

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
Al Baraka Islamic Bank B.S.C. (c)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

31 March 2019 (REVIEWED)

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Al Baraka Islamic Bank B.S.C.(c) (the "Bank") and its subsidiary ("the Group") as of 31 March 2019, and the related interim consolidated statements of income, changes in owners' equity, cash flows and changes in off-balance sheet equity of investment accountholders for the three month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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



14 May 2019
Manama, Kingdom of Bahrain

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019 (Reviewed)

| | Notes | 31 March 2019 BD '000 | Audited 31 December 2018 BD '000 |
|--|-------|-----------------------------|---|
| ASSETS | | | |
| Cash and balances with banks and financial institutions | | 70,276 | 70,622 |
| Receivables | 3 | 269,277 | 268,567 |
| Ijara Muntahia Bittamleek and ijara receivables | 4 | 104,821 | 107,330 |
| Musharakas | 5 | 99,029 | 102,502 |
| Investments | 6 | 219,860 | 205,328 |
| Investments in real estate | | 1,976 | 1,975 |
| Investment in joint venture | | 5,538 | 5,531 |
| Premises and equipment | | 20,638 | 20,965 |
| Goodwill | | 6,014 | 6,096 |
| Other assets | 7 | 36,036 | 33,100 |
| TOTAL ASSETS | | 833,465 | 822,016 |
| LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY | | | |
| Liabilities | | | |
| Due to banks and financial institutions | | 20,802 | 21,724 |
| Current accounts | | 96,249 | 103,897 |
| Medium term financing | | 23,051 | 23,026 |
| Other liabilities | 8 | 46,885 | 42,879 |
| Total liabilities | | 186,987 | 191,526 |
| Equity of investment accountholders | | 548,350 | 531,864 |
| Subordinated debts | | 6,117 | 6,589 |
| Owners' equity | | | |
| Share capital | | 46,167 | 46,167 |
| Perpetual additional tier 1 capital | | 41,470 | 41,470 |
| Reserves | | 1,526 | 1,805 |
| Accumulated losses | | (7,916) | (8,210) |
| Equity attributable to parent's shareholders | | 81,247 | 81,232 |
| Non-controlling interest | | 10,764 | 10,805 |
| Total owners' equity | | 92,011 | 92,037 |
| TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY | | 833,465 | 822,016 |
| OFF-BALANCE SHEET ITEMS: | | | |
| EQUITY OF INVESTMENT ACCOUNTHOLDERS | | 35,991 | 32,708 |
| CONTINGENCIES AND COMMITMENTS | 9 | 112,832 | 113,890 |



Khalid Rashid Al-Zayani
Chairman



Adnan Ahmed Yousif
Deputy Chairman



Hamad Abdulla Aloqab
Chief Executive Officer

The attached explanatory notes 1 to 16 form part of these interim condensed consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three months period ended 31 March 2019 (Reviewed)

| | Notes | Three months ended 31 March | |
|---|-------|--------------------------------|-----------------|
| | | 2019 BD '000 | 2018 BD '000 |
| INCOME | | | |
| Income from jointly financed | | 4,717 | 4,262 |
| Income from jointly financed, other financings and investments | 10 | 4,429 | 4,850 |
| Income from jointly financed assets | | 9,146 | 9,112 |
| Return on equity of investment accountholders before Group's share as a Mudarib | | (7,129) | (6,954) |
| Group's share as a Mudarib | | 1,239 | 2,141 |
| Return on equity of investment accountholders | | (5,890) | (4,813) |
| Group's share as a Mudarib and Rabalmaal | | 3,256 | 4,299 |
| Group's income from self financed sales | | 101 | 126 |
| Group's income from self financed, other financings and investments | 10 | 3,269 | 1,679 |
| Revenue from banking services | 11 | 844 | 962 |
| Other income | 12 | 352 | 380 |
| Group's Mudarib / Agency fee from off-balance sheet equity of investment account holders | | 4 | 6 |
| TOTAL OPERATING INCOME | | 7,826 | 7,452 |
| OPERATING EXPENSES | | | |
| Staff expenses | | (3,056) | (3,323) |
| Depreciation | | (550) | (478) |
| Other operating expenses | | (2,713) | (2,885) |
| TOTAL OPERATING EXPENSES | | (6,319) | (6,686) |
| NET OPERATING INCOME | | 1,507 | 766 |
| Allowance for impairment - net | 13 | (924) | (173) |
| NET INCOME BEFORE TAXATION | | 583 | 593 |
| Taxation | | (184) | 25 |
| INCOME FOR THE PERIOD | | 399 | 618 |
| Attributable to: | | | |
| Equity shareholders of the Parent | | 294 | 605 |
| Non-controlling interest | | 105 | 13 |
| | | 399 | 618 |


