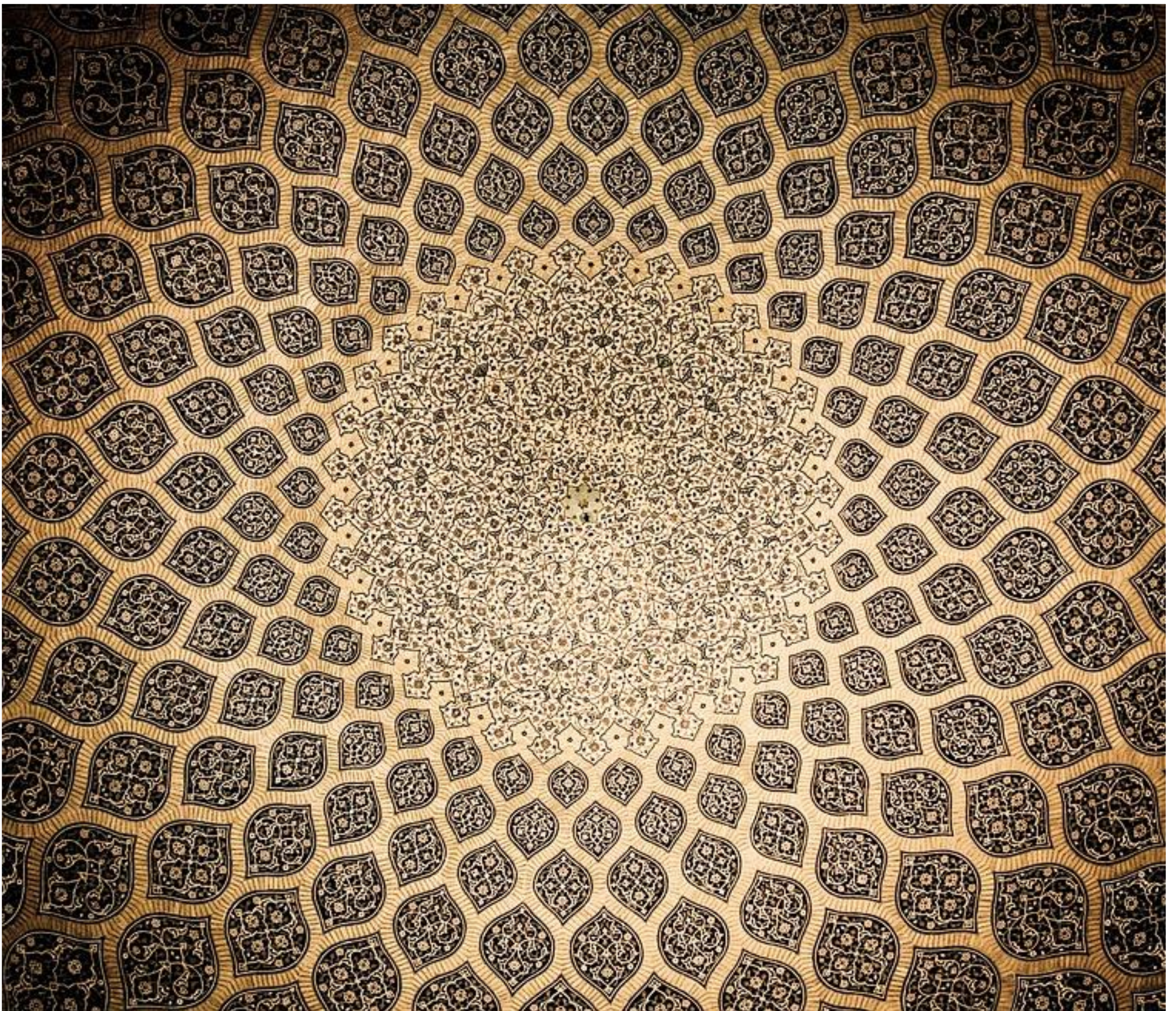


Dar Al-Maal Al-Islami Trust

ANNUAL REPORT
2018

Registered Office:

Dar Al-Maal Al-Islami Trust
Trinity Place Annex
Corner of Frederick and Shirley Street
P.O. Box N-4805
Nassau
Commonwealth of the Bahamas

For information, please contact:

MFAI (Jersey) Ltd.
Bahrain Branch
Manama
Kingdom of Bahrain

Phone: +973 1756 0884
E-mail: Info@DMITrust.com

Contents

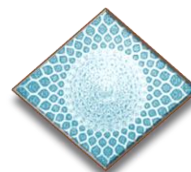
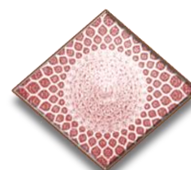
Dar Al-Maal Al-Islami Trust 2018 Annual Report 2

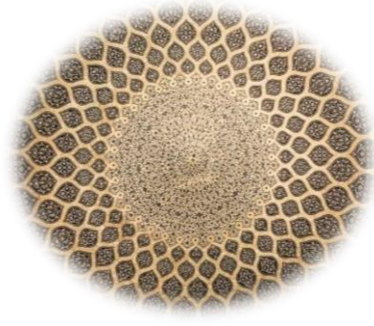
Chairman's Message 3

Report of the Religious Board 7

Ten-year Financial Summary 8

Consolidated Financial Statements 9



Board of Supervisors and Religious Board

Board of Supervisors

Amr Mohamed Al Faisal Al Saud

Abdelaziz Abdallah Alfadda

Ebrahim Khalifa Al Khalifa

Mohamed A. Abdelkarim El Kheriji

Omar Abdi Ali

Moustafa Abu Bakr Azzam

Khalid Omar Abdel Rahman Azzam

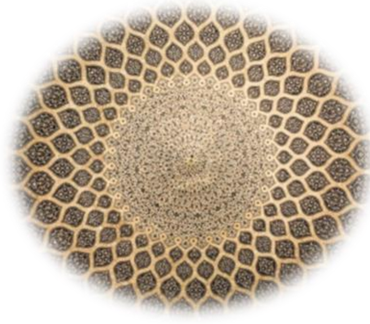
Faisal Islamic Bank-Egypt
(Represented by Abdelhameed Abou Moussa)

Religious Board

Nasr Farid Mohamed Wasel, Chairman

Halil Gonenc

Osama Mohamed Ali



DAR AL-MAAL AL-ISLAMI TRUST

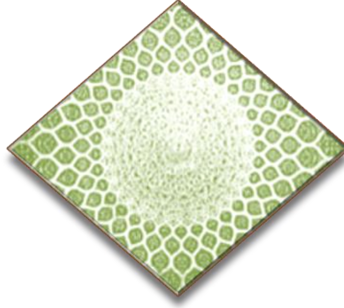
Dar Al-Maal Al-Islami Trust (DMI) was founded in 1981. It has an extensive network stretching over four continents, with well integrated regional subsidiaries enabling it to respond to local business needs and conditions. Based on this geographic structure, the DMI Group and associates act as a financial bridge between the world's leading financial centres and Islamic countries.

The Group comprises three main business sectors: Islamic banking, Islamic investment and Islamic insurance.

The Group is offering commercial and retail banking in the Gulf region and other parts of the world. Fund management and financial services as well as Islamic investment companies are located in Bahrain, Egypt and Pakistan. There are also associated Islamic insurance companies based in Bahrain and Jordan, providing services to the Islamic communities in the Middle East.

The Board of Supervisors of DMI directs and oversees the business of the Group.

DMI is an institution that creates, maintains and promotes Islamic financial institutions. Asset management is one of the Group's core business activities. Clients' funds are invested prudently with the objective of optimal return as well as asset preservation. DMI has devised a comprehensive range of Islamic financial instruments to channel investors' funds into viable Sharia compatible operations and investments.



CHAIRMAN'S MESSAGE

Dear Participants,

May the peace, blessings and mercy of Allah be upon you.

On behalf of the Board of Supervisors, I am pleased to present the thirty-seventh annual report of Dar Al-Maal Al-Islami Trust for the financial year ended 31 December 2018.

I am pleased to report the Group's progress and key achievements in 2018. Operating performance continued its positive trend during the year, and the first phase of our transformation strategy and digital banking, has met its goals.

Despite slowing global economic growth, uncertainty and market volatility along with persisting geo-political tensions, the Group continued to perform well during 2018, with notable achievements.

The deceleration in global growth and increased financial markets volatility witnessed in 2018, were influenced by several critical factors. These included escalating global trade tension, mainly emanating from US efforts to reduce trade imbalance with China, Japan and other countries.

The economic slow-down in China, due mainly to the new measures implemented by the government, tightening of US monetary policy through gradual increase in interest rates and "tapering" measures i.e. reversal of quantitative easing policy, and ongoing geo-political development. The US Federal Reserve has indicated that for the rest of 2019, they intend to follow an accommodative monetary policy, which may imply that there will be no rate hike for the rest of the year.

In Emerging Markets ("EM"), numerous uncertainties weighed on investors sentiments in 2018 and led to an overall drop in equity values for the year. EM equities fell over in the fourth quarter too but outperformed the indices of the developed markets. Concerns about global economic growth, US interest rate hikes and US-China trade tension stoked market volatility during the period, as they did in much of 2018. The strengthening of the US Dollar and worries about the high level of sovereign and corporate debt in emerging market countries led to weakening of EM currencies and impacted corporate earnings too. The year proved challenging for global markets as a whole, with EM equities losing more ground than developed markets stocks. The MSCI World Index fell 8.71% whereas the MSCI EM Index dropped by 14.57%, both in US Dollar.

Despite this challenging backdrop, the GCC region is expected to achieve GDP growth of 2.1% in 2019, as per forecast by the IMF. This positive outlook is supported by the sustained increase in oil prices; a slower pace of fiscal consolidation; and the growing success of economic transformation programmes by governments across the region, led by the Kingdom of Saudi Arabia, the largest economy of the GCC.

After facing two years of significant pressure, the regional banking sector exhibited signs of recovery in 2018,

benefiting from recovery of economic growth and increased government spending on public infrastructure projects. GCC banks continued to take steps to restructure their operating models in order to cope with an increasing complex digitized and technology-driven ecosystem. This is allowing them to place greater focus on business growth and new development opportunities; building and maintain customer loyalty; and strengthen their competitiveness.

The year 2018, witnessed better implementation of corporate governance practices throughout the Group, better policy harmony, cost rationalisation, unlocking potentials of our global retail banking, continued growth and higher contributions from the Group's diversified business lines.

The Group in 2018 reported a net loss attributable to Unit-holders of $ 27.5 million, compared with a loss of $14.6 million in 2017. This result is primarily attributed to an amortisation and impairment of goodwill of $55.6 million and reduction in operating income by 14% due to reduction in net income in Pakistan, in US Dollar terms as a result of weak Pakistan Rupee, while reported a 7% increase in Pakistani Rupee terms. During the year. The Group recognised a fair value adjustment on investments of $ 114 million and foreign currency translation loss of $ 22 million due to a drop in Pakistani Rupee FX rate. Accordingly, the Trust capital has decreased from $289 million at the end of 2017 to $161 million in 2018. Similarly, the value of each equity participation unit decreased from $73.06 in 2017 to $40.67 in 2018.

In line with expansion plans in retail banking, the Group continued to develop opportunities for clients and their communities. Considering the economic outlook and pursuing this strategy, maintenance of resources remains critical. The Board of Supervisors has therefore resolved not to recommend a dividend in respect of the year ended 31 December 2018 at the Annual General Meeting.

Due to better management and control of the situation in Islamic Investment Company of the Gulf (Bahamas) Limited, Kingdom of Saudi Arabia's operations, the fiduciary risk reserve at 31 December 2018 amounted to $60 million (2017: $60 million). The overall situation is being kept under meticulous monitoring.

Ithmaar Holding BSC ("Ithmaar") is regulated by the Central Bank of Bahrain and its shares are listed on the Bourse of Bahrain, Kuwait Stock Exchange and Dubai Financial Market. Ithmaar is a key subsidiary in which the Group owns 46.5% interest. Ithmaar has successfully completed implementation of its strategic decision in converting Ithmaar into two major business units: Ithmaar Bank B.S.C. (c), focusing on core retail business; and IB Capital B.S.C. (c), an investment subsidiary which primarily, holds investments and real estate.

The Board of Supervisors is convinced that this structure will assist in realising long term strategy for growth by providing greater insight into the strength of core retail banking operations and further facilitate the focussed management of the Group's investments and real estate. It will also help highlight the performance of core business and assist in the planned divestment of investment and non-core assets. During 2018, IB Capital B.S.C. (c) acquired a controlling interest in Solidarity Group Holding B.S.C. (c), with a net equity of US$ 186 million, a group offering a wide range of Takaful insurance services and related products in the Middle East.

The new organization of Ithmaar, will further focus its efforts, allowing the Group to take advantage of new growth opportunities.

In 2018, Ithmaar reduced the loss attributed to shareholders by 72%, from $ 84.71 million in 2017 to $ 23.98 million in 2018. The loss in 2018 was arisen after recognising a gain arising on acquisition of a business of $ 50.9 million and an impairment on investments of $ 55.3 million. While Ithmaar reported a loss in 2018, Ithmaar Bank B.S.C. (c) recorded a net profit attributable to shareholders of $ 3.7 million. This reaffirms Board of Supervisors' view of the new organisation.

Ithmaar will continue yielding the strategic decision through continuous efforts to improve its products, innovation and services, while rationalising costs, enhance its customer service offerings and expand its network. Ithmaar will continue focusing on the core retail banking business.

The Group owns 31.3% of the economic interest of Faysal Bank Limited, Pakistan ("FBL") through DMI's investment in

Ithmaar Holding BSC. FBL achieved a net profit after tax of PKR 4.8 billion ($39.6 million) in 2018, compared with PKR 4.5 billion ($42.7 million) in 2017, an increase of 7%. The exchange rate of PKR against the US Dollar fell from 110.56 in December 2017 to 139.80 by end of 2018. FBL's result was the achievement of timely and effective measures taken for maintaining core revenue in line with improvement on banking spreads and profitability. Total assets registered an increase of 21% from PKR 494 billion ($4.4 billion) at 31 December 2017 to PKR 599 billion ($4.3 billion) at 31 December 2018. During the year, FBL made concentrated efforts to acquire low cost CASA deposit (current and saving accounts), resulting in an increase in CASA by 12.6% from PKR 261 billion ($ 2.4 billion) to PKR 294 billion ($2.1 billion) in 2018 - achieving CASA ratio of 69.6%. Similarly, total deposits registered an increase by 10% over 2017, from PKR 372 billion (US$ 3.9 Billion) to PKR 409.4 billion ($3.4 billion).

In line with the growth strategy of FBL, retail banking reorganised its management structure and distribution networks to strengthen and optimise growth. In 2018 FBL successfully implemented automated Obligor Risk Rating and Facility Risk Rating models. Branch Led model was initiated for levering the strength of distribution networks, for promoting commercial and SME business.

In the light of series of measures taken by FBL during 2018, FBL maintained stable outlook long and short term credit ratings of AA and A1+, respectively, as reported by two reputable local rating agencies. During 2018, FBL opened 50 new branches to achieve a network of 455 branches of which 254 (56%) are dedicated to Islamic banking. FBL will continue its horizontal growth in branch network to provide easy access to customers. These branches will not only generate low cost core deposits but will also improve the current and saving accounts mix, with the goal of reducing the average cost of funding as described above. FBL continues to focus on expanding development of new innovative Islamic products, aiming to attracting more low cost deposits and increasing cross-selling and benefiting from its asset management arm; Faysal Asset Management Ltd.

With the new business structure at FBL, future strategy will continue to focus on Islamic finance which enjoyed a successful year, taking lead role in a number of syndications and big-ticket transactions. The Bank is confident that synergies will be captured and expectations of its shareholders will be met. Reflecting FBL's commitment to provide a better, easier and seamless customers experience, FBL has initiated a comprehensive digital strategy, implementing a new online banking platform, with rapid yet well planned expansion in branch network.

Islamic Investment Company of the Gulf (Bahamas) Limited ("IICG"), DMI's wholly owned subsidiary, reported a net profit of $14.8 million compared with $ 8.7 million in 2017. Shareholder's equity in 2018 increased to $63 million compared to $48 million in 2017. IICG's total assets increased by 14%, from $87.9 million in 2017, to $99.8 million in 2018. On conservative ground, a sum of $11.3 million has been transferred to Contingency Reserve. IICG's Funds Under Management amounted to $ 2.09 billion in December 2018, a marginal decrease of 4% from $ 2.10 billion in 2017, due to partial redemptions.
Following the directives of the regulatory authorities in the Kingdom of Saudi Arabia in 2015, IICG is in a process of liquidating its Modarabas in this country. All assets are under liquidation and distributions to investors, are made proportionately. Since 2016 four distributions have so far been made to the investors, equivalent to 8% of investors' equity. As the liquidation of the assets progresses, further repayments of Modarabas capital, will be made as and when more assets are liquidated. The overall Group risk in respect of Funds Under Management does not appear to have been worsen since last year.

IICG's 73% owned subsidiary, Gulf Investors Asset Management Company ("GIAMCO"), a Saudi closed joint stock company registered in the Kingdom of Saudi Arabia, recorded a net loss of $1.8 million in 2018 compared to a net loss of $ 2.6 million in the previous year. Total Funds Under Management as at December 31, 2018 amounted to $ 86 million (2017: $86 million). On strategic basis, the Group decided to liquidate GIAMCO's 3 real estate funds during 2019.

Faisal Islamic Bank of Egypt ("FIBE"), 49% owned by the Group's managed funds, achieved a remarkable results in 2018. At an all-time high since incorporation in 1981. The exchange rate for L.E. against the US

Dollar, stabilized during 2018 at an average rate of L.E. 17.65. Further improvement was also witnessed against world's currencies. As a result, FIBE maintained its leadership in Islamic banking activities within the Egyptian market and strengthened its competitive position considerably on local and regional levels. Branch network expanded horizontally during 2018 and reached 36 branches, while another four new branches are planned for 2019. As per new regulatory rules in Egypt, the minimum Capital Adequacy Ratio ("CAR") increased in 2018 to 11.875%. Despite its impact, the banking sector in Egypt appears to have digested, the effect of IFRS 9 during 2018, which reflects soundness of the banking sector in Egypt.

