

ITHMAAR HOLDING B.S.C.
(Formerly Ithmaar Bank B.S.C.)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
Consolidated financial statements for the year ended 31 December 2018

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Ithmaar Holding B.S.C

In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Holding B.S.C. and subsidiaries for the Financial Year from 1 January 2018 until 31 December 2018, corresponding to the Period from 14 Rabi Al-Akher 1439 H until 24 Rabi Al-Akher 1440 H.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Holding B.S.C. and subsidiaries ("Ithmaar") performed the following during the financial year from 1 January 2018 until 31 December 2018:

1. Issued fatwas and Sharia resolutions related to Ithmaar's activities and followed its execution through Ithmaar Bank's Sharia Coordination and Implementation Department while also guiding different departments towards implementing Sharia-compliant transactions.
2. Studied different mechanisms of financing, investment and mudaraba accounts and prepared its documents with the concerned departments that develop and market products.
3. Examined the books, records and transactions through the Sharia Coordination and Implementation Department and auditing some of their samples through Internal Sharia Audit Department as per established sharia auditing standards.
4. Examined sources of income and expenditures through reviewing the consolidated statements of financial position, income statement and Ithmaar's overall banking activities.
5. Examined and approved Sharia reports which are published by the Sharia Coordination and Implementation Department and Internal Sharia Audit Department.

We have reviewed the principles and contracts relating to transactions and products that has been executed by Ithmaar during the period from 1 January 2018 to 31 December 2018. We have also conducted the required inspections to provide our opinion on whether Ithmaar had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us.

The management is responsible for ensuring that Ithmaar operates in accordance with the provisions and principles of Islamic Sharia. Our responsibility is to express an independent opinion based on our observations of Ithmaar's operations, and prepare a report to this effect .

In view of the above the Sharia Supervisory Board hereby resolves as follows:

i: With regard to Ithmaar's business in general:

- a. Ithmaar's overall operations and activities were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board-approved standard contracts.
- b. Income generated from non-sharia compliant investments of the conventional assets transferred to the company when Shamil Bank merged with Ithmaar Bank in 2010, these have been identified, disclosed and published to the shareholders in Note 43 of the Consolidated Financial Statements, taking into consideration that Ithmaar is still in the process of correcting the status of these investment according to the Sharia Supervisory Board instructions.

Ithmaar Holding B.S.C

In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Holding B.S.C. and subsidiaries for the Financial Year from 1 January 2018 until 31 December 2018, corresponding to the Period from 14 Rabi Al-Akher 1439 H until 24 Rabi Al-Akher 1440 H.

c. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Shareholders are responsible for payment of Zakat on their shares.

ii: Conventional assets transferred to Ithmaar Holding company:

The former Ithmaar Bank B.S.C. and its subsidiaries has been restructured into Ithmaar Holding B.S.C, and two other wholly-owned subsidiaries, Ithmaar Bank B.S.C (closed), an Islamic retail bank subsidiary which holds the core retail banking business (for commercial operations in Bahrain and Pakistan), and IB Capital B.S.C. (closed), an Islamic investment subsidiary, which holds investments and other non-core assets, and will take appropriate actions for these assets either through disposal or converting these assets to Islamic alternatives. The Sharia Supervisory Board sees this as a positive step towards conversion of conventional assets.

To ensure compliance with its Fatwas and directions, the Sharia Supervisory Board has reviewed the income statement of Ithmaar for the year ended 31 December 2018 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities in Note 43. Accordingly, the Sharia Supervisory Board guides the shareholders of Ithmaar to dispose of impermissible earnings which has been calculated, in the current year's financial statements, at 1.56 (31 December 2017: 0.63) US cents per share.

We pray to Almighty Allah to grant success to Ithmaar and whom are responsible and grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

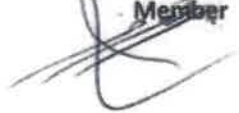
His Eminence Shaikh Abdulla Al Manee'a
Chairman



His Eminence Shaikh Dr.
Nizam Yacooby
Member



His Eminence Shaikh
Mohsin Al-Asfoor
Member



His Eminence Shaikh Dr.
Osama Bahar
Member



Manama
Kingdom of Bahrain
10 February 2019

**Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
Directors' Report for the year ended 31 December 2018**

The Directors submit their report dealing with the activities of Ithmaar Holding B.S.C. ("Ithmaar") for the year ended 31 December 2018, together with the audited consolidated financial statements of Ithmaar and its subsidiaries (collectively the "Group") for the year then ended.

Principal activities

Ithmaar Holding B.S.C directly owns two major subsidiaries, Ithmaar Bank B.S.C (C) (Ithmaar Bank) an Islamic retail bank subsidiary which holds the core retail banking business, and IB Capital B.S.C (C), an Islamic investment subsidiary which holds investments and other non-core assets. The two subsidiaries are licensed and regulated by the CBB.

The principal activities of the Group are a wide range of financial services, including retail, commercial, asset management, private banking, takaful and real estate development.

Consolidated financial position and results

The consolidated financial position of the Group as at 31 December 2018, together with the consolidated results for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net profit of US\$10.06 million for the year ended 31 December 2018, as compared to a net loss of US\$72.40 million for 2017. The net loss attributable to the equity shareholders of the Group is \$24 million for 2018, as compared to a net loss of \$84.7 million for 2017. Total assets at 31 December 2018 amounted to \$8,488.7 million (31 December 2017: \$8,611.4 million).

Directors

The following served as Directors of Ithmaar during the year ended 31 December 2018:

HRH Prince Amr Mohamed Al Faisal (Chairman)
Tunku Yaacob Khyra
Mr. Abdel Hamid Abo Moussa
Sheikh Zamil Abdullah Al-Zamil
Mr. Mohammed Bucheerei
Mr. Abdulellah Ebrahim Al-Qassimi
Mr. Omar Abdi Ali
Dr. Amani Khaled Bouresli
Mr. Abdulshakoor Hussain Tahlak
Mr. Mohammed Elkhareiji
Ms. Elham Ebrahim Abdulla Hasan (Appointed with effect from 28 March 2018)
Mr. Nabeel Khalid Kanoo (Resigned with effect from 7 January 2019)

Directors' sitting fees

Directors' sitting fees for 2018 amounted to \$405,000 (2017: \$408,000).

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
Directors' Report for the year ended 31 December 2018 (continued)

Interests of Directors

The interests of the Directors in the shares of Ithmaar are disclosed below:

Name	Number of Shares	
	31 December 2018	31 December 2017
HRH Prince Amr Mohamed Al Faisal	106,100	106,100
Tunku Yaacob Khyra	106,100	106,100
Mr. Abdel Hamid Abo Moussa	106,100	106,100
Sheikh Zamil Abdullah Al-Zamil	205,000	205,000
Mr. Mohammed Bucheerei	105,600	105,600
Mr. Abdullellah Ebrahim Al-Qassimi	106,100	106,100
Mr. Omar Abdi Ali	-	-
Dr. Amani Khaled Bouresli	-	-
Mr. Abdulshakoor Hussain Tahlak	-	-
Mr. Mohammed Elkhereiji	-	-
Ms. Elham Ebrahim Abdulla Hasan	-	-
Mr. Nabeel Khalid Kanoo (Resigned with effect from 7 January 2019)	106,100	106,100

Dividend

No dividend has been proposed for 2018 (2017: Nil).

Auditors

The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of Ithmaar for the year ending 31 December 2019.

By order of the Board of Directors



HRH Prince Amr Mohamed Al Faisal
Chairman

13 February 2019



**Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.)
Independent Auditor's Report to the Shareholders of Ithmaar Holding B.S.C. (formerly
Ithmaar Bank B.S.C.)**

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) ("Ithmaar") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2018 and the related consolidated income statement, changes in owners' equity, cash flows, and changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Sharia rules and principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Auditing Standards issued by the 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 consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018 and the results of its operations, its cash flows, changes in owners' equity and changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

**Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.)
Independent Auditor's Report to the Shareholders of Ithmaar Holding B.S.C. (formerly
Ithmaar Bank B.S.C.) (continued)**

Report on regulatory requirements and other matters

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 4), we report that:

- (i) Ithmaar has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- (ii) the financial information contained in the directors' report is consistent with the consolidated financial statements;
- (iii) during the period ended 31 December 2018, Ithmaar Bank B.S.C. (c), one of the subsidiaries, has not complied with the requirements of the CBB's Rule Book Volume 2 – Licensing Requirements module – LR-2.5.2A which states that an Islamic retail bank licensee must maintain a minimum total shareholders' equity of BD 100 million.

Except for the matter described above, we are not aware of any other violation of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 4 and applicable provisions of Volume 6) and CBB directives, rules and procedures of the Bahrain Bourse or the terms of Ithmaar's memorandum and articles of association, having occurred during the year that might have had a material adverse effect on the business of Ithmaar or on its financial position.

- (iv) satisfactory explanations and information have been provided to us by the management in response to all our requests.

Ithmaar has also complied with the Islamic Sharia rules and principles as determined by the Sharia Supervisory Board of the Group.



Partner's Registration No: 216
13 February 2019
Manama, Kingdom of Bahrain

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Consolidated statement of financial position

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	At 31 December 2018 (Audited)	At 31 December 2017 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	596,234	701,938
Commodity and other placements with banks, financial and other institutions	4	285,627	261,392
Murabaha and other financings	5	3,264,865	3,577,871
Musharaka financing		495,626	367,131
Investment in mudaraba	6	5,760	5,760
Sukuk and investment securities	7	1,756,695	1,862,885
Investment in associates	8	611,194	186,207
Restricted investment accounts	9	-	74,896
Assets acquired for leasing	10	410,765	347,760
Insurance and related receivables	11	120,034	-
Other assets	13	211,319	196,239
Investment in real estate	14	270,066	247,902
Development Properties	15	269,388	-
Assets classified as held-for-sale	16	-	478,432
Fixed assets	17	63,216	140,820
Intangible assets	18	127,867	162,126
Total assets		8,488,656	8,611,359
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts	19	1,476,108	1,781,493
Due to banks, financial and other institutions	20	1,541,346	1,143,964
Due to investors	21	1,694,977	1,907,971
Other liabilities	22	566,122	431,645
Insurance related reserves	12	134,873	-
Total liabilities		5,413,426	5,265,073
Equity of unrestricted investment accountholders	23	2,622,311	2,827,915
Minority interest	24	336,563	163,041
Total liabilities, equity of unrestricted investment accountholders and minority interest		8,372,300	8,256,029
Share capital	25	757,690	757,690
Treasury shares	25	(30,149)	(30,149)
Reserves		140,290	233,761
Accumulated losses		(751,475)	(605,972)
Total owners' equity		116,356	355,330
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		8,488,656	8,611,359

These consolidated financial statements were approved by the Board of Directors on 13 February 2019 and signed on their behalf by:



HRH Prince Amr Mohamed Al Faisal
Chairman



Dr. Amani Khaled Bouresli
Director



Ahmed Abdul Rahim
CEO


The notes 1 to 46 on pages 16 to 66 form an integral part of the consolidated financial statements.


Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)**Consolidated income statement**


(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended	
		31 December 2018 (Audited)	31 December 2017 (Audited)
INCOME			
Income from unrestricted investment accounts		180,236	164,961
Less: return to unrestricted investment accounts and impairment provisions		(108,645)	(88,100)
Group's share of income from unrestricted investment accounts as a Mudarib		71,591	76,861
Group's share of income from restricted investment accounts as a Mudarib		-	68
Income from murabaha and other financings	27	161,098	141,549
Share of profit after tax from associates	8	42,772	22,995
Income from other investments	28	99,307	123,139
Other income	29	63,782	30,470
Total income		438,550	395,082
Less: profit paid to banks, financial and other institutions		(178,730)	(164,521)
Operating income		259,820	230,561
EXPENSES			
Administrative and general expenses	30	(183,018)	(180,850)
Depreciation and amortization	8,17,18	(33,387)	(27,651)
Total expenses		(216,405)	(208,501)
Net income before provision for impairment and overseas taxation		43,415	22,060
Gain arising on acquisition of a business (net)	44	50,912	-
Provision for impairment (net)	31	(55,338)	(67,588)
Net income/(loss) before overseas taxation		38,989	(45,528)
Overseas taxation	32	(28,932)	(26,873)
NET PROFIT/(LOSS) FOR THE YEAR		10,057	(72,401)
Attributable to:			
Equity holders of the Ithmaar		(23,981)	(84,711)
Minority interests	24	34,038	12,310
		10,057	(72,401)
Basic and diluted earnings per share	26	US Cts (0.82)	US Cts (2.91)

These consolidated financial statements were approved by the Board of Directors on 13 February 2019 and signed on their behalf by:


 HRH Prince Amr Mohamed Al Faisal
 Chairman


 Dr. Amani Khaled Bouresli
 Director


 Ahmed Abdul Rahim
 CEO

The notes 1 to 46 on pages 16 to 66 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Consolidated statement of changes in owners' equity for the year ended 31 December 2018

(Expressed in thousands of United States Dollars unless otherwise stated)

	Reserves										Total owners' equity
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves	Accumulated losses	
At 1 January 2018 (Audited)	757,690	(30,149)	149,085	38,418	50,727	38,773	3,450	(46,692)	233,761	(605,972)	355,330
Impact of FAS 30 (note - 2)	-	-	-	-	-	-	-	-	-	(121,522)	(121,522)
Revised balance at 1 January 2018	757,690	(30,149)	149,085	38,418	50,727	38,773	3,450	(46,692)	233,761	(727,494)	233,808
Net loss for the year	-	-	-	-	-	-	-	-	-	(23,981)	(23,981)
Movement in fair value of sukuk and investment securities	-	-	-	-	-	(44,156)	-	-	(44,156)	-	(44,156)
Movement in fair value of investment in real estate	-	-	-	-	-	-	596	-	596	-	596
Movement in fair value of associates	-	-	-	-	-	(1,812)	-	-	(1,812)	-	(1,812)
Foreign currency translation adjustments	-	-	-	-	-	271	(859)	(47,511)	(48,099)	-	(48,099)
At 31 December 2018 (Audited)	757,690	(30,149)	149,085	38,418	50,727	(6,924)	3,187	(94,203)	140,290	(751,475)	116,356

The notes 1 to 46 on pages 16 to 66 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Consolidated statement of changes in owners' equity for the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

	Reserves									Accumulated losses	Total owners' equity
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves		
At 1 January 2017 (Audited)	757,690	(27,802)	148,662	38,418	50,727	25,711	2,648	(47,378)	218,788	(521,261)	427,415
Net loss for the year	-	-	-	-	-	-	-	-	-	(84,711)	(84,711)
Employee share incentive scheme (note 25)	-	(2,347)	423	-	-	-	-	-	423	-	(1,924)
Movement in fair value of sukuk and investment securities	-	-	-	-	-	5,061	-	-	5,061	-	5,061
Movement in fair value of investment in real estate	-	-	-	-	-	-	938	-	938	-	938
Movement in fair value of associates	-	-	-	-	-	8,009	-	-	8,009	-	8,009
Foreign currency translation adjustments	-	-	-	-	-	(8)	(136)	686	542	-	542
At 31 December 2017 (Audited)	757,690	(30,149)	149,085	38,418	50,727	38,773	3,450	(46,692)	233,761	(605,972)	355,330

The notes 1 to 46 on pages 16 to 66 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
Consolidated statement of cash flows
(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended	
		31 December 2018	31 December 2017
		(Audited)	(Audited)
OPERATING ACTIVITIES			
Net income/(loss) before overseas taxation		38,989	(45,528)
<u>Adjustments for:</u>			
Depreciation and amortization	8,17,18	33,387	27,651
Share of profit after tax from associates	8	(42,772)	(22,995)
Gain arising on acquisition of a business (net)		(50,912)	-
Provision for impairment (net)	31	55,338	67,588
Income from other investments		(99,307)	(123,139)
(Gain)/loss on sale of fixed assets		249	(545)
Operating income before changes in operating assets and liabilities		(65,028)	(96,968)
(Increase)/decrease in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		16,092	(9,255)
Changes in operating assets and liabilities:			
Murabaha and other financings		(191,856)	(1,200)
Musharaka financing		(235,097)	(159,370)
Other assets		(25,687)	(62,703)
Customers' current accounts		(56,523)	166,353
Due to banks, financial and other institutions		536,526	31,121
Due to investors		216,160	113,940
Other liabilities		46,516	91,210
(Decrease)/Increase in equity of unrestricted investment accountholders		(130,340)	77,951
Taxes paid		(20,110)	(22,731)
Net cash provided by operating activities		90,653	128,348
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Investment in mudaraba		-	8,665
Assets acquired for leasing		(63,005)	(91,869)
Sukuk and investment securities		(126,808)	6,771
Investment in real estate		4,492	-
Dividend received from associates		44,080	28,730
Purchase of fixed assets		(8,284)	(11,398)
Net cash used in investing activities		(149,525)	(59,101)
FINANCING ACTIVITIES			
Minority interest		(796)	(1,326)
Net cash used in financing activities		(796)	(1,326)
Foreign currency translation adjustments		(91,399)	7,515
Net increase/(decrease) in cash and cash equivalents		(151,067)	75,436
Cash and cash equivalents at the beginning of the year		792,218	716,782
Cash and cash equivalents at the end of the year	4	641,151	792,218

The notes 1 to 46 on pages 16 to 66 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2018

(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2018	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net Deposits / (Redemptions)	Movement due to acquisition of a subsidiary (note - 44)	At 31 December 2018
Dilmunia Development Fund I L.P.*	145,329	12,643	-	-	(21,552)	(136,420)	-
Shamil Bosphorus Modaraba*	6,250	-	-	-	-	-	6,250
European Real Estate Placements*	16,404	-	-	(765)	-	-	15,639
US Real Estate Placements*	25,236	-	-	-	-	-	25,236
Listed and non-listed equities	55	-	-	-	-	-	55
Cash and Placements with banks	558	-	-	-	-	-	558
TOTAL	193,832	12,643	-	(765)	(21,552)	(136,420)	47,738
FUNDS MANAGED ON AGENCY BASIS	63,301	-	-	-	(44)	-	63,257
	257,133	12,643	-	(765)	(21,596)	(136,420)	110,995

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 46 on pages 16 to 66 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2017	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net Deposits / (Redemptions)	At 31 December 2017
Dilmunia Development Fund I L.P.*	149,491	192	-	-	(4,354)	145,329
Shamil Bosphorus Modaraba*	6,250	-	-	-	-	6,250
European Real Estate Portfolio*	15,915	-	-	-	(15,915)	-
European Real Estate Placements*	16,141	320	(68)	1,696	(1,685)	16,404
US Real Estate Placements*	27,554	-	-	-	(2,318)	25,236
Listed and non-listed equities	47	-	-	8	-	55
Cash and Placements with banks	9,406	-	-	-	(8,848)	558
TOTAL	224,804	512	(68)	1,704	(33,120)	193,832
FUNDS MANAGED ON AGENCY BASIS	65,255	-	-	-	(1,954)	63,301
	290,059	512	(68)	1,704	(35,074)	257,133

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 46 on pages 16 to 66 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

1 INCORPORATION AND ACTIVITIES

Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) (“Ithmaar”) was incorporated in the Kingdom of Bahrain on 13 August 1984 and was licensed as an investment bank regulated by the Central Bank of Bahrain (the “CBB”). Effective 14 April 2010 Ithmaar Bank B.S.C operated under Islamic retail banking license granted by the CBB.

During 2016, shareholders approved the reorganisation of Ithmaar Bank B.S.C at its Extraordinary General Meeting (EGM) held on 28 March 2016 to restructure Ithmaar Bank B.S.C into a holding company and two subsidiaries to segregate core and non-core assets. Effective 2 January 2017, the Bank has been converted in to Ithmaar Holding B.S.C., holding 100% of Ithmaar Bank B.S.C. (c) [retail license] and IB Capital B.S.C. (c) [investment license].

Dar Al-Maal Al-Islami Trust (“DMIT”), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of Ithmaar.

The principal activities of Ithmaar and its subsidiaries (collectively the “Group”) are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful and real estate development.

Ithmaar's activities are regulated by the CBB and are subject to the supervision of Sharia Supervisory Board.

Ithmaar's shares are listed for trading on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market.

The Group's activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment account holder authorises the Group to invest the accountholders' 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. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through Ithmaar's head office in Bahrain and its following principal subsidiary companies:

	% owned		Country of Incorporation	Principal business activity
	Voting	Economic		
<u>Direct subsidiaries</u>				
Ithmaar Bank B.S.C. (C)	100	100	Kingdom of Bahrain	Banking
IB Capital B.S.C. (C)	100	100	Kingdom of Bahrain	Asset management
Faisal Private Bureau (Switzerland) S.A.	100	100	Switzerland	Wealth and asset management
<u>Principal indirect subsidiaries</u>				
Faysal Bank Limited	67	67	Pakistan	Banking
Solidarity Group Holding B.S.C. (C)	55	55	Kingdom of Bahrain	Takaful
Ithmaar Development Company Limited	100	100	Cayman Islands	Real estate
Health Island B.S.C. (C)	50	50	Kingdom of Bahrain	Real estate
Dilmunia Development Fund I L.P.	57	57	Cayman Islands	Real estate
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate

Islamic Investment Company of the Gulf (Bahamas) Limited (IICG), a company incorporated in the Commonwealth of Bahamas and owned 100% by DMIT, is an affiliate of Ithmaar.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES

The consolidated financial statements of the Group are prepared under Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards in the consolidated financial statements for the year ended 31 December 2018 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 43.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2018.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:

(i) New accounting standard: Issued and not effective

FAS 33 "Investments in Sukuk, Shares and Similar Instruments"

FAS 33 "Investments in Sukuk, Shares and Similar Instruments" was issued on 31 December 2018. FAS 33 (which supersedes earlier FAS 25) sets out the improved principles for classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institutions (IFIs / the institutions), in line with Sharia principles. It defines the key types of instruments of Sharia compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption being permitted. The Group is in process of assessing impact on its accounting policies.

FAS 34 "Financial Reporting for Sukuk-holders"

FAS 34 "Financial Reporting for Sukuk-holders" was issued on 31 December 2018. FAS 34 aims to establish the principles of accounting and financial reporting for assets and businesses underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders, particularly including Sukuk-holders. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption being permitted. The standard is not applicable for the Group's consolidated financial statements.

(ii) New accounting standard: Issued and effective

FAS 35 "Risk reserves"

Financial Accounting Standard (FAS) 35 – Risk reserves was issued in August 2018 and effective from the financial periods beginning on or after 1 January 2021. The aim of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risk faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions. The Group has early adopted this standard from 1 January 2018 and there is no material impact on the recognition and measurement of the Group's risk reserves.

FAS 30 "Impairment, credit losses & onerous commitments"

Financial Accounting Standard (FAS) 30 – Impairment, credit losses & onerous commitments was issued in November 2017 and effective from the financial periods beginning on or after 1 January 2020. This standard supersedes the earlier FAS 11 - Provisions and Reserves. The Group has early adopted this standard from 1 January 2018. The requirements of FAS 30 represent a significant change in accounting for impairment and credit losses. The aim of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions, and related provisions, 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 and transactions. This standard also specifies how such impairment and credit losses shall be recognized and when and how the same shall be reversed.

The key changes to the Group's accounting policies resulting from its adoption of FAS 30 are summarized below.

FAS 30 replaces the 'incurred loss' model with an 'expected credit loss' model ("ECL"). The new impairment model also applies to certain financing commitments and financial guarantees. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case the allowance is based on the change in the ECLs over the life of the asset. Under FAS 30, credit losses are recognized earlier than under the previous standard.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Basis of Preparation - Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance of a receivable or exposure measured with the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria for definition of default;
- 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 groups of similar receivables for the purpose of measuring ECL.

Transition

Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except as described below.

