

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

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**30 September 2016 (REVIEWED)**



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

### *Introduction*

We have reviewed the accompanying interim consolidated statement of financial position of Al Baraka Islamic Bank B.S.C.(c) (the "Bank") and its subsidiary ("the Group") as of 30 September 2016, and the related interim consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the nine 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 November 2016  
Manama, Kingdom of Bahrain

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

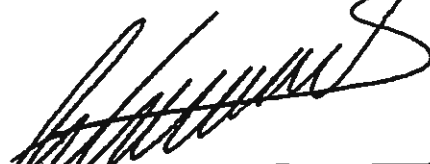
**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 30 September 2016 (Reviewed)

|  | Notes | 30 September<br>2016<br>BD '000 | Audited<br>31 December<br>2015<br>BD '000 |
|--|-------|---------------------------------|---|
| <b>ASSETS</b>  |       |                                 |   |
| Cash and balances with banks and financial institutions  |       | 80,220                          | 89,303                                    |
| Sales receivables  |       | 227,066                         | 229,851                                   |
| Ijara Muntahia Bittamleek  |       | 104,603                         | 100,432                                   |
| Musharaka  |       | 75,824                          | 58,156                                    |
| Investments  | 3     | 186,087                         | 169,957                                   |
| Investments in real estate   |       | 2,252                           | 2,252                                     |
| Ijara income receivables   |       | 10,766                          | 8,847                                     |
| Premises and equipment   |       | 9,251                           | 9,456                                     |
| Goodwill   |       | 6,665                           | 6,657                                     |
| Other assets   | 4     | 28,403                          | 24,263                                    |
| <b>TOTAL ASSETS</b>  |       | <b>731,137</b>                  | <b>699,174</b>                            |
| <b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS,<br/>SUBORDINATED DEBTS AND OWNERS' EQUITY</b>       |       |                                 |   |
| <b>Liabilities</b>   |       |                                 |   |
| Due to banks and financial institutions  |       | 35,036                          | 42,275                                    |
| Current accounts   |       | 84,890                          | 87,685                                    |
| Other liabilities  | 5     | 29,306                          | 25,842                                    |
| <b>Total liabilities</b>   |       | <b>149,232</b>                  | <b>155,802</b>                            |
| <b>Equity of investment accountholders</b>   |       | <b>499,137</b>                  | <b>469,212</b>                            |
| <b>Subordinated debts</b>  | 6     | <b>17,251</b>                   | <b>8,566</b>                              |
| <b>Owners' Equity</b>  |       |                                 |   |
| Share capital  |       | 46,167                          | 46,167                                    |
| Reserves   |       | 7,648                           | 7,643                                     |
| Retained earnings  |       | 5,327                           | 4,874                                     |
| <b>Equity attributable to parent's shareholders</b>  |       | <b>59,142</b>                   | <b>58,684</b>                             |
| Non-controlling interest   |       | 6,375                           | 6,910                                     |
| <b>Total owners' equity</b>  |       | <b>65,517</b>                   | <b>65,594</b>                             |
| <b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS,<br/>SUBORDINATED DEBTS AND OWNERS' EQUITY</b> |       | <b>731,137</b>                  | <b>699,174</b>                            |
| <b>OFF-BALANCE SHEET ITEMS:</b>  |       |                                 |   |
| <b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>   |       | <b>31,316</b>                   | <b>39,261</b>                             |
| <b>CONTINGENCIES AND COMMITMENTS</b>   | 7     | <b>83,903</b>                   | <b>81,803</b>                             |



Khalid Rashid Al-Zayani  
Chairman



Adnan Ahmed Yousif  
Deputy Chairman



Mohammed Essa Al Mutaweh  
Chief Executive Officer & Board Member

The attached explanatory notes 1 to 15 form part of these interim condensed consolidated financial statements.

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

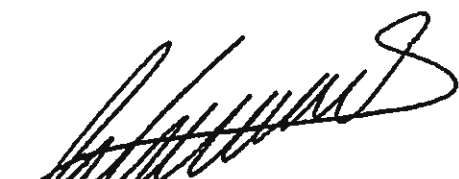
## INTERIM CONSOLIDATED STATEMENT OF INCOME

