Liquidity Management Centre B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018 (Reviewed)

Building a better
working world

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REVIEW REPORT TO THE BOARD OF DIRECTORS OF LIQUIDITY MANAGEMENT CENTRE B.S.C. (c)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Liquidity Management Centre B.S.C. (c) (the "Bank") and its subsidiary (the "Group") as at 30 September 2018, comprising of the interim consolidated statement of financial position as at 30 September 2018 and the related interim consolidated statements of income, cash flows and changes in owners' equity for the nine-month period then ended and other explanatory information. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the accounting policies set out in note 2.

Ernst + Young

1 November 2018
Manama, Kingdom of Bahrain

A member firm of Ernst & Young Global Limited

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2018

	Note	*Reviewed* *30 September 2018* *US$ '000*	*Audited* *31 December 2017* *US$ '000*
ASSETS			
Cash and balances with banks		**1,431**	1,823
Murabaha receivables	3	**15,840**	13,004
Due from banks	4	**7,991**	15,500
Mudaraba receivables	5	**2,484**	5,071
Financing receivables	6	**1,972**	5,851
Investment in sukuks	7	**73,580**	73,461
Investment in equities and funds	7	**4,953**	5,651
Investment in real estate	8	**27,008**	27,547
Equipment		**138**	139
Other assets		**2,502**	1,366
TOTAL ASSETS		**137,899**	149,413
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Due to short term sukuk investors and banks		**82,739**	93,461
Staff payables		**972**	979
Other liabilities		**1,478**	832
Total liabilities		**85,189**	95,272
Owners' Equity			
Share capital	10	**59,039**	59,039
Reserves		**8,282**	8,567
Accumulated losses		**(14,611)**	(13,465)
Total owners' equity		**52,710**	54,141
TOTAL LIABILITIES AND OWNERS' EQUITY		**137,899**	149,413

Hassan Amin Jarrar Chairman	Ameer Adul Ghani Director	Ahmed Abbas Chief Executive Officer

The attached explanatory notes 1 to 15 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the nine months ended 30 September 2018 (Reviewed)

		Three months ended 30 September		*Nine months ended 30 September*	
		2018	*2017*	***2018***	*2017*
	Note	***US$ '000***	*US$ '000*	***US$ '000***	*US$ '000*
Income					
Investment in sukuk	11	**846**	1,751	**2,605**	4,617
Investment in equities and funds		**1**	9	**60**	38
Due from banks		**68**	35	**161**	62
Financing receivables		**622**	98	**752**	285
Mudaraba receivables		**11**	36	**44**	87
Less: Return to short term sukuk investors and banks		**(573)**	(493)	**(1,587)**	(1,296)
		975	1,436	**2,035**	3,793
Investment banking fees		**217**	81	**358**	346
Ijarah income		**308**	366	**965**	1,147
Foreign exchange gain - net		**-**	(1)	**(2)**	20
Other income		**7**	2	**242**	116
OPERATING INCOME		**1,507**	1,884	**3,598**	5,422
Staff costs		**541**	589	**1,775**	2,004
General and administrative expenses	12	**250**	270	**708**	773
Depreciation		**181**	181	**543**	543
OPERATING EXPENSES		**972**	1,040	**3,026**	3,320
NET PROFIT FOR THE PERIOD BEFORE IMPAIRMENT PROVISION		**535**	844	**572**	2,102
Net recoveries for credit losses	9	**-**	-	**280**	-
Unrealised fair value loss on investments in funds		**-**	-	**(285)**	-
Impairment (provision) recoveries on investments - net		**(14)**	-	**9**	(33)
NET PROFIT FOR THE PERIOD		**521**	844	**576**	2,069

Hassan Amin Jarrar	Ameer Adul Ghani	Ahmed Abbas
Chairman	Director	Chief Executive Officer

The attached explanatory notes 1 to 15 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2018 (Reviewed)