Khalid Rashid Al-Zayani
Chairman


Adnan Ahmed Yousif
Deputy Chairman


Hamad Abdulla Aloqab
Chief Executive Officer

The attached explanatory notes 1 to 16 form part of these interim condensed consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the three months period ended 31 March 2019 (Reviewed)

| Equity attributable to shareholders of the Parent | | | | | | | | | | | | |
|--|---------------|------------------------------------|--------------|--------------|-------------------------------|----------------------------------|---------------------------------------|------------------|--|---------------|--------------------------|----------------------|
| Reserves | | | | | | | | | | | | |
| | Share capital | Perpetual Additional Tier1 capital | Statutory | General | Employee defined benefit plan | Cumulative changes in fair value | Revaluation of premises and equipment | Foreign exchange | Retained earnings / (accumulated losses) | Total | Non-controlling interest | Total owners' equity |
| | BD '000 | BD '000 | BD '000 | BD '000 | BD '000 | BD '000 | BD '000 | BD '000 | BD '000 | BD '000 | BD '000 | BD '000 |
| Balance at 1 January 2019 | 46,167 | 41,470 | 8,557 | 3,275 | (12) | 390 | 269 | (10,674) | (8,210) | 81,232 | 10,805 | 92,037 |
| Cumulative changes in fair value | - | - | - | - | - | 33 | - | - | - | 33 | 23 | 56 |
| Foreign currency translation reserve | - | - | - | - | - | - | - | (312) | - | (312) | (169) | (481) |
| Net income for the period | - | - | - | - | - | - | - | - | 294 | 294 | 105 | 399 |
| Balance at 31 March 2019 | 46,167 | 41,470 | 8,557 | 3,275 | (12) | 423 | 269 | (10,986) | (7,916) | 81,247 | 10,764 | 92,011 |
| Balance at 1 January 2018 | 46,167 | - | 8,558 | 3,275 | (44) | 364 | 450 | (5,246) | 4,500 | 58,024 | 14,242 | 72,266 |
| Transition adjustment on adoption of FAS 30 as of 1 January 2018 | - | - | - | - | - | - | - | - | (4,469) | (4,469) | (728) | (5,197) |
| Restated balance as of 1 January 2018 | 46,167 | - | 8,558 | 3,275 | (44) | 364 | 450 | (5,246) | 31 | 53,555 | 13,514 | 67,069 |
| Cumulative changes in fair value | - | - | - | - | - | 107 | - | - | - | 107 | 74 | 181 |
| Foreign currency translation reserve | - | - | - | - | - | - | - | (1,131) | - | (1,131) | (588) | (1,719) |
| Remeasurement gains on defined benefit plan | - | - | - | - | 2 | - | - | - | - | 2 | 1 | 3 |
| Perpetual tier 1 capital | - | 41,470 | - | - | - | - | - | - | - | 41,470 | - | 41,470 |
| Net income for the period | - | - | - | - | - | - | - | - | 605 | 605 | 13 | 618 |
| Balance at 31 March 2018 | 46,167 | 41,470 | 8,558 | 3,275 | (42) | 471 | 450 | (6,377) | 636 | 94,608 | 13,014 | 107,622 |

The attached explanatory notes 1 to 16 form part of these interim condensed consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months period ended 31 March 2019 (Reviewed)

