

FIRST ENERGY BANK B.S.C. (c)
31 MARCH 2018
CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION

Commercial registration	:	69089 (registered with Central Bank of Bahrain as a wholesale Islamic bank)
Registered Office	:	Bahrain Financial Harbour, West Tower, 20 th Floor P.O. Box 209, Manama, Kingdom of Bahrain Telephone +973 17170000
Directors	:	Khaleefa Bin Butti Bin Omair, <i>Chairman</i> Dr. Faisal Ahmed Gergab, <i>Vice-Chairman</i> Matar Mohamed Al Blooshi Dr. Ali Mahmoud Hassen Mohamed Salim Omair Al Shamsi Ammar Ali Mohamed Jaber Khalid Jassim Kalban Abdulla Abdulkarim Showaiter Adel A. Aziz Al Jabr Abdulla Al Yousef Al Suwaidi
Chief Executive Officer	:	Mohamed Shukri Ghanem
Auditors	:	KPMG Fakhro, Bahrain

First Energy Bank B.S.C. (c)

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the three months period ended 31 March 2018

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To
The Board of Directors
First Energy Bank B.S.C. (c)
Manama, Kingdom of Bahrain

14 May 2018

Introduction

We have reviewed the accompanying 31 March 2018 condensed consolidated interim financial information of First Energy Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 31 March 2018;
- the condensed consolidated income statement for the three-month period ended 31 March 2018;
- the condensed consolidated statement of changes in equity for the three-month period ended 31 March 2018;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2018;
- the condensed consolidated statement of sources and uses of zakah and charity fund for the three-month period ended 31 March 2018; and
- 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 the Financial Accounting Standards issued by the 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 International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of condensed consolidated 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 31 March 2018 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

USD 000's

	Note	31 March 2018 (reviewed)	31 December 2017 (audited)
ASSETS			
Cash and bank balances		9,233	12,100
Placements with financial institutions	7	77,727	84,953
Financing assets	8	130,773	131,482
Ijarah assets	9	77,800	78,700
Investment securities	10	428,720	407,569
Equity accounted investees	11	43,733	44,240
Other assets	12	40,270	36,406
Property and equipment		11,902	11,842
Assets held for sale	13	119,645	119,645
Total assets		939,803	926,937
Liabilities and equity			
LIABILITIES			
Placements from financial institutions		87,105	79,401
Bank financing	14	125,433	127,037
Liabilities directly associated with the assets held for sale	13	683	-
Other liabilities		19,153	20,498
Total liabilities		232,374	226,936
EQUITY			
Share capital		1,000,000	1,000,000
Treasury shares		(7,261)	(7,261)
Statutory reserve		11,808	11,808
Investments fair value reserve		4,762	5,664
Foreign exchange translation reserve		(2,171)	(2,171)
Accumulated losses		(346,881)	(355,202)
Total equity attributable to shareholders of the parent		660,257	652,838
Non-controlling interests		47,172	47,163
TOTAL EQUITY		707,429	700,001
Total liabilities and equity		939,803	926,937

The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 23 on 14 May 2018 and signed on its behalf by.



Khaleefa Bin Butti Bin Omair
Chairman



Abdulla Al Yousef Al Suwaidi
Board Member



Mohamed Ghanem
Chief Executive Officer

CONDENSED CONSOLIDATED INCOME STATEMENT
For the three months ended 31 March 2018

USD 000's

	Note	Three months ended 31 March 2018 (reviewed)	Three months ended 31 March 2017 (reviewed)
INCOME			
Income from investment securities	15	11,836	7,165
Income from financing and placements with financial institutions		2,971	3,604
Share of results of equity accounted investees		(389)	6
Net income from Ijarah assets	16	672	(2,721)
Other income		288	1,337
Total income		15,378	9,391
EXPENSES			
Staff cost		3,051	2,256
Finance cost		921	839
Depreciation and amortization		142	127
Expenses related to assets held for sale		936	-
Other operating expenses		1,998	2,075
Total expenses		7,048	5,297
PROFIT FOR THE PERIOD		8,330	4,094
Attributable to:			
Shareholders of the parent		8,321	4,014
Non-controlling interests		9	80
		8,330	4,094

