Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 JUNE 2019

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six month period ended 30 June 2019

Table of contents

Independent auditors' report on review of condensed consolidated interim financial information	**1**
Condensed consolidated statement of financial position	**2**
Condensed consolidated income statement	**3**
Condensed consolidated statement of changes in equity	**4**
Condensed consolidated statement of cash flows	**5**
Notes to the condensed consolidated interim financial information	**6-16**

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

The Board of Directors
Al Salam Bank-Bahrain B.S.C
Manama
Kingdom of Bahrain

7 August 2019

Introduction
We have reviewed the accompanying 30 June 2019 condensed consolidated interim financial information of Al Salam Bank-Bahrain B.S.C (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 June 2019;
- the condensed consolidated income statement for the three-month and six-month periods ended 30 June 2019;
- the condensed consolidated statement of changes in owners' equity for the six-month period ended 30 June 2019;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2019;
- 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 Financial Accounting Standards issued by 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 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 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 30 June 2019 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

KPMG

KPMG Fakhro, a Bahrain partnership registered with Ministry of Industry and Commerce (MOIC), 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.

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	*30 June 2019 (Reviewed)* BD '000	*31 December 2018 (Audited)* BD '000
ASSETS			
Cash and balances with banks and Central Bank		**134,232**	82,257
Sovereign Sukuk and placements	3	**342,481**	377,216
Placements with financial institutions	4	**140,342**	140,304
Corporate Sukuk		**9,517**	9,222
Financing assets	5	**636,084**	568,905
Finance lease assets	6	**295,928**	256,892
Non-trading investments	8	**108,528**	107,508
Investment properties		**76,147**	74,261
Development properties		**2,943**	6,290
Investment in associates		**17,038**	15,972
Other assets	9	**47,135**	45,512
Goodwill		**25,971**	25,971
TOTAL ASSETS		**1,836,346**	1,710,310
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Placements from financial institutions	4	**143,847**	144,125
Placements from customers	10	**777,789**	705,924
Customer current accounts		**325,383**	251,842
Murabaha term financing		**145,373**	155,543
Other liabilities	11	**42,317**	48,293
TOTAL LIABILITIES		**1,434,709**	1,305,727
EQUITY OF INVESTMENT ACCOUNTHOLDERS	12	**92,737**	99,761
EQUITY			
Share capital		**221,586**	214,093
Treasury stock		**(4,641)**	(3,855)
Reserves and retained earnings		**91,354**	93,901
Total equity attributable to shareholders of the Bank		**308,299**	304,139
Non-controlling interest		**601**	683
TOTAL EQUITY		**308,900**	304,822
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND EQUITY		**1,836,346**	1,710,310

Khaleefa Butti Omair Al Muhairi
Chairman

H.E. Shaikh Khalid bin Mustahail Al Mashani
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 18 form part of the condensed consolidated interim financial information

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six month period ended 30 June 2019

	Note	***Three months ended 30 June 2019 (Reviewed)***	*Three months ended 30 June 2018 (Reviewed)*	***Six months ended 30 June 2019 (Reviewed)***	*Six months ended 30 June 2018 (Reviewed)*
		BD '000	*BD '000*	***BD '000***	*BD '000*
OPERATING INCOME					
Finance income		**15,114**	11,143	**27,670**	23,123
Income from Sukuk		**4,478**	4,146	**8,732**	8,263
Income from non-trading investments		**602**	356	**1,250**	(140)
Fees and commission		**1,864**	2,233	**4,108**	3,934
Share of (loss) / profit from associates		**(17)**	514	**1,115**	559
Other income	13	**2,356**	2,300	**2,844**	7,142
		24,397	20,692	**45,719**	42,881
Finance expense on placements from financial institutions		**(896)**	(760)	**(1,853)**	(1,406)
Finance expense on placements from customers		**(7,240)**	(4,418)	**(13,675)**	(8,530)
Finance expense on Murabaha term financing		**(1,374)**	(802)	**(2,876)**	(1,394)
Return on equity of investment accountholders before Group's share as a Mudarib		**(355)**	(108)	**(648)**	(190)
Group's share as a Mudarib		**256**	74	**505**	113
Share of profit of investment accountholders		**(99)**	(34)	**(143)**	(77)
Total operating income		**14,788**	14,678	**27,172**	31,474
OPERATING EXPENSES					
Staff cost		**3,438**	3,144	**6,989**	5,963
Premises and equipment cost		**377**	516	**1,126**	976
Depreciation		**376**	231	**673**	439
Other operating expenses		**2,696**	2,519	**4,852**	4,829
Total operating expenses		**6,887**	6,410	**13,640**	12,207
PROFIT BEFORE IMPAIRMENT ALLOWANCES		**7,901**	8,268	**13,532**	19,267
Net allowance for credit losses / impairment		**(1,154)**	(4,178)	**(1,310)**	(9,847)
NET PROFIT FOR THE PERIOD		**6,747**	4,090	**12,222**	9,420
ATTRIBUTABLE TO:					
- Shareholders of the Bank		**6,798**	4,107	**12,309**	9,473
- Non-controlling interest		**(51)**	(17)	**(87)**	(53)
		6,747	4,090	**12,222**	9,420
Basic and diluted earnings per share (fils)		**3**	2	**6**	4

