

Al Salam Bank-Bahrain B.S.C.
CONDENSED CONSOLIDATED INTERIM FINANCIAL
INFORMATION
30 September 2018

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine month period ended 30 September 2018

Table of contents

Independent auditors' report on review of condensed consolidated interim financial information	1-2
Condensed consolidated statement of financial position	3
Condensed consolidated income statement	4
Condensed consolidated statement of changes in equity	5
Condensed consolidated statement of cash flows	6
Notes to the condensed consolidated interim financial information	7-19



KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: www.kpmg.com/bh
CR No. 6220

Independent auditors' report on review of condensed consolidated interim financial information

The Board of Directors
Al Salam Bank-Bahrain B.S.C
Manama
Kingdom of Bahrain

7 November 2018

Introduction

We have reviewed the accompanying 30 September 2018 condensed consolidated interim financial information of Al Salam Bank-Bahrain B.S.C (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2018;
- the condensed consolidated income statement for the three-month and nine-month periods ended 30 September 2018;
- the condensed consolidated statement of changes in owners' equity for the nine-month period ended 30 September 2018;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2018;
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with Financial Accounting Standards issued by Accounting and Auditing Organisation for Islamic Financial Institutions. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2018 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.



Al Salam Bank-Bahrain B.S.C

Independent auditors' report on review of condensed consolidated interim financial information (continued)

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2017, and the condensed consolidated interim financial information for the nine-month period ended 30 September 2017, from which the corresponding figures of consolidated statements of financial position, income statement, statement of changes in owners' equity and cash flows have been derived, were audited and reviewed by another auditor who issued an unmodified audit opinion and review conclusion on those financial statements on 13 February 2018 and 8 November 2017 respectively. The Group early adopted *Financial Accounting Standard 30: Impairment, Credit Losses and Onerous Commitments* ("FAS 30") in its consolidated financial statements for the year ended 31 December 2017 with effect from 1 January 2017. Accordingly, the corresponding figures for the three-month and nine-month periods ended 30 September 2017 in these condensed consolidated interim financial information have been restated to reflect the application of FAS 30, on which the preceding auditor of the Group has performed certain specified procedures for interim periods. We were not engaged to audit, review, or apply any procedures to the corresponding periods presented and accordingly, we do not express an opinion or any other form of assurance on those respective consolidated financial statements or condensed consolidated interim financial information taken as a whole.

A handwritten signature in blue ink, consisting of a stylized 'K' followed by 'P.M.G.', with a horizontal line underneath.

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018 (reviewed)

		(Reviewed) 30 September 2018 BD '000	(Audited) 31 December 2017 BD '000
	Note		
ASSETS			
Cash and balances with banks and Central Bank		72,436	66,351
Sovereign Sukuk	3	367,982	363,569
Placements with financial institutions	4	138,613	141,225
Corporate Sukuk		8,954	10,419
Financing assets	5	770,790	745,773
Non-trading investments	7	109,751	111,325
Investment properties		75,485	66,782
Development properties		6,290	6,448
Investment in associates		16,186	16,835
Other assets	8	57,586	34,530
Goodwill		25,971	25,971
TOTAL ASSETS		1,650,044	1,589,228
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Placements from financial institutions	4	154,936	154,765
Placements from customers	9	643,952	602,784
Customer current accounts		259,382	283,886
Murabaha term financing		145,324	79,986
Other liabilities	10	44,512	45,089
TOTAL LIABILITIES		1,248,106	1,166,510
EQUITY OF INVESTMENT ACCOUNTHOLDERS	11	99,784	118,881
SHAREHOLDERS' EQUITY			
Share capital		214,093	214,093
Treasury stock		(2,104)	(1,879)
Reserves and retained earnings		89,648	91,016
Total equity attributable to shareholders of the Bank		301,637	303,230
Non-controlling interest		517	607
TOTAL SHAREHOLDERS' EQUITY		302,154	303,837
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACOUNTHOLDERS AND SHAREHOLDERS' EQUITY		1,650,044	1,589,228



Khaleefa Butti Omair Al Muhairi
Chairman



H.E. Shaikh Khalid bin Mustahail Al Mashani
Deputy Chairman



Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 18 form part of these condensed consolidated interim financial information.