The condensed consolidated interim financial information consists of pages 2 to 23.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three months ended 31 March 2018

USD 000's

	Equity attributable to shareholders of the parent						Non-controlling interests	Total equity	
	Share capital	Treasury shares	Statutory reserve	Investments fair value reserve	Foreign exchange translation reserve	Accumulated losses			Total
31 March 2018 (reviewed)									
Balance at 1 January 2018	1,000,000	(7,261)	11,808	5,664	(2,171)	(355,202)	652,838	47,163	700,001
Changes in fair value of investments at fair value through equity	-	-	-	1,618	-	-	1,618	-	1,618
Transfer to income statement on disposal of investments	-	-	-	(2,520)	-	-	(2,520)	-	(2,520)
Profit for the period	-	-	-	-	-	8,321	8,321	9	8,330
Total recognised income and expense for the period	-	-	-	(902)	-	8,321	7,419	9	7,428
Balance at 31 March 2018	1,000,000	(7,261)	11,808	4,762	(2,171)	(346,881)	660,257	47,172	707,429

The condensed consolidated interim financial information consists of pages 2 to 23.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2018 (continued)

USD 000's

	Equity attributable to shareholders of the parent						Non-controlling interests	Total equity	
	Share capital	Treasury shares	Statutory reserve	Investments fair value reserve	Foreign exchange translation reserve	Accumulated losses			Total
31 March 2017 (reviewed)									
Balance at 1 January 2017	1,000,000	(7,261)	9,802	4,715	(5,640)	(367,594)	634,022	41,484	675,506
Changes in fair value of investments at fair value through equity	-	-	-	(1,410)	-	-	(1,410)	-	(1,410)
Effects of exchange rate difference on equity accounted investees	-	-	-	-	328	-	328	-	328
Change in ownership interest in subsidiary	-	-	-	-	-	(5,558)	(5,558)	5,558	-
Profit for the period	-	-	-	-	-	4,014	4,014	80	4,094
Total recognised income and expense for the period	-	-	-	(1,410)	328	(1,544)	(2,626)	5,638	3,012
Transfer to zakah and charity fund	-	-	-	-	-	(100)	(100)	-	(100)
Dividends of subsidiary	-	-	-	-	-	-	-	(10)	(10)
Balance at 31 March 2017	1,000,000	(7,261)	9,802	3,305	(5,312)	(369,238)	631,296	47,112	678,408

The condensed consolidated interim financial information consists of pages 2 to 23.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the three months ended 31 March 2018

USD 000's

	Note	Three months ended 31 March 2018 (reviewed)	Three months ended 31 March 2017 (reviewed)
OPERATING ACTIVITIES			
Net profit for the period		8,330	4,094
Adjustments for:			
Depreciation on Ijarah assets	9	900	2,159
Depreciation and amortisation		142	127
Amortization of discount		(634)	(452)
Share of results of equity accounted investees		389	(6)
Gain on disposal of investment securities		(6,004)	(2,689)
Operating profit before changes in operating assets and liabilities		3,123	3,233
Net changes in operating assets and liabilities:			
Financing assets		(90)	24,136
Other assets		(3,915)	(2,116)
Placements from financial institutions		7,704	(81,231)
Other liabilities		(653)	(4,316)
Payment to charities		(9)	(25)
Net cash generated from / (used in) operating activities		6,160	(60,319)
INVESTING ACTIVITIES			
Purchase of investment securities		(114,392)	(153,735)
Proceeds from disposal / maturity of investment securities		100,048	197,539
Purchase of property and equipment and intangible assets		(289)	(118)
Net cash (used in) / generated from investing activities		(14,633)	43,686
FINANCING ACTIVITIES			
Repayment of bank financing		(41,604)	(108,294)
Proceeds from bank financing		40,000	-
Dividend paid to non-controlling interest		-	(10)
Net cash used in financing activities		(1,604)	(108,304)
Net decrease in cash and cash equivalents		(10,077)	(124,937)
Cash and cash equivalents at beginning of the period		97,053	147,116
Effect of net impairment losses on placements with financial institutions		(16)	-
Cash and cash equivalents at end of the period		86,960	22,179
Cash and bank balances		9,233	9,497
Placements with financial institutions with original maturity of 90 days or less		77,727	12,682
		86,960	22,179

The condensed consolidated interim financial information consists of pages 2 to 23.