Khaleefa Butti Omair Al Muhairi
Chairman

H.E. Shaikh Khalid bin Mustahail Al Mashani
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 18 form part of the condensed consolidated interim financial information

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month period ended 30 June 2019 (reviewed)

Amounts in BD '000s

	Attributable to shareholders of the Bank											
			Reserves and retained earnings									
	Share capital	*Treasury stock*	*Share premium*	*Statutory reserve*	*Retained earnings*	*Investment fair value reserve*	*Real estate fair value reserve*	*Foreign exchange translation reserve*	*Total reserves*	*Total Equity*	*Non-controlling interest*	*Group Total Equity*
Balance as of 1 January 2019	**214,093**	**(3,855)**	**12,209**	**18,998**	**42,101**	**199**	**23,589**	**(3,195)**	**93,901**	**304,139**	**683**	**304,822**
Net profit for the period	-	-	-	-	**12,309**	-	-	-	**12,309**	**12,309**	**(87)**	**12,222**
Foreign currency re-translation	-	-	-	-	-	-	-	**(10)**	**(10)**	**(10)**	-	**(10)**
Total recognised income and expense	-	-	-	-	**12,309**	-	-	**(10)**	**12,299**	**12,299**	**(87)**	**12,212**
Bonus shares issued	**7,493**	-	-	-	**(7,493)**	-	-	-	**(7,493)**	-	-	-
Cash dividend for the year 2018	-	-	-	-	**(7,353)**	-	-	-	**(7,353)**	**(7,353)**	-	**(7,353)**
Purchase of treasury stock	-	**(786)**	-	-	-	-	-	-	-	**(786)**	-	**(786)**
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	**5**	**5**
Balance at 30 June 2019	**221,586**	**(4,641)**	**12,209**	**18,998**	**39,564**	**199**	**23,589**	**(3,205)**	**91,354**	**308,299**	**601**	**308,900**
Balance as of 1 January 2018	214,093	(1,879)	12,209	17,148	40,304	199	24,075	(2,919)	91,016	303,230	607	303,837
Net profit for the period	-	-	-	-	9,473	-	-	-	9,473	9,473	(53)	9,420
Foreign currency re-translation	-	-	-	-	-	-	-	(70)	(70)	(70)	-	(70)
Total recognised income and expense	-	-	-	-	9,473	-	-	(70)	9,403	9,403	(53)	9,350
Cash dividend for the year 2017	-	-	-	-	(14,852)	-	-	-	(14,852)	(14,852)	-	(14,852)
Purchase of treasury stock	-	(225)	-	-	-	-	-	-	-	(225)	-	(225)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	6	6
Balance at 30 June 2018	214,093	(2,104)	12,209	17,148	34,925	199	24,075	(2,989)	85,567	297,556	560	298,116

The attached notes 1 to 18 form part of the condensed consolidated interim financial information

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six month period ended 30 June 2019