Comparative periods have not been restated. Relevant difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 are recognized in retained earnings and minority interest as at 1 January 2018. Accordingly, the information presented for 2017 is not directly comparable to the information presented for 2018 under FAS 30.

Reconciliation of carrying amounts as at 31 December 2017 & carrying amount as at 1st January 2018

The following table reconciles the carrying amounts as of 31 December 2017 to the carrying amounts under FAS 30 on transition to FAS 30 on 1 January 2018.

Financial assets - amortized cost	Carrying amount as at 31 December 2017	Re- measurement of impairment allowance*	FAS 30 carrying amount as at 1 January 2018
Cash, Commodity and other placements with banks, financial and other institutions	963,330	(143)	963,187
Financing assets (funded & unfunded)	7,144,905	(135,279)	7,009,626
Sukuk and investment securities	1,350,529	(117)	1,350,412
Other receivables	183,070	(7,149)	175,921
Total Financial assets - amortized cost	9,641,834	(142,688)	9,499,146

*Impairment allowance is increased due to change from incurred to expected credit loss (ECL).

Impact on retained earnings and other reserves

	Retained earnings
Opening balance as at 1 January 2018	355,330
Recognition of expected credit losses under FAS 30	(121,522)
Adjusted opening balance as at 1 January 2018	233,808

Relevant differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 and attributable to unrestricted investment account holders amounted to \$70.2 million as of 1 January 2018. This amount has been adjusted against the balance of Investment Risk Reserve (IRR) of \$17.9 million which was attributable to unrestricted investment holders and the balance amount of \$52.3 million has been adjusted against the retained earnings attributable to shareholders based on appropriate approvals as per Ithmaar's policy. The FAS 30 impact attributable to unrestricted investment account holders for the year ended 31 December 2018 was also absorbed by shareholders.

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2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)**Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)**

The following table reconciles the provision recorded as at 31 December 2017 to that of FAS 30 as at 1 January 2018:

	31 December 2017	Re- measurement	FAS 30 1 January 2018
Financial assets - amortized cost			
Cash, Commodity and other placements with banks, financial and other institutions	-	(143)	(143)
Financing assets (funded & unfunded)	(321,577)	(135,279)	(456,856)
Sukuk and investment securities	(19,185)	(117)	(19,302)
Other receivables	(74,339)	(7,149)	(81,488)
	(415,101)	(142,688)	(557,789)

ECL – Significant increase in credit risk (SICR)

To determine whether credit risk has significantly increased since initial recognition, the Group will compare the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date.

For the Corporate portfolio, the Group assess for significant increase in credit risk (SICR) at a counterparty level as the internal rating is currently carried out at a counterparty level and a rating is not assigned at facility level. The Group maintains a facility level rating being the counterparty's internal rating at date of facility origination and date of assessment.

For the Retail portfolio, the Group currently manages its retail portfolio at a facility level, therefore assessment for SICR on the retail portfolio is done on a facility level. Days past due (DPD) of individual facilities will reflect on the counterparty SICR assessment.

Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, restructuring, expert credit judgement and, where possible, relevant historical experience.

Using its expert credit judgment 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.

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.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews and validations.

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL.
- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.
- Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as stage 3.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Default

FAS 30 seeks to align accounting for impairment of financial instruments with the manner in which credit risk is internally managed within the Group. In this context, the 'risk of default' of a financial instrument is a key component of the expected loss model under FAS 30.

In general, counterparties with facilities exceeding 90 days past due are considered in default.

Non-Retail:

The Group has set out the following definition of default (as provided by the Basel document and FAS 30 guidelines):

Non-retail customers with the following characteristics:

- All or any of the facility/ies in which any instalment or part thereof is outstanding for a period of 90 days or more
- All or any of the facility/ies put on non-accrual status (i.e. profit suspended)
- All or any of the facility/ies wherein 'specific provision' is set aside individually
- Event driven defaults such as declaration of bankruptcy, death of borrower (in absence of succession plan or professional management), and other specific events which would significantly impact the borrower's ability the Group.

The Group will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

Retail:

The Group has set out the following definition of default:

- All facilities in which any instalment or part thereof is outstanding for a period of 90 days or more

The Group will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the 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);
- financial assets 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;
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, Credit Conversion Factor (CCF) and discount rate. For portfolios wherein instrument level information is not available, the Group carries out ECL estimation on a collective basis.

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

- i Probability of default (PD);
- ii Loss given default (LGD);
- iii 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.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Measurement of ECL (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. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group has internally estimated the LGD. The LGD in further will be computed based on the history of recovery rates of claims against defaulted counterparties.

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 amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount currently outstanding.

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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. The Group annually source macro-economic forecast data from the International Monetary Fund (IMF) database for the relevant exposure country.

Macro-economic variables checked for correlation with the probability of default for the past five years and only those variables for which the movement can be explained are used. Management judgement is exercised when assessing the macroeconomic variables. The macro economic variables used for FAS 30 PD modelling include, among others, GDP, population and net lending.

Generating the term structure of PD

Credit risk grades and days past due (DPD) are primary inputs 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 type of borrower, days past due and 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 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, Net Lending and Population.

Based on 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 (i.e. on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

For Corporate portfolio, through the yearly review of the corporate portfolio, the Group observes yearly performances to compute a count based PD over the one-year horizon for the past 5 years. These PDs are grouped as per internal risk ratings (i.e. from 1 to 7). An average default rate of the 5 yearly observed default provides the through the cycle PDs.

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2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Generating the term structure of PD (continued)

The retail portfolio is segmented based on products that exhibit distinguished behavior into the following categories:

- Auto finance;
- Mortgage finance;
- Personal Finance; and
- Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

The PD's derived are adjusted with forward looking information based on macro-economic variables and calibrated to derive the final PD's separately for Corporate and Retail portfolio.

Impairment

The Group recognizes loss allowances for ECL on the following type of financial instruments:

- All Islamic financing and certain other assets (including Commodity and Murabaha receivables)
- Debt instruments that are measured at amortised cost or at fair value through equity.
- Financing commitments that are not measured at fair value through profit and loss (FVTPL)
- Financial guarantee contracts that are not measured at fair value through profit and loss (FVTPL)
- Lease receivables and contract assets
- Balances with banks
- Related party balances
- Contingent liabilities

The Group measures loss allowances at an amount equal to lifetime ECL, except for the other financial instruments on which credit risk has not increased significantly since their initial recognition, for which ECL is measured as 12-month ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

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2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL in case of financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.

Write-off

The Group's existing policy remains the same under FAS 30. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on a collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may however write-off financial assets that are still subject to enforcement activity.

Risk Management in the Group

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Group reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Risk Management Department under policies approved by the Board of Directors. The Risk Management Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The most important types of risks identified by the Group are credit risk, liquidity risk, market risk, reputational risk and operational risk. Market risk includes currency risk, profit rate risk, and price risk.

Credit Risk

Credit risk is considered to be the most significant and pervasive risk for the Group. The Group takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks and financial institutions. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the Risk Management Department which sets parameters and thresholds for the Bank's financing and off-balance sheet financial instruments.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Risk Management in the Group (continued)

Liquidity risk

Liquidity risk is the risk that Ithmaar is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows.

Liquidity risk arises either:

- From the inability to manage unplanned decreases or changes in funding sources; or
- from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk management ensures that funds are available at all times to meet the funding requirements. Funding and liquidity management is performed centrally by the Asset and Liability Management Committee (ALCO). Group's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses. Ithmaar regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified.

Market risk

Market risk is the risk of potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

Management of market risk is the responsibility of the relevant business units with the group companies with oversight by the Asset-Liability Committee (ALCO).

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.

Through a control framework and by monitoring and responding to potential risks, Ithmaar is able to manage the operational risks to an acceptable level.

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2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments (continued)

Loss allowance

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

31 December 2018

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, Commodity and other placements with banks, financial and other institutions	882,004	-	-	882,004
Financings (Funded and unfunded exposure) Corporate				
Low risks (1-3)	936,356	80,142	-	1,016,498
Acceptable risks (4-6)	1,356,248	365,197	-	1,721,445
Watch list (7)	6,232	643,688	-	649,920
Non performing (8-10)	-	-	422,090	422,090
Carrying amount - Corporate	2,298,836	1,089,027	422,090	3,809,953
Retail (un-rated)	1,425,686	20,339	7,878	1,453,903
Carrying amount including unfunded	3,724,522	1,109,366	429,968	5,263,856
Sukuk and investment securities	1,366,592	-	15,577	1,382,169
Other receivables	336,495	-	64,249	400,744
Loss allowance	(135,050)	(5,197)	(347,192)	(487,439)
Total Financial assets carrying amount	6,174,563	1,104,169	162,602	7,441,334

Gross financings (funded) as of 31 December 2018 amounted to \$3.2 billion, \$0.9 billion and \$0.4 billion for Stage 1, Stage 2 and Stage 3 respectively (1 January 2018: \$3.3 billion, \$0.8 billion and \$0.5 billion). Collateral coverage for gross financing as of 31 December 2018 was 132%, 17% and 46% for Stage 1, Stage 2 and Stage 3 respectively (1 January 2018: 128%, 18% and 48%).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Basis of preparation

The consolidated financial statements are prepared on a historical cost convention except for investments carried at fair value through income statement and equity and investment in real estate.

(iii) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Sharia rules and principles as determined by the Sharia Supervisory Board of Ithmaar, the Bahrain Commercial Companies Law, the CBB and the Financial Institutional Law. In accordance with the requirement of AAOIFI, for matters where no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards (IFRS).

(iv) Summary of significant accounting policies

(a) *Basis of consolidation*

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Subsidiaries, including Special Purpose entities that are controlled by Ithmaar, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners equity.

In case of associates where audited financial statements are not available, the Group's share of profit or loss is arrived at by using the latest available management accounts. Available upto a date not earlier than three months before the date of Statement of Financial Position.

Investment in associates which meet the criteria for held for sale are classified as assets-held-for-sale.

Intra-Group balances and minority interest

The consolidated financial statements include the assets, liabilities and results of operations of the Ithmaar, its subsidiary companies after adjustment for minority interest and equity of unrestricted investment accountholders managed by the Group for both subsidiaries and associates. All significant intra-group balances and transactions have been eliminated. The financial statements of the subsidiaries are prepared on the same reporting periods as Ithmaar, using consistent accounting policies.

(b) *Foreign currency transactions and balances*

Functional and presentation currency

Items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency) and presented in US Dollars (the presentation currency). Considering that the Bahraini Dinar is pegged to United States Dollars, the changes in presentation currency will have no impact on the consolidated statement of financial position, consolidated income statement, consolidated statement of changes in owners' equity, consolidated statement of cash flow and consolidated statement of changes in restricted investment accounts.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(b) *Foreign currency transactions and balances (continued)*

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain sukuk and investment securities are included in investments fair value reserve.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;
2. Income and expenses for each income statement are translated at average exchange rates; and
3. All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, are recognised in the first place as a charge against any credit balance on the separate component of the shareholders equity and any remaining amount is recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(c) Accounting estimates and judgements

The Group makes estimates and assumptions that affect 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.

1. Classification of investments

In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. 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.

2. Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs 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 SPEs activities, Group's exposure to the risks and rewards, as well as its ability to make operational decisions of the SPEs.

3 Goodwill and intangible assets

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2. The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) and Fair Value Less Cost to Sell (FVLCTS) methods. These calculations require the use of estimates, which are subject to judgement. Changes in the underlying assumptions may impact the reported numbers.

The following valuation methodology for the separately identified cash generating units of the Group [Ex-Shamil Bank of Bahrain B.S.C. (c), Faysal Bank Limited and BBK B.S.C] was used based on the

- VIU calculations using cash flow projections from financial budgets approved by the Group's senior management covering a three year period.

- FVLCTS calculations using the Comparable Companies Multiple (CCM) method whereby the price to book value multiple of the listed Islamic banks operating in the region was considered.

4 Impairment on financing assets and investments

Each financing and investment exposure is evaluated individually for impairment. In assessing impairment, the Group exercises judgment in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contracts has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL") in accordance with note 2 (ii).