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine month period ended 30 September 2018 (reviewed)

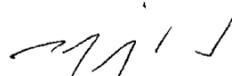
	<i>Three months ended</i>	<i>Three months ended</i>	<i>Nine months ended</i>	<i>Nine months ended</i>
	<i>30 September 2018</i>	<i>30 September 2017</i>	<i>30 September 2018</i>	<i>30 September 2017</i>
<i>Note</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
		<i>(Restated)</i>		<i>(Restated)</i>
OPERATING INCOME				
Income from financing assets	11,103	11,030	34,226	32,654
Income from Sukuk	4,185	4,190	12,454	12,543
Income from investments	354	2,484	579	4,401
Fair value changes on investments	(1,094)	(551)	(1,642)	(826)
Dividend income	66	168	243	575
Fees and commission	1,625	1,039	4,903	4,652
Other income	891	2,278	8,689	7,052
	17,130	20,638	59,452	61,051
Profit on placements from financial institutions	(1,021)	(341)	(2,427)	(1,322)
Profit on placements from customers	(4,867)	(3,695)	(13,397)	(11,701)
Profit on Murabaha term financing	(914)	(546)	(2,308)	(1,668)
Return on equity of investment accountholders before Group's share as a Mudarib	(205)	(56)	(395)	(147)
Group's share as a Mudarib	174	25	287	66
	(31)	(31)	(108)	(81)
Total operating income	10,297	16,025	41,212	46,279
OPERATING EXPENSES				
Staff cost	1,699	2,685	7,662	8,006
Premises and equipment cost	546	393	1,522	1,120
Depreciation	230	298	669	1,131
Other operating expenses	2,279	2,241	7,108	7,018
Total operating expenses	4,754	5,617	16,961	17,275
PROFIT BEFORE PROVISIONS AND RESULTS				
OF ASSOCIATES	5,543	10,408	24,251	29,004
Net allowance for credit losses / impairment	(1,321)	(6,150)	(11,168)	(16,207)
Share of profit from associates	(134)	(100)	425	810
NET PROFIT FOR THE PERIOD	4,088	4,158	13,508	13,607
ATTRIBUTABLE TO:				
- Shareholders of the Bank	4,119	4,214	13,592	13,745
- Non-controlling interest	(31)	(56)	(84)	(138)
	4,088	4,158	13,508	13,607
Weighted average number of shares (in '000)	2,121,713	2,125,086	2,121,713	2,125,191
Basic and diluted earnings per share (fils)	2	2	6	6



Khaleefa Butti Omair Al Muhairi
Chairman



H.E. Shaikh Khalid bin Mustahail Al Mashani
Deputy Chairman



Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 18 form part of these condensed consolidated interim financial information.

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine month period ended 30 September 2018 (reviewed)

Amounts in BD '000s

	<i>Attributable to shareholders of the Bank</i>											
	<i>Reserves</i>								<i>Total reserves</i>	<i>Total Owners' Equity</i>	<i>Non-controlling interest</i>	<i>Group Total Equity</i>
	<i>Share capital</i>	<i>Treasury stock</i>	<i>Share premium reserve</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Investment fair value reserve</i>	<i>Real estate fair value reserve</i>	<i>Foreign exchange translation reserve</i>				
Balance as of 1 January 2018	214,093	(1,879)	12,209	17,148	40,304	199	24,075	(2,919)	91,016	303,230	607	303,837
Net profit for the period	-	-	-	-	13,592	-	-	-	13,592	13,592	(84)	13,508
Foreign currency re-translation	-	-	-	-	-	-	-	(108)	(108)	(108)	-	(108)
Dividend paid	-	-	-	-	(14,852)	-	-	-	(14,852)	(14,852)	-	(14,852)
Purchase of treasury stock	-	(225)	-	-	-	-	-	-	-	(225)	-	(225)
Net movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(6)	(6)
Balance at 30 September 2018	214,093	(2,104)	12,209	17,148	39,044	199	24,075	(3,027)	89,648	301,637	517	302,154
Balance as of 1 January 2017 (as previously reported)	214,093	(1,646)	12,209	15,338	61,400	445	24,234	(2,708)	110,918	323,365	1,534	324,899
Transition adjustment on adoption of FAS 30 as of 1 January 2017	-	-	-	-	(26,759)	-	-	-	(26,759)	(26,759)	(12)	(26,771)
Restated balance as of 1 January 2017	214,093	(1,646)	12,209	15,338	34,641	445	24,234	(2,708)	84,159	296,606	1,522	298,128
Net profit for the period (Restated)	-	-	-	-	13,745	-	-	-	13,745	13,745	(138)	13,607
Net changes in fair value	-	-	-	-	-	377	-	-	377	377	-	377
Foreign currency re-translation	-	-	-	-	-	-	-	(138)	(138)	(138)	-	(138)
Dividend paid	-	-	-	-	(10,626)	-	-	-	(10,626)	(10,626)	-	(10,626)
Disposal of a subsidiary	-	-	-	-	-	-	(727)	-	(727)	(727)	(704)	(1,431)
Purchase of treasury stock	-	(87)	-	-	-	-	-	-	-	(87)	-	(87)
Balance at 30 September 2017 (Restated)	214,093	(1,733)	12,209	15,338	37,760	822	23,507	(2,846)	86,790	299,150	680	299,830