	30 June 2019 (Reviewed)	*30 June 2018 (Reviewed)*
	BD '000	*BD '000*
OPERATING ACTIVITIES		
Net profit for the period	**12,222**	9,420
Adjustments:		
Depreciation	**673**	439
Amortisation of premium on Sukuk - net	**135**	606
Fair value changes on investments	**-**	548
Income from investments	**(1,250)**	(225)
Net allowance for credit losses / impairment	**1,310**	9,847
Share of profit from associates	**(1,115)**	(559)
Operating income before changes in operating assets and liabilities	**11,975**	20,076
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank	**(7,531)**	3,748
Financing assets and finance lease assets	**(106,327)**	(34,263)
Other assets	**(2,735)**	786
Placements from financial institutions	**(278)**	(1,312)
Placements from customers	**71,865**	20,123
Customer current accounts	**73,541**	(6,020)
Other liabilities	**(2,156)**	(8,277)
Equity of investment accountholders	**(7,024)**	(17,329)
Net cash from / (used in) operating activities	**31,330**	(22,468)
INVESTING ACTIVITIES		
Sovereign Sukuk	**11,569**	2,538
Corporate Sukuk	**(275)**	1,547
Non-trading investments	**151**	568
Purchase of premises and equipment	**(790)**	(385)
Net cash from investing activities	**10,655**	4,268
FINANCING ACTIVITIES		
Murabaha term financing	**(10,170)**	41,073
Dividends paid	**(7,616)**	(11,355)
Purchase of treasury stock	**(786)**	(225)
Net cash (used in) / from financing activities	**(18,572)**	29,493
NET CHANGE IN CASH AND CASH EQUIVALENTS	**23,413**	11,293
Cash and cash equivalents at 1 January	**216,561**	175,022
CASH AND CASH EQUIVALENTS AT 30 JUNE	**239,974**	186,315
Cash and cash equivalents comprise of:*		
Cash and other balances with Central Bank	**52,971**	8,628
Sovereign sukuk and placements	**-**	55,009
Balances with other banks	**44,740**	23,105
Deposits with original maturities of less than 90 days	**1,879**	-
Placements with financial institutions with original maturities of less than 90 days	**140,384**	99,573
	239,974	186,315

* Cash and cash equivalents as at 30 June 2019 is gross of the expected credit loss of BD 55 thousand (2018: BD 1 thousand) and does not include BD 330 thousands which is not available for day to day operations of the Bank.

The attached notes 1 to 18 form part of the condensed consolidated interim financial information

1 REPORTING ENTITY

Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and registered with Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and operates under Islamic principles in accordance with all relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Bahrain World Trade Center, East Tower, King Faisal Highway, Manama 316, Kingdom of Bahrain.

The principal subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	% holding 2019	% holding 2018
ASB Seychelles	Seychelles	Provide Banking services	**70%**	70%
ASB Biodiesel	Hong Kong	Production of Biodiesel	**36%**	-

The Bank and its principal banking subsidiary operates through ten branches in the Kingdom of Bahrain and one branch in Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. The Bank's ordinary shares are listed in Bahrain Bourse and Dubai Financial Market.

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 07 August 2019.

2 ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared in accordance with the guidance given by International Accounting Standard 34 - "Interim Financial Reporting". The condensed consolidated interim financial information incorporate all assets, liabilities and off-balance sheet financial instruments held by the Group. The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the preparation of the annual audited consolidated financial statements for the year ended 31 December 2018, which were prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and in conformity with the Bahrain Commercial Companies Law. 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").

The condensed consolidated interim financial information does not contain all information and disclosures required for full financial statements prepared in accordance with AAOIFI. In addition, results for the six months ended 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

2.1 New standards, interpretations and amendments

The condensed consolidated interim financial information has been prepared using accounting policies, which are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018. There have been no new standards, interpretations and amendments during the period that might have any material impact on the condensed consolidated interim financial information of the Group.