5 Liquidity mismatch

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Group to meet its liquidity mismatch. The stress testing also incorporates judgement based behavioural approach for various sources of funding and estimated inflows from disposal of assets.

6 Assets classified as held-for-sale

The Group assesses its assets at each reporting date in accordance with the criteria specified by IFRS5 - Non-current assets held for sale and discontinued operations. In determining whether the sale is highly probable, the Group exercises judgement in context of current market appetite in terms of price offered and willing buyer.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(d) *Cash and cash equivalents*

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

(e) *Murabaha and other financings*

Murabaha financing is stated at cost less allowance for doubtful receivables.

The Group considers the promise made in Murabaha to the purchase orderer as obligatory.

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Provision are made in accordance with FAS 30 in accordance with note 2 (ii).

(f) *Musharaka financing*

Musharaka financing is stated at cost less provision for impairment.

Provision are made in accordance with FAS 30 in accordance with note 2 (ii).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) *Investments*

1. Investments carried at amortised cost

Sukuk and debt-type instruments are carried at amortised cost where the investment is managed on a contractual yield basis and their performance evaluated on the basis of contractual cash flows. These investments are measured using effective profit method at initial recognition minus capital/redemption payments and minus any reduction for impairment.

2. Investments carried at fair value through equity

Equity-type instruments are investments that do not exhibit the feature of debt type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Equity-type investments carried at fair value through equity are those equity instruments which are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity; these are designated as such at inception. Regular-way purchases and sales of these investments are recognised on the trade date which is the date on which the Group commits to purchase or sell the asset.

These investments are initially recognised at fair value transaction costs. These investments are subsequently re-measured at fair value at the end of each reporting period and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity under "Investments fair value reserve", until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets. In certain rare circumstances where the Group is unable to determine reliable measure of fair value of equity instrument on a continuing basis, the instrument is measure at cost.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as financial assets carried at fair value through equity, a significant or prolonged decline in fair value of the security below the cost is considered in determining whether the assets are impaired. If any evidence exists of significant impairment for the investment carried at fair value through equity, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the consolidated income statement is removed from the equity and recognised in the consolidated income statement. Impairment losses on equity instruments previously recognised in the consolidated income statement are not subsequently reversed through the consolidated income statement.

3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealers margin. These investments are recognised on the acquisition date at fair value. At the end of each reporting period, investments are re-measured at their fair value at the end of each reporting period and the gain/loss is recognised in the consolidated income statement.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) *Investments (continued)*

4. Restricted investment accounts

Investment in restricted investment accounts is initially recorded at cost and subsequently re-measured at fair value. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration the portion related to owner's equity and equity of unrestricted investment accountholders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated income statement.

5. Investment in real estate

All properties held for rental income or for capital appreciation purposes or both are classified as investment in real estate. Investment in real estate held for capital appreciation are initially recognised at cost and subsequently re-measured at fair value in accordance with the fair value model with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the investment in real estate fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement. The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account is recognised in the consolidated income statement for the current financial period.

Investment in real estate held for rental purposes are stated at cost less accumulated depreciation.

6. Development properties

Development properties represents land held by the Group for development and sale in the ordinary course of business, and includes expenditure incurred in acquiring the land and other costs incurred in bringing them to their existing condition. Development properties are stated at lower of cost or estimated net realizable value. Estimated realizable value is determined using the estimated selling price in the ordinary course of business, less estimated development expenses.

7. Investment in mudaraba

Mudaraba investments are recorded at cost. Decline in the value of investment which is not temporary is charged directly to the consolidated income statement.

8. Fair value

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investments where there are no quoted market prices, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows or at net asset value. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

(h) *Assets acquired for leasing (Ijarah)*

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

Provision are made in accordance with FAS 30 in accordance with note 2 (ii).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(i) Takaful and retakaful contracts

- Takaful contracts

As an Islamic insurance provider, the Group issues contracts that are based on cooperative activity by risk sharing. The Group classifies all its contracts individually as takaful contracts.

Takaful contracts are those contracts where the takaful operator accepts significant takaful risk from the participant by agreeing to compensate the participant if a specified uncertain future event adversely affects the participant. Such contracts may also transfer financial risk. As a general guideline, the Group defines significant takaful risk as the possibility of having to pay benefits on the occurrence of a takaful event. Takaful risk is risk other than financial risk that is transferred from the holder of a contract to the issuer. Financial risk is the risk of a possible future change in one or more of a security price, index of prices or rates or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is significant if, and only if, a takaful event could cause the Group to pay significant additional benefits. Once a contract is classified as a takaful contract it remains classified as a takaful contract until all rights and obligations are extinguished or expired.

- Retakaful contracts

Retakaful contracts are contracts entered into by the Group with retakaful operators for the purpose of limiting its net loss potential through the diversification of its risks, under which the Group is compensated for losses on takaful contracts issued.

Assets, liabilities, income and expense arising under ceded retakaful contracts are presented separately from the assets, liabilities, income and expense from the related takaful contracts because the retakaful arrangements do not relieve the Group from its direct obligations to its participants.

The benefits to which the Group is entitled under its retakaful contracts held are recognised as retakaful assets. These assets consist of balances due from retakaful operators on settlement of claims and other receivables such as profit commissions and retakaful operator's share of outstanding claims that are dependent on the expected claims and benefits arising under the takaful contracts covered under retakaful contracts. Amounts recoverable from or due to retakaful operators are recognised consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful contract. Retakaful liabilities are primarily contributions payable for retakaful contracts and are recognised as an expense when due.

The participants' takaful funds comprises of general takaful and family takaful fund which represent the accumulated undistributed surplus or deficit in respect of contracts in force at the reporting date. It also includes fair value reserves of investments at fair value through equity.

- Gross contributions

Gross contributions comprise the total contributions receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of business written in prior accounting periods. Contributions collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in contributions written. The unexpired portion of such contributions is included under "Unearned contributions" in the statement of financial position. The earned proportion of contributions is recognised as revenue in the participants' statement of revenues and expenses.

- Retakaful contributions

Retakaful contributions are amounts paid to retakaful operators in accordance with the retakaful contracts of the Group. In respect of proportional and non-proportional retakaful contracts, the amounts are recognised in the participants' statement of revenues and expenses as per the terms of these contracts.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(i) Takaful and retakaful contracts (continued)

- Unearned contributions

Unearned contributions represent contributions under takaful contracts which are to be earned in the following or subsequent financial periods, for the unexpired period of takaful content as at the reporting date.

- Gross claims

Gross claims are recognised in the participants' statement of revenues and expenses when the claim amount payable to participants and third parties is determined as per the terms of the takaful contracts. Gross claims include all claims occurring during the year, whether reported or not, related claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

- Claims recovered

Claims recovered include amounts recovered from retakaful operators and other insurance companies in respect of the gross claims paid by the Group, in accordance with the retakaful contracts held by the Group and also includes salvage and other claims recoveries. Claims recovered from retakaful and other parties are recognised when the related gross claims settled are recognised according to the terms of the relevant contracts.

- Outstanding claims

Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with the related claims handling costs and reduction for salvage and other recoveries. Provisions for outstanding claims reported is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by management based on currently available information and past experience modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. Outstanding claims are not discounted for time value of money. The methods used, and the estimates made, are reviewed regularly.

The provision for claims incurred but not reported ('IBNR') is made per the actuarial valuation which is updated on the basis of the latest valuation reports.

Any difference between the provisions for outstanding claims at the statement of financial position date and settlements and provisions for the following year is included in the participants' statement of revenues and expenses for that year.

- Takaful and insurance receivables

Takaful and insurance receivables are recognised when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of takaful and insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(j) *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of fixed assets are determined by comparing proceeds with carrying amounts.

(k) *Intangible assets*

1. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for an impairment on an annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Negative goodwill resulting from the acquisition of a business or entity is reported in the consolidated income statement.

Acquisition of minority interest is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(k) *Intangible assets*

2. Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

3. Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships has been determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization and impairment if any.

(l) *Assets classified as held-for-sale*

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying value and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

(m) *Current taxation*

There is no tax on corporate income in the Kingdom of Bahrain. However, the subsidiaries incorporated in tax jurisdictions pay tax as per local regulations.

(n) *Deferred taxation*

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(o) *Provision for staff benefits*

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction.

For variable remuneration, a provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

(p) *Due to investors*

Funds received from depositors who take the corporate risk of Ithmaar or its subsidiaries are classified as "Due to investors".

(q) *Equity of unrestricted investment accountholders*

Under the equity of unrestricted investment accountholders (URIA), the investment account holder authorizes the Group to invest the accountholders' 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 assets included in the equity of unrestricted investment accountholders are measured on the same basis of various category of the assets as set out above. The amount appropriated to investment risk reserve are out of the total income from URIA assets before charging any expense relating to the management fee, mudarib share of profit, profit equalization reserve and profit to investment accountholders. Profit equalisation reserve is created to maintain a certain level of return on investments for investment accountholders.

(r) *Restricted investment accounts*

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. The assets included in the restricted investment accounts are recorded at Net Asset Value (NAV).

(s) *Treasury shares*

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(t) *Statutory reserve*

In accordance with the Bahrain Commercial Companies Law 10% of the Group's net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(u) *Revenue recognition*

1. Profit participation and management fees

Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on Murabaha and other financings

Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of Ithmaar, the accrual is justified.

Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

3. Income from assets acquired for leasing

Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Dividend income

Dividend income is recognised when the right to receive payment is established.

7. Fees and commissions

Fees and commissions (including banking services) are recognised when earned.

Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when Ithmaar has fulfilled all its obligations in connection with the related transaction.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(v) *Profit allocation between group and investment accountholders*

The Group maintains separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting impairment provisions, profit equalization reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Impairment provision is made when the management considers that there is impairment in the carrying amount of assets financed by the investment account.

(w) *Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts*

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

(Expressed in thousands of United States Dollars unless otherwise stated)

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	165,526	2,136	167,662	168,927	2,185	171,112
Cash and balances with banks and central banks	373,131	55,441	428,572	462,062	68,764	530,826
	538,657	57,577	596,234	630,989	70,949	701,938

4 COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	269,943	15,827	285,770	261,392	-	261,392
Less: Provision for impairment	(143)	-	(143)	-	-	-
	269,800	15,827	285,627	261,392	-	261,392

Cash and cash equivalents for the purpose of cash flow statement are as under:

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	538,657	57,577	596,234	630,989	70,949	701,938
Commodity and other placements with banks, financial and other institutions	269,800	15,827	285,627	261,392	-	261,392
Less: Placement maturing after ninety days	(57,221)	(15,827)	(73,048)	-	-	-
Less: Balances with central bank relating to minimum reserve requirement	(165,526)	(2,136)	(167,662)	(168,927)	(2,185)	(171,112)
	585,710	55,441	641,151	723,454	68,764	792,218

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

(Expressed in thousands of United States Dollars unless otherwise stated)

5 MURABAHA AND OTHER FINANCINGS

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	2,211,536	1,433,544	3,645,080	2,407,415	1,492,033	3,899,448
Less: Provision for impairment	(346,067)	(34,148)	(380,215)	(306,644)	(14,933)	(321,577)
	1,865,469	1,399,396	3,264,865	2,100,771	1,477,100	3,577,871

Other financings represents conventional loans and advances totalling \$1,571 million (31 December 2017: \$1,683 million) made by a subsidiary of Ithmaar.

The movement in provision for impairment is as follows:

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	306,644	14,933	321,577	286,791	19,518	306,309
Impact of FAS 30	116,441	888	117,329	-	-	-
Transfer from Investment Risk Reserve for FAS 30 (note 23)	-	17,950	17,950	-	-	-
Charge for the year	16,094	6,606	22,700	43,427	-	43,427
Write back during the year	(31,519)	(284)	(31,803)	(19,341)	-	(19,341)
Utilised during the year	(391)	(5,741)	(6,132)	(1,286)	(7,222)	(8,508)
Reclassification	(15,154)	90	(15,064)	8,792	(261)	8,531
Transfer from Investment Risk Reserve	-	-	-	-	3,000	3,000
Exchange differences and other movements	(46,048)	(294)	(46,342)	(11,739)	(102)	(11,841)
At 31 December	346,067	34,148	380,215	306,644	14,933	321,577

Total provision for impairment of \$380.2 million (31 December 2017: \$323.8 million) includes general provision for impairment of Nil (31 December 2017: \$31.8 million).

