GFH Financial Group BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an Islamic wholesale investment bank)
Registered Office	:	Bahrain Financial Harbour Office 2901, 29th Floor Building 1398, East Tower Block 346, Road 4626 Manama, Kingdom of Bahrain Telephone +973 17 538538
Directors	:	Jassim Al Siddiqi, *Chairman* H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, *Vice Chairman* Hisham Alrayes Amro Saad Omar Al Menhali Mazen Bin Mohammed Al Saeed Mosabah Saif Al Mutairy Ghazi F. Alhajeri Bashar Mohamed Al Mutawa Rashid Nasser Al Kaabi Mustafa Kheriba
Chief Executive Officer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

GFH Financial Group BSC

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

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CHAIRMAN'S REPORT
for the year ended 31 December 2018

Dear Shareholders,

On behalf of the Board of Directors of GFH Financial Group, I am pleased to present the Group's financial results for the fiscal year ended 31 December 2018, marking another period of enhanced profitability and strengthened performance across the Group and its subsidiaries.

This marks the fourth consecutive year that GFH has made solid gains across the top and bottom line, an achievement made all the more gratifying against the backdrop of challenging market conditions that have impacted the MENA region and other global markets where we have historically invested and continue to pursue value creation and growth.

The Group's demonstrated ability to deliver steady and sustained financial and operational improvements has been instrumental in solidifying trust in GFH and its position as one the foremost financial groups in the region.

At the center of this continued progress has been a highly successful transformation that has seen GFH develop into what is today a fully-fledged financial group with a sound financial base and a well-diversified model that has established strong revenue generating business lines active in Commercial and Investment Banking, Real Estate and Asset Management. Our diversification has also focused on ensuring we are able to effectively take advantage of opportunities across diverse assets classes as well as sectors and regions with high potential. This includes our home markets of the GCC as well North Africa, India, Europe and the US.

In line with our strategy and objectives, during 2018, the focus of our efforts were three-fold. They included the continued deployment of the Group's knowledge, talent and track record to identity and close promising new income yielding investments, to further build and extract value from our existing assets and to secure timely and profitable exits in support of our primary goal, which remains delivering superior returns to our investors and shareholders.

Our successful execution across all of these areas underpins our strong results for 2018. For the year, the the Group reported consolidated net profit of US$115 million as compared with US$103.19 million from the previous year, an increase of 11.4%, and a net profit attributable to shareholders of US114.08 million compared with US$104.18 for the previous year, an increase of 9.5%.

The Group's total consolidated revenue was US$246.21 million compared with US$204.36 million in 2017, reflecting a healthy year-on-year increase of 20.5%. Growth resulted from a successfully diversified business model and solid contributions from across its investment and commercial banking, real estate and asset management business lines in addition to increases in other income generated through strategic initiatives undertaken by the Group. Importantly, GFH also continued to deliver on its strategy of achieving profitable exists, which for the year amounted to US$120 million.

Total assets for the year grew from US$4.11 billion in 2017 to US$4.99 billion in 2018. The Group also ended the year with a Capital Adequacy Ratio of 17.3% and Return on Equity (ROE) ratio of 11.1%, verifying robust financial health. Improvements were also seen in GFH's liquidity position. The Group raised more than US$1 billion despite tough market conditions, positioning itself for further growth and investment. Enhancements to the balance sheet were again achieved in 2018 and the Group's liability profile was optimised. During the year, GFH repaid the entire amount of a US$200 million Sukuk, which was originally drawn in 2007, and achieved early payment of a Wakala facility. Also of note during the year, GFH took active steps to support its share price and market capitalisation, acquiring treasury shares up to 7% of the Group's total issued shares.

Gains made throughout the year, coupled with these initiatives, have resulted in further strengthening market confidence in the Group, whose ratings were affirmed by a number of international ratings agencies. This included Fitch, which maintained the Group's "B" rating with a stable Outlook, despite tough local and regional market conditions and downgrades.

Strong results enabled the Board to recommend robust cash dividend to shareholders for the year, subject to approval by the General Assembly. These dividends reflects GFH's progressive policy and continue to make the Group one of the strongest dividend payers in the region. Similarly, solid returns were also delivered to our investors throughout the year. In 2018, a total of US$28.5 million was paid to investors across all of the Groups' managed funds and investments.

Looking at some of the key highlights of the past year, we continued to identify and close a number of strategic investments. The Group successfully expanded its international portfolio of income yielding real estate assets. In the UK, we acquired the Westside Office Business Park in Hemel Hempstead, a prime office market, located just north of London. Significant investments were also made in the US including the acquisition of two trophy Chicago suburban office properties in a deal valued at US$150 million. With a continued focus on investing in the future and strong defensive sectors, GFH now plans to establish dedicated healthcare and education real estate platforms in 2019 allowing us to better capture and leverage opportunities in these segments.

On the private equity front, the Group made its first technology investment during 2018. In a US$150 million deal, it acquired the UAE-based ENTERTAINER, one of the leading incentive providers and lifestyle technology platforms in the region with global reach and operations. Having already doubled its size over the past two years, we are working closely with our partners in this investment, including Al-Futtaim, to build further market share and derive value from the high growth technology and lifestyle sectors.

Strong progress from across the Group's existing assets was also reported. The Group's commercial banking business, Khaleeji Commercial Bank performed well. A Total assets of the Bank grew 8.7% from US$2.08 Billion in 2017 to US$2.26 Billion in 2018. While customer deposits also increased by 8.3% from US$1.3 Billion to US$1.42 Billion. The Bank's corporate finance division also witnessed a positive growth trajectory.

The Group's other assets also continued to perform well and support revenue generation and dividends to investors. These included our investments in AMA International, Jeddah Mall, US Industrial Real Estate I & II, Sheffield Private School, US Data Center and our Diversified US Office Portfolio.

In our real estate and infrastructure portfolio, we successfully took assets with relatively low book value and have begun turning them into revenue generators such as hotels and retail centres. This includes our land banks in Bahrain, Dubai, India, Tunisia and Morocco, which will provide the Group with a range of markets and classes from which we can realise benefit over the medium to longer term. Particular progress was made in our India project, where we successfully inaugurated the first integrated township in the Navi Mumbai Airport Influence Notified Area, a housing development called Wadhwa Wise City, where pre-sale of units has begun.

Significantly, in our home market of Bahrain, great strides were made in furthering our landmark Villamar project, for which we acquired the majority Sukuk and are rapidly taking the development towards expected completion. New master planning was also commenced at Al Areen, which is being upgraded with the aim to establish another key tourism, exhibition and sports and leisure destination in Bahrain following the project's completion in 2019. Supporting economic and social development in the Kingdom and support for the achievement of its Vision 2030 goals is at the heart of what we do and underpins our position as one of the most significant and active investors in the Kingdom.

Further, in line with our efforts to return value to shareholders and investors, a number of strategic exits were achieved during the year. Among these were the sale of the Lost Paradise of Dilmun in a deal valued at US$60 million. The Group also exited its 70% stake in the Dubai-based Philadelphia Private School, which it acquired in October 2014, delivering a return of 33% over a three year investment period.

With another year of measurable progress behind us, we have entered 2019 with even stronger foundations upon which to grow and execute on our strategy. 2019 marks 20 years of focus and dedication that has seen GFH effectively navigate many highs and lows. We are extremely proud of the position in which we have emerged today at this important milestone for the Group and redouble our commitment to all of our partners, shareholders and investors that have been instrumental in our journey and ultimate success.

We have every confidence that we can build on this momentum and deliver further top and bottom line growth both outright and from across our various business lines including achieving greater contributions from our real estate activities. In terms of our focus, three key themes will continue to guide our strategy with further planned investments in education and healthcare, the well performing US markets and growth private equity. We will also continue to seek cross listings and a strengthening of our position in strong liquidity markets with plans to establish operations in Saudi Arabia and the UK that will better enable us to access capital and opportunity.

In concluding, I would like to thank GFH's management team and our staff for their continued contributions and stellar performance again this year. I would also like to extend our deep appreciation to our shareholders and investors for their sustained confidence in GFH, to the Central Bank of Bahrain for its ongoing guidance and support and the Government of the Kingdom of Bahrain for its visionary leadership under His Royal Majesty King Hamad bin Isa Al Khalifa, His Royal Highness the Prime Minister Prince Khalifa bin Salman Al Khalifa and His Royal Highness the Crown Prince and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa.

We look forward to another year that will take GFH from strength to strength and to sharing our progress over this next phase of growth and development for the Group and the markets in which we operate.

Sincerely,

P.A

Jassim Al Siddiqi
Chairman

11 February 2019

10 February 2019
5 Jumada II 1440 AH

SHARIA SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS
Report on the activities of GFH Financial Group B.S.C.
for the financial year ending 31 December 2018

Prayers and Peace Upon the Last Apostle and Messenger, Our prophet Mohammed, His comrades and Relatives.

The Sharia Supervisory Board of GFH Financial Group have reviewed the Bank's investment activates and compared them with the previously issued fatawa and rulings during the financial year 31st December 2018.

Respective Responsibility of Sharia Supervisory Board

The Sharia Supervisory Board believes that as a general principle and practice, the Bank Management is responsible for ensuring that it conducts its business in accordance with Islamic Sharia rules and principles. The Sharia Supervisory Board responsibility is to express an independent opinion on the basis of its control and review of the Bank's operations and to prepare this report.

Basis of opinion

Based on Sharia Supervisory Board fatwas and decisions, AAOIFI standards and Sharia Audit plan, the Sharia Supervisory Board through its periodic meetings reviewed the Sharia Audit function reports and examined the compliance of documents and transactions in regards to Islamic Sharia rules and principles, in coordination with Sharia Implementation & Coordination function. Furthermore, the Bank's management explained and clarified the contents of Consolidated Balance Sheet, Consolidated Income Statement, Consolidated statement of Zakah and Charity fund, and attached notes for the financial year ended on 31st December 2018 to our satisfaction.

Opinion

The Sharia Supervisory Board believes that,

- The contracts, transactions and dealings entered into by the Bank are in compliance with Islamic Sharia rules and principles
- The distribution of profit and allocation of losses on investments was in line with the basis and principles approved by the Sharia Supervisory Board and in accordance to the Islamic Sharia rules and principles
- Any earnings resulted from sources or means prohibited by the Islamic Sharia rules and principles, have been directed to the Charity account.
- Zakah was calculated according to the Islamic Sharia rules and principles, by the net assets method. And the shareholders should pay their portion of Zakah on their shares as stated in the Zakah guide.
- The Bank was committed to comply with Islamic Sharia rules and principles, the Sharia Supervisory Board fatawa and guidelines, Sharia related policies and procedures, AAOIFI's Sharia standards, and Sharia directives issued by the CBB.

Praise be to Allah, Lord of the worlds.
Prayer on Prophet Mohammed (Peace Be Upon Him), all his family and Companions.

Sheikh Nedham Yaqoubi

Sheikh Abdulla Al Manie

Sheikh Abdulaziz Al Qassar

Sheikh Fareed Hadi

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

GFH Financial Group BSC
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of GFH Financial Group BSC (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of income, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the board of directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by Accounting and Auditing Organisation for Islamic Financial Institutions. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in owners' equity, its consolidated changes in restricted investment accounts and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other regulatory requirements

As required by the Commercial Companies Law and Volume 2 of Rule Book issued by the Central Bank of Bahrain ("CBB"), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and Associated Resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration No. 100
11 February 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

US$ 000's

	note	31 December 2018 *	31 December 2017
ASSETS			
Cash and bank balances	6	341,567	216,445
Placements with financial institutions		289,558	95,569
Financing assets	7	920,676	992,502
Investment securities	8	773,134	521,408
Assets acquired for leasing		288,271	257,806
Investment property	9	523,692	616,263
Development properties	10	1,316,318	893,037
Equity-accounted investees	11	66,964	81,440
Assets held-for-sale	20	147,141	-
Property and equipment	12	92,902	117,135
Other assets	13	229,142	318,852
Total assets		**4,989,365**	4,110,457
LIABILITIES			
Investors' funds		46,639	39,413
Placements from financial institutions, other entities and individuals	14	1,628,389	858,496
Customer current accounts		177,906	189,607
Financing liabilities	15	256,137	365,062
Liabilities directly associated with assets held-for-sale	20	42,749	-
Other liabilities	16	517,857	255,733
Total liabilities		**2,669,677**	1,708,311
Equity of investment account holders	17	**896,910**	906,353
OWNERS' EQUITY			
Share capital	18	975,638	975,638
Share premium		-	3,058
Treasury shares	18	(85,424)	(58,417)
Statutory reserve		92,483	105,893
Fair value reserve		(4,725)	-
Foreign currency translation reserve		(43,380)	-
Retained earnings		123,136	122,825
Share grant reserve	19	1,086	1,026
Total equity attributable to shareholders of Bank		**1,058,814**	1,150,023
Non-controlling interests		323,408	345,770
Non-controlling interests held-for-sale	20	40,556	-
Total owners' equity (page 9)		**1,422,778**	1,495,793
Total liabilities, equity of investment account holders and owners' equity		**4,989,365**	4,110,457

** December 2018 results reflect the adoption of FAS 30. Prior periods have not been restated. Refer note 4(a)iii for further details.*

The consolidated financial statements were approved by the Board of Directors on 11 February 2019 and signed on its behalf by:

H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa
Vice Chairman

Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2018 US$ 000's

	note	2018	2017
Continuing operations			
Income from investment banking activities		40,100	121,294
Fees and commission income		7,989	6,631
Income from placements with financial institutions		3,980	3,177
Income from financing assets and assets acquired for leasing		72,799	73,377
Share of profits of equity-accounted investees, net	11	3,161	(248)
Income from investment securities, net	21	33,725	11,313
Foreign exchange gain, net		1,252	4,050
Income from settlement of liabilities	22	113,147	-
Other income, net	23	55,472	48,211
Income before return to investment account holders and finance expense		**331,625**	267,805
Return to investment account holders before Group's share as Mudarib		(37,731)	(39,480)
Bank's share as Mudarib		14,904	19,726
Return to investment account holders	17	**(22,827)**	(19,754)
Less: Finance expense		(62,585)	(43,692)
Total income		**246,213**	204,359
Staff cost	24	53,135	40,914
Investment advisory expenses		14,477	8,778
Other operating expenses	25	49,477	49,387
Total expenses		**117,089**	99,079
Profit before impairment allowances		**129,124**	105,280
Less: Impairment allowances, net	26	(17,614)	(9,381)
Profit for the year from continuing operations		**111,510**	95,899
Discontinued operations			
Profit from operations of non-banking subsidiaries, net	1	3,539	7,289
Profit for the year		**115,049**	103,188
Profit for the year attributable to:			
Shareholders of the Bank		114,076	104,182
Non-controlling interests		973	(994)
		115,049	103,188
Earnings per share			
Basic and diluted earnings per share (US cents)		**3.22**	3.58
Earnings per share – continuing operations			
Basic and diluted earnings per share (US cents)		**3.12**	3.30