For the nine months period ended 30 September 2016 (Reviewed)

|  | Notes | Three months ended<br>30 September |                 | Nine months ended<br>30 September |                 |
|--|-------|------------------------------------|-----------------|-----------------------------------|-----------------|
|  |       | 2016<br>BD '000                    | 2015<br>BD '000 | 2016<br>BD '000                   | 2015<br>BD '000 |
| <b>INCOME</b>  |       |                                    |                 |                                   |                 |
| Income from jointly financed sales   |       | 3,073                              | 3,251           | 9,057                             | 11,952          |
| Income from jointly financed, other financings and investments                         | 8     | 3,997                              | 3,754           | 10,992                            | 10,958          |
| Income from jointly financed assets  |       | 7,070                              | 7,005           | 20,049                            | 22,910          |
| Return on equity of investment accountholders before Group's share as a Mudarib        |       | (5,448)                            | (6,059)         | (15,925)                          | (20,252)        |
| Group's share as a Mudarib   |       | 1,309                              | 1,723           | 4,259                             | 5,096           |
| Return on equity of investment accountholders  |       | (4,139)                            | (4,336)         | (11,666)                          | (15,156)        |
| <b>Group's share as a Mudarib and Rabalmaal</b>  |       | <b>2,931</b>                       | <b>2,669</b>    | <b>8,383</b>                      | <b>7,754</b>    |
| Group's income from self financed sales  |       | 103                                | 320             | 395                               | 1,020           |
| Group's income from self financed, other financings and investments                    | 8     | 1,143                              | 1,355           | 3,549                             | 4,255           |
| Revenue from banking services  | 9     | 1,106                              | 714             | 3,595                             | 2,131           |
| Other income   | 10    | 248                                | 257             | 861                               | 790             |
| Group's Mudarib/Agency fee from off-balance sheet equity of investment account holders |       | 8                                  | 9               | 23                                | 24              |
| <b>TOTAL OPERATING INCOME</b>  |       | <b>5,539</b>                       | <b>5,324</b>    | <b>16,806</b>                     | <b>15,974</b>   |
| <b>OPERATING EXPENSES</b>  |       |                                    |                 |                                   |                 |
| Staff expenses   |       | (2,622)                            | (2,390)         | (8,130)                           | (7,366)         |
| Depreciation   |       | (408)                              | (274)           | (970)                             | (854)           |
| Other operating expenses   |       | (2,197)                            | (1,987)         | (6,655)                           | (5,826)         |
| <b>TOTAL OPERATING EXPENSES</b>  |       | <b>(5,227)</b>                     | <b>(4,651)</b>  | <b>(15,755)</b>                   | <b>(14,046)</b> |
| <b>NET INCOME FOR THE PERIOD BEFORE PROVISION FOR IMPAIRMENT AND TAXATION</b>          |       |                                    |                 |                                   |                 |
|  |       | 312                                | 673             | 1,051                             | 1,928           |
| (Provision) / reversal of impairment - net   | 11    | (1,229)                            | 156             | (1,728)                           | 372             |
| <b>NET (LOSS) INCOME BEFORE TAXATION</b>   |       | <b>(917)</b>                       | <b>829</b>      | <b>(677)</b>                      | <b>2,300</b>    |
| Taxation   |       | 349                                | (134)           | 598                               | (490)           |
| <b>NET (LOSS) INCOME FOR THE PERIOD</b>  |       | <b>(568)</b>                       | <b>695</b>      | <b>(79)</b>                       | <b>1,810</b>    |
| Attributable to:   |       |                                    |                 |                                   |                 |
| Equity shareholders of the Parent  |       | (214)                              | 580             | 453                               | 1,490           |
| Non-controlling interest   |       | (354)                              | 115             | (532)                             | 320             |
|  |       | <b>(568)</b>                       | <b>695</b>      | <b>(79)</b>                       | <b>1,810</b>    |



Khalid Rashid Al-Zayani  
Chairman



Adnan Ahmed Yousif  
Deputy Chairman



Mohammed Essa Al Mutaweh  
Chief Executive Officer & Board Member

The attached explanatory notes 1 to 15 form part of these interim condensed consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

For the nine months period ended 30 September 2016 (Reviewed)