FIBE has continued its policy of strengthening its capital base and mitigating the risks related to its activities. As 31 December 2018, the CAR for FIBE reached 17.13% compared with a regulatory minimum requirement of 11. 875%

FIBE's net profit after tax in 2018 amounted to L.E. 2,519 million ($ 142 million) compared with L.E. 1,722 million ($ 97 million) in 2017. The result for 2018 represents an impressive increase of 46% over 2017. Total assets in 2018 amounted to L.E. 93.8 billion ($ 5.2 billion) represents an increase by 14% over December 2017 of L.E. 82.6 billion ($4.7 billion). Total equity reached L.E. 11.7 billion ($ 655 million) compared to L.E. 9.2 billion ($ 522 million) for the previous year. The most important source of funds for the Bank, savings pools and investment certificates (funds under management) increased by 11%, from L.E. 71.1 billion ($4.01 billion) in 2017, to L.E. 79.1 billion ($ 4.43 billion) in 2018. The shareholders approved distribution of cash dividend at 8 Cents per share and 20% bonus shares. FIBE will continue to play a pioneering role in the development of Islamic banking in Egypt and consolidation of its position.

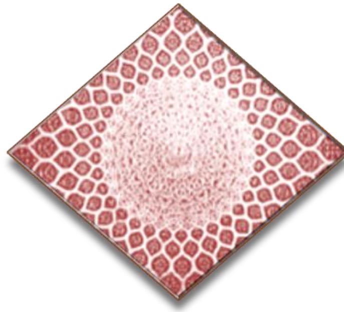
Looking forward to 2019 and beyond, the external environment continues to present some challenges especially as global growth remains uncertain and oil prices volatile. The Board of Supervisors will continue to oversee the implementation of the second phase of the Group's strategy, enhancing the utilisation of the capital and improving returns, while strengthening our organisational health and operating efficiency. We are optimistic that the investments made have positioned the Group to capture more business. The coming years will witness acceleration in our digital transformation and expansion in retail network across business and geographies.

I express my gratitude to the entire Group's staff for their hard work, loyalty, commitment and adaptability in a year of significant changes.

On behalf of the Board of Supervisors, I would like to thank our participants for their continued support, the Religious Board for its counsel and guidance.

Allah is the purveyor of success.

Amr Mohammed Al Faisal



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net profit/(loss)	(108.9)	26.2	(30.9)	4.0	(34.8)	35.1	(28.1)	(36.4)	(14.6)	(27.5)
Dividends	27.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trust capital	335	420	353	382	322	361	331	295	289	161
Return on average capital	(27.6)%	6.2%	(8.8)%	1%	(10.8)%	9.7%	(8.5)%	(11.1)%	(5.0)%	(12.2)%
Funds under management	2,508	8,589	8,098	8,355	8,399	9,009	9,105	9,053	8,705	8,620
Average number of employees	214	2,845	4,726	3,978	4,075	3,882	3,628	3,866	4,244	5,516
Book value per unit	$84.59	$106.18	$89.24	$96.57	$81.40	$91.26	$83.69	$74.51	$73.06	$40.67

Ten-Year Financial Summary

Dar Al-Maal Al-Islami Trust

2018

ANNUAL REPORT

1 January 2018 – 31 December 2018

Consolidated
Financial Statements

Index to the Consolidated Financial Statements

Independent auditors' report 11
Consolidated statement of financial position 14
Consolidated statement of income 15
Consolidated statement of comprehensive income 16
Consolidated statement of changes in equity 17
Consolidated statement of cash flows 18
Notes to the Consolidated Financial Statements
1. Formation and activities 21
2. Accounting policies 21
Basis of preparation 21
Impact of new accounting pronouncements and amended standards adopted 21
New and amended standards and interpretations 25
Summary of significant accounting policies 25
Measurement methods 25
Consolidation 26
Foreign currency translation 27
Derivative financial instruments and hedging 28
Income from investments with Islamic institutions and investments in financings 28
Fee and commission income 28
Sale and repurchase agreements 28
Accounting policies applied until year end 2017 28
Financial assets 28
Offsetting financial instruments 29
Impairment of financial assets 29
Impairment of non-financial assets 31
Intangible assets 31
Investment property 31
Property, plant and equipment and depreciation 31
Leases 32
Provisions 32
Non-current asset held for sale 32
Discontinued operations 33
Due to banks and financial institutions 33
Borrowings 33
Financial liabilities 33
Insurance liabilities 33
Retirement benefit plans 33
Taxation 34
Deferred income taxes 34
Trust capital and treasury stock 34
Acceptances 34
Cash and cash equivalents 34
Fiduciary activities 34
Accounting policies applied as of 1 January 2018 35
Financial assets 35
Financial liabilities 36
Financial guarantee contracts and loan commitments 37
3. Critical accounting estimates and judgements in applying accounting policies 37
Measurement of expected credit loss allowance 37
Fair value and impairment of available-for-sale equity investments 37
Fair value of investment properties 38
Income taxes 38
Consolidation of entities in which the Group holds less than 50% 38
Provisions 38
Impairment of associated companies 38
Estimated impairment of goodwill 38
Classification of financial assets 39
4. Financial instruments 39
Strategy in using financial instruments 39
Capital management 39
Financial risk management 40
Credit risk 40
Market risk 47
Liquidity risk 51
5. Cash and cash equivalents 55
6. Trading securities 55
7. Investments in financings 55
8. Collateral received and re-pledged 56
9. Allowance account from credit losses 57
10. Investment securities 58
11. Fair value of financial instruments 58
12. Accounts and other financial assets 62
13. Investment property 62
14. Fair values of land and buildings 63
15. Investments in associates 70
16. Property, plant and equipment 75
17. Intangible assets 76
18. Assets classified as held for sale 77
19. Accounts payable 77
20. Tax liability 78
21. Due to customers, banks and other financial institutions 78
22. Provisions 79
23. Collateralised borrowings 79
24. Net trading income 79
25. Income from investments in financings 79
26. Fee and commission income 80
27. Income from investments 80
28. Other income 80
29. Staff costs 80
30. General and administrative expenses 80
31. Proposed dividend 81
32. Taxes 81
33. Non-controlling interests 82
34. Funds under management 84
35. Retirement benefit plan 84
36. Related party transactions and balances 88
37. Contingent liabilities and commitments 89
38. Current and non-current assets and liabilities 90
39. Concentration of assets and liabilities 91
40. Maturities of assets and liabilities 93
41. Currency exposure 94
42. Trust capital 95
43. Date of authorisation for issue 95
44. Principal subsidiaries 95
45. Capital management 95
46. Contingency reserve 95

Independent auditor's report to the Holders of Equity Participations of Dar Al-Maal Al-Islami Trust

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Dar Al-Maal Al-Islami Trust (the "Parent Company") and its subsidiaries (together referred to as "the Group") as at 31 December 2018 and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with the IESBA code.

PricewaterhouseCoopers (Dubai Branch), License no. 102451
Emaar Square, Building 4, Level 8, P O Box 11987, Dubai - United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me

Douglas O'Mahony, Rami Sarhan, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

pwc

Independent auditor's report to the Holders of Equity Participations of Dar Al-Maal Al-Islami Trust (continued)

Report on the audit of the consolidated financial statements (continued)

Emphasis of matter

In February 2016, Islamic Investment Company of the Gulf (Bahamas) Limited ("IICG"), a subsidiary of the Group communicated to its investors in Saudi Arabia that it intended to wind up IICG's Funds Under Management ("FUM") in Saudi Arabia as the regulator, Capital Markets Authority ("CMA"), declined to grant any exemptions with respect to the registration and transfer of such FUM to a CMA registered subsidiary of IICG. The FUM has commenced distribution of the disposal proceeds of the underlying assets to the investors as and when such proceeds are realised. The final liquidation proceeds will only be known upon completion of the liquidation process which may take several years. IICG management recognises that claims may be initiated against IICG by investors who are unlikely to recover the full value of their investments. As at 31 December 2018, such claims aggregating US Dollars 76.8 million have been filed by investors against IICG. IICG's management is contesting the validity and jurisdiction of such claims and potential losses from such claims have been disclosed in Note 34 as a contingent liability. However, the value of future claims of a similar nature cannot be reasonably estimated. Our opinion is not modified in respect of this matter.

Other information

The Board of Supervisors are responsible for the other information. The other information comprises the chairman's message (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report, and the Report of the Religious Board which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Report of the Religious Board, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Board of Supervisors and those charged with governance for the consolidated financial statements

The Board of Supervisors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Supervisors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Supervisors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent auditor's report to the Holders of Equity Participations of Dar Al-Maal Al-Islami Trust (continued)

Report on the audit of the consolidated financial statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Supervisors.

- Conclude on the appropriateness of the Board of Supervisors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
3 July 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

(Thousands of US dollars except participation units)

	Notes	2018	2017
Assets			
Cash and cash equivalents	5	630,755	837,344
Investments with Islamic institutions	5	111,126	196
Trading securities	6	360,220	314,851
Investments in financings	7	1,836,909	1,812,957
Investment securities	10	1,502,996	1,592,880
Accounts and other financial assets	12	501,035	379,254
Current tax receivable	20	24,561	26,746
Cash at Central Bank – statutory reserve	5	167,661	171,113
Investment property	13	437,377	526,060
Investments in associates	15	646,111	220,207
Property, plant and equipment	16	63,920	141,722
Intangible assets	17	282,851	317,802
Assets classified as held-for-sale	18	-	477,182
Deferred tax assets	20	7,106	21,142
Total assets		**6,572,628**	**6,839,456**
Liabilities			
Accounts payable	19	486,463	406,933
Current tax payable	20	848	1,050
Due to customers, banks and other financial institutions	21	5,529,933	5,592,619
Provisions	22	68,317	68,317
Deferred tax liabilities	20	4,351	4,355
Total liabilities		**6,089,912**	**6,073,274**
Equity			
Trust capital attributable to equity participants			
Capital		390,316	390,316
Reserves		(229,449)	(101,316)
Total trust capital		**160,867**	**289,000**
Non-controlling interests	33	321,849	477,182
Total equity		**482,716**	**766,182**
Total equity and liabilities		**6,572,628**	**6,839,456**
Number of trust capital participation units		3,955,606	3,955,606
Book value per unit		$40.67	$73.06

Omar Abdi Ali
Member of Board of Supervisor

Amr Mohammed Al Faisal
Chairman

The notes on pages 21 to 95 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

	Notes	**2018**	**2017**
Income			
Fund management and services	34	91,421	98,312
Income from investments with Islamic institutions		3,794	3,157
Net trading income	24	23,069	22,996
Income from investments in financings	25	181,792	149,934
Fee and commission income	26	48,732	47,670
Gains from investment securities	10	69,835	73,238
Income from investments	27	11,416	18,411
Other gains and losses	28	4,572	23,167
		434,631	436,885
Profit paid to financial institutions and customers		(206,388)	(181,080)
Operating income		228,243	255,805
Expenses			
Staff costs	29	(92,868)	(101,331)
General and administrative expenses	30	(99,582)	(96,146)
Depreciation, amortisation and impairment of goodwill	16,17	(63,095)	(39,832)
Exchange (loss)		(2,562)	(20,445)
Allowance for impairment	9	(15,870)	(37,720)
Total expenses		(273,977)	(295,474)
Operating loss		**(45,734)**	**(39,669)**
Share of profit of associated companies	15	28,284	19,620
Loss for the year before income taxes		**(17,450)**	**(20,049)**
Taxes	32	(27,418)	(26,425)
Loss for the year		**(44,868)**	**(46,474)**
Attributable to:			
Equity participants		(27,510)	(14,625)
Non-controlling interests	33	(17,358)	(31,849)
		(44,868)	**(46,474)**

Omar Abdi Ali
Member of Board of Supervisor

Amr Mohammed Al Faisal
Chairman

The notes on pages 21 to 95 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

	2018		2017	
	Equity holders	Non-controlling interests	Equity holders	Non-controlling interests
Loss for the year	**(27,510)**	**(17,358)**	**(14,625)**	**(31,849)**
Items that may be subsequently reclassified to the consolidated statement of income				
Recycling of investment security reserve on sale of subsidiary	-	-	(10)	-
Movements in reserves due to change in treasury shares of subsidiary		-	(895)	(1,030)
Movements in fair value reserves of associated companies	(1,255)	(1,444)	2,374	2,732
Movement in fair value of available-for-sale investments	-	-	1,702	(7,404)
Movement in fair value of investments at FVOCI	(22,646)	(25,607)	-	-
Movements in deferred tax of available-for-sale investments	-	-	1,248	2,784
Movements in deferred tax of investments at FVOCI	312	360	-	-
Foreign currency translation differences of foreign entities	(21,982)	(46,796)	3,862	(3,482)
Items that will not be reclassified to the consolidated statement of income				
Re-measurements of post-employment benefit obligations	(2,290)	(2,633)	631	727
Other comprehensive (loss)/income	(47,861)	(76,120)	8,912	(5,673)
Total comprehensive (loss)/income	**(75,371)**	**(93,478)**	**(5,713)**	**(37,522)**

Omar Abdi Ali
Member of Board of Supervisor

Amr Mohammed Al Faisal
Chairman

The notes on pages 21 to 95 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

	Note	Paid in capital	Fiduciary reserve	Fair value reserve	Currency translation	Accumulated losses	Contingency reserve	Total	Non-controlling interests	Total equity
At 1 January 2017		390,316	60,000	18,004	8,030	(181,637)	-	(95,603)	531,812	826,525
Loss after income tax		-	-	-	-	(14,625)	-	(14,625)	(31,849)	(46,474)
Total other comprehensive income/(loss)		-	-	5,314	3,862	(264)	-	8,912	(5,673)	3,239
Dividend paid		-	-	-	-	-	-	-	(15,782)	(15,782)
Return of capital		-	-	-	-	-	-	-	(1,326)	(1,326)
At 31 December 2017		**390,316**	**60,000**	**23,318**	**11,892**	**(196,524)**	**-**	**(101,316)**	**477,182**	**766,182**
Impact of adoption of IFRS 9	1	-	-	-	-	(52,762)	-	(52,762)	(60,796)	(113,558)
Restated balance as at 1 January 2018		**390,316**	**60,000**	**23,318**	**11,892**	**(249,286)**	**-**	**(154,078)**	**416,386**	**652,624**
Loss after income tax		-	-	-	-	(27,510)	-	(27,510)	(17,358)	(44,868)
Total other comprehensive income/(loss)		-	-	(23,589)	(21,982)	(2,290)	-	(47,861)	(76,120)	(123,981)
Transfers to contingency reserve	46	-	-	-	-	(11,376)	11,376	-	-	-
Return of capital		-	-	-	-	-	-	-	(1,059)	(1,059)
At 31 December 2018		**390,316**	**60,000**	**(271)**	**(10,090)**	**(290,464)**	**11,376**	**(229,449)**	**321,849**	**482,716**

The notes on pages 21 to 95 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

	Notes	2018	2017
Cash flows from operating activities			
(Loss) before taxes and non-controlling interests		(17,450)	(20,049)
Adjustments for:			
Depreciation and amortisation	16,17	63,095	39,832
Fair value adjustments on trading securities		3,104	357
Loss/(income) on retirement benefit plans		111	(3,012)
Net trading income	24	(23,039)	(22,996)
Income from associated companies	15	(28,284)	(19,621)
Changes in fair value of investment properties	14	6,769	(26,622)
Provisions for impairment	9,10,16,17,22	(53,920)	(8,808)
Taxes paid		(19,728)	(26,546)
Adjusted cash flow before changes in operating assets and liabilities		(69,342)	(87,465)
Net (increase)/ decrease in investments with Islamic institutions		(110,930)	130,141
Net (increase)/ decrease of trading securities		(34,653)	(302,163)
Net decrease/(increase) in investments in financings		(13,696)	221,111
Net increase in accounts and other financial assets		(67,370)	(33,816)
Net increase in accounts payable, excluding taxes		118,469	78,058
Cash at central banks - statutory reserve		16,092	(9,255)
Net (decrease) in due to customers, banks and other financial institutions		(108,331)	(146,962)
Net cash (used in)/ generated from operating activities		(269,761)	(150,351)

The notes on pages 21 to 95 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER (CONTINUED)

(Thousands of US dollars)

	Notes	2018	2017
Cash flows from investing activities			
Purchase of investment property	13	(14,444)	(4,966)
Sale of investment property	13	17,247	23,526
Dividends from associated companies	15	37,387	22,484
Net decrease of investment securities		90,114	150,441
Purchase of property, plant and equipment and intangibles	16,17	(53,557)	(44,358)
Sale of property, plant and equipment and intangibles	16,17	90,645	3,608
Sale of subsidiaries	18	-	-
Sold / Acquired non-current assets via settlements	18	385	(1,005)
Net cash provided by investing activities		167,777	149,730
Cash flows from financing activities			
Dividends paid outflow		(427)	(187)
Cash outflow return of shares of subsidiary		(796)	(1,325)
Cash outflow on dividends paid to non-controlling interests		-	(15,782)
Net cash used in financing activities		(1,223)	(17,294)
Foreign currency translation adjustments		(103,382)	93,739
Net increase in cash and cash equivalents		**(206,589)**	**75,824**
Cash and cash equivalents at beginning of year		837,344	761,520
Cash and cash equivalents at end of year		**630,755**	**837,344**

Non-cash items included a transfer of investment amounting to USD 477,182 from investment for associate to non-current asset held for sale.

The notes on pages 21 to 95 form an integral part of these consolidated financial statements.