| | <i>Three months ended</i> | |
|--|---------------------------|----------------|
| | <i>31 March</i> | |
| | 2019 | 2018 |
| | BD '000 | BD '000 |
| OPERATING ACTIVITIES | | |
| Net income before taxation | 583 | 593 |
| Adjustments for : | | |
| Depreciation | 550 | 478 |
| Provision for impairment - net | 924 | 173 |
| Gain on sale of premises and equipment | (3) | (1) |
| Gain on sale of investments | (64) | (59) |
| Share of gain from investment in joint venture | (7) | (4) |
| Operating profit before changes in operating assets and liabilities | 1,983 | 1,180 |
| Net changes in operating assets and liabilities: | | |
| Balances with central banks in mandatory reserves | 11,526 | 2,134 |
| Receivables | 12,355 | 11,063 |
| Ijara Muntahia Bittamleek and ijara receivables | 2,460 | 549 |
| Musharakas | 3,279 | 3,805 |
| Ijara income receivables | 95 | - |
| Other assets | (3,116) | 1,230 |
| Other liabilities | 4,032 | (2,513) |
| Due to banks and financial institutions | (922) | (487) |
| Current accounts | (7,648) | (6,278) |
| Equity of investment accountholders | 16,485 | (16,572) |
| Tax paid | (4) | (41) |
| Net cash from / (used) in operating activities | 40,525 | (5,930) |
| INVESTING ACTIVITIES | | |
| Purchase of investments | (42,754) | (2,146) |
| Sale of investments | 28,241 | 6,100 |
| Net (purchase) / sale of premises and equipment | (219) | 233 |
| Net cash (used in) / from investing activities | (14,732) | 4,187 |
| FINANCING ACTIVITIES | | |
| Subordinated debts | (473) | (1,613) |
| Medium term financing | 25 | (5,335) |
| Issuance of perpetual tier 1 capital | - | 18,850 |
| Dividend distributed on AT-1 Capital | - | - |
| Net cash (used in) / from financing activities | (448) | 11,902 |
| Foreign currency translation adjustments | (398) | (1,382) |
| INCREASE IN CASH AND CASH EQUIVALENTS | 24,947 | 8,777 |
| Cash and cash equivalents at 1 January | 103,701 | 120,558 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 128,648 | 129,335 |
| For the purpose of the interim cash flows statement, cash and cash equivalents comprise the following: | | |
| Cash in hand | 14,533 | 13,186 |
| Balances with central banks in unrestricted account | 21,874 | 5,477 |
| Balances with other banks and financial institutions | 9,485 | 24,324 |
| Receivables - international commodities | 82,756 | 86,348 |
| | 128,648 | 129,335 |

The attached explanatory notes 1 to 16 form part of these interim condensed consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS
For the three months period ended 31 March 2019 (Reviewed)

| | <i>Balance at 1 January 2019</i> | <i>Write offs</i> | <i>Net deposits/ withdrawals</i> | <i>Gross income</i> | <i>Mudarib's/ agency fee</i> | <i>Balance at 31 March 2019</i> |
|-------------|--------------------------------------|-------------------|--|-------------------------|--------------------------------------|---|
| | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> |
| Receivables | 29,118 | - | (218) | 98 | (4) | 28,994 |
| Investments | 3,590 | (525) | 3,932 | - | - | 6,997 |
| | 32,708 | (525) | 3,714 | 98 | (4) | 35,991 |

| | <i>Balance at 1 January 2018</i> | <i>Write offs</i> | <i>Net Deposits</i> | <i>Gross income</i> | <i>Mudarib's/ agency fee</i> | <i>Balance at 31 March 2018</i> |
|-------------|--------------------------------------|-------------------|-------------------------|-------------------------|--------------------------------------|---|
| | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> |
| Receivables | 28,655 | - | 2,018 | 135 | (6) | 30,802 |
| Investments | 3,617 | - | 15 | - | - | 3,632 |
| | 32,272 | - | 2,033 | 135 | (6) | 34,434 |

The attached explanatory notes 1 to 16 form part of these interim condensed consolidated financial stat

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (Reviewed)

1 INCORPORATION AND PRINCIPAL ACTIVITY

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

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

These interim condensed consolidated financial statements were approved by the Board of Directors on 14 May 2019.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of Preparation

The interim condensed consolidated financial statements for the three month period ended 31 March 2019 have been prepared in accordance with the guidance given by *International Accounting Standard 34 "Interim Financial Reporting"*. The interim condensed consolidated financial statements do not contain all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018. In addition, results for the three month period ended 31 March 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

2.2 Accounting convention

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

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

2.3 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 has 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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 Basis of consolidation (continued)

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

| | <i>Ownership for 2019 / 2018 incorporation</i> | <i>Year of incorporation</i> | <i>Country of incorporation</i> | <i>No. of branches/ offices at 31 March 2019</i> |
|---|--|----------------------------------|-------------------------------------|--|
| <i>Held directly by the Bank</i> | | | | |
| Al Baraka Bank (Pakistan) Limited* | 59.13% | 2004 | Pakistan | 191 |

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

Investment in Itqan Capital

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

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

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

2.5 New standards, interpretations and amendments adopted by the Group

These interim condensed consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards and interpretations effective as of 1 January 2019.