H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa
Vice Chairman

Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2018 US$ 000's

2018	Share capital	Share premium	Treasury shares	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Share grant reserve	Total	Non – controlling interests	Non – controlling interests held-for-sale	Total owners' equity
	Attributable to shareholders of the Bank											
Balance at 1 January 2018 (as previously reported)	975,638	3,058	(58,417)	105,893	-	-	122,825	1,026	1,150,023	345,770	-	1,495,793
Impact of adoption of FAS 30 (note4(a)iii)	-	-	-	-	-	-	(16,586)	-	(16,586)	(13,092)	-	(29,678)
Impact of adoption of FAS 30 by associates	-	-	-	-	-	-	(965)	-	(965)	-	-	(965)
Balance at 1 January 2018 (restated)	**975,638**	**3,058**	**(58,417)**	**105,893**	**-**	**-**	**105,274**	**1,026**	**1,132,472**	**332,678**	**-**	**1,465,150**
Profit for the year (page 8)	-	-	-	-	-	-	114,076	-	114,076	973	-	115,049
Foreign currency translation differences	-	-	-	-		(43,380)	-	-	(43,380)	(15,331)	-	(58,711)
Fair value changes during the year	-	-	-	-	(4,725)	-	-	-	(4,725)	-	-	(4,725)
Total recognised income and expense	**-**	**-**	**-**	**-**	**(4,725)**	**(43,380)**	**114,076**	**-**	**65,971**	**(14,358)**	**-**	**51,613**
Dividends declared for 2017 (note 18)	-	-	-	-	-	-	(82,412)	-	(82,412)	-	-	(82,412)
Transfer to zakah and charity fund (page 13)	-	-	-	-	-	-	(2,432)	-	(2,432)	(522)	-	(2,954)
Derecognition on loss of control	-	-	-	-	-	-	(24)	-	(24)	(804)	-	(828)
Issue of shares under incentive scheme (note 19)	-	-	-	-	-	-	62	60	122	98	-	220
Transfer to statutory reserve	-	-	-	11,408	-	-	(11,408)	-	-	-	-	-
Purchase of treasury shares	-	-	(160,973)	-	-	-	-	-	(160,973)	-	-	(160,973)
Sale of treasury shares	-	(3,058)	133,966	(24,818)	-	-	-	-	106,090	-	-	106,090
Non-controlling interests arising on acquisition of subsidiaries (note 20)	-	-	-	-	-	-	-	-	-	6,316	40,556	46,872
Balance at 31 December 2018	**975,638**	**-**	**(85,424)**	**92,483**	**(4,725)**	**(43,380)**	**123,136**	**1,086**	**1,058,814**	**323,408**	**40,556**	**1,422,778**

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2018 *(continued)*

US$ 000's

2017	Attributable to shareholders of the Bank: Share capital	Share premium	Treasury shares	Capital adjustment account	Statutory reserve	Retained earnings	Share grant reserve	Total	Non-controlling interests	Total owners' equity
Balance at 1 January 2017	597,995	-	(340)	24,320	93,768	191,379	902	908,024	213,683	1,121,707
Profit for the year (page 8)	-	-	-	-	-	104,182	-	104,182	(994)	103,188
Total recognised income and expense	-	-	-	-	-	104,182	-	104,182	(994)	103,188
Issuance of share capital	314,530	2,896	-	(24,320)	-	-	-	293,106	176,754	469,860
Bonus shares issued	59,799	-	-	-	-	(59,799)	-	-	-	-
Dividends declared	-	-	-	-		(59,799)	-	(59,799)	-	(59,799)
Transfer to zakah and charity fund	-	-	-	-		(3,509)	-	(3,509)	-	(3,509)
Acquisition of additional interests in subsidiaries and resulting changes in non-controlling interests, net (note 20)	-	-	-	-	1,707	(39,211)	(40)	(37,544)	(34,816)	(72,360)
Transfer to statutory reserve	-	-	-	-	10,418	(10,418)	-	-	-	-
Issue of shares under staff incentive scheme, net of forfeitures (note 24)	3,314	3,564	-	-	-	-	164	7,042	-	7,042
De-recognition of a subsidiary on loss of control	-	-	-	-	-	-	-	-	(8,857)	(8,857)
Purchase of treasury shares	-	-	(82,839)	-	-	-	-	(82,839)	-	(82,839)
Sale of treasury shares	-	(3,402)	24,762	-	-	-	-	21,360	-	21,360
Balance at 31 December 2017	975,638	3,058	(58,417)	-	105,893	122,825	1,026	1,150,023	345,770	1,495,793

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2018 US$ 000's

	2018	2017
OPERATING ACTIVITIES		
Profit for the year	**115,049**	103,188
Adjustments for:		
Income from investment banking activities	(8,500)	(80,511)
Income from investment securities	(33,725)	(11,313)
Share of profit of equity-accounted investees, net	(3,161)	(7,041)
Foreign exchange gain, net	(434)	(4,050)
Other income	(6,902)	(18,000)
Income from settlement of liabilities	(113,147)	-
Finance expense	62,585	43,692
Depreciation and amortisation	2,099	6,279
Impairment allowances	17,614	9,381
	31,478	41,625
Changes in:		
Placements with financial institutions	(168,286)	3,193
Financing assets	9,256	(21,912)
Asset acquired for leasing	(30,465)	(11,549)
Other assets	9,458	(97,437)
Investors' funds	7,226	(5,152)
Placements from financial institutions, other entities and individuals	769,893	287,981
Customer current accounts	(11,701)	(3,176)
Other liabilities	(132,128)	9,049
Equity of investment account holders	(9,443)	(115,837)
CBB reserve account	(8,913)	6,354
Net cash generated from operating activities	**466,375**	93,139
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(2,814)	(921)
Purchase of investment securities	(336,120)	(220,030)
Purchase of additional stake in an associate	(5,730)	-
Proceeds from sale of investment securities	118,860	51,875
Dividend and income from investment securities	25,308	14,857
Net cash paid for acquisition of a subsidiary	(17,276)	-
(Purchase) / sale of investment and development properties	(15,952)	1,857
Proceeds from sale of private equity subsidiaries	104,591	53,694
Net cash used in investing activities	**(129,133)**	(98,668)
FINANCING ACTIVITIES		
Financing liabilities, net	(9,810)	126,255
Finance expense paid	(55,665)	(36,245)
Purchase of treasury shares, net	(54,883)	(65,139)
Dividends paid	(76,151)	(59,799)
Acquisition of additional stake in a subsidiary	-	(15,228)
Net cash used in financing activities	**(196,509)**	(50,156)
Net increase / (decrease) in cash and cash equivalents	**140,733**	(55,685)
Cash and cash equivalents at 1 January	256,887	312,572
CASH AND CASH EQUIVALENTS at 31 December	**397,620**	256,887
Cash and cash equivalents comprise *		
Cash and balances with banks (excluding CBB reserve account and restricted bank balances)	284,649	169,619
Placements with financial institutions (with original maturity of three months or less)	112,971	87,268
	397,620	256,887

** net of expected credit loss of US$ 1,041 thousand (1 January 2018: US$ 7 thousand)*

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2018

31 December 2018	**Balance at 1 January 2018**			**Movements during the year**						**Balance at 31 December 2018**		
Company	No. of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revalua-tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	(3)	-	-	-	-	150	0.33	49
Al Basha'er Fund	13	7.03	93	-	-	-	-	-	-	13	7.03	93
Safana Investment (RIA 1) #	6,254	2.65	16,588	-	-	-	-	-	-	6,254	2.65	16,588
Shaden Real Estate Investment WLL (RIA 5) #	3,529	2.65	9,361	(252)	-	-	(690)	-	-	3,434	2.65	9,109
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,726	**(252)**	**(3)**	**-**	**(690)**	**-**	**-**			**28,472**

31 December 2017	Balance at 1 January 2017			Movements during the year						Balance at 31 December 2017		
Company	No. of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revalua-tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	6.85	637	(532)	(12)	-	-	-	-	13	7.03	93
Safana Investment (RIA 1) #	6,304	2.65	16,721	(133)	-	-	-	-	-	6,254	2.65	16,588
Shaden Real Estate Investment WLL (RIA 5) #	3,652	2.65	9,686	(325)	-	-	-	-	-	3,529	2.65	9,361
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			29,729	(965)	(12)	-	-	-	-			28,726

#Represents restricted investment accounts of Khaleeji Commercial Bank BSC

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the year ended 31 December 2018 US$ 000's

	2018	2017
Sources of zakah and charity fund		
Contributions by the Group	2,954	4,468
Non-Islamic income (note 31)	48	45
Total sources	**3,002**	4,513
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	(1,208)	(3,833)
Total uses	**(1,208)**	(3,833)
Surplus of sources over uses	**1,794**	680
Undistributed zakah and charity fund at 1 January	2,841	2,160
Undistributed zakah and charity fund at 31 December (note 16)	**4,635**	2,840
Represented by:		
Zakah payable	755	13
Charity fund	3,880	2,827
	4,635	2,840

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

for the year ended 31 December 2018 US$ 000's

1 REPORTING ENTITY

GFH Financial Group BSC ("the Bank") was incorporated as Gulf Finance House BSC in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 and operates under an Islamic Wholesale Investment Banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's shares are listed on the Bahrain, Kuwait and Dubai Financial Market Stock Exchanges.

The Bank's activities are regulated by the CBB and supervised by a Religious Shari'a Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Supervisory Board.

Consolidated financial statements

The consolidated financial statements for the year comprise the results of the Bank and its subsidiaries (together referred to as "the Group"). The principal subsidiaries of the Bank consolidated in these financial statements are:

<table>
<tr><th>Investee name</th><th>Country of incorporation</th><th>Parent / Owning Company</th><th>Effective ownership interests 2018</th><th>Activities</th></tr>
<tr><td>GFH Capital Limited</td><td>United Arab Emirates</td><td rowspan="10">GFH</td><td>100%</td><td>Investment management</td></tr>
<tr><td>Khaleeji Commercial Bank BSC ('KHCB')</td><td rowspan="4">Kingdom of Bahrain</td><td>55.41%</td><td>Islamic retail bank</td></tr>
<tr><td>Al Areen Hotels SPC</td><td>100%</td><td>Hospitality management</td></tr>
<tr><td>Al Areen Project companies</td><td>100%</td><td>Real estate development</td></tr>
<tr><td>Falcon Cement Company BSC (c) *</td><td>51.72%</td><td>Cement manufacturing</td></tr>
<tr><td>Morocco Gateway Investment Company ('MGIC')</td><td rowspan="4">Cayman Islands</td><td>89.26%</td><td>Real estate development</td></tr>
<tr><td>Tunis Bay Investment Company ('TBIC')</td><td>51.41%</td><td>Real estate development</td></tr>
<tr><td>Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")</td><td>77.20%</td><td>Real estate development</td></tr>
<tr><td>Sheffield Dubai Investment Company *</td><td>61.18%</td><td>Holding Company for educational institutions</td></tr>
<tr><td>Gulf Holding Company KSCC *</td><td>State of Kuwait</td><td>51.18%</td><td>Investment in real estate</td></tr>
<tr><td>Surooh Company ('Surooh')</td><td>Cayman Islands</td><td>KHCB</td><td>10.00%</td><td>Construct and sell properties at "Oryx Hills".</td></tr>
</table>

** refer note 20*

The Bank has other SPE holding companies and subsidiaries, which are set up to supplement the activities of the Bank and its principal subsidiaries.

During the year, the Group disposed of its investment in a wholly owned subsidiary AlAreen Leisure and Tourism Company – Lost Paradise of Dilmun Water Park as part of settlement of liabilities (note 22). Also, the Group disposed of its entire stake in GCL CPOL Management Company, a wholly owned subsidiary. Accordingly, the assets and liabilities of these subsidiaries were deconsolidated on loss of control. The net operations of the subsidiaries till loss of control is presented as 'Profit from operations of non-banking subsidiaries, net' under discontinued operations in the consolidated income statement including comparative representing amounts for 2017.

2 Statement of compliance

The consolidated financial statements have been 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 Commercial Companies Law. In line with the requirement of AAOIFI and the Rulebook issued by CBB, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standard (IFRS).

3 Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for the measurement at fair value of certain investment securities. The Group classifies its expenses in the consolidated income statement by the nature of expense method. The consolidated financial statements are presented in United States Dollars (US$), being the functional currency of the Group's operations. All financial information presented in US$ has been rounded to the nearest thousands, except when otherwise indicated.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by Group except for changes arising from adoption of FAS 30 as set out below.

(a) Impact of new accounting standards and changes in accounting policies

i) New standards effective from 1 January 2018

There were no new relevant standards there were issued and effective from 1 January 2018.

ii) New standards issued but not yet effective

FAS 31 – Investment Agency (Al-Wakala Bi Al-Istithmar)

The objective of this standard is to establish principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations as applicable, for the Islamic financial institutions from both perspectives as principal (investor) and agent. The standard is effective for the financial periods beginning on or after 1 January 2020 and expected to impact presentation of income and expenses, including variable consideration, from Wakala arrangements. The Group is currently evaluating the impact from adoption of the standard.