|  | <i>Nine months ended</i> |                 |
|--|--------------------------|-----------------|
|  | <i>30 September</i>      |                 |
|  | <b>2016</b>              | <b>2015</b>     |
| <i>Note</i>  | <b>BD '000</b>           | <b>BD '000</b>  |
| <b>OPERATING ACTIVITIES</b>  |                          |                 |
| Net (loss) income before taxation  | (677)                    | 2,300           |
| Adjustments for :  |                          |                 |
| Depreciation   | 970                      | 854             |
| Provision / (reversal) of impairment - net   | 1,728                    | (372)           |
| Gain on sale of premises and equipment   | (6)                      | (13)            |
| Gain on sale of investments  | 8 (398)                  | (417)           |
| Dividend income  | (35)                     | (63)            |
| <b>Operating profit before changes in operating assets and liabilities</b>                             | <b>1,582</b>             | <b>2,289</b>    |
| <b>Net changes in operating assets and liabilities:</b>  |                          |                 |
| Balances with central banks in mandatory reserves  | 10,118                   | (9,669)         |
| Sales receivables  | (11,759)                 | 30,574          |
| Ijara Muntahia Bittamleek  | (4,171)                  | (14,268)        |
| Musharaka  | (17,732)                 | (6,222)         |
| Ijara income receivables   | (1,963)                  | (4,268)         |
| Other assets   | (3,390)                  | 4,060           |
| Other liabilities  | 3,471                    | (417)           |
| Due to banks and financial institutions  | (7,238)                  | 22,409          |
| Current accounts   | (2,795)                  | (5,359)         |
| Equity of investment accountholders  | 29,926                   | (7,550)         |
| Tax paid   | (197)                    | (234)           |
| <b>Net cash (used in) from operating activities</b>  | <b>(4,148)</b>           | <b>11,345</b>   |
| <b>INVESTING ACTIVITIES</b>  |                          |                 |
| Purchase of investments  | (36,734)                 | (85,849)        |
| Sale of investments  | 20,986                   | 62,659          |
| Dividend received  | 35                       | 34              |
| Net purchase of premises and equipment   | (758)                    | (1,035)         |
| <b>Net cash used in investing activities</b>   | <b>(16,471)</b>          | <b>(24,191)</b> |
| <b>FINANCING ACTIVITY</b>  |                          |                 |
| Subordinated debts   | 8,685                    | 726             |
| <b>Net cash from financing activity</b>  | <b>8,685</b>             | <b>726</b>      |
| Foreign currency translation adjustments   | 15                       | (790)           |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>(11,919)</b>          | <b>(12,910)</b> |
| Cash and cash equivalents at 1 January   | 103,423                  | 118,369         |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>  | <b>91,504</b>            | <b>105,459</b>  |
| For the purpose of the interim cash flows statement, cash and cash equivalents comprise the following: |                          |                 |
| Cash in hand   | 9,915                    | 8,061           |
| Balances with central banks  | 7,451                    | 7,145           |
| Balances with other banks and financial institutions   | 32,885                   | 63,853          |
| Sales receivables - international commodities  | 41,253                   | 26,400          |
|  | <b>91,504</b>            | <b>105,459</b>  |

The attached explanatory notes 1 to 15 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 nine months period ended 30 September 2016 (Reviewed)

### Equity attributable to shareholders of the Parent

|   | Reserves              |                   |                 |                                       |  |   |                          |                           |               |                                  | Total owners' equity BD '000 |
|---|-----------------------|-------------------|-----------------|---------------------------------------|--|---|--------------------------|---------------------------|---------------|----------------------------------|------------------------------|
|   | Share capital BD '000 | Statutory BD '000 | General BD '000 | Employee defined benefit plan BD '000 | Cumulative changes in fair value BD '000 | Revaluation reserve of premises and equipment BD '000 | Foreign exchange BD '000 | Retained earnings BD '000 | Total BD '000 | Non-controlling interest BD '000 |                              |
| Balance at 1 January 2016                   | 46,167                | 8,474             | 3,275           | (65)                                  | (46)                                     | 450   | (4,445)                  | 4,874                     | 58,684        | 6,910                            | 65,594                       |
| Cumulative changes in fair value            | -                     | -                 | -               | -                                     | (18)                                     | -   | -                        | -                         | (18)          | (10)                             | (28)                         |
| Foreign currency translation reserve        | -                     | -                 | -               | -                                     | -  | -   | 18                       | -                         | 18            | 4                                | 22                           |
| Remeasurement gains on defined benefit plan | -                     | -                 | -               | 5                                     | -  | -   | -                        | -                         | 5             | 3                                | 8                            |
| Net income (loss) for the period            | -                     | -                 | -               | -                                     | -  | -   | -                        | 453                       | 453           | (532)                            | (79)                         |
| <b>Balance at 30 September 2016</b>         | <b>46,167</b>         | <b>8,474</b>      | <b>3,275</b>    | <b>(60)</b>                           | <b>(64)</b>                              | <b>450</b>  | <b>(4,427)</b>           | <b>5,327</b>              | <b>59,142</b> | <b>6,375</b>                     | <b>65,517</b>                |
| Balance at 1 January 2015                   | 46,167                | 8,287             | 3,275           | (52)                                  | (17)                                     | -   | (3,630)                  | 3,187                     | 57,217        | 6,827                            | 64,044                       |
| Cumulative changes in fair value            | -                     | -                 | -               | -                                     | (80)                                     | -   | -                        | -                         | (80)          | (44)                             | (124)                        |
| Foreign currency translation reserve        | -                     | -                 | -               | -                                     | -  | -   | (779)                    | -                         | (779)         | (279)                            | (1,058)                      |
| Net income for the period                   | -                     | -                 | -               | -                                     | -  | -   | -                        | 1,490                     | 1,490         | 320                              | 1,810                        |
| <b>Balance at 30 September 2015</b>         | <b>46,167</b>         | <b>8,287</b>      | <b>3,275</b>    | <b>(52)</b>                           | <b>(97)</b>                              | <b>-</b>  | <b>(4,409)</b>           | <b>4,677</b>              | <b>57,848</b> | <b>6,824</b>                     | <b>64,672</b>                |

The attached explanatory notes 1 to 15 form part of these interim condensed consolidated financial statements.

