KHALEEJI COMMERCIAL BANK BSC
31 MARCH 2018
CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Commercial registration	:	55133 (registered with Central Bank of Bahrain as a retail Islamic bank).
Office	:	Bahrain Financial Harbour Harbour Tower East PO Box 60002, Manama, Kingdom of Bahrain
Directors	:	Jassim Mohamed Alseddiqi – Chairman Abdulkarim Ahmed Bucheery – Vice Chairman Hisham Ahmed Al Rayes Sh. Ahmed Bin Isa Khalifa Al Khalifa Abdulla Abdulkarim Showaiter Dr. Khalid Mohammed Al Khazraji Mustafa Ghazi Kheriba Fawad Tariq Khan Yousef Ibrahim Al Ghanim Mohammad Abdulmohsen Al Rashed
Chief Executive Officer	:	Sattam Sulaiman Al Gosaibi
Company secretary	:	Mohammed Abdulla Saleh
Reviewing Accountants	:	KPMG Fakhro, Bahrain

KHALEEJI COMMERCIAL BANK BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2018

CONTENTS **Page**

Independent auditors' report on review of condensed consolidated interim financial information	1
Condensed consolidated interim financial information	
Condensed consolidated statement of financial position	2
Condensed consolidated income statement	3
Condensed consolidated statement of changes in equity	4-5
Condensed consolidated statement of cash flows	6
Condensed consolidated statement of changes in restricted investment accounts	7
Condensed consolidated statement of sources and uses of charity and zakah fund	8
Notes to the condensed consolidated interim financial information	9-20

KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: www.kpmg.com/bh
CR No. 6220

INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To
The Board of Directors
Khaleeji Commercial Bank BSC
Manama
Kingdom of Bahrain

Introduction

We have reviewed the accompanying 31 March 2018 condensed consolidated interim financial information of Khaleeji Commercial Bank BSC (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 31 March 2018;
- the condensed consolidated income statement for the three-month period ended 31 March 2018;
- the condensed consolidated statement of changes in equity for the three-month period ended 31 March 2018
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2018;
- the condensed consolidated statement of changes in restricted investment accounts for the three-month period ended 31 March 2018;
- the condensed consolidated statement of sources and uses of charity and zakah fund for the three-month period ended 31 March 2018; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of condensed consolidated 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 Auditing standards for Islamic Financial Institutions 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 31 March 2018 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

kpmg

9 May 2018

KPMG Fakhro, a Bahrain partnership registered with the Ministry of Industry, Commerce and Tourism (MOICT), Kingdom of Bahrain and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 March 2018 BD 000's

	Note	31 March 2018 (Reviewed)	31 December 2017 (Audited)
ASSETS			
Cash and bank balances		45,861	75,787
Placements with financial institutions		45,044	33,969
Financing assets	8	331,447	354,504
Investment in sukuk	9	111,037	113,347
Assets acquired for leasing		99,686	97,193
Lease rentals receivables		3,056	8,590
Investment in equity securities	10	52,189	52,203
Investment in real estate		18,519	20,163
Development property		6,003	6,003
Other assets		14,506	15,706
Property and equipment		7,814	7,755
Total assets		**735,162**	785,220
LIABILITIES			
Placements from financial institutions		99,576	124,265
Placements from non-financial institutions and individuals		76,533	61,359
Medium-term borrowing		41,312	41,308
Customers' current accounts		74,303	74,833
Other liabilities		7,610	7,953
Total liabilities		**299,334**	309,718
Equity of investment account holders		**331,146**	359,818
OWNERS' EQUITY			
Share capital		105,000	105,000
Statutory reserve		8,159	8,159
Treasury shares		(10,212)	(10,212)
Employee share incentive scheme		(70)	(70)
(Accumulated losses)/Retained earnings		(552)	10,162
Total equity attributable to shareholders of the parent (page 4)		**102,325**	113,039
Non-controlling interest		**2,357**	2,645
Total liabilities, equity of investment account holders and owners' equity		**735,162**	785,220

The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 20 on 09 May 2018 and signed on its behalf by:

Jassim Mohamed Alseddiqi	Abdulkarim Ahmed Bucheery	Sattam Sulaiman Al Gosaibi
Chairman	Vice-Chairman	Chief Executive Officer

CONDENSED CONSOLIDATED INCOME STATEMENT
for the three months ended 31 March 2018

BD 000's

	Note	**Three months ended 31 March 2018** (Reviewed)	Three months ended 31 March 2017 (Reviewed)
Income from financing assets and assets acquired for leasing		6,222	6,605
Income from placements with financial institutions		215	183
Income from sukuks		1,278	958
Income from equity securities		9	8
Fees and other income		689	833
Total income before return to investment account holders		**8,413**	8,587
Less: Return to investment account holders before Bank's share as Mudarib		(2,949)	(4,154)
Bank's share as a Mudarib		859	2,216
Return to investment account holders		(2,090)	(1,938)
Expense on placements from financial institutions, non-financial institutions and individuals		(1,600)	(1,173)
Finance expense on medium-term borrowing		(458)	-
Total income		**4,265**	5,476
Staff cost		1,578	1,592
Other expenses		1,256	1,210
Total expenses		**2,834**	2,802
Profit for the period before impairment allowances		**1,431**	2,674
Impairment allowances	3(d)	(631)	(1,227)
PROFIT FOR THE PERIOD		**800**	1,447
Attributable to:			
Shareholders of the parent		820	1,498
Non-controlling interest		(20)	(51)
		800	1,447
Earnings per share			
Basic and diluted earnings per share (fils)		**0.86**	1.55

The condensed consolidated interim financial information consists of pages 2 to 20.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2018 BD 000's

31 March 2018 (Reviewed)	**Equity attributable to shareholders of the parent**							**Non-Controlling interest**	**Total equity**
	Share Capital	**Statutory reserve**	**Treasury shares**	**Employee share incentive scheme**	**Investment fair value reserve**	**Retained earnings/(Accumulated losses)**	**Total**		
Balance at 1 January 2018 (as previously reported)	105,000	8,159	(10,212)	(70)	-	10,162	113,039	2,645	115,684
Impact of adopting FAS 30	-	-	-	-	-	(11,069)	(11,069)	-	(11,069)
Balance at 1 January 2018 (restated)	**105,000**	**8,159**	**(10,212)**	**(70)**	**-**	**(907)**	**101,970**	**2,645**	**104,615**
Profit for the period	-	-	-	-	-	820	820	(20)	800
Total recognised income and expense for the period	**-**	**-**	**-**	**-**	**-**	**820**	**820**	**(20)**	**800**
Loss of control	-	-	-	-	-	(24)	(24)	(268)	(292)
Transfer to Zakah fund	-	-	-	-	-	(441)	(441)	-	(441)
Balance at 31 March 2018	**105,000**	**8,159**	**(10,212)**	**(70)**	**-**	**(552)**	**102,325**	**2,357**	**104,682**

The condensed consolidated interim financial information consists of pages 2 to 20.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2018 *(Continued)* BD 000's

31 March 2017 (Reviewed)	Equity attributable to shareholders of the parent								
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	Investment fair value reserve	Retained earnings	Total	Non-Controlling interest	Total equity
Balance at 1 January 2017:	105,000	7,962	(8,832)	(182)	-	8,751	112,699	3,796	116,495
Profit for the period	-	-	-	-	-	1,498	1,498	(51)	1,447
Total recognised income and expense for the period	-	-	-	-	-	1,498	1,498	(51)	1,447
Transfer to Zakah fund	-	-	-	-	-	(361)	(361)	-	(361)
Balance at 31 March 2017	105,000	7,962	(8,832)	(182)	-	9,888	113,836	3,745	117,581

The condensed consolidated interim financial information consists of pages 2 to 20.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2018 BD 000's