6 INVESTMENT IN MUDARABA

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Mudaraba investments	17,594	-	17,594	17,820	-	17,820
Less: Provision for impairment	(11,834)	-	(11,834)	(12,060)	-	(12,060)
	5,760	-	5,760	5,760	-	5,760

The movement in provision for impairment is as follows:

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	12,060	-	12,060	733	11,581	12,314
Reclassification	(226)	-	(226)	11,327	(11,581)	(254)
Exchange differences and other movements	-	-	-	-	-	-
At 31 December	11,834	-	11,834	12,060	-	12,060

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

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7 SUKUK AND INVESTMENT SECURITIES

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
<i>Held for trading</i>						
Debt-type instruments – unlisted	226,243	-	226,243	304,895	-	304,895
Equity-type securities – listed	1,932	-	1,932	-	-	-
	228,175	-	228,175	304,895	-	304,895
Investment securities at fair value through equity						
Equity-type securities – listed	62,485	-	62,485	55,271	-	55,271
Equity-type securities – unlisted	269,583	-	269,583	307,705	-	307,705
	332,068	-	332,068	362,976	-	362,976
Provision for impairment	(170,530)	-	(170,530)	(155,515)	-	(155,515)
	161,538	-	161,538	207,461	-	207,461
Investment securities carried at amortised cost						
Sukuk – unlisted	11,307	188,717	200,024	17,427	232,885	250,312
Other debt-type instruments – listed	128,573	-	128,573	73,798	-	73,798
Other debt-type instruments – unlisted	1,053,572	-	1,053,572	1,045,604	-	1,045,604
	1,193,452	188,717	1,382,169	1,136,829	232,885	1,369,714
Provision for impairment	(15,187)	-	(15,187)	(19,185)	-	(19,185)
	1,178,265	188,717	1,366,982	1,117,644	232,885	1,350,529
	1,567,978	188,717	1,756,695	1,630,000	232,885	1,862,885

Sukuk and investment securities include conventional investments totalling \$1,334 million (31 December 2017: \$1,402.5 million) made by a subsidiary of Ithmaar.

The fair value of investment securities carried at amortised cost was \$1,368.3 million (31 December 2017: \$1,351.7 million) and these are tradable

Certain assets totalling Nil (31 December 2017: \$1.3 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provision for impairment relating to sukuk and investment securities is as follows:

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	174,700	-	174,700	167,604	5,700	173,304
Impact of FAS 30	111	-	111	-	-	-
Charge for the year	26,417	-	26,417	10,856	-	10,856
Write back during the year	(1,330)	-	(1,330)	(78)	-	(78)
Utilised during the year	(7,607)	-	(7,607)	(333)	-	(333)
Reclassification	401	-	401	(2,179)	(5,700)	(7,879)
Exchange differences and other movements	(6,975)	-	(6,975)	(1,170)	-	(1,170)
At 31 December	185,717	-	185,717	174,700	-	174,700

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7 SUKUK AND INVESTMENT SECURITIES (continued)

FAS 25 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 December 2018				
Investment securities at fair value through income statement				
Debt-type instruments	-	226,243	-	226,243
Equity securities	1,932	-	-	1,932
Investment securities at fair value through equity				
Equity securities	59,489	3,845	98,204	161,538
	61,421	230,088	98,204	389,713
At 31 December 2017				
Investment securities at fair value through income statement				
Debt-type instruments	-	304,895	-	304,895
Equity securities	-	-	-	-
Investment securities at fair value through equity				
Equity securities	49,081	728	157,652	207,461
	49,081	305,623	157,652	512,356

There was no movement between level 1 and level 2 during the year.

Reconciliation of Level 3 Items

	Investment securities at fair value through equity	
	2018	2017
At 1 January	157,652	158,338
Total gains/(losses) recognised in		
- Income statement	(23,353)	(9,367)
- Equity	(42,374)	1,148
Movement due to acquisition of subsidiary	12,184	-
Purchases	-	1,000
Sales	(1,421)	(1,120)
Reallocation	(4,484)	7,653
At 31 December	98,204	157,652
Total gains for the year included in consolidated income statement for 31 December	1,471	6,379

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8 INVESTMENT IN ASSOCIATES

Investment in associated companies, as adjusted for the Group's share of their results comprise:

Name of company	2018	% of Share-holding	2017	% of Share-holding	Country	Activity
Unlisted:						
Solidarity Group Holding B.S.C. (C) (Note a)	-	-	68,834	36	Bahrain	Takaful
Citic International Assets Management Limited (Note b)	42,189	20	-	-	Hong Kong	Asset management
Sanpak Engineering Industries (Pvt) Limited	720	31	933	31	Pakistan	Manufacturing
Misr Company for Packing Materials "Egywrap"	-	23	2,461	23	Egypt	Trading
Faysal Asset Management Limited	-	-	210	30	Pakistan	Asset management
Ithraa Capital Company	3,859	23	4,183	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	93,658	31	107,619	31	Bahrain	Infrastructure
Chase Manara B.S.C. (C)	-	-	1,679	40	Bahrain	Real estate
Islamic Trading Company E.C	288	24	288	24	Bahrain	Trading
Solidarity Saudi Takaful Company (Note a)	42,815	28	-	-	Saudi Arabia	Takaful
Listed:						
BBK B.S.C (Note b)	427,665	-	-	25	Bahrain	Banking
	<u>611,194</u>		<u>186,207</u>			

Group's share of their results comprise mainly from following associated companies:

Name of company	2018	2017
Unlisted:		
Solidarity Group Holding B.S.C. (C) (Note a)	707	3,269
Citic International Assets Management Limited	(22,914)	(7,443)
Naseej B.S.C. (C)	3,806	4,244
Others	945	319
Listed:		
BBK B.S.C	60,228	22,606
	<u>42,772</u>	<u>22,995</u>

Investment in associates include conventional investments totalling \$563.5 million (31 December 2017: \$107.6 million).

Certain assets totalling Nil (31 December 2017: \$2.5 million) included above are held by third parties as nominee on behalf of the Group.

Assets amounting to \$427.7 million (31 December 2017: \$411 million) are pledged as collateral against borrowings with the terms and conditions in the ordinary course of business.

(Note a): During December 2018, Solidarity Group Holding B.S.C. (C) was classified as a subsidiary (note 44). As a result, Solidarity's associate, Solidarity Saudi Takaful Company has been included as part of the Group's investment in associates.

(Note b): During the year, BBK B.S.C and Citic International Assets Management Limited were reclassified as associates since they no longer met the criteria to classified as assets held-for-sale

Amortisation charge for the intangible assets for the year ended 31 December 2018 amounted to \$10.1 million (31 December 2017: \$3.4 million)

Summarised financial position of associates that have been equity accounted:

	31 December 2018	31 December 2017
Total assets	10,178,879	898,010
Total liabilities	8,295,620	295,526
Total revenues	334,758	149,531
Total net profit	69,185	20,723

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(Expressed in thousands of United States Dollars unless otherwise stated)

9 RESTRICTED INVESTMENT ACCOUNTS

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment in restricted investment accounts	49,735	-	49,735	140,215	7,500	147,715
Less: Provision for impairment	(49,735)	-	(49,735)	(72,819)	-	(72,819)
	-	-	-	67,396	7,500	74,896

The movement in provision for impairment is as follows:

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	72,819	-	72,819	58,651	8,626	67,277
Charge for the year	-	-	-	4,778	-	4,778
Movement due to acquisition of subsidiary	(17,146)	-	(17,146)	-	-	-
Reclassification	(5,938)	-	(5,938)	8,626	(8,626)	-
Exchange differences and other movements	-	-	-	764	-	764
At 31 December	49,735	-	49,735	72,819	-	72,819

10 ASSETS ACQUIRED FOR LEASING

	31 December 2018			31 December 2017		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property & Equipment	459,527	(48,762)	410,765	382,707	(34,947)	347,760

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2018	31 December 2017
Relating to owners	3,475	6,535
Relating to unrestricted investment accounts	407,290	341,225
	410,765	347,760

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

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(Expressed in thousands of United States Dollars unless otherwise stated)

11 INSURANCE AND RELATED RECEIVABLES

	31 December 2018
Insurance and other receivables	64,766
Reinsurer's share of outstanding claims	23,758
Reinsurer's share of unearned contribution	35,878
	<u>124,402</u>
Less: Provision for impairment	(4,368)
	<u>120,034</u>

12 INSURANCE RELATED RESERVES

	31 December 2018
Outstanding claims - Gross	56,981
Unearned contributions, commission and other reserves	77,892
	<u>134,873</u>

13 OTHER ASSETS

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Account receivable	199,391	35,152	234,543	152,343	40,127	192,470
Due from related parties	11,574	-	11,574	10,922	-	10,922
Taxes – deferred	9,718	-	9,718	22,482	-	22,482
Taxes – current	24,909	57	24,966	27,424	-	27,424
Assets acquired against claims	13,312	-	13,312	17,280	-	17,280
	<u>258,904</u>	<u>35,209</u>	<u>294,113</u>	<u>230,451</u>	<u>40,127</u>	<u>270,578</u>
Provision for impairment	(70,640)	(12,154)	(82,794)	(62,084)	(12,255)	(74,339)
	<u>188,264</u>	<u>23,055</u>	<u>211,319</u>	<u>168,367</u>	<u>27,872</u>	<u>196,239</u>

The movement in provision for impairment is as follows:

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	62,084	12,255	74,339	44,685	11,963	56,648
Impact of FAS 30	7,149	-	7,149	-	-	-
Charge for the year	3,712	-	3,712	14,898	-	14,898
Write back during the year	(217)	-	(217)	-	-	-
Utilised during the year	-	-	-	(1,301)	-	(1,301)
Reclassification	(1,186)	(90)	(1,276)	3,299	292	3,591
Exchange differences and other movements	(902)	(11)	(913)	503	-	503
At 31 December	<u>70,640</u>	<u>12,154</u>	<u>82,794</u>	<u>62,084</u>	<u>12,255</u>	<u>74,339</u>

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Notes to the Consolidated Financial Statements for the year ended 31 December 2018

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14 INVESTMENT IN REAL ESTATE

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	308,212	-	308,212	277,423	-	277,423
Less: Provision for impairment	(38,146)	-	(38,146)	(29,521)	-	(29,521)
	270,066	-	270,066	247,902	-	247,902

Fair value of investment properties at the year end approximates their carrying value.

Certain assets totalling \$0.6 million (31 December 2017: \$1.2 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provision for impairment for investment in real estate is as follows:

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	29,521	-	29,521	19,029	-	19,029
Charge for the year	620	-	620	12,993	-	12,993
Utilised during the year	(7,607)	-	(7,607)	-	-	-
Reclassification	18,103	-	18,103	(4,334)	-	(4,334)
Exchange differences and other movements	(2,491)	-	(2,491)	1,833	-	1,833
At 31 December	38,146	-	38,146	29,521	-	29,521

15 DEVELOPMENT PROPERTIES

	31 December 2018
Land	175,361
Development costs	94,027
	269,388

Development costs represent the infrastructure costs incurred such as roads and networks, electricity stations and design and supervision costs and the infrastructure cost commitments. The infrastructure cost commitments are expected to be met by anticipated sale of plots. Based on this, the management has estimated that the current carrying value is lower than the net realisable value, and accordingly, no impairment has been considered necessary.

16 ASSETS CLASSIFIED AS HELD-FOR-SALE

During the year, the assets held-for-sale were reclassified to investment in associate (note 8) since they no longer met the criteria to be classified as assets held-for-sale.

At 31 December 2017, the assets classified as held for sale amounted to \$478.4 million.

