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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2019 (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 31 March 2019, comprising of the interim consolidated statement of financial position as at 31 March 2019 and the related interim consolidated statements of income, cash flows and changes in owners' equity for the three-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

13 May 2019
Manama, Kingdom of Bahrain

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019

	Note	*Reviewed 31 March 2019 US$ '000*	*Audited 31 December 2018 US$ '000*
ASSETS			
Cash and balances with banks		**3,314**	1,206
Murabaha receivables	3	**4,006**	9,502
Due from banks	4	**3,496**	8,496
Mudaraba receivables	5	**2,507**	2,496
Financing receivables	6	**841**	841
Investment in sukuks	7	**49,042**	73,405
Investment in equities and funds	7	**4,730**	4,771
Investment in real estate	8	**26,377**	26,556
Equipment		**136**	137
Other assets		**858**	1,180
TOTAL ASSETS		**95,307**	128,590
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Due to short term sukuk investors and banks		**43,260**	74,271
Staff payables		**299**	1,494
Other liabilities		**588**	678
Total liabilities		**44,147**	76,443
Owners' Equity			
Share capital	10	**59,039**	59,039
Reserves		**8,282**	8,282
Accumulated losses		**(16,161)**	(15,174)
Total owners' equity		**51,160**	52,147
TOTAL LIABILITIES AND OWNERS' EQUITY		**95,307**	128,590

Hassan Amin Jarrar
Chairman

Ameer Abdul Ghani
Director

Amer Sadiq
Acting Chief Executive Officer

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

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

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three months ended 31 March 2019 (Reviewed)

	Note	*Three months ended 31 March* 2019 US$ '000	2018 US$ '000
Income			
Investment in sukuk	11	**132**	877
Investment in equities and funds		**47**	8
Due from banks		**72**	56
Financing receivables		**-**	96
Mudaraba receivables		**11**	16
Less: Return to short term sukuk investors and banks		**(468)**	(483)
		(206)	570
Investment banking fees		**4**	68
Ijarah income		**318**	330
Other income		**2**	235
OPERATING INCOME		**118**	1,203
Staff costs		**643**	625
General and administrative expenses	12	**282**	192
Depreciation		**180**	181
OPERATING EXPENSES		**1,105**	998
NET (LOSS) PROFIT FOR THE PERIOD BEFORE IMPAIRMENT PROVISION		**(987)**	205
Net recoveries(allowances) for credit losses	9	**-**	280
Unrealised fair value loss on investments in funds		**-**	(285)
NET (LOSS) PROFIT FOR THE PERIOD		**(987)**	200

Hassan Amin Jarrar
Chairman

Ameer Abdul Ghani
Director

Amer Sadiq
Acting 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 three months ended 31 March 2019 (Reviewed)

		Three months ended 31 March	
		2019	*2018*
	Note	***US$ '000***	*US$ '000*
OPERATING ACTIVITIES			
Net (loss) profit for the period		**(987)**	200
Adjustments for:			
Depreciation		**180**	181
Amortisation of discount on investments		**16**	28
Net loss from sale of investments at amortised cost		**496**	-
Unrealized fair value losses on investment through equity		**-**	285
Net recoveries for credit losses	9	**-**	(280)
Operating (loss) profit before changes in operating assets and liabilities		**(295)**	414
Changes in:			
Mudaraba receivables		**(11)**	(17)
Financing receivables		**-**	207
Other assets		**322**	(286)
Due to short term sukuk investors and banks		**(31,011)**	(13,490)
Staff payables		**(1,195)**	(77)
Other liabilities		**(90)**	(23)
Sale / redemption proceeds of investments at amortised cost		**23,851**	-
Capital redemption / sale of investments at fair value through equity		**41**	115
Net cash used in operating activities		**(8,388)**	(13,157)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(8,388)**	(13,157)
Cash and cash equivalents at 1 January		**19,210**	30,327
CASH AND CASH EQUIVALENTS AT 31 MARCH		**10,822**	17,170
Cash and cash equivalents comprise:			
Cash and balances with banks		**3,314**	2,168
Murabaha receivables		**4,008**	5,502
Due from banks with original maturity of 90 days or less		**3,500**	9,500
		10,822	17,170