The attached notes 1 to 18 form part of these condensed consolidated interim financial information.

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine month period ended 30 September 2018 (reviewed)

	<i>Nine months ended 30 September 2018 BD '000</i>	<i>Nine months ended 30 September 2017 BD '000 (Restated)</i>
OPERATING ACTIVITIES		
Net profit for the period	13,508	13,607
Adjustments:		
Depreciation	669	1,131
Amortisation of premium on Sukuk - net	889	881
Fair value changes on investments	1,642	826
Income from investments	(579)	(4,401)
Net allowance for credit losses / impairment	11,168	16,207
Share of profit from associates	(425)	(810)
Operating income before changes in operating assets and liabilities	<u>26,872</u>	<u>27,441</u>
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank	5,187	(2,461)
Financing assets	(44,852)	(85,061)
Other assets	(427)	(10,263)
Placements from financial institutions	395	13,400
Placements from customers	41,168	(64,904)
Customer current accounts	(24,504)	11,798
Other liabilities	(10,401)	9,853
Equity of investment accountholders	(19,097)	21,145
Net cash used in operating activities	<u>(25,659)</u>	<u>(79,052)</u>
INVESTING ACTIVITIES		
Sovereign Sukuk	(5,294)	(5,734)
Corporate Sukuk	1,454	18,558
Non-trading investments	625	5,761
Development properties	158	7,085
Investment in associates	741	(6,196)
Purchase of premises and equipment	(567)	(677)
Sale of a subsidiary	-	7,444
Net cash (used in) from investing activities	<u>(2,883)</u>	<u>26,241</u>
FINANCING ACTIVITIES		
Murabaha term financing	48,373	5,307
Dividends paid	(10,945)	(10,626)
Purchase of treasury stock	(225)	(87)
Net cash from (used in) financing activities	<u>37,203</u>	<u>(5,406)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,661	(58,217)
Cash and cash equivalents at 1 January	<u>175,352</u>	<u>284,928</u>
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	<u>184,013</u>	<u>226,711</u>
Cash and cash equivalents comprise of:		
Cash and other balances with Central Bank	9,714	15,941
Balances with other banks	35,686	55,186
Placements with financial institutions with original maturities of less than 90 days	138,613	155,584
	<u>184,013</u>	<u>226,711</u>

The attached notes 1 to 18 form part of these condensed consolidated interim financial information.

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and registered with Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and operates under Islamic principles in accordance with all relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Bahrain World Trade Center, East Tower, King Faisal Highway, Manama 316, Kingdom of Bahrain.

On 30 March 2014, the Bank acquired 100% stake in BMI Bank B.S.C.(c) ("BMI"), a closed shareholding company in the Kingdom of Bahrain, through exchange of shares. The Shari'a Supervisory Board approved BMI Bank to be an Islamic bank effective 1 January 2016.

On 29 November 2016, the shareholders of BMI resolved to approve the transfer of the operations of BMI to the Bank. The transfer of business was approved by the CBB on 17 April 2017 which was subsequently published in the official gazette dated 20 April 2017. The Bank has transferred majority of the BMI's rights and assumed all of its obligations at their respective carrying values.