FAS 33 – Investment in Sukuk, shares and similar instruments

The standards replaces FAS 25 and produces revised guidance for classification and measurement of investments to align with international practices. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively. The standard is effective for the financial periods beginning on or after 1 January 2020 and the Group is currently evaluating the impact from adoption of the standard, however, given the nature of investments of the Group, the adoption of this standard is not expected to have a material impact on the consolidated financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

FAS 35 – Risk reserves

The standard shall apply to risk reserves that are established by an islamic financial institution, to mitigate the credit, market, equity investment, liquidity, rate of return or displaced commercial risks faced by the stakeholders (mainly the profit and loss taking investors). The standard does not mandatorily require the Islamic financial institutions to maintain risk reserves, however, if a reserve is established, such reserves shall follow the requirements of the standards in its entirety. The standard is effective for the financial periods beginning on or after 1 January 2020. Currently the Group is not providing for Profit Equalisation Reserve and Investment Risk Reserve on a risk adjusted basis and it remains at the choice of the Group. The Group is currently working on adopting Basel and IFSB guidance on profit rate risk management and the Risk Reserve policy will be addressed as part of this exercise.

iii) Early adoption of FAS 30 – Impairment, Credit Losses and Onerous Commitments

AAOIFI issued FAS 30 Impairment, Credit losses and onerous commitments in 2017 with effective date of 1 January 2020 with early adoption permitted. The Group early adopted the standard as of 1 January 2018 as mandated by the CBB. The objective of this standard is to establish the principles of assessing impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets. FAS 30 replaces FAS 11 Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments that deals with impairment.

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit Losses approach, 2) Net Realizable Value approach ("NRV") and 3) Impairment approach. For the purpose of this standard, the assets and exposures are categorized, as under:

- Assets and exposures subject to credit risk (subject to credit losses approach):
  - Receivables; and
  - Off-balance sheet exposures.
- Inventories (subject to net realizable value approach); and
- Other financing and investment assets subject to risks other than credit risk (subject to impairment approach).

Credit losses approach for receivables and off- balance sheet exposures uses a dual measurement approach, under which the loss allowance is measured as either a 12-month expected credit loss or a lifetime expected credit loss.

Expected credit losses

FAS 30 introduces the credit losses approach with a forward-looking 'expected credit loss' model. The new impairment model will apply to exposures which are subject to credit risk. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing segments of similar exposures for the purposes of measuring ECL.

for the year ended 31 December 2018 US$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment loss is the amount by which the carrying amount of asset exceeds its recoverable amount.

The adoption of FAS 30 has resulted in changes in accounting policies for exposures that are subject to credit risk and adjustments to the amounts previously recognised in the consolidated financial statements as of 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 exposures that are subject to credit risk as at the date of transition were recognised in the opening balance of retained earnings.

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.

- **Changes in accounting policies**
  The key changes to the Group's accounting policies resulting from the adoption of FAS 30 are summarised in note 4(o). 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 for the year ended 31 December 2017.

- **Impact of adopting FAS 30**
  The adoption of FAS 30 as at 1 January 2018 has resulted in decrease in retained earnings by US$ 16,586 thousand:

	Retained earnings	**Non - controlling interests**
Balance as of 1 January 2018 (as previously reported)	122,825	345,770
Impact on recognition of expected credit losses		
Bank balances and placements with financial institutions	(5)	(2)
Investment in sukuk	(4)	(4)
Financing assets	(12,983)	(10,447)
Assets acquired for leasing and lease rental receivables	(2,523)	(2,031)
Other receivables	(316)	-
Commitments and financial guarantees	(755)	(608)
	(16,586)	(13,092)
Balance as of 1 January 2018 (restated)	**106,239**	**332,678**

for the year ended 31 December 2018 US$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Exposures subject to ECL**
  The following table reconciles the carrying amounts of exposures subject to credit risk under FAS 11 to the carrying amounts under FAS 30 on 1 January 2018

	31 December 2017	**Effect of re-measurement ***	**1 January 2018**
Bank balances and placements with financial institutions	290,501	(7)	290,494
Financing assets	992,502	(23,430)	969,072
Investment in sukuk	300,655	(8)	300,647
Assets acquired for leasing and lease rental receivables	280,591	(4,554)	276,037
Other receivables	238,584	(316)	238,268
Commitments and financial guarantees	229,689	(1,363)	228,326
	2,332,522	**(29,678)**	**2,302,844**

** including those attributable to non-controlling interests*

The following table sets out the carrying amounts of exposures subject to credit risk as of 1 January 2018 by stage:

1 January 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Bank balances	194,932	-	-	194,932
Placements with financial institutions	95,569	-	-	95,569
Financing assets	654,741	221,053	116,708	992,502
Assets acquired for leasing and lease rental receivables	210,119	43,517	26,955	280,591
Investment in sukuk	300,265	-	390	300,655
Other receivables	238,584	-	-	238,584
Commitments and financial guarantees	176,018	50,265	3,406	229,689
	1,870,228	314,835	147,459	2,332,522

Movement on ECL on various stages during the year:

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2018	7,902	27,950	31,548	67,400
Transfer to Stage 1	8,456	(8,186)	(270)	-
Transfer to Stage 2	(838)	1,056	(218)	-
Transfer to Stage 3	(607)	(6,534)	7,141	-
Net transfers	7,011	(13,664)	6,653	-
Charge for the period, net (note 26)	(137)	(3,894)	15,796	11,765
Write-off	-	-	(4,154)	(4,154)
Balance at 31 December 2018	**14,776**	**10,392**	**49,843**	**75,011**

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated income statement.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in the consolidated income statement.

(ii) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control commences until when control ceases.

***(iii)* Non-controlling interests (NCI)**

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

If less than 100% of a subsidiary is acquired, then the Group elects on a transaction-by-transaction basis to measure non-controlling interests either at:

- Fair value at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary non-controlling interests; or
- the holders' proportionate interest in the recognised amount of the identifiable net assets of the acquire, which means that goodwill recognised, or the gain on a bargain purchase, relates only to the controlling interest acquired.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Special purpose entities

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist, when the Bank owns majority of voting rights in an investee.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are usually not included in these consolidated financial statements. Information about the Group's fiduciary assets under management is set out in note 28.

(v) Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity. Any surplus or deficit arising on the loss of control is recognised in consolidated income statement. Any interest retained in the former subsidiary, is measured at fair value when control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for investment securities depending on the level of influence retained.

(vi) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exits when the Group holds between 20% and 50% of the voting power of another entity.

On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 – Investment in Associates for venture capital organisation and designates certain of its investment in associates, as 'investments carried at fair value through income statement'. These investments are managed, evaluated and reported internally on a fair value basis (refer to note 4(f)iii).

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investees reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investees, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees. Equity accounting is discontinued when an associate is classified as held-for-sale.

(vii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency translation gains or losses) from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and equity- accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Assets held-for-sale

(i) Classification

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use within twelve months. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

(ii) Measurement

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on re-measurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency transactions

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at the reporting date.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve.

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US$ at the exchange rates at the date of the transactions. Foreign currency differences are accumulated into foreign currency translation reserve in owners' equity, except to the extent the translation difference is allocated to NCI.

When foreign operation is disposed of in its entirety such that control is lost, cumulative amount in the translation reserve is reclassified to consolidated income statement as part of the gain or loss on disposal.

(e) Offsetting of financing instruments

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense are presented on a net basis only when permitted under AAOIFI, or for gains and losses arising from a group of similar transactions.

(f) Investment securities

Investment securities comprise of debt and equity instruments, but exclude investment in subsidiaries and equity-accounted investees (note 4 (a)(ii) and (vi)).

(i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

Debt-type instruments

Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

At fair value through income statement (FVTIS)
These investments are either not managed on contractual yield basis or designated on initial recognition as FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. This represents investments in Sukuk.

At amortised cost
This classification is for debt-type instruments which are not designated as FVTIS and are managed on contractual yield basis.

Equity-type instruments
Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

At fair value through income statement (FVTIS)
Equity-type instruments classified and measured at FVTIS include investments held-for-trading or designated on initial recognition at FVTIS.

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking. The Group currently does not have any of its investments classified as investments held-for-trading purposes.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported internally by the management on a fair value basis.

At fair value through equity (FVTE)
Equity-type instruments other than those designated at FVTIS are classified as at fair value through equity. These include investments in certain quoted and unquoted equity securities.

(ii) Recognition and de-recognition
Investment securities are recognised at the trade date i.e. the date that the Group commits to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement
Investment securities are measured initially at fair value plus, except for investment securities carried at FVTIS, transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in owners equity and presented in a separate investment fair value reserve in equity.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

The fair value gains / (losses) are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in owners' equity is transferred to the income statement.

Investments at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

(iv) Measurement principles

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through use of an allowance account) for impairment or uncollectibility. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses, price / earnings multiples and other valuation models with accepted economic methodologies for pricing financial instruments.

(g) Financing assets

Financing assets comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Istisna and Wakala contracts. Financing assets are recognised on the date at which they are originated and are carried at their amortised cost less impairment allowances, if any.

(h) Assets acquired for leasing

Assets acquired for leasing (Ijarah Muntahia Bittamleek) comprise finance lease assets which are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the consolidated income statement.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Placements with and from financial and other institutions

These comprise placements made with financial and other institutions or received under shari'a compliant contracts. Placements are usually short term in nature and are stated at their amortised cost.

(j) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and placements with financial institutions)with original maturities of three months or less when acquired that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Bank balances that are restricted and not available for day-to-day operations of the Group are not included in cash and cash equivalents.

(k) Investment property

Investment property comprise land plots and buildings. Investment property is property held to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is measured initially at cost, including directly attributable expenses. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment allowances (if any). Land is not depreciated.

A property is transferred to investment property when, there is change in use, evidenced by:

(i) end of owner-occupation, for a transfer from owner-occupied property to investment property; or

(ii) (ii) commencement of an operating ijara to another party, for a transfer from a development property to investment property.

Further, an investment property is transferred to development property when, there is a change in use, evidenced by:

(i) commencement of own use, for a transfer from investment property to owner-occupied property;

(ii) commencement of development with a view to sale, for a transfer from investment in real estate to development property.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the property is derecognised.

(l) Development properties

Development properties are properties held for sale or development and sale in the ordinary course of business. Development properties are measured at the lower of cost and net realisable value.

(m) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projection if the recognition criteria are met. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognised in the consolidated income statement.

The estimated useful lives of property and equipment of the industrial business assets are as follows:

Buildings and infrastructure on lease hold	15 – 30 years
Machinery	8 – 40 years
Other equipment comprising:	
Tools and dies	3 years
Computers	3 – 5 years
Furniture and fixtures	5 – 8 years
Motor vehicles	4 – 5 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts, being the higher of the fair value less costs to sell and their value in use.

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in the consolidated statement of income in the year of derecognition.

The assets' residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively if appropriate.

(n) Intangible assets

Goodwill
Goodwill that arises on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other Intangible assets
Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Subsequently, intangible assets are recognised at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the consolidated income statement in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life of ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expenses category consistent with the function if intangible assets.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Intangible assets with indefinite useful life consists of a license to construct and operate a cement plant in the Kingdom of Bahrain.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

(o) Impairment of exposures subject to credit risk

Policy applicable from 1 January 2018

The Group recognises loss allowances for ECLs on:

- Bank balances;
- Placements with financial institutions;
- Financing assets;
- Assets acquired for leasing and lease rental receivables;
- Investments in Sukuk (debt-type instruments carried at amortised cost);
- Other receivables; and
- Undrawn financing commitments and financial guarantee contracts issued.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- Debt-type securities that are determined to have low credit risk at the reporting date; and
- other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, the Group 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 Group's historical experience and informed credit assessment including forward-looking information.

The Group assumes that the credit risk on exposure subject to credit risk increased significantly if it is more than 30 days past due. The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the exposure is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per S&P.

The Group applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Stage 1: 12-months ECL

Stage 1 includes exposures that are subject to credit risk 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 exposures that are subject to credit risk 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 exposures that are subject to credit risk 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.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.
- ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that an exposure is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a financing facility or advance by the Bank on terms that the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for exposures subject to credit risk are deducted from the gross carrying amount of the assets.

4 SIGNIFICANT ACCOUNTING POLICIES (continued

Policy applicable before 1 January 2018

The Group assesses at each reporting date whether there is objective evidence an exposure subject to credit risk is impaired. Objective evidence that exposures subject to credit risk are impaired can include default or delinquency by a borrower, restructuring of financing facility or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortised cost

These include financing assets, Sukuk (debt-type instruments), and other receivables. For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement. Recovery of written off financial assets is credited to impairment charge for the year. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level.

All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

(p) Impairment of equity investments classified at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The Group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable measure of fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is below the carrying value of the investment.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets (other than those subject to credit risk covered above) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

(r) Investors funds

These represent funds of projects set-up and promoted by the Group and placed with the Group pending disbursement to the projects concerned and carried at amortised cost.

(s) Customers' current accounts

Balances in current (non-investment) accounts are recognised when received by the Group. The transactions are measured at the cash equivalent amount received by the Group at the time of contracting. At the end of the accounting period, the accounts are measured at their book value.

(t) Financing liabilities

Financing liabilities represents facilities from financial institutions, and financing raised through Sukuk. Financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing cost, dividends and losses relating to the financial liabilities are recognised in the consolidated income statement as finance expense. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(u) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (note 37).

(v) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Share capital and reserves

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised on the Group's consolidated income statement on the sale of treasury shares.

Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital. Appropriation to statutory reserve is made when approved by the shareholders.

(x) Equity of investment account holders

Equity of investment account holders are funds held by the Group, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves and deducting the Group's share of income. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts. Equity of Investment account holders are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves.

Profit equalisation reserve is the amount appropriated by the Bank out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Bank out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of these reserves results in an increase in the liability towards the pool of investment accounts holders.

Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

(y) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised to the extent that it is probable that future economic benefits associated with the item of revenue will flow to the Group, the revenue can be measured with reliability and specific criteria have been met for each of the Group's activities as described below:

Banking business

Income from investment banking activities is recognised when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/ contracts for each transaction. The assessment of whether economic benefits from a transaction will flow to the Group is determined when legally binding commitments have been obtained from underwriters and external investors for a substantial investment in the transaction.

Income from placements with / from financial institutions are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Finance income / expenses are recognised using the amortised cost method at the effective profit rate of the financial asset / liability.

Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

Income from Murabaha and Wakala contracts are recognised on a time-apportioned basis over the period of the contract using the effective profit method.

Profit or losses in respect of the Bank's share in **Musharaka financing** transaction that commence and end during a single financial period is recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the Musharaka agreement.