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 three months ended 31 March 2019 (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 as of 1 January 2019	**59,039**	**3,881**	**2,226**	**2,175**	**8,282**	**(15,174)**	**52,147**
Net loss for the period	-	-	-	-	-	(987)	(987)
Balance at 31 March 2019	**59,039**	**3,881**	**2,226**	**2,175**	**8,282**	**(16,161)**	**51,160**
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	-	-	-	-	-	200	200
Cumulative changes in fair value	-	-	-	(285)	(285)	285	-
Balance at 31 March 2018	59,039	3,881	2,226	2,175	8,282	(14,987)	52,334

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 Shareholders of the Bank, in their Extraordinary General Meeting ("EGM") held on 17 February 2019, passed a resolution approving the conversion of the Bank's license from an Islamic Wholesale Bank to an Investment Firm Category 1, subject to CBB approval.

The interim condensed consolidated financial statements have been authorised for issue by the Board of Directors on 13 May 2019.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the three month period ended 31 March 2019 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 2018. In addition, results for the three month period ended 31 March 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

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 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

These interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiary for the three month period ended 31 March 2019. 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 2019 and 2018	*Year and country of incorporation*	*Activity*
The Short Term Sukok Center B.S.C. (c)	**100%**	2003 Kingdom of Bahrain	Investments in Sukuk

The subsidiary is consolidated in these interim condensed consolidated financial statements based on unaudited 31 March 2019 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 2018, 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.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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

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.

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 and Sukuk investments.

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.

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) (continued)

Impairment of financial assets (continued)

Credit losses approach
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.

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.

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) (continued)

Impairment of financial assets (continued)

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.

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 31 March 2019				Audited 31 December 2018
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000	US$ '000
Murabaha receivables	4,008	-	-	4,008	9,504
Less: Allowance for credit losses	(2)	-	-	(2)	(2)
	4,006	-	-	4,006	9,502

4 DUE FROM BANKS

	Reviewed 31 March 2019				Audited 31 December 2018
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000	US$ '000
Due from banks	1,000	2,500	-	3,500	8,500
Less: Allowance for credit losses	-	(4)	-	(4)	(4)
	1,000	2,496	-	3,496	8,496

5 MUDARABA RECEIVABLES

	Reviewed 31 March 2019				Audited 31 December 2018
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000	US$ '000
Mudaraba receivables	-	2,508	-	2,508	2,497
Less: Allowance for credit losses	-	(1)	-	(1)	(1)
	-	2,507	-	2,507	2,496

6 FINANCING RECEIVABLES

	Reviewed 31 March 2019				Audited 31 December 2018
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000	US$ '000
Murabaha receivable	-	2,756	-	2,756	2,756
Less: Allowance for credit losses	-	(1,915)	-	(1,915)	(1,915)
	-	841	-	841	841

7 INVESTMENTS

	Reviewed Reviewed 31 March 2019			
	Amortised cost US$ '000	***Fair value through equity US$ '000***	***Fair value through statement of income US$ '000***	***Total US$ '000***
Debt type				
Quoted investments - Sukuk	**49,318**	**-**	**-**	**49,318**
Unquoted investments - sukuk	**21,435**	**-**	**-**	**21,435**
Equity type				
Unquoted investments - Equity shares	**-**	**3,132**	**4,650**	**7,782**
	70,753	**3,132**	**4,650**	**78,535**
Less: Allowance for credit losses / impairment	**(21,711)**	**(3,052)**	**-**	**(24,763)**
At 31 March 2019	**49,042**	**80**	**4,650**	**53,772**

	Audited 31 December 2018			
	Amortised cost US$ '000	*Fair value through equity US$ '000*	*Fair value through statement of income US$ '000*	*Total US$ '000*
Debt type				
Quoted investments - Sukuk	73,681	-	-	73,681
Unquoted investments - Sukuk	21,435	-	-	21,435
Equity type				
Unquoted investments - Equity shares	-	3,173	4,650	7,823
	95,116	3,173	4,650	102,939
Less: Allowance for credit losses / impairment	(21,711)	(3,052)	-	(24,763)
At 31 December 2018	73,405	121	4,650	78,176

The Group's investments in quoted sukuk held at amortised cost have a fair value of US$ 48 million (31 December 2018: US$ 70 million).

Under unquoted investments which are held at fair value through equity are investments amounting to US$ 80 thousand (31 December 2018: US$ 121 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.