2.5.1 Adoption of FAS 28 - Murabaha and Other Deferred Payment Sale

This standard is effective from 1 January 2019 and prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transactions, excluding Tawarruq and commodity Murabaha transactions. FAS 28 supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Order" and FAS 20 "Deferred Payment Sale", where it aims at sitting out the accounting rules for measurement, recognition and disclosure of the transactions of Murabaha and other deferred payment sales that are carried out by Islamic banks of IFI. Also, this standard shall not apply to investments made in investment instruments e.g. equity instruments or Sukuk, where the underlying asset for such instrument is a Murabaha or deferred payment sale.

2.5.2 Adoption of FAS 31 - Investment Agency (Al-Wakala Bi Al-Istithmar)

This standard is effective from 1 January 2020 and provides detailed guidance on recognition and disclosures requirements for Islamic finance transactions entered under Investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hand of both the principal and the agent.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (Reviewed)

3 RECEIVABLES

| | 31 March 2019 | | | Audited 31 December 2018 | | |
|--------------------------------------|-----------------------------|--------------------------------|------------------|-----------------------------|--------------------------------|------------------|
| | Self financed BD '000 | Jointly financed BD '000 | Total BD '000 | Self financed BD '000 | Jointly financed BD '000 | Total BD '000 |
| Commodities | - | 82,936 | 82,936 | 1,755 | 67,416 | 69,171 |
| Salam financing | - | 27,348 | 27,348 | - | 29,151 | 29,151 |
| Istisna'a financing | - | 36,652 | 36,652 | - | 34,327 | 34,327 |
| Murabaha | 955 | 108,628 | 109,583 | 955 | 125,204 | 126,159 |
| Bills receivables | - | 47,867 | 47,867 | - | 48,123 | 48,123 |
| Gross receivable | 955 | 303,431 | 304,386 | 2,710 | 304,221 | 306,931 |
| Deferred profits | (20) | (8,517) | (8,537) | (21) | (10,073) | (10,094) |
| | 935 | 294,914 | 295,849 | 2,689 | 294,148 | 296,837 |
| Less: Allowance for credit losses | (140) | (26,432) | (26,572) | (140) | (28,130) | (28,270) |
| Net receivables | 795 | 268,482 | 269,277 | 2,549 | 266,018 | 268,567 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (Reviewed)

3 RECEIVABLES (continued)

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.

| | 31 March 2019 | | | | Audited 31 December 2018 | | | |
|-----------------------|--------------------|--------------------|--------------------|------------------|--------------------------|--------------------|--------------------|------------------|
| | Stage 1 BD '000 | Stage 2 BD '000 | Stage 3 BD '000 | Total BD '000 | Stage 1 BD '000 | Stage 2 BD '000 | Stage 3 BD '000 | Total BD '000 |
| Good (1-4) | 79,589 | 1,992 | - | 81,581 | 74,854 | 9,644 | - | 84,498 |
| Satisfactory (5-7) | 76,684 | 101,560 | - | 178,244 | 67,509 | 109,264 | - | 176,773 |
| Default (8-10) | - | - | 36,024 | 36,024 | - | - | 35,566 | 35,566 |
| | 156,273 | 103,552 | 36,024 | 295,849 | 142,363 | 118,908 | 35,566 | 296,837 |

4 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

| | 31 March 2019 | | | Audited 31 December 2018 | | |
|--------------------------------------|-----------------------------|--------------------------------|------------------|-----------------------------|--------------------------------|------------------|
| | Self financed BD '000 | Jointly financed BD '000 | Total BD '000 | Self financed BD '000 | Jointly financed BD '000 | Total BD '000 |
| Ijara Muntahia Bittamleek | 10,135 | 86,760 | 96,895 | 10,623 | 88,731 | 99,354 |
| Ijara income receivables | 2,414 | 11,208 | 13,622 | 2,216 | 11,418 | 13,634 |
| | 12,549 | 97,968 | 110,517 | 12,839 | 100,149 | 112,988 |
| Less: Allowance for credit losses | (73) | (5,623) | (5,696) | (44) | (5,614) | (5,658) |
| | 12,476 | 92,345 | 104,821 | 12,795 | 94,535 | 107,330 |

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.