1. Formation and activities

Dar Al-Maal Al-Islami Trust (DMI) was formed by indenture under the laws of the Commonwealth of The Bahamas for the purpose of conducting business affairs in conformity with Islamic law, principles and traditions. DMI subsidiaries and associates offer a wide range of Islamic financial services including investment, commercial and private banking, private equity, public and private issue of securities, mergers and acquisitions advice, takaful, equipment leasing real estate development and modarabas which are similar to investment funds. The modarabas, being separate entities, do not have their funds consolidated in the annexed financial statements. They are included in off-balance sheet accounts as disclosed in note 34.

2. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of DMI and its subsidiaries (the Group) are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS interpretations. The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of assets at FVOCI, trading securities, financial assets held at fair value through profit or loss, derivative instruments and investment property.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Impact of new accounting pronouncements

New and amended standards adopted by the Group

The Group has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period. The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more details below.

(a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

Financial assets	**IAS 39**		**IFRS 9**	
	Measurement category	*Carrying Amount USD*	*Measurement category*	*Carrying Amount USD*
Cash and cash equivalent	Amortised cost (loans and receivables)	837,344	Amortised cost	837,225
Investment with Islamic institution	Amortised cost (loans and receivables)	196	Amortised cost	196
Trading securities	FVPL	314,851	FVPL	314,851
Investment in financing	Amortised cost (loans and receivables)	1,812,957	Amortised cost	1,700,291
Investment securities	Available-for-sale	1,393,742	FVOCI	1,238,133
	Held to maturity	122,260	Amortised cost	122,260
	FVPL	76,878	FVPL	76,878
Accounts and other financial assets (excluding derivative financial instruments)	Amortised cost (loans and receivables)	139,945	Amortised cost	139,290
Cash at Central Bank - statutory reserve	Amortised cost (loans and receivables)	171,113	Amortised cost	171,089
Derivatives financial instruments	FVPL	595	FVPL	595

There were no changes to the classification and measurement of financial liabilities

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Financial assets	IAS 39 carrying amount 31 December 2017	Reclassifications	Re-measurements	IFRS 9 carrying amount 1 January 2018
Amortised cost				
Cash and cash equivalents	837,344	-	(119)	837,225
Investment with Islamic institution	196	-	-	196
Investments in financing	1,812,957	-	(112,666)	1,700,291
Accounts and other financial assets (excluding derivative financial instruments)	139,945	-	(655)	139,290
Cash at Central Bank – statutory reserve	171,113	-	(24)	171,089
Investment securities-held to maturity	122,260	-	-	122,260
Subtotal	**3,083,815**	**-**	**(113,464)**	**2,970,351**
Fair value through other comprehensive income (FVOCI)				
Investment securities	1,393,742	-	(94)	1,393,648
Subtotal	**1,393,742**	**-**	**(94)**	**1,393,648**
Fair value through profit or loss (FVTPL)				
Trading securities	314,851	-	-	314,851
Investment securities	76,878	-	-	76,878
Derivatives financial instruments	595	-	-	595
Subtotal	**392,324**	**-**	**-**	**392,324**
Total	**4,869,881**	**-**	**(113,558)**	**4,756,323**

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category	Loan loss allowance under IAS 39	Reclassification	Re-measurement	Loan loss allowance under IFRS 9
Amortised cost				
Cash and cash equivalents	-	-	-	119
Investment with Islamic institution	-	-	-	-
Investments in financing	313,473	-	112,666	426,139
Accounts and other financial assets (excluding derivative financial instruments)	63,748	-	655	64,403
Cash at Central Bank – statutory reserve	-	-	24	24
Investment securities- held to maturity	19,185	-	-	19,185
Subtotal	**396,406**	**-**	**113,464**	**509,870**
Fair value through other comprehensive income (FVOCI)				
Investment securities	155,515	-	94	155,609
Subtotal	**155,515**	**-**	**9**	**155,609**
Total	**551,921**	**-**	**113,558**	**665,479**

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2018 and not early adopted.

IFRS 16 – "Leases" replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group is in the process of assessing the potential impact of the application of IFRS 16 on the amounts reported and disclosures made in this financial information.

IFRS 17- 'Insurance Contracts' (effective 1 January 2021). IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of income or directly in other comprehensive income. The choice is likely to reflect how the Company account for its financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by the company.

There is a modification of the general measurement model called the 'variable fee approach'.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

Summary of significant accounting policies

Measurement methods

Amortised cost and effective profit rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts, fees and points paid or received that are integral to the effective profit rate, such as origination fees. For purchased or originated credit-assets that are credit-impaired at initial recognition the Group calculates the credit-adjusted effective profit rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective profit rate. Any changes are recognised in consolidated statement of income.

Income from investments in financings

Profit is calculated by applying the effective profit rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective profit rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not "POCI" but have subsequently become credit – impaired (or 'stage 3'), for which profit revenue is calculated by applying the effective profit rate to their amortised cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value

plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in consolidated statement of income. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in consolidated statement of income when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs or realised through settlements.

Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated statement of income.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of income.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Costs associated with the restructuring of a subsidiary as a part of the acquisition or subsequent to the acquisition are included in the consolidated statement of income upon the date of commitment.

(b) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the

change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of income where appropriate.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in OCI of the investee is recorded in OCI. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounts for associated companies have been restated to conform with Group accounting policies, if necessary, except as otherwise disclosed.

Where a subsidiary or an associated company is acquired and held exclusively with a view to its disposal within the next twelve months, the subsidiary or associated company is classified as an investment held for sale in the Group's consolidated financial statements.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

Foreign currency translation

(a) Functional and presentation currency

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

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except where hedge accounting is applied.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of their fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the consolidated statement of comprehensive income.

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyper inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component in the statement of comprehensive income.

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other effective hedged portions of currency instruments designated as hedges of such investments, are taken to the statement of other comprehensive income on consolidation. When a foreign operation is sold, such exchange differences are recognised in the consolidated statement of income as part of the gain or loss on sale.

Derivative financial instruments and hedging

Derivative financial instruments are initially recognised in the consolidated statement of financial position at fair value and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, discounted cash flow models, and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives held for trading are included in trading income.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting and are therefore treated as derivatives held for trading with fair value gains and losses reported in the consolidated statement of income.

Income from investments with Islamic institutions and investments in financings

Income from investments with Islamic institutions and investments in financings are both contractually determined and quantifiable at the commencement of the transaction, are accrued on the effective return method basis over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, income is thereafter recognised using the rate of return used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees and other income from banking services are recognised on an accrual basis as the service is performed, when it is probable that associated economic benefits will flow to the Group and a reliable estimate of amount can be made. Fees and commission income and expense that are integral to the effective profit rate on a financial asset or liability are included in the measurement of the effective profit rate.

Other fees and commission income earned and expense incurred from the provision of services are recognised as revenue and expense, as and when the services are rendered.

Foreign exchange income on foreign exchange transactions undertaken on behalf of customers is recognised as and when these transactions are completed.

Asset management fees related to investment funds are recognised over the period the service is provided and are recorded in fund management and services income when capable of being reliably measured.

Sale and repurchase agreements

Securities sold subject to a linked repurchase agreement (repos) are recognised in the consolidated statement of financial position and are measured in accordance with related accounting policies for trading or investment securities. The counterparty liability for amounts received under these agreements is included in customer investment accounts. The difference between the sale and repurchase value is accrued over the period of the contract and recorded as expense in the consolidated statement of income.

Securities purchased under agreement to resell (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included under investments in financings. The difference between the contracted price and the resale price is amortised over the period of the contract and is recognised as income in the consolidated statement of income.

Obligations for the return of securities or for forward sales, which are a part of the repurchase agreements, are recognised as commitments as disclosed in note 37.

Accounting policies applied until the year end 31 December 2017

Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. The classification of investments is determined at initial recognition. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss (refer to details below). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership.

(a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading, including trading securities and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless qualifying for hedge accounting.

Financial assets at fair value through profit and loss are initially recognised at fair value (which excludes transaction costs) and subsequently carried at fair value based on quoted bid prices. All related realised and unrealised gains and losses are

included in net trading income in the period in which they arise. Dividends declared are included in dividend income.

All purchases and sales of financial assets held for trading and at fair value through profit and loss that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset.

(b) Loans and receivables

Loans and receivables, which include investments in financings, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than: (a) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

In general, they arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable and also includes purchased loans and receivables that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective yield method. All loans are recognised when cash is advanced to the customer.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and there is the intent and the ability to hold them to maturity. If more than an insignificant amount of held-to-maturity assets is sold, the entire category will be considered tainted and reclassified as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

(d) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in exchange rates, equity prices or other market rates. All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the entity commits to purchase or sell the asset.

Available-for-sale investments are initially recognised at fair value (which includes transaction costs) and subsequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active or the asset is an unlisted security, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale which are not part of a hedging relationship are recognised in other comprehensive income. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the consolidated statement of income as gains or losses from investment securities. Dividends declared are included in dividend income.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

The translation differences on monetary securities are recognised in profit and loss; translation differences on non-monetary securities are recognised in other comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

All financial assets other than the one specifically classified as available for sale, financial asset at fair value through profit and loss and held to maturity are classified as loans and receivables.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss

event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment include:

(i) Delinquency in contractual payments of principal or return;

(ii) Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);

(iii) Breach of loan covenants or conditions;

(iv) Initiation of bankruptcy proceedings;

(v) Deterioration of the borrower's competitive position;

(vi) Deterioration in the value of collateral; and

(vii) Downgrading below investment grade level.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If a loan or held-to-maturity investment has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income.

The Group sometimes renegotiates or otherwise modifies the contractual cash flow of financing given to customers. When this happens the group assesses whether or not the new terms are substantially different then original terms. If the terms are substantially different then the group derecognises the original financial asset and recognise a new asset at fair value and recalculate a new effective rate for the asset. Difference in the carrying amount are recognised in the profit and loss at the derecognition. If the terms are substantively different the renegotiation and modification does not result into derecognition and group recalculates the gross carrying amount based on revised cash flow of financial assets and recognise modified gain or loss in profit and loss. The new gross carrying amount recalculated by

discounting the modified cash flows at the original effective profit rate.

Past due definition

A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

(b) Assets classified as available-for-sale

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

Debt instruments classified as available for sale are assessed for impairment as stated in "a" above. If any such evidence exists for available-for-sale equity financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income - is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill on subsidiaries is tested annually for impairment and carried at cost less accumulated impairment losses. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal or the value in use. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their useful lives.

(c) Other acquired intangible assets

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

Investment property

Investment property principally comprises office buildings which are held to earn rental income or for long term capital appreciation or both. Investment property is initially recognised at cost, including transaction expenses. Subsequently, it is carried at fair value, representing open market value determined annually by reference either to external valuers or to other independent valuation sources. Changes in fair values are recorded in the consolidated statement of income and are included in other income. Investment property also include development properties which are carried at cost.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost less subsequent depreciation and

impairment, except for land, which is shown at cost less impairment. Land is not depreciated. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Building: 50 years
Leasehold improvements:
over the period of the lease or useful life
Furniture, equipment and motor
vehicles: 3-10 years

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

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

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amounts. These are included as other operating income or expenses in the consolidated statement of income.

Leases

Total payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

When a Group company is the lessee of property, plant and equipment and the Group has substantially all the risks and rewards of ownership, they are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in payables. The profit element of the finance cost is charged to the consolidated statement of income over the lease period. The asset acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

When a Group company is the lessor and assets are held subject to a finance lease, the value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the statement of financial position date.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the statement of financial position date.

Non-current assets held for sale

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups). Its sale must be planned and committed and an active programme initiated to locate a buyer and complete the plan within one year. The asset (or disposal group) must be actively marketed for a price that is reasonable in relation to its current fair value.

A non-current asset held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised through the consolidated statement of income for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale or while part of a disposal group held for sale.

The Group separately classifies the material non-current assets held for sale (or disposal group) in the consolidated statement of financial position. Furthermore, all major classes of assets and liabilities are disclosed. Any cumulative income or expense is disclosed as a separate item within

equity. Prior period amounts are not re-presented to reflect the classification of the assets (or disposal group) in the current period.

Non-current assets, which are to be abandoned, are not classified as held for sale and are reclassified as discontinued operations, to the extent they meet the requirements of discontinued operations in the paragraph which follows.

If a non-current asset (or disposal group) ceases to be classified as held for sale or as discontinued operations, the results of operations are reclassified and included in the consolidated statement of income from continuing operations for all periods presented.

Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

Due to banks and financial institutions

Due to banks and financial institutions are initially recorded at fair value and subsequently measure at amortised cost using the effective return method.

Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective return method.

Financial liabilities

All financial liabilities are initially recognised at fair value less transaction costs. Subsequently, financial liabilities that are not held for trading and are not designated as at FVTPL are measured at amortised cost using the effective profit method. Amortised cost is calculated by taking into account any discount or premium on settlement.

Insurance liabilities

Outstanding claims

Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs and reduction for the expiated value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the statement of financial position date. The liability is not discounted for the time value of money. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Unexpired risk

The provision for unexpired risk represents premiums received for risks that have not yet expired. The reserve is matched with the premiums earned and realised.

Liability adequacy test

At each statement of financial position date the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of income and an additional unexpired risk provision is created.

Retirement benefit plans

The Group operates a number of defined benefit pension plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking into account the recommendations of independent qualified actuaries.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group's contributions to defined contribution pension plans are charged in the consolidated statement of income in the year to which they relate.

Taxation

Taxes are provided and charged in the consolidated statement of income on the basis of the estimated tax expense payable currently and in future years, arising in respect of the results of current operations.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the Group's subsidiaries and associates operate.

Deferred income taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their respective carrying values for financial reporting purposes. The amount of deferred taxes on these differences is determined using the provisions of local tax laws, including rates, and is adjusted upon enactment of changes in these laws. Provision is made for potential taxes which could arise on the remittance of retained overseas earnings where there is a current intention to remit such earnings.

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

Deferred tax related to fair value remeasurement of investments available-for-sale which is charged or credited directly to the statement of comprehensive income, is also credited or charged directly to statement of comprehensive income and is subsequently recognised in the consolidated statement of income together with the deferred gain or loss.

Deferred tax related to fair value remeasurement of investment property, which is charged or credited to the consolidated statement of income, is also charged or credited to the consolidated statement of income.

Trust capital and treasury stock

Dividends on participation units

Dividends on participation units are recognised in Trust capital in the period in which they are declared.

Treasury stock

Where DMI purchases its own capital or obtains rights to purchase its own capital, the consideration paid is shown as a deduction from Trust capital.

Fiduciary risk reserve

The fiduciary risk reserve is a component of Trust capital and is established by an appropriation of net results, other reserves or by a transfer from paid in capital, for the financial year to cover potential fiduciary risks which might arise and which are not subject to other specific provision, in the Group's capacity as fund manager. The fiduciary risk reserve is not distributable.

Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments, unless payment is probable.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with maturities of three months or less from the date of acquisition, including cash and non-restricted balances with central banks, amounts due from other banks and short term government securities.

Fiduciary activities

The Group through its asset management subsidiary provides fund management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

Income arising from fund management and advisory services comprises the revenues earned from the management of the funds in the modarabas accrued on the basis of the terms and conditions of the related management agreements. Funds under management represent amounts

invested by clients and placed with funds managed by the Group.

Accounting policies applied starting 1 January 2018

Financial assets:

Classification and subsequent measurement

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- The Group's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit (SPP), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 2.2

Profit from these financial assets is included in profit and similar income' using the effective profit rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the asset's cash flow represents solely payments of principal and profit, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, profit revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in consolidated statement of income.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to consolidated statement of income and recognises in 'Net investment income'. Profit from these financial assets is included in profit income' using the effective profit rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the consolidated statement of income within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are net held for trading, in which case they are presented separately in Net investment income'. Profit from these financial assets is included in profit using effective profit rate method.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a Group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments; cash flows represent solely payments of principal and profit (the 'SPPI' test). In making the assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. profit includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that inconsistent with a basis lending arrangement, the related financial assets is classified and measured at fair value through profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from issuer's perspective, that is, instruments that do not contain a contractual obligation to pay and that evidence a residual profit in the issuer's net assets.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity instruments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investment, continue to be recognised in consolidated statement of income as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the 'Net trading income' line in the consolidated statement of income.

Impairment

The Group assesses on a forward looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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.

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual profit.

Financial liabilities

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss: this classification is applied to derivatives.

Decrecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market profit rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Derivatives and hedging activities

The Group has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

The Group has not provided comparative information for periods before the date of initial application of IFRS 9 for the new disclosures introduced by IFRS 9 as a consequential amendment to IFRS 7, as permitted by IFRS 7.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires 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 criteria for significant increase in credit risk;

- 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 financial assets for the purposes of measuring ECL.

Fair value and impairment of available-for-sale equity investments – until 31 December 2017

The Group may from time to time hold investments in financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by Group management.

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

On occasion the Group may hold investments whose fair value cannot be reliably measured. In those instances, full disclosure with a description of the investment, the carrying value and an explanation of why fair value cannot be measured reliably are included in the notes to the financial statements.

Fair value of investment properties

The Group may from time to time hold investment properties which are carried at fair value, representing open market value determined annually by reference either to external valuers or to other independent valuation sources.

Income taxes

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

Consolidation of entities in which the Group holds less than 50%

The Group considers it has de facto control of Ithmaar Holding B.S.C. even though it has less than 50% of the voting rights. The Group is the majority shareholder with a 46.49% equity interest. As the Group maintains control over Ithmaar's Board of Directors and considering the dispersed nature of the remaining shareholders, DMI continues to consolidate Ithmaar Holding B.S.C. as a subsidiary based upon the Group's assessment under IFRS 10. There is no history of other shareholders forming a group to exercise their votes collectively.

The de facto control of Ithmaar Holding BSC is constantly assessed for changes in shareholding which may impact this assessment

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. The determination of whether an outflow is probable and the amount, which is assessed by Group management, in conjunction with the Group's legal and other advisors, requires the judgement of the Group's management.