	Note	*Nine months ended 30 September* 2018 US$ '000	2017 US$ '000
OPERATING ACTIVITIES			
Net profit for the period		**576**	2,069
Adjustments for:			
Depreciation		**543**	543
Amortisation of discount on investments		**(129)**	(525)
Net gain from sale of investments at amortised cost		**17**	(1,669)
Unrealized fair value losses on investment through equity		**285**	-
Net recoveries for credit losses	9	**(280)**	-
Impairment (recoveries) provision on investments - net		**(9)**	33
Operating profit before changes in operating assets and liabilities		**1,003**	451
Changes in:			
Mudaraba receivables		**2,586**	(24)
Financing receivables		**1,557**	1,511
Other assets		**(1,136)**	693
Due to short term sukuk investors and banks		**(10,722)**	15,924
Staff payables		**(7)**	(3,035)
Other liabilities		**646**	78
Purchase of investments at amortised cost		**(3,000)**	(57,033)
Sale / redemption proceeds of investments at amortised cost		**3,500**	68,051
Capital redemption / sale of investments at fair value through equity		**508**	3
Net cash (used in) from operating activities		**(5,065)**	26,619
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(5,065)**	26,619
Cash and cash equivalents at 1 January		**30,327**	10,579
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER		**25,262**	37,198
Cash and cash equivalents comprise:			
Cash and balances with banks		**1,431**	2,692
Murabaha receivables		**15,840**	13,006
Due from banks with original maturity of 90 days or less		**7,991**	21,500
		25,262	37,198

The attached explanatory notes 1 to 15 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the nine months ended 30 September 2018 (Reviewed)

		Reserves					
	Share capital US$ '000	*Statutory reserve US$ '000*	*General reserve US$ '000*	*Investment fair value reserve US$ '000*	*Total reserves US$ '000*	*Accumulated losses US$ '000*	*Total owners' equity US$ '000*
Balance at 1 January 2018	59,039	3,881	2,226	2,460	8,567	(13,465)	54,141
Transition adjustment on adoption of FAS 30 as of 1 January 2018 (Note. 2.5)	-	-	-	-	-	(2,007)	(2,007)
Restated balance as of 1 January 2018	**59,039**	**3,881**	**2,226**	**2,460**	**8,567**	**(15,472)**	**52,134**
Net profit for the period	-	-	-	-	-	576	576
Cumulative changes in fair value	-	-	-	(285)	(285)	285	-
Balance at 30 September 2018	**59,039**	**3,881**	**2,226**	**2,175**	**8,282**	**(14,611)**	**52,710**
Balance at 1 January 2017	59,039	3,669	2,226	2,460	8,355	(15,370)	52,024
Net profit for the period	-	-	-	-	-	2,069	2,069
Balance at 30 September 2017	59,039	3,669	2,226	2,460	8,355	(13,301)	54,093

The attached explanatory notes 1 to 15 form part of these interim condensed consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Liquidity Management Centre B.S.C. (c) (the "Bank") is a closed joint stock company incorporated in the Kingdom of Bahrain on 31 July 2002, under Commercial Registration (CR) number 49092. The Bank operates under an Islamic Wholesale Banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is Building 852, Road 3618, Block 436, Seef District, Kingdom of Bahrain.

The principal activities of the Bank and its wholly owned subsidiary (the "Group") include the following:

- Facilitating the creation of an Islamic inter-bank money market that will allow Islamic Financial Services Institutions ("IFSI") to effectively manage their assets and liabilities;
- Providing short-term liquid, tradable asset-backed treasury instruments (Sukuk) based on Islamic Shari'a principles where IFSI can invest their surplus liquidity; and
- Providing short-term investment opportunities based on Islamic Shari'a principles.

The Bank is regulated by the CBB and supervised by the Shari'a Supervisory Board for compliance with Shari'a rules and principles.

The interim condensed consolidated financial statements have been authorised for issue by the Board of Directors on 1 November 2018.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the nine month period ended 30 September 2018 have been prepared in accordance with the guidance given by International Accounting Standard 34 "Interim Financial Reporting". The interim condensed consolidated financial statements do not contain all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017. In addition, results for the nine month period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

2.2 Statement of compliance

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for equity type instruments carried at fair value through equity and equity type instruments carried at fair value through statement of income that have been measured at fair value. The interim condensed consolidated financial statements have been presented in United States Dollar ("US$"), being the reporting and functional currency of the Group's operations. All values are rounded to the nearest thousand (US$ '000) unless otherwise indicated.

2.3 Basis of consolidation

These interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiary for the nine month period ended 30 September 2018. The financial statements of the subsidiary are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

The Bank has the following subsidiary:

	Ownership 2018 and 2017	*Year and country of incorporation*	*Activity*
The Short Term Sukuk Center B.S.C. (c)	**100%**	2003 Kingdom of Bahrain	Investments in Sukuk

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

The subsidiary is consolidated in these interim condensed consolidated financial statements based on unaudited 30 September 2018 management accounts.