During 2016, the Bank acquired 70% stake in Al Salam Bank Seychelles Limited ("ASBS").

The Bank and its principal subsidiary operates through 10 branches in the Kingdom of Bahrain and Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. The Bank's ordinary shares are listed in Bahrain Bourse and Dubai Financial Market.

The Bank together with its subsidiaries is referred to as "the Group".

This condensed consolidated interim financial information has been authorised for issue in accordance with a resolution of the Board of Directors dated 7 November 2018.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed consolidated interim financial information have been prepared in accordance with the guidance given by International Accounting Standard 34 - "Interim Financial Reporting". These condensed consolidated interim financial information incorporate all assets, liabilities and off-balance sheet financial instruments held by the Group. The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017, which were prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and in conformity with the Bahrain Commercial Companies Law. In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by AAOIFI standards, the Group uses guidance from the relevant International Financial Reporting Standards ("IFRS").

This condensed consolidated interim financial information does not contain all information and disclosures required for full financial statements prepared in accordance with AAOIFI.

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Restatement

The comparative figures in the condensed consolidated statements of income, changes in equity and cash flows for the nine-month period ended 30 September 2018, have been restated since the Group early adopted FAS 30 "Impairment, Credit Losses and Onerous Commitments" in its audited consolidated financial statements for the year ended 31 December 2017, with a date of initial application of 1 January 2017.

The early adoption in 2017 required that the information of the interim periods of 2017 to be restated. The impact on restatements is set out below:

	<i>Three months ended 30 September 2017</i>		
	<i>Previously reported</i>	<i>Effect of adoption of FAS 30</i>	<i>As reported herein</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Condensed consolidated income statement			
Net allowance for credit losses / impairment	(6,108)	(42)	(6,150)
Share of profit from associates	-	(100)	(100)
Profit for the period	4,300	(142)	4,158
Net profit attributable to Shareholders of the Bank	4,356	(142)	4,214

	<i>Nine months ended 30 September 2017</i>		
	<i>Previously reported</i>	<i>Effect of adoption of FAS 30</i>	<i>As reported herein</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Condensed consolidated income statement			
Net allowance for credit losses / impairment	(17,219)	1,012	(16,207)
Share of profit from associates	910	(100)	810
Profit for the period	12,695	912	13,607
Net profit attributable to Shareholders of the Bank	12,833	912	13,745
Condensed consolidated statement of cash flows			
Profit for the period	12,695	912	13,607

2.1 New standards, interpretations and amendments

These condensed consolidated interim financial information have been prepared using accounting policies, which are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017. There have been no new standards, interpretations and amendments during the period that might have any material impact on the condensed consolidated interim financial information of the Group.

2.2 Seasonality

The Bank does not have significant income of a seasonal nature.

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

3 SOVEREIGN SUKUK

This includes BD 190,280 thousands (2017: BD 116,007 thousands) of sukuk which are pledged against Murabaha term financing of BD 128,359 thousands (2017: BD 79,786 thousands).

4 PLACEMENTS WITH FINANCIAL INSTITUTIONS AND PLACEMENTS FROM FINANCIAL INSTITUTIONS

These represent short-term interbank placements to and from financial institution in the form of Murabaha and Wakala contracts.

	<i>(Reviewed)</i> 30 September 2018 BD '000	<i>(Audited)</i> 31 December 2017 BD '000
Placements with financial institutions		
Wakala asset	82,544	105,815
Commodity Murabaha asset	56,069	35,410
	138,613	141,225
Placements from financial institutions		
Wakala liability	89,579	90,851
International Reverse Murabaha	65,357	63,914
	154,936	154,765