Income from assets acquired for leasing (Ijarah Muntahia Bittamleek) are recognised proportionately over the lease term.

Income from sukuk and income / expenses on placements is recognised at its effective profit rate over the term of the instrument.

Non banking business

Revenue from the sale of goods is recognised when customer takes possession. Revenue from rendering of services is recognised when services are rendered.

(z) Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net assets method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment account holders and other accounts is the responsibility of investment account holders.

(bb) Employees benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a “defined contribution scheme” in nature under, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in consolidated income statement when they are due.

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a “defined benefit scheme” and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

The Group also operates a voluntary employees saving scheme under which the Group and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by a board of trustees who are employees of the Group. The scheme is in the nature of a defined contribution scheme and contributions by the Group are recognised as an expense in the consolidated income statement when they are due.

(iii) Share-based employee incentive scheme

The Bank operates a share-based incentive scheme for its employees (the “Scheme”) whereby employee are granted the Bank’s shares as compensation on achievement of certain non-market based performance conditions and service conditions (the ‘vesting conditions’). The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards.

Non-vesting conditions are taken into account when estimating the fair value of the equity instrument but are not considered for the purpose of estimating the number of equity instruments that will vest. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value but are considered for the purpose of estimating the number of equity instruments that will vest. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Amount recognised as expense are not trued-up for failure to satisfy a market condition.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(cc) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(dd) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(ee) Trade date accounting

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

(ff) Investment account holder protection scheme

Funds held with the Group in unrestricted investment accounts and current accounts of its retail banking subsidiary are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

(gg) Income tax

The Group is exposed to taxation by virtue of operations of subsidiaries in Morocco, Tunis and India. Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Currently, the Group does not have any material current or deferred tax exposure that requires recognition in the consolidated financial statements.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Judgements

Applicable to 2018 only

Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in note 4(o) and note 38(a);

Applicable to 2017 and 2018

(i) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(ii) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (note 4 (e)).

(iii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Estimations

Applicable to 2018 only

Impairment of exposures subject to credit risk

Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note 4(o) and note 38(b).

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Applicable to 2018 and 2017

(i) Fair value of investments

The Group determines fair value of investments designated at fair value that are not quoted in active markets by using valuation techniques. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of investee companies, and based on the latest available audited and un-audited financial statements. The basis of valuation have been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

(ii) Impairment of investments carried at fair value through equity

The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group generally considers a decline in value below cost of 30%, or a decline that persists for more than 12 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance.

Equity-type instruments classified as investments at FVTE but carried at cost less impairment due to the absence of reliable measure of fair value are tested for impairment. A significant portion of the Group's equity-type investments comprise investments in real estate and infrastructure development projects. In making an assessment of impairment, the Group evaluates among other factors, ease of raising liquidity for the project, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, and operational and financing cash flows. The Group has exposures to investments and projects that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions, long term asset objectives and available information. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(iii) Impairment of investment property

The Group conducts impairment assessment of investment property periodically using external independent property valuers to value the property. The fair value is determined based on the market value of the property using either sales comparable approach or the residual value basis or the market value of the property considering its current physical condition. The Group's investment property are situated in Bahrain, UAE and Morocco. Given the dislocation in the local property market and infrequent property transactions, it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

(iv) Impairment of other non-financial assets and cash generating units

Investment in associates and recognised goodwill are subject to an impairment based on indicators of performance and market conditions. Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy note 4 (n). For equity-accounted investees with indicators of impairment, the recoverable amounts is determined based on higher of fair value less costs to sell (FVLCTS); and value in use.

The recoverable amount for the equity-accounted investees was determined using a combination of income and market approaches of valuations. The objective of valuation techniques is to determine whether the recoverable amount is greater than the carrying amount.

(v) Estimating of net realisable value of development property

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the development property.

(vi) Consideration transferred and fair value of identifiable assets acquired and liabilities assumed in a business combination

The estimate in relation to consideration transferred and determination of fair value of identifiable assets acquired and liabilities assumed in a business combination are given in note 20.

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6 CASH AND BANK BALANCES

	31 December 2018	31 December 2017
Cash	21,609	21,460
Balances with banks	225,024	80,365
Balances with Central Bank of Bahrain:		
- Current account	39,709	68,308
- Reserve account	55,225	46,312
	341,567	216,445

The reserve account with the Central Bank of Bahrain and bank balances of US$ 1,693 thousand are not available for day-to-day operational purposes. The cash and bank balances are net of ECL of US$ 134 thousand.

7 FINANCING ASSETS

	31 December 2018	31 December 2017
Murabaha	952,372	948,528
Musharaka	9,393	18,350
Wakala	13,281	56,981
Mudharaba	2,782	3,016
Istisnaa	5,448	-
	983,276	1,026,875
Less: Impairment allowances	(62,600)	(34,373)
	920,676	992,502

Murabaha financing receivables are net of deferred profits of US$ 66,546 thousand (2017: US$ 61,111 thousand).

The movement on impairment allowances are as follows:

2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January 2018	7,021	25,520	24,815	57,356
Net movement between stages	6,751	(12,711)	5,960	-
Net charge for the year (note 26)	(1,140)	(3,008)	13,546	9,398
Write-off	-	-	(4,154)	(4,154)
At 31 December 2018	**12,632**	**9,801**	**40,167**	**62,600**

2017	Specific	Collective	Total
At 1 January 2017	55,786	11,590	67,376
Net charge for the year (note 26)	2,183	(98)	2,085
Adjusted on write-off of assets	(35,088)	-	(35,088)
At 31 December 2017	22,881	11,492	34,373

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8 INVESTMENT SECURITIES

	31 December 2018	31 December 2017
Equity type investments		
At fair value through income statement:		
- Unquoted securities	34,875	34,875
	34,875	34,875
At fair value through equity:		
- Listed securities (at fair value)	29,093	103
- Unquoted securities (at cost)	180,724	185,775
	209,817	185,878
Debt type investments		
At fair value through income statement:		
- Quoted sukuk	100,527	-
At amortised cost:		
- Quoted sukuk *	427,915	300,265
- Unquoted sukuk **	-	390
	427,915	300,655
	773,134	521,408

* Includes sukuk of US$ 129,676 thousand pledged against medium-term borrowing of US$ 109,570 thousand (note 15).

** Unquoted sukuk are net of expected credit loss of US$ 3,501 thousand (2017: nil).

a) Equity type investments - At fair value through income statement

	2018	2017
At 1 January	34,875	40,557
Disposals during the year, at carrying value	-	(5,305)
De-recognition of investment on deconsolidation of subsidiary	-	(377)
At 31 December	**34,875**	34,875

b) Equity type investments - At fair value through equity

	2018	2017
At 1 January	185,878	289,256
Additions during the year	76,426	293,729
Disposals during the year, at carrying value	(39,958)	(6,895)
Fair value changes	(4,725)	-
Write-offs of fully provided investments during the year	-	(7,926)
De-recognition on acquiring controlling stake (note 20)	(1,955)	(378,709)
Impairment charge for the year (note 26)	(5,849)	(3,577)
At 31 December	**209,817**	185,878

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8 INVESTMENT SECURITIES (continued)

Unquoted equity securities US$ 180,724 thousand (31 December 2017: US$ 185,775 thousand) classified at fair value through equity, but measured at cost less impairment in the absence of reliable measure of fair value, are primarily investment in equities of companies carrying out real estate and infrastructure development projects in different countries. The Group plans to exit these investments principally by means of strategic sell outs or sale of underlying assets.

During the year, the Group recognised an impairment of US$ nil (2017: US$ 3,577 thousand) on such assets. Impairment allowance has been established based on management's assessment of the current market conditions, the marketability of the investments and the assessment of recoverable amounts.

9 INVESTMENT PROPERTY

Investment property includes land plots and buildings in Bahrain, UAE and Morocco. Investment property of carrying amount of US$ 192.2 million (2017: US$ 192.2 million) is pledged against Wakala facilities and Ijarah facility (note 15).

The fair value of the Group's investment property at 31 December 2018 was US$ 674,247 thousand (31 December 2017: US$ 624,710 thousand) based on a valuation carried out by an independent third party external valuers who have recent experience in the location and category of the asset being valued.

	2018	2017
At 1 January	616,263	488,436
Additions during the year	49,740	137,310
Disposals	(6,154)	(2,715)
Transfer to development property (note 10)	(657)	-
Depreciation charge for the year	-	(194)
De-recognition on deconsolidation of a subsidiary	(135,500)	(4,479)
Impairment allowances (note 26)	-	(2,095)
At 31 December	**523,692**	616,263

10 DEVELOPMENT PROPERTIES

Development properties represent real estate under development and for sale in UAE, Bahrain, North Africa and India. Development property of US$ 42.3 million is pledged against a Wakala facility (note 15).

	2018	2017
At 1 January	893,037	280,972
Acquisitions arising on consolidation of a subsidiary (note 20)	377,332	571,970
Additions during the year	93,712	40,095
Transfer from investment property (note 9)	657	-
Disposals	(17,602)	-
Foreign currency translation impact	(30,818)	-
At 31 December	**1,316,318**	893,037

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11 EQUITY-ACCOUNTED INVESTEES

Equity-accounted investees represents investments in the following material associates:

Name	Country of incorporation	% holding 2018	% holding 2017	Nature of business
Falcon Cement Company BSC (c) #	Kingdom of Bahrain	-	31.72%	Manufacturing and trading of cement
Capital Real Estate Projects Company B.S.C. (c)	Kingdom of Bahrain	40%	40%	Real estate holding and development
Amlak II SPV	Cayman Islands	23.51%	23.51%	Purchase and sale of real estate in the Kingdom of Bahrain
Bahrain Aluminium Extrusion Company B.S.C. (c) ('Balexco')	Kingdom of Bahrain	17.32%	17.32%	Extrusion and sale of aluminium products
Global Banking Corporation BSC (c)	Kingdom of Bahrain	28.69%	20%	Islamic wholesale banking
Enshaa Development Real Estate B.S.C. (c)	Kingdom of Bahrain	33.33%	33.33%	Holding plot of land in Kingdom of Bahrain.

Consolidated during the year

The movement on equity-accounted investees is given below:

	2018	2017
At 1 January	81,440	79,010
De-recognition on acquiring controlling stake (note 20)	(27,260)	-
Investment recognised on deconsolidation of a subsidiary	-	5,286
Additions during the year	9,623	111
Share of profit / (loss) for the year, net	3,161	(248)
Dividends received during the year	-	(2,719)
At 31 December	**66,964**	81,440

Equity-accounted investees includes the Group's investment of less than 20% in Balexco. As the Group exercises significant influence over the entity by way of its presence on the board of directors, the investment is accounted for as an investment in equity-accounted investee.

Summarised financial information of associates that have been equity-accounted not adjusted for the percentage ownership held by the Group (based on most recent management accounts):

	2018	2017
Total assets	270,911	233,676
Total liabilities	79,755	107,212
Total revenues	74,884	132,578
Total (loss) / profit	(168)	13,095

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12 PROPERTY AND EQUIPMENT

	31 December 2018	31 December 2017
Land	29,170	40,051
Buildings and infrastructure on leasehold land	45,981	56,092
Others including furniture, vehicles and equipment	17,751	20,992
	92,902	117,135

Depreciation on property and equipment during the year was US$ 2,099 thousand (2017: US$ 1,660 thousand)

13 OTHER ASSETS

	31 December 2018	31 December 2017
Investment banking receivables	22,588	123,506
Financing to projects, net	25,001	21,175
Receivable on sale of development properties	18,882	10,000
Advances and deposits	44,300	38,156
Employee receivables	17,292	18,302
Profit on sukuk receivable	7,485	5,815
Lease rentals receivable	30,570	22,785
Prepayments and other receivables	63,024	79,113
	229,142	318,852

During the year, the Group recognised reversal of US$ 80 thousand (2017: charge of US$ 114 thousand) and charge of US$ 1,923 thousand (2017: charge of US$ 460 thousand) impairment allowance on other receivables and lease rentals receivable respectively (note 26).

14 PLACEMENTS FROM FINANCIAL INSITUTIONS, OTHER ENTITIES AND INDIVIDUALS

These comprise placements in the form of murabaha and wakala contracts accepted from financial and other institutions (including corporates and individuals) as part of the Group’s treasury activities. This includes US$ 84 million of funds placed by a non-financial entity which are subject to regulatory sanctions.

15 FINANCING LIABILITIES

	31 December 2018	31 December 2017
Murabaha financing	40,852	153,899
Wakala financing	24,797	54,167
Sukuk liability	-	25,364
Ijarah financing	26,628	15,607
Other borrowings	163,860	116,025
	256,137	365,062

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15 FINANCING LIABILITIES (continued)

	31 December 2018	31 December 2017
Current portion	197,054	145,687
Non-current portion	59,083	219,375
	256,137	365,062

Murabaha financing comprise:

i) US$ 20 million financing facility for a period of 3 years with profit rate of 6 month LIBOR plus a margin of 4.5% p.a. (subject to minimum 6% p.a.) The Murabaha financing is secured by a pledge over the Group's investment in shares of KHCB and matures in 2020;

ii) US$ 15 million facility obtained for general corporate purposes for a period of 5 years at a profit rate of 3 month LIBOR plus margin of 6% p.a. (subject to a minimum of 7% p.a.). The facility is secured by a pledge on Group's investment in shares of KHCB and matures in 2022; and

iii) Short-term and medium-term facilities of US$ 132,739 thousand (2017: US$ 109,570 thousand) through pledge over sukuk of US$ 152,845 thousand (2017: US$ 129,676 thousand) (note 8).

Wakala financing comprise:

i) US$ 35 million facility from a financial institution repayable in 3 years starting November 2016 and maturing in 2019 at a profit rate of LIBOR plus margin of 7.65% p.a.(subject to a minimum of 8% p.a.). The facility is secured by a pledge over the Group's investment property of carrying value of US$ 24.7 million (31 December 2017: US$ 24.7 million) and development property of carrying value of US$ 44.5 million (31 December 2017: US$ 42.3 million); and

ii) a syndicate facility from a number of financial institutions availed in 2009 and repayable over a period of six years till April 2019 at a profit rate of 6% p.a. The facility is secured by a pledge over the Group's investment property with a carrying value of US$ 136 million (31 December 2017: US$ 136 million).

