

**ITHMAAR HOLDING B.S.C.**

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

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## AUDITOR'S REVIEW REPORT TO THE SHAREHOLDERS OF ITHMAAR HOLDING B.S.C.

### **Introduction**

We have reviewed the accompanying interim condensed consolidated financial information of Ithmaar Holding B.S.C. ("Ithmaar") and its subsidiaries (the "Group") which comprises the interim condensed consolidated statement of financial position as at 30 September 2018 and the related interim condensed consolidated income statement for the three month and nine month periods then ended, and the related interim condensed consolidated statements of changes in owners' equity, cash flows, and changes in restricted investment accounts for the nine month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors are responsible for the preparation and presentation of this interim condensed consolidation financial information in accordance with the basis of preparation stated in Note 2 to this interim condensed consolidated financial information. Our responsibility is to express a conclusion on this interim condensed consolidated financial information 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.

### **Basis for Qualified Conclusion**

Based on information provided to us by management, the Group has not accounted for the increase in fair value of restricted investment accounts that we believe should be recorded to conform with the basis of preparation stated in Note 2 to this interim condensed consolidated financial information. Had this change in fair value been accounted for, restricted investment accounts would have increased by USD 26,264 thousand and total owners' equity and equity of unrestricted investment accountholders would have increased by USD 23,518 thousand and USD 2,746 thousand respectively.

### **Qualified Conclusion**

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information has not been properly prepared, in all material respects, in accordance with basis of preparation stated in Note 2 of this interim condensed consolidated financial information.

Partner registration no. 216  
13 November 2018  
Manama, Kingdom of Bahrain

**Ithmaar Holding B.S.C.**

**Interim condensed consolidated statement of financial position**

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

	Notes	At 30 September 2018 (Reviewed)	At 31 December 2017 (Audited)	At 30 September 2017 (Reviewed)
<b>ASSETS</b>				
Cash and balances with banks and central banks	3	665,559	701,938	579,887
Commodity and other placements with banks, financial and other institutions	4	80,852	261,392	269,451
Murabaha and other financings	5	3,649,627	3,577,871	3,583,572
Musharaka financing		455,875	367,131	347,283
Investment in mudaraba		5,760	5,760	5,570
Sukuk and investment securities	6	1,260,413	1,862,885	2,047,219
Investment in associates	7	586,426	186,207	259,492
Restricted investment accounts		72,104	74,896	80,218
Assets acquired for leasing		415,395	347,760	292,051
Investment in real estate		247,523	247,902	257,263
Other assets	8	227,263	196,239	231,151
Assets classified as held-for-sale	10	57,690	478,432	399,077
Fixed assets		113,697	140,820	116,324
Intangible assets		154,710	162,126	166,443
<b>Total assets</b>		<b>7,992,894</b>	<b>8,611,359</b>	<b>8,635,001</b>
<b>LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY</b>				
Customers' current accounts		1,618,320	1,781,493	1,695,418
Due to banks, financial and other institutions		1,077,809	1,143,964	1,200,678
Due to investors		1,894,054	1,907,971	1,935,207
Other liabilities		384,638	431,645	373,431
<b>Total liabilities</b>		<b>4,974,821</b>	<b>5,265,073</b>	<b>5,204,734</b>
Equity of unrestricted investment accountholders	11	2,670,554	2,827,915	2,827,490
Minority interest		160,234	163,041	180,514
<b>Total liabilities, equity of unrestricted investment accountholders and minority interest</b>		<b>7,805,609</b>	<b>8,256,029</b>	<b>8,212,738</b>
Share capital	12	757,690	757,690	757,690
Treasury shares	12	(30,149)	(30,149)	(30,149)
Reserves		184,508	233,761	242,698
Accumulated losses		(724,764)	(605,972)	(547,976)
<b>Total owners' equity</b>		<b>187,285</b>	<b>355,330</b>	<b>422,263</b>
<b>Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity</b>		<b>7,992,894</b>	<b>8,611,359</b>	<b>8,635,001</b>

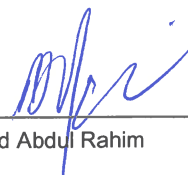
This interim condensed consolidated financial information was approved by the Board of Directors on 13 November 2018 and signed on their behalf by:



HRH Prince Amr Mohamed Al Faisal  
Chairman



Dr. Amani Khaled Bouresli  
Director



Ahmed Abdul Rahim  
CEO

The notes 1 to 17 on pages 11 to 30 form an integral part of the interim condensed consolidated financial information.