2.2 Seasonality

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

3 SOVEREIGN SUKUK AND PLACEMENTS

These represent sovereign sukuk investments and placements with CBB

	30 June 2019	*31 December 2018*
	BD '000	*BD '000*
Sovereign Sukuk	**342,481**	354,215
Placements with Central Bank	**-**	23,001
	342,481	377,216

The sovereign sukuk includes BD 151,705 thousands (2018: BD 174,353 thousands) of sukuk which are pledged against Murabaha term financing of BD 128,408 thousands (2018: BD 138,578 thousands).

4 PLACEMENTS WITH / FROM FINANCIAL INSTITUTIONS

These represent short-term interbank placements to and from financial institution in the form of Murabaha and Wakala contracts.

	30 June 2019	*31 December 2018*
	BD '000	*BD '000*
Placements with financial institutions		
Wakala asset	**79,897**	57,734
Commodity Murabaha asset	**60,488**	82,571
Allowance for credit losses	**(43)**	(1)
	140,342	140,304
Placements from financial institutions		
Wakala liability	**107,550**	106,441
International Commodity Murabaha	**36,297**	37,684
	143,847	144,125

5 FINANCING ASSETS

	30 June 2019			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Murabaha financing	**135,737**	**10,621**	**6,464**	**152,822**
Mudaraba financing	**407,412**	**32,657**	**33,611**	**473,680**
Musharaka financing	**25,102**	**-**	**495**	**25,597**
Credit cards	**3,169**	**75**	**199**	**3,443**
Total financing assets	**571,420**	**43,353**	**40,769**	**655,542**
Allowance for credit losses (note 7)	**(4,695)**	**(4,284)**	**(10,479)**	**(19,458)**
	566,725	**39,069**	**30,290**	**636,084**

	31 December 2018			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Murabaha financing	149,331	15,994	15,938	181,263
Mudaraba financing	314,640	36,287	34,986	385,913
Musharaka financing	24,267	92	469	24,828
Credit cards	3,284	116	67	3,467
Total financing assets	491,522	52,489	51,460	595,471
Allowance for credit losses (note 7)	(3,451)	(4,093)	(19,022)	(26,566)
	488,071	48,396	32,438	568,905

6 FINANCE LEASE ASSETS

	30 June 2019			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Finance lease assets	**272,371**	**12,208**	**16,125**	**300,704**
Allowance for credit losses	**(442)**	**(164)**	**(4,170)**	**(4,776)**
	271,929	**12,044**	**11,955**	**295,928**

	31 December 2018			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Finance lease assets	224,389	23,694	15,290	263,373
Allowance for credit losses	(1,517)	(1,210)	(3,754)	(6,481)
	222,872	22,484	11,536	256,892

7 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

The balance of allowance for credit losses in the below table includes all financial assets, finance lease assets and off-balance sheet exposures.

	30 June 2019			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Balance at the beginning of the period	**5,571**	**5,385**	**28,453**	**39,409**
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	**1,591**	**(1,256)**	**(335)**	**-**
- transferred to Stage 2: Lifetime ECL not credit-impaired	**(228)**	**315**	**(87)**	**-**
- transferred to Stage 3: Lifetime ECL credit-impaired	**(5)**	**(387)**	**392**	**-**
Net remeasurement of loss allowance	**430**	**1,140**	**2,903**	**4,473**
Recoveries / write-backs	**(1,771)**	**(726)**	**(745)**	**(3,242)**
Allowance for credit losses	**17**	**(914)**	**2,128**	**1,231**
Exchange adjustments and other movements	**(2)**	**-**	**(59)**	**(61)**
Amounts charged off during the period	**-**	**-**	**(10,572)**	**(10,572)**
Elimination on consolidation	**-**	**-**	**107**	**107**
Balance at the end of the period	**5,586**	**4,471**	**20,057**	**30,114**

7 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

	30 June 2019			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Cash and balances with banks and Central Bank	**13**	**-**	**-**	**13**
Sovereign Sukuk	**40**	**-**	**-**	**40**
Placements with financial institutions	**43**	**-**	**-**	**43**
Corporate Sukuk	**6**	**-**	**-**	**6**
Financing assets	**4,695**	**4,284**	**10,479**	**19,458**
Finance lease assets	**442**	**164**	**4,170**	**4,776**
Loans and advances to customers				
- Assets under conversion	**41**	**1**	**2,544**	**2,586**
Other receivables	**43**	**-**	**2,183**	**2,226**
Financing commitments and financial guarantee contracts	**263**	**22**	**681**	**966**
	5,586	**4,471**	**20,057**	**30,114**