Sukuk liability

The Sukuk is backed by a pool of assets of the Group and has a liquidity facility provided by the Bank to support timely payments of distributions. The Sukuk were settled during the year.

Ijarah financing facility

This represents facility obtained from a financial institution in 2016 to part finance the acquisition of an investment property of US$ 40.84 million, repayable over a period of 8 years at a profit rate of LIBOR plus margin of 5.7% p.a. (subject to minimum of 7% p.a.).

Other borrowings

These comprise financing availed by subsidiaries to fund project development and working capital requirements. The financing is secured against investment in real estate and are held through special purpose vehicle that do not have any recourse to the Bank. The Bank is not a party to these financing contracts and has not guaranteed repayment in any form. These balances are reported in the consolidated financial statements as a result of consolidation of subsidiaries.

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16 OTHER LIABILITIES

	31 December 2018	31 December 2017
Employee related accruals	19,008	11,358
Board member allowances and accruals	3,500	4,450
Unclaimed dividends	13,676	7,611
Mudaraba profit accrual	11,348	7,586
Provision for employees' leaving indemnities	3,437	3,994
Zakah and Charity fund (page 13)	4,635	2,840
Advance received from customers	203,314	53,888
Accounts payable	146,862	41,697
Accrued expenses and other payables	112,077	122,309
	517,857	255,733

17 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes as at 31 December:

	31 December 2018	31 December 2017
Balances with banks	125,497	16,813
CBB reserve account	55,225	46,312
Placements with financial institutions	115,748	90,103
Debt type instruments – sukuk	427,923	300,263
Financing assets	172,517	452,862
	896,910	906,353

The investors' share of the return on jointly invested assets and distribution to investment account holders were as follows:

	2018	2017
Returns from jointly invested assets	(37,731)	(39,480)
Banks share as Mudarib	14,904	19,726
Return to investment account holders	**(22,827)**	(19,754)

The average gross rate of return in respect of unrestricted investment accounts was 4.36% for 2018 (2017: 4.12%). Approximately 2.55% (2017: 2.18%) was distributed to investors and the balance was either set aside for provisions and/or retained by the Group as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US$ 9 thousand (2017: US$ 9 thousand) and investment risks reserve of US$ 5 thousand (2017: US$ 5 thousand).

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18 SHARE CAPITAL

	31 December 2018	31 December 2017
Authorised:		
9,433,962,264 shares of US$ 0.265 each (2017: 9,433,962,264 shares of US$ 0.265 each)	**2,500,000**	2,500,000
Issued and fully paid up:		
3,681,650,441 shares of US$ 0.265 each (2017: 3,681,650,441 shares of US$ 0.265 each)	**975,638**	975,638

The movement in the share capital during the year is as follows:

	2018	2017
At 1 January	975,638	597,995
Investment offering (note 20)	-	314,530
Issue of bonus shares	-	59,799
Issue of shares under incentive scheme	-	3,314
At 31 December	**975,638**	975,638

Investment offering

In 2017, after obtaining the requisite approvals, the Group offered to its investors in certain infrastructure projects and investment funds to acquire their holdings in return for pre-determined number of the Bank's shares (note 20). Subscriptions for 1,186,904,148 shares of the Bank were made up to the final closing period of 15 August 2017. Shares were issued to the subscribers resulting in increase in share capital by US$ 314,530 thousand. Excess over the par value of US$ 0.265 per share has been considered as share premium and reflected accordingly under share premium account (including transfer from capital adjustment account).

As at 31 December 2018, the Bank held 255,455,953 (31 December 2017: 106,467,804) treasury shares.

Additional information on shareholding pattern

(i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

(ii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	**Number of shares**	**Number of shareholders**	**% of total outstanding shares**
Less than 1%	2,521,384,919	7,834	68.49
1% up to less than 5%	971,816,218	10	19.03
5% to less than 10% #	188,449,304	1	12.48
Total	**3,681,650,441**	**7,845**	**100**

** Expressed as a percentage of total outstanding shares of the Bank.*
 # Includes treasury shares held by the Bank.

(iii) As at 31 December 2018, the shareholders who hold more than 5% of the total outstanding shares are as below:

Shareholder name	**Number of shares**	**% of total outstanding shares**
Abu Dhabi Financial Group LLC and related entities	530,692,012	14.41%

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18 SHARE CAPITAL (continued)

Appropriations and changes in capital structure

Appropriations, if any, are made when approved by the shareholders. In the ordinary and extraordinary general meeting held on 27 March 2018, shareholders approved the following appropriations for 2017:

a) Cash dividend of 8.72% of the paid-up share capital amounting to US$ 82.4 million;
b) US$ 1 million towards charity;
c) US$ 784 thousand towards zakah; and
d) Transfer of US$ 10 million to statutory reserve.

Proposed appropriations

The Board of Directors proposes the following appropriations for 2018 subject to shareholders' approval in annual general meeting:

- Dividend of 8.71% of the paid-up share capital amounting to US$ 85 million in the form of:
  - Cash dividend of 3.07% amounting to US$ 30 million,
  - Bonus shares at the rate of 5.6% of par value at 1 share for every 17.7 ordinary shares,
- Transfer of US$ 11.4 million to statutory reserve; and
- US$ 1 million towards charity and US$ 941 thousand towards zakah for the year.

19 SHARE GRANT RESERVE

	2018	2017
At 1 January	1,026	902
Issue of share under incentive scheme	158	164
Transfer between interests	(98)	(40)
At 31 December	**1,086**	1,026

20 ACQUISITION OF SUBSIDIARIES

Acquisitions in 2018

(i) During the year, the Group acquired additional stake of 31.39% in Gulf Holding Company KSC (Holding) (GHC), a company incorporated in the State of Kuwait taking the Group's holding to 51.18% and obtaining control over GHC. Accordingly, GHC's assets, liabilities and results have been consolidated from the date the Group obtained control.

GHC has the following subsidiaries:

Name	**Country of incorporation**	**Effective ownership interests**	**Activities**
Residential South Real Estate Development Co SPC (RSRED)	Kingdom of Bahrain	100%	Undertake Villamar Project in Bahrain
AlAreen Down Town Real Estate Development Co SPC (AADT)		100%	Undertake AlAreen Down Town Project in Bahrain
The Royal Real Estate Development Co Holding Co SPC (RREDH)		100%	Holding investment in Villa Royale project and real estate development project in Morocco

20 ACQUISITION OF SUBSIDIARIES (continued)

Consideration transferred and non-controlling interests

The consideration transferred in the acquisition of assets were partially in the form of cash and treasury shares of the Bank. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the consolidated financial statements under “Non-controlling interests” based on the proportionate share of non-controlling shareholders’ in the recognised amounts of the investee’s net assets or fair value at the date of acquisition of the investee on a transaction by transaction basis based on the accounting policy choice of the Group.

Identifiable assets acquired and liabilities assumed

All entities acquired were considered as businesses. The fair value of assets, liabilities, equity interests have been reported on a provisional basis. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

The reported amounts below represent the adjusted fair values of the acquired entities as at 30 June 2018, being the effective date of acquisition, have been reported on a provisional basis as permitted by accounting standards.

Given the size, geographic dispersion and inherent complexity involved in the acquisition, the Group, as on date of issue of this consolidated financial statements, has not concluded on the determination of fair value of tangible and intangible assets acquired, liabilities assumed and residual goodwill arising from the acquisition. The estimates of fair values for tangible and intangible assets acquired and liabilities assumed is subject to significant judgement and shall be determined by management based on various market and income analyses and asset appraisals at the effective date. No goodwill or negative goodwill has been recognised on the effective date.

Carrying value of assets acquired and liabilities assumed at the effective date were:

	US$ 000’s
Investment properties	40,373
Development properties	387,332
Cash and bank balances	1,547
Other receivables and pre-payments	26,280
Total assets	**455,532**
Sukuk financing *	202,784
Advances from customers	168,857
Other liabilities	70,817
Total liabilities	**442,458**
Total net identifiable assets	**13,074**

** sukuk financing was settled subsequent to acquisition (refer note 22)*

20 ACQUISITION OF SUBSIDIARIES (continued)

	US$ 000's
Carrying value of Group's previously held equity interest in investee	-
Consideration transferred	6,691
Non-controlling interests recognised	6,383
Total consideration	**13,074**

	US$ 000's
Consideration paid	6,691
Less: Cash bank balances acquired on consolidation	(1,547)
Net cash paid for the purpose of consolidated statement cash flows	**5,144**

(ii) During the year, the Group acquired additional stake in the following entities resulting in the Group obtaining control over these entities as at 31 December 2018. The Group has acquired these entities with an intention to subsequent disposal within 12 months, accordingly, the asset, liabilities and non-controlling interests relating to these entities were classified as "held-for-sale".

The Group's existing stake and additional stake acquired are given below:

	Current Stake	**Additional stake acquired**	**Total stake**
Falcon Cement Company BSC (c) (FCC)	31.72%	20%	51.72%
Sheffield Dubai Investment Company (SDIC)	4.67%	61.18%	65.85%

Consideration transferred and non-controlling interests

The consideration transferred for the acquisition was in the form of cash and assets held by the Group. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets or fair value at the date of acquisition of the investee on a transaction by transaction basis based on the accounting policy choice of the Group.

Identifiable assets acquired and liabilities assumed

All entities acquired were considered as businesses. The fair value of assets, liabilities, equity interests have been reported on a provisional basis. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities as at 31 December 2018, being the effective date of acquisition, and have been reported on a provisional basis as permitted by accounting standards.

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20 ACQUISITION OF SUBSIDIARIES (continued)

The Group, as on date of issue of this consolidated financial statements, has not yet concluded on the determination of fair value of tangible and intangible assets acquired, liabilities assumed and residual goodwill, if any, arising from the acquisition. The estimates of fair values for tangible and intangible assets acquired and liabilities assumed is subject to significant judgement and shall be determined by management using appropriate valuation approaches and asset appraisals at the effective date.

	FCC	SDIC
Property, plant and equipment	66,031	361
Inventories	13,372	-
Trade receivables	12,362	-
Due from related parties	417	1,528
Cash and bank balances	73	1,307
Other assets	281	1,013
Total assets	**92,536**	**4,209**
Bank borrowings	23,335	-
Trade and other payables	16,601	2,813
Total liabilities	**39,936**	**2,813**
Total net identifiable assets and liabilities (A)	**52,600**	**1,396**

	FCC	SDIC
Carrying value of Group's previously held equity interest in investee companies	27,260	1,955
Value of consideration transferred in assets and cash	8,621	26,000
Non-controlling interests recognised	25,396	15,160
Total consideration (B)	**61,277**	**43,115**
Intangibles including goodwill (B-A) (provisional)	**8,677**	**41,719**

The Group has an active plan approved by the Board, to sell its stake in FCC and SDIC, and accordingly, the asset and liabilities acquired are classified as held-for-sale in the consolidated statement of financial position. The equity of the remaining stake held by external parties in these entities are classified as "non-controlling interests related to assets held-for-sale"

Acquisitions in 2017

Pursuant to the approval by the shareholders in their Extraordinary General Meeting held on 1 March 2017, the Bank offered its shares in exchange for the holdings of its investors in various infrastructure projects and investment funds. The Group had acquired additional stake in the following infrastructure projects resulting in the Group obtaining control over these projects as at 31 December 2017, and accordingly, these have been consolidated with the results of the Group. The Group's existing stake and additional stake acquired are given below:

	Current Stake	Additional stake acquired	Total stake
TBIC	13%	38.41%	51.41%
India Projects	7.52%	70.21%	77.73%

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20 ACQUISITION OF SUBSIDIARIES (continued)

Consideration transferred and non-controlling interests

The consideration for the acquisition was in the form of shares of GFH. Given the nature of the repurchase transaction and the basis of determination of swap ratios for each asset by the shareholders, the transaction has been treated similar to a capital increase through transfer of non-cash assets in which the value of the asset received has been considered as the basis of measurement for increase in equity. The Group has used the acquisition-date expected realisable value of assets and settlement amount of liabilities of the entities acquired for the acquisition accounting and as consideration received for shares issued resulting in no gain or loss on initial recognition. The remaining stake held by investors other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets.

Identifiable assets acquired and liabilities assumed

All entities acquired were considered as businesses. The fair value of assets, liabilities, equity interests have been reported on a provisional basis. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities as at 30 September 2017, being the effective date of acquisition.

Given the size, geographic dispersion and inherent complexity involved in the acquisition, the Group, as on date of issue of these consolidated financial statements, has yet not concluded on the determination of fair value of tangible and intangible assets acquired, liabilities assumed and residual goodwill, if any, arising from the acquisition. The estimates of fair values for tangible and intangible assets acquired and liabilities assumed is subject to significant judgement and shall be determined by management using appropriate valuation approaches and asset appraisals at the effective date. No goodwill or negative goodwill has been recognised on the effective date.

Carrying value of assets acquired and liabilities assumed at the effective date were:

	TBIC	India Projects
Property, plant and equipment	56	-
Cash and bank balances	184	-
Development properties	206,794	365,176
Other assets	608	40,566
Total assets	207,642	405,742
Other payables	1,897	54,617
Total liabilities	1,897	54,617
Total net identifiable assets and liabilities	205,745	351,125

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20 ACQUISITION OF SUBSIDIARIES (continued)

	TBIC	India Projects
Carrying value of Group's previously held equity interest in investee companies	30,000	51,207
Value of consideration transferred in shares	75,779	221,723
Non-controlling interests recognised	99,966	78,195
Total consideration	205,745	351,125

Also, the Group has acquired additional interests in the following existing subsidiaries.

	Current stake	Additional stake acquired	Total Stake
KHCB	46.97%	8.44%	55.41%
MGIC	33.53%	55.89%	89.42%

The acquisition of additional interests had the following effect on the consolidated financial statements:

Proportionate share of net assets acquired (at book value)	36,223
Consideration	69,100

Consideration for acquisition of additional stake in KHCB was in cash and MGIC was in the form of 203,291,786 shares in the Bank.