**Ithmaar Holding B.S.C.**


**Interim condensed consolidated income statement**


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

Notes	Nine months ended		Three months ended	
	30 September 2018 (Reviewed)	30 September 2017 (Reviewed)	30 September 2018 (Reviewed)	30 September 2017 (Reviewed)
<b>INCOME</b>				
Income from unrestricted investment accounts	132,818	119,176	45,515	41,379
Less: return to unrestricted investment accounts and impairment provisions	(77,490)	(67,243)	(25,414)	(23,836)
<b>Group's share of income from unrestricted investment accounts as a Mudarib</b>	<b>55,328</b>	<b>51,933</b>	<b>20,101</b>	<b>17,543</b>
Income from murabaha and other financings	113,343	108,371	41,988	36,289
Share of profit after tax from associates	50,249	27,338	9,883	5,722
Income from investments	74,964	95,281	22,574	27,713
Other income	40,635	19,419	14,544	7,002
<b>Total income</b>	<b>334,519</b>	<b>302,342</b>	<b>109,090</b>	<b>94,269</b>
Less: profit paid to banks, financial and other institutions – net	(123,045)	(121,262)	(46,298)	(40,402)
<b>Operating income</b>	<b>211,474</b>	<b>181,080</b>	<b>62,792</b>	<b>53,867</b>
<b>EXPENSES</b>				
Administrative and general expenses	(131,488)	(126,752)	(42,852)	(45,110)
Depreciation and amortization	(25,810)	(21,518)	(7,461)	(5,779)
<b>Total expenses</b>	<b>(157,298)</b>	<b>(148,270)</b>	<b>(50,313)</b>	<b>(50,889)</b>
<b>Net income before loss from assets classified as held-for-sale, provision for impairment and overseas taxation</b>	<b>54,176</b>	<b>32,810</b>	<b>12,479</b>	<b>2,978</b>
Impairment of assets classified as held-for-sale	-	(12,389)	-	(12,389)
Provision for impairment – net	9 (17,656)	(12,055)	(3,309)	731
<b>Net income before overseas taxation</b>	<b>36,520</b>	<b>8,366</b>	<b>9,170</b>	<b>(8,680)</b>
Overseas taxation	(25,184)	(24,615)	(8,656)	(5,984)
<b>NET INCOME/(LOSS) FOR THE PERIOD</b>	<b>11,336</b>	<b>(16,249)</b>	<b>514</b>	<b>(14,664)</b>
<b>Attributable to:</b>				
Equity holders of Ithmaar	2,730	(27,043)	(2,120)	(17,795)
Minority interests	8,606	10,794	2,634	3,131
	<b>11,336</b>	<b>(16,249)</b>	<b>514</b>	<b>(14,664)</b>
<b>Basic and diluted earnings per share</b>	15 <b>US Cts 0.09</b>	<b>US Cts (0.93)</b>	<b>US Cts (0.07)</b>	<b>US Cts (0.61)</b>

This interim condensed consolidated financial information was approved by the Board of Directors on 13 November 2018 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 17 on pages 11 to 30 form an integral part of the interim condensed consolidated financial information.

**Ithmaar Holding B.S.C.**

**Interim condensed consolidated statement of changes in owners' equity for the nine month period ended 30 September 2018**

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

	<b>Reserves</b>										
	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	Total owners' equity
<b>At 1 January 2018 (Audited)</b>	<b>757,690</b>	<b>(30,149)</b>	<b>149,085</b>	<b>38,418</b>	<b>50,727</b>	<b>38,773</b>	<b>3,450</b>	<b>(46,692)</b>	<b>233,761</b>	<b>(605,972)</b>	<b>355,330</b>
Impact of FAS 30 (note - 2)	-	-	-	-	-	-	-	-	-	(121,522)	<b>(121,522)</b>
<b>Revised balance at 1 January 2018</b>	<b>757,690</b>	<b>(30,149)</b>	<b>149,085</b>	<b>38,418</b>	<b>50,727</b>	<b>38,773</b>	<b>3,450</b>	<b>(46,692)</b>	<b>233,761</b>	<b>(727,494)</b>	<b>233,808</b>
Net income for the period	-	-	-	-	-	-	-	-	-	2,730	2,730
Movement in fair value of sukuk and investment securities	-	-	-	-	-	(23,992)	-	-	<b>(23,992)</b>	-	(23,992)
Movement in fair value of investment in real estate	-	-	-	-	-	-	596	-	<b>596</b>	-	596
Movement in fair value of associates	-	-	-	-	-	(2,071)	-	-	<b>(2,071)</b>	-	(2,071)
Foreign currency translation adjustments	-	-	-	-	-	57	(925)	(22,918)	<b>(23,786)</b>	-	(23,786)
<b>At 30 September 2018 (Reviewed)</b>	<b>757,690</b>	<b>(30,149)</b>	<b>149,085</b>	<b>38,418</b>	<b>50,727</b>	<b>12,767</b>	<b>3,121</b>	<b>(69,610)</b>	<b>184,508</b>	<b>(724,764)</b>	<b>187,285</b>

The notes 1 to 17 on pages 11 to 30 form an integral part of the interim condensed consolidated financial information.