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the three months ended 31 March 2018

USD 000's

	Three months ended 31 March 2018 (reviewed)	Three months ended 31 March 2017 (reviewed)
Sources of zakah and charity funds		
Undistributed charity and zakah funds at the beginning of the period	23	104
Contributions by the Bank	-	100
Total sources of zakah and charity funds during the period	23	204
Uses of zakah and charity fund		
Contributions for charitable purposes	(9)	(25)
Total uses of funds during the period	(9)	(25)
Undistributed zakah and charity fund at end of the period	14	179

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**For the three months ended 31 March 2018**

USD 000's

1 REPORTING ENTITY

First Energy Bank BSC (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 23 June 2008, under Commercial Registration No. 69089. The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is at Building 1459, Road 4626, Block 346, Manama, Kingdom of Bahrain.

The principal activities of the Bank and its subsidiaries (the "Group") include Shari'a compliant investment advisory services, participation in project development, joint ventures, mergers and acquisitions and the purchase of assets and asset portfolios primarily related to the energy sector. The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board to ensure adherence to Shari'a rules and principles in its transactions and activities.

2 BASIS OF PREPARATION AND PRESENTATION

- (i) The condensed consolidated interim financial information has been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the applicable provisions of Central Bank of Bahrain Regulations. 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). Accordingly, the condensed consolidated interim financial information has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 - 'Interim Financial Reporting'. This condensed consolidated interim financial information should be read in conjunction with the 2017 annual consolidated financial statements of the Group, except for the effects of adoption of FAS 30 as described in note 3 to this condensed consolidated interim financial information.

This condensed consolidated interim financial information does not contain all information and disclosures required for full consolidated financial statements prepared in accordance with FAS. In addition, results for the three months period ended 31 March 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

The condensed consolidated interim financial information is reviewed, not audited. The comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2017 and comparatives for the condensed consolidated statements of income, changes in equity, cash flows and sources and uses of zakah and charity fund have been extracted from the reviewed condensed consolidated interim financial information of the Group for the three months ended 31 March 2017.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the audited consolidated financial statements for the year ended 31 December 2017, except as stated below:

The following standards and amendments to standards have been applied by the Group in preparation of these condensed consolidated interim financial statements. The adoption of the below standards and amendments to standards did not result in changes to previously reported net profit or equity of the Group, except for the changes mentioned on adoption of FAS 30, but they may result in additional disclosures at year end:

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the three months ended 31 March 2018

USD 000's

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

ADOPTION OF FAS 30 - IMPAIRMENT, CREDIT LOSSES AND ONEROUS COMMITMENTS

The Group has adopted FAS 30 as mandated by the CBB on 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements as of and for the year ended 31 December 2017.

As permitted by the transitional provisions of FAS 30, 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 and the opening balance of fair value reserve and non-controlling interest of the current period.

The adoption of FAS 30 has resulted in changes in the accounting policies for the impairment and credit losses on various Islamic financing, debt investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments.

Set out below are the FAS 30 transition impact disclosures for the Group. Further details of the specific FAS 30 accounting policies applied in the current period are described in more detail in note 3(d).

(a) Impact of adopting FAS 30

The impact from the adoption of FAS 30 as at 1 January 2018 did not result in any change in retained earnings, fair value reserve, and non-controlling interests.

(b) Expected credit loss / Impairment allowances

The following table reconciles the closing impairment allowance for financial assets in accordance with FAS 11 "Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments" as at 31 December 2017 to the opening ECL allowance determined in accordance with FAS 30 as at 1 January 2018.

