KHALEEJI COMMERCIAL BANK BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

31 MARCH 2019

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 Sh. Ahmed Bin Isa Khalifa Al Khalifa – Vice Chairman Hisham Ahmed Al Rayes Reyadh Eid Al Yaqoob 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 Algosaibi
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 2019

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

2 May 2019

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

Introduction
We have reviewed the accompanying 31 March 2019 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 2019;
- the condensed consolidated income statement for the three-month period ended 31 March 2019;
- the condensed consolidated statement of changes in equity for the three-month period ended 31 March 2019;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2019;
- the condensed consolidated statement of changes in restricted investment accounts for the three-month period ended 31 March 2019;
- the condensed consolidated statement of sources and uses of zakah and charity fund for the three-month period ended 31 March 2019; 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 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 2019 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.

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KHALEEJI COMMERCIAL BANK BSC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 March 2019

BD 000's

	Note	31 March 2019 (Reviewed)	31 December 2018 (Audited)
ASSETS			
Cash and bank balances		138,345	99,401
Placements with financial institutions		116,026	43,637
Financing assets	8	342,442	327,640
Investment in sukuk	9	173,248	161,324
Assets acquired for leasing		119,616	108,678
Lease rentals receivables		12,476	11,525
Investment in equity securities	10	50,025	50,039
Investment in real estate		18,081	18,081
Development property		6,251	6,251
Other assets		17,303	16,498
Property and equipment		7,751	7,865
Total assets		1,001,564	850,939
LIABILITIES			
Placements from financial institutions		150,770	158,349
Placements from non-financial institutions and individuals		109,538	120,470
Medium-term borrowing		34,587	41,357
Customers' current accounts		64,226	70,416
Other liabilities		11,275	10,512
Total liabilities		370,396	401,104
Equity of investment account holders		528,165	346,373
OWNERS' EQUITY			
Share capital		105,000	105,000
Statutory reserve		8,225	8,225
Treasury shares		(11,715)	(11,295)
Employee share incentive scheme		(29)	(29)
Accumulated losses		(742)	(729)
Total equity attributable to shareholders of the parent (page 4)		100,739	101,172
Non-controlling interest		2,264	2,290
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		1,001,564	850,939

The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 17 on 2 May 2019 and signed on its behalf by:

Jassim Mohamed Alseddiqi
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

Sattam Sulaiman Algosaibi
Chief Executive Officer

CONDENSED CONSOLIDATED INCOME STATEMENT
for the three months ended 31 March 2019 BD 000's

	Note	**Three months ended 31 March 2019** (Reviewed)	Three months ended 31 March 2018 (Reviewed)
Income from financing assets and assets acquired for leasing		7,276	6,222
Income from placements with financial institutions		706	215
Income from sukuks		2,370	1,278
Income from equity securities		(14)	9
Fees and other income		676	689
Total income before return to investment account holders		**11,014**	8,413
Less: Return to investment account holders before Bank's share as Mudarib		(5,490)	(2,949)
Bank's share as a Mudarib		2,174	859
Return to investment account holders		**(3,316)**	(2,090)
Expense on placements from financial institutions, non-financial institutions and individuals		(3,027)	(1,600)
Finance expense on medium-term borrowing		(559)	(458)
Total income		**4,112**	4,265
Staff cost		1,678	1,578
Other expenses		961	1,256
Total expenses		**2,639**	2,834
Profit for the period before impairment allowances		**1,473**	1,431
Impairment allowances	14	(1,323)	(631)
PROFIT FOR THE PERIOD		**150**	800
Attributable to:			
Shareholders of the parent		176	820
Non-controlling interest		(26)	(20)
		150	800
Earnings per share			
Basic and diluted earnings per share (fils)		0.19	0.86

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2019 BD 000's

31 March 2019 (Reviewed)	**Equity attributable to shareholders of the parent**						**Non-Controlling interest**	**Total equity**
	Share Capital	**Statutory reserve**	**Treasury shares**	**Employee share incentive scheme**	**Accumulated losses**	**Total**		
Balance at 1 January 2019	**105,000**	**8,225**	**(11,295)**	**(29)**	**(729)**	**101,172**	**2,290**	**103,462**
Profit for the period	-	-	-	-	176	176	(26)	150
Total recognised income and expense for the period	**-**	**-**	**-**	**-**	**176**	**176**	**(26)**	**150**
Purchase of treasury shares	-	-	(420)	-	-	(420)	-	(420)
Transfer to Zakah fund	-	-	-	-	(189)	(189)	-	(189)
Balance at 31 March 2019	**105,000**	**8,225**	**(11,715)**	**(29)**	**(742)**	**100,739**	**2,264**	**103,003**