**Ithmaar Holding B.S.C.**

**Interim condensed consolidated statement of changes in owners' equity for the nine month period ended 30 September 2017**

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

	<b>Reserves</b>									<b>Accumulated losses</b>	<b>Total owners' equity</b>
	<b>Share capital</b>	<b>Treasury shares</b>	<b>Share premium</b>	<b>Statutory reserve</b>	<b>General reserve</b>	<b>Investments fair value reserve</b>	<b>Investment in real estate fair value reserve</b>	<b>Foreign currency translation</b>	<b>Total reserves</b>		
<b>At 1 January 2017 (Audited)</b>	<b>757,690</b>	<b>(27,802)</b>	<b>148,662</b>	<b>38,090</b>	<b>50,727</b>	<b>25,711</b>	<b>2,648</b>	<b>(47,378)</b>	<b>218,460</b>	<b>(520,933)</b>	<b>427,415</b>
Net loss for the period	-	-	-	-	-	-	-	-	-	(27,043)	(27,043)
Employee share incentive scheme	-	(2,347)	423	-	-	-	-	-	<b>423</b>	-	(1,924)
Movement in fair value of sukuk and investment securities	-	-	-	-	-	4,734	-	-	<b>4,734</b>	-	4,734
Movement in fair value of associates	-	-	-	-	-	8,009	-	2,670	<b>10,679</b>	-	10,679
Foreign currency translation adjustments	-	-	-	-	-	(11)	(193)	8,606	<b>8,402</b>	-	8,402
<b>At 30 September 2017 (Reviewed)</b>	<b>757,690</b>	<b>(30,149)</b>	<b>149,085</b>	<b>38,090</b>	<b>50,727</b>	<b>38,443</b>	<b>2,455</b>	<b>(36,102)</b>	<b>242,698</b>	<b>(547,976)</b>	<b>422,263</b>

The notes 1 to 17 on pages 11 to 30 form an integral part of the interim condensed consolidated financial information.

**Ithmaar Holding B.S.C.**

**Interim condensed consolidated statement of cash flows**

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

		<b>Nine months ended</b>	
Notes	<b>30 September 2018</b>	<b>30 September 2017</b>	
	<b>(Reviewed)</b>	<b>(Reviewed)</b>	
<b>OPERATING ACTIVITIES</b>			
	36,520	8,366	
Net income before overseas taxation			
<u>Adjustments for:</u>			
	25,810	21,518	
Depreciation and amortization			
	(50,249)	(27,338)	
Share of profit after tax from associates			
	17,656	12,055	
Provision for impairment – net	9		
	-	12,389	
Impairment of assets classified as held-for-sale			
	238	(163)	
Loss/(gain) on sale of fixed assets			
Operating income before changes in operating assets and liabilities	29,975	26,827	
Balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement	(1,251)	(41,833)	
Changes in operating assets and liabilities:			
	(389,155)	(1,699)	
Murabaha and other financings			
	(129,884)	(119,794)	
Musharaka financing			
	(46,572)	(40,164)	
Other assets			
	(48,534)	123,731	
Customers' current accounts			
	(23,354)	63,695	
Due to banks, financial and other institutions			
	186,050	48,075	
Due to investors			
	(34,387)	28,726	
Other liabilities			
Increase/(decrease) in equity of unrestricted investment accountholders	(120,614)	60,518	
Taxes paid	(24,842)	(18,834)	
<b>Net cash (used in) / provided by operating activities</b>	<b>(602,568)</b>	<b>129,248</b>	
<b>INVESTING ACTIVITIES</b>			
Net changes in:			
	-	8,855	
Investment in mudaraba			
	(72,494)	(35,847)	
Assets acquired for leasing			
	456,068	(204,550)	
Sukuk and Investment securities			
Dividend received from associates			
	44,080	28,730	
Sale/(purchase) of fixed assets			
	1,415	(5,991)	
<b>Net cash provided by (used in) investing activities</b>	<b>429,069</b>	<b>(208,803)</b>	
<b>FINANCING ACTIVITIES</b>			
	-	(1,326)	
Minority interest			
<b>Net cash used in financing activities</b>	<b>-</b>	<b>(1,326)</b>	
Foreign currency translation adjustments	(44,379)	9,912	
<b>Net decrease in cash and cash equivalents</b>	<b>(217,878)</b>	<b>(70,969)</b>	
<b>Cash and cash equivalents at the beginning of the period</b>	<b>792,218</b>	<b>716,782</b>	
<b>Cash and cash equivalents at the end of the period</b>	<b>574,340</b>	<b>645,813</b>	4

The notes 1 to 17 on pages 11 to 30 form an integral part of the interim condensed consolidated financial information.



**Ithmaar Holding B.S.C.**

**Interim condensed consolidated statement of changes in restricted investment accounts for the nine month period ended 30 September 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 / (Withdrawals)	At 30 September 2018
Dilmunia Development Fund I L.P.*	145,329	(1,277)	-	-	-	144,052
Shamil Bosphorus Modaraba*	6,250	-	-	-	-	6,250
European Real Estate Placements*	16,404	-	-	(872)	-	15,532
US Real Estate Placements*	25,236	-	-	-	-	25,236
Listed and non-listed equities	55	-	-	(53)	-	2
Cash and Placements with banks	558	-	-	-	-	558
<b>TOTAL</b>	<b>193,832</b>	<b>(1,277)</b>	<b>-</b>	<b>(925)</b>	<b>-</b>	<b>191,630</b>
Funds managed on agency basis	63,301	-	-	(42)	-	63,259
	<b>257,133</b>	<b>(1,277)</b>	<b>-</b>	<b>(967)</b>	<b>-</b>	<b>254,889</b>

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

The notes 1 to 17 on pages 11 to 30 form an integral part of the interim condensed consolidated financial information.