	31 December 2017 USD'000	Re- measurement USD'000	1 January 2018 USD'000
Placements with financial institutions	-	13	13
Financing assets	30,011	1,417	31,428
Investment securities (Debt)	2,496	(1,673)	823
Other assets	-	243	243
	32,507	-	32,507

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the three months ended 31 March 2018

USD 000's

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Movement in ECL

	Stage 1 USD'000	Stage 2 USD'000	Stage 3 USD'000	Total USD'000
Exposure subject to ECL				
31 March				
- Financing assets	131,572	-	30,793	162,365
- Investment debt securities	294,959	91,891	-	386,850
- Placements with financial institutions	77,743	-	-	77,743
- Other assets	31,481	-	-	31,481
	535,755	91,891	30,793	658,439
Opening Balance ECL (Day 1 impact) - as at 1 January 2018				
- Financing assets	1,417	-	30,011	31,428
- Investment debt securities	746	77	-	823
- Placements with financial institutions	13	-	-	13
- Other assets	243	-	-	243
	2,419	77	30,011	32,507
Net transfer between stages				
- Financing assets	(618)	-	782	164
- Investment debt securities	429	291	-	720
- Placements with financial institutions	3	-	-	3
- Other assets	(105)	-	-	(105)
	(291)	291	782	782
Charge for the Period (net)				
- Financing assets	-	-	-	-
- Investment debt securities	-	-	-	-
- Placements with financial institutions	-	-	-	-
- Other assets	-	-	-	-
	-	-	-	-
Closing Balance - as at 31 March 2018				
- Financing assets	799	-	30,793	31,592
- Investment debt securities	1,175	368	-	1,543
- Placements with financial institutions	16	-	-	16
- Other assets	138	-	-	138
	533,627	91,523	-	625,150

(d) Changes in Accounting Policies and Significant Estimates and Judgements

Key changes to the Group's accounting policies

The key changes to the Group's accounting policies resulting from the adoption of FAS 30 are summarised below. Since the comparative financial information has not been restated, the accounting policies in respect of the financial instruments for comparative periods are based on FAS 11 and FAS 25 as disclosed in the Group's audited consolidated financial statements as of and for the year ended 31 December 2017.

Impairment of financial assets

FAS 30 will replace FAS 11 "Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments" that deals with impairment. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, debt investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**For the three months ended 31 March 2018**

USD 000's

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Key changes in the Group's accounting policy for impairment of financial assets are listed below:

The Group applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and debt instruments classified as FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

Stage 1 includes financial assets on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk (i. Local sovereign that carry (zero) credit weight in accordance with capital adequacy instructions of the CBB ii. High quality externally rated debt instruments. iii. Other financial assets which the group may classify as such after obtaining CBB's no objection) at the reporting date. For these assets, 12-month ECL are recognised and interest is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD') as the weight.

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's instructions. For these assets, lifetime ECL are recognised and treated with the interests calculated on them, according to CBB's instructions.

*Key changes to the Significant Estimates and Judgements*Impairment of financial instruments

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Inputs, assumptions and techniques used for estimating impairment**Significant increase in credit risk**

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

In determining whether credit risk has increased significantly since initial recognition following criteria's are considered:

- I. Two notches down for rating from X to Y or one notch down for ratings from Y to Z
- II. Facilities restructured during previous twelve months
- III. Facilities overdue by 30 days as at the reporting date

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the three months ended 31 March 2018

USD 000's

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit risk grades

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of Probability of Default (PD)

The Group employs statistical models to analyse the data collected and generate estimates of 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 changes in key macro-economic factors, across various geographies in which the Bank has taken exposures.

(e) Changes to Groups financial risk management objectives and policies**i) Credit Risk Measurement**

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 similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under FAS 30 as detailed in note 3d.

ii) Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

iii) Credit quality assessments

Pursuant to the adoption of FAS 30, the Bank has mapped its internal credit rating scale to Moody's (or any other external rating) rating scale, the table below provides an analysis of counterparties by rating grades and credit quality of the Bank's credit risk, based on Moody's ratings (or their equivalent) as at 31 March 2018.

Rating grade	Financing assets	Investment debt securities	Placements with financial institutions	Other assets
AAA to AA-	-	102	15,008	-
A+ to A-	-	45,181	19,508	-
BBB to BBB-	-	91,897	4,001	-
BB+ to B-	-	84,981	11,999	-
Unrated	130,773	163,146	27,211	31,343
Total	<u>130,773</u>	<u>385,307</u>	<u>77,727</u>	<u>31,343</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the three months ended 31 March 2018

USD 000's

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of consolidation

The condensed consolidated interim financial information includes the results of the Bank and its subsidiaries after elimination of inter group transactions and balances.