Impairment of associated companies

The Group assesses at each statement of financial position date whether there is objective evidence that its investments in associated companies are impaired. In general, an investment in an associated company is impaired and an impairment loss incurred when the carrying amount of the investment exceeds its recoverable amount. The recoverable amount is defined as the higher of its fair value less costs to sell and its value in use.

On assessing its investments for impairment at the year end, the Group has relied upon cash flow projections as approved by the board of the underlying associates that are based upon judgements and estimates related to future events which ultimately could have a significant impact on the recoverable amounts of these investments in the consolidated financial statements.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on estimated future cash flows and comparisons with market multiples. These calculations require the use of estimates, which are subject to judgement. Changes in the underlying assumptions may impact the reported numbers.

Ithmaar Holding BSC

During 2018 and 2017 the Group used a sum-of-the-parts approach to arrive at a business value of the Ithmaar Holding B.S.C. CGU as Ithmaar Holding B.S.C did not had any independent cash flow generating activity at its own level. Management has considered both PB multiple and value in use calculation for the impairment assessment.

Level 2 PB multiple valuation method were used instead of Level 1 listed share price as it did not consider that an active market existed for the shares of Ithmaar as the trading activity in the past years have been very minimal.

The valuation methodology for the separately identified parts at Ithmaar Holding B.S.C. level based on the operational activities is the following:

- Formerly Shamil Bank: residual income based on discounted cash flows; (2017: value in use based on discounted cash flows);
- Faysal Bank Limited: distributable income based on discounted cash flows; (2017: value in use based on discounted cash flows);
- BBK: Based on Market Approach using Comparable Companies Multiple Method ("CCM") (2017: Market Approach using Relative Valuation (price to book multiple methods) for determine the (FVLCTS) as per IFRS 5 requirements.

Ithmaar Holding B.S.C. residual assets: investments measured at their carrying value adjusted for fair value changes.

Management has also considered PB multiple approach for further assessing the impairment for both Ex-Shamil and Faysal Bank Limited. Based on lower end PB multiple and this additional stress test has also not resulted in any impairment.

Islamic Investment Company of the Gulf (Bahamas) Limited

During 2017, on the basis that the Group used a discounted cash flow model, for the next 5 years, and assuming a discount rate of 12.91%, to arrive at

a value in use of Islamic Investment Company of the Gulf (Bahamas) Limited.

Classification of financial assets

Refer to "Accounting policies applied starting 1 January 2018" for financial assets in note 2.2.

4. Financial instruments

A. Strategy in using financial instruments

By its nature, the Group's activities are principally related to the use of financial instruments. The Group accepts investments from customers at varying rates of return and for various periods and seeks to earn above average profits by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short term funds and investing for longer periods at higher return potential whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its profit margins by obtaining above average margins, net of provisions, through transactions with its commercial and retail customers. Such exposures involve not just on-balance sheet Islamic financings but the Group also enters into Islamically acceptable guarantees and other commitments such as letters of credit and performance and other bonds.

The Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short term market movements in the equity and bond markets and in currency and profit rates. The individual subsidiary's boards place trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. Foreign exchange and profit rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The Group utilises the following derivative instruments for both hedging and non-hedging purposes.

(i) Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions; (ii) equity futures are contractual obligations to receive or sell shares on a future date at a specified price established in an organised financial market; and (iii) equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of shares at a predetermined price. In consideration for the assumption of the risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter).

B. Capital management

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

(i) To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;

(ii) To maintain a strong capital base to support the development of its business; and

(iii) To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate.

DMI itself does not engage in banking business and is therefore not required to comply with any minimum capital adequacy requirements. The regulatory capital requirement are applicable to Ithmaar Bank BSC(C) which is 100% owned subsidiary of Ithmaar Holding.

Ithmaar Bank has not complied with the requirements of the Central Bank of Bahrain's Rulebook Volume 2 "Licensing requirements" which states that an Islamic retail bank licensee must maintain a minimum total shareholders' equity of BHD 100 million. Faysal Bank Limited has complied with its regulatory capital requirement. As at the reporting date other subsidiaries within DMI group do not have any specific regulatory capital requirement.

In order to maintain or adjust capital, the Group may adjust the amounts of dividends paid to equity participants, issue new equity or sell assets to reduce cap. The Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as due to banks and financial institutions less cash and cash equivalents. Total capital is calculated as equity as shown on the face of the consolidated financial statements.

The Group's debt-to-equity ratios for the given years were as follows:

	2018	2017
Total debt (Note 21)	1,554,059	1,147,991
Less: Cash and bank balances	(798,416)	(1,008,457)
Net debt	755,643	139,534
Total equity	**160,869**	**289,000**
Debt-to-equity ratio	470%	48%

C. Financial risk management

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. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by individual entities within the Group under policies approved by their respective Boards of Directors. The Boards provide written principles for overall management, as well as written policies covering specific areas, such as market rate risk, credit risk and use of non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit, liquidity and market risk. Market risk includes currency risk, profit rate and other price risk.

D. Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, client or market counterparties fail to fulfil their contractual obligations to the Group.

Credit risk arises mainly from cash and cash equivalents, investments in islamic institution, investments in financing, investment securities (amortised cost and FVOCI) and accounts and other financial assets and cash at Central Bank.

Credit risk measurement

Investments in financings (incl. loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is consistent with the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group use internal rating models tailored to the various categories of counterparty. In addition, the models enable expert judgement from the management to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in light of all actually observed defaults. The Group's internal rating scale are set out below:

Ratings	Description of the class	External rating: Standard & Poor's equivalent
1-5	Investment grade	AAA, AA+, AA- A+, A-, BBB+, BBB, BBB-
6-10	Standard monitoring	BB+, BB, BB-, B+, B, B-, CCC to C
11-12	Sub-standard	D

Expected credit loss measurement

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.

Measuring ECL - Explanation of inputs, assumptions and estimation techniques

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.

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.

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.

Non-Retail:

The Group has set out the following definition of default.

Non-retail customers with the following characteristics:

- All or any of the facilities in which any instalment or part thereof is outstanding for a period of 90 days or more;
- All or any of the facilities put on non-accrual status (i.e. profit suspended);
- All or any of the facilities 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).

Forward-looking information incorporated in the ECL models

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group annually source macro-economic forecast data from the International Monetary Fund (IMF) database for the relevant exposure country.

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

Generating the term structure of PD

Credit risk grades and days past due (DPD) are primary inputs into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of borrower, days past due and as well as by credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP, Net Lending and Population.

Based on consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (i.e. on incorporation of forward-looking

information). The Group then uses these forecasts to adjust its estimates of PDs.

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

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.

Credit risk exposure

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	2018 ECL staging				**2017**
	Stage 1	**Stage 2**	**Stage 3**		
	12-month ECL USD'000	**Lifetime ECL** USD'000	**Lifetime ECL** USD'000	**Total** USD'000	**Total** USD'000
Investment grade					
Low Risk (1-3)	872,363	80,142	-	952,505	991,202
Acceptable risk (4-6)	3,292,994	400,648	-	3,693,641	3,787,508
Watch list (7)	6,232	38,260	-	44,491	46,299
Non performing (8-10)	-	O/S	89,206	89,206	92,830
Loss allowance	**(121,733)**	**(10,126)**	**(486,749)**	**(618,608)**	**(643,722)**
Carrying amount	**4,049,856**	**508,924**	**642,983**	**5,248,937**	**5,462,027**

The maximum credit risk exposure from financial assets not subject to impairments "FVPL" amounts to USD 1,258,249.

Collateral and other credit enhancements

Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The fair value of the collateral held as at 31 December 2018 amounts to USD 3,608,111 (2017: USD 4,383,491).

Loss allowance

The following table explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	2018			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL USD'000	**Lifetime ECL** USD'000	**Lifetime ECL** USD'000	**Total** USD'000
Amortised cost				
Cash and cash equivalents				
Loss allowance as at 1 January	(119)	-	-	(119)
Loss allowance as at 31 December	(119)	-	-	(119)
Investments in financing				
Loss allowance as at 1 January	(103,198)	(11,415)	(311,526)	(426,139)
New financial assets originated	765	1,107	12,009	13,881
FX and other movements	2,437	199	54,492	57,128
Loss allowance as at 31 December	(99,996)	(10,109)	(245,025)	(355,130)
Accounts and other financial assets (excluding derivative financial instruments)				
Loss allowance as at 1 January	(656)	-	(63,747)	(64,403)
New financial assets originated	(1,275)	(17)	(3,399)	(4,691)
FX and other movements	-	-	5,224	5,224
Loss allowance as at 31 December	(1,931)	(17)	(61,922)	(63,870)
Held to maturity investments				
Loss allowance as at 1 January	(19,185)	-	-	(19,185)
New financial assets originated	(375)	-	-	(375)
Loss allowance as at 31 December	(19,560)	-	-	(19,560)
Cash at Central Bank – statutory reserve				
Loss allowance as at 1 January	(24)	-	-	(24)
Loss allowance as at 31 December	(24)	-	-	(24)

	2018			
	Stage 1	Stage 2	Stage 3	
	12-month ECL USD'000	Lifetime ECL USD'000	Lifetime ECL USD'000	Total USD'000
Fair value through other comprehensive income (FVOCI) Investment securities				
Loss allowance as at 1 January	(94)	-	(155,515)	(155,609)
New financial assets originated	(9)	-	(24,287)	(24,296)
Loss allowance as at 31 December	(103)	-	(179,802)	(179,905)

Gross carrying amount

The following table further explains the changes in the gross carrying amount from 1 January to 31 December 2018:

	2018			
	Stage 1	Stage 2	Stage 3	
	12-month ECL USD'000	Lifetime ECL USD'000	Lifetime ECL USD'000	Total USD'000
Amortised cost				
Cash and cash equivalents				
Gross carrying amount as at 1 January 2018	837,344	-	-	837,344
New financial assets originated	(206,470)	-	-	(206,470)
Gross carrying amount as at 31 December 2018	630,874	-	-	630,874
Investments with Islamic institutions				
Gross carrying amount as at 1 January 2018	196	-	-	196
New financial assets originated	110,930	-	-	110,930
Gross carrying amount as at 31 December 2018	111,126	-	-	111,126
Investments in financing				
Gross carrying amount as at 1 January 2018	1,679,866	75,414	371,150	2,126,430
New financial assets originated	115,097	(5,328)	(44,161)	65,609
Gross carrying amount as at 31 December 2018	1,794,963	70,086	326,990	2,192,039

	2018			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL USD'000	**Lifetime ECL** USD'000	**Lifetime ECL** USD'000	**Total** USD'000
Amortised cost				
Accounts and other financial assets (excluding derivative financial instruments)				
Gross carrying amount as at 1 January 2018	87,691	52,255	63,747	203,693
New financial assets originated	1,989	-	14,918	16,907
Gross carrying amount as at 31 December 2018	89,680	52,255	78,665	220,600
Cash at Central Bank – statutory reserve				
Gross carrying amount as at 1 January 2018	171,113	-	-	171,113
New financial assets originated	(3,428)	-	-	(3,428)
Gross carrying amount as at 31 December 2018	167,685	-	-	167,685
Investment securities at FVOCI				
Gross carrying amount as at 1 January 2018	864,267	270,444	259,031	1,393,742
New financial assets originated	25,905	31,304	(12,798)	44,411
Gross carrying amount as at 31 December 2018	890,172	301,748	246,233	1,438,153
Fair value through profit or loss (FVTPL)				
Trading securities				
Gross carrying amount as at 1 January 2018	391,729	-	-	391,729
New financial assets originated	45,369	-	-	45,369
Gross carrying amount as at 31 December 2018	437,111	-	-	437,111
Held to maturity				
Investment securities				
Gross carrying amount as at 1 January 2018	141,445	-	-	141,445
New financial assets originated	45,755	-	-	45,755
Gross carrying amount as at 31 December 2018	187,200	-	-	187,200

Write-off policy

The Group's existing policy remains the same under IFRS 9. 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.

Credit-impaired financial assets

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

E. Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in currency, equity, profit rate and other products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or non-trading portfolios.

The market risks, arising from trading and non-trading activities, are monitored by individual entities within the Group. Regular reports are submitted to management.

Trading portfolios include those positions arising from market-making transactions where the Group acts as principal with clients or with the market. Non-trading portfolios primarily arise from the management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Group's available-for-sale investments and held-to-maturity investments.

(a) Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The boards of directors of individual entities within the Group set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Currency risk

Assuming that all other variables held constant, the impact of currency risk on the consolidated statement of income and comprehensive income based on reasonable shift is summarised below:

	USD/EUR	USD/PKR
At 31 December 2018		
Total currency exposure	(183,096)	(118,258)
Reasonable shift	3.08%	2.60%
Total effect on income	(5,039)	(3,075)
At 31 December 2017		
Total currency exposure	(247,157)	(997,243)
Reasonable shift	2.42%	12.78%
Total effect on income	(5,981)	(127,448)

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate at 31 December as compared to the one year forward rate for the same period. The total effect on equity was determined not to be material.

(b) Profit rate risk

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates. Movement in the market profit rates may affect the earnings of the Group.

The profit rate exposure taken by the Group arises from investing in corporate, small-medium enterprises, consumer financing, investment banking and inter-banking activities where variation in market profit rates may affect the Profitability of the Group.

The risk is managed by the management of individual entities. The profit rate dynamics are reviewed at regular intervals and repricing of assets and liabilities are adjusted to ensure that the spread of the subsidiary remains at an acceptable level.

The financings and deposits of the Group are broadly linked to the market variable rates and thus get automatically repriced on a periodic basis based on profit rate scenarios.

Profit rate risk

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

At 31 December 2018

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Assets							
Cash and bank balances	178,845	-	-	-	-	619,571	798,416
Investments with Islamic institutions	25,371	6,947	68,062	10,730	-	16	111,126
Trading securities	3,872	-	277,474	4,695	-	74,179	360,220
Investments in financings	560,278	264,892	358,363	506,080	136,240	11,056	1,836,909
Investment securities	490,554	524,229	284,002	13,287	1	190,693	1,502,766
Other assets	-	3	-	-	-	487,508	487,510
Total financial assets	1,258,920	796,070	987,901	534,792	136,241	1,383,023	5,096,947
Liabilities							
Due to customers, banks and other financial institutions	2,021,986	759,953	1,093,863	22,200	-	1,631,931	5,529,933
Other liabilities	-	3	-	-	-	486,460	486,463
Total financial liabilities	2,021,986	759,956	282,991	22,200	-	2,118,391	6,016,396
Total repricing gap	(763,066)	36,114	(105,962)	512,592	136,241	(735,368)	(919,449)

At 31 December 2017

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Assets							
Cash and bank balances	371,152	179,376	-	-	-	457,929	1,008,457
Investments with Islamic institutions	-	-	-	179	-	17	196
Trading securities	136,502	161,300	3,567	13,482	-	-	314,851
Investments in financings	369,332	272,305	488,425	544,511	132,026	6,358	1,812,957
Investment securities	588,923	572,641	43,261	79,033	96	308,926	1,592,880
Other assets	-	3	-	-	-	338,193	338,196
Total financial assets	1,465,909	1,185,625	535,253	637,205	132,122	1,111,423	5,067,537
Liabilities							
Due to customers, banks and other financial institutions	2,093,732	434,544	1,193,836	91,136	13,599	1,765,772	5,592,619
Other liabilities	-	286	-	-	-	406,647	406,933
Total financial liabilities	2,093,732	434,830	1,193,836	91,136	13,599	2,172,419	5,999,552
Total repricing gap	(627,823)	750,795	(658,583)	546,069	118,523	(1,060,996)	(932,015)

At 31 December 2018	USD	EUR	PKR
Total net profit rate exposure in the consolidated statement of financial position	535,632	320,047	1,000,864
Reasonable shift (+/-)	0.92%	0.00%	4.00%
Total effect on loss (+/-)	4,928	-	40,035
At 31 December 2017			
Total net profit rate exposure in the consolidated statement of financial position	342,850	357,226	983,082
Reasonable shift (+/-)	0.9%	0.25%	0.74%
Total effect on loss (+/-)	3,086	893	7,275

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the period.

Price risk

Price risk is the risk that the fair values of the equities or the managed funds increase or decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks held at fair value through other comprehensive income.

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the year and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices.

Other components of equity

	2018	**2017**
Pakistan stock exchange (+/-10%)	4,615	3,233
Cairo stock exchange (+/-10%)	525	454

Impact on post tax profit

	2018	2017
Bahrain Bourse (+/-10%)	136	122
Saudi Stock exchange (+/-10%)	437	432

F. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay investors and fulfil commitments to lend.

Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by management in individual entities within the Group, includes:

(i) Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in money markets to enable this to happen;

(ii) Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and

(iv) Managing the concentration and profile of debt maturities.

Monitoring and reporting of treasury and capital market maturities is done through monitoring of daily maturities. Similarly the overall liquidity maintenance is done through monthly maturity gap analysis at balance sheet level. Hence, monitoring and reporting takes the form of regular and periodic cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Group also monitors unmatched medium term assets.

The table below presents the cash flows payable by the Group under financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected cash inflows.

At 31 December 2018

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Total
Liabilities						
Customer current accounts	1,386,187	59,905	7,567	12,535	3,901	1,470,095
Customer investment accounts	1,061,774	275,890	1,148,501	19,614	-	2,505,779
Due to banks and financial institutions	1,312,787	60,850	135,267	31,850	13,305	1,554,059
Derivative Financial instruments	-	-	702	1,863	2,952	5,517
Deferred Income	4,561	-	139	-	-	4,700
Accounts payable	136,748	161,052	65,554	106,383	-	469,737
Total liabilities liquidity risk	3,902,057	557,697	1,357,730	172,245	20,158	6,009,887

At 31 December 2017

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Total
Liabilities						
Customer current accounts	1,771,500	-	-	-	-	1,771,500
Customer investment accounts	2,030,360	272,774	364,177	2,636	-	2,669,947
Due to banks and financial institutions	783,579	131,392	197,477	21,972	13,571	1,147,991
Investments from off-balance sheet funds	-	-	3,181	-	-	3,181
Derivative Financial instruments	-	-	-	39,912	-	39,912
Deferred Income	-	-	315	1	-	316
Accounts payable	154,708	4,111	101,620	28,732	1,578	290,749
Total liabilities liquidity risk	4,740,147	408,277	666,770	93,253	15,149	5,923,596

4. Financial instruments (continued)

The table below presents the expected cash outflow by the Group under off-balance sheet liabilities.