	Three months ended 31 March 2018 (Reviewed)	Three months ended 31 March 2017 (Reviewed)
OPERATING ACTIVITIES		
Receipts from financing assets, net	20,157	8,431
Receipts / (payment for) asset acquired for leasing, net	1,295	(352)
Income from short-term placements received	215	183
Returns paid to investment account holders	(2,641)	(2,379)
(Withdrawals) / receipts from investment account holders, net	(28,672)	7,410
Payment for expenses	(2,332)	(2,533)
Other receipts	698	933
Payment for charity	(1)	(1)
Withdrawals from customers' current accounts, net	(561)	(417)
Placements from financial institutions, net	(24,689)	(20,284)
Placements from non-financial institutions and individuals, net	15,174	(51)
Net (withdrawal from) / receipt in CBB reserve account	(1,810)	685
Finance expense on placements paid	(1,600)	(993)
Income from sukuk received	2,449	1,616
Net cash used in operating activities	**(22,318)**	(7,752)
INVESTING ACTIVITIES		
Purchase of sukuk	(11,279)	(16,942)
Proceed from redemption / sale of sukuk	13,561	2,098
Dividend/ income from equity securities	23	22
Purchase of property and equipment	(193)	(97)
Net cash generated from / (used in) investing activities	**2,112**	(14,919)
FINANCING ACTIVITIES		
Finance expense paid on medium-term borrowing	(455)	-
Net cash used in financing activities	**(455)**	-
Net decrease in cash and cash equivalents	**(20,661)**	(22,671)
Cash and cash equivalents at beginning of the period	92,296	114,865
Cash and cash equivalents at end of the period	**71,635**	92,194
Cash and cash equivalents comprise:		
Cash and bank balances (excluding CBB reserve)	26,591	24,943
Placement with financial institutions	45,044	67,251
	71,635	92,194

The condensed consolidated interim financial information consists of pages 2 to 20.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2018

31 March 2018 (Reviewed)	**Balance at 1 January 2018**			**Movements during the period**						**Balance at 31 March 2018**		
	No of units (000)	Average value per share BD	Total BD 000's	Investment / (withdrawals) BD 000's	Revaluation BD 000's	Gross income BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstra-tion expenses BD 000's	No of units (000)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1)	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,529	1.00	3,529	-	-	-	-	-	-	3,529	1.00	3,529
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,776	**-**	**-**	**-**	**-**	**-**	**-**			**10,776**

31 March 2017 (Reviewed)	Balance at 1 January 2017			Movements during the period						Balance at 31 March 2017		
	No of units (000)	Average value per share BD	Total BD 000's	Investment / (withdrawals) BD 000's	Revaluation BD 000's	Gross income BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstra-tion expenses BD 000's	No of units (000)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1)	6,304	1.00	6,304	(50)	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,652	1.00	3,652	(113)	-	-	-	-	-	3,539	1.00	3,539
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,949	(163)	-	-	-	-	-			10,786

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND

for the three months ended 31 March 2018 BD 000's

	Three months ended 31 March 2018 (Reviewed)	Three months ended 31 March 2017 (Reviewed)
Sources of charity and zakah fund		
At 1 January	674	723
Contributions by the bank	442	361
Non-Islamic income	3	4
Total sources	**1,119**	1,088
Uses of charity and zakah fund		
Contributions to charitable organisations	1	1
Total uses	**1**	1
Undistributed charity and zakah fund at end of the period	**1,118**	1,087

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2018 BD 000's

1 **Reporting entity**

Khaleeji Commercial Bank BSC ("the Bank"), a public shareholding company, was incorporated on 24 November 2004 in the Kingdom of Bahrain under Commercial Registration No. 55133. The Bank operates under an Islamic retail license granted by the Central Bank of Bahrain ("CBB"). The Bank is listed on the Bahrain Bourse. The interim financial information comprises financial information of the Bank and its subsidiaries (together "the Group").

2 **Basis of preparation and presentation**

The condensed consolidated interim financial information has been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by AAOIFI standards, the Group uses guidance from the relevant International Financial Reporting Standards (IFRS). Accordingly, the condensed consolidated interim financial information has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting'.

The condensed consolidated interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Bank for the year ended 31 December 2017. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2017.

3 **Significant accounting policies**

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the group audited consolidated financial statements as at and for the year ended 31 December 2017 except for the effect of early adoption of FAS 30 as described below:

ADOPTION OF FAS 30 – IMPAIRMENT, CREDIT LOSSES, AND ONEROUS COMMITMENTS

The Group has early adopted FAS 30 as issued by AAOIFI in November 2017, effective for financial periods beginning on or after 1 January 2020. The date of transition is 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements as of and for the year ended 31 December 2017.