21 INCOME FROM INVESTMENT SECURITIES

	2018	2017
Dividend income	5,698	2,470
Gain on sale of investment	5,190	1,588
Changes in the fair value of Sukuk carried at fair value through income statement	3,772	(5,305)
Income from sukuk	19,065	12,560
	33,725	11,313

22 INCOME FROM SETTLEMENT OF LIABILITIES

This includes:

(i) Income of US$ 35.3 million arising from restructuring of liabilities of a subsidiary. In 2016, as part of total recoveries made by the Group under litigation settlements, the Group had acquired the holding company of a master developer for a project in the Kingdom of Bahrain under administration and insolvency proceedings which had net liabilities at the time of the settlement. Subsequently, the Group managed to get the company out of administration by restructuring the liabilities of the Company and negotiating settlements with creditors through a court administered process. The legal process of confirming claims for settlement has been completed in 2018 resulting in the Company being taken out of legal administration and handed back to the Group. The final court judgment confirmed the final amounts due to each creditor and hence the difference between the previously recognised liability / provisions and the court approved amounts have been reversed to the income statement as they were no longer required.

(ii) During the year, the Group agreed to settle sukuk liability with a financial institution of US$ 203 million at a lower amount, resulting in a gain of US$ 77.8 million (net of associated costs). The settlement was in the form of cash and other non cash assets.

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23 OTHER INCOME

This mainly includes US$ 22 million received in cash during the year on settlement of litigations and income from non-banking subsidiaries of US$ 18.3 million and rental income of US$ 2.5 million.

24 STAFF COST

	2018	2017
Salaries and benefits	49,748	37,969
Social insurance expenses	3,387	2,945
	53,135	40,914

As per the Group's Variable Incentive Policy, a portion of the annual performance bonus is issued in the form of share awards to its senior management employees. These awards include deferred incentives in the form of shares, share purchase plans and long-term incentive plans with different conditions. The terms of the award, including the type of plan, extent of funding, pricing and deferral period is determined for each year by the Board Nomination, Remuneration and Governance Committee of the Bank.

Performance year	**Nature of award**	**Staff coverage**	**Summary of deferral and vesting conditions**
Legacy share plan	Share Options	Select Senior Management	Initial lock-in period of 3 years and option exercise period over 10 years ending 2018 at an exercise price of USD 0.65 / share.
2013 Award	Deferred Annual Bonus	Select Senior Management	A portion of the annual incentive was awarded in the form of shares. In 2015, on introduction of the new share plan, the old plan was converted to a deferred cash settled incentive over a 3 years period from year of award.
2014 Award	Employee Share Purchase Plan	Covered persons in business and control functions who exceed total compensation thresholds as per CBB Remuneration Regulations and Bank's Variable Remuneration policy	Shares are released rateably over the 3 year deferral period. The issue price is determined based on a defined adjustment to market price on the date of the award. No future performance conditions or service conditions. Shares are entitled for dividends, if any, but released over the deferral period.
2015 – 2018 * Awards	Employee Share Purchase Plan & Deferred Annual Bonus		

Share incentive scheme	**2018**		2017	
	No. of Shares	**USD 000's**	No. of Shares	USD 000's
Opening balance	35,872,407	9,568	29,430,640	3,712
Awarded during the period	10,073,642	4,502	12,504,545	6,878
Dividends	-	-	2,714,064	-
Forfeiture and other adjustments	-	-	-	-
Transfer to employees / settlement	(19,398,069)	(3,662)	(8,776,842)	(1,022)
Closing balance	**26,547,980**	**10,408**	35,872,407	9,568

In case of the employee share purchase plans, the amounts reported in the table represents the vesting charge or benefit which is charged to the income statement and not the gross value of issued shares.

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25 OTHER OPERATING EXPENSES

	2018	2017
Rent	4,898	4,797
Professional and consultancy fees	6,902	3,741
Legal expenses	5,184	2,194
Board member allowance	4,831	5,556
Depreciation (note 12)	2,099	1,660
Expenses relating to non-banking subsidiaries	16,087	21,222
Other operating expenses	9,476	10,217
	49,477	49,387

26 IMPAIRMENT ALLOWANCES

	2018	2017
Bank balances	132	-
Placements with financial institutions	948	-
Financing assets (note 7)	9,398	2,085
Investment securities		
- Equity securities (note 8(b))	5,849	3,577
- Debt type securities	(265)	1,050
Investment property (note 9)	-	2,095
Lease rental receivables (note 13)	1,923	460
Other receivables (note 13)	(80)	114
Commitments and financial guarantees	(291)	-
	17,614	9,381

27 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group. A significant portion of the Group's management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The transactions with these entities are based on agreed terms.

The significant related party transactions during the year and balances as at year end included in these consolidated financial statements are as follows:

	Related parties per FAS 1				
Transactions	**Associates / Joint venture**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management including special purpose and other entities**	**Total**
Purchase of assets	-	-	25,000	-	**25,000**
Purchase of investments	-	-	29,700	-	**29,700**
Financing obtained	-	-	4,666	-	**4,666**
Financing repaid	-	-	(4,709)	-	**(4,709)**
Subscription in projects promoted by the Group	-	-	87,100	-	**87,100**
Discount on subscription	-	-	8,100	-	**8,100**

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27 RELATED PARTY TRANSACTIONS (continued)

	Related parties per FAS 1				
2018	**Associates / Joint venture**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management including special purpose and other entities**	**Total**
Assets					
Financing assets	-	6,016	15,146	15,089	**36,251**
Due from financial institutions	-	-	-	100,088	**100,088**
Equity-accounted investees	54,829	-	-	-	**54,829**
Investment securities	-	-	6,058	72,467	**78,525**
Other assets	1,225	-	13,257	61,463	**75,945**
Liabilities					
Investors' funds	129	-	-	14,412	**14,541**
Customer current account	178	2,117	1,844	3,196	**7,335**
Due to financial and other institutions	-	-	249,117	-	**249,117**
Financing liabilities	-	-	24,797	-	**24,797**
Other liabilities	-	3,499	3,132	8,364	**14,995**
Equity of investment account holders	1,273	3,634	28,592	1,241	**34,740**

	Related parties per FAS 1				
2018	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose and other entities	Total
Income					
Investment banking income	-	-	23,500	16,600	**40,100**
Fee and commission income	-	-	-	2,110	**2,110**
Income from financing assets	-	353	989	-	**1,342**
Share of profit of equity-accounted investees	3,256	-	-	-	**3,256**
Income from investment securities, net	-	-	-	964	**964**
Expenses					
Finance expense	-	-	10,655	-	**10,655**
Staff cost *	-	9,211	-	-	**9,211**
Other operating expenses	-	4,536	-	156	**4,692**
Return to investment account holders	32	82	928	29	**1,071**

***** The amount presented excluded bonus to key management personnel for 2018 as allocation has not been finalized at the date of approval of these consolidated financial statements.

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27 RELATED PARTY TRANSACTIONS (continued)

2017	Related parties per FAS 1: Associates / Joint venture	Related parties per FAS 1: Key management personnel	Related parties per FAS 1: Significant shareholders / entities in which directors are interested	Assets under management including special purpose and other entities	Total
Assets					
Financing assets	-	2,565	15,146	17,865	35,576
Equity-accounted investees	81,440	-	-	-	81,440
Investment securities	-	-	6,058	84,194	90,252
Other assets	914	-	-	62,812	63,726
Liabilities					
Investors' funds	146	-	-	15,339	15,485
Customer current account	146	-	873	3,605	4,624
Financing liabilities	-	-	30,238	-	30,238
Other liabilities	-	-	-	27,148	27,148
Equity of investment account holders	1,570	639	6,581	2,321	11,111
Income					
Investment banking income	-	-	26,867	39,516	66,383
Fee and commission income	-	-	-	1,840	1,840
Share of profit of equity-accounted investees	7,022	-	-	-	7,022
Income from investment securities, net	1,588	-	-	1,481	3,069
Other income	-	-	18,000	-	18,000
Expenses					
Return to investment account holders	80	19	219	66	384
Finance expense	-	-	3,130	-	3,130
Staff cost *	-	6,809	-	-	6,809
Other operating expenses	-	5,475	-	-	5,475

Key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group and its significant banking subsidiary.

During the year, there were no direct participation of directors in investments promoted by the Group.

The key management personnel compensation is as follows:

	2018	2017
Board members' remuneration, fees and allowance	4,536	5,475
Salaries, other short-term benefits and expenses	8,821	6,712
Post-employment benefits	390	117

28 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, 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 US$ 1,677 million (31 December 2017: US$ 1,623 million). During the year, the Group had charged management fees amounting to US$ 2,570 thousand (2017: US$ 1,840 thousand) to its assets under management.

29 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year.

The weighted average number of ordinary equity shares for the comparative periods presented are adjusted for the issue of shares during the year without corresponding change in resources.

	2018	2017
In thousands of shares		
Weighted average number of shares for basic & diluted earnings	**3,543,155**	2,888,874

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share.

In case of the legacy share options granted to employees prior to 2014, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2018. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above. The Bank does not have any other dilutive instruments.

30 ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed (net assets method) by the Bank’s Shari’a Supervisory Board and notified to shareholders annually. The zakah payable by shareholders for 31 December 2018 is US$ 0.0007665/share and the current year calculations for zakah are yet to be approved by the Group’s Shari’a Supervisory Board and will be provided for in the Bank’s website.

The Group discharges its social responsibilities through donations to charitable causes and social organisations.

31 EARNINGS PROHIBITED BY SHARI’A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the CBB and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amount to US$ 48 thousand (2017: US$ 45 thousand).

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32 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of four Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

33 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively. For undiscounted contractual maturity of financial liabilities, refer note 38.

31 December 2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	309,281	9,525	16,087	6,610	-	64	341,567
Placements with financial institutions	117,031	-	172,527	-	-	-	289,558
Financing assets	193,784	70,904	186,523	349,889	119,576	-	920,676
Equity-accounted investees	-	-	-	28,035	38,929	-	66,964
Investment securities	298,239	-	129,676	136,979	208,240	-	773,134
Asset acquired for leasing	12,745	9,414	18,751	91,703	155,658	-	288,271
Investment property	-	-	-	475,731	47,961	-	523,692
Development properties	-	-	-	628,168	688,150	-	1,316,318
Assets held-for-sale	-	101,213	45,928	-	-	-	147,141
Property and equipment	-	-	-	-	92,902	-	92,902
Other assets	10,143	33,687	60,988	109,372	14,952	-	229,142
Total assets	**941,223**	**224,743**	**630,480**	**1,826,487**	**1,366,368**	**64**	**4,989,365**
Liabilities							
Investors' funds	29,532	-	3,179	13,928	-	-	46,639
Placements from financial institutions, other entities and individuals	283,914	422,702	688,949	221,562	11,262	-	1,628,389
Customer current account	48,551	18,178	19,740	22,560	68,877	-	177,906
Financing liabilities	36,998	18,022	32,334	32,084	136,699	-	256,137
Liabilities related to assets held-for-sale	-	39,936	2,813	-	-	-	42,749
Other liabilities	54,562	26,324	34,654	402,317	-	-	517,857
Total liabilities	**453,557**	**525,162**	**781,669**	**692,451**	**216,838**	**-**	**2,669,677**
Equity of investment account holders	**161,409**	**116,220**	**261,812**	**147,247**	**210,223**	**-**	**896,910**
Off-balance sheet items							
Commitments	55,804	69,480	46,981	74,200	8,016	-	254,481
Restricted investment accounts	143	-	-	28,329	-	-	28,472

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33 MATURITY PROFILE (continued)

31 December 2017	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	190,863	8,520	12,788	4,210	-	64	216,445
Placements with financial institutions	92,789	-	2,780	-	-	-	95,569
Financing assets	190,800	84,438	144,589	338,208	234,467	-	992,502
Investment securities	170,979	5,288	-	305,021	40,120	-	521,408
Asset acquired for leasing	5,035	4,536	8,788	53,286	186,161	-	257,806
Investment property	-	135,500	-	427,280	53,483	-	616,263
Development properties	-	-	-	204,551	688,486	-	893,037
Equity-accounted-investees	-	-	-	53,277	28,163	-	81,440
Property and equipment	-	-	-	-	117,135	-	117,135
Other assets	143,277	14,969	32,439	118,722	9,445	-	318,852
Total assets	793,743	253,251	201,384	1,504,555	1,357,460	64	4,110,457
Liabilities							
Investors' funds	608	5,596	17,896	15,313	-	-	39,413
Placements from financial institutions, other entities and individuals	277,506	74,468	212,150	290,958	3,414	-	858,496
Customer current account	115,771	28,027	17,024	9,973	18,812	-	189,607
Financing liabilities	6,225	101,390	38,072	196,039	23,336	-	365,062
Other liabilities	20,547	13,206	56,587	165,393	-	-	255,733
Total liabilities	420,657	222,687	341,729	677,676	45,562	-	1,708,311
Equity of investment account holders	416,408	86,658	126,928	40,297	236,062	-	906,353
Off-balance sheet items							
Commitments	10,247	53,941	70,915	94,583	3	-	229,689
Restricted investment accounts	-	11,995	-	16,731	-	-	28,726

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34 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

(a) Industry sector

31 December 2018	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	340,374	951	242	341,567
Placements with financial institutions	189,471	100,087	-	289,558
Financing assets	29,474	152,038	739,164	920,676
Investment securities	66,212	162,199	544,723	773,134
Assets acquired for leasing	-	284,059	4,212	288,271
Investment properties	-	523,692	-	523,692
Development properties	-	1,316,318	-	1,316,318
Equity-accounted investees	33,227	17,837	15,900	66,964
Assets held-for-sale	-	-	147,141	147,141
Property and equipment	-	18,411	74,491	92,902
Other assets	28,867	125,791	74,484	229,142
Total assets	**687,625**	**2,701,383**	**1,600,357**	**4,989,365**
Liabilities				
Investors' funds	5,694	14,397	26,548	46,639
Placements from financial institutions, other entities and individuals	901,257	6,255	720,877	1,628,389
Customer current accounts	4,177	20,775	152,954	177,906
Financing liabilities	190,989	26,628	38,520	256,137
Liabilities related to assets held-for-sale	-	-	42,749	42,749
Other liabilities	45,000	370,046	102,811	517,857
Total liabilities	**1,147,117**	**438,101**	**1,084,459**	**2,669,677**
Equity of Investment account holders	**16,134**	**34,202**	**846,574**	**896,910**
Off-balance sheet items				
Commitments	1,361	148,566	104,554	**254,481**
Restricted investment accounts	91	25,750	2,631	**28,472**