5 FINANCING ASSETS

	30 September 2018 (Reviewed)			
	<i>Stage 1: 12- month ECL</i> BD '000	<i>Stage 2: Lifetime ECL not credit- impaired</i> BD '000	<i>Stage 3: Lifetime ECL credit- impaired</i> BD '000	<i>Total</i> BD '000
Murabaha financing	164,628	2,761	20,720	188,109
Mudaraba financing	309,577	11,129	28,020	348,726
Ijarah financing	217,160	11,413	13,873	242,446
Musharaka financing	23,631	67	405	24,103
Credit cards	2,884	61	159	3,104
Financing assets	717,880	25,431	63,177	806,488
Allowance for credit losses	(5,765)	(4,474)	(25,459)	(35,698)
	712,115	20,957	37,718	770,790
	31 December 2017 (Audited)			
	<i>Stage 1: 12- month ECL</i> BD '000	<i>Stage 2: Lifetime ECL not credit- impaired</i> BD '000	<i>Stage 3: Lifetime ECL credit- impaired</i> BD '000	<i>Total</i> BD '000
Murabaha financing	176,937	33,057	33,328	243,322
Mudaraba financing	267,255	18,780	47,908	333,943
Ijarah financing	166,812	9,443	42,298	218,553
Musharaka financing	18,205	1,337	235	19,777
Credit cards	1,801	-	1,456	3,257
Financing assets	631,010	62,617	125,225	818,852
Allowance for credit losses	(7,388)	(15,980)	(49,711)	(73,079)
	623,622	46,637	75,514	745,773

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

6 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

The balance of allowance for credit loss in the below table includes all financial assets and off-balance sheet exposures in addition to financing assets.

	30 September 2018 (Reviewed)			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total ECL</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Balance at the beginning of the period	7,984	16,052	57,074	81,110
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	1,854	(455)	(1,399)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(50)	2,090	(2,040)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(283)	(14,921)	15,204	-
Net remeasurement of loss allowance	(2,556)	2,095	16,608	16,147
Recoveries / write-backs	(311)	(200)	(4,347)	(4,858)
Allowance for credit losses	(1,346)	(11,391)	24,026	11,289
Exchange adjustments and other movements	-	-	(123)	(123)
Amounts written off during the period	-	-	(7,287)	(7,287)
Elimination on consolidation	-	-	(42,444)	(42,444)
Balance at the end of the period	6,638	4,661	31,246	42,545

	30 September 2018 (Reviewed)			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total ECL</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Cash and balances with banks and Central Bank	1	-	-	1
Sovereign Sukuk	2	-	-	2
Placements with financial institutions	4	-	-	4
Corporate Sukuk	1	-	-	1
Financing assets	5,765	4,474	25,459	35,698
Loans and advances to customers				
- Assets under conversion (note 8)	20	47	3,425	3,492
Other receivables	61	-	1,947	2,008
Financing commitments and financial guarantee contracts	784	140	415	1,339
	6,638	4,661	31,246	42,545

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

6 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

	30 September 2017 (Reviewed)			
	Stage 1: 12-month ECL BD '000	Stage 2:	Stage 3:	Total ECL BD '000
		Lifetime ECL	Lifetime ECL	
		not credit-impaired	credit-impaired	
Balance at the beginning of the period	9,103	17,625	46,230	72,958
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	1,201	(702)	(499)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(356)	356	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(3,809)	(2,908)	6,717	-
Net remeasurement of loss allowance	447	2,063	13,856	16,366
Recoveries / write-backs	(620)	(101)	(1,097)	(1,818)
Allowance for credit losses	(3,137)	(1,292)	18,977	14,548
Amounts written off during the period	-	(68)	(3,074)	(3,142)
Balance at the end of the period	5,966	16,265	62,133	84,364

	30 September 2017 (Reviewed)			
	Stage 1: 12-month ECL BD '000	Stage 2:	Stage 3:	Total ECL BD '000
		Lifetime ECL	Lifetime ECL	
		not credit-impaired	credit-impaired	
Cash and balances with banks and Central Bank	2	-	-	2
Placements with financial institutions	1	-	-	1
Corporate Sukuk	5	-	-	5
Financing assets	5,163	16,088	57,286	78,537
Other assets	59	35	4,751	4,845
Financing commitments and financial guarantee contracts	736	142	96	974
	5,966	16,265	62,133	84,364

6.1 Movements in impairment allowances for equity investments and others

	(Reviewed) 30 September 2018 BD '000	(Reviewed) 30 September 2017 BD '000
Balance at the beginning of the period	3,251	8,624
Impairment during the period	-	1,659
Reversal on recoveries	(121)	-
Balance at the end of the period	3,130	10,283

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

7 NON-TRADING INVESTMENTS

Non-trading investments comprise investments in equity securities and are classified as fair value through equity or fair value through profit or loss.