As permitted by the transitional provisions of FAS 30, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets as at the date of transition were recognised in the opening retained earnings.

The adoption of FAS 30 has resulted in changes in the accounting policies for impairment of financial assets. FAS 30 also amends disclosures required under other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are the FAS 30 transition impact disclosures for the Group.

(a) Changes in Accounting Policies

The key changes to the Bank's accounting policies resulting from the adoption of FAS 30 are summarised below. Since the comparative financial information has not been restated, the accounting policies in respect of the financial instruments for comparative periods are based on respective standards as disclosed in the audited financial statements as of and for the year ended 31 December 2017.

(a) Changes in Accounting Policies (continued)

Impairment of financial assets
FAS 30 introduces an 'expected credit loss' ("ECL") model as against the incurred loss model followed earlier. The new impairment model also applies to certain commitments and financial guarantee contracts but not to equity investments.

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

Stage 1: 12-months ECL
Stage 1 includes financial assets on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired
Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

Stage 3: Lifetime ECL - credit impaired
Stage 3 includes financial assets that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

(b) Changes to the Significant Estimates and Judgements

Impairment of financial assets

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Inputs, assumptions and techniques used for estimating impairment

Credit risk grades
The Bank has an internal credit rating model that uses qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. The credit grades are calibrated such that the risk of default increases at each higher risk grade. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The Bank also uses external credit ratings for certain exposures.

Significant increase in credit risk

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

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

I. Downgrade in risk rating according to the approved ECL policy;
II. Facilities restructured during previous twelve months;
III. Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances

(b) Changes to the Significant Estimates and Judgements (Continued)

Generating the term structure of Probability of Default (PD)
The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Bank has taken exposures.

Measurement of expected credit losses
The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures expected credit loss using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and the associated recovery cost.

Credit risk grading
The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

(c) Impact of adopting FAS 30

The impact from the adoption of FAS 30 as at 1 January 2018 has resulted in decrease in retained earnings by BD 11 million:

	Retained earnings
Balance as of 1 January 2018 (previously reported)	10,162
Impact on recognition of expected credit losses	
Placements with financial institutions	(2)
Investment in Sukuk	(3)
Financing assets	(8,833)
Assets acquired for leasing (including lease rental receivables)	(1,717)
Commitments and financial guarantees	(514)
Balance as of 1 January 2018 (restated)	**(907)**

(d) Impairment allowances

The following table reconciles the closing impairment allowance for financial assets in accordance with FAS 11 as at 31 December 2017 to the opening ECL allowance determined in accordance with FAS 30 as at 1 January 2018.

(d) Impairment allowances (Continued)

	31 December 2017	Re-Measurement	1 January 2018 (FAS 30)
Placements with financial institutions	109,756	2	109,758
Financing assets	354,504	8,833	363,337
Investment in sukuk	113,347	3	113,350
Assets acquired for leasing (including lease rental receivables)	105,783	1,717	107,500
Commitments and Financial Guarantees	67,137	514	67,651
	750,527	**11,069**	**761,596**

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

31 March 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at amortized cost				
Corporate and Retail (Funded)				
Acceptable risks (1-7)	285,828	-	-	285,828
Watch list (8)	-	100,280	-	100,280
Non performing (9-10)	-	-	71,001	71,001
Corporate and Retail carrying amount	**285,828**	**100,280**	**71,001**	**457,109**
Unfunded exposures				
Acceptable risks (1-7)	26,158	-	-	26,158
Watch list (8)	-	22,200	-	22,200
Non performing (9-10)	-	-	10,257	10,257
Unfunded exposure carrying amount	**26,158**	**22,200**	**10,257**	**58,615**
Investment in Sukuk	**110,977**	**-**	**1,481**	**112,458**
Balances with banks and placement	**58,267**	**-**	**-**	**58,267**
Expected credit losses	**(2,555)**	**(7,124)**	**(14,666)**	**(24,345)**
Financial assets carrying amount	**478,675**	**115,356**	**68,073**	**662,104**