At 31 December 2018

	No later than one year	One-five years	Over five years	Total
Acceptances and endorsements	68,491	9,590	-	78,081
Guarantees and irrevocable letters of credit	654,489	78,292	7,677	740,458
Performance bid bonds	46,418	4,142	-	50,560
Other contingent liabilities	-	243,841	13,201	257,042
Undrawn facilities and other commitments to finance	978,442	-	4,054	982,496
Open foreign currency positions	586,522	-	64,139	650,661
Repurchased and resale transactions	444,086	-	-	444,086
Total off-balance sheet liabilities	2,778,448	335,865	89,071	3,203,383

At 31 December 2017

	No later than one year	One-five years	Over five years	Total
Acceptances and endorsements	62,824	-	-	62,824
Guarantees and irrevocable letters of credit	602,494	218,067	146	820,707
Performance bid bonds	53,660	940	-	54,600
Other contingent liabilities	2,182	309,222	15,774	327,178
Undrawn facilities and other commitments to finance	1,115,215	-	17,168	1,132,383
Open foreign currency positions	422,253	24,520	15,811	462,584
Repurchased and resale transactions	297,331	-	-	297,331
Total off-balance sheet liabilities	2,555,963	552,765	48,899	3,157,627

Assets held for managing liquidity risk

The Group holds a diversified portfolio of cash and high-quality high-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk comprise:

- Cash and balances with central banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Group's trading portfolios and investment carried at fair value through other comprehensive income.

4. Financial instruments (continued)

Derivative assets and liabilities

The Group's derivatives that will be settled on a gross basis include foreign exchange derivatives i.e. currency forward, currency swaps. The table below analyses the Group's derivative financial assets that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2018

	Up to three month	Three-twelve months	One-five years	Five to ten years	Total
Derivatives held for hedging:					
Foreign exchange derivatives					
- Outflow	-	-	(2,565)	(2,952)	(5,517)
- Inflow	-	-	-	-	-
Total outflow	-	-	(2,565)	(2,952)	(5,517)
Total inflow	-	-	-	-	-

At 31 December 2017

	Up to three month	Three-twelve months	One-five years	Five to ten years	Total
Derivatives held for hedging:					
Foreign exchange derivatives					
- Outflow	-	-	(14,083)	(8,394)	(22,478)
- Inflow	-	-	13,749	8,134	21,883
Total outflow	-	-	(14,083)	(8,394)	(22,478)
Total inflow	-	-	13,749	8,134	21,883

Funding approach

Sources of liquidity are regularly reviewed to maintain a diversification by currency, geography, provider, product and term.

Assets available to meet liabilities and to cover outstanding loan commitments include cash and bank balances; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, certain assets have been pledged to secure liabilities. The Group would also be able to meet unexpected net cash outflows by selling strategic investments, securities and accessing additional funding sources such as undrawn facilities.

5. Cash and cash equivalents and investments in Islamic institutions

5.1 Cash and cash equivalents

	2018	2017
Cash on hand	129,165	126,999
Cash at central banks - current account	141,463	200,362
Cash at other banks	360,127	509,983
Cash and cash equivalents	630,755	837,344
Cash at central banks - statutory reserve	167,661	171,113
Cash and bank balances	**798,416**	**1,008,457**

All cash at other banks have original maturities of less than 3 months. The cash at central bank-statutory reserve is not available for use.

5.2 Investments with Islamic institutions

Investments with Islamic institutions represent placements of a short term nature carried for a period less than 1 year and earn average profit rate of 7.57% (2017: 5.99%).

6. Trading securities

	2018	2017
Trading securities - at fair value		
- Government securities	278,210	304,895
- Corporate securities	82,010	9,956
Trading securities	**360,220**	**314,851**

The movement in trading securities is summarised as follows:

	2018	2017
At 1 January	314,851	27,010
Additions	4,465,248	6,029,059
Disposals	(4,430,525)	(5,725,123)
Loss on trading (Note 25)	(1,315)	(1,213)
Revaluation of trading securities (Note 25)	(3,104)	(2,980)
Exchange differences	15,065	(11,902)
At 31 December	**360,220**	**314,851**

7. Investments in financings

	2018	2017
Islamic investments in financings	2,148,929	2,052,596
Financings subject to finance leases	43,110	73,834
Provision for expected credit losses (Note 9)	(355,130)	(313,473)
Investments in financings	**1,836,909**	**1,812,957**

Islamic investments in financings largely comprise conventional loans and advances made by a subsidiary of the Group.

7. Investments in financings (continued)

Financings subject to finance leases

2018	Investment in finance leases receivable	Unearned future finance income on finance leases	Gross investment in finance leases
Not later than one year	11,878	708	12,586
Later than one year and not later than five years	30,356	157	30,513
Later than five years	11		11
	42,245	**865**	**43,110**

2017			
Not later than one year	16,092	889	16,981
Later than one year and not later than five years	56,623	192	56,815
Later than five years	38	-	38
	72,753	**1,081**	**73,834**

8. Collateral received and re-pledged

There were no assets held as collateral against advances to financial institutions in the Group at 31 December 2018 (2017: Nil).

Repossessed collateral

Assets obtained by the Group during 2018 in the form of repossessed collateral as at 31 December 2018 amounted to USD 13.3 million (2017: USD 18.5 million).

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

9. Allowance account from credit losses

Allowance for impairment

Reconciliation of allowance account for losses on investments in financings by class and receivables is as follows:

	Investments in financings						
2018	Corporate financing	Bank financing	Agricultural financing	Consumer financing	Other financing	Other receivables	Total
Balance at 1 January	265,396	9,325	7,065	29,951	1,736	63,748	377,221
Impact of adoption of IFRS 9 (Note 1)	95,386	3,352	2,539	10,765	624	655	113,321
Provisions for impairment	1,290	2,451	-	6,671	8,011	4,908	23,331
Reversal of impairment provision	(7,713)	-	(1,303)	(19,015)	(3,884)	(217)	(32,132)
Loans written off as uncollectable	-	-	-	(391)	-	-	(391)
Foreign exchange	(48,366)	(1,699)	(1,287)	(5,458)	(316)	(5,224)	(62,350)
Balance at 31 December	305,993	13,429	7,014	22,523	6,171	63,870	419,000
2017							
Balance at 1 January	269,407	12,163	7,028	21,080	1,462	44,428	355,568
Provisions for impairment	22,041	(2,783)	1,469	12,747	3,913	19,674	57,061
Reversal of impairment provision	(11,259)	-	(881)	(2,801)	(4,400)	-	(19,341)
Loans written off as uncollectable	(1,127)	-	-	(159)	-	(384)	(1,670)
Amounts recovered	211	-	-	-	-	(2,726)	(2,515)
Foreign exchange	(13,877)	(55)	(551)	(916)	761	(2,696)	(17,334)
Balance at 31 December	265,396	9,325	7,065	29,951	1,736	63,748	377,221

During the year ended 31 December 2018, a provision for impairment amounting to USD 24,671 (2017: USD 10,458) was charged against investment securities.

10. Investment securities

	2018	2017
Investment securities available-for-sale	-	1,393,742
Investment securities carried at fair value through other comprehensive income (FVOCI)	1,258,479	-
Investment securities carried at fair value through profit or loss (debt)	76,878	76,878
Investment securities held to maturity (debt)	-	122,260
Investment securities at amortised cost (debt)	167,639	-
	1,502,996	**1,592,880**

Gains from investment securities	2018	2017
Investment securities at FVOCI	70,516	84,005
(Losses)/gains on investment securities at FVOCI	(723)	(425)
Term finance certificates	42	116
	69,835	**83,696**

The movement in investment securities at FVOCI is summarised as follows:

	2018	2017
At 1 January	1,393,742	1,531,717
Additions	3,344,713	3,710,005
Disposals	(3,149,332)	(3,758,700)
Net (losses) from changes in fair value	(21,780)	(5,634)
Losses fair value designated to income	(723)	(425)
Exchange differences	(283,845)	(72,804)
Reversal of impairment provision	40	547
Provision for impairment	(24,336)	(10,964)
At 31 December	**1,258,479**	**1,393,742**

The movement in investment securities at amortised cost is summarised as follows:

	2018	2017
At 1 January	122,260	200,098
Additions	102,065	23,284
Matured	(30,854)	(93,397)
Provision for impairment	(369)	(41)
Exchange differences	(25,463)	(7,684)
At 31 December	**167,639**	**122,260**

The carrying value of investment securities at amortised cost (net of impairment provision) approximates fair value.

11. Fair value of financial instruments

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

In the opinion of Group management, the fair value of those financial instruments which are measured at amortised cost in the consolidated statement of financial position are not significantly different from their carrying values since financial assets and liabilities are either short term in nature or in the case of customer financing and deposits, are linked to the market variable rates and hence are being regularly repriced.

Assets and liabilities measured at fair value

At 31 December 2018	Level 1	Level 2	Level 3	Total
Trading securities				
Equity securities	56,497	8,568	12,205	77,270
Debt securities	51,947	231,003	-	282,951
Investment securities - carried at fair value through profit or loss				
Debt securities	-	-	76,878	76,878
Investment securities - investment securities at FVOCI				
Equity securities	108,311	217	87,917	196,445
Debt securities	-	1,061,803	-	1,061,803
Total financial assets measured at fair value	216,755	1,301,591	177,000	1,607,468
Derivatives held for trading	-	(5,517)	-	(5,517)
Total financial liabilities measured at fair value	-	(5,517)	-	(5,517)

Reconciliation of Level 3 items

	Investment securities			
	Equity securities	Debt securities	Total assets	Total liabilities
At 1 January 2018	84,446	-	84,446	-
Total (losses)/gains	(15,352)	-	(15,352)	-
Gains - other comprehensive income	(10,973)	-	(10,973)	-
Purchases	-	12,205	12,205	-
Sales	-	-	-	-
Transfers into Level 3	135,957	-	135,957	-
Transfer out of Level 3	(29,283)	-	(29,283)	-
At 31 December 2018	164,795	12,205	177,000	-
Total profit for the year included in profit or loss for financial assets/liabilities held				
At 31 December 2018	(15,352)	-	(15,352)	-

11. Fair value of financial instruments (continued)

Assets and liabilities measured at fair value

At 31 December 2017	Level 1	Level 2	Level 3	Total
Trading securities				
Equity securities	-	9,956	-	9,956
Debt securities	-	304,895	-	304,895
Investment securities - carried at fair value through profit or loss				
Debt securities	-	76,878	-	76,878
Investment securities - available-for-sale				
Equity securities	50,014	-	175,391	225,405
Debt securities	-	1,168,337	-	1,168,337
Total assets measured at fair value	50,014	1,560,066	175,391	1,785,471
Derivatives held for trading	-	595	-	595
Total liabilities measured at fair value	-	595	-	595

Reconciliation of Level 3 items

	Investment securities			
	Equity securities	Debt securities	Total assets	Total liabilities
At 1 January 2017	84,446	-	84,446	-
Total (losses)/gains	(8,403)	-	(8,403)	-
Gains - other comprehensive income	1,137	-	1,137	-
Purchases	127,441	-	127,441	-
Sales	(29,230)	-	(29,230)	-
At 31 December 2017	175,391	-	175,391	-
Total profit for the year included in profit or loss for assets/liabilities held				
At 31 December 2017	(8,403)	-	-	(8,403)

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily Pakistan Stock Exchange equity investments classified as Investment securities carried at fair value through profit or loss or investment securities at FVOCI.

11. Fair value of financial instruments (continued)

(b) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Pakistan Investment Bonds / Market Treasury Bills: Fair values of Pakistan Investment Bonds and Treasury Bills are derived using the secondary market rates provided by the Mutul Fund Association of Pakistan.
- Sukuk: Fair values of Sukuk are derived using the market rates announced by the Financial Market Association (FMA) through Reuters. These rates denote an average of quotes received from different approved dealers / brokers.
- Term Finance Certificates ("TFCs"): Fair values of TFCs and Sukuk certificates are derived using the secondary market rates provided by the Mutul Fund Association of Pakistan.
- Forward foreign exchange contracts: The valuation has been determined by interpolating the mid rates announced by the State Bank of Pakistan.
- Convertible bond: valuation is based on market yield for comparable bonds discounted to arrive at the fair value.

Sensitivity of Level 3 measurements to changes in assumptions

An assumed ± 10% movement in the fair value of Level 3 measurement has the following impact:

	Impact in equity	
At 31 December 2018	Favourable changes	Unfavourable changes
Investment securities - investment securities at FVOCI	17,579	(17,579)
At 31 December 2017		
Investment securities - available-for-sale	23,720	(23,720)

12. Accounts and other financial assets

	2018	2017
Accounts receivable	219,774	203,693
Associated companies	519	-
Provision for bad and doubtful debts (Note 9)	(63,870)	(63,748)
Repossessed assets	13,312	18,529
Prepayments	25,781	22,529
Other receivables	305,519	198,251
	501,035	**379,254**

13. Investment property

	2018	2017
At 1 January	526,060	509,049
Additions	8,511	4,966
Disposals	(87,629)	(13,526)
Change in fair value during the year	(6,769)	26,622
Net exchange differences	(2,796)	(1,051)
At 31 December	**437,377**	**526,060**

Rental income from investment property amounting to USD 4.5 million (2017: USD 4 million) has been included in the consolidated statement of income under other income (Note 28).

Investment properties are located in the Middle East, Canada, Asia and Europe. The valuation of the investment properties is based on the sales comparable approach with the key inputs being the price per square foot or on market comparable approach using rents, sale and discounted cash flows. On this basis and considering that there are no observable inputs, these investment properties are classified as level 3.

Sensitivity of Level 3 measurements to changes in assumptions

An assumed ± 10% movement in the fair value of Level 3 measurement has the following impact due to sensitivity of price per square foot or meter used in the valuation methodology:

	Impact in income	
At 31 December 2018	Favourable changes	Unfavourable changes
Investment property	43,738	43,738
At 31 December 2017		
Investment property	52,606	52,606

Investment property under operating leases

The Group leases out part of its investment property under operating leases. The leases are for terms of one to five years.
The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2018	2017
Not later than one year	1,951	1,975
Later than one year and not later than five years	2,452	3,874
	4,403	**5,849**

14. Fair values of land and buildings

An independent valuation of the Group's land and buildings recognised as investment property in the consolidated statement of financial position was performed by valuers to determine the fair value of the land and buildings as at 31 December 2018 and 2017. The revaluation surplus net of applicable deferred income taxes was debited or credited to the consolidated statement of income for assets recorded as investment property. The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

(a) Land and buildings in Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

(b) Land and buildings in Level 2

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

(c) Land and buildings in Level 3

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Recurring fair value measurements

At 31 December 2018	Significant unobservable input (Level 3)	Total
Land	258,490	258,490
Office buildings	43,565	43,565
Other	135,322	135,322
	437,377	**437,377**

At 31 December 2017		
Land	267,347	267,347
Office buildings	48,822	48,822
Other	209,891	209,891
	526,060	**526,060**

14. Fair values of land and buildings (continued)

Fair value measurements using significant unobservable inputs (Level 3) for significant properties

2018	Tour de Cointrin	Emile De Mot	Al Khumrah Land	Hidd Land
At 1 January	45,472	-	69,889	2,563
Revaluation gains or losses recognised in profit or loss	(1,253)	-	(10,357)	145
Provision	-	-	-	-
Category change from PPE	-	-	-	-
Exchange gains or losses recognised in other comprehensive income	(654)	-	-	-
Disposals	-	-	-	-
At 31 December	**43,565**	**-**	**59,532**	**2,708**

2018	Domaine Saint Alexandre	Richmond Road	Barbar Land	Polish Assets	Health Island
At 1 January	21,357	3,350	62,115	34,917	76,507
Revaluation gains or losses recognised in profit or loss	-	-	-	-	-
Provision	-	-	(3,680)	(4,593)	-
Category change from PPE	-	-	-	-	15,496
Exchange gains or losses recognised in other comprehensive income	-	34	-	(1,860)	-
Disposals	-	(3,384)	-	(4,387)	-
At 31 December	**21,357**	**-**	**58,435**	**24,077**	**92,003**

14. Fair values of land and buildings (continued)

Fair value measurements using significant unobservable inputs (Level 3) for significant properties

2017	**Tour de Cointrin**	**Emile De Mot**	**Al Khumrah Land**	**Hidd Land**
At 1 January	43,325	1,884	53,711	3,278
Revaluation gains or losses recognised in profit or loss	343	956	16,178	(715)
Exchange gains or losses recognised in other comprehensive income	1,804	-	-	-
Disposals	-	(2,840)	-	-
At 31 December	**45,472**	**-**	**69,889**	**2,563**

2017	**Domaine Saint Alexandre**	**Richmond Road**	**Barbar Land**	**Polish Assets**	**Health Island**
At 1 January	13,232	3,351	62,115	37,921	76,507
Revaluation gains or losses recognised in profit or loss	8,125	(1)	-	1,804	-
Exchange gains or losses recognised in other comprehensive income	-	-	-	8,185	-
Disposals	-	-	-	(12,993)	-
At 31 December	**21,357**	**3,350**	**62,115**	**34,917**	**76,507**

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

On an annual basis, the Group engages external, independent and qualified valuers to determine the fair value of the Group's land and buildings.