| | 31 March 2019 | | | | Audited 31 December 2018 | | | |
|-----------------------|--------------------|--------------------|--------------------|------------------|--------------------------|--------------------|--------------------|------------------|
| | Stage 1 BD '000 | Stage 2 BD '000 | Stage 3 BD '000 | Total BD '000 | Stage 1 BD '000 | Stage 2 BD '000 | Stage 3 BD '000 | Total BD '000 |
| Good (1-4) | 85,466 | 1,665 | - | 87,131 | 84,666 | 2,043 | - | 86,709 |
| Satisfactory (5-7) | 2,980 | 9,850 | - | 12,830 | 999 | 15,426 | - | 16,425 |
| Default (8-10) | - | - | 10,556 | 10,556 | - | - | 9,854 | 9,854 |
| | 88,446 | 11,515 | 10,556 | 110,517 | 85,665 | 17,469 | 9,854 | 112,988 |

5 MUSHARAKA

| | 31 March 2019 | | | Audited 31 December 2018 | | |
|--------------------------------------|-----------------------------|--------------------------------|------------------|-----------------------------|--------------------------------|------------------|
| | Self financed BD '000 | Jointly financed BD '000 | Total BD '000 | Self financed BD '000 | Jointly financed BD '000 | Total US '000 |
| Musharaka | 16,891 | 85,164 | 102,055 | 18,163 | 87,210 | 105,373 |
| Less: Allowance for credit losses | - | (3,026) | (3,026) | - | (2,871) | (2,871) |
| | 16,891 | 82,138 | 99,029 | 18,163 | 84,339 | 102,502 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (Reviewed)

5 MUSHARAKA (continued)

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.

| | 31 March 2019 | | | | Audited 31 December 2018 | | | |
|-----------------------|--------------------|--------------------|--------------------|------------------|--------------------------|--------------------|--------------------|------------------|
| | Stage 1 BD '000 | Stage 2 BD '000 | Stage 3 BD '000 | Total BD '000 | Stage 1 BD '000 | Stage 2 BD '000 | Stage 3 BD '000 | Total BD '000 |
| Good (1-4) | 86,773 | 1,493 | - | 88,266 | 91,526 | 1,837 | - | 93,363 |
| Satisfactory (5-7) | 5,284 | 5,648 | - | 10,932 | 4,319 | 5,070 | - | 9,389 |
| Default (8-10) | - | - | 2,857 | 2,857 | - | - | 2,621 | 2,621 |
| | <u>92,057</u> | <u>7,141</u> | <u>2,857</u> | <u>102,055</u> | <u>95,845</u> | <u>6,907</u> | <u>2,621</u> | <u>105,373</u> |

6 INVESTMENTS

| | 31 March 2019 | | | Audited 31 December 2018 | | |
|--|-----------------------------|--------------------------------|------------------|-----------------------------|--------------------------------|------------------|
| | 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

| | | | | | | |
|--|----------|------------|------------|----------|------------|------------|
| | - | 130 | 130 | - | 296 | 296 |
| | <u>-</u> | <u>130</u> | <u>130</u> | <u>-</u> | <u>296</u> | <u>296</u> |

ii) Equity-type instruments at fair value through equity

Quoted

Listed equity
shares

| | | | | | | |
|-------------------|---------------|------------|---------------|---------------|------------|---------------|
| | 3,403 | 138 | 3,541 | 3,312 | 140 | 3,452 |
| | <u>22,719</u> | <u>140</u> | <u>22,859</u> | <u>22,719</u> | <u>142</u> | <u>22,861</u> |
| Managed funds | 377 | - | 377 | 377 | - | 377 |
| Real estate funds | 3,485 | 566 | 4,051 | 3,558 | 566 | 4,124 |
| | <u>29,984</u> | <u>844</u> | <u>30,828</u> | <u>29,966</u> | <u>848</u> | <u>30,814</u> |

Less: Provision for
impairment

| | | | | | | |
|--|---------|-------|---------|---------|-------|---------|
| | (1,977) | (182) | (2,159) | (1,891) | (184) | (2,075) |
|--|---------|-------|---------|---------|-------|---------|

Total equity investments

| | | | | | | |
|--|---------------|------------|---------------|---------------|------------|---------------|
| | <u>28,007</u> | <u>792</u> | <u>28,799</u> | <u>28,075</u> | <u>664</u> | <u>28,739</u> |
|--|---------------|------------|---------------|---------------|------------|---------------|

iii) Debt-type instruments at amortised cost

Quoted

Sukuk

| | | | | | | |
|--|--------|--------|--------|--------|--------|---------|
| | 74,885 | 24,464 | 99,349 | 69,505 | 34,388 | 103,893 |
|--|--------|--------|--------|--------|--------|---------|