(d) Impairment allowances (Continued)

31 March 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance at 1 January	2,860	10,537	10,317	23,714
Transfer to Stage 1	26	(26)	-	-
Transfer to Stage 2	(364)	365	(1)	-
Transfer to Stage 3	(93)	(1,517)	1,610	-
	(431)	(1,178)	1,609	-
Charge for the period (net)	126	(2,235)	2,740	631
Closing balance as at 31 March	**2,555**	**7,124**	**14,666**	**24,345**

4 **Financial risk management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the audited financial statements as at and for the year ended 31 December 2017 except for the impact for adoption of FAS 30 (refer note 3(b)).

5 **Estimates**

Preparation of condensed interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were same as applied to the consolidated financial statements as at and for the year ended 31 December 2017 except for the impact for adoption of FAS 30 (refer note 3(b)).

6 The condensed consolidated interim financial information is reviewed, not audited. The comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2017 and comparatives for the condensed consolidated statements of income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund have been extracted from the reviewed condensed consolidated interim financial information for the three-months ended 31 March 2017.

7 **Seasonality**

The Bank does not have significant income of a seasonal nature.

8 **Financing Assets**

	31 March 2018 (Reviewed)	31 December 2017 (Audited)
Murabaha	324,737	335,064
Musharaka	5,037	6,918
Wakala	21,489	21,482
Mudharaba	1,048	1,137
Istisna	-	-
	352,311	364,601
Less: Impairment allowances – ECL	(20,864)	(10,097)
	331,447	354,504

Murabaha financing receivables are net of deferred profits of BD 23,682 thousand (2017: BD 22,270 thousand).

Of the total financing asset portfolio, consumer financing receivables amounted to BD 63,896 thousand (2017: BD 66,277 thousand).

9 **Investment in Sukuk**

	31 March 2018 (Reviewed)	31 December 2017 (Audited)
Debt type instruments - at amortised cost:		
- Quoted sukuk *	110,977	113,200
- Unquoted sukuk	64	147
Less: Expected credit loss	(4)	-
	111,037	113,347

* Includes Sukuk of BD 48,888 thousands pledged against medium-term borrowing of BD 41,308 thousands.

10 **Investment in equity securities**

	31 March 2018 (Reviewed)	31 December 2017 (Audited)
At fair value through income statement:		
- Unquoted equity securities (at fair value)	13,148	13,148
At fair value through equity:		
- Unquoted equity securities (carried at cost less impairment)*	39,041	39,055
	52,189	52,203

* These investments are carried at cost less impairment in the absence of a reliable measure of fair value.

11 **Significant related party transactions**

The significant related party transactions and balances included in this condensed consolidated interim financial information are as follows:

31 March 2018 (Reviewed)	**Associates**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose entities)**	**Total**
Assets					
Financing assets	-	967	5,708	-	6,675
Investment securities	-	-	2,284	22,923	25,207
Other assets	4,728	-	-	-	4,728
Liabilities					
Placement with financial institutions	-	-	10,539	-	10,539
Customers' current accounts	54	-	639	1,637	2,330
Equity of investment account holders	569	272	27,587	784	29,212

Three months ended 31 March 2018 (Reviewed)	**Associates**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose entities)**	**Total**
Income					
Income from financing assets and assets acquired for leasing	-	63	426	-	489
Fees and other income	7	-	-	-	7
Expenses					
Return to investment account holders	5	2	34	6	47
Staff cost	-	253	-	-	253
Impairment expense	-	-	-	-	-
Other expenses	-	-	-	-	-

11 Significant related party transactions (continued)

31 March 2017 (Reviewed)	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	-	-	5,708	-	5,708
Investment securities	-	-	2,284	24,201	26,485
Other assets	4,720	-	-	1,138	5,858
Liabilities					
Customers' current accounts	61	-	4,576	1,571	6,208
Equity of investment account holders	598	154	42,602	923	44,277

Three months ended 31 March 2017 (Reviewed)	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	-	53	-	53
Expenses					
Return to investment account holders	3	1	78	4	86
Staff cost	-	312	-	-	312
Impairment expense	-	-	-	28	28
Other expenses	-	-	-	36	36