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

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

For the nine months period ended 30 September 2016 (Reviewed)

|                   | <i>Balance at<br/>1 January 2016<br/>BD '000</i> | <i>Net<br/>(withdrawals)/<br/>deposits<br/>BD '000</i> | <i>Gross<br/>income<br/>BD '000</i> | <i>Mudarib's/<br/>agency<br/>fee<br/>BD '000</i> | <i>Balance at<br/>30 September<br/>2016<br/>BD '000</i> |
|-------------------|--|--|-------------------------------------|--|---|
| Sales receivables | 35,694   | (8,463)  | 527                                 | (23)   | 27,735  |
| Investments       | 3,567  | 14   | -                                   | -  | 3,581   |
|                   | <b>39,261</b>                                    | <b>(8,449)</b>   | <b>527</b>                          | <b>(23)</b>                                      | <b>31,316</b>   |

|                   | <i>Balance at<br/>1 January 2015<br/>BD '000</i> | <i>Net<br/>withdrawals<br/>BD '000</i> | <i>Gross<br/>income<br/>BD '000</i> | <i>Mudarib's/<br/>agency<br/>fee<br/>BD '000</i> | <i>Balance at<br/>30 September<br/>2015<br/>BD '000</i> |
|-------------------|--|--|-------------------------------------|--|---|
| Sales receivables | 38,428   | (2,594)                                | 540                                 | (24)   | 36,350  |
| Investments       | 3,664  | (82)                                   | -                                   | -  | 3,582   |
|                   | <b>42,092</b>                                    | <b>(2,676)</b>                         | <b>540</b>                          | <b>(24)</b>                                      | <b>39,932</b>   |

The attached explanatory notes 1 to 15 form part of these interim condensed consolidated financial statements.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (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 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 Building 238, Road 1704, Block 317, Manama, Kingdom of Bahrain.

These interim condensed consolidated financial statements were approved by the Board of Directors on 14 November 2016.

### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

#### 2.1 Basis of Preparation

The interim condensed consolidated financial statements for the nine month period ended 30 September 2016 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 2015. In addition, results for the nine month period ended 30 September 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

#### 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 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 (BD), being the reporting currency of the Group. All values are rounded of nearest Bahraini Dinars (BD) thousand unless otherwise indicated.

#### 2.3 Basis of consolidation

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

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

| <i>Bank</i>                        | <i>Ownership<br/>for 2016</i> | <i>Year of<br/>Incorporation</i> | <i>Country of<br/>Incorporation</i> | <i>No. of<br/>branches/<br/>offices at<br/>30 September<br/>2016</i> |
|------------------------------------|-------------------------------|----------------------------------|-------------------------------------|--|
| <i>Held directly by the Bank</i>   |                               |                                  |                                     |  |
| Al Baraka Bank (Pakistan) Limited* | 64.64%                        | 2004                             | Pakistan                            | 150 branches<br>(including 14 sub-<br>branches)                      |

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

The State Bank of Pakistan (SBP) vide BSD Circular No. 7 of 2009 dated 15 April 2009 required the minimum paid up capital (free of losses) for banks / development financial institutions (DFI) to be raised to Rs. 10 billion (BD 36.03 million). Further the banks / DFIs are also required to maintain a capital adequacy ratio of 10% at all times.



At 30 September 2016 (Reviewed)

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.3 Basis of consolidation (continued)**

In order to meet the regulatory capital requirements, Al Baraka Bank (Pakistan) Limited (ABPL) prepared a capitalization plan which was submitted to SBP. The SBP vide its letter no. BPRD/BA&CP/608/019652/2013 dated 28 December 2013 has allowed the Bank to proceed with the plan as follows:

i) ABPL is required to maintain a minimum paid up capital (net of losses) (MCR) of at least Rs 6 billion (BD 21.62 million) at all times and will have to meet the full MCR of Rs 10 billion (BD 36.03 million) by 31 December 2016.