17 FIXED ASSETS

	Relating to owners							
	31 December 2018				31 December 2017			
	Cost	Accumulated depreciation	Provision for impairment	Net book amount	Cost	Accumulated depreciation	Provision for impairment	Net book amount
Land and building	50,226	(10,869)	-	39,357	129,063	(12,890)	(2,859)	113,314
Leasehold improvements	30,358	(21,219)	-	9,139	34,708	(21,822)	-	12,886
Furniture and equipment	77,979	(64,293)	-	13,686	76,847	(63,309)	-	13,538
Motor vehicles	2,951	(1,917)	-	1,034	3,146	(2,064)	-	1,082
	161,514	(98,298)	-	63,216	243,764	(100,085)	(2,859)	140,820

Depreciation charge for the year ended 31 December 2018 amounted to \$7.3 million (31 December 2017: \$7.5 million)

During the year, land amounting to \$59 million was transferred to development property due to change in intention with a view to develop and sell in the normal course of business.

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18 INTANGIBLE ASSETS

	Relating to owners				31 December 2018
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
	Goodwill	90,777	-	(47,500)	(9,518)
Customer relations	113,565	(67,299)	-	(13,424)	32,842
Core deposits	155,546	(96,251)	-	(19,525)	39,770
Others	50,909	(29,413)	-	-	21,496
	410,797	(192,963)	(47,500)	(42,467)	127,867

	Relating to owners				31 December 2017
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
	Goodwill	87,830	-	(8,500)	(9,231)
Customer relations	113,565	(62,816)	-	(10,381)	40,368
Core deposits	155,546	(88,474)	-	(20,324)	46,748
Others	30,659	(25,748)	-	-	4,911
	387,600	(177,038)	(8,500)	(39,936)	162,126

Amortisation charge for the year ended 31 December 2018 amounted to \$16 million (31 December 2017: \$16.8 million)

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2018	31 December 2017
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	23,570	62,570
Faysal Bank Limited	10,189	7,529
	33,759	70,099

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) and Fair Value Less Cost to Sell (FVLCTS). VIU calculations were determined using cash flow projections from financial budgets approved by the Group's senior management covering a three year period. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. For FVLCTS calculations, the Comparable Companies Multiple (CCM) method was used, whereby the price to book value multiple of the listed Islamic banks operating in the region was considered. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement.

19 CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a counterparty amounting to \$207.4 million which is subject to sanctions under US measures (31 December 2017, \$215.6 million).

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20 DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	1,343,107	79,927	1,423,034	1,051,925	40,372	1,092,297
Due to financial and other institutions	118,312	-	118,312	51,667	-	51,667
	1,461,419	79,927	1,541,346	1,103,592	40,372	1,143,964

Due to banks, financial and other institutions include balances totalling \$428.5 million from two counterparties which are subject to sanctions under US measures and having contractual maturity ranging to up to one month (31 December 2017: \$432.1 million).

Due to banks, financial and other institutions include conventional deposits totalling \$625.6 million (31 December 2017: \$457.1 million), accepted by a subsidiary of Ithmaar.

At 31 December 2018, there were collateralized borrowings in aggregate \$178.7 million (31 December 2017: \$117.7 million).

Cash dividends amounting to \$25.5 million (31 December 2017: \$21.8 million) on certain shares pledged as collateral was directly received by the lender (as per agreed terms and conditions) during the year and adjusted against the outstanding facility amount as per the agreed terms.

Assets which are pledged as collateral are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

21 DUE TO INVESTORS

	Relating to owners	
	31 December 2018	31 December 2017
Due to corporate institutions	751,047	987,820
Due to individuals	716,990	849,545
Due to financial institutions	226,940	70,606
	1,694,977	1,907,971

Due to investors represent conventional deposits accepted by a subsidiary of the Group.

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22 OTHER LIABILITIES

	31 December 2018			31 December 2017		
	Relating to unrestricted investment accounts		Total	Relating to unrestricted investment accounts		Total
	Relating to owners			Relating to owners		
Accounts payable	452,852	107,963	560,815	282,937	103,316	386,253
Due to related parties	107	-	107	40,089	-	40,089
Provision for taxation – current	849	-	849	948	-	948
Provision for taxation – deferred	4,351	-	4,351	4,355	-	4,355
	458,159	107,963	566,122	328,329	103,316	431,645

23 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

The funds received from Unrestricted Investment Accountholders (URIA) are invested on their behalf without recourse to the Group as follows:

	Notes	31 December 2018	31 December 2017
Cash and balances with banks and central banks	3	57,577	70,949
Commodity and other placements with banks, financial and other institutions	4	15,827	-
Murabaha and other financings	5	1,399,396	1,477,100
Musharaka financing		495,053	356,845
Sukuk and investment securities	7	188,717	232,885
Restricted investment accounts	9	-	7,500
Assets acquired for leasing	10	407,290	341,225
Other assets	13	23,055	27,872
Due from the Group (net)		442,333	742,957
		3,029,248	3,257,333
Customers' current accounts	19	(219,047)	(285,730)
Due to banks, financial and other institutions	20	(79,927)	(40,372)
Other liabilities	22	(107,963)	(103,316)
Equity of unrestricted investment accountholders		2,622,311	2,827,915

Due from the Group represents net amount due to Unrestricted Investment Accountholders from owners.

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23 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (continued)

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provisions amounting to \$49.9 million (31 December 2017: \$29.4 million). The movement of impairment provisions relating to unrestricted investment accountholders has been disclosed in note 31.

Other liabilities include profit equalization reserve and the movement is as follows:

	31 December 2018	31 December 2017
At 1 January	17,548	17,548
Net addition during the year	4,500	-
At 31 December	22,048	17,548

Other liabilities include investment risk reserve and the movement is as follows:

	31 December 2018	31 December 2017
At 1 January	17,950	17,850
Net addition during the year	1,500	3,100
Transfer (to)/ from general provision for impairment (note 30)	-	(3,000)
Utilized for FAS 30	(17,950)	-
At 31 December	1,500	17,950

The average gross rate of return in respect of unrestricted investment accounts was 4.9% for 31 December 2018 (31 December 2017: 5.0%) of which 2.7% (31 December 2017: 2.9%) was distributed to the investors and the balance was either set aside as provision for impairment, management fees (up to 1.5% of the total invested amount per annum to cover administration and other expenses related to the management of such funds) and/or retained by the Group as share of profits in its capacity as a Mudarib.

24 MINORITY INTEREST

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries.

	31 December 2018		31 December 2017	
	Minority %		Minority %	
Faysal Bank Limited	33	100,833	33	113,980
Solidarity Group Holding B.S.C. (C)	45	106,506	-	-
Health Island B.S.C. (C)	50	49,324	50	49,386
Dilmunia Development Fund I L.P.	43	80,272	-	-
Cityview Real Estate Development B.S.C. (C)	49	(3,565)	49	(4,490)
Sakana Holistic Housing Solutions B.S.C. (C)	50	3,193	50	4,165
		336,563		163,041

Minority interest in the consolidated income statement of \$34 million (31 December 2017: \$12.3 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

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25 SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	8,000,000	2,000,000
Issued and fully paid		
Total outstanding	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
At 31 December 2017 (Audited)	2,910,160	727,541
Issued and fully paid		
Total outstanding as at 1 January 2018	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
At 31 December 2018 (Audited)	2,910,160	727,541

Ithmaar's total issued and fully paid share capital at 31 December 2018 comprises 3,030,755,027 shares at \$0.25 per share amounting to \$757,688,757. The share capital of Ithmaar is denominated in United States Dollars and these shares are traded on Bahrain Bourse in United States dollars, Boursa Kuwait in Kuwaiti Dinars and Dubai Financial Market in Arab Emirates Dirham.

Ithmaar owned 120,595,238 of its own shares at 31 December 2018 (31 December 2017: 120,595,238). The shares are held as treasury shares and the Group has the right to reissue these shares at a later date.

26 EARNINGS PER SHARE (BASIC & DILUTED)

Earnings per share (Basic & Diluted) are calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	31 December 2018	31 December 2017
Net loss attributable to shareholders (\$ '000)	(23,981)	(84,711)
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,910,160
Earnings per share (Basic & Diluted) - US Cents	(0.82)	(2.91)

Earnings per share on non-sharia compliant income and expenses is included under note 43.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)**Notes to the Consolidated Financial Statements for the year ended 31 December 2018**

(Expressed in thousands of United States Dollars unless otherwise stated)

27 INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners	
	31 December 2018	31 December 2017
Income from murabaha financing	6,085	9,259
Income from other financings	155,013	132,290
	161,098	141,549

28 INCOME FROM OTHER INVESTMENTS

	Relating to owners	
	31 December 2018	31 December 2017
Income from investment securities at amortised cost	59,717	83,458
Income from investment securities at fair value through equity	5,823	9,519
Income from investment securities at fair value through income statement	27,732	26,204
Income from investment in real estate	6,035	3,958
	99,307	123,139

29 OTHER INCOME

	Relating to owners	
	31 December 2018	31 December 2017
Income from banking services	45,525	46,227
Income from commodity placements	5,788	2,623
Foreign exchange income/(loss)	7,618	(20,096)
Gain on disposal of fixed assets	249	545
Income from fees and commissions	4,602	1,171
	63,782	30,470

30 ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners	
	31 December 2018	31 December 2017
Salaries and other benefits	87,651	90,775
Office expenses	60,322	58,624
Professional fees	12,570	10,744
Other administrative expenses	22,475	20,707
	183,018	180,850

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

(Expressed in thousands of United States Dollars unless otherwise stated)

31 PROVISION FOR IMPAIRMENT

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	739,715	29,426	769,141	659,325	59,626	718,951
Impact of FAS 30	123,850	888	124,738	-	-	-
Transfer from Investment Risk Reserve (note 23)	-	17,950	17,950	-	-	-
Charge for the year	88,399	8,880	97,279	87,008	-	87,008
Write back during the year	(33,061)	(394)	(33,455)	(19,420)	-	(19,420)
Transfer from Investment Risk Reserve (note 23)	-	-	-	-	3,000	3,000
Utilised during the year	(15,605)	(5,741)	(21,346)	(2,920)	(7,222)	(10,142)
Reclassification	-	-	-	25,916	(25,916)	-
Movement due to acquisition of subsidiary	(12,778)	-	(12,778)	-	-	-
Exchange differences	(56,419)	(1,071)	(57,490)	(10,194)	(62)	(10,256)
At 31 December	834,101	49,938	884,039	739,715	29,426	769,141

The allocation of the provision for impairment to the respective assets is as follows:

	31 December 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	346,067	34,148	380,215	306,644	14,933	321,577
Musharaka financing	-	3,636	3,636	-	2,238	2,238
Commodity and other placements with banks, financial and other institutions	143	-	143	-	-	-
Investment in mudaraba	11,834	-	11,834	12,060	-	12,060
Investment in associates	75,892	-	75,892	70,528	-	70,528
Sukuk and investment securities	185,717	-	185,717	174,700	-	174,700
Restricted investment accounts	49,735	-	49,735	72,819	-	72,819
Insurance and related receivables	4,368	-	4,368	-	-	-
Other assets	70,640	12,154	82,794	62,084	12,255	74,339
Development Properties	4,059	-	4,059	-	-	-
Investment in real estate	38,146	-	38,146	29,521	-	29,521
Fixed assets	-	-	-	2,859	-	2,859
Intangible assets	47,500	-	47,500	8,500	-	8,500
	834,101	49,938	884,039	739,715	29,426	769,141

Total provision for impairment of \$884 million (31 December 2017: \$769.1 million) includes Nil (31 December 2017: \$35.2 million) held as general provisions. The movement in general provision for impairment is as follows:

	Relating to owners	
	31 December 2018	31 December 2017
At 1 January	35,246	28,918
Charge for the year	-	21,494
Reallocations	(35,246)	(15,166)
At 31 December	-	35,246

General provision for impairment of Nil (31 December 2017: \$35.2 million) includes Nil (31 December 2017: \$31.8 million) in respect of Murabaha and other financings.