**Ithmaar Holding B.S.C.**

**Interim condensed consolidated statement of changes in restricted investment accounts for the nine month period ended 30 September 2017**

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

	<b>At 1 January 2017</b>	<b>Income / (Expenses)</b>	<b>Mudarib's Fee</b>	<b>Fair value movements</b>	<b>Net Deposits / (Withdrawals)</b>	<b>At 30 September 2017</b>
Dilmunia Development Fund I L.P.*	149,491	134	-	-	-	149,625
Shamil Bosphorus Modaraba*	6,250	-	-	-	-	6,250
European Real Estate Portfolio*	15,915	-	-	1,960	-	17,875
European Real Estate Placements*	16,141	320	-	1,628	(3,286)	14,803
US Real Estate Placements*	27,554	-	-	-	-	27,554
Listed and non-listed equities	47	-	-	5	-	52
Cash and Placements with banks	9,406	-	-	-	(8,848)	558
<b>TOTAL</b>	<b>224,804</b>	<b>454</b>	<b>-</b>	<b>3,593</b>	<b>(12,134)</b>	<b>216,717</b>
Funds managed on agency basis	65,255	-	-	-	(1,954)	63,301
	<b>290,059</b>	<b>454</b>	<b>-</b>	<b>3,593</b>	<b>(14,088)</b>	<b>280,018</b>

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

The notes 1 to 17 on pages 11 to 30 form an integral part of the interim condensed consolidated financial information.

## Ithmaar Holding B.S.C.

### Notes to interim condensed consolidated financial information for the nine month period ended 30 September 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").

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 supervised by the CBB and are subject to the supervision of Shari'a 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 interim condensed consolidated financial information as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment accountholder 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 the Bank's head office and its following principal subsidiary companies:

	<u>% owned</u>		Country of Incorporation	Principal business activity
	Voting	Economic		
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
Faysal Bank Limited	67	67	Pakistan	Banking
Faisal Private Bureau (Switzerland) S.A.(formerly Faisal Private Bank (Switzerland) S.A.)	100	100	Switzerland	Wealth and asset management
Ithmaar Development Company Limited	100	100	Cayman Islands	Real estate
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate
Health Island B.S.C. (C)	50	50	Kingdom of Bahrain	Real estate
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana) [under Voluntary Liquidation]	63	50	Kingdom of Bahrain	Mortgage finance
Cantara (Switzerland) S.A.	100	100	Switzerland	Investment holding
DMI Administrative Services S.A.	100	100	Switzerland	Real estate management services
Faisal Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Shamil Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Faisal Finance (Netherlands Antilles) NV	100	100	Netherlands Antilles	Investment holding

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.

## **Ithmaar Holding B.S.C.**

### **Notes to interim condensed consolidated financial information for the nine month period ended 30 September 2018**

## **2 SIGNIFICANT GROUP ACCOUNTING POLICIES**

Except for the adoption of FAS 30 -Impairment, credit losses & onerous commitments, the interim condensed consolidated financial information has been prepared using accounting policies consistent with those adopted by the Group in its consolidated financial statements for the year ended 31 December 2017, which were prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of Ithmaar, the Bahrain Commercial Companies Law, Central Bank of Bahrain (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).

The Group has not accounted for the increase in fair value of restricted investment accounts in accordance with the accounting policy. Had this change in fair value been accounted for, restricted investment accounts, equity of unrestricted investment accountholders and total owners' equity would have increased by \$26.3 million, \$2.7 million and \$23.5 million respectively.

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar (the ultimate parent) converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards in the interim condensed consolidated financial information 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 interim condensed consolidated financial information have been prepared in accordance with the guidance given by the International Accounting Standard 34 – "Interim Financial Reporting". The interim condensed consolidated financial information do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as at 31 December 2017. In addition, results for the nine months ended 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

### **New accounting standard: Issued and effective**

#### **Adoption of Financial Accounting Standard no. 30 – Impairment, credit losses & onerous commitments**

The Group has adopted Financial Accounting Standard (FAS) 30 – Impairment, credit losses & onerous commitments issued in November 2017 along with Financial Accounting Standard (FAS) 35 – Risk reserves issued in December 2018 with a date of initial application of 1 January 2018. The requirements of FAS 30 represent a significant change in accounting for impairment and credit losses.

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.