	30 June 2018			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Balance at the beginning of the period	11,749	16,052	53,308	81,109
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	923	(318)	(605)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(201)	1,394	(1,193)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(280)	(15,220)	15,500	-
Net remeasurement of loss allowance	(1,153)	1,284	14,210	14,341
Recoveries / write-backs	(322)	(198)	(3,853)	(4,373)
Allowance for credit losses	(1,033)	(13,058)	24,059	9,968
Exchange adjustments and other movements	-	-	(159)	(159)
Amounts charged off during the period	-	-	(4,702)	(4,702)
Balance at the end of the period	10,716	2,994	72,506	86,216

	30 June 2018			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Placements with financial institutions	2	-	-	2
Corporate Sukuk	1	-	-	1
Financing assets	8,986	1,738	61,744	72,468
Finance lease assets	1,291	1,176	3,370	5,837
Loans and advances to customers				
- Assets under conversion	21	26	4,333	4,380
Other receivables	64	-	2,571	2,635
Financing commitments and financial guarantee contracts	351	54	488	893
	10,716	2,994	72,506	86,216

7.1 Movements in impairment allowances for equity investments and others

	30 June 2019	*30 June 2018*
	BD '000	*BD '000*
Balance at the beginning of the period	**3,130**	3,251
Impairment during the period	**79**	-
Reversal on recoveries	**-**	(121)
Balance at the end of the period	**3,209**	3,130

8 NON-TRADING INVESTMENTS

Non-trading investments comprise investments in equity securities and are classified as fair value through equity or fair value through profit or loss.

Fair value is an amount for which an assets 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.

Fair value hierarchy

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; or

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of the non-trading investments carried at fair value in the consolidated statement of financial position:

30 June 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Financial assets at fair value through profit or loss	**3,578**	**6,109**	**97,236**	**106,923**
Financial assets at fair value through equity	**-**	**-**	**1,605**	**1,605**
	3,578	**6,109**	**98,841**	**108,528**

31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Financial assets at fair value through profit or loss	3,576	5,282	96,992	105,850
Financial assets at fair value through equity	-	-	1,658	1,658
	3,576	5,282	98,650	107,508

During the period, there was no transfers between the levels.

The Group has a 40% stake (2018: 40%) in Manara Developments Company B.S.C.(c), a company incorporated in Bahrain and engaged in the business of property development. The investment is being fair valued through profit or loss using the fair value scope exemption of FAS 24.

The movements in fair value of non-trading investments classified in Level 3 of the fair value hierarchy are as follows:

	Fair value measurement using significant unobservable inputs Level 3	
	30 June 2019	*31 December 2018*
	BD '000	*BD '000*
At 1 January	**98,650**	99,861
Fair value changes	**244**	(1,641)
Disposals during the period	**-**	(48)
Repayments during the period	**(53)**	(274)
Additions during the period	**-**	752
At end of the period	**98,841**	98,650

9 OTHER ASSETS

	30 June 2019	*31 December 2018*
	BD '000	*BD '000*
Assets under conversion (a)		
Loans and advances to customers	**9,111**	11,680
Non-trading investments - fair value through equity (b)	**965**	1,041
Non-trading investments - debt	**2,664**	1,229
	12,740	13,950
Other receivables and advances	**10,291**	10,136
Prepayments	**1,176**	1,314
Premises and equipment (c)	**22,928**	20,112
	47,135	45,512

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. ("ex-BSB"). Any income derived from these assets are suspended to charity suspense account and are paid as charity upon cash receipts, hence income is not recognised in the condensed consolidated income statement. During the period ended 30 June 2019, Shari'a prohibited income amounting to BD 141 thousands have been recorded under charity suspense account, under "Accounts payable and accruals" of note 11.