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32 OVERSEAS TAXATION

	Relating to owners	
	31 December 2018	31 December 2017
Current taxes	17,080	17,752
Deferred taxes	11,852	9,121
	28,932	26,873

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Current tax receivable/(payable)

	31 December 2018	31 December 2017
At 1 January	26,476	19,179
Charge for the year	(17,080)	(17,752)
Payments made	25,128	22,731
Exchange differences and other movements	(10,407)	2,318
At 31 December	24,117	26,476

Deferred tax asset/(liability)

	31 December 2018	31 December 2017
At 1 January	18,127	25,799
Charge for the year	(11,852)	(9,121)
Charges due to fair value reserve	672	2,280
Exchange differences and other movements	(1,580)	(831)
At 31 December	5,367	18,127

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33 SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

- (i) Retail and Corporate banking, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.
- (ii) Trading Portfolio, where the Group trades in equity deals, foreign exchange and other transactions with the objective of realizing short-term gains.
- (iii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

	31 December 2018					31 December 2017				
	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total
Operating income	152,760	67,630	37,884	1,546	259,820	173,810	43,122	13,578	51	230,561
Total expenses	(146,914)	(30,803)	(37,734)	(954)	(216,405)	(168,795)	(11,165)	(28,323)	(218)	(208,501)
Net income/(loss) before provision and overseas taxation	5,846	36,827	150	592	43,415	5,015	31,957	(14,745)	(167)	22,060
Gain arising on acquisition of a business (net)	-	-	-	50,912	50,912	-	-	-	-	-
Provision and overseas taxation	(30,396)	(19,211)	(34,636)	(27)	(84,270)	(46,403)	(12,633)	(35,462)	37	(94,461)
Net income/(loss) for the year	(24,550)	17,616	16,426	565	10,057	(41,388)	19,324	(50,207)	(130)	(72,401)
Attributable to:										
Equity holders of Ithmaar	(31,849)	11,727	(4,207)	348	(23,981)	(47,199)	12,864	(50,292)	(84)	(84,711)
Minority interests	7,299	5,889	20,633	217	34,038	5,811	6,460	85	(46)	12,310
	(24,550)	17,616	16,426	565	10,057	(41,388)	19,324	(50,207)	(130)	(72,401)
Total assets	4,842,981	1,563,543	1,700,091	382,041	8,488,656	5,015,399	1,822,973	1,764,533	8,454	8,611,359
Total liabilities and equity of unrestricted investment account holders	7,014,201	711,032	116,489	194,015	8,035,737	7,463,066	525,771	104,055	96	8,092,988

The Group constitutes of four geographical segments which are Europe, North America, Middle East & Africa, Asia and others

	31 December 2018						31 December 2017					
	Europe	North America	Middle East & Africa	Asia	Others	Total	Europe	North America	Middle East & Africa	Asia	Others	Total
Operating income	11,047	-	84,284	162,380	2,109	259,820	3,793	1,797	34,358	188,493	2,120	230,561
Total expenses	(9,963)	-	(84,571)	(121,871)	-	(216,405)	(10,501)	-	(74,733)	(123,267)	-	(208,501)
Net income/(loss) before provision and overseas taxation	1,084	-	(287)	40,509	2,109	43,415	(6,708)	1,797	(40,375)	65,226	2,120	22,060
Gain arising on acquisition of a business (net)	-	-	50,912	-	-	50,912	-	-	-	-	-	-
Provision and overseas taxation	(1,934)	-	(59,779)	(22,557)	-	(84,270)	(922)	-	(70,574)	(22,965)	-	(94,461)
Net income/(loss) for the year	(850)	-	(9,154)	17,952	2,109	10,057	(7,630)	1,797	(110,949)	42,261	2,120	(72,401)
Attributable to:												
Equity holders of the Ithmaar	(850)	-	(29,531)	4,291	2,109	(23,981)	(7,630)	1,797	(109,176)	28,178	2,120	(84,711)
Minority interests	-	-	20,377	13,661	-	34,038	-	-	(1,773)	14,083	-	12,310
	(850)	-	(9,154)	17,952	2,109	10,057	(7,630)	1,797	(110,949)	42,261	2,120	(72,401)
Total assets	452,273	35,643	3,655,272	4,301,145	44,323	8,488,656	453,090	40,400	3,580,212	4,509,165	28,492	8,611,359
Total liabilities and equity of unrestricted investment account holders	280,548	8,122	3,836,191	3,906,878	3,998	8,035,737	251,374	23,847	3,729,712	4,084,822	3,233	8,092,988

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34 ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. Ithmaar does not collect or pay Zakah on behalf of its owners and its investment accountholders.

35 CONTINGENT LIABILITIES AND COMMITMENTS**Contingent liabilities**

	<u>31 December 2018</u>	<u>31 December 2017</u>
Acceptances and endorsements	78,081	62,824
Guarantees and irrevocable letters of credit	796,057	878,393
Customer and other claims	257,042	324,995
	<u>1,131,180</u>	<u>1,266,212</u>

Commitments

	<u>31 December 2018</u>	<u>31 December 2017</u>
Undrawn facilities, financing lines and other commitments to finance	<u>2,064,257</u>	<u>1,897,757</u>

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36 CURRENCY RISK

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

	United States Dollar	Pakistan Rupee	Bahraini Dinar	Euro	UAE Dirham	Other	Total
31 December 2018							
Cash and balances with banks and central banks	108,999	257,354	148,186	62,908	1,329	17,458	596,234
Commodity and other placements with banks, financial and other institutions	34,686	37,274	127,776	68,435	-	17,456	285,627
Murabaha and other financings	342,978	1,633,461	1,194,294	9,555	19,511	65,066	3,264,865
Musharaka financing	-	495,626	-	-	-	-	495,626
Investment in mudaraba	5,760	-	-	-	-	-	5,760
Sukuk and investment securities	142,553	1,522,657	83,399	4,296	-	3,790	1,756,695
Investment in associates	-	720	521,611	-	-	88,863	611,194
Assets acquired for leasing	193	-	410,572	-	-	-	410,765
Insurance and related receivables	1,589	-	63,485	-	-	54,960	120,034
Other assets	39,199	104,571	50,669	7,914	8	8,958	211,319
Investment in real estate	-	8,910	182,222	2,180	-	76,754	270,066
Development Properties	-	-	269,388	-	-	-	269,388
Fixed assets	116	45,264	6,409	1	-	11,426	63,216
Intangible assets	108,115	12,473	7,279	-	-	-	127,867
Total assets	784,188	4,118,310	3,065,290	155,289	20,848	344,731	8,488,656
Customer current accounts	118,523	862,181	253,847	225,667	135	15,755	1,476,108
Due to banks, financial and other institutions	330,627	617,198	161,708	102,088	329,685	40	1,541,346
Due to investors	109,863	1,564,239	-	6,230	-	14,645	1,694,977
Insurance related reserves	-	-	91,869	-	-	43,004	134,873
Other liabilities	33,674	248,736	263,117	2,919	158	17,518	566,122
Total liabilities	592,687	3,292,354	770,541	336,904	329,978	90,962	5,413,426
Equity of unrestricted investment accountholders	396,548	280,184	1,945,508	-	-	71	2,622,311
Total liabilities and equity of unrestricted investment accountholders	989,235	3,572,538	2,716,049	336,904	329,978	91,033	8,035,737
Contingent liabilities and commitments	768,433	1,726,759	491,565	90,048	1,838	116,794	3,195,437
31 December 2017							
Total assets	1,004,407	4,295,848	2,888,592	138,512	31,362	252,638	8,611,359
Total liabilities and equity of unrestricted investment accountholders	883,037	3,780,207	2,694,779	369,438	329,009	36,518	8,092,988
Contingent liabilities and commitments	624,247	1,872,336	510,623	86,250	2,331	68,182	3,163,969

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37 MATURITY PROFILE

The contractual maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2018	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	594,349	1,885	-	-	-	596,234
Commodity and other placements with banks, financial and other institutions	157,419	55,160	57,208	15,840	-	285,627
Murabaha and other financings	879,017	344,703	481,723	901,450	657,972	3,264,865
Musharaka financing	3,876	11,598	76,393	311,163	92,596	495,626
Investment in mudaraba	-	-	-	5,760	-	5,760
Sukuk and investment securities	489,522	756,389	268,101	170,201	72,482	1,756,695
Investment in associates	-	-	-	-	611,194	611,194
Assets acquired for leasing	127	554	1,441	4,714	403,929	410,765
Insurance and related receivables	-	36,010	84,024	-	-	120,034
Other assets	36,908	45,797	57,219	44,787	26,608	211,319
Investment in real estate	-	-	8,910	62,812	198,344	270,066
Development Properties	-	-	-	269,388	-	269,388
Fixed assets	-	-	246	45,155	17,815	63,216
Intangible assets	-	-	-	-	127,867	127,867
Total assets	2,161,218	1,252,096	1,035,265	1,831,270	2,208,807	8,488,656
Customer current accounts	1,476,108	-	-	-	-	1,476,108
Due to banks, financial and other institutions	885,408	79,192	146,645	223,824	206,277	1,541,346
Due to investors	1,180,118	225,999	276,712	12,148	-	1,694,977
Insurance related reserves	-	40,462	94,411	-	-	134,873
Other liabilities	219,243	61,044	55,063	174,582	56,190	566,122
Total liabilities	3,760,877	406,697	572,831	410,554	262,467	5,413,426
Equity of unrestricted investment accountholders	1,374,172	297,865	731,564	218,710	-	2,622,311
Total liabilities and equity of unrestricted investment accountholders	5,135,049	704,562	1,304,395	629,264	262,467	8,035,737
Contingent liabilities and commitments	1,739,393	303,289	714,705	335,866	102,184	3,195,437
31 December 2017						
Total assets	2,204,903	1,274,863	1,085,568	1,855,984	2,190,041	8,611,359
Total liabilities and equity of unrestricted investment accountholders	5,276,701	768,735	1,668,463	359,242	19,847	8,092,988
Contingent liabilities and commitments	1,516,946	394,922	830,791	372,412	48,898	3,163,969

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38 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

31 December 2018	Banks and Financial Institutions	Trading and Manu- facturing	Property and Cons- truction	Services	Private individuals	Textile	Other	Total
Cash and balances with banks and central banks	596,234	-	-	-	-	-	-	596,234
Commodity and other placements with banks, financial and other institutions	285,627	-	-	-	-	-	-	285,627
Murabaha and other financings	796,284	973,588	89,206	91,518	981,307	165,186	167,776	3,264,865
Musharaka financing	65,267	144,218	43,480	51,748	151,250	10,490	29,173	495,626
Investment in mudaraba	5,760	-	-	-	-	-	-	5,760
Sukuk and investment securities	1,594,172	39,715	15,738	73,001	-	-	34,069	1,756,695
Investment in associates	567,371	1,009	-	-	-	-	42,814	611,194
Assets acquired for leasing	2,756	26,804	525	241	380,439	-	-	410,765
Insurance and related receivables	-	-	-	112,559	-	-	7,475	120,034
Other assets	36,514	18,968	45,333	31,788	17,476	-	61,240	211,319
Investment in real estate	-	-	250,447	-	-	-	19,619	270,066
Development Properties	-	-	269,388	-	-	-	-	269,388
Fixed assets	60,680	-	2,536	-	-	-	-	63,216
Intangible assets	127,867	-	-	-	-	-	-	127,867
Total assets	4,138,532	1,204,302	716,653	360,855	1,530,472	175,676	362,166	8,488,656
Customer current accounts	95,683	376,047	50,501	137,567	478,520	62	337,728	1,476,108
Due to banks, financial and other institutions	1,311,723	-	10,700	218,923	-	-	-	1,541,346
Due to investors	154,165	363,168	60,104	291,600	443,453	-	382,487	1,694,977
Insurance related reserves	-	-	-	-	-	-	134,873	134,873
Other liabilities	143,956	195	75,600	1,607	22,906	-	321,858	566,122
Total liabilities	1,705,527	739,410	196,905	649,697	944,879	62	1,176,946	5,413,426
Equity of unrestricted investment accountholders	239,365	240,861	60,866	130,532	1,726,162	-	224,525	2,622,311
Total liabilities and equity of unrestricted investment accountholders	1,944,892	980,271	257,771	780,229	2,671,041	62	1,401,471	8,035,737
Contingent liabilities and commitments	1,343,942	876,258	52,620	393,405	7,546	34,794	486,872	3,195,437
31 December 2017								
Total assets	4,423,060	1,108,351	625,802	68,337	1,828,812	251,233	305,764	8,611,359
Total liabilities and equity of unrestricted investment accountholders	1,585,270	1,126,419	420,700	856,368	2,792,681	30,082	1,281,468	8,092,988
Contingent liabilities and commitments	1,204,590	1,106,593	61,459	30,574	16,220	65,345	679,188	3,163,969