#### **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.

**Ithmaar Holding B.S.C.****Notes to interim condensed consolidated financial information  
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(Expressed in thousands of United States Dollars unless otherwise stated)

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

	<b>Carrying amount as at 31 December 2017</b>	<b>Re-measurement</b>	<b>FAS 30 carrying amount as at 1 January 2018</b>
<b>Financial assets - amortized cost</b>			
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	<b>9,641,834</b>	<b>(142,688)</b>	<b>9,499,146</b>

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

**Impact on retained earnings and other reserves**

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

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 Bank/ Company's policy. The FAS 30 impact attributable to unrestricted investment account holders for the nine month period ended 30 September 2018 was also absorbed by shareholders.

**Ithmaar Holding B.S.C.****Notes to interim condensed consolidated financial information  
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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:

	<b>31 December</b>	<b>FAS 30</b>	
	<b>2017 Re-measurement</b>	<b>1 January 2018</b>	
<b>Financial assets - amortized cost</b>			
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)
	<b>(415,101)</b>	<b>(142,688)</b>	<b>(557,789)</b>

**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.

**Ithmaar Holding B.S.C.**

**Notes to interim condensed consolidated financial information  
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**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 dues 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:

- Rating of 8 or above from the internal rating system
- 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.

**Ithmaar Holding B.S.C.**

**Notes to interim condensed consolidated financial information  
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**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.

**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.



**Ithmaar Holding B.S.C.**

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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

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.

**Ithmaar Holding B.S.C.**

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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;
- 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, operational risk and information security 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.

**Ithmaar Holding B.S.C.****Notes to interim condensed consolidated financial information  
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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.

	Stage 1	Stage 2	Stage 3	Total
<b>Financial assets - amortized cost</b>				
<b>Cash, Commodity and other placements with banks, financial and other institutions</b>	<b>745,950</b>	-	-	<b>745,950</b>
<b>Financings (Funded and unfunded exposure) Corporate</b>				
Low risks (1-3)	1,951,120	221,609	-	2,172,729
Acceptable risks (4-6)	2,142,744	277,261	-	2,420,005
Watch list (7)	-	577,708	-	577,708
Non performing (8-10)	-	-	392,819	392,819
<b>Carrying amount - Corporate</b>	<b>4,093,864</b>	<b>1,076,578</b>	<b>392,819</b>	<b>5,563,261</b>
Retail (un-rated)	1,620,796	20,576	44,509	1,685,881
<b>Carrying amount including unfunded</b>	<b>5,714,660</b>	<b>1,097,154</b>	<b>437,328</b>	<b>7,249,142</b>
<b>Sukuk and investment securities</b>	<b>935,284</b>	-	<b>17,746</b>	<b>953,030</b>
<b>Other receivables</b>	<b>218,048</b>	<b>9,961</b>	<b>62,857</b>	<b>290,866</b>
<b>Loss allowance</b>	<b>(123,344)</b>	<b>(30,773)</b>	<b>(360,250)</b>	<b>(514,367)</b>
<b>Total Financial assets carrying amount</b>	<b>7,490,598</b>	<b>1,076,342</b>	<b>157,681</b>	<b>8,724,621</b>

**Ithmaar Holding B.S.C.**

**Notes to interim condensed consolidated financial information  
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**3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS**

	30 September 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	169,955	2,116	172,071	168,927	2,185	171,112
Cash and balances with banks and central banks	439,505	53,983	493,488	462,062	68,764	530,826
	<b>609,460</b>	<b>56,099</b>	<b>665,559</b>	<b>630,989</b>	<b>70,949</b>	<b>701,938</b>

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

	30 September 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	80,995	-	80,995	261,392	-	261,392
Less: Provisions	(143)	-	(143)	-	-	-
	<b>80,852</b>	<b>-</b>	<b>80,852</b>	<b>261,392</b>	<b>-</b>	<b>261,392</b>

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

	30 September 2018			30 September 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	609,460	56,099	665,559	525,693	54,194	579,887
Commodity and other placements with banks, financial and other institutions - net	80,852	-	80,852	230,125	39,326	269,451
Less: Placement maturing after ninety days	-	-	-	-	(39,326)	(39,326)
Less: Balances with central banks relating to minimum reserve requirement	(169,955)	(2,116)	(172,071)	(162,486)	(1,713)	(164,199)
	<b>520,357</b>	<b>53,983</b>	<b>574,340</b>	<b>593,332</b>	<b>52,481</b>	<b>645,813</b>

**Ithmaar Holding B.S.C.**

**Notes to interim condensed consolidated financial information  
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**5 MURABAHA AND OTHER FINANCINGS**

	30 September 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	2,592,614	1,467,864	4,060,478	2,407,415	1,492,033	3,899,448
Less: Provisions	(374,786)	(36,065)	(410,851)	(306,644)	(14,933)	(321,577)
	<b>2,217,828</b>	<b>1,431,799</b>	<b>3,649,627</b>	<b>2,100,771</b>	<b>1,477,100</b>	<b>3,577,871</b>

The movement in provisions is as follows:

	30 September 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	18,838	135,279	-	-	-
Charge for the period/year	10,463	3,219	13,682	43,427	-	43,427
Write back during the period/year	(14,535)	(272)	(14,807)	(19,341)	-	(19,341)
Utilised during the period/year	(244)	(553)	(797)	(1,286)	(7,222)	(8,508)
Reclassification	(22,130)	90	(22,040)	8,792	(261)	8,531
Transfer from Investment Risk Reserve	-	-	-	-	3,000	3,000
Exchange differences and other movements	(21,853)	(190)	(22,043)	(11,739)	(102)	(11,841)
	<b>374,786</b>	<b>36,065</b>	<b>410,851</b>	<b>306,644</b>	<b>14,933</b>	<b>321,577</b>

**Ithmaar Holding B.S.C.**

**Notes to interim condensed consolidated financial information**

**for the nine month period ended 30 September 2018**

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**6 SUKUK AND INVESTMENT SECURITIES**

	30 September 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
<b>Investment securities at fair value through income statement</b>						
<i>Held for trading</i>						
Debt-type instruments – unlisted	157,217	-	157,217	304,895	-	304,895
Equity-type securities – listed	3,641	-	3,641	-	-	-
	<b>160,858</b>	<b>-</b>	<b>160,858</b>	<b>304,895</b>	<b>-</b>	<b>304,895</b>
<b>Investment securities at fair value through equity</b>						
Equity-type securities – listed	50,434	-	50,434	55,271	-	55,271
Equity-type securities – unlisted	270,162	-	270,162	307,705	-	307,705
	320,596	-	320,596	362,976	-	362,976
Provision for impairment	(156,591)	-	(156,591)	(155,515)	-	(155,515)
	<b>164,005</b>	<b>-</b>	<b>164,005</b>	<b>207,461</b>	<b>-</b>	<b>207,461</b>
<b>Investment securities carried at amortised cost</b>						
Sukuk – unlisted	14,453	239,764	254,217	17,427	232,885	250,312
Other debt-type instruments – listed	74,605	-	74,605	73,798	-	73,798
Other debt-type instruments – unlisted	624,207	-	624,207	1,045,604	-	1,045,604
	713,265	239,764	953,029	1,136,829	232,885	1,369,714
Provision for impairment	(17,479)	-	(17,479)	(19,185)	-	(19,185)
	<b>695,786</b>	<b>239,764</b>	<b>935,550</b>	<b>1,117,644</b>	<b>232,885</b>	<b>1,350,529</b>
	<b>1,020,649</b>	<b>239,764</b>	<b>1,260,413</b>	<b>1,630,000</b>	<b>232,885</b>	<b>1,862,885</b>

**Ithmaar Holding B.S.C.****Notes to interim condensed consolidated financial information****for the nine month period ended 30 September 2018**

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

**6 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**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>At 30 September 2018</b>				
<b>Investment securities at fair value through income statement</b>				
Debt-type instruments	-	157,217	-	157,217
Equity securities	3,641	-	-	3,641
<b>Investment securities at fair value through equity</b>				
Equity securities	45,307	655	118,043	164,005
	<b>48,948</b>	<b>157,872</b>	<b>118,043</b>	<b>324,863</b>

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>At 31 December 2017</b>				
<b>Investment securities at fair value through income statement</b>				
Debt-type instruments	-	304,895	-	304,895
Equity securities	-	-	-	-
<b>Investment securities at fair value through equity</b>				
Equity securities	49,081	728	157,652	207,461
	<b>49,081</b>	<b>305,623</b>	<b>157,652</b>	<b>512,356</b>

**Reconciliation of Level 3 Items**

	<b>Investment securities at fair value through equity</b>	
	<b>30 September 2018</b>	<b>31 December 2017</b>
<b>Opening balance</b>	<b>157,652</b>	<b>158,338</b>
Total gains/(losses) recognised in		
- Income statement	(3,785)	(9,367)
- Equity	(24,423)	1,148
Purchases	-	1,000
Sales	(3,985)	(1,120)
Reallocation	(7,416)	7,653
<b>Closing balance</b>	<b>118,043</b>	<b>157,652</b>
Total income for the nine month period included in the interim condensed consolidated income statement	3,664	7,861

**Ithmaar Holding B.S.C.****Notes to interim condensed consolidated financial information****for the nine month period ended 30 September 2018**

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

**7 INVESTMENT IN ASSOCIATES**

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

<b>Name of company</b>	<b>30 September 2018</b>	<b>31 December 2017</b>	<b>% of Shareholding</b>	<b>Country</b>	<b>Activity</b>
<b>Unlisted:</b>					
Solidarity Group Holding B.S.C. (C)	76,388	68,834	36	Bahrain	Takaful
Sanpak Engineering Industries (Pvt) Limited	818	933	31	Pakistan	Manufacturing
Misr Company for Packing Materials "Egywrap"	2,579	2,461	23	Egypt	Trading
Faysal Asset Management Limited	117	210	30	Pakistan	Asset management
Ithraa Capital Company	3,762	4,183	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	93,051	107,619	30	Bahrain	Infrastructure
Chase Manara B.S.C. (C)	-	1,679	40	Bahrain	Real estate
Islamic Trading Company E.C	288	288	24	Bahrain	Trading
<b>Listed:</b>					
BBK B.S.C. (note 10)	409,423	-	25	Bahrain	Banking
	<b>586,426</b>	<b>186,207</b>			

Summarised financial position of associates that have been equity accounted:

	<b>30 September 2018</b>	<b>31 December 2017</b>	<b>30 September 2017</b>
Total assets	10,387,889	898,010	10,619,091
Total liabilities	8,519,685	295,526	8,380,526
Total revenues	370,424	149,531	245,395
Total net profit	134,719	20,723	91,803

In case of associates where audited financial statements are not available, the Group's share of results is arrived at by using the latest available management accounts.