12 **Commitments and contingencies:**

	31 March 2018 (Reviewed)	31 December 2017 (Audited)
Undrawn commitments to extend finance	40,317	48,747
Financial guarantees	18,298	18,390

13 Appropriations of net profit, if any, are made only after obtaining approval of the shareholders.

14 **Assets under management**

The Bank provides corporate administration, investment management and advisory services to its investment entities, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of BD 233.45 million (31 December 2017: BD 240.97 million). During the year, the Bank has not charged any management fees (2017: BD Nil) for the management of these assets.

15 **Segment information**

31 March 2018 (Reviewed)	**Investment Banking**	**Corporate and Retail Banking**	**Unallocated**	**Total**
Segment revenue	(10)	8,423	-	**8,413**
Segment results	2,842	(189)	(1,853)	**800**
Segment assets	86,850	638,856	9,456	**735,162**

31 March 2017 (Reviewed)	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Segment revenue	27	8,560	-	8,587
Segment results	(277)	3,417	(1,693)	1,447
Segment assets	91,882	651,793	9,521	753,196

16 **Financial instruments**

Fair values

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

16 Financial instruments (continued)

(i) Financial instruments at fair value:

The table below analyses the financial instruments carried at fair value, by valuation method.

31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Unquoted equity type securities carried at fair value through income statement	-	-	13,148	13,148
	-	**-**	**13,148**	**13,148**

31 December 2017	Level 1	Level 2	Level 3	Total
Unquoted equity type securities carried at fair value through income statement	-	-	13,148	13,148
	-	-	13,148	13,148

The following table analyses the movement in Level 3 financial assets during the quarter:

	31 March 2018 (Reviewed)	31 March 2017 (Reviewed)
At 1 January	15,148	15,148
Total losses in income statement	(2,000)	-
Purchases	-	-
Settlements	-	-
Transfers into (out) of Level 3	-	-
	13,148	15,148

During the three month period ended 31 March 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

16 Financial Instruments (continued)

(ii) Financial Instruments not at fair value

Set out below is a comparison of the carrying amounts and fair values of financial instruments:

31 March 2018	Carrying amount (Reviewed)	Fair value (Reviewed)
Financial assets:		
Financing assets	331,447	331,447
Investment in sukuk	111,037	111,037
Investment in equity securities [(1)]	13,148	13,148
Assets acquired for leasing	99,686	99,686
Lease rentals receivables	3,056	3,056
	558,374	**558,374**
Financial liabilities:		
Customers' current accounts	74,303	74,303
	74,303	**74,303**

31 December 2017	Carrying amount (Audited)	Fair value (Audited)
Financial assets:		
Financing assets	354,504	354,504
Investment in sukuk	113,347	113,347
Investment in equity securities [(1)]	13,148	13,148
Assets acquired for leasing	97,193	97,193
Lease rentals receivables	8,590	8,590
	586,782	586,782
Financial liabilities:		
Customers' current accounts	74,833	74,833
	74,833	74,833

[(1)] Excludes investment securities carried at cost less impairment due to absence of reliable measure of fair value of BD 39,041thousand (31 December 2017: BD 39,055 thousand).

Valuation techniques

Investment securities
The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument.

16 Financial Instruments (continued)

Valuation techniques (continued)

For certain unquoted investments, the Group uses proprietary models, which usually are developed from recognised valuation models for fair valuation. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Valuation adjustments are recorded to allow for bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

The potential effect of using reasonable possible alternative assumptions for valuing the investments resulting in 5% decrease / increase in the market multiple would increase / decrease the reported fair value by BD 650 thousands. The corresponding impact would be on the profit or loss reported by the Group.

Financing assets
In case of financing assets and lease receivables, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different to fair value of these assets.

Other financial instruments
Placements with financial institutions and placements from financial institutions are for short term tenure hence their carrying value is not different from the fair value. Placements from non-financial institutions and individuals which are not short term are re-priced at regular intervals hence carrying value reflects the fair value. Fair value of other financial assets and liabilities are not significantly different from their carrying values due to their short term nature.