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38 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)

31 December 2018	Asia / Pacific	Middle East	Europe	North America	Others	Total
Cash and balances with banks and central banks	324,808	178,349	74,848	17,852	377	596,234
Commodity and other placements with banks, financial and other institutions	37,274	243,956	4,397	-	-	285,627
Murabaha and other financings	1,689,350	1,273,568	272,881	-	29,066	3,264,865
Musharaka financing	495,626	-	-	-	-	495,626
Investment in mudaraba	-	-	-	5,760	-	5,760
Sukuk and investment securities	1,529,718	205,936	5,052	2,699	13,290	1,756,695
Investment in associates	42,909	568,285	-	-	-	611,194
Assets acquired for leasing	-	410,765	-	-	-	410,765
Insurance and related receivables	7,474	110,970	-	-	1,590	120,034
Other assets	104,620	71,572	25,795	9,332	-	211,319
Investment in real estate	11,629	189,137	69,300	-	-	270,066
Development Properties	-	269,388	-	-	-	269,388
Fixed assets	45,264	17,952	-	-	-	63,216
Intangible assets	12,473	115,394	-	-	-	127,867
Total assets	4,301,145	3,655,272	452,273	35,643	44,323	8,488,656
Customer current accounts	965,250	286,525	216,012	8,122	199	1,476,108
Due to banks, financial and other institutions	705,515	801,350	31,287	-	3,194	1,541,346
Due to investors	1,694,972	5	-	-	-	1,694,977
Insurance related reserves	-	134,873	-	-	-	134,873
Other liabilities	260,789	271,479	33,249	-	605	566,122
Total liabilities	3,626,526	1,494,232	280,548	8,122	3,998	5,413,426
Equity of unrestricted investment accountholders	280,352	2,341,959	-	-	-	2,622,311
Total liabilities and equity of unrestricted investment accountholders	3,906,878	3,836,191	280,548	8,122	3,998	8,035,737
Contingent liabilities and commitments	2,674,967	507,166	13,201	-	103	3,195,437
31 December 2017						
Total assets	4,509,165	3,580,212	453,090	40,400	28,492	8,611,359
Total liabilities and equity of unrestricted investment accountholders	4,084,822	3,729,712	251,374	23,847	3,233	8,092,988
Contingent liabilities and commitments	2,608,341	542,427	13,201	-	-	3,163,969

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

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39 RISK MANAGEMENT

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2018	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	-	-	-	-	-	596,234	596,234
Commodity and other placements with banks, financial and other institutions	157,419	55,160	57,208	15,840	-	-	285,627
Murabaha and other financings	720,184	344,252	871,230	890,436	438,763	-	3,264,865
Musharaka financing	3,877	11,598	76,392	311,163	92,596	-	495,626
Sukuk and investment securities	489,522	528,214	512,177	13,287	-	213,495	1,756,695
Assets acquired for leasing	-	29	1,441	2,143	407,152	-	410,765
Insurance and related receivables	-	-	-	-	-	120,034	120,034
Other assets	-	-	-	-	-	211,319	211,319
Total financial assets	1,371,002	939,253	1,518,448	1,232,869	938,511	1,141,082	7,141,165
Customer current accounts	-	-	-	-	-	1,476,108	1,476,108
Due to banks, financial and other institutions	1,046,848	57,453	23,617	2,586	-	410,842	1,541,346
Due to investors	435,229	902,500	337,629	19,619	-	-	1,694,977
Other liabilities	-	-	-	-	-	566,122	566,122
Total financial liabilities	1,482,077	959,953	361,246	22,205	-	2,453,072	5,278,553
Equity of unrestricted investment accountholders	1,146,652	287,543	938,831	249,285	-	-	2,622,311
Total financial liabilities and equity of unrestricted investment accountholders	2,628,729	1,247,496	1,300,077	271,490	-	2,453,072	7,900,864
Total repricing gap	(1,257,727)	(308,243)	218,371	961,379	938,511	(1,311,990)	(759,699)
31 December 2017							
Total financial assets	1,438,361	1,269,172	720,820	1,566,025	1,146,966	1,173,872	7,315,216
Total financial liabilities and equity of unrestricted investment accountholders	2,213,695	810,799	2,483,590	398,074	13,604	2,173,226	8,092,988
Total repricing gap	(775,334)	458,373	(1,762,770)	1,167,951	1,133,362	(999,354)	(777,772)

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)**Notes to the Consolidated Financial Statements for the year ended 31 December 2018**

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40 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

- (a) Directors and companies in which they have an ownership interest.
- (b) Major shareholders of Ithmaar, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).
- (c) Associated companies of Ithmaar.
- (d) Senior management.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

	31 December 2018				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	409,479	-	12,809	-	422,288
Sukuk and investment securities	-	68,234	-	-	68,234
Investment in associates	-	611,194	-	-	611,194
Other assets	-	10,455	-	1,119	11,574
Assets classified as held-for-sale	-	-	-	-	-
Liabilities					
Customers' current accounts	-	-	-	1,209	1,209
Due to banks, financial and other institutions	-	118,312	-	-	118,312
Equity of unrestricted investment accounts	-	-	-	2,886	2,886
Other liabilities	107	-	-	-	107
Income					
Return to unrestricted investment accounts	181	343	-	115	639
Income from murabaha and other financings	4,173	-	-	-	4,173
Share of profit after tax from associates	-	42,772	-	-	42,772
Other income	6,509	-	-	-	6,509
Profit paid to banks, financial and other institutions	-	3,298	-	-	3,298
Expenses					
Administrative and general expenses	800	-	50	-	850

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)**Notes to the Consolidated Financial Statements for the year ended 31 December 2018**

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40 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	31 December 2017				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	431,320	-	12,809	-	444,129
Sukuk and investment securities	-	68,234	-	-	68,234
Investment in associates	-	186,207	-	-	186,207
Other assets	-	10,456	-	466	10,922
Assets classified as held-for-sale	-	478,432	-	-	478,432
Liabilities					
Customers' current accounts	-	81,863	-	918	82,781
Due to banks, financial and other institutions	-	51,667	-	-	51,667
Equity of unrestricted investment accounts	28,287	18,999	540	2,213	50,039
Other liabilities	40,089	-	-	-	40,089
Income					
Return to unrestricted investment accounts	803	779	20	89	1,691
Income from murabaha and other financings	4,213	-	-	-	4,213
Share of profit after tax from associates	-	22,995	-	-	22,995
Other income	-	1,171	-	-	1,171
Profit paid to banks, financial and other institutions	-	1,342	-	-	1,342
Expenses					
Administrative and general expenses	775	-	50	-	825

Certain collaterals amounting to \$306.3 million (31 December 2017: \$373.5 million) with respect to certain financing facilities are legally held by related parties for the beneficial interest of the Group.

41 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and;
- To maintain a strong capital base to support the development of its business.

The Group does not engage in any banking activity at solo level, hence Basel III requirements are not applicable. The Group complies with CBB directives with respect to its investment firm category 1 license. The subsidiaries comply with the directives of the respective local regulators for their capital management.

42 PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2018 (31 December 2017: Nil).

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43 NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are in accordance with the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2018	31 December 2017
INCOME		
Group's share of income from funds under management	-	68
Income from other financings	155,013	132,290
Share of profit after tax from associates - note (i)	42,091	19,190
Income from investments	92,306	116,506
Other income	26,857	30,324
Gross income	316,267	298,378
Less: profit paid to banks, financial and other institutions - note (ii)	(120,674)	(119,750)
Total income	195,593	178,628
EXPENSES		
Administrative and general expenses - note (ii)	(93,235)	(95,977)
Depreciation and amortisation	(22,219)	(17,324)
Total expenses	(115,454)	(113,301)
Net income before provision for impairment and overseas taxation	80,139	65,327
Provision for impairment (net)	1,093	(10,831)
Net income before overseas taxation	81,232	54,496
Overseas taxation	(25,686)	(25,989)
NET INCOME FOR THE YEAR	55,546	28,507
Attributable to:		
Equity holders of the Bank	45,323	18,209
Minority interests	10,223	10,298
	55,546	28,507
Basic and diluted earnings per share	US Cts 1.56	US Cts 0.63

Note (i) – The share of profit attributable to non-sharia compliant associates is based on their accounting policies which are different from the Group accounting policies. Since the non-sharia income is already disclosed separately and hence no adjustment is made on impact of dissimilar accounting policies.

Note (ii) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (iii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 254 (2017: 197 branches) out of total 454 branches (2017: 404 branches).

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)**Notes to the Consolidated Financial Statements for the year ended 31 December 2018**

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44 ACQUISITION OF A BUSINESS**- Dilmunia Development Fund I L.P.**

During December 2018, the Bank's interest in shareholding of Dilmunia increased to 53.54% from 40.56% resulting from in-kind redemption by investors of fund units against underlying development property. Further, the Bank acquired additional 3.61% interest on 31 December 2018 resulting from settlement of a financing, increasing its total shareholding in the Fund to 57.15%. Hence the Fund was classified as a subsidiary of the Bank from existing accounting as an investment in restricted investment accounts.

The resulting transaction of the Fund being classified as a subsidiary has been accounted for by applying the purchase method in accordance with the requirements of IFRS 3 'Business Combinations'. The cost of the transaction has been measured at the fair value of the consideration given. Identified assets acquired, liabilities assumed or incurred have been carried at the fair value as at the acquisition date as follows:

	Amount
Fair value of net assets as of 31 December 2018 (based on independent valuation of Development Properties)	187,332
Percentage if identifiable net assets acquired	57.15%
Fair value of net assets as of 31 December 2018	107,060
Less: Existing equity interest	(78,320)
Gain on bargain purchase	28,740
Minority interests	22,172
Total Gain on Bargain Purchase	50,912

The fair value of the net assets acquired are as follows:

	Acquiree's carrying value as of 31 December 2018	Fair value adjustments	Fair value as of 31 December 2018
ASSETS			
Cash and balances with a financial institution	17,600	-	17,600
Other assets	39,338	(4,225)	35,113
Development properties	111,010	99,324	210,334
	167,948	95,099	263,047
LIABILITIES			
Other liabilities	31,528	44,187	75,715
	31,528	44,187	75,715
NET ASSETS	136,420	50,912	187,332

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)**Notes to the Consolidated Financial Statements for the year ended 31 December 2018**

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44 ACQUISITION OF A BUSINESS (continued)**- Solidarity Group Holding B.S.C. (C)**

During December 2018, the Group acquired additional shareholding in Solidarity Group Holding resulting from part settlement of a financing facility. As a result, Solidarity Group Holding has been converted into a subsidiary from an associate which increased Ithmaar's shareholding in Solidarity to 55.42% from 36.39%.

	<u>Amount</u>
ASSETS	
Cash and balances with banks and central banks	16,532
Commodity and other placements with banks, financial and other institutions	73,786
Murabaha and other financings	17,649
Insurance and related receivables	120,034
Other assets	8,315
Investment securities	74,135
Investment in associates	42,814
Investment in real estate	19,619
Fixed assets	14,526
Intangible assets	12,976
	<u>400,386</u>
LIABILITIES	
Due to banks, financial and other institutions	13,250
Other liabilities	66,364
Insurance related reserves	134,873
	<u>214,487</u>
NET ASSETS	<u>185,899</u>
Percentage if identifiable net assets acquired	55.42%
Ithmaar's Share of Net Assets	<u>103,025</u>
Fair value of consideration	<u>103,025</u>

45 SOCIAL RESPONSIBILITY

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

46 COMPARATIVES

Certain comparatives figures have been reclassified to conform to the current year presentation.