**Ithmaar Holding B.S.C.**

**Notes to interim condensed consolidated financial information**

**for the nine month period ended 30 September 2018**

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**8 OTHER ASSETS**

	30 September 2018			31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts receivable	193,555	40,709	234,264	152,343	40,127	192,470
Due from related parties	11,565	-	11,565	10,922	-	10,922
Taxes – deferred	13,014	-	13,014	22,482	-	22,482
Taxes – current	24,160	-	24,160	27,424	-	27,424
Assets acquired against claims	15,546	-	15,546	17,280	-	17,280
	<b>257,840</b>	<b>40,709</b>	<b>298,549</b>	<b>230,451</b>	<b>40,127</b>	<b>270,578</b>
Provision for impairment	(59,126)	(12,160)	(71,286)	(62,084)	(12,255)	(74,339)
	<b>198,714</b>	<b>28,549</b>	<b>227,263</b>	<b>168,367</b>	<b>27,872</b>	<b>196,239</b>

**9 PROVISIONS**

	30 September 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	18,838	142,688	-	-	-
Charge for the period/year	32,841	4,996	37,837	87,008	-	87,008
Write back during the period/year	(15,185)	(385)	(15,570)	(19,420)	-	(19,420)
Reclassification	(333)	-	(333)	25,916	(25,916)	-
Transfer to Investment Risk Reserve	-	-	-	-	3,000	3,000
Utilised during the period/year	(7,852)	(553)	(8,405)	(2,920)	(7,222)	(10,142)
Exchange differences	(27,150)	(504)	(27,654)	(10,194)	(62)	(10,256)
	<b>845,886</b>	<b>51,818</b>	<b>897,704</b>	<b>739,715</b>	<b>29,426</b>	<b>769,141</b>

**10 ASSETS CLASSIFIED AS HELD-FOR-SALE**

During the period, the conditions required for classification as held-for-sale for one asset are no longer met. Hence this asset has been reclassified as an associate as of 31 March 2018. The impact of increase in net asset value pertaining to 2017 amounted to \$11.6 million (net) which has been recognized in consolidated statement of income during the period.

**Ithmaar Holding B.S.C.****Notes to interim condensed consolidated financial information  
for the nine month period ended 30 September 2018**

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**11 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:

	<b>30 September 2018</b>	<b>31 December 2017</b>
Cash and balances with banks and central banks	56,099	70,949
Murabaha and other financings	1,431,799	1,477,100
Musharaka financing	455,171	356,845
Sukuk and investment securities	239,764	232,885
Restricted investment accounts	7,500	7,500
Assets acquired for leasing	409,836	341,225
Other assets	28,549	27,872
Due from Ithmaar	432,036	742,957
	<b>3,060,754</b>	<b>3,257,333</b>
Customers' current accounts	(224,071)	(285,730)
Due to banks, financial and other institutions	(60,678)	(40,372)
Other liabilities	(105,451)	(103,316)
Equity of unrestricted investment accountholders	<b>2,670,554</b>	<b>2,827,915</b>

**12 SHARE CAPITAL**

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

Ithmaar's total issued and fully paid share capital at 30 September 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 30 September 2018 (31 December 2017: 120,595,238). The shares are held as treasury shares and Ithmaar has the right to reissue these shares at a later date.

**Ithmaar Holding B.S.C.****Notes to interim condensed consolidated financial information  
for the nine month period ended 30 September 2018**

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

**13 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:

	<b>30 September 2018</b>				
	<b>Shareholders &amp; Affiliates</b>	<b>Associates and other investments</b>	<b>Directors and related entities</b>	<b>Senior management</b>	<b>Total</b>
<b>Assets</b>					
Murabaha and other financings	426,861	-	12,809	-	439,670
Sukuk and investment securities	-	69,615	-	-	69,615
Investment in associates	-	586,426	-	-	586,426
Other assets	-	10,455	685	425	11,565
Assets classified as held-for-sale	-	57,690	-	-	57,690
<b>Liabilities</b>					
Customers' current accounts	-	17,650	-	711	18,361
Due to banks, financial and other institutions	-	79,112	-	-	79,112
Equity of unrestricted investment accounts	25,082	25,598	-	1,911	52,591
Other liabilities	40,006	-	-	-	40,006
<b>Income</b>					
Return to unrestricted investment accounts	(65)	(148)	-	-	(213)
Income from murabaha and other financings	3,252	-	-	-	3,252
Share of profit/(loss) after tax from associates	-	50,249	-	-	50,249
Income from investments	1,245	-	-	-	1,245
Other income	1,446	143	-	-	1,589
Profit paid to banks, financial and other institutions – net	-	(2,355)	-	-	(2,355)
<b>Expenses</b>					
Administrative and general expenses	581	-	38	-	619