The following are the Group's significant subsidiaries as at 31 March 2018:

<i>Name of subsidiary</i>	<i>Equity interest</i>		<i>Nature of business</i>
	2018	2017	
North Africa Investment Company, Kingdom of Bahrain	100%	100%	To hold the Group's 40% associate stake in Arab Drilling and Workover Company, Libya.
First Energy Oman, Cayman Islands	100%	100%	To hold 15% stake in Al Izz Islamic Bank in Oman.
FEB-Novus Aircraft Holding Company, Bahamas	98.50%	98.50%	To purchase and lease one A330-300 aircraft to Malaysia Airlines.
MENAdriill Investment Company, Cayman Islands	99.99%	99.99%	Development and lease of oil rigs
Al Dur Energy Investment Company, Cayman Islands	59%	59%	To hold 15% indirect interest in a power and water plant project in the Kingdom of Bahrain.
FEB Aqar S.P.C., Kingdom of Bahrain	100%	100%	Real estate activities to own or lease property.
FEB Capital Limited, United Arab Emirates	100%	100%	Financial institution

4 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the Group's audited consolidated financial statements as at and for the year ended 31 December 2017 except for the impacts of adoption of FAS 30 as set out in note 3e, which may result in additional disclosures at year end.

5 JUDGMENT AND ESTIMATES

Preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were same as applied to the audited consolidated financial statements as at and for the year ended 31 December 2017, except for the effects of adoption of FAS 30 as described in note 3 to this condensed consolidated interim financial information.

6 SEASONALITY

Due to nature of the Bank's business, the three months' results reported in this condensed consolidated interim financial information may not represent a proportionate share of the overall annual results.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the three months ended 31 March 2018

USD 000's

7 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 March 2018 (reviewed)	31 December 2017 (audited)
Commodity murabaha contracts	45,058	24,920
Wakala contracts	32,714	60,041
Total gross murabaha and wakala contracts	77,772	84,961
Less: Deferred profits on murabaha contracts	(29)	(8)
	77,743	84,953
Less: Net impairment losses on Placements with financial institutions *	(16)	-
	77,727	84,953

The original maturity of commodity murabaha and wakala contracts are 90 days or less.

* For stage wise exposure and allowance for impairment refer note 3 (c).

8 FINANCING ASSETS

	31 March 2018 (reviewed)	31 December 2017 (audited)
Gross commodity murabaha	145,410	144,568
Less: Deferred profits	(12,347)	(14,088)
Specific impairment allowance	(30,793)	(30,011)
	102,270	100,469
Ijarah financing	29,302	31,013
Less: Net impairment losses on Financing assets *	(799)	-
	130,773	131,482

* For stage wise exposure and allowance for impairment refer note 3 (c).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the three months ended 31 March 2018

USD 000's

9 IJARAH ASSETS

	Aircraft
Cost:	
At 1 January 2018	100,000
At 31 March 2018	100,000
Depreciation:	
At 1 January 2018	21,300
Charge for the period	900
At 31 March 2018	22,200
Net book value:	
As at 31 March 2018 (reviewed)	77,800
As at 31 December 2017 (audited)	78,700

The Aircraft is mortgaged against term financing (refer note 14).

10 INVESTMENT SECURITIES

	31 March 2018 (reviewed)	31 December 2017 (audited)
Equity type instruments - at fair value through equity		
- Quoted equity securities (at fair value) ⁽ⁱ⁾	42,418	37,780
- Unquoted equity securities (at cost less impairment)	995	995
	43,413	38,775
Debt type instruments - At amortised cost		
- Quoted Sukuk ⁽ⁱⁱ⁾	287,308	271,748
Collective impairment allowance	-	(2,496)
- Subordinated financing	99,542	99,542
	386,850	368,794
	430,263	407,569
Less: Net impairment losses on Investment securities ⁽ⁱⁱⁱ⁾	(1,543)	-
Total investment securities	428,720	407,569

(i) During the period, the Group sold quoted equity securities resulting in gain from sale of USD 5.5 million (note 15). Further, the Group purchased the equity securities during the period.

(ii) Quoted Sukuk of USD 134 million (31 December 2017: USD 147 million) are pledged against general bank financing of USD 80 million (refer note 14).