ii) As a short term arrangement, ABPL has been allowed to raise a foreign currency sub-ordinated debt of BD 4.15 million from the Bank (Al Baraka Islamic Bank B.S.C. (c)). The said sub-ordinated debt is deposited with SBP as interest free deposit till the time ABPL fully meets the minimum paid up capital requirements.

iii) The above foreign currency deposit with the SBP shall be increased to Rs 2.1 billion (BD 7.57 million) by 31 December 2014 and Rs 2.8 billion (BD 10.09 million) by 31 December 2015. Accordingly the Bank has injected BD 4.15 million and BD 3.20 million on 30 December 2013 and 29 April 2015 respectively.

iv) The foreign currency sub-ordinated debt will not be withdrawn unless ABPL achieves full compliance with MCR. However any withdrawal will be subject to prior approval of the SBP. In the event ABPL is not MCR compliant by 31 December 2016, the sub-ordinated debt will be converted into the paid up capital of ABPL.

v) For regulatory purposes, the foreign currency sub-ordinated debt is allowed to be included in ABPL's capital and ABPL will be required to maintain a capital adequacy ratio (CAR) of at least 16% which may be reduced depending on the level of increase in the MCR.

Subsequent to 30 September 2016, ABPL acquired another bank which will enable it to meet the related MCR and CAR requirements. In this regard, the SBP has allowed relaxation from depositing the above referred FCY funds and to maintain CAR of at least 12.50% due to the merger, subject to the condition that the merged entity would adequately meet the applicable capital requirements.

Further, the Bank as the Parent is fully committed to comply with the current and future regulatory requirements.

**Investment in Itqan Capital**

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

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

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

**2.4 New standards, interpretations and amendments adopted by the Group**

These interim condensed consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015, except for adoption of new standards and interpretations effective as of 1 January 2016.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

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

**FAS 27 – Investment Accounts**

FAS 27 has replaced FAS 5 - 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 - 'Equity of Investment Account Holders and their Equivalent'. As a result of adoption of this standard certain disclosures with respect to investment account holders and bases of profit allocation will be enhanced without having any significant impact on the financial statements of the Group, which will be made in the annual consolidated financial statements of the Group for the year ending 31 December 2016.

**3 INVESTMENTS**

|   | 30 September 2016           |                                |                  | Audited 31 December 2015    |                                |                  |
|---|-----------------------------|--------------------------------|------------------|-----------------------------|--------------------------------|------------------|
|   | Self<br>financed<br>BD '000 | Jointly<br>financed<br>BD '000 | Total<br>BD '000 | Self<br>financed<br>BD '000 | Jointly<br>financed<br>BD '000 | Total<br>BD '000 |
| <b>i) Debt-type instruments at amortised cost</b>               |                             |                                |                  |                             |                                |                  |
| <b>Quoted</b>   |                             |                                |                  |                             |                                |                  |
| Sukuk   | 20,632                      | 38,069                         | 58,701           | 23,424                      | 37,274                         | 60,698           |
| <b>Unquoted</b>   |                             |                                |                  |                             |                                |                  |
| Sukuk   | 71,178                      | 21,706                         | 92,884           | 71,031                      | 9,797                          | 80,828           |
|   | <b>91,810</b>               | <b>59,775</b>                  | <b>151,585</b>   | <b>94,455</b>               | <b>47,071</b>                  | <b>141,526</b>   |
| <b>ii) Equity-type instruments at fair value through equity</b> |                             |                                |                  |                             |                                |                  |
| <b>Quoted</b>   |                             |                                |                  |                             |                                |                  |
| Listed equity<br>shares   | 1,195                       | 147                            | 1,342            | 1,060                       | 104                            | 1,164            |
| <b>Unquoted</b>   |                             |                                |                  |                             |                                |                  |
| Equity investments  | 22,752                      | 188                            | 22,940           | 21,637                      | 188                            | 21,825           |
| Managed funds   | 377                         | 1,885                          | 2,262            | 377                         | 1,884                          | 2,261            |
| Real estate related   | 2,709                       | 1,731                          | 4,440            | 3,240                       | 1,064                          | 4,304            |
|   | <b>27,033</b>               | <b>3,951</b>                   | <b>30,984</b>    | <b>26,314</b>               | <b>3,240</b>                   | <b>29,554</b>    |
| <b>iii) Investment in an associate</b>                          |                             |                                |                  |                             |                                |                  |
| Associate (note 3.1)  | 4,454                       | -                              | 4,454            | -                           | -                              | -                |
|   | <b>4,454</b>                | <b>-</b>                       | <b>4,454</b>     | <b>-</b>                    | <b>-</b>                       | <b>-</b>         |
| Less: Provision for<br>impairment                               | (779)                       | (157)                          | (936)            | (752)                       | (371)                          | (1,123)          |
| <b>Total investments</b>  | <b>122,518</b>              | <b>63,569</b>                  | <b>186,087</b>   | <b>120,017</b>              | <b>49,940</b>                  | <b>169,957</b>   |

Included in quoted equity type instruments, BD 1,265 thousand (2015: BD 1,088 thousand) 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 29,131 thousand (2015: BD 27,531 thousand) which are held at cost less provision for impairment. These are 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 151,238 thousand (2015: BD 141,337 thousand) has a fair value amounting to BD 150,742 thousand (2015: BD 140,050 thousand).