Fair value is an amount for which an assets could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

Fair value hierarchy

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; or

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of the non-trading investments carried at fair value in the consolidated statement of financial position:

30 September 2018	------(Reviewed)-----			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Financial assets at fair value through profit or loss	4,281	5,541	98,020	107,842
Financial assets at fair value through equity	-	-	1,909	1,909
	4,281	5,541	99,929	109,751

31 December 2017	------(Audited)-----			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Financial assets at fair value through profit or loss	5,903	5,561	97,929	109,393
Financial assets at fair value through equity	-	-	1,932	1,932
	5,903	5,561	99,861	111,325

During the period, there was no transfers between the levels.

The movements in fair value of non-trading investments classified in Level 3 of the fair value hierarchy are as follows:

	(Reviewed)	(Audited)
	30 September	31 December
	2018	2017
	<i>BD '000</i>	<i>BD '000</i>
At beginning of the period	99,861	105,339
Fair value changes	139	1,228
Provision for impairment	-	(726)
Disposals during the period	(48)	(2,346)
Repayments during the period	(23)	(3,634)
At end of the period	99,929	99,861

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

8 OTHER ASSETS

	<i>(Reviewed)</i> 30 September 2018 BD '000	<i>(Audited)</i> 31 December 2017 BD '000
Assets under conversion (a)		
Loans and advances to customers	12,767	24,631
Non-trading investments - fair value through equity (b)	1,042	1,359
Non-trading investments - debt	546	955
	14,355	26,945
Other receivables and advances	12,430	4,745
Prepayments	995	1,136
Premises and equipment (c)	29,806	1,704
	57,586	34,530

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. ("ex-BSB"). Any income derived from these assets are allocated to charity payable and as such are not recognised in the condensed consolidated income statement. During the period under review, Shari'a prohibited income amounting to BD 355 thousands have been recorded under charity payable, under "Accounts payable and accruals" of note 10.

(b) The above fair value through equity investments are classified as Level 3 in the fair value hierarchy.

Movements in fair value through equity investments are as follows:

	<i>Fair value measurement using significant unobservable inputs</i>	
	<i>Level 3</i>	
	<i>(Reviewed)</i> 30 September 2018 BD '000	<i>(Audited)</i> 31 December 2017 BD '000
At beginning of the period	1,359	1,341
Recovery	120	-
Disposals during the period	(144)	-
Fair value changes	(293)	-
Transfer during the period	-	18
At end of the period	1,042	1,359

(c) This includes BD 28,204 thousands (2016: BD nil) of subsidiary property, plant & equipment.

Loans and advances to customer - Assets under conversion

	30 September 2018 (Reviewed)			
	<i>Stage 1: 12- month ECL BD '000</i>	<i>Stage 2: Lifetime ECL not credit- impaired BD '000</i>	<i>Stage 3: Lifetime ECL credit- impaired BD '000</i>	<i>Total BD '000</i>
Loans and advances to customers	2,774	461	12,999	16,234
Allowance for credit losses	(20)	(47)	(3,425)	(3,492)
	2,754	414	9,574	12,742

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

8 OTHER ASSETS (continued)

	31 December 2017 (Audited)			Total BD '000
	Stage 1: 12- month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	
	Loans and advances to customers	8,187	372	
Allowance for credit losses	(107)	(41)	(7,097)	(7,245)
	8,080	331	16,220	24,631

9 PLACEMENTS FROM CUSTOMERS

Placement from customer represents customer funds in the form of wakala contracts (wakala capital and generated profit) payable at respective maturity dates. These wakala contracts have stated maturities while "Equity of Investment Accountholders" are in the form of Mudaraba contracts that have no specified maturity dates.