2.4 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017, except for the early adoption of FAS 30.

2.5 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30")

The Group has early adopted FAS 30, effective from 1 January 2018 which has a mandatory date of initial application of 1 January 2020. The requirements of FAS 30 represent a significant change from FAS 11 "Provisions and Reserves".

As permitted by FAS 30, the standard has been applied retrospectively and the comparative amounts have not been restated. The impact of the early adoption of FAS 30 has been recognised in retained earnings in the consolidated statement of changes in equity. The standard eliminates the use of the existing FAS 11 incurred loss impairment model approach.

Transition

Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except comparative periods which have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of FAS 30 and therefore is not comparable to the information presented for 2018 under FAS 30.

Impact of adopting FAS 30

Following is the impact of early adoption of FAS 30:

	Balance 31 December 2017	*Transition adjustment*	*Restated balance 1 January 2018*
	US '000	*US '000*	*US '000*
Accumulated losses	(13,465)	(2,007)	(15,472)
Cash and balances with banks	1,823	(2)	1,821
Murabaha receivables	13,004	(2)	13,002
Due from banks	15,500	(329)	15,171
Mudaraba receivables	5,071	(8)	5,063
Financing receivables	5,851	(2,246)	3,605
Investment in sukuks	73,461	580	74,041

The key changes to the Group's accounting policies resulting from its adoption of FAS 30 are summarized in note 2.6 (b).

2.6 Summary of significant accounting policies

a) Financial contracts

Financial contracts consist of cash and balances with banks, Murabaha receivables, Due from banks, Mudaraba receivables, financing receivables, and sukuks. Balances relating to these contracts are stated net of allowance for credit losses.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

b) Impairment assessment (policy applicable from 1st January 2018)

Impairment of financial assets
FAS 30 replaces the 'incurred loss' model in FAS 11 with ECL model. The new impairment model also applies to certain financing commitments and financial guarantee contracts but not to equity investments.

Credit losses approach
The Group recognizes credit losses allowances based on a forward looking Expected Credit Loss (ECL) approach for all established Islamic financing contracts, Sukuk investments and Off-balance sheet exposures.

The Group categorizes its assets subject to credit losses into the following three stages in accordance with the FAS 30 methodology:

- Stage 1 – Performing assets: asset(s) that are not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months ECL;

- Stage 2 – Underperforming assets: asset(s) that has significantly deteriorated in credit quality since origination. The credit losses is recorded based on life time ECL; and

- Stage 3 – Impaired assets: For asset(s) that are impaired, the Group recognizes the impairment allowance based on life time ECL.

The Group considers forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information includes elements such as macroeconomic factors (e.g., fiscal deficit, GDP growth, inflation, government spending, profit rates and oil prices) and economic forecasts obtained through internal and external sources.

To evaluate a range of possible outcomes, the Group formulates various scenarios. For each scenario, the Group derives an ECL and applies a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

Measurement of ECL
The Group has adopted the general approach to calculate expected credit loss (ECL). The ECL amount will be computed as the unbiased and probability-weighted estimate of credit losses (i.e. present value of all cash shortfalls) over the expected life of the financial asset. Credit losses under the general approach are computed from individual risk parameters i.e. probability of default (PD), loss given default (LGD) and exposure at default (EAD). The guiding principle of the ECL model is to reflect the general pattern of changes in the credit quality of a financial instrument.

The objective of calculating impairment through the ECL model is to recognize 12 month expected credit losses for financial instruments which exhibit stable credit quality (Stage 1) and lifetime expected credit losses for financial instruments for which there has been a significant increase in credit quality since initial recognition (Stage 2 and Stage 3).

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

Definition of default

The Group's definition of default Is aligned with regulatory guidelines and internal credit risk management practices. Defaulted facilities are under Stage 3 and a specific provision will be recognized against all such assets.

The Group uses 90+ Days Past Due on principal and profit repayments as a hard stop default definition along with certain other unlikeliness-to-pay indicators defined in risk management policies (if any).

Probability of default

Probability of default (PD) is a key risk parameter in the ECL calculations. It is defined as the likelihood that a counterparty will not be able to meet its debt obligations in the future. A 12 months marginal PD is applied for all Stage 1 assets and a lifetime PD is applied for all Stage 2 assets. PD reflects the Group's view of the future asset quality and is an unbiased estimate so as to not include any optimism or conservatism. A "point-in-time" PD (PiT PD) estimate which reflects forecasted macroeconomic conditions is used for ECL calculation purposes.