**3 INVESTMENTS (continued)**

Investments stated at a carrying amount of BD 55,375 thousand (2015: BD 60,698 thousand) are placed in custody of a financial institution against a borrowing line.

**Note 3.1**

\* On 17 August 2016, the Group purchased significant stake in Dannat Al Barkaat B.S.C. (c) ("the Company") which is recognized as an associate. The Company's will be engaged in the development of land, construction and sale of villas / apartments.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. The carrying amount of the associate amounts to BD 4,454 thousand (2015: nil).

**4 OTHER ASSETS**

|  | <b>30 September</b> | <i>Audited</i>     |
|--|---------------------|--------------------|
|  | <b>2016</b>         | <b>31 December</b> |
|  | <b>BD '000</b>      | <b>2015</b>        |
|  |                     | <b>BD '000</b>     |
| Collaterals pending sale               | 6,363               | 6,508              |
| Deferred tax (note 4.1)                | 5,776               | 5,013              |
| Advance against financing transactions | 5,526               | 4,761              |
| Advance against capital expenditure    | 2,192               | 2,006              |
| Accounts receivable                    | 1,392               | 1,958              |
| Advance tax                            | 792                 | 802                |
| Income receivable                      | 567                 | 317                |
| Others                                 | 6,931               | 3,988              |
|  | <b>29,539</b>       | <b>25,353</b>      |
| Less: Provision for impairment         | <b>(1,136)</b>      | <b>(1,090)</b>     |
|  | <b>28,403</b>       | <b>24,263</b>      |

**Note 4.1**

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.

**5 OTHER LIABILITIES**

|  | <b>30 September</b> | <i>Audited</i>     |
|--|---------------------|--------------------|
|  | <b>2016</b>         | <b>31 December</b> |
|  | <b>BD '000</b>      | <b>2015</b>        |
|  |                     | <b>BD '000</b>     |
| Margins received                                   | 8,338               | 6,593              |
| Accounts payable                                   | 7,239               | 6,654              |
| Security deposit against Ijara Muntahia Bittamleek | 5,667               | 4,804              |
| Provision for employees benefits                   | 3,003               | 2,786              |
| Bills payable                                      | 2,949               | 3,181              |
| Charity fund                                       | 123                 | 219                |
| Others   | 1,987               | 1,605              |
|  | <b>29,306</b>       | <b>25,842</b>      |

**6 SUBORDINATED DEBTS**

|   | <i>Audited</i>           |
|---|--------------------------|
|   | <i>30 September 2016</i> |
|   | <i>31 December 2015</i>  |
|   | <i>BD '000</i>           |
| Subordinated Mudaraba and Murabaha by Ultimate Parent | 12,098                   |
| Subordinated Mudaraba Sukuk                           | 5,153                    |
|   | <u>17,251</u>            |
|   | <u>8,566</u>             |

**7 CONTINGENCIES AND COMMITMENTS**

|                            | <i>Audited</i>           |
|----------------------------|--------------------------|
|                            | <i>30 September 2016</i> |
|                            | <i>31 December 2015</i>  |
|                            | <i>BD '000</i>           |
| Guarantees                 | 28,726                   |
| Letters of credit          | 25,081                   |
| Foreign exchange contracts | 19,367                   |
| Acceptances                | 9,739                    |
| Taxation                   | 878                      |
| Others                     | 112                      |
|                            | <u>83,903</u>            |
|                            | <u>81,803</u>            |

**8 INCOME FROM JOINTLY AND SELF FINANCED, OTHER FINANCINGS AND INVESTMENTS**

|  | <i>Nine months ended</i> |                |
|--|--------------------------|----------------|
|  | <i>30 September</i>      |                |
|  | <i>2016</i>              | <i>2015</i>    |
|  | <i>BD '000</i>           | <i>BD '000</i> |
| Ijara Muntahia Bittamleek (note 8.1) - net | 5,375                    | 5,105          |
| Income from investments                    | 5,040                    | 6,439          |
| Musharaka                                  | 3,662                    | 3,193          |
| Gain on sale of investments                | 398                      | 417            |
| Rental income                              | 66                       | 59             |
|  | <u>14,541</u>            | <u>15,213</u>  |

|  | <i>Nine months ended</i> |                |
|--|--------------------------|----------------|
|  | <i>30 September</i>      |                |
|  | <i>2016</i>              | <i>2015</i>    |
|  | <i>BD '000</i>           | <i>BD '000</i> |
| Income from jointly financed, other financings and investments | 10,992                   | 10,958         |
| Income from self financed, other financings and investments    | 3,549                    | 4,255          |
|  | <u>14,541</u>            | <u>15,213</u>  |