Unquoted

Sukuk

| | | | | | | |
|--|--------|--------|--------|--------|-------|--------|
| | 54,725 | 38,040 | 92,765 | 67,691 | 5,730 | 73,421 |
|--|--------|--------|--------|--------|-------|--------|

| | | | | | | |
|--|----------------|---------------|----------------|----------------|---------------|----------------|
| | <u>129,610</u> | <u>62,504</u> | <u>192,114</u> | <u>137,196</u> | <u>40,118</u> | <u>177,314</u> |
|--|----------------|---------------|----------------|----------------|---------------|----------------|

Less: Allowance for
credit losses

| | | | | | | |
|--|-------|-------|---------|-------|-------|---------|
| | (909) | (144) | (1,053) | (883) | (138) | (1,021) |
|--|-------|-------|---------|-------|-------|---------|

Total debt-type
investmen

| | | | | | | |
|--|----------------|---------------|----------------|----------------|---------------|----------------|
| | <u>128,701</u> | <u>62,360</u> | <u>191,061</u> | <u>136,313</u> | <u>39,980</u> | <u>176,293</u> |
|--|----------------|---------------|----------------|----------------|---------------|----------------|

Total investments

| | | | | | | |
|--|----------------|---------------|----------------|----------------|---------------|----------------|
| | <u>156,708</u> | <u>63,152</u> | <u>219,860</u> | <u>164,388</u> | <u>40,940</u> | <u>205,328</u> |
|--|----------------|---------------|----------------|----------------|---------------|----------------|

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (Reviewed)

6 INVESTMENTS (continued)

| | 31 March 2019 | | | | Audited 31 December 2018 | | | |
|--------------------|--------------------|--------------------|--------------------|------------------|--------------------------|--------------------|--------------------|------------------|
| | Stage 1 BD '000 | Stage 2 BD '000 | Stage 3 BD '000 | Total BD '000 | Stage 1 BD '000 | Stage 2 BD '000 | Stage 3 BD '000 | Total BD '000 |
| Good (1-4) | 74,124 | - | - | 74,124 | 62,576 | - | - | 62,576 |
| Satisfactory (5-7) | 103,418 | 13,704 | - | 117,122 | 100,116 | 13,754 | - | 113,870 |
| Default (8-10) | - | - | 868 | 868 | - | - | 868 | 868 |
| | 177,542 | 13,704 | 868 | 192,114 | 162,692 | 13,754 | 868 | 177,314 |

Included in quoted equity type instruments, BD 2.4 million (2018: BD 2.6 million) of investments are fair valued using quoted prices in active markets.

Within unquoted investments which are held at fair value through equity are investments amounting to BD 26.4 million (2018: BD 26.5 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 191.1 million (2018: BD 176.3 million) has a fair value amounting to BD 192.9 million (2018: BD 176 million).

Investments stated at a carrying amount of BD 92.9 million (2018: BD 95.2 million) are placed in custody of a financial institution to secure a financing line.

7 OTHER ASSETS

| | Audited | |
|--|-----------------------------|--------------------------------|
| | 31 March 2019 BD '000 | 31 December 2018 BD '000 |
| Deferred tax | 9,249 | 9,503 |
| Collaterals pending sale | 8,866 | 8,199 |
| Advance against financing transactions | 7,845 | 5,459 |
| Advance against capital expenditure | 2,311 | 2,204 |
| Accounts receivable | 1,332 | 1,347 |
| Prepayments | | |
| Advance tax | 787 | 854 |
| Income receivable | 110 | 115 |
| Others | 6,611 | 6,505 |
| | 37,111 | 34,186 |
| Less: Provision for impairment | (1,075) | (1,086) |
| | 36,036 | 33,100 |

Note 7.1

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (Reviewed)

8 OTHER LIABILITIES

| | <i>Audited</i> | |
|--|-----------------|--------------------|
| | <i>31 March</i> | <i>31 December</i> |
| | <i>2019</i> | <i>2018</i> |
| | <i>BD '000</i> | <i>BD '000</i> |
| Margins received | 23,011 | 23,221 |
| Accounts payable | 4,942 | 5,653 |
| Bills payable | 10,301 | 3,750 |
| Security deposit against Ijara Muntahia Bittamleek | 1,995 | 2,234 |
| Provision for employees benefits | 2,069 | 2,949 |
| Advance payment from customers | | |
| ECL against contingencies and commitments | 140 | 225 |
| Charity fund | 233 | 208 |
| Others | 4,194 | 4,639 |
| | <u>46,885</u> | <u>42,879</u> |