Loss Given Default

Loss given default (LGD) is defined as the forecasted economic loss in case of default. LGD computation is independent of the assessment of credit quality and thus applied uniformly across all stages.

Due to the size of the Group's portfolio, there is insufficient historical LGD data to derive statistically reliable LGD estimates. The Group shall therefore use Basel regulatory guidelines as a starting point to arrive at the LGD percentage for unsecured exposures, furthermore the exposures will be assessed individually and according to the underlying collateral value. Going forward, subject to availability of adequate default data, the Group shall revise LGD estimation methodology to derive Group specific LGD.

Exposure At Default

Exposure at default (EAD) is an estimation of the extent that the Group may be exposed to an obligor in the event of default. The estimation of EAD takes into account any expected changes in the exposure after the assessment date. This is of particular importance in the case of Stage 2 assets where the point of default may be several years in the future. EAD in the case of facilities with no limits is the outstanding exposure which will be calculated as principal plus profit less contractual prepayments. The outstanding exposure will also include undisbursed commitments, except where the terms of the contract clearly state that such commitments are cancellable for any reason, the committed amounts for such arrangements will not be considered as EAD.

Period of exposure

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 assets for which lifetime ECLs are to be calculated).

The maximum period over which ECL is computed correspond to the maximum contractual period of a facility commitment. However, for certain financial instruments, the maximum period over which ECL is computed over a period that the Group is exposed to credit risk even if that period extends beyond the maximum contractual period.

Significant Increase in Credit Risk

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

The criteria for determining whether credit risk has increased significantly vary on a portfolio level and include quantitative and qualitative factors, including days past due and risk rating.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

Backward transition

FAS 30 staging model is of symmetrical nature as exposures may migrate from lifetime ECL measurement (Stage 2 and Stage 3) to 12 month ECL measurement (Stage 1). However, movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off period, SICR indicators and payment history are considered for migrating customers to Stage 2 or Stage 1.

Impairment approach

The Group recognizes impairment losses on all investment assets and exposures subject to risks other than credit risk (other than inventories), other than investments carried at fair value through income statement.

The impairment losses are measured by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use.

3 MURABAHA RECEIVABLES

	Reviewed 30 September 2018				Audited 31 December 2017
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000	US$ '000
Murabaha receivables	15,840	-	-	15,840	13,004
	15,840	-	-	15,840	13,004

4 DUE FROM BANKS

	Reviewed 30 September 2018				Audited 31 December 2017
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000	US$ '000
Due from banks	-	8,000	-	8,000	15,500
Less: Allowance for credit losses	-	(9)	-	(9)	-
	-	7,991	-	7,991	15,500

5 MUDARABA RECEIVABLES

	Reviewed 30 September 2018				Audited 31 December 2017
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000	US$ '000
Mudaraba receivables	-	2,485	-	2,485	5,071
Less: Allowance for credit losses	-	(1)	-	(1)	-
	-	2,484	-	2,484	5,071

6 FINANCING RECEIVABLES

	Reviewed 30 September 2018				*Audited 31 December 2017*
	Stage 1	***Stage 2***	***Stage 3***	***Total***	
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	*US$ '000*
Financing receivables	-	**4,294**	-	**4,294**	5,851
Less: Allowance for credit losses	-	**(2,322)**	-	**(2,322)**	-
	-	**1,972**	-	**1,972**	5,851

7 INVESTMENTS

	Reviewed ***Reviewed 30 September 2018***			
	Amortised cost	***Fair value through equity***	***Fair value through statement of income***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Debt type				
Quoted investments - Sukuk	**73,710**	-	-	**73,710**
Unquoted investments - sukuk	**21,342**	-	-	**21,342**
Equity type				
Unquoted investments - Equity shares	-	**3,405**	**4,650**	**8,055**
	95,052	**3,405**	**4,650**	**103,107**
Less: Allowance for credit losses / impairment	**(21,472)**	**(3,102)**	-	**(24,574)**
At 30 September 2018	**73,580**	**303**	**4,650**	**78,533**

	Audited 31 December 2017			
	Amortised cost	*Fair value through equity*	*Fair value through statement of income*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Debt type				
Quoted investments - Sukuk	71,793	-	-	71,793
Unquoted investments - Sukuk	23,840	-	-	23,840
Equity type				
Unquoted investments - Equity shares	-	3,828	4,935	8,763
	95,633	3,828	4,935	104,396
Less: Impairment provision	(22,172)	(3,112)	-	(25,284)
At 31 December 2017	73,461	716	4,935	79,112

The Group's investments in quoted sukuk held at amortised cost have a fair value of US$ 71 million (31 December 2017: US$ 72 million).