**8.1 Ijara Muntahia Bittamleek**

|   | <i>Nine months ended</i> |                |
|---|--------------------------|----------------|
|   | <i>30 September</i>      |                |
|   | <i>2016</i>              | <i>2015</i>    |
|   | <i>BD '000</i>           | <i>BD '000</i> |
| Income from Ijara Muntahia Bittamleek     | 17,977                   | 18,764         |
| Depreciation on Ijara Muntahia Bittamleek | (12,602)                 | (13,659)       |
|   | <u>5,375</u>             | <u>5,105</u>   |

**9 REVENUE FROM BANKING SERVICES**

|                                   | <i>Nine months ended</i> |                |
|-----------------------------------|--------------------------|----------------|
|                                   | <i>30 September</i>      |                |
|                                   | <i>2016</i>              | <i>2015</i>    |
|                                   | <i>BD '000</i>           | <i>BD '000</i> |
| Fees and commissions              | 1,617                    | 1,330          |
| Letters of credit and acceptances | 1,724                    | 563            |
| Guarantees                        | 254                      | 238            |
|                                   | <b>3,595</b>             | <b>2,131</b>   |

**10 OTHER INCOME**

|                             | <i>Nine months ended</i> |                |
|-----------------------------|--------------------------|----------------|
|                             | <i>30 September</i>      |                |
|                             | <i>2016</i>              | <i>2015</i>    |
|                             | <i>BD '000</i>           | <i>BD '000</i> |
| Foreign exchange gain - net | 540                      | 398            |
| Others                      | 321                      | 392            |
|                             | <b>861</b>               | <b>790</b>     |

**11 (PROVISION) / REVERSAL OF IMPAIRMENT - NET**

|  | <i>Nine months ended</i> |                |
|--|--------------------------|----------------|
|  | <i>30 September</i>      |                |
|  | <i>2016</i>              | <i>2015</i>    |
|  | <i>BD '000</i>           | <i>BD '000</i> |
| (Charge) / writeback of specific provision against non-performing assets - net | (1,458)                  | 537            |
| General provision charge   | (270)                    | (165)          |
|  | <b>(1,728)</b>           | <b>372</b>     |

**12 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>30 September</i> | <i>31 December</i> | <i>30 September</i>          | <i>31 December</i> | <i>30 September</i> | <i>31 December</i> |
|   | <i>2016</i>         | <i>2015</i>        | <i>2016</i>                  | <i>2015</i>        | <i>2016</i>         | <i>2015</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  | 396,642             | 382,294            | 334,495                      | 316,880            | 731,137             | 699,174            |
| Liabilities, equity of investment accountholders and Subordinated debts | 363,531             | 350,612            | 302,089                      | 282,968            | 665,620             | 633,580            |

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

At 30 September 2016 (Reviewed)

### 12 SEGMENTAL INFORMATION (continued)

|  | <i>Middle East</i>       |                | <i>Other Asian Countries</i> |                |
|--|--------------------------|----------------|------------------------------|----------------|
|  | <i>Nine months ended</i> |                | <i>Nine months ended</i>     |                |
|  | <i>30 September</i>      |                | <i>30 September</i>          |                |
|  | <i>2016</i>              | <i>2015</i>    | <i>2016</i>                  | <i>2015</i>    |
|  | <i>BD '000</i>           | <i>BD '000</i> | <i>BD '000</i>               | <i>BD '000</i> |
| Total operating income                     | 9,254                    | 7,232          | 7,552                        | 8,742          |
| Total operating expenses                   | (7,286)                  | (6,349)        | (8,469)                      | (7,697)        |
| (Provision) / reversal of impairment - net | (538)                    | 21             | (1,190)                      | 351            |
| Taxation                                   | -                        | -              | 598                          | (490)          |
| Net income (loss) for the period           | 1,430                    | 904            | (1,509)                      | 906            |