(b) The above fair value through equity investments are classified as Level 3 in the fair value hierarchy. Movements in fair value through equity investments are as follows:

	Fair value measurement using significant unobservable inputs Level 3	
	30 June 2019	*31 December 2018*
	BD '000	*BD '000*
At 1 January	**1,041**	1,359
Recovery	**-**	119
Disposals during the period	**-**	(144)
Fair value changes	**-**	(293)
Additions during the period	**3**	-
Write down during the period	**(79)**	-
At end of period	**965**	1,041

(c) This includes BD 20,786 thousands (2018: BD 18,317 thousands) of subsidiary property, plant & equipment.

Loans and advances to customer - Assets under conversion

	30 June 2019			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Loans and advances to customers	**1,863**	**361**	**9,368**	**11,592**
Allowance for credit losses	**(41)**	**(1)**	**(2,544)**	**(2,586)**
	1,822	**360**	**6,824**	**9,006**

	31 December 2018			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Loans and advances to customers	2,237	932	11,625	14,794
Allowance for credit losses	(27)	(26)	(3,182)	(3,235)
	2,210	906	8,443	11,559

10 PLACEMENTS FROM CUSTOMERS

Placements from customers represent customer's funds in the form of wakala contracts (wakala capital and generated profit) payable at respective maturity dates. These wakala contracts have stated maturities while "Equity of Investment Accountholders" are in the form of Mudaraba contracts that have no specified maturity dates.

11 OTHER LIABILITIES

	30 June 2019	*31 December 2018*
	BD '000	*BD '000*
Accounts payable and accruals	**28,667**	30,401
Dividend payable	**5,742**	6,005
Investment related payables	**-**	3,513
Project payables	**60**	60
Liabilities under conversion	**5,488**	6,020
End of service benefits and other employee related accruals	**1,395**	1,161
Allowance for credit losses relating to financing commitments and financial guarantee contracts	**965**	1,133
	42,317	48,293

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS

	30 June 2019	*31 December 2018*
	BD '000	*BD '000*
Saving accounts	**73,222**	62,770
Margin accounts	**6,331**	21,948
Call accounts	**13,184**	15,043
	92,737	99,761

13 OTHER INCOME

Other income primarily comprise recoveries of BD 2,118 thousands (2018: BD 6,546 thousands) of financing assets which were previously written off or fully provided and legal recoveries.

14 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, Directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were approved by the Board of Directors.

The balances with related parties at 30 June 2019 and 31 December 2018 were as follows:

	30 June 2019				
	Associates and joint ventures	*Major shareholders*	*Directors and related entities*	*Senior management*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Assets:					
Cash and balances with banks and Central Bank	-	66	-	-	66
Corporate Sukuk	-	-	3,406	-	3,406
Financing assets	9,996	6	15,612	1,187	26,801
Non trading investments	90,681	-	2,344	-	93,025
Investment in associates	17,038	-	-	-	17,038
Other assets	2,938	-	-	-	2,938
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	5,094	-	-	5,094
Placements from customers	646	46,477	11,442	1,616	60,181
Customer current accounts	1,725	1,428	2,280	180	5,613
Equity of investment accountholders	-	149	193	1,117	1,459
Other liabilities	-	-	-	7	7
Contingent liabilities and commitments	-	529	101	-	630

14 RELATED PARTY TRANSACTIONS (continued)

	31 December 2018				
	Associates, and joint ventures	*Major shareholders*	*Directors and related entities*	*Senior management*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Assets:					
Cash and balances with banks and Central Bank	-	9,471	-	-	9,471
Corporate Sukuk	-	-	3,393	-	3,393
Financing assets	10,168	9	16,319	1,009	27,505
Non trading investments	89,277	-	2,297	-	91,574
Investment in associates	15,972	-	-	-	15,972
Other assets	3,204	-	-	-	3,204
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	5,658	-	-	5,658
Placements from customers	858	37,448	12,382	2,465	53,153
Customer current accounts	624	3,135	1,417	318	5,494
Equity of investment accountholders	-	-	24	199	223
Other liabilities	-	-	-	4	4
Contingent liabilities and commitments	-	501	100	-	601