	31 March 2019				31 December 2018
	Stage 1 US '000	*Stage 2 US '000*	*Stage 3 US '000*	*Total US '000*	*Total US '000*
Good (1-4)	**21,611**	**-**	**-**	**21,611**	40,900
Satisfactory (5-7)	**12,021**	**15,686**	**-**	**27,707**	32,781
Default (8-10)	**-**	**-**	**21,435**	**21,435**	21,435
	33,632	**15,686**	**21,435**	**70,753**	95,116

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

	31 March 2019				31 December 2018
	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	**37**	**239**	**21,435**	**21,711**	21,592
Net remeasurement of loss allowance	-	-	-	-	119
Balance at the end of the period/ year	**37**	**239**	**21,435**	**21,711**	21,711

During the period ended 31 March 2019, no exposures or ECL moved between stages nor recoveries or write offs.

Investments include an amount of US$ 49 million (31 December 2018: US$ 73.1 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 9 years and the effective profit rate on these investments range between 2.8 % to 7.9 % per annum (31 December 2018: 2.8 % to 7.9 % per annum).

The Group is party to financing arrangements with third party international financial institution for which certain of the Group's investments amounting to US$ 45 million (31 December 2018: US$ 48 million) have been pledged as collateral as of 31 March 2019.

8 INVESTMENT IN REAL ESTATE

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

	Reviewed 31 march 2019 US$ '000	*Audited 31 December 2018 US$ '000*
Cost	**31,963**	31,963
Accumulated depreciation and impairment	**(5,586)**	(5,407)
	26,377	26,556

As at 31 March 2019, the Bank's headquarters had a fair value of US$ 23.8 million (31 December 2018: US$ 23.8 million) and its other investment property had a fair value of US$ 3.4 million (31 December 2018: US$ 3.4 million) .

9 NET RECOVERIES (ALLOWANCES) FOR CREDIT LOSSES

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

	Reviewed Three months ended 31 March	
	2019 US$ '000	*2018 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
	-	280

10 SHARE CAPITAL

	Reviewed 31 march 2019 US$ '000	*Audited 31 December 2018 US$ '000*
Authorised:		
200,000,000 ordinary shares of US$ 1 each	**200,000**	200,000
Issued, subscribed and paid-up:		
59,038,875 (2018: 59,038,875) ordinary shares of US$ 1 (2018: US$ 1) each	**59,039**	59,039

11 INCOME FROM INVESTMENT IN SUKUK

	Reviewed Three months ended 31 march	
	2019	*2018*
	US$ '000	*US$ '000*
Income from sukuk	**628**	877
(Loss) gain on sale of sukuk	**(496)**	-
	132	877

12 GENERAL AND ADMINISTRATIVE EXPENSES

	Reviewed Three months ended 31 march	
	2019	*2018*
	US$ '000	*US$ '000*
Legal and professional fees	**102**	52
Premises expenses	**33**	39
Others	**147**	101
	282	192

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 31 March 2019			*Audited 31 December 2018*		
	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*
Assets						
Cash and balances with banks	-	**347**	**347**	-	313	313
Investment in sukuks	-	**3,139**	**3,139**	-	5,241	5,241
Other assets	-	**30**	**30**	216	148	364
Liabilities						
Due to short term sukuk investors and banks	-	-	-	-	13,004	13,004
Staff payables	**213**	-	**213**	845	-	845
Other liabilities	**207**	-	**207**	162	-	162

13 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	Reviewed 31 March 2019			*Reviewed 31 March 2018*		
	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						
(Loss) income from investments in sukuk	-	(32)	(32)	90	-	90
Return to short term sukuk investors and banks	-	(25)	(25)	(111)	-	(111)
Expenses						
Staff costs	429	-	429	431	-	431
General and administrative expenses	86	-	86	16	-	16

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 Three months ended 31 march	
	2019 US$ '000	*2018 US$ '000*
Salary and other benefits	**429**	431

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 31 March 2019:

	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
Investments carried at fair value through equity				
Equities and funds	-	-	-	-
	-	-	-	-
	-	4,650	-	4,650

Under unquoted investments which are held at fair value through equity are investments amounting to US$ 80 thousand (31 December 2018: US$ 121 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 31 March 2019 and 31 December 2018.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 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	-	-
Investments carried at fair value through equity				
Equities and funds	-	-	-	-
	-	-	-	-
	-	4,650	-	-