10 OTHER LIABILITIES

	(Reviewed) 30 September 2018 BD '000	(Audited) 31 December 2017 BD '000
Dividend payable	6,067	4,704
Accounts payable and accruals	27,222	21,542
Investment related payables	3,513	7,208
Project payables	60	4,645
Liabilities under conversion	5,013	2,743
End of service benefits and other employee related accruals	1,298	3,402
Allowance for credit losses relating to financing commitments and financial guarantee contracts	1,339	845
	44,512	45,089

11 EQUITY OF INVESTMENT ACCOUNTHOLDERS

Saving accounts	61,564	58,014
Margin accounts	23,435	22,935
Call accounts	14,785	37,932
	99,784	118,881

12 OTHER INCOME

Other income primarily comprises BD 6,546 thousands of recoveries from pre-acquisition financing assets which were fully provided on the date of acquisition.

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

13 BUSINESS COMBINATION

During the period, the Group reassessed its involvement with an associate entity and its asset under management, ASB Biodiesel 1 (“Biodiesel”), a company incorporated in Cayman Islands with operations based on in Hongkong undertaking business of manufacturing biodiesel. The Group also had a significant financing exposure to Biodiesel. Based on the Groups ongoing involvement and support of the business and increase in variability of its exposure arising from the operations, it was assessed that the Group has obtained control over relevant activities of the Company in its capacity as principal. Accordingly the Group consolidated ASB Biodiesel and its subsidiaries (together “Biodiesel Group”) effective 30 September 2018, being the deemed date of acquisition.

The following entities have been consolidated as part of Biodiesel and the Bank’s effective percentage shareholdings are as follows:

<u>Investee name</u>	<u>Country of incorporation</u>	<u>Parent</u>	<u>Effective ownership of Bank</u>
ASB Biodiesel 1	Cayman Islands	Cayman Islands Al Salam Bank Bahrain BSC	14.81% and significant financing exposure
Subsidiaries of Biodiesel			
ASB Biodiesel (Hong kong) Limited	Hong Kong	ASB Biodiesel	36%

Consideration transferred and non-controlling interests

As there was no consideration transferred in the business combination, the Group had used the acquisition-date fair value of its interests (equity and debt) in Biodiesel Group for acquisition accounting purposes.

Identifiable assets acquired and liabilities assumed

The fair value of assets, liabilities, equity interests have been reported on a provisional basis as permitted by IFRS 3 ‘Business Combinations’. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be affected on a retrospective basis.

Carrying values of assets acquired and liabilities assumed at the effective date were:

	BD '000
Non-current assets	
Premises and equipment	28,204
Current assets	
Receivables and prepayments	3,705
Total assets	31,909
Current liabilities	
Murabaha term financing	16,965
Other liabilities	5,427
Total liabilities	22,392

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

14 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, associates, directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were made on commercial terms and approved by the Board of Directors.

The balances with related parties at 30 September 2018 and 31 December 2017 were as follows:

	<i>30 September 2018 (Reviewed)</i>				
	<i>Associates and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
Assets:					
Cash and balances with banks and Central Bank	-	338	-	-	338
Financing assets	6,545	5	13,666	1,013	21,229
Non trading investments	86,262	-	2,577	-	88,839
Investment in associates	16,186	-	-	-	16,186
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	5,659	-	-	5,659
Placements from customers	1,447	47,709	12,283	2,274	63,713
Customer current accounts	4,639	3,297	2,324	464	10,724
Equity of investment accountholders	-	-	70	249	319
Other liabilities	-	826	-	11	837
Contingent liabilities and commitments	-	488	100	-	588
	<i>31 December 2017 (Audited)</i>				
	<i>Associates and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
Assets:					
Cash and balances with banks and Central Bank	-	107	-	-	107
Financing assets	16,297	8	10,383	918	27,606
Non-trading investments	90,915	-	2,461	-	93,376
Investment in associates	16,835	-	-	-	16,835
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	5,658	-	-	5,658
Placements from customers	1,864	17,393	432	2,333	22,022
Customer current accounts	321	2,214	999	158	3,692
Equity of investment accountholders	-	-	555	200	755
Other liabilities	280	-	-	-	280
Equity:					
Transition adjustment	12,317	-	-	-	12,317
Contingent liabilities and commitments	1,261	509	-	-	1,770

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

14 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related parties included in the condensed consolidated income statement are as follows:

	30 September 2018 (Reviewed)				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income:					
Income from financing assets	306	30	517	26	879
Income from investments	909	-	(234)	-	675
Fair value changes on investments	(19)	-	-	-	(19)
Dividend income	189	-	-	-	189
Share of profits from associates	425	-	-	-	425
Expenses:					
Profit on placements from financial institutions	-	62	-	-	62
Profit on placements from customers	29	748	166	48	991
Share of profits on equity of investment account holders	-	-	-	1	1
Other operating expenses	-	-	638	-	638
	30 September 2017 (Reviewed)				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income:					
Income from financing assets	131	8	373	13	525
Income from investments	1,731	-	(95)	-	1,636
Fair value changes on investments	421	-	-	-	421
Dividend income	168	-	-	-	168
Share of profits from associates	810	-	-	-	810
Expenses:					
Profit on placements from financial institutions	-	14	-	-	14
Profit on placements from customers	55	209	5	32	301
Share of profits on equity of investment account holders	-	-	2	1	3
Other operating expenses	-	-	441	-	441
Allowance for credit losses	5,410	-	-	-	5,410

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

15 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Reviewed)</i> 30 September 2018 <i>BD '000</i>	<i>(Audited)</i> 31 December 2017 <i>BD '000</i>
Contingent liabilities on behalf of customers		
Guarantees	21,078	19,419
Letters of credit	17,661	10,767
Acceptances	2,015	954
	40,754	31,140
Irrevocable unutilised commitments		
Unutilised financing commitments	64,706	81,941
Unutilised non-funded commitments	12,980	9,594
	77,686	91,535
Forward foreign exchange contracts - notional amount	46,608	37,814

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

Operating lease commitment - Group as lessee

The Group has entered into various operating lease agreements for its premises. Future minimal rentals payable under the non-cancellable leases are as follows:

	<i>(Reviewed)</i> 30 September 2018 <i>BD '000</i>	<i>(Audited)</i> 31 December 2017 <i>BD '000</i>
Within 1 year	1,125	1,204
After one year but not more than five years	1,554	1,971
	2,679	3,175

16 SEGMENT INFORMATION

Primary segment information

For management purposes, the Group is organised into four major business segments:

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking and private banking and wealth management.
Treasury	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.
Capital	Manages the undeployed capital of the Group by investing it in high quality financial contracts, incurs all expenses in managing such investments and accounts for the capital governance related expenses.

Al Salam Bank-Bahrain B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2018

16 SEGMENT INFORMATION (continued)

Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information for the period ended 30 September 2018 was as follows:

	<i>30 September 2018 (Reviewed)</i>				
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Capital</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Operating income	28,135	11,520	69	1,488	41,212
Segment result	6,174	11,334	(4,217)	217	13,508
Segment assets	792,077	632,359	209,476	16,132	1,650,044
Segment liabilities and equity	902,567	422,579	9,056	315,842	1,650,044

Goodwill resulting from BMI acquisition is allocated to banking segment.

Segment information for the period ended 30 September 2017 was as follows:

	<i>30 September 2017 (Reviewed)</i>				
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Capital</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Operating income	28,369	11,551	3,568	2,791	46,279
Segment result	13,183	9,668	(6,773)	(2,471)	13,607

Segment information for the year ended 31 December 2017 (Audited) was as follows:

Segment assets	748,966	620,251	198,249	21,762	1,589,228
Segment liabilities and equity	915,747	330,513	16,954	326,014	1,589,228

Goodwill resulting from BMI acquisition is allocated to banking segment.

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

17 FINANCIAL CONTRACTS NOT AT FAIR VALUE

The fair value of sovereign sukuk is BD 336,503 thousands (2017: BD 361,172 thousands) compared to carrying value of BD 363,448 thousands (2017: BD 357,778 thousands) and the fair value of corporate sukuk is BD 8,982 thousands (2017: BD 10,339 thousands) compared to carrying value of BD 8,803 thousands (2017: BD 10,324 thousands). The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 30 September 2018 and 31 December 2017.

18 COMPARATIVE FIGURES

In addition to restatement due to adoption of FAS 30 (refer note 2), certain of the prior year figures have been regrouped to conform to the current period presentation. Such regrouping did not affect previously reported net profit for the period or total equity of the Group.