The income and expenses in respect of related parties included in the consolidated income statement are as follows:

	30 June 2019				
	Associates and joint ventures	***Major shareholders***	***Directors and related entities***	***Senior management***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Income:					
Income from financing assets	**313**	**21**	**547**	**9**	**890**
Income from investments	**1,376**	**-**	**(155)**	**-**	**1,221**
Share of profits from associates	**1,115**	**-**	**-**	**-**	**1,115**
Expenses:					
Profit on placements from financial institutions	-	**64**	**-**	**-**	**64**
Profit on placements from customers	**12**	**857**	**247**	**37**	**1,153**
Share of profits on equity of investment accountholders	**-**	**2**	**-**	**-**	**2**
Other operating expenses	-	**-**	**534**	**-**	**534**

14 RELATED PARTY TRANSACTIONS (continued)

	30 June 2018				
	Associates and joint ventures	*Major shareholders*	*Directors and related entities*	*Senior management*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Income:					
Income from financing assets	182	14	256	9	461
Income from investments	491	-	-	-	491
Share of profits from associates	559	-	-	-	559
Expenses:					
Profit on placements from financial institutions	-	36	-	-	36
Profit on placements from customers	16	382	2	25	425
Other operating expenses	-	-	409	-	409
Allowance for credit losses	1,910	-	-	-	1,910

15 CONTINGENT LIABILITIES AND COMMITMENTS

	30 June 2019	*31 December 2018*
	BD '000	*BD '000*
Contingent liabilities on behalf of customers		
Guarantees	**22,561**	21,523
Letters of credit	**5,668**	13,781
Acceptances	**1,472**	2,195
	29,701	37,499
Irrevocable unutilised commitments		
Unutilised financing commitments	**58,507**	52,122
Unutilised non-funded commitments	**10,150**	9,262
	68,657	61,384
Forward foreign exchange contracts - notional amount	**2,195**	22,730

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

Operating lease commitment - Group as lessee

The Group has entered into various operating lease agreements for its premises. Future minimal rentals payable under the non-cancellable leases are as follows:

	30 June 2019	*31 December 2018*
	BD '000	*BD '000*
Within 1 year	**1,192**	1,275
After one year but not more than five years	**1,073**	1,740
	2,265	3,015

16 SEGMENT INFORMATION

Primary segment information

For management purposes, the Group is organised into four major business segments:

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking, private banking and wealth management.
Treasury	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.

Transactions between segments are conducted at estimated allocated internal rates. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	30 June 2019				
	Banking	***Treasury***	***Investments***	***Unallocated***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Operating income	**16,982**	**7,725**	**2,465**	**-**	**27,172**
Segment result	**6,310**	**5,694**	**218**	**-**	**12,222**
Segment assets	**977,635**	**646,085**	**210,840**	**1,786**	**1,836,346**
Segment liabilities, and equity	**1,123,950**	**395,774**	**1,575**	**315,047**	**1,836,346**

Goodwill resulting from BMI acquisition is allocated to banking segment.

	30 June 2018				
	Banking	*Treasury*	*Investments*	*Unallocated*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Operating income	20,895	7,979	1,202	1,398	31,474
Segment result	3,387	7,905	(2,608)	736	9,420

Segment information for the period ended 31 December 2018 (Audited) was as follows:

Segment assets	841,772	654,908	212,148	1,482	1,710,310
Segment liabilities, and equity	968,448	419,406	11,827	310,629	1,710,310

Goodwill resulting from BMI acquisition is allocated to banking segment.

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

17 FAIR VALUE OF FINANCIAL ASSETS

The fair value of Sovereign and Coporate Sukuk is summarised below:

	30 June 2019		*31 December 2018*	
	BD '000		*BD '000*	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Sovereign Sukuk	**342,481**	**351,926**	354,215	349,087
Corporate Sukuk	**9,517**	**9,873**	9,222	9,390

The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 30 June 2019 and 31 December 2018.

18 COMPARATIVE FIGURES

Certain of the prior year figures have been regrouped to conform to the current year presentation. Such grouping did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.