The external valuations of the Level 3 land and buildings have been performed using a sales comparison approach or market comparable approach using rents and sales and a discounted cash flow.

14. Fair values of land and buildings (continued)

Information about fair value measurements using significant unobservable inputs (Level 3) for significant properties

Description **At 31 December 2018**	**Fair Value**	**Valuation technique(s)**	**Unobservable inputs**	**Range of unobservable inputs (probability – weighted average)**	**Relationship of unobservable inputs to fair value**
Tour de Cointrin Switzerland	43,565	Market comparable rents and sales and discounted cash flow	Rents per square meter, price per square meter, Capitalisation / discount rate	CHF 260-650 (CHF 450), CHF 7,500-9,000 (CHF 7,840), 5.25-5.75% (5.7%)	The higher the rent or price the higher the fair value. The lower the discount rate the higher the fair value.
Al Khumrah Land Kingdom of Saudi Arabia*	59,532	Residual Approach & Comparables	Price per square meter	Residential Plots SAR 700-750 (SAR 700). Commercial Plots SAR 2,500-3,500 (SAR 2,600) or SAR 2,000-2,500 (SAR 2,080) or SAR 1,000-1,250 (SAR 1,150)	The higher the price per square meter the higher the fair value.
Hidd Land Kingdom of Bahrain	2,708	Sales Comparison Approach	Price per square foot	BHD 19	The higher the price per square foot the higher the fair value.
Domaine Saint Alexandre Canada	21,357	Direct Comparison Approach	Price Per Acre	CAD 47,000 - 50,000 (CAD 48,750)	The higher the price per acre the higher the fair value.

* The valuation of Al Khumrah Land was based on the assumption that the land will be used for residential developments. Thus, development costs are taken into consideration when fair valuing the property
.

14. Fair values of land and buildings (continued)

Information about fair value measurements using significant unobservable inputs (Level 3) for significant properties

Description	Fair Value	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Barbar Land Bahrain	58,435	Sales Comparable & Market Value Approach	Price per square foot	BD 13.49	The higher the price per square foot the higher the fair value.
Polish Assets Poland	24,077	Residual Method	Price per square meter	PLN 1,444 per square meter	The higher the price per square meter the higher the fair value.
Health Island Bahrain	92,033	Sales Comparable Approach	Price per square foot	BD 34.76	The higher the price per square foot the higher the fair value.

14. Fair values of land and buildings (continued)

Information about fair value measurements using significant unobservable inputs (Level 3) for significant properties

Description At 31 December 2017	Fair Value	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Tour de Cointrin Switzerland	45,472	Market comparable rents and sales and discounted cash flow	Rents per square meter, price per square meter, Capitalisation / discount rate	CHF 260-650 (CHF 450), CHF 7,500-9,000 (CHF 7,840), 5.25-5.75% (5.55%)	The higher the rent or price the higher the fair value. The lower the discount rate the higher the fair value.
Al Khumrah Land Kingdom of Saudi Arabia	69,889	Residual Approach & Comparables	Price per square meter	Residential Plots SAR 750-775 (SAR 750). Commercial Plots SAR 2,500-5,000 (SAR 2,900) or SAR 2,000-3,000 (SAR 2,300) or SAR 1,050-1,250 (SAR 1,200)	The higher the price per square meter the higher the fair value.
Hidd Land Kingdom of Bahrain	2,563	Sales Comparison Approach	Price per square foot	BHD 20.5	The higher the price per square foot the higher the fair value.
Domaine Saint Alexandre Canada	21,357	Direct Comparison Approach	Price Per Acre	CAD 47,000 - 50,000 (CAD 48,750)	The higher the price per acre the higher the fair value.

14. Fair values of land and buildings (continued)

Information about fair value measurements using significant unobservable inputs (Level 3) for significant properties

Description	Fair Value	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Richmond Road Canada	3,350	Sales Comparison Approach	Price per square foot	CAD 20.00-25.00 (CAD 22.50)	The higher the price per square foot the higher the fair value.
Barbar Land Bahrain	62,115	Sales Comparable & Market Value Approach	Price per square foot	BD 15.02	The higher the price per square foot the higher the fair value.
Polish Assets Poland	34,917	Residual Method	Price per square meter	PLN 1,507-6,861 per square meter (PLN 3,674 per square meter)	The higher the price per square meter the higher the fair value.
Health Island Bahrain	76,507	Sales Comparable Approach	Price per square foot	BD 34.76	The higher the price per square foot the higher the fair value.

15. Investments in associates

	2018	2017
At 1 January	220,207	700,802
Share of results before tax	37,387	22,977
Share of tax	-	18
Dividends received	-	(22,484)
Share of fair value	(2,092)	8,009
Disposals	-	(3,374)
Transferred as a result of reclassifying an investment in associate	(114,690)	-
Reclassified from/(to) non-current assets held for sale	521,246	(477,182)
Amortisation of intangibles	-	(6,459)
Exchange differences	(15,947)	(2,100)
At 31 December	**646,111**	**220,207**

Set out below are the associates of the Group as at 31 December 2018 and 2017, which, in the opinion of the Group management, are material. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by a subsidiary of the Group; the country of incorporation or registration is also their principal place of business.

Nature of investment in associates

Entity	Place of business/country of incorporation	% of ownership subsidiary	% of ownership Group	Measurement method
2018				
Nassej B.S.C. (c)	Bahrain	31	14	Equity
BBK B.S.C	Bahrain	25	12	Equity
2017				
Nassej B.S.C. (c)	Bahrain	31	14	Equity
Solidarity Group Holding B.S.C. (c)	Bahrain	36	17	Equity

BBK B.S.C

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

BBK B.S.C., one of the largest commercial banks in Bahrain with a presence in Kuwait, India and Dubai, provides services in the following four segments:

- Retail Banking customer deposit, consumer finance and credit facilities;
- Corporate Banking deposits and current account facilities to corporations;
- International Banking loans, deposits and credit facilities to international units;
- Investment Banking treasury and other activities.

15. Investments in associates (continued)

During December 2018, the Group acquired through its wholly owned Subsidiary IB Capital additional shareholding in Solidarity Group Holding (the "investee") resulting from part settlement of a financing facility. As a result, Solidarity Group Holding has been converted into a subsidiary from an associate which increased IB Capital's shareholding in the investee to 55.42% from 36.39%.

The Group conducted an assessment of its power over the investee, exposures or rights to variable returns from the involvement and the investee the ability to use power over the investee to affect the amount of Group's return and have concluded that the Group has a control over the investee as at 31 December 2018 therefore, the investee has been included in the consolidated financial statements of the Group starting 31 December 2018.

Group's share of fair value of net assets acquired equated the consideration paid by the Group therefore, no goodwill arisen from such business combination.

Solidarity Group Holding B.S.C. (c) is a Bahrain based joint stock company engaged in providing cooperative insurance services according to the Islamic Sharia principles. There is no quoted market price for its shares. The company's products are structured into two segments; individual products and corporate products.

Contingent liabilities relating to the Group's interest in the associates are found in Note 37.

Summarised financial information for associates

Set out below are the summarised financial information for Naseej B.S.C. (c) and Solidarity Group Holding B.S.C. (c) which are accounted for using the equity method.

Summarised balance sheet

At 31 December	Naseej B.S.C. (c)		Solidarity Group Holding B.S.C. (c)		BBK B.S.C.		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Cash and cash equivalents	63,916	122,525	-	22,811	507,109	-	571,025	145,336
Other assets	336,002	303,191	-	374,449	9,000,988	-	9,336,990	677,640
Total assets	**399,918**	**425,716**	**-**	**397,260**	**9,508,097**	**-**	**9,908,015**	**822,976**
Financial liabilities	92,576	76,158	-	-	1,598,659	-	1,691,235	76,158
Other liabilities	1,395	1,078	-	187,532	6,580,956	-	6,582,351	188,610
Total liabilities	**93,971**	**77,236**	**-**	**187,532**	**8,179,615**	**-**	**8,273,586**	**264,768**
Net assets	**305,946**	**348,480**	**-**	**209,728**	**1,328,482**	**-**	**1,634,428**	**558,208**

15. Investments in associates (continued)

Summarised statement of comprehensive income

At 31 December	Nassej B.S.C. (c)		Solidarity Group Holding B.S.C. (c)		BBK B.S.C.		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Income	17,023	21,004	-	32,312	416,500	-	433,523	53,316
Expense	(6,317)	(7,438)	-	(23,024)	(235,866)	-	(242,183)	(30,462)
Income tax expense	-	-	-	(34)	(1,082)	-	(1,082)	(34)
Post-tax profit	**10,706**	**13,566**	**-**	**9,254**	**179,552**	**-**	**190,258**	**22,820**
Dividends received from associate	**17,979**	**4,244**	**-**	**6,789**	**25,483**	**-**	**43,462**	**11,033**

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associates.

	Nassej B.S.C. (c)		Solidarity Group Holding B.S.C. (c)		BBK B.S.C.		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Opening net assets	**348,480**	**349,133**	**-**	**209,335**	**1,328,123**	**-**	**1,676,603**	**558,468**
Profit for the period	10,706	13,567	-	9,254	179,552	-	190,258	22,821
Other comprehensive income/(loss)	360	574	-	(975)	(52,290)	-	(51,930)	(401)
Dividends	-	-	-	-	(100,242)	-	(100,242)	-
Convertible capital securities issued	-	-	-	-	-	-		-
Convertible capital securities accrued profit	-	-	-	-	-	-	-	-
Return of capital	-	-	-	-	-	-		-
Foreign exchange differences	(53,600)	(19,038)	-	(7,886)	(26,661)	-	(80,261)	(26,924)
Closing net assets	**305,946**	**344,236**	**-**	**209,728**	**1,328,482**	**-**	**1,6,34,428**	**553,964**
Adjusted for convertible capital securities	-	-	-	-	-	-	-	-
Adjusted net assets	**305,946**	**344,236**	**-**	**209,728**	**1,328,482**	**-**	**1,634,428**	**553,964**
% Interest in associates	31%	31%	-	36%	25%	-	-	-
Attributable to the Group	**94,843**	**106,713**	**-**	**75,502**	**332,121**	**-**	**426,964**	**182,215**
Interest in associates	**94,843**	**106,713**	**-**	**75,502**	**332,121**	**-**	**426,964**	**182,215**
Goodwill	-	-	-	-	110,952	-	110,952	-
Intangible assets	-	-	-	-	62,969	-	62,969	-
Carrying value at 31 December	**94,843**	**106,713**	**-**	**75,502**	**506,042**	**-**	**600,885**	**182,215**

15. Investments in associates (continued)

The summarised financial information of the Group's principal associates is as follows:

Name and Country of incorporation	Assets	Liabilities	Income	Profit/(loss)	% holding Subsidiary	% holding Group
2018						
Unlisted:						
Solidarity Saudi Takaful (Bahrain)	141,470	73,399	32,165	8,295	28	13
CITIC International Asset Management Limited (Hong kong)	241,284	25,879	(107,507)	(117,597)	20	9
Sanpak Engineering (Pakistan)	11,723	7,072	6,068	2,877	31	14
*Ithraa Capital (Sauida Arabia)	17,406	1,198	142	(1,381)	23	11
Naseej B.S.C. (c) (Bahrain)	358,781	52,464	11,545	10,483	31	14
*Islamic Trading Company E.C. (Bahrain)	1,240	214	34	(175)	24	11

*For some of the associates, published information is not available for 31 December 2018 and therefore the income and profit and loss have been arrived at by using the last available audited financial statements. For presentation purposes, the assets and liabilities for these associates, however, represent the amounts as per the last audited financial statements.

15. Investments in associates (continued)

The summarised financial information of the Group's principal associates is as follows:

Name and Country of incorporation	Assets	Liabilities	Income	Profit/(loss)	% holding Subsidiary	Group
2017						
Unlisted:						
Solidarity Group Holding B.S.C. (c) (Bahrain)	397,260	187,532	32,312	9,254	36	17
Sanpak Engineering (Pakistan)	9,508	6,649	2,775	1,276	31	14
*Misr Company for Packing Materials "Egywrap" (Egypt)	13,667	6,036	866	539	23	11
Faysal Asset Management Limited (Pakistan)	1,929	306	1,254	(596)	30	14
*Ithraa Capital (Saudi Arabia)	19,418	1,231	2,870	235	23	11
Naseej B.S.C. (c) (Bahrain)	425,716	77,236	21,004	13,567	31	14
*Chase Manara B.S.C. (c) (Bahrain)	5,427	58	-	-	40	19
*Islamic Trading Company E.C. (Bahrain)	1,240	214	34	(175)	24	11
*Emerging Markets Partnership Bahrain B.S.C. (c) (Bahrain)	2,054	833	-	-	40	19

*For some of the associates, published information is not available for 31 December 2017 and therefore the income and profit and loss have been arrived at by using the last available audited financial statements. For presentation purposes, the assets and liabilities for these associates, however, represent the amounts as per the last audited financial statements.

The summarised financial information of the Group's principal associates is as follows:

Name and Country of incorporation	Assets	Liabilities	Income	Profit/ (loss)	Published price quotation	Carrying value per share	% holding Subsidiary	Group
2018								
Listed:								
BBK B.S.C. (Bahrain)	9,508,097	8,179,615	416,500	179,552	BHD .45	BHD .60	25	12

Included in investment in associates at 31 December 2018 is USD 110.9 million (2017: Nil) of goodwill. The movement is as follows:

	2018	**2017**
At 1 January	-	110,939
Reclassified to assets held for sale	-	(110,939)
Reclassified to associates companies	110,939	
At 31 December	**110,939**	-

16. Property, Plant and Equipment

	Land and buildings	Leasehold property, furniture, equipment and motor vehicles	Total
Cost			
At 1 January 2018	130,696	121,782	252,478
Additions	14,940	19,102	34,043
Disposals	(83,396)	(7,249)	(90,645)
Foreign exchange differences	(10,379)	(18,401)	(28,780)
At 31 December 2018	**51,861**	**115,234**	**167,095**
Depreciation			
At 1 January 2018	16,841	93,915	110,756
Charge for the year	393	7,086	7,479
Disposals	472	2,420	2,891
Foreign exchange differences	(5,664)	(12,288)	(17,952)
At 31 December 2018	**12,042**	**91,133**	**103,175**
Cost			
At 1 January 2017	108,266	116,253	224,519
Additions	24,701	13,488	38,189
Disposals	-	(3,607)	(3,607)
Foreign exchange differences	(2,271)	(4,352)	(6,623)
At 31 December 2017	**130,696**	**121,782**	**252,478**
Depreciation			
At 1 January 2017	17,082	93,274	110,356
Charge for the year	505	7,352	7,857
Disposals	-	(3,645)	(3,645)
Foreign exchange differences	(746)	(3,066)	(3,812)
At 31 December 2017	**16,841**	**93,915**	**110,756**
Net book value			
At 31 December 2018	**39,819**	**24,101**	**63,920**
At 31 December 2017	**113,855**	**27,867**	**141,722**

Land and buildings at 31 December 2018 included cost of land aggregated USD 22.3 million (2017: USD 104 million).

Leasehold property at 31 December 2018 aggregated USD 29.5 million (2017: USD 38.6 million), less accumulated depreciation of USD 12 million (2017: USD 25.4 million).

17. Intangible assets

2018	Goodwill	Customer relations	Core deposits	Other	Total
Year ended 31 December					
Opening net book amount	217,323	45,340	50,227	4,912	317,802
Acquisition of subsidiaries (17.1)	15,924	-	-	6,482	22,406
Foreign exchange	(288)	(1,675)	802	(580)	(1,741)
Amortisation/impairment	(39,000)	(6,260)	(8,063)	(2,293)	(55,616)
Closing net book amount	**193,959**	**37,405**	**42,966**	**8,521**	**282,851**
At 31 December					
Cost	420,759	111,893	173,522	41,444	747,618
Accumulated amortisation and impairment	(226,800)	(74,488)	(130,556)	(32,923)	(464,767)
Net book amount	**193,959**	**37,405**	**42,966**	**8,522**	**282,851**

2017	Goodwill	Customer relations	Core deposits	Other	Total
Year ended 31 December					
Opening net book amount	217,323	52,374	72,806	5,607	348,110
Additions	-	-	-	2,075	2,075
Foreign exchange	-	(408)	-	-	(408)
Amortisation/impairment	-	(6,626)	(22,579)	(2,770)	(31,975)
Closing net book amount	**217,323**	**45,340**	**50,227**	**4,912**	**317,802**
At 31 December					
Cost	293,523	113,568	172,720	34,962	726,373
Accumulated amortisation and impairment	(76,200)	(68,227)	(122,494)	(30,050)	(408,571)
Net book amount	**217,323**	**45,341**	**50,226**	**4,912**	**317,802**

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

	2018	2017
Ithmaar Holding B.S.C	193,959	217,323
	193,959	**217,323**

17. Intangible assets (continued)

The Board of Directors of Islamic Investment Company of the Gulf (Bahamas) Limited (IICG) decided to close its business activities in Saudi Arabia within the next 5 years, following the directives of the regulatory authorities in the Kingdom of Saudi Arabia. Subsequently, the Group reassessed the valuation of the Company, and impaired the goodwill. No impairment has been recognised on the intangible in 2018 (2017: USD 14.5 million).

17.1 Acquisition of subsidiaries

	Amount of goodwill acquired from subsidiary
Acquisition of Solidarity Group Holding BSC (c) (Note 15)	12,976
Acquisition of Faisal Asset Management Company	2,949
	15,925

18. Assets classified as held-for-sale

Description	2018	2017
BBK B.S.C. (Note 15)	-	411,466
Citic International Assets Management Ltd. (CIAM)	-	65,716
	-	**477,182**

During the year, the assets held-for-sale were reclassified to investment in associate (note 15) since they no longer met the criteria to classified as assets held-for sale.

At 31 December 2017, the assets classified as held for sale amounted to $477.2 million.