Under unquoted investments which are held at fair value through equity are investments amounting to US$ 303 thousand (31 December 2017: US$ 716 thousand) which are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

7 INVESTMENTS (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and period-end stage classification. The amounts presented are gross of impairment allowances.

	30 September 2018				*31 December 2017*
	Stage 1 US '000	*Stage 2 US '000*	*Stage 3 US '000*	*Total US '000*	*Total US '000*
Good (1-4)	**52,945**	**-**	**-**	**52,945**	64,425
Satisfactory (5-7)	**2,972**	**17,793**	**-**	**20,765**	9,775
Default (8-10)	**-**	**-**	**21,342**	**21,342**	21,433
	55,917	**17,793**	**21,342**	**95,052**	95,633

7.1 Movements in allowance for credit losses on investments at amortised cost

	30 September 2018				*31 December 2017*
	Stage 1: 12-month ECL USD '000	*Stage 2: Lifetime ECL not credit-impaired USD '000*	*Stage 3: Lifetime ECL credit-impaired USD '000*	*Total ECL USD '000*	*Total USD '000*
Balance at 1 January on adoption of FAS 30	**80**	**77**	**21,340**	**21,497**	19,949
Net remeasurement of loss allowance	**6**	**(33)**	**2**	**(25)**	2,223
Balance at the end of the period/ year	**86**	**44**	**21,342**	**21,472**	22,172

During the period ended 30 September 2018, there were no exposures or ECL moved between stages nor recoveries or write offs.

Investments include an amount of US$ 73 million (31 December 2017: US$ 71.8 million) representing the underlying assets of the secured Short Term Sukuk Program (STS Program) of The Short Term Sukuk Center B.S.C. (c) managed by the Bank. The maturities of these investments range from 1 to 25 years and the effective profit rate on these investments range between 2.8 % to 7.9 % per annum (31 December 2017: 2.8 % to 7.9 % per annum).

The Group is party to a long term financing arrangement with a third party international financial institution for which certain of the Group's investments amounting to US$ 52 million (31 December 2017: US$ 48 million) have been pledged as collateral as of 30 September 2018.

8 INVESTMENT IN REAL ESTATE

This mainly represents the Bank's headquarters building, the majority of which is leased under an operating Ijarah:

	Reviewed 30 September 2018 US$ '000	*Audited 31 December 2017 US$ '000*
Cost	**31,963**	31,963
Accumulated depreciation	**(4,955)**	(4,416)
	27,008	27,547

As at 30 September 2018, the Bank's headquarters had a fair value of US$ 24.2 million (31 December 2017: US$ 24.2 million) and its other investment property had a fair value of US$ 3.7 million (31 December 2017: US$ 3.7 million) .

9 NET RECOVERIES (ALLOWANCES) FOR CREDIT LOSSES

The impairment allowance recovered (charged) in the statement of income is as follows:

	Reviewed Nine months ended 30 September	
	2018 US$ '000	*2017 US$ '000*
Cash and balances with banks	**2**	-
Murabaha receivables	**2**	-
Due from banks	**320**	-
Mudaraba receivables	**7**	-
Financing receivables	**(76)**	-
Investment in sukuks	**25**	(17)
Other receivables	**-**	(16)
	280	(33)

10 SHARE CAPITAL

	Reviewed 30 September 2018 US$ '000	*Audited 31 December 2017 US$ '000*
Authorised:		
200,000,000 ordinary shares of US$ 1 each	**200,000**	200,000
Issued, subscribed and paid-up:		
59,038,875 (2017: 59,038,875) ordinary shares of US$ 1 (2017: US$ 1) each	**59,039**	59,039

11 INCOME FROM INVESTMENT IN SUKUK

	Reviewed Three months ended 30 September		*Reviewed Nine months ended 30 September*	
	2018	2017	**2018**	2017
	US$ '000	US$ '000	**US$ '000**	US$ '000
Income from sukuk	**863**	1,003	**2,622**	2,948
(Loss) gain on sale of sukuk	**(17)**	748	**(17)**	1,669
	846	1,751	**2,605**	4,617

