval control steps in business processes as well as creating separate control processes. Further, the Group has already established measures of organisational structure in terms of segregation of duties as well as diverse training measures to reduce human error.

27 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

The distribution by geographic region and industry sector was as follows:

	Assets		*Liabilities and Subordinated debt*		*Equity of investment accountholders*	
	2018	*2017*	***2018***	*2017*	***2018***	*2017*
	BD '000	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*
Geographical region						
Middle East	**434,037**	387,036	**66,211**	90,601	**226,872**	238,849
Europe	**22,492**	21,595	**1,015**	838	**-**	8
Asia	**335,403**	411,148	**105,168**	125,034	**204,808**	251,700
Others	**30,084**	46,166	**25,721**	21,433	**100,184**	65,217
	822,016	865,945	**198,115**	237,906	**531,864**	555,774

27 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

	Assets		*Liabilities and Subordinated debt*		*Equity of investment accountholders*	
	2018	*2017*	***2018***	*2017*	***2018***	*2017*
	BD '000	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*
Industry sector						
Trading and manufacturing	**132,384**	170,095	**25,084**	26,485	**40,600**	45,387
Banks and financial institutions	**332,134**	333,475	**74,442**	96,368	**162,259**	120,584
Construction	**15,794**	18,357	**3,838**	4,535	**3,157**	7,866
Others	**341,704**	344,018	**94,751**	110,518	**325,848**	381,937
	822,016	865,945	**198,115**	237,906	**531,864**	555,774

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of investments are dislcosed in note 7 to these financial statements. However, a certain equity-type instruments at fair value through equity which are carried at cost, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

29 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 consolidated financial statements as set out in note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

29 SEGMENTAL INFORMATION (continued)

The segmental results of the Group were as follows:

	Middle East		*Other Asian Countries*	
	2018	*2017*	***2018***	*2017*
	BD '000	*BD '000*	***BD '000***	*BD '000*
Assets	**479,242**	448,201	**342,774**	417,744
Liabilities, equity of investment accountholders, and Subordinated debt	**419,745**	418,453	**310,234**	375,227
Total income	**16,270**	12,628	**16,344**	16,457
Total operating expenses	**(12,666)**	(12,348)	**(14,340)**	(17,604)
Net operating income	**3,604**	279	**2,004**	(1,146)
Provision for impairment - net	**(10,745)**	(1,275)	**(1,490)**	(382)
Taxation	**-**	-	**(247)**	488
Income for the year	**(7,141)**	(996)	**267**	(1,040)

30 SOCIAL RESPONSIBILITY

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

31 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported net income or owner's equity.