19. Accounts payable

	2018	2017
Accounts payable and other provisions	203,392	96,559
Advance received from customers	6,509	75,956
Demand drafts	168,409	66,162
Accruals	52,651	48,066
Security deposits on consumer leases	14,791	27,418
Dividends payable	12,854	33,998
Derivative financial instruments	5,517	39,912
Employee payables	17,640	18,546
Deferred income	4,700	316
	486,463	**406,933**

There were no liabilities against assets subject to finance leases at 31 December 2018 (2017: Nil).

Derivative financial instruments

Foreign exchange derivatives held for trading:

2018	Contractual amount	Fair value
Equity futures	-	-
2017	Contractual amount	Fair value
Equity futures	21,391	(595)

20. Tax liability

	2018	2017
Current tax (receivable)/payable		
At 1 January	(25,696)	(17,693)
Charge for the period	14,567	17,089
Payments made	(18,707)	(26,665)
Adjustment due to withholding tax payment	-	102
Refund	(19)	23
Exchange differences	6,219	1,448
At 31 December	**(23,636)**	**(25,696)**
Deferred tax (asset)/liability		
At 1 January	(16,787)	(23,712)
Charge for the period	10,576	9,336
Changes due to fair value reserve	(801)	(3,679)
Adjustment due to withholding tax payment	1,279	-
Refund	(3)	(6)
Exchange differences	2,981	1,274
At 31 December	**(2,755)**	**(16,787)**

21. Due to customers, banks and other financial institutions

	2018	2017
Customer current accounts		
Individuals	869,759	692,342
Financial institutions	7,527	2,558
Corporate institutions	1,403,681	1,076,600
Customer investment accounts		
Individuals	716,920	846,293
Financial institutions	226,940	835,834
Corporate institutions	751,047	987,820
Investments from off balance sheet funds	-	3,181
Due to banks and financial institutions	1,554,059	1,147,991
	5,529,933	**5,592,619**

Customer current accounts include balances relating to a counterparty amounting to USD 207.4 million (2017: USD 215.6 million) which was subject to sanctions under US, EU and UN measures.

The remaining due to customers represents conventional deposits accepted by a subsidiary of the Group.

Due to banks and financial institutions include balances totalling USD 428.5 million from two counterparties (2017: USD 432.1 million) which were subject to sanctions under US, EU and UN measures and having contractual maturity ranging to up to one month as at 31 December 2018.

As at 31 December 2018, there were collateralised borrowing in aggregate USD 178.7 million (31 December 2017: USD 117.7 million).

21. Due to customers, banks and other financial institutions (continued)

Due to banks include short and medium term borrowings by the Group under bilateral and multilateral arrangement with maturities ranging from one year to five years.

22. Provisions

Included under liabilities are the following provisions:

	2018	2017
Funds under management guarantee*	62,491	62,491
Other provision	5,826	5,826
	68,317	**68,317**

* This represents provision related indemnity agreement. As per the indemnity agreement dated 12 April 2011, IICG a related party, acting as Modareb for funds managed by it was induced to purchase certain assets from another related parties for a value which exceeded the fair value by USD 55 million as at that date. DMI has given an unconditional and irrevocable guarantee to IICG funds under management (IICG FUM) for this fair value difference of USD 55 million. This obligation under the indemnity agreement will remain inforce till assets are liquidated and the IICG FUM can request indemnity for USD 55 million during the term of the agreement.

23. Collateralised borrowings

Financial assets pledged to secure liabilities:

At 31 December 2018, there were collateralised borrowings in aggregate of USD 178.7 million (2017: USD 117.7 million).

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

24. Net trading income

	2018	2017
Income from foreign exchange trading	15,455	12,324
Income from government securities	12,033	14,865
Losses on trading securities (Note 6)	(1,315)	(1,213)
Losses from revaluation (Note 6)	(3,104)	(2,980)
	23,069	**22,996**

Foreign exchange trading includes gains and losses from spot and forward contracts translated from foreign currency assets and liabilities.

25. Income from investments in financings

Income from investment in financing mainly arises from banking subsidiaries in Bahrain and Pakistan.

26. Fee and commission income

	2018	2017
Arrangement fees	2,364	3,404
Guarantee fees	1,456	1,452
Documentary credit fees	4,063	1
Structuring fees and commissions	-	3,324
Other fees from banking services	40,849	39,489
	48,732	**47,670**

27. Income from investments

	2018	2017
Investment securities held to maturity	10,176	16,182
Investment securities at FVOCI	1,240	2,229
	11,416	**18,411**

Income from investment represents a mixture of dividend and profit rate income.

28. Other income

	2018	2017
Fair value (loss)/gain on investment properties (Note 13)	(6,769)	26,622
Rental income from investment properties (Note 13)	4,452	3,958
Gain/(loss) on disposal of investment properties	1,583	(12,993)
Other	5,306	5,580
	4,572	**23,167**

29. Staff costs

	2018	2017
Salaries	70,192	81,020
Social security and other statutory costs	2,345	2,947
Pension and end of service	9,317	5,990
Other benefits	11,014	11,374
	92,868	**101,331**

Other benefits include housing allowance, home leave, relocation expense, medical and health expense, training, severance costs and end of service benefit costs.

30. General and administrative expenses

	2018	2017
Office expenses	45,697	49,906
Professional fees	16,079	15,038
Other	37,806	31,202
	99,582	**96,146**

31. Proposed dividend

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

32. Taxes

	2018	2017
Current taxes	16,842	17,089
Deferred taxes	10,576	9,336
	27,418	26,425

The expected income tax expense for the Group is an aggregate of individual amounts representing the mix of profits and losses and the applicable tax rates in each jurisdiction. Consequently, the effective tax rate on consolidated income may vary from year to year, according to the source of earnings. Most affiliates of the Group operate in tax free jurisdictions.

A reconciliation between the reported income tax and the amount computed, using the weighted average of applicable domestic corporate tax rates, is as follows:

	2018	2017
Net accounting (loss)	(17,450)	(20,048)
Attributable to zero tax jurisdictions	(67,091)	(75,851)
Attributable to taxable jurisdictions	49,641	55,803
Weighted average tax rate	35%	44%
Weighted average effective tax	(17,616)	(24,555)
Government levied exceptional tax	(9,802)	(1,870)
Effective tax expense	(27,418)	(26,425)

The relationship between profit before taxes and non-controlling interests and the expected current income tax expense reflects the mix of profits earned in jurisdictions with relatively high tax rates and those with relatively low tax rates.

Deferred tax assets and liabilities arises from the banking subsidiary in Pakistan. Deferred tax assets mainly arises due to different treatment within tax law for provision for impairment in investment in financing and diminution in the value of investment. Similarly differed tax liabilities arises mainly on account of revaluation of fixed assets and different depreciation rates within the tax law.

33. Non-controlling interests

The consolidated financial statements include 100% of the assets, liabilities and earnings of consolidated companies. The ownership interests of the other shareholders are called non-controlling interests.

The following table summarises the non-controlling shareholders' interests in the equity of consolidated subsidiaries:

	2018		2017	
	Non-controlling		Non-controlling	
Ithmaar Holding B.S.C. and wholly owned subsidiaries	53.1	(19,714)	53.1	205,593
Faysal Bank Limited	33	100,833	33	113,980
Solidarity Group Holding B.S.C (c)	45	106,506	-	-
Dilmunia Development Fund I LP	43	80,272	60	103,000
Gulf Investors Asset Management	27	4,997	27	5,548
Health Island B.S.C. (C)	50	49,324	50	49,386
Cityview Real Estate Development B.S.C. (C)	49	(3,565)	49	(4,490)
Sakana Holistic Housing Solutions B.S.C. (C)	50	3,193	50	4,165
		321,846		477,182

The non-controlling interest appropriation in the consolidated statement of income of USD (17.4) million represents the non-controlling shareholders' share of the loss of these subsidiaries for 2018 (2017: USD 31.8 million loss).

33. Non-controlling interests (continued)

Summarised financial information on subsidiaries with material non-controlling interests.

Set out below are the summarised financial information for significant subsidiary that has non-controlling interests that are material to the Group.

	Ithmaar Holding B.S.C. Period ended 31 December	
Summarised Balance Sheet	**2018**	**2017**
Assets	6,344,031	6,804,411
Liabilities	6,000,884	6,290,332
Net assets	343,147	514,080
Summarised Income Statement	**2018**	**2017**
Income	224,668	203,668
(Loss)/gain before income tax	(13,249)	(40,187)
Income tax expense	(27,419)	(26,424)
Post-tax (loss)/gain	(40,668)	(66,612)
Other comprehensive income	(101,306)	20,781
Total comprehensive (loss)/income	(141,974)	(45,831)
Total comprehensive income/(loss) allocated to non-controlling interests	11,617	18,662
Dividend paid to non-controlling interests	-	-
Summarised Cash Flows	**2018**	**2017**
Cash flows from operating activities	(65,028)	26,171
Cash generated from operations	90,653	251,487
Net (increase) in investments	(150,321)	(183,566)
Taxes paid	(20,110)	(22,731)
Foreign currency translation adjustments	(31,162)	13,329
Net increase/(decrease) in cash and cash equivalents	**(175,968)**	**84,690**
Cash and cash equivalents at beginning of year	963,330	878,640
Cash and cash equivalents at end year	787,362	963,330

The information above is the amount before intercompany eliminations.

34. Funds under management

Islamic Investment Company of the Gulf (Bahamas) Limited ("IICG"), a subsidiary of the Group, as the Fund Manager, manages Funds Under Management (FUM) totalling US Dollars 2.09 billion (2017: US Dollars 2.1 billion) of which US Dollars 1.76 billion (2017: US Dollars 1.79 billion) has been marketed in Saudi Arabia by the Private Offices of His Royal Highness Late Prince Mohamed Al Faisal Al Saud.

In February 2016, IICG communicated to its investors in Saudi Arabia that it intended to wind up IICG's Funds Under Management ("FUM") in Saudi Arabia as the regulator, Capital Markets Authority ("CMA"), declined to grant any exemptions with respect to the registration and transfer of such FUM to a CMA registered subsidiary of IICG. The FUM has commenced distribution of the disposal proceeds of the underlying assets to the investors as and when such proceeds are realised. The final liquidation proceeds will only be known upon completion of the liquidation process which may take several years.

As a part of winding up of the operations, IICG's management recognises that claims may be initiated against IICG by investors who are unlikely to recover the full value of their investments. As of the date of these financial statements, two hundred thirty investors (2017: two hundred twenty two) have filed legal claims in Saudi Arabian courts against IICG claiming refund of the full value of their investments totalling to USD 76.8 million (2017: USD 71.4 million). Of the two hundred thirty legal cases, the court has rendered judgment in one hundred and ten legal claims (2017: fifteen) amounting to US Dollars 32 million (2017: US Dollars 2.5 million). The Company has challenged such judgments in the Appeal Court. The Appeal Court has rendered its judgement in three cases amounting to US Dollars 0.3 million (2017: 0.2 million). IICG has challenged the judgement of the Appeal Court in the Royal Court.

IICG's Management believes that the risk of loss arising from these or similar claims attaching to the IICG's FUM activities is less than probable because of the uncertainty surrounding the interpretations of the underlying agreements used for FUM activities. The value of future claims of similar nature cannot be reasonably estimated. Therefore, IICG does not carry any provision for any such claims.

In addition, based on an external lawyer's confirmation, management believes that the courts in Saudi Arabia lacks jurisdiction as any cases need to be filed in the courts of Bahamas (the country of incorporation of the Company). The value of future claims of similar nature cannot be reasonably estimated. Therefore, the Company does not carry any provision for any such claims.

35. Retirement benefit plans

With effect from 31 December 2018, DMIT had no full time staff, and all staff benefits were fully settled before 31 December 2018. DMIT entered into a contract with a labour supplier for supply of few part time staff. Similarly, all obligations under the DMI retirement pension fund were full settled and a release from obligation towards the pension fund has since been obtained.

The Group has a set retirement benefit plan. The assets of the funded plans are held in separate trustee administered funds. These plans are valued by independent actuaries every year using the projected unit credit method. For the other subsidiaries within the Group, defined contribution plan applies.
The table below outlines the group's post-employment amounts and activity included in the financial statements.

	2018	2017
Balance sheet obligations for pension benefits	-	(448)
Income statement charge for pension benefits	-	(2,369)
Remeasurements for pension benefits	-	(4,045)
Deficit of funded plans	-	**(448)**
Liability in the balance sheet	-	**(448)**

35. Retirement benefit plans (continued)

The amounts recognised in the balance sheet are determined as follows:

	2018	2017
Present value of funded obligations	-	41,655
Fair value of plan assets	-	(42,104)

At year end the present value of the defined benefit obligation comprised is nil (2017: USD 19.5 million) relating to active employees is nil (2017: USD 4.6 million) relating to deferred members and relating to members in retirement is nil (2017: USD 17.5 million).

The movement in the defined benefit obligation over the year was as follows:

	Present value of obligation	Fair value of plan assets	Total
At 1 January 2018	41,655	(42,104)	(449)
Re-measurements of post-employment benefit obligations	4,923	-	4,923
Payments/redemptions	(46,578)	42,104	(4,474)
	-	-	-

	Present value of obligation	Fair value of plan assets	Total
At 1 January 2017	43,179	(39,551)	3,628
Current service cost	926	(229)	697
Financial costs/(income)	250	-	250
Past service cost	(3,316)	-	(3,316)
	41,039	**(39,780)**	**1,259**
Remeasurements:			
Return on plan assets, excluding amounts included in financial (income)/costs	-	(1,251)	(1,251)
Experience (gains)/losses	64	-	64
	41,103	**(41,031)**	**72**
Exchange differences	1,895	(1,773)	122
Contributions:			
Employers	-	(643)	(643)
Plan participants	153	(153)	-
Payments from plans:			
Benefit payments	(1,418)	1,418	-
Insurance premiums for risk benefits	(78)	78	-
At 31 December 2017 (Excedent)	**41,655**	**(42,104)**	**(449)**

35. Retirement benefit plans (continued)

The significant actuarial assumptions were as follows:

	2018	2017
Discount rate	-	0.6%
Salary growth rate	-	2.0%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age of 65.

	2018	2017
Retiring at the end of the reporting period:		
Male	-	22.4
Female	-	24.4
Retiring 25 years after the end of the reporting period:		
Male	-	24.6
Female	-	26.6

The movement in the liability recognised in the statement of financial position:

	2018	2017
At 1 January	(448)	3,629
Defined benefit cost included in P&L	-	(2,369)
Total remeasurement included in OCI	-	(1,199)
Employer contributions	-	(643)
Exchange differences	-	134
At 31 December	-	**(448)**

Plan assets are comprised as follows:

	2018				2017			
	Quoted	Unquoted	Total	%	Quoted	Unquoted	Total	%
Assets held by insurance company	-	-	-	-	-	25,396	25,396	60
Property in Switzerland	-	-	-	-	-	12,778	12,778	30
Cash and cash equivalents	-	-	-	-	3,928	-	3,928	10
Total	**-**	**-**	**-**	**-**	**3,928**	**38,174**	**42,102**	**100**

35. Retirement benefit plans (continued)

Pension assets include Swiss real estate partially occupied by the Group with a fair value is nil (2017: USD 12.8 million).

Through its defined benefit pension plan in Switzerland, the Group is exposed to few risks, the most significant of which are detailed below:

During 2017, the Group operated a contribution based plan with guarantees in order to satisfy Swiss legislation on occupational pension provision. It uses several insurance policies to reduce the financial risks involved. Death and disability benefits are insured. The insurance policy currently guaranteed interest credits on member savings which were at least equal to those required under Swiss law. Pensions at retirement were insured to remove longevity and investment risk following retirement. The Group only incurred additional costs where it awards interest credits and/or converts savings to pension at rates more favourable than offered by the insurance provider.

The plan invested in offices partially occupied by the Group. This is the plan's primary investment risk and requires it to be set up as a semi-autonomous foundation with trustees. There are three trustees representing the companies and three trustees representing the employees as per the regulations of the Pension Foundation. Collectively they are responsible for ensuring compliance with Swiss occupational pension legislation and the rules of the plan. This includes the administration, arranging for the drafting of accounts and their audit, setting the investment strategy and communicating with members.

The Group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2017 are managed by an insurance company, although the Group also invests in property and cash.

Expected contributions to post-employment benefit plans for the year ending 31 December 2019 are Nil (2018: USD 0.3 million).

The weighted average duration of the defined benefit obligation is nil (2016: 9.1 years).

The expected maturity analysis of undiscounted pension benefits at 31 December 2018 was:

	Less than a year (USD)	Between one to two years (USD)	Between three to five years (USD)	Over five years (USD)	Total (USD)
Undiscounted pension benefits	-	-	-	-	-

36. Related party transactions and balances

Related parties include equity participation holders, directors, associated companies and other companies, whose ownership and management is common with DMI or its subsidiaries and associates. A number of transactions are entered into with related parties in the normal course of business. These include loans, current and investment accounts. Transactions and balances disclosed as with associated companies are those with companies in which DMI owns 20% to 50% of the voting rights and over which it exerts significant influence, but does not have control. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows.

36. Related party transaction and balances (continued)

a) Loans to key management personnel

	2018	2017
Loans		
Loans outstanding at 1 January	1,550	1,107
Loans issued during the year	844	1,378
Loan repayments during the year	(594)	(891)
Foreign exchange	(290)	(44)
Loans outstanding at 31 December	1,510	1,550

No provisions were recognised in respect of loans given to related parties (2017: USD Nil).

Loans advanced to key management personnel bear no return and are unsecured.

b) Loans to employees

All employees of the Group are entitled to receive employee loans on favourable terms not equivalent to those of transactions made on an arm's length basis. Included in accounts receivable are amounts due from employees at 31 December 2018 of USD 19.5 million (2017: USD 23.6 million).

c) Current and investment accounts

	Associated companies	
Period ended	2018	2017
Amounts receivable from:		
Naseej B.S.C. (c)	10,456	10,456
Amounts payable to:		
Naseej B.S.C. (c)	118,312	51,667

d) Key management compensation

	2018	2017
Salaries and other short term benefits	11,196	13,262
Post-employment benefits	100	221
Other long term benefits	345	341
	11,641	13,824

Related party transactions, balances and other relevant disclosures with IICG FUM are disclosed in Note 15 Note 34.