9 CONTINGENCIES AND COMMITMENTS

| | <i>Audited</i> | |
|----------------------------|-----------------|--------------------|
| | <i>31 March</i> | <i>31 December</i> |
| | <i>2019</i> | <i>2018</i> |
| | <i>BD '000</i> | <i>BD '000</i> |
| Letters of credit | 32,429 | 32,827 |
| Foreign exchange contracts | 41,884 | 46,245 |
| Guarantees | 23,670 | 22,286 |
| Acceptances | 14,193 | 11,874 |
| Taxation | 618 | 626 |
| Others | 38 | 32 |
| | <u>112,832</u> | <u>113,890</u> |

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

| | <i>Three months ended</i> | |
|---|---------------------------|----------------|
| | <i>31 March</i> | |
| | <i>2019</i> | <i>2018</i> |
| | <i>BD '000</i> | <i>BD '000</i> |
| Income from Musharaka | 3,101 | 2,725 |
| Return on investments | 2,974 | 2,040 |
| Income from Ijara Muntahia Bittamleek (note 10.1) - net | 1,546 | 1,668 |
| Gain on sale of investments | 64 | 59 |
| Dividend income | - | 21 |
| Rental income | 12 | 15 |
| | <u>7,697</u> | <u>6,528</u> |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (Reviewed)

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

| | <i>Three months ended</i> | |
|---|---------------------------|----------------|
| | <i>31 March</i> | |
| | <i>2019</i> | <i>2018</i> |
| | <i>BD '000</i> | <i>BD '000</i> |
| Income from jointly financed, other financings and investments | 4,429 | 4,850 |
| Group's income from self financed, other financings and investments | 3,269 | 1,679 |
| | 7,698 | 6,529 |

10.1 Ijara Muntahia Bittamleek

| | <i>Three months ended</i> | |
|---|---------------------------|----------------|
| | <i>31 March</i> | |
| | <i>2019</i> | <i>2018</i> |
| | <i>BD '000</i> | <i>BD '000</i> |
| Income from Ijara Muntahia Bittamleek | 5,003 | 5,693 |
| Depreciation on Ijara Muntahia Bittamleek | (3,456) | (4,024) |
| | 1,547 | 1,669 |

11 REVENUE FROM BANKING SERVICES

| | <i>Three months ended</i> | |
|-----------------------------------|---------------------------|----------------|
| | <i>31 March</i> | |
| | <i>2019</i> | <i>2018</i> |
| | <i>BD '000</i> | <i>BD '000</i> |
| Fees and commissions | 600 | 578 |
| Letters of credit and acceptances | 177 | 323 |
| Guarantees | 67 | 61 |
| | 844 | 962 |

12 OTHER INCOME

| | <i>Three months ended</i> | |
|-----------------------------|---------------------------|----------------|
| | <i>31 March</i> | |
| | <i>2019</i> | <i>2018</i> |
| | <i>BD '000</i> | <i>BD '000</i> |
| Foreign exchange gain - net | 218 | 323 |
| Others | 134 | 57 |
| | 352 | 380 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (Reviewed)

13 ALLOWANCE FOR IMPAIRMENT - NET

| | <i>Three months ended</i> | |
|---|---------------------------|----------------|
| | <i>31 March</i> | |
| | <i>2019</i> | <i>2018</i> |
| | <i>BD '000</i> | <i>BD '000</i> |
| Receivables | (624) | 37 |
| Ijara Muntahia Bittamleek and ijara receivables | (55) | 123 |
| Musharakas | (195) | (309) |
| Investments - debt type | (32) | 20 |
| Investments - equity type | (102) | (31) |
| Contingencies and commitments | 84 | (13) |
| | (924) | (173) |

14 SEGMENTAL INFORMATION

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

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

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

The segmental results of the Group were as follows:

| | <i>Middle East</i> | | <i>Other Asian Countries</i> | | <i>Total</i> | |
|---|---------------------------|--------------------|------------------------------|--------------------|---------------------------|--------------------|
| | <i>31 March</i> | <i>31 December</i> | <i>31 March</i> | <i>31 December</i> | <i>31 March</i> | <i>31 December</i> |
| | <i>2019</i> | <i>2018</i> | <i>2019</i> | <i>2018</i> | <i>2019</i> | <i>2018</i> |
| | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> |
| Assets | 495,430 | 479,245 | 338,035 | 342,771 | 833,465 | 822,016 |
| Liabilities, equity of investment accountholders and Subordinated debts | 435,776 | 419,745 | 305,678 | 310,234 | 741,454 | 729,979 |
| | | | | | | |
| | <i>Middle East</i> | | <i>Other Asian Countries</i> | | <i>Total</i> | |
| | <i>Three months ended</i> | | <i>Three months ended</i> | | <i>Three months ended</i> | |
| | <i>31 March</i> | | <i>31 March</i> | | <i>31 March</i> | |
| | <i>2019</i> | <i>2018</i> | <i>2019</i> | <i>2018</i> | <i>2019</i> | <i>2018</i> |
| | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> | <i>BD '000</i> |
| Total operating income | 3,642 | 3,396 | 4,184 | 4,056 | 7,826 | 7,452 |
| Total expenses | (3,006) | (2,787) | (3,313) | (3,899) | (6,319) | (6,686) |
| Provision for impairment - net | (495) | (23) | (429) | (150) | (924) | (173) |
| Taxation | - | - | (184) | 25 | (184) | 25 |
| Net income for the period | 141 | 586 | 258 | 32 | 399 | 618 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (Reviewed)

15 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 were as follows:

| | Shareholders | | Other Related Parties | | Total | |
|---|---------------|------------------|-----------------------|------------------|---------------|------------------|
| | 31 March 2019 | 31 December 2018 | 31 March 2019 | 31 December 2018 | 31 March 2019 | 31 December 2018 |
| | BD '000 | BD '000 | BD '000 | BD '000 | BD '000 | BD '000 |
| Assets: | | | | | | |
| Cash and balances with banks and financial institutions | 16 | 16 | 62 | 68 | 78 | 84 |
| Receivables | - | - | 3,248 | 3,029 | 3,248 | 3,029 |
| Ijara Muntahia Bittamleek and ijara rece | - | - | 60 | 77 | 60 | 77 |
| Musharaka | 83 | 82 | 664 | 717 | 747 | 799 |
| Ijara income receivables | - | - | 17 | 20 | 17 | 20 |
| Investments | - | - | 32,626 | 32,742 | 32,626 | 32,742 |
| Other assets | 231 | 247 | 59 | 60 | 290 | 307 |
| | 330 | 345 | 36,736 | 36,713 | 37,066 | 37,058 |
| Liabilities: | | | | | | |
| Due to banks and financial institutions | 1,531 | 1,544 | 321 | 235 | 1,852 | 1,779 |
| Current accounts | 60 | 60 | 3,396 | 7,283 | 3,456 | 7,343 |
| Other liabilities | 87 | 2 | 97 | 97 | 184 | 99 |
| | 1,678 | 1,606 | 3,814 | 7,615 | 5,492 | 9,221 |
| Equity of investment accountholders | 2,609 | 3,391 | 35,503 | 32,253 | 38,112 | 35,644 |
| OFF-BALANCE SHEET ITEMS: | | | | | | |
| Equity of investment accountholders | 3,932 | - | 24,093 | 23,997 | 28,025 | 23,997 |
| Contingencies and commitments | - | - | 4,336 | 1,442 | 4,336 | 1,442 |

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

| | Shareholders | | Other Related Parties | | Total | |
|--|--------------|------------|-----------------------|------------|------------|------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | BD '000 | BD '000 | BD '000 | BD '000 | BD '000 | BD '000 |
| Income | | | | | | |
| Income from jointly financed sales | - | - | 77 | 107 | 77 | 107 |
| Income from jointly financed, other financings and investments | - | - | 44 | 123 | 44 | 123 |
| Other income | 30 | 30 | 9 | - | 39 | 30 |
| Group's Mudarib/agency fee from off-balance sheet equity of investment account holders | 4 | 6 | - | - | 4 | 6 |
| | 34 | 36 | 130 | 230 | 164 | 266 |
| Expenses | | | | | | |
| Return on equity of investment accountholders before Group's share as a Mudarib | 8 | 192 | 359 | 58 | 367 | 250 |
| Other expenses | 30 | 17 | 162 | 512 | 192 | 529 |
| | 38 | 209 | 521 | 570 | 559 | 779 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (Reviewed)

15 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Compensation of key management personnel is as follows:

| | <i>Three months ended</i> | |
|----------------|---------------------------|----------------|
| | <i>31 March</i> | |
| | 2019 | 2018 |
| | BD '000 | BD '000 |
| Salaries | 305 | 423 |
| Other benefits | 165 | 224 |
| | 470 | 647 |

16 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial position date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.