### 13 RELATED PARTY TRANSACTIONS

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

The significant balances with related parties were as follows:

|   | <i>Shareholders</i> |                    | <i>Other Related Parties</i> |                    | <i>Total</i>        |                    |
|---|---------------------|--------------------|------------------------------|--------------------|---------------------|--------------------|
|   | <i>30 September</i> | <i>31 December</i> | <i>30 September</i>          | <i>31 December</i> | <i>30 September</i> | <i>31 December</i> |
|   | <i>2016</i>         | <i>2015</i>        | <i>2016</i>                  | <i>2015</i>        | <i>2016</i>         | <i>2015</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>     |
| <b>Assets:</b>  |                     |                    |                              |                    |                     |                    |
| Cash and balances with banks and financial institutions | 34                  | 45                 | 21                           | 34                 | 55                  | 79                 |
| Sales receivables                                       | -                   | -                  | 11,167                       | 13,383             | 11,167              | 13,383             |
| Ijara Muntahia Bittamleek                               | -                   | -                  | 237                          | 279                | 237                 | 279                |
| Musharaka   | -                   | -                  | 666                          | 535                | 666                 | 535                |
| Ijara income receivables                                | -                   | -                  | 31                           | 29                 | 31                  | 29                 |
| Investments   | -                   | -                  | 27,082                       | 27,003             | 27,082              | 27,003             |
| Other assets  | 965                 | 1,007              | 113                          | -                  | 1,078               | 1,007              |
|   | 999                 | 1,052              | 39,317                       | 41,263             | 40,316              | 42,315             |
| <b>Liabilities:</b>                                     |                     |                    |                              |                    |                     |                    |
| Due to banks and financial institutions                 | 1,413               | 2,036              | 350                          | 613                | 1,763               | 2,649              |
| Current accounts  | 83                  | 38                 | 817                          | 975                | 900                 | 1,013              |
| Other liabilities                                       | 2                   | 2                  | 319                          | 793                | 321                 | 795                |
|   | 1,498               | 2,076              | 1,486                        | 2,381              | 2,984               | 4,457              |
| Equity of investment account holders                    | 2,340               | 6,400              | 20,130                       | 20,426             | 22,470              | 26,826             |
| Subordinated debts                                      | 12,098              | 2,267              | -                            | -                  | 12,098              | 2,267              |
| <b>OFF-BALANCE SHEET ITEMS:</b>                         |                     |                    |                              |                    |                     |                    |
| Equity of investment account holders                    | -                   | -                  | 30,800                       | 33,734             | 30,800              | 33,734             |
| Contingencies and commitments                           | -                   | -                  | 1,470                        | 3,861              | 1,470               | 3,861              |

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

At 30 September 2016 (Reviewed)

### 13 RELATED PARTY TRANSACTIONS (continued)

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

|  | Shareholders |              | Other Related Parties |              | Total        |              |
|--|--------------|--------------|-----------------------|--------------|--------------|--------------|
|  | 2016         | 2015         | 2016                  | 2015         | 2016         | 2015         |
|  | 30 September | 30 September | 30 September          | 30 September | 30 September | 30 September |
|  | BD '000      | BD '000      | BD '000               | BD '000      | BD '000      | BD '000      |
| <b>Income</b>  |              |              |                       |              |              |              |
| Income from jointly financed sales   | -            | -            | 309                   | 349          | 309          | 349          |
| Income from jointly financed,<br>other financings and investments                            | -            | -            | 307                   | 63           | 307          | 63           |
| Group's income from self financed,<br>other financings                                       | -            | -            | -                     | 271          | -            | 271          |
| Other income   | 90           | 162          | -                     | -            | 90           | 162          |
| Group's Mudarib/agency fee from<br>off-balance sheet equity of<br>investment account holders | 23           | 24           | -                     | -            | 23           | 24           |
|  | <b>113</b>   | <b>186</b>   | <b>616</b>            | <b>683</b>   | <b>729</b>   | <b>869</b>   |
| <b>Expenses</b>  |              |              |                       |              |              |              |
| Return on equity of investment<br>accountholders before<br>Group's share as a Mudarib        | 317          | 14           | 386                   | 236          | 703          | 250          |
| Other expenses   | 130          | 22           | 463                   | 318          | 593          | 340          |
|  | <b>447</b>   | <b>36</b>    | <b>849</b>            | <b>554</b>   | <b>1,296</b> | <b>590</b>   |

Compensation of key management personnel is as follows:

|                | Nine months ended<br>30 September |              |
|----------------|-----------------------------------|--------------|
|                | 2016                              | 2015         |
|                | BD '000                           | BD '000      |
| Salaries       | 1,149                             | 1,049        |
| Other benefits | 681                               | 673          |
|                | <b>1,830</b>                      | <b>1,722</b> |

### 14 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.

**14 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

- (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.

**15 COMPARATIVE FIGURES**

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