**Ithmaar Holding B.S.C.****Notes to interim condensed consolidated financial information  
for the nine month period ended 30 September 2018**

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

**13 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

	<b>31 December 2017</b>				
	<b>Shareholders &amp; Affiliates</b>	<b>Associates and other investments</b>	<b>Directors and related entities</b>	<b>Senior management</b>	<b>Total</b>
<b>Assets</b>					
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
<b>Liabilities</b>					
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
<b>30 September 2017</b>					
<b>Income</b>					
Return to unrestricted investment accounts	(597)	(599)	(10)	-	(1,206)
Income from murabaha and other financings	2,868	-	-	-	2,868
Share of profit/(loss) after tax from associates	-	27,338	-	-	27,338
Other income	-	1,044	-	-	1,044
Profit paid to banks, financial and other institutions – net	(19)	(972)	-	-	(991)
<b>Expenses</b>					
Administrative and general expenses	7	1,044	-	-	1,051

**Ithmaar Holding B.S.C.****Notes to interim condensed consolidated financial information****for the nine month period ended 30 September 2018**

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

**14 DIVIDEND**

No dividend was declared for 2017 and 2016.

**15 EARNINGS PER SHARE (BASIC & DILUTED)**

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

	<b>Nine month period ended</b>		<b>Three month period ended</b>	
	<b>30 September 2018</b>	<b>30 September 2017</b>	<b>30 September 2018</b>	<b>30 September 2017</b>
Net income/(loss) attributable to shareholders (\$'000)	2,730	(27,043)	(2,120)	(17,795)
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,910,160	2,910,160	2,910,160
<b>Earnings per share (Basic &amp; Diluted) – US Cents</b>	<b>0.09</b>	<b>(0.93)</b>	<b>(0.07)</b>	<b>(0.61)</b>

**16 CONTINGENT LIABILITIES AND COMMITMENTS****Contingent liabilities**

	<b>30 September 2018</b>	<b>31 December 2017</b>
Acceptances and endorsements	65,910	62,824
Guarantees and irrevocable letters of credit	901,808	878,393
Customer and other claims	294,824	324,995
	<b>1,262,542</b>	<b>1,266,212</b>

**Commitments**

	<b>30 September 2018</b>	<b>31 December 2017</b>
Undrawn facilities, financing lines and other commitments to finance	<b>1,566,014</b>	<b>1,897,757</b>

**Ithmaar Holding B.S.C.**

**Notes to interim condensed consolidated financial information  
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**17 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.

	30 September 2018					30 September 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	115,634	49,413	46,405	22	211,474	143,381	36,618	1,050	31	181,080
Total expenses	(104,391)	(23,871)	(28,838)	(198)	(157,298)	(121,372)	(8,833)	(17,910)	(155)	(148,270)
Net income/(loss) before provision and overseas taxation	<b>11,243</b>	<b>25,542</b>	<b>17,567</b>	<b>(176)</b>	<b>54,176</b>	<b>22,009</b>	<b>27,785</b>	<b>(16,860)</b>	<b>(124)</b>	<b>32,810</b>
Impairment of assets classified as held-for-sale	-					-	-	(12,389)	-	(12,389)
Provision and overseas taxation	(4,262)	(15,647)	(22,907)	(24)	(42,840)	(14,751)	(10,664)	(11,303)	48	(36,670)
Net income/(loss) for the period	<b>6,981</b>	<b>9,895</b>	<b>(5,340)</b>	<b>(200)</b>	<b>11,336</b>	<b>7,258</b>	<b>17,121</b>	<b>-</b>	<b>(40,552)</b>	<b>(76)</b>
<b>Attributable to:</b>										
Equity holders of the Bank	383	6,587	(4,064)	(176)	2,730	2,489	11,398	(40,891)	(39)	(27,043)
Minority interests	6,598	3,308	(1,276)	(24)	8,606	4,769	5,723	339	(37)	10,794
	<b>6,981</b>	<b>9,895</b>	<b>(5,340)</b>	<b>(200)</b>	<b>11,336</b>	<b>7,258</b>	<b>17,121</b>	<b>(40,552)</b>	<b>(76)</b>	<b>(16,249)</b>
	30 September 2018					31 December 2017				
Total assets	5,157,292	1,192,942	1,634,383	8,277	7,992,894	5,015,399	1,822,973	1,764,533	8,454	8,611,359
Total liabilities and equity of unrestricted investment account holders	7,242,243	307,582	92,231	3,319	7,645,375	7,463,066	525,771	104,055	96	8,092,988