The condensed consolidated interim financial information consists of pages 2 to 17.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2019 *(Continued)* 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	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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2019 BD 000's

	31 March 2019 (Reviewed)	31 March 2018 (Reviewed)
OPERATING ACTIVITIES		
(Disbursements) / receipts from financing assets, net	(10,625)	20,157
(Payments for) / receipts from assets acquired for leasing, net	(11,947)	1,295
Income from short-term placements received	706	215
Returns paid to investment account holders	(3,160)	(2,641)
Payment to / (withdrawals from) investment account holders, net	181,792	(28,672)
Payment for expenses	(1,456)	(2,332)
Other receipts	714	698
Contributions paid to charitable organisations	(5)	(1)
Withdrawals from customers' current accounts, net	(6,199)	(561)
Withdrawals from financial institutions, net	(7,580)	(24,689)
(Withdrawals) / placements from non-financial institutions, net	(10,932)	15,174
Net payment to CBB reserve account	(2,975)	(1,810)
Finance expense on placements paid	(3,027)	(1,600)
Income from sukuk received	2,768	2,449
Net cash from / (used in) operating activities	**128,074**	(22,318)
INVESTING ACTIVITIES		
Purchase of sukuk	(12,011)	(11,279)
Proceed from redemption / sale of sukuk	-	13,561
Dividend from equity securities received	-	23
Purchase of property and equipment	(26)	(193)
Net cash (used in) / from investing activities	**(12,037)**	2,112
FINANCING ACTIVITIES		
Treasury shares, net	(349)	-
Repayment of medium-term borrowing	(7,330)	(455)
Net cash used in financing activities	**(7,679)**	(455)
Net increase / (decrease) in cash and cash equivalents	**108,358**	(20,661)
Cash and cash equivalents at beginning of the period	121,161	92,296
Cash and cash equivalents at end of the period	**229,519**	71,635
Cash and cash equivalents comprise:		
Cash and bank balances (excluding CBB reserve)	114,550	26,591
Placement with financial institutions	114,969	45,044
	229,519	71,635

The condensed consolidated interim financial information consists of pages 2 to 17.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2019

31 March 2019 (Reviewed)	**Balance at 1 January 2019**			**Movements during the period**						**Balance at 31 March 2019**		
	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) and NS 12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	-	-	-	-	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,681	-	-	-	-	-	-			**10,681**

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

The condensed consolidated interim financial information consists of pages 2 to 17.

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

for the three months ended 31 March 2019 BD 000's

	31 March 2019 (Reviewed)	31 March 2018 (Reviewed)
Sources of zakah and charity fund		
At 1 January	708	674
Contributions by the bank	187	441
Non-Islamic income	3	4
Total sources	**898**	1,119
Uses of zakah and charity fund		
Contributions to charitable organisations	5	1
Total uses	**5**	1
Undistributed zakah and charity fund at end of the period	**893**	1,118

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2019 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 condensed consolidated 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 2018. 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 2018.

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 2018.

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 2018.

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 2018.

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 2018 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 2019.

7 **Seasonality**

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

8 **Financing Assets**

	31 March 2019 (Reviewed)	31 December 2018 (Audited)
Murabaha	354,304	338,012
Musharaka	3,317	3,541
Wakala	5,007	5,007
Mudharaba	1,054	1,049
Istisna	2,458	2,054
	366,140	349,663
Less: Impairment allowances	(23,698)	(22,023)
	342,442	327,640

Murabaha financing receivables are net of deferred profits of BD 31,327 thousand (2018: BD 25,088 thousand).

The movement on impairment allowances is as follows:

2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January 2019	4,762	3,695	13,566	22,023
Net movement between stages	(836)	(524)	1,360	-
Net charge for the period	135	150	1,390	1,675
At 31 March 2019	**4,061**	**3,321**	**16,316**	**23,698**

9 **Investment in Sukuk**

	31 March 2019 (Reviewed)	31 December 2018 (Audited)
Debt type instruments - at amortised cost:		
- Quoted sukuk *	173,260	161,327
- Unquoted sukuk	1,317	1,317
Less: impairment allowance	(1,329)	(1,320)
	173,248	161,324

* Includes Sukuk of BD 48,888 thousand pledged against medium-term borrowing of BD 34,587 thousand.