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34 Concentration of assets, liabilities and equity of investment account holders (continued)
(a) Industry sector (continued)

31 December 2017	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	215,644	595	206	216,445
Placements with financial institutions	95,569	-	-	95,569
Financing assets	29,207	214,947	748,348	992,502
Investment securities	66,250	143,295	311,863	521,408
Assets acquired for leasing	-	257,626	180	257,806
Investment properties	-	616,263	-	616,263
Development properties	-	893,037	-	893,037
Equity-accounted investees	22,461	17,930	41,049	81,440
Property and equipment	-	18,194	98,941	117,135
Other assets	9,003	140,386	169,463	318,852
Total assets	438,134	2,302,273	1,370,050	4,110,457
Liabilities				
Investors' funds	3,425	30,268	5,720	39,413
Placements from financial institutions, other entities and individuals	338,621	-	519,875	858,496
Customer current accounts		28,607	161,000	189,607
Financing liabilities	202,192	124,295	38,575	365,062
Other liabilities	-	175,161	80,572	255,733
Total liabilities	544,238	358,331	805,742	1,708,311
Equity of Investment account holders	30,314	43,905	832,134	906,353
Off-balance sheet items				
Commitments	18,999	99,622	111,068	229,689
Restricted investment accounts	-	26,092	2,634	28,726

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34 *Concentration of assets, liabilities and equity of investment account holders (continued)*

(b) Geographic region

31 December 2018	GCC countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	239,632	516	101	80,609	20,709	341,567
Placements with financial institutions	289,558	-	-	-	-	289,558
Financing assets	849,029	-	101	29,415	42,131	920,676
Investment securities	694,387	-	58,114	5,850	14,783	773,134
Assets acquired for leasing	288,162	-	109	-	-	288,271
Investment properties	446,692	77,000	-	-	-	523,692
Development properties	526,749	393,057	396,512	-	-	1,316,318
Assets held-for-sale	147,141	-	-	-	-	147,141
Equity-accounted investees	66,964	-	-	-	-	66,964
Property and equipment	90,704	2,198	-	-	-	92,902
Other assets	154,560	4,299	22,064	21,320	26,899	229,142
Total assets	**3,793,578**	**477,070**	**477,001**	**137,194**	**104,522**	**4,989,365**
Liabilities						
Investors' funds	32,188	521	1	13,928	-	46,639
Placements from financial institutions, other entities and individuals	1,531,898	94,021	-	2,470	-	1,628,389
Customer current accounts	176,580	-	599	-	727	177,906
Financing liabilities	256,137	-	-	-	-	256,137
Liabilities related to assets held-for-sale	42,749	-	-	-	-	42,749
Other liabilities	394,639	30,671	87,427	2,296	2,824	517,857
Total liabilities	**2,434,198**	**125,213**	**88,027**	**18,694**	**3,545**	**2,669,677**
Equity of investment account holders	**889,525**	**-**	**5,918**	**1,467**	**-**	**896,910**
Off-balance sheet items						
Commitments	253,802	-	-	-	679	**254,481**
Restricted investment accounts	25,838	-	2,634	-	-	**28,472**

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

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34 Concentration of assets, liabilities and equity of investment account holders (continued)

(b) Geography sector (continued)

31 December 2017	GCC countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	166,645	601	27	-	49,172	216,445
Placements with financial institutions	95,569	-	-	-	-	95,569
Financing assets	910,568	-	95	29,237	52,602	992,502
Investment securities	437,814	103	65,191	8,475	9,825	521,408
Assets acquired for leasing	257,806	-	-	-	-	257,806
Investment properties	403,763	77,000	-	-	135,500	616,263
Development properties	102,474	395,565	394,998	-	-	893,037
Equity-accounted investees	81,440	-	-	-	-	81,440
Property and equipment	114,853	2,282	-	-	-	117,135
Other assets	166,157	817	8,462	23,734	119,682	318,852
Total assets	2,737,089	476,368	468,773	61,446	366,781	4,110,457
Liabilities						
Investors' funds	23,580	520	-	15,313	-	39,413
Placements from financial institutions, other entities and individuals	771,894	86,602	-	-	-	858,496
Customer current accounts	169,710	-	1,539	-	18,358	189,607
Financing liabilities	256,375	14,787	-	-	93,900	365,062
Other liabilities	165,454	22,086	60,500	7,693	-	255,733
Total liabilities	1,387,013	123,995	62,039	23,006	112,258	1,708,311
Equity of investment account holders	891,690	-	6,591	-	8,072	906,353
Off-balance sheet items						
Commitments	215,460	10,930	-	-	3,299	229,689
Restricted investment accounts	26,118	-	-	-	2,634	28,752

35 OPERATING SEGMENTS

The Group has three distinct operating segments, Real Estate Development, Investment Banking and Commercial Banking, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The following summary describes the operations in each of the Group's operating reportable segments:

- **Real Estate Development:** This business unit primarily is involved in origination and management of large-scale economic infrastructure projects. The business unit also covers the Group's investment in real estate and related assets.

- **Investment Banking:** The Banking segment of the Group is focused on private equity and asset management domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The asset management unit is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC. The investment banking activities focuses on providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.

- **Commercial Banking:** These include commercial and corporate banking, retail banking, wealth management, structured investment products and project financing facilities of the Group's commercial banking subsidiary.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level.

The Group has primary operations in Bahrain and the Group does not have any significant independent overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 34(b) to the consolidated financial statements.

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35 OPERATING SEGMENTS (continued)

Information regarding the results of each reportable segment is included below:

	Real estate development	Investment banking	Commercial banking	Unallocated / Elimination	Total
31 December 2018					
Segment revenue	102,812	68,370	55,350	23,220	249,752
Segment expenses (including impairment allowances)	(16,124)	(37,888)	(49,641)	(31,050)	(134,703)
Segment result *	86,688	30,482	5,709	(7,830)	115,049
Segment assets	2,035,664	686,688	2,246,159	20,854	4,989,365
Segment liabilities	1,238,147	558,787	817,529	55,214	2,669,677
Other segment information					
Finance expense	29,338	9,896	23,049	302	62,585
Impairment allowance	-	-	(16,679)	(935)	(17,614)
Equity accounted investees	5,702	49,127	12,135	-	66,964
Equity of investment account holders	-	-	896,320	590	896,910
Commitments	114,314	-	122,167	18,000	254,481

* Includes segment result of discontinued operations, net.

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35 OPERATING SEGMENTS (continued)

	Real estate development	Investment banking	Commercial banking	Unallocated / Elimination	Total
31 December 2017					
Segment revenue	14,893	135,490	56,085	5,180	211,648
Segment expenses (including impairment allowances)	9,931	35,435	44,815	18,279	108,460
Segment result *	4,962	100,055	11,270	(13,099)	103,188
Segment assets	1,556,265	468,122	2,071,510	14,560	4,110,457
Segment liabilities	680,103	217,881	776,471	33,856	1,708,311
Other segment information					
Finance expense	24,320	7,321	13,951	(1,900)	43,692
Impairment allowance	-	(1,333)	10,714	-	9,381
Equity accounted investees	-	69,211	12,229	-	81,440
Equity of investment account holders	-	-	905,190	1,163	906,353
Commitments	51,607	-	178,082	-	229,689

*Includes segment result of discontinued operations, net.

36 FINANCIAL INSTRUMENTS

a) FAIR VALUES OF FINANCIAL INSTRUMENTS

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. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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.

As at 31 December 2018 and 31 December 2017, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models. Other investments are carried at cost in the absence of a reliable measure of fair value.

Other than certain investments carried at cost of US$ 180,724 thousand (31 December 2017: US$ 185,775 thousand) (note 8), the estimated fair values of the Group's other financial assets are not significantly different from their book values as at 31 December 2017.

Investments amounting to US$ 180,724 thousand (31 December 2017: US$ 185,775 thousand) in unquoted equity securities are carried at cost less impairment in the absence of a reliable measure of fair value. Such investments are either private equity investments managed by external investment managers or represent investments in development infrastructure projects promoted by the Group for which a reliable estimate of fair value cannot be determined. The Group intends to exit these investments principally by means of strategic sell outs, sale of underlying assets or through initial public offerings.

As at 31 December 2018, the fair value of financing liabilities was estimated at US$ 365,062 thousand (carrying value US$ 365,062 thousand) (31 December 2017: fair value US$ 159,545 thousand (carrying value US$ 159,545 thousand)). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of financing liabilities as these are largely floating rate instruments.

b) FAIR VALUE HIERARCHY

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

for the year ended 31 December 2018 US$ 000's

36 FINANCIAL INSTRUMENTS (continued)

b) FAIR VALUE HIERARCHY (continued)

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities carried at fair value through:				
- income statement	-	-	34,875	**34,875**
- equity	26,319	-	-	**26,319**
Debt securities carried at fair value through income statement	100,527	-	-	**100,527**
	126,846	**-**	**34,875**	**161,721**

31 December 2017	Level 1	Level 2	Level 3	Total
Equity securities carried at fair value through:				
- income statement	-	-	34,875	34,875
- equity	103	-	-	103
	103	-	34,875	34,978

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2018	2017
At 1 January	34,875	42,153
De-recognized on loss of control	-	(1,973)
Total gains / (losses) in income statement	-	(5,305)
At 31 December	**34,875**	34,875

37 COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group are as follows:

	31 December 2018	31 December 2017
Undrawn commitments to extend finance	88,045	129,302
Financial guarantees	34,122	73,960
Capital commitments for infrastructure development projects	55,407	20,000
Purchase commitments for investment in real estate	58,907	-
Commitment to invest	-	6,427
Commitment to lend	18,000	-
	254,481	229,689

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group as at 31 December 2018 due to the performance of any of its projects.

37 COMMITMENTS AND CONTINGENCIES (continued)

Litigations and claims

The Group has a number of claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Appropriate provision have been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

38 FINANCIAL RISK MANAGEMENT

Overview

Financial assets of the Group comprise bank balances, placements with financial and other institutions, investment securities and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, financing liabilities and other payable balances. Accounting policies for financial assets and liabilities are set out in note 4.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The material subsidiaries consolidated in these financial statements have independent risk management frameworks which is monitored by the respective Board of Directors of the subsidiaries. Accordingly, such risk management policies, procedures and practices are not included in these consolidated financial statements.

Risk management framework

The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to the Board Audit and Risk Committee.

The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board has delegated its authority to the Board Audit and Risk Committee (ARC), which is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The RMD submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board of Directors. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The Liquidity Risk Report measure the Group's liquidity risk profile against policy guidelines and regulatory benchmarks. An additional report is prepared by the respective investment units that give updated status and impairment assessment of each investment, a description of significant developments on projects or issues as well as an update on the strategy and exit plan for each project.

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's, placements with financial institutions, financing assets and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of investment and credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board Investment Committee (BIC). This committee establishes operating guidelines and reviews and endorses the Management Investment and Credit Committee recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors.

The RMD is responsible for oversight of the Group's credit risk, including:

- Ensuring that the Group has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, whilst the Compliance Department is responsible for ensuring compliance with regulatory and statutory requirements.
- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are governed by the Board approved Delegated Authority Limits (DAL) Matrix.
- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.
- Ongoing review of credit exposures. The risk assessment approach is used in determining where impairment provisions may be required against specific investment / credit exposures. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Risk profile of exposures are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

The Risk Management Department works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board of Directors or their respective committees. Regular audits of business units and Group credit processes are undertaken by Internal Audit.

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38 *FINANCIAL RISK MANAGEMENT (continued)*

a) Credit risk (continued)

Exposures subject to credit risk

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Placements with financial institutions				
Grade 8 -10 Impaired	24,358	-	-	24,358
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	266,153	-	-	266,153
Gross carrying amount	290,511	-	-	290,511
Less expected credit losses	(953)	-	-	(953)
Net carrying amount	**289,558**	**-**	**-**	**289,558**
Financing facilities				
Grade 8 -10 Impaired	2,841	186	199,281	202,308
Past due but not impaired				
Grade 1-6 Low-Fair Risk	74,690	28,467	8,883	112,040
Grade 7 Watch list	37	40,857	-	40,894
Past due comprises:				
Up to 30 days	72,380	42,086	-	114,466
30-60 days	2,347	4,623	-	6,970
60-90 days	-	22,615	8,883	31,498
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	568,848	49,944	-	618,792
Grade 7 Watch list	369	8,873	-	9,242
Gross carrying amount	646,785	128,327	208,164	983,276
Less expected credit losses	(12,631)	(9,801)	(40,168)	(62,600)
Net carrying amount	**634,154**	**118,526**	**167,996**	**920,676**
Assets acquired for leasing (including lease rentals receivables)				
Grade 8 -10 Impaired	-	838	49,371	50,209
Past due but not impaired				
Grade 1-6 Low-Fair Risk	34,456	6,334	-	40,790
Grade 7 Watch list	-	10,202	-	10,202
Past due comprises:				
Up to 30 days	32,393	5,112	-	37,505
30-60 days	2,064	8,560	-	10,624
60-90 days	-	2,865	-	2,865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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38 FINANCIAL RISK MANAGEMENT (continued)
a) Credit risk (continued)

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	188,044	5,414	-	193,458
Grade 7 Watch list	-	127	-	127
Gross carrying amount	222,500	22,915	49,371	294,786
Less expected credit losses	(281)	(369)	(5,865)	(6,515)
Net carrying amount	**222,219**	**22,546**	**43,506**	**288,271**
Other assets				
Grade 8 -10 Impaired	-	-	-	-
Past due but not impaired				
Grade 1-6 Low-Fair Risk	17,930	-	-	17,930
Past due comprises:				
60-90 days	17,930	-	-	17,930
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	136,207	-	-	136,207
Gross carrying amount	154,137	-	-	154,137
Less: expected credit losses	(236)	-	-	(236)
Net carrying amount	**153,901**	**-**	**-**	**153,901**
Investment in Sukuk				
Sovereign	333,548	-	-	333,548
Non-investment grade	-	-	3,493	3,493
Investment grade	94,375	-	-	94,375
Gross carrying amount	427,923	-	3,493	431,416
Less: expected credit losses	(8)	-	(3,493)	(3,501)
Net carrying amount	**427,915**	**-**	**-**	**427,915**
Balances with banks				
Grade 1-6 Low-Fair Risk	320,092	-	-	320,092
Gross carrying amount	320,092	-	-	320,092
Less: expected credit losses	(134)	-	-	(134)
Net carrying amount	**319,958**	**-**	**-**	**319,958**

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38 *FINANCIAL RISK MANAGEMENT (continued)*

a) Credit risk (continued)

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	4,429	4,429
Grade 1-6 Low-Fair Risk	243,012	7,000	-	250,012
Grade 7 Watch list	-	40	-	40
Gross carrying amount (note 37)	243,012	7,040	4,429	254,481
Less: expected credit losses	(531)	(223)	(318)	(1,072)
Net carrying amount	**242,481**	**6,817**	**4,111**	**253,409**
Total net carrying amount	**2,290,186**	**147,889**	**215,613**	**2,653,688**

31 December 2017	Bank balances	Placements with financial institutions	Financing assets	Investment securities – debt type instruments	Assets acquired for leasing (including lease rent receivables)	Other financial assets
Neither past due nor impaired - Carrying amount	216,445	95,569	797,269	300,265	217,393	246,751
Impaired						
Gross amount	-	-	208,658	4,149	15,719	441,869
Allowance for impairment	-	-	(80,502)	(3,759)	(210)	(428,980)
Impaired- Carrying amount	-	-	128,156	390	15,509	12,889
Past due but not impaired – carrying amount	-	-	76,008	-	50,479	23,699
Less : Collective impairment	-	-	(8,931)	-	(2,790)	-
Total – carrying amount	216,445	95,569	992,502	300,655	280,591	283,339

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Significant increase in credit risk

When determining whether the risk of default on an exposure subject to credit risk 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:

1 Downgrade in risk rating according to the approved ECL policy;

2 Facilities restructured during previous twelve months;

3 Qualitative indicators; and

4 Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances

Credit risk grades

The Group allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using 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.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposers are rated 1 to 10 with 1 to being good and 7 being watch list and 8, 9 and 10 default grades. The monitoring typically involves use of the following data.