37. Contingent liabilities and commitments

Contingent liabilities	2018	2017
Acceptances and endorsements	78,081	62,824
Performance bid bonds	50,560	54,600
Customer claims	257,042	327,178
Guarantees and irrevocable letters of credit	740,458	820,707
	1,126,141	**1,265,309**

The Group operates in certain countries which have tax regimes, but for which no provision for income tax has been recorded in these financial statements. It is believed that the Group's potential tax liability arising in respect of its operations in those countries is remote at the present time.

One of the subsidiaries which operates in Saudi Arabia is registered in the Commonwealth of the Bahamas and regulated by the Bahamian authorities. The Private offices of Late HRH Price Mohammad Al Faisal Al Saud (Ex-Chairman and major shareholder of DMIT) is the representative to market its investment products in Saudi Arabia. A potential risk of tax liability in Saudi Arabia is remote and no inquiries or notifications have been received from the authorities in Saudi Arabia. Therefore, no provision for tax has been recorded in these consolidated financial statements.

Naseej B.S.C. (c) carried at 31 December 2018 contingent liabilities is nil (2017: USD 32.4 million), of which the Group's share was nil (2017: USD 4.2 million). These related to guarantees and letters of credit issued as part of their normal banking operations.

Sanpak Engineering carried at 31 December 2018 contingent liabilities of USD 0.7 million (2017: USD 0.7 million), of which the Group's share was USD 0.1 million (2017: USD 0.1 million). These related to guarantees and letters of credit issued as part of their normal banking operations.

The Group's ownership of one of its investment properties, Al Khumrah land, is being disputed. Legal action is currently in process.

Commitments	2018	2017
Undrawn facilities, financing lines	977,297	1,113,423
Other commitments to finance	5,199	18,960
Repurchase and resale transactions	444,086	297,331
	1,426,582	**1,429,714**

Operating lease commitments

Commitments for operating leases included cars and office equipment. The future minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
Not later than one year	-	4
Later than one year and not later than five years	-	16
	-	**20**
Significant net open foreign currency position	**650,662**	**462,584**

38. Current and non-current assets and liabilities

At 31 December 2018	Current	Non-current	Total
Cash and bank balances	795,825	2,591	798,416
Due from Islamic institutions	90,706	20,420	111,126
Trading securities	286,042	74,178	360,220
Investments in financings	1,057341	779,568	1,836,909
Investment securities	1,093,195	409,801	1,502,996
Accounts and other financial assets	294,372	206,663	501,035
Current tax receivable	24,561	-	24,561
Investment property	-	437,377	437,377
Investments in associates	-	646,111	646,111
Property, plant and equipment	2,162	61,758	63,920
Intangible assets	1,601	281,250	282,851
Deferred tax assets	-	7,106	7,106
Total assets	**3,645,805**	**2,926,823**	**6,572,628**
Customer current accounts	2,264,529	16,438	2,280,967
Customer investment accounts	1,675,293	19,614	1,694,907
Due to banks and other financial institutions	1,508,891	45,168	1,554,059
Provisions	-	68,317	68,317
Accounts payable	368,756	117,707	486,463
Current tax payable	839	9	848
Deferred tax liabilities	4,351	-	4,351
Total liabilities	**5,822,659**	**267,253**	**6,089,912**
Net assets/liabilities	**(2,176,854)**	**2,659,570**	**482,716**
At 31 December 2017			
Total assets	**4,636,369**	**2,203,087**	**6,839,456**
Total liabilities	**5,899,665**	**173,609**	**6,073,274**
Net assets/liabilities	**(1,263,296)**	**2,029,478**	**766,182**

39. Concentration of assets and liabilities

Assets and liabilities of the Group are located in the following geographical regions and industry sectors:

Geographical regions	Asia/ Pacific	Middle East	Europe	North America	Others	Total
At 31 December 2018						
Cash and bank balances	324,807	380,522	74,858	17,852	377	798,416
Due from Islamic institutions	37,274	69,455	4,397	-	-	111,126
Trading securities	277,473	82,223	-	-	524	360,220
Investments in financings	1,716,917	90,926	-	-	29,066	1,836,909
Investment securities	1,251,129	233,505	5,052	8,459	4,851	1,502,966
Accounts and other financial assets	81,825	233,828	185,359	23	-	501,035
Current tax receivable	24,549	10	2	-	-	24,561
Investment property	11,628	320,647	83,745	21,357	-	437,377
Investments in associates	42,910	603,201	-	-	-	646,111
Property, plant and equipment	45,469	18,451	-	-	-	63,920
Intangible assets	12,473	270,377	1	-	-	282,851
Assets held for sale	-	-	-	-	-	-
Deferred tax assets	7,106	-	-	-	-	7,106
Total assets	**3,833,560**	**2,303,145**	**353,414**	**47,691**	**34,818**	**6,572,628**
Customer current accounts	965,286	1,091,383	216,012	387	7,899	2,280,967
Customer investment accounts	1,694,902	5	-	-	-	1,694,907
Due to banks	705,514	814,063	31,287	-	3,195	1,554,059
Provisions	-	5,826	62,491	-	-	68,317
Accounts payable	405,150	26,211	55,102	-	-	486,463
Current tax payable	-	-	848	-	-	848
Deferred tax liabilities	-	4,351	-	-	-	4,351
Total liabilities	**3,770,852**	**1,941,839**	**365,740**	**387**	**11,094**	**6,089,912**
Net on-balance sheet position	**62,708**	**361,306**	**(12,326)**	**47,304**	**23,724**	**482,716**
Contingent liabilities and commitments	**2,024,305**	**515,218**	**13,201**	**-**	**-**	**2,552,724**
At 31 December 2017						
Total assets	**4,092,439**	**2,238,704**	**415,406**	**58,024**	**35,433**	**6,839,456**
Total liabilities	**3,704,760**	**2,022,781**	**315,451**	**27,049**	**3,233**	**6,073,274**
Net on-balance sheet position	**387,679**	**215,923**	**99,955**	**30,975**	**32,200**	**766,182**
Contingent liabilities and commitments	**2,158,087**	**521,380**	**15,383**	**-**	**173**	**2,695,043**

39. Concentration of assets and liabilities (continued)

Industry sectors	anks and nancial nstitutions	ading d anufacturing	Property and construction	Private individuals	Services	Textile	Other	Total
At 31 December 2018								
Cash and bank balances	664,550	-	3,533	-	130,333	-	-	798,416
Due from Islamic institutions	83,989	-	-	-	-	-	27,137	111,126
Trading securities	62,469	13,874	-	-	281,249	-	2,628	360,220
Investments in financings	109,446	882,315	52,693	98,309	622,927	-	71,219	1,836,909
Investment securities	198,470	13,845	18,937	475	1,228,446	-	42,823	1,502,966
Accounts and other financial assets	292,799	-	10,589	17,495	140,874	-	39,278	501,035
Current tax receivable	2	-	-	-	24,559	-	-	24,561
Investment property	8,910	-	344,310	-	-	-	84,157	437,377
Investments in associates	602,288	1,009	-	-	-	-	42,814	646,111
Property, plant and equipment	46,932	-	2,461	-	-	-	14,527	63,920
Intangible assets	193,527	-	-	-	-	-	89,324	282,851
Assets held for sale	-	-	-	-	-	-	-	-
Deferred tax assets	7,106	-	-	-	-	-	-	7,106
Total assets	**2,270,488**	**911,043**	**432,523**	**116,279**	**2,428,388**	**-**	**413,907**	**6,572,628**
Customer current accounts	95,683	339,293	50,501	478,520	132,551	-	373,547	1,470,095
Customer investment accounts	668,322	371,656	68,033	189,579	612,611	-	595,578	2,505,779
Due to banks	1,470,355	-	-	-	62,244	-	21,460	1,554,059
Provisions	5,826	-	62,491	-	-	-	-	68,317
Accounts payable	25,013	41,654	74,171	30,470	155,046	-	160,109	486,463
Current tax payable	9	-	-	-	839	-	-	848
Deferred tax liabilities	4,351	-	-	-	-	-	-	4,351
Total liabilities	**2,269,559**	**752,603**	**255,196**	**698,569**	**963,291**	**-**	**1,150,694**	**6,089,912**
Net on-balance sheet position	**929**	**158,440**	**177,327**	**(582,290)**	**1,465,097**	**-**	**(736,787)**	**482,716**
Contingent liabilities and commitments	**471,720**	**846,251**	**39,506**	**7,546**	**637,617**	**34,948**	**515,136**	**2,552,724**
At 31 December 2017								
Total assets	**2,467,314**	**648,235**	**693,227**	**408,739**	**2,116,708**	**251,234**	**253,999**	**6,839,456**
Total liabilities	**1,329,384**	**805,688**	**418,427**	**1,161,351**	**1,201,706**	**30,082**	**1,126,636**	**6,073,274**
Net on-balance sheet position	**1,137,930**	**(157,453)**	**274,800**	**(752,612)**	**915,002**	**221,152**	**(872,637)**	**766,182**
Contingent liabilities and commitments	**593,679**	**1,063,236**	**66,003**	**16,220**	**170,355**	**65,345**	**720,185**	**2,695,024**

40. Maturities of assets and liabilities

The maturity profiles of assets and liabilities of the Group are as follows:

At 31 December 2018	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Total
Cash and bank balances	760,079	29,901	8,436	-	-	798,416
Due from Islamic institutions	-	27,137	63,569	20,420	-	111,126
Trading securities	8,568	1	277,473	5,335	68,843	360,220
Investments in financings	293,553	322,672	441,116	643,328	136,240	1,836,909
Investment securities	526,980	531,890	34,095	199,124	210,907	1,502,966
Accounts and other financial assets	73,694	15,135	192,536	184,859	34,811	501,035
Current tax receivable	-	24,492	69	-	-	24,561
Investment property	94,865	-	8,910	169,637	163,965	437,377
Investments in associates	-	-	-	-	646,111	646,111
Property, plant and equipment	170	543	1,449	26,080	35,678	63,920
Intangible assets	-	-	1,601	2,348	278,902	282,851
Assets held for sale	-	-	-	-	-	-
Deferred tax assets	-	-	-	7,106	-	7,106
Total assets	**1,757,909**	**951,771**	**1,029,254**	**1,258,237**	**1,575,457**	**6,572,628**
Customer current accounts	1,386,185	59,905	7,567	12,537	3,901	1,470,095
Customer investment accounts	1,872,646	275,890	337,629	19,614	-	2,505,779
Due to banks	1,312,786	60,836	135,269	31,863	13,305	1,554,059
Provisions	-	-	-	7,491	60,826	68,317
Accounts payable	114,508	161,052	66,394	144,509	-	486,463
Current tax payable	-	-	839	9	-	848
Deferred tax liabilities	4,351	-	-	-	-	4,351
Total liabilities	**4,690,476**	**557,683**	**547,698**	**216,023**	**78,032**	**6,089,912**
Net liquidity gap	**(2,932,567)**	**394,088**	**481,556**	**1,042,214**	**1,497,425**	**482,716**
At 31 December 2017						
Total assets	**1,604,523**	**828,773**	**1,686,420**	**1,323,069**	**1,396,671**	**6,839,456**
Total liabilities	**4,816,103**	**408,250**	**675,312**	**93,251**	**80,358**	**6,073,274**
Net liquidity gap	**(3,211,580)**	**420,523**	**1,011,108**	**1,229,818**	**1,316,313**	**766,182**

The customer current and investment account and due to banks, although contractually short term in nature, tend to be renewed on maturity and expected to remain with the Group for a longer term.

41. Currency exposure

At 31 December 2018	United States Dollar	Pakistan Rupee	Bahrain Dinar	Euro	Swiss Franc	Saudi Riyal	Egyptian Pound	Other	Total
Cash and bank balances	116,549	257,354	262,273	127,485	10,242	11,828	319	12,366	798,416
Due from Islamic institutions	21,690	37,274	30,130	4,384	13	-	179	17,456	111,126
Trading securities	65,175	277,473	5,922	-	-	8,568	1	3,081	360,220
Investments in financings	88,266	1,716,916	-	9,555	-	1	-	22,171	1,836,909
Investment securities	166,862	1,243,677	81,726	4,150	899	-	831	4,851	1,502,996
Accounts and other financial assets	333,342	73,994	230	4,826	25,139	1,787	257	61,460	501,035
Current tax receivable	-	24,549	-	-	2	-	10	-	24,561
Investment property	67,773	8,910	183,643	16,624	43,043	62,316	-	55,068	437,377
Investments in associates	556,528	720	-	-	-	46,674	-	42,189	646,111
Property, plant and equipment	467	45,469	7,078	1	-	19	12	10,874	63,920
Intangible assets	237,034	12,473	33,343	1	-	-	-	-	282,851
Assets held for sale	-	13,312	-	-	-	-	-	-	13,312
Deferred tax assets	-	7,106	-	-	-	-	-	-	7,106
Total assets	**1,653,686**	**3,705,915**	**604,345**	**167,026**	**79,338**	**131,193**	**1,609**	**229,516**	**6,572,628**
Customer current accounts	112,510	862,181	253,847	225,667	-	1,790	-	14,100	1,470,095
Customer investment accounts	516,871	1,557,153	410,877	6,231	-	-	-	14,647	2,505,779
Due to banks	481,382	617,197	-	102,088	23,667	40	-	329,685	1,554,059
Provisions	13,317	-	-	55,000	-	-	-	-	68,317
Accounts payable	16,855	389,209	60,227	4,246	15,026	-	728	172	486,463
Current tax payable	-	-	-	9	839	-	-	-	848
Deferred tax liabilities	-	-	4,351	-	-	-	-	-	4,351
Total liabilities	**1,140,935**	**3,425,740**	**729,302**	**393,241**	**39,532**	**1,830**	**728**	**358,604**	**6,089,912**
Net on-balance sheet position	**512,751**	**280,175**	**(124,957)**	**(226,215)**	**39,806**	**129,363**	**881**	**(129,088)**	**482,176**
Contingent liabilities and commitments	**-**	**2,024,306**	**514,881**	**-**	**13,201**	**336**	**-**	**-**	**2,552,724**
At 31 December 2017									
Total assets	**1,510,457**	**3,886,761**	**970,075**	**144,605**	**46,970**	**96,356**	**5,516**	**178,716**	**6,839,456**
Total liabilities	**1,257,511**	**3,424,461**	**579,207**	**432,868**	**11,981**	**2,333**	**889**	**364,024**	**6,073,274**
Net on-balance sheet position	**252,946**	**462,300**	**390,868**	**(288,263)**	**34,989**	**94,023**	**4,627**	**(185,308)**	**766,182**
Contingent liabilities and commitments	**353,593**	**1,832,619**	**422,259**	**63,381**	**13,255**	**5,472**	**-**	**4,444**	**2,695,024**

42. Trust capital

The fiduciary reserve was created to cover potential risk which might arise in the Group's capacity as fund manager.

43. Date of authorisation for issue

These consolidated financial statements have been approved for issue by the Board of Supervisors on 22 June 2019 and are subject to approval at the Annual General Meeting, which will be held on 28 September 2019.

44. Principal subsidiaries in the consolidated financial statements

	Nature of Business	% owned		Country of Incorporation
		Subsidiary	DMI	
Islamic Investment Company of the Gulf (Bahamas) Limited	Investment Banking	100	100	Bahamas
Ithmaar Holding B.S.C.*	Retail Banking	49	49	Kingdom of Bahrain
Faysal Bank Limited	Retail Banking	67	31	Pakistan
Ithmaar Development Company Limited	Real Estate Investment	100	46	Cayman Islands
Sakana Holistic Housing Solutions B.S.C. (C)	Mortgage Finance	63	29	Kingdom of Bahrain
DMI Administrative Services S.A.	Management Services	100	46	Switzerland
Ithmaar Bank B.S.C.(C)	Banking	100	46	Kingdom of Bahrain
IB Capital B.S.C.(C)	Asset Management	100	46	Kingdom of Bahrain

Consolidation of entities in which the Group holds less than 50%

The Group considers it has de facto control of Ithmaar Holding B.S.C. even though it has less than 50% of the voting rights. The Group is the majority shareholder with a 49.56% equity interest. As the Group maintains control over Ithmaar's Board of Directors and considering the dispersed nature of the remaining shareholders, DMI continues to consolidate Ithmaar Holding B.S.C. as a subsidiary based upon the Group's assessment under IFRS 10. There is no history of other shareholders forming a group to exercise their votes collectively.

Ithmaar Holding B.S.C. is subject to the consolidated supervision of the Central Bank of Bahrain.

45. Capital Management

One of the subsidiaries of the DMI Group is subject to supervision of the Central Bank of Bahrain and is required to comply with Capital adequacy ratio requirements. The capital adequacy ratio has been calculated in accordance with CBB guidelines and CBB directives incorporating credit risk, operational risk and market risk. The minimum regulatory requirements is 12.5% under Basel III. As at 31 December 2018 and 2017 the subsidiary has complied with this requirements. Similar requirements are also applicable to a banking subsidiary in Pakistan as per the local requirements which was also complied as at 31 December 2018 and 2017. Ithmaar Bank has not complied with the requirements of the Central Bank of Bahrain's Rulebook Volume 2 "Licensing requirements" which states that an Islamic retail bank licensee must maintain a minimum total shareholders' equity of BHD 100 million.

46. Contingency reserve

As approved by the board of directors on 3 December 2017, 40% of the management fee (Note 34) plus any other discretionary amounts, are transferred to a contingency reserve with effect from January 2018. This reserve is distributable at the discretion of the board of directors.