12 GENERAL AND ADMINISTRATIVE EXPENSES

	Reviewed Three months ended 30 September		*Reviewed Nine months ended 30 September*	
	2018	2017	**2018**	2017
	US$ '000	US$ '000	**US$ '000**	US$ '000
Legal and professional fees	**71**	56	**202**	174
Premises expenses	**58**	67	**162**	163
Board remuneration	**-**	82	**-**	212
Others	**121**	65	**344**	224
	250	270	**708**	773

13 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence or joint control over the other party in making financial and operating decisions. Related parties comprise major shareholders, directors, Shari'a supervisory board, external auditors and executive management of the Group entities over which they exercise control and significant influence.

The related party balances included in these interim condensed consolidated financial statements are as follows:

	Reviewed 30 September 2018			*Audited 31 December 2017*		
	Board members/ key management personnel/ Shari'a board members/ external auditors	***Significant shareholders / entities in which directors are interested***	***Total***	*Board members/ key management personnel/ Shari'a board members/ external auditors*	*Significant shareholders / entities in which directors are interested*	*Total*
	US$ '000	***US$ '000***	***US$ '000***	*US$ '000*	*US$ '000*	*US$ '000*
Assets						
Cash and balances with banks	**-**	**393**	**393**	-	268	268
Investment in sukuks	**-**	**5,249**	**5,249**	-	5,275	5,275
Other assets	**-**	**49**	**49**	-	148	148
Liabilities						
Due to short term sukuk investors and banks	**-**	**16,003**	**16,003**	-	20,004	20,004
Staff payables	**812**	**-**	**812**	715	-	715
Other liabilities	**161**	**-**	**161**	259	-	259

13 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The related party transactions included in these interim condensed consolidated financial statements are as follows:

	Reviewed 30 September 2018			*Reviewed 30 September 2017*		
	Board members/ key management personnel/ Shari'a board members/ external auditors US$ '000	***Significant shareholders / entities in which directors are interested US$ '000***	***Total US$ '000***	*Board members/ key management personnel/ Shari'a board members/ external auditors US$ '000*	*Significant shareholders / entities in which directors are interested US$ '000*	*Total US$ '000*
Income						
Income from investments in sukuk	**-**	**271**	**271**	-	594	594
Return to short term sukuk investors and banks	**-**	**334**	**334**	-	285	285
Expenses						
Staff costs	**1,161**	**-**	**1,161**	1,164	-	1,164
General and administrative expenses	**209**	**-**	**209**	303	-	303

Key management personnel of the Group comprise of the key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. The key management personnel compensation is as follows:

	Reviewed Nine months ended 30 September	
	2018 US$ '000	*2017 US$ '000*
Salary and other benefits	**1,161**	1,164

14 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

Fair value hierarchy
Fair values of quoted securities are derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis or other valuation models.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

14 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 30 September 2018:

	Level 1 US$ '000	*Level 2 US$ '000*	*Level 3 US$ '000*	*Total US$ '000*
Investments carried at fair value through statement of income				
Equities and funds	-	4,650	-	4,650
	-	4,650	-	4,650

Under unquoted investments which are held at fair value through equity are investments amounting to US$ 303 thousand (31 December 2017: US$ 716 thousand) which are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments (note 7).

The fair values of the Group's other financial instruments are not significantly different from their carrying values as at 30 September 2018 and 31 December 2017.

15 SEGMENTAL INFORMATION

(a) Industry sector

The industrial distribution of the Group's assets and liabilities as of 30 September 2018 is as follows:

	Reviewed 30 September 2018					
	Banks and financial institutions US$ '000	*Government US$ '000*	*Real estate US$ '000*	*Others US$ '000*	*ECL US$ '000*	*Total US$ '000*
Assets						
Cash and balances with banks	1,425	-	-	6	-	1,431
Murabaha receivables	15,840	-	-	-	-	15,840
Due from banks	8,000	-	-	-	(9)	7,991
Mudaraba receivables	2,485	-	-	-	(1)	2,484
Financing receivables	2,756	-	1,538	-	(2,322)	1,972
Investment in sukuks	48,818	19,539	16,447	10,248	(21,472)	73,580
Investment in equities and funds	221	-	4,732	-	-	4,953
Investment in real estate	-	-	27,008	-	-	27,008
Equipment	-	-	-	138	-	138
Other assets	494	409	1,033	659	(93)	2,502
Total assets	80,039	19,948	50,758	11,051	(23,897)	137,899
Liabilities						
Due to short term sukuk investors and banks	82,739	-	-	-	-	82,739
Staff payables	-	-	-	972	-	972
Other liabilities	14	-	-	1,464	-	1,478
Total liabilities	82,753	-	-	2,436	-	85,189