Corporate exposures

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies. press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

Retail exposures

- Internally collected data on customer behaviour -e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

All exposures

- Payment record this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime 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 as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions. The analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Qualitative indicators, including different criteria used for different portfolios credit cards, commercial real estate etc.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Definition of default

The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information. The Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2018 included the key indicators for the selected countries such as the unemployment rates, interest rates and the GDP growth.

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Modified exposures subject to credit risk

The contractual terms of an exposure subject to credit risk may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of financing assets is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer note 4). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

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38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

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 structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	**Total 2018**
Balance at 1 January	7,902	27,950	31,548	**67,400**
Transfer to 12-month ECL	8,456	(8,186)	(270)	**-**
Transfer to lifetime ECL non-credit-impaired	(838)	1,056	(218)	**-**
Transfer to lifetime ECL credit-impaired	(607)	(6,534)	7,141	**-**
Net re-measurement of loss allowance	(137)	(3,894)	15,796	**11,765**
Write-off	-	-	(4,154)	**(4,154)**
Balance at 31 December	**14,776**	**10,392**	**49,843**	**75,011**

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38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Break down of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments:

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	**Total 2018**
Balances with banks	134	-	-	**134**
Placements with financial institutions	953	-	-	**953**
Financing assets	12,631	9,801	40,168	**62,600**
Assets acquired for leasing and lease rentals receivables	281	369	5,865	**6,515**
Investment in sukuk	8	-	3,493	**3,501**
Other financial assets	236	-	-	**236**
Financing commitments and financial guarantees	531	223	318	**1,072**
Balance at 31 December	**14,774**	**10,393**	**49,844**	**75,011**

Renegotiated facilities

During the year, facilities of US$ 44,817 thousands (2017: BD 66,737 thousand) were renegotiated, out of which US$ 23,358 thousand (2017: US$ 5,305 thousand) are classified as neither past due nor impaired as of 31 December 2018. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of US$ 379,031 thousand (2017: US$ 310,790 thousand) only instalments of US$ 104,161 thousand (2017: US$ 35,416 thousand) are past due as at 31 December 2018.

Allowances for impairment

The Group makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Bank has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Non-accrual basis

The Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. During the year, the Bank has written off financing facilities amounting to US$ nil (2017: US$ 35,088 thousand) which were fully impaired. The Bank has recovered US$ 698 thousand from a financing facility written off in previous years (2017: US$ 268 thousand).

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38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Collaterals

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The geographical and industry wise distribution of assets and liabilities are set out in notes 34 (a) and (b).

	As at 31 December 2018			As at 31 December 2017		
	Financing assets	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
<u>Against impaired</u>						
Property	107,350	43,997	**151,347**	75,717	15,501	91,218
Other	5,817	-	**5,817**	5,769	-	5,769
<u>Against past due but not impaired</u>						
Property	56,756	51,013	**107,769**	54,610	56,838	111,448
Other	7,769	-	**7,769**	13,745	-	13,745
<u>Against neither past due nor impaired</u>						
Property	232,459	219,310	**451,769**	257,223	208,422	465,645
Other	32,934	-	**32,934**	67,814	53	67,867
Total	**443,085**	**314,320**	**757,405**	474,878	280,814	755,692

The average collateral coverage ratio on secured facilities is 136.05% as at 31 December 2018 (31 December 2017: 126.86%).

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38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

An analysis of concentrations of credit risk of the commercial banking business at the reporting date is shown below: needs to include columns for 'Sukuk" and bank balances and "placements with FIs"

Concentration by Sector	**As at 31 December 2018**			As at 31 December 2017		
	Financing assets	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Banking and finance	27,475	-	**27,475**	29,207	-	29,207
Real estate	181,453	284,059	**465,511**	157,666	280,411	438,077
Construction	145,366	-	**145,366**	95,271	-	95,271
Trading	206,920	-	**206,920**	240,560	-	240,560
Manufacturing	36,817	-	**36,817**	119,602	-	119,602
Others	322,645	4,212	**326,857**	350,196	180	350,376
Total carrying amount	**920,676**	**288,271**	**1,208,947**	992,502	280,591	1,273,093

b) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then aims to maintain a portfolio of short-term liquid assets, largely made up of short-term placements with financial and other institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are met through treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank and is circulated to Management Committee (MANCOM). Moreover, quarterly reports are submitted to the Board of Directors on the liquidity position by RMD.

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 33 for the expected maturity profile of assets and liabilities.

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38 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

	Gross undiscounted cash flows						
31 December 2018	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Financial liabilities							
Investors' funds	32,710	-	-	13,929	-	**46,639**	46,639
Placements from financial institutions, other entities and individuals	289,948	431,520	713,760	233,801	7,677	**1,676,706**	1,628,389
Customer current accounts	48,550	18,178	19,740	22,560	68,878	**177,906**	177,906
Financing liabilities	37,689	20,805	156,137	37,368	24,950	**276,949**	256,137
Liabilities related to assets held-for-sale	-	39,936	2,813	-	-	**42,749**	42,749
Other liabilities	54,563	26,323	34,654	402,317	-	**517,857**	517,857
Total liabilities	**463,460**	**536,762**	**927,104**	**709,975**	**101,505**	**2,738,806**	**2,669,677**
Equity of investment account holders	166,362	119,361	268,888	151,227	215,905	**921,743**	896,910
Commitment and contingencies	55,804	69,480	46,981	74,200	8,016	**254,481**	254,481

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost reduction exercises that would improve its operating cash flows.

	Gross undiscounted cash flows						
31 December 2017	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Financial liabilities							
Investors' funds	4,018	5,596	14,486	15,313	-	39,413	39,413
Placements from financial institutions, other entities and individuals	297,652	176,701	187,041	227,080	3,484	891,958	858,496
Customer current accounts	115,771	28,027	17,024	9,973	18,812	189,607	189,607
Financing liabilities	7,401	8,622	152,783	193,773	27,975	390,554	365,062
Other liabilities	20,547	13,206	56,587	165,393	-	255,733	255,733
Total liabilities	445,389	232,152	427,921	611,532	50,271	1,767,265	1,708,311
Equity of investment account holders	416,408	86,658	126,928	40,297	236,062	906,353	906,353
Commitment and contingencies	10,247	53,941	70,915	94,583	3	229,689	229,689

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38 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Measures of liquidity

Liquidity is managed at an entity level and is not a Group wide measure. The Bank follows certain internal measures of liquidity. These metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio and stock of liquid assets.

For this purpose, the liquidity coverage ratio is based on an internally defined management criteria which identifies the amount of liquid assets (including inter- bank placements) the Bank holds that can be used to offset the net cash outflows for 30, 60 and 90 days time horizon. The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Details of the ratio of liquid assets to total assets at the reporting date and during the year were as follows:

	Liquid asset / Total asset	
	2018	2017
At 31 December	17.61%	7.59%
Average for the year	9.71%	9.56%
Maximum for the year	17.61%	10.76%
Minimum for the year	5.53%	7.59%

c) Market risks

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk within the Group is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. Overall authority for market risk is vested in the Board Audit and Risk Committee ('BARC'). RMD is responsible for the development of detailed risk management policies (subject to review and approval of the BARC).

Exposure to profit rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Majority of the Group's profit based asset and liabilities are short term in nature, except for certain long term liabilities which have been utilised to fund the Group's strategic investments in its associates.

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38 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

A summary of the Group's profit rate gap position on non-trading portfolios is as follows:

31 December 2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial institutions	117,031	-	172,527	-	-	289,558
Financing assets	108,437	24,788	98,300	208,239	480,912	920,676
Investment securities (Sukuk)	-	-	-	43,042	384,873	427,915
Assets acquired for leasing (including lease rental receivable)	40	19	610	19,968	267,634	288,271
Total assets	**225,508**	**24,807**	**271,437**	**271,249**	**1,133,419**	**1,926,420**
Liabilities						
Investors' funds	32,710	-	-	13,928	-	46,639
Placements from financial institutions, other entities and individuals	529,953	377,891	671,463	45,298	3,784	1,628,389
Financing liabilities	36,998	18,022	142,034	32,084	26,999	256,137
Total liabilities	**599,661**	**395,913**	**813,497**	**91,310**	**30,783**	**1,931,166**
Equity of investment account holders	409,431	193,905	239,707	53,867	-	**896,910**
Profit rate sensitivity gap	**(783,585)**	**(565,011)**	**(781,767)**	**126,072**	**1,102,636**	**(901,655)**

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38 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

31 December 2017	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial institutions	92,789	-	2,780	-	-	95,569
Financing assets	135,862	33,560	142,900	199,650	480,530	992,502
Investment securities (Sukuk)	-	-	753	390	299,512	300,655
Assets acquired for leasing (including lease rental receivable)	-	18	-	20,629	259,944	280,591
Total assets	228,651	33,578	146,433	220,669	1,039,986	1,669,317
Liabilities						
Investors' funds	4,018	5,596	14,486	15,313	-	39,413
Placements from financial institutions, other entities and individuals	280,721	70,675	204,100	303,000	-	858,496
Financing liabilities	6,225	101,390	38,072	196,039	23,336	365,062
Total liabilities	290,964	177,661	256,658	514,352	23,336	1,262,971
Equity of investment account holders	506,975	176,549	186,280	36,546	3	906,353
Profit rate sensitivity gap	(569,288)	(320,632)	(296,505)	(330,229)	1,016,647	(500,007)

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

100 bps parallel increase / (decrease)	**2018**	2017
At 31 December	±9,017	±5,250
Average for the year	±4,340	±3,511
Maximum for the year	±11,495	±5,250
Minimum for the year	±7,975	±73

Overall, profit rate risk positions are managed by Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

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38 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

The effective average profit rates on the financial assets, liabilities and unrestricted investment accounts are as follows:

	2018	2017
Placements with financial institutions	3.22%	1.87%
Financing assets	5.96%	6.12%
Debt type investments	5.24%	5.20%
Placements from financial institutions, other entities and individuals	6.22%	2.60%
Financing liabilities	3.61%	4.58%
Equity of investment account holders	6.15%	2.07%

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Groups major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31 December from its financial instruments:

	2018 US$ '000 Equivalent	2017 US$ '000 Equivalent
Sterling Pounds	(1,715)	1,416
Euro	(1,020)	(220)
Australian dollars	12,273	4,607
Kuwaiti dinar	227,797	16,842
Jordanian Dinar	6	6
Moroccan Dirham	11,478	5,576
Tunisian Dinar	191,170	171,763
Indian rupee	253,749	253,838
Other GCC Currencies (*)	(597,608)	(51,540)

(*) These currencies are pegged to the US Dollar.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2018 US$ '000 Equivalent	2017 US$'000 Equivalent
Sterling Pounds	±86	±494
Euros	±51	±36
Australian dollar	±614	±611
Kuwaiti dinar	±11,390	±1,134
Jordanian Dinar	±0.32	±0.32
Moroccan Dirham	±574	±279
Tunisian Dinar	±9,559	±8,588
Indian rupee	±12,687	±1.19

38 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. The Group's equity type instruments carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 5(ii). The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

d) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department facilitates the management of Operational Risk by way of assisting in the identification of, monitoring and managing of operational risk in the Group.

39 CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Group does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The CBB sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. Capital adequacy regulations of CBB is based on the principles of Basel III and the IFSB guidelines.

The Bank's regulatory capital is analysed into two tiers:

- *Tier 1 capital: includes CET1 and AT1.*

  CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

  AT1 comprise of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

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39 CAPITAL MANAGEMENT (continued)

- *Tier 2 capital, includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2* capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and regulatory adjustments applied in the calculation of Tier 2 capital.

The regulatory adjustments are subject to limits prescribed by the CBB requirements, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's regulatory capital position at 31 December was as follows:

	2018	2017
Total risk weighted exposures	**7,370,110**	7,911,983
CET 1	1,169,103	1,340,550
AT1	9,468	7,304
Tier 1 capital	**1,178,571**	1,347,854
Tier 2 capital	35,202	27,096
Total regulatory capital	**1,213,773**	1,374,950
Total regulatory capital expressed as a percentage of total risk weighted assets	**16.47%**	17.36%

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors. The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

40 COMPARATIVES

Certain prior year amounts have been regrouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit for the year or total owners' equity.