15 SEGMENTAL INFORMATION

(a) Industry sector

The industrial distribution of the Group's assets and liabilities as of 31 March 2019 is as follows:

	Reviewed 31 March 2019					
	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	3,305	-	-	9	-	3,314
Murabaha receivables	4,008	-	-	-	(2)	4,006
Due from banks	3,500	-	-	-	(4)	3,496
Mudaraba receivables	2,508	-	-	-	(1)	2,507
Financing receivables	2,756	-	-	-	(1,915)	841
Investment in sukuks	26,520	19,542	16,543	8,148	(21,711)	49,042
Investment in equities and funds	39	-	4,691	-	-	4,730
Investment in real estate	-	-	26,377	-	-	26,377
Equipment	-	-	-	136	-	136
Other assets	251	241	283	358	(275)	858
Total assets	42,887	19,783	47,894	8,651	(23,908)	95,307
Liabilities						
Due to short term sukuk investors and banks	43,260	-	-	-	-	43,260
Staff payables	-	-	-	299	-	299
Other liabilities	-	42	-	546	-	588
Total liabilities	43,260	42	-	845	-	44,147

15 SEGMENTAL INFORMATION (continued)

(a) Industry sector (continued)

The industrial distribution of the Group's income and expenses as of 31 March 2019 is as follows:

	Reviewed 31 March 2019				
	Banks and financial institutions US$ '000	*Government US$ '000*	*Real estate US$ '000*	*Others US$ '000*	*Total US$ '000*
Income					
(Loss) income from:					
Investment in sukuk	(174)	221	132	(47)	132
Investment in equities and funds	-	-	47	-	47
Due from banks	72	-	-	-	72
Financing Receivables	-	-	-	-	-
Mudaraba receivables	11	-	-	-	11
Less: Return to short term sukuk investors and banks	(468)	-	-	-	(468)
Investment banking fees	-	-	-	4	4
Ijarah income	-	203	-	115	318
Foreign exchange loss	-	-	-	-	-
Other income	-	-	-	2	2
Total (loss) income	(559)	424	179	74	118
Expenses					
Staff costs	-	-	-	643	643
General and administrative expenses	8	21	-	253	282
Depreciation	-	-	-	180	180
Total expenses	8	21	-	1,076	1,105

15 SEGMENTAL INFORMATION (continued)

(a) Industry sector (continued)

The industrial distribution of the Group's assets and liabilities as of 31 December 2018 is as follows:

	Audited 31 December 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 bank balances	1,198	-	-	8	-	1,206
Murabaha receivables	9,504	-	-	-	(2)	9,502
Due from banks	8,500	-	-	-	(4)	8,496
Mudaraba receivables	2,497	-	-	-	(1)	2,496
Financing receivables	2,756	-	-	-	(1,915)	841
Investment in sukuks	46,795	19,540	18,541	10,240	(21,711)	73,405
Investment in equities and funds	39	-	4,732	-	-	4,771
Investment in real estate	-	-	26,556	-	-	26,556
Equipment	-	-	-	137	-	137
Other assets	364	197	395	499	(275)	1,180
Total assets	71,653	19,737	50,224	10,884	(23,908)	128,590
Liabilities						
Due to short term sukuk investors and banks	74,271	-	-	-	-	74,271
Staff payables	-	-	-	1,494	-	1,494
Other liabilities	1	-	-	677	-	678
Total liabilities	74,272	-	-	2,171	-	76,443

15 SEGMENTAL INFORMATION (continued)

(a) Industry sector (continued)

The industrial distribution of the Group's income and expenses as of 31 March 2018 is as follows:

	Reviewed 31 March 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	500	219	47	111	877
Investment in equities and funds	-	-	8	-	8
Due from banks	56	-	-	-	56
Financing receivables	52	-	44	-	96
Mudaraba receivables	16	-	-	-	16
Less: Return to short term sukuk investors and banks	(483)	-	-	-	(483)
Investment banking fees	-	-	65	3	68
Ijarah income	-	203	-	127	330
Foreign exchange gain	-	-	-	-	-
Other income	-	-	-	235	235
Total income	141	422	164	476	1,203
Expenses					
Staff costs	-	-	-	625	625
General and administrative expenses	2	10	-	180	192
Depreciation	-	-	-	181	181
Total expenses	2	10	-	986	998
Net recoveries for credit losses	280	-	-	-	280
Unrealised fair value loss on investments in	-	-	(285)	-	(285)