15 SEGMENTAL INFORMATION (continued)

(a) Industry sector (continued)

The industrial distribution of the Group's income and expenses as of 30 September 2018 is as follows:

	Reviewed 30 September 2018				
	Banks and financial institutions US$ '000	*Government US$ '000*	*Real estate US$ '000*	*Others US$ '000*	*Total US$ '000*
Income					
Income from:					
Investment in sukuk	1,469	658	141	337	2,605
Investment in equities and funds	51	-	9	-	60
Due from banks and Financial institutions	161	-	-	-	161
Financing Receivables	111	-	641	-	752
Mudaraba receivables	44	-	-	-	44
Less: Return to short term sukuk investors and banks	(1,587)	-	-	-	(1,587)
Investment banking fees	-	-	347	11	358
Ijarah income	-	610	-	355	965
Foreign exchange loss	(2)	-	-	-	(2)
Other income	-	-	-	242	242
Total income	247	1,268	1,138	945	3,598
Expenses					
Staff costs	-	-	-	1,775	1,775
General and administrative expenses	7	81	-	620	708
Depreciation	-	-	-	543	543
Total expenses	7	81	-	2,938	3,026
Net recoveries for credit losses	280	-	-	-	280
Impairment recoveries on investments	9	-	-	-	9
Unrealised fair value loss on investments in funds	-	-	(285)	-	(285)

15 SEGMENTAL INFORMATION (continued)

(a) Industry sector (continued)

The industrial distribution of the Group's assets and liabilities as of 31 December 2017 is as follows:

	Audited 31 December 2017				
	Banks and financial institutions US$ '000	*Government US$ '000*	*Real estate US$ '000*	*Others US$ '000*	*Total US$ '000*
Assets					
Cash and bank balances	1,817	-	-	6	1,823
Murabaha receivables	13,004	-	-	-	13,004
Due from banks	15,500	-	-	-	15,500
Mudaraba receivables	5,071	-	-	-	5,071
Financing receivables	2,963	-	2,888	-	5,851
Investment in sukuks	39,101	19,317	4,888	10,155	73,461
Investment in equities and funds	497	-	5,154	-	5,651
Investment in real estate	-	-	27,547	-	27,547
Equipment	-	-	-	139	139
Other assets	579	132	383	272	1,366
Total assets	78,532	19,449	40,860	10,572	149,413
Liabilities					
Due to short term sukuk investors and banks	93,461	-	-	-	93,461
Staff payables	-	-	-	979	979
Other liabilities	3	5	1	823	832
Total liabilities	93,464	5	1	1,802	95,272

15 SEGMENTAL INFORMATION (continued)

(a) Industry sector (continued)

The industrial distribution of the Group's income and expenses as of 30 September 2017 is as follows:

	Reviewed 30 September 2017				
	Banks and financial institutions US$ '000	*Government US$ '000*	*Real estate US$ '000*	*Others US$ '000*	*Total US$ '000*
Income					
Income from:					
Investment in sukuk	1,964	1,578	913	162	4,617
Investment in equities and funds	20	-	18	-	38
Due from banks and Financial institutions	62	-	-	-	62
Financing receivables	120	-	165	-	285
Mudaraba receivables	87	-	-	-	87
Less: Return to short term sukuk	-	-	-	-	
investors and banks	(1,296)	-	-	-	(1,296)
Investment banking fees	-	-	331	15	346
Ijarah income	-	672	-	475	1,147
Foreign exchange gain	20	-	-	-	20
Other income	26	-	62	28	116
Total income	1,003	2,250	1,489	680	5,422
Expenses					
Staff costs	-	-	-	2,004	2,004
General and administrative expenses	43	86	-	644	773
Depreciation	-	-	-	543	543
Total expenses	43	86	-	3,191	3,320
Impairment provision	(24)	-	(9)	-	(33)

15 SEGMENTAL INFORMATION (continued)

(b) Geographic sector

The geographical distribution of the Group's assets and liabilities as of 30 September 2018 is as follows:

	Reviewed 30 September 2018				
	Kingdom of Bahrain US$ '000	*Other GCC countries US$ '000*	*Others US$ '000*	*ECL US$ '000*	*Total US$ '000*
Assets					
Cash and balances with banks	590	-	841	-	1,431
Murabaha receivables	3,000	-	12,840	-	15,840
Due from banks	8,000	-	-	(9)	7,991
Mudaraba receivables	2,485	-	-	(1)	2,484
Financing receivables	1,538	2,756	-	(2,322)	1,972
Investment in sukuks	15,516	71,287	8,249	(21,472)	73,580
Investment in equities and funds	4,050	81	822	-	4,953
Investment in real estate	27,008	-	-	-	27,008
Equipment	138	-	-	-	138
Other assets	1,660	888	47	(93)	2,502
Total assets	63,985	75,012	22,799	(23,897)	137,899
Liabilities					
Due to short term sukuk investors and banks	28,474	16,003	38,262	-	82,739
Staff payables	972	-	-	-	972
Other liabilities	1,464	-	14	-	1,478
Total liabilities	30,910	16,003	38,276	-	85,189

The geographical distribution of the Group's income and expenses as of 30 September 2018 is as follows:

	Reviewed 30 September 2018			
	Kingdom of Bahrain US$ '000	*Other GCC countries US$ '000*	*Others US$ '000*	*Total US$ '000*
Income				
Income from:				
Investment in sukuks	661	1,673	271	2,605
Investment in equities and funds	-	9	51	60
Due from banks and Financial institutions	128	-	33	161
Financing Receivables	640	112	-	752
Mudaraba receivables	44	-	-	44
Less: Return to short term sukuk investors and banks	(314)	(334)	(939)	(1,587)
Investment banking fees	358	-	-	358
Ijarah income	965	-	-	965
Foreign exchange loss	(2)	-	-	(2)
Other income	-	-	242	242
Total income	2,480	1,460	(342)	3,598
Expenses				
Staff costs	1,775	-	-	1,775
General and administrative expenses	657	-	51	708
Depreciation	543	-	-	543
Total expenses	2,975	-	51	3,026
Net recoveries for credit losses	280	-	-	280
Impairment recoveries on investments	-	9	-	9
Unrealised fair value loss on investments in funds	(285)	-	-	(285)

15 SEGMENTAL INFORMATION (continued)

(b) Geographic sector (continued)

The geographical distribution of the Group's assets and liabilities as of 31 December 2017 is as follows:

	Audited 31 December 2017			
	Kingdom of Bahrain US$ '000	*Other GCC countries US$ '000*	*Others US$ '000*	*Total US$ '000*
Assets				
Cash and bank balances	1,238	-	585	1,823
Murabaha receivables	-	-	13,004	13,004
Due from banks and financial institutions	15,500	-	-	15,500
Mudaraba receivables	5,071	-	-	5,071
Financing receivables	2,888	2,963	-	5,851
Investment in sukuks	17,803	50,443	5,215	73,461
Investment in equities and funds	4,335	219	1,097	5,651
Investment in real estate	27,547	-	-	27,547
Equipment	139	-	-	139
Other assets	615	603	148	1,366
Total assets	75,136	54,228	20,049	149,413
Liabilities				
Due to short term sukuk investors and banks	35,268	20,004	38,189	93,461
Staff payables	979	-	-	979
Other liabilities	830	-	2	832
Total liabilities	37,077	20,004	38,191	95,272

The geographical distribution of the Group's income and expenses as of 30 September 2017 is as follows:

	Reviewed 30 September 2017			
	Kingdom of Bahrain US$ '000	*Other GCC countries US$ '000*	*Others US$ '000*	*Total US$ '000*
Income				
Income from:				
Investment in sukuks	737	3,155	725	4,617
Investment in equities and funds	-	18	20	38
Due from banks	62	-	-	62
Financing Receivables	165	120	-	285
Mudaraba receivables	87	-	-	87
Less: Return to short term sukuk investors and banks	(306)	(285)	(705)	(1,296)
Investment banking fees	346	-	-	346
Ijarah income	1,147	-	-	1,147
Foreign exchange loss	20	-	-	20
Other income	28	62	26	116
Total income	2,286	3,070	66	5,422
Expenses				
Staff costs	2,004	-	-	2,004
General and administrative expenses	739	-	34	773
Depreciation	543	-	-	543
Total expenses	3,286	-	34	3,320
Impairment provision	(6)	(27)	-	(33)