10 **Investment in equity securities**

	31 March 2019 (Reviewed)	31 December 2018 (Audited)
At fair value through income statement:		
- Unquoted equity securities (at fair value)	13,148	13,148
At fair value through equity:		
- Gross Unquoted equity securities carrying amount (carried at cost less impairment)*	51,958	51,972
Less: Impairment allowances	(15,081)	(15,081)
	50,025	50,039

* 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 2019 (Reviewed)	**Associates**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose entities)**	**Total**
Assets					
Financing assets	-	2,175	5,708	-	**7,883**
Investment in equity securities	-	-	2,284	20,719	**23,003**
Other assets	117	-	-	961	**1,078**
Liabilities					
Placement with financial institutions	-	-	93,917	-	**93,917**
Customers' current accounts	82	13	699	1,446	**2,240**
Equity of investment account holders	415	1,385	116,392	451	**118,643**

Three months ended 31 March 2019 (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	-	31	92	-	**123**
Other Losses	(38)	-	-	-	**(38)**
Expenses					
Expense on placements from financial institutions, non-financial institutions and individuals	-	-	1,875	-	**1,875**
Return to investment account holders	4	8	140	3	**155**
Investment related expenses	-	-	-	9	**9**
Staff cost	-	365	-	-	**365**

11 Significant related party transactions (continued)

31 December 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	-	2,268	5,710	-	7,978
Investment securities	-	-	2,284	20,719	23,003
Other assets	117	-	-	853	970
Liabilities					
Placement with financial institutions	-	-	93,917	-	93,917
Customers' current accounts	67	798	695	1,205	2,765
Equity of investment account holders	480	1,370	10,779	468	13,097

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

12 **Commitments and contingencies:**

	31 March 2019 (Reviewed)	31 December 2018 (Audited)
Undrawn commitments to extend finance	**61,237**	33,193
Financial guarantees	**11,481**	12,864

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

14 Impairment Allowance

	31 March 2019 (Reviewed)	31 March 2018 (Reviewed)
Balances and placements with banks and financial institutions	(48)	3
Financing Assets (note 8)	1,675	966
Investments in Sukuk	9	-
Assets acquired for leasing (including lease rentals receivables)	(57)	(338)
Commitments and financial guarantees	(256)	-
	1,323	631

Movement on ECL in various stages during the period:

31 March 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance at 1 January	5,099	3,918	17,214	26,231
Transfer to Stage 1	186	(186)	-	-
Transfer to Stage 2	(191)	216	(25)	-
Transfer to Stage 3	(835)	(564)	1,399	-
Net movement	(840)	(534)	1,374	-
Charge for the period (net)	(81)	180	1,224	1,323
Closing balance as at 31 March	**4,178**	**3,564**	**19,812**	**27,554**

15 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 228.21 million (31 December 2018: BD 230.72 million). During the year, the Bank has not charged any management fees (2018: BD Nil) for the management of these assets.

16 Segment information

31 March 2019 (Reviewed)	**Corporate and Retail Banking**	**Investment Banking**	**Unallocated**	**Total**
Segment revenue	11,076	(62)	-	**11,014**
Segment results	2,045	(257)	(1,638)	**150**
Segment assets	905,595	87,052	8,917	**1,001,564**

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

17 **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.

(i) Financial instruments at fair value:

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

31 March 2019	**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 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

The following table analyses the movement in Level 3 financial assets during the three month period ended 31 March 2019:

	31 March 2019 (Reviewed)	31 March 2018 (Reviewed)
At 1 January	13,148	15,148
Total losses in income statement	-	(2,000)
Purchases	-	-
Settlements	-	-
Transfers into (out) of Level 3	-	-
	13,148	13,148

During the three month period ended 31 March 2019, 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.

17 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 2019	Carrying amount (reviewed)	Fair value (reviewed)
Financial assets:		
Financing assets	342,442	342,442
Investment in sukuk	173,248	173,248
Investment in equity securities [(1)]	13,148	13,148
Assets acquired for leasing	119,616	119,616
Lease rentals receivables	12,476	12,476
	660,930	**660,930**
Financial liabilities:		
Customers' current accounts	64,226	64,226
	64,226	**64,226**

31 December 2018	Carrying amount (Audited)	Fair value (Audited)
Financial assets:		
Financing assets	327,640	327,640
Investment in sukuk	161,324	161,324
Investment in equity securities [(1)]	13,148	13,148
Assets acquired for leasing	108,678	108,678
Lease rentals receivables	11,525	11,525
	622,315	622,315
Financial liabilities:		
Customers' current accounts	70,416	70,416
	70,416	70,416

[(1)] Excludes investment securities of BD 36,878 thousand (31 December 2018: BD 36,891 thousand) carried at cost less impairment due to the absence of a reliable measure of fair value.

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.

17 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 657 thousands (2018: BD 657 thousands). The corresponding impact would be on the profit or loss reported by the Group.

Financing assets
In case of financing assets and assets acquired for leasing, 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 from 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.