15 SEGMENTAL INFORMATION (continued)

(b) Geographic sector

The geographical distribution of the Group's assets and liabilities as of 31 March 2019 is as follows:

	Reviewed 31 March 2019				
	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	610	2	2,702	-	3,314
Murabaha receivables	-	-	4,008	(2)	4,006
Due from banks	3,500	-	-	(4)	3,496
Mudaraba receivables	2,508	-	-	(1)	2,507
Financing receivables	-	2,756	-	(1,915)	841
Investment in sukuks	12,546	52,068	6,139	(21,711)	49,042
Investment in equities and funds	4,650	41	39		4,730
Investment in real estate	26,377	-	-	-	26,377
Equipment	136	-	-	-	136
Other assets	336	767	30	(275)	858
Total assets	50,663	55,634	12,918	(23,908)	95,307
Liabilities					
Due to short term sukuk investors and banks	14,472	-	28,788	-	43,260
Staff payables	299	-	-	-	299
Other liabilities	588	-	-	-	588
Total liabilities	15,359	-	28,788	-	44,147

The geographical distribution of the Group's income and expenses as of 31 March 2019 is as follows:

	Reviewed 31 March 2019			
	Kingdom of Bahrain US$ '000	*Other GCC countries US$ '000*	*Others US$ '000*	*Total US$ '000*
Income				
(Loss) income from:				
Investment in sukuks	100	64	(32)	132
Investment in equities and funds	46	1	-	47
Due from banks	66	-	6	72
Financing Receivables	-	-	-	-
Mudaraba receivables	11	-	-	11
Less: Return to short term sukuk investors and banks	(165)	(25)	(278)	(468)
Investment banking fees	4	-	-	4
Ijarah income	318	-	-	318
Other income	2	-	-	2
Total income (loss)	382	40	(304)	118
Expenses				
Staff costs	643	-	-	643
General and administrative expenses	273	-	9	282
Depreciation	180	-	-	180
Total expenses	1,096	-	9	1,105

15 SEGMENTAL INFORMATION (continued)

(b) Geographic sector (continued)

The geographical distribution of the Group's assets and liabilities as of 31 December 2018 is as follows:

	Audited 31 December 2018				
	Kingdom of Bahrain US$ '000	*Other GCC countries US$ '000*	*Others US$ '000*	*ECL US$ '000*	*Total US$ '000*
Assets					
Cash and bank balances	546	-	660	-	1,206
Murabaha receivables	5,000	-	4,504	(2)	9,502
Due from banks	8,500	-	-	(4)	8,496
Mudaraba receivables	2,497	-	-	(1)	2,496
Financing receivables	-	2,756	-	(1,915)	841
Investment in sukuks	15,519	71,356	8,241	(21,711)	73,405
Investment in equities and funds	4,051	81	639	-	4,771
Investment in real estate	26,556	-	-	-	26,556
Equipment	137	-	-	-	137
Other assets	593	714	148	(275)	1,180
Total assets	63,399	74,907	14,192	(23,908)	128,590
Liabilities					
Due to short term sukuk investors and banks	32,491	13,004	28,776	-	74,271
Staff payables	1,494	-	-	-	1,494
Other liabilities	678	-	-	-	678
Total liabilities	34,663	13,004	28,776	-	76,443

The geographical distribution of the Group's income and expenses as of 31 March 2018 is as follows:

	Reviewed 31 March 2018			
	Kingdom of Bahrain US$ '000	*Other GCC countries US$ '000*	*Others US$ '000*	*Total US$ '000*
Income				
Income from:				
Investment in sukuks	234	552	91	877
Investment in equities and funds	-	8	-	8
Due from banks	53	-	3	56
Financing Receivables	43	53	-	96
Mudaraba receivables	16	-	-	16
Less: Return to short term sukuk investors and banks	(106)	(111)	(266)	(483)
Investment banking fees	68	-	-	68
Ijarah income	330	-	-	330
Other income	-	-	235	235
Total income	638	502	63	1,203
Expenses				
Staff costs	625	-	-	625
General and administrative expenses	165	-	27	192
Depreciation	181	-	-	181
Total expenses	971	-	27	998
Net recoveries for credit losses	280	-	-	280
Unrealised fair value loss on investments in funds	(285)	-	-	(285)