(iii) For stage wise exposure and allowance for impairment refer note 3 (c).

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11 EQUITY ACCOUNTED INVESTEEES

	31 March 2018 (reviewed)	31 December 2017 (audited)
Associates	113,418	113,925
Impairment allowance	(69,685)	(69,685)
	43,733	44,240

Movement on the equity accounted investees during the period:

	31 March 2018 (reviewed)	31 December 2017 (audited)
At beginning of the period	44,240	54,944
Disposals during the period ^(v)	-	(10,627)
Share of results of equity accounted investees, net	(389)	(3,129)
Foreign exchange translation differences	-	3,469
Intercompany finance expense	(118)	(417)
Balance at the end of the period	43,733	44,240

Intra-group gains on transactions between the Group and its equity accounted associates are eliminated to the extent of the Group's interest in the investees.

Equity accounted investees comprise the following:

Name	Country of incorporation	% holding	Nature of business
Associates:			
Arab Drilling and Workover Company ⁽ⁱ⁾	Libya	40%	Lease of oil drilling rigs
Al Izz Islamic Bank ⁽ⁱⁱ⁾	Oman	15.18%	Islamic retail banking
Adcan Pharma LLC (Adcan) ⁽ⁱⁱⁱ⁾	United Arab Emirates	40%	Pharmaceutical
Medisal for Pharmaceuticals Industry LLC (Medisal) ^(iv)	United Arab Emirates	45%	Pharmaceutical

(i) Due to the political situation in Libya, the investments have been fully provided for.

(ii) The information for 2018 presented in the table includes the results of Al Izz Islamic Bank based on the un-audited accounts for the period from 1 October 2017 to 31 December 2017.

(iii) This associate company is in the start-up phase. The information for 2018 presented in the table includes the results of Adcan based on the un-audited accounts for the period from 1 October 2017 to 31 December 2017.

(iv) The information for 2018 presented in the table includes the results of Medisal based on the un-audited accounts for the period from 1 October 2017 to 31 December 2017.

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12 OTHER ASSETS

	31 March 2018 (reviewed)	31 December 2017 (audited)
Receivable from investee *	12,024	12,024
Ijarah rental receivable	19,457	17,767
Prepayments and advances	3,589	3,656
Intangible assets	188	122
Others	5,150	2,837
	40,408	36,406
Less: Net impairment losses on Other assets (note 3c) **	(138)	-
	40,270	36,406

* Receivable from investee represents an amount advanced to Al Dur Power and Water Company, an investee of the Group, to meet liability reserve account (LRA) funding requirement under a common term agreement, whereby the shareholders are required to fund such account for the purpose of meeting the repayment of senior debt obligations of the investee. This includes LRA fee accrual as of 31 March 2018.

** For stage wise exposure and allowance for impairment refer note 3 (c).

13 ASSETS HELD FOR SALE

In October 2017, the Board committed to a plan to sell its oil rigs. Accordingly, the oil rigs are presented as an assets held for sale. Efforts to sell the asset have started and a sale is expected by September 2018.

A. Impairment losses relating to the assets held for sale

No impairment losses were recognized as the carrying amount is lower than the fair value less costs to sell of the oil rigs.

B. Assets and liabilities of assets held for sale

At 31 March 2018, the assets held for sale were stated at carrying amount and comprised the following:

	31 March 2018 (reviewed)	31 December 2017 (audited)
Ijarah assets	119,645	119,645
Assets held for sale	119,645	119,645
Accounts payable	683	-
Liabilities held for sale	683	-

C. Cumulative income or expenses included in equity

There are no cumulative income or expenses included in equity relating to the assets held for sale.

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13 ASSETS HELD FOR SALE (continued)

D. Measurement of fair values*i. Fair value hierarchy*

The non-recurring fair value measurement for the assets held for sale of USD 160,000 thousand (before costs to sell of USD 1,196 thousand) has been categorized as a level 3 fair value based on the inputs to the valuation technique used.

ii. Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of the assets held for sale, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable units
<p>In getting the market valuation of the rigs, the following factors were taken into consideration:</p> <ul style="list-style-type: none"> - Newbuild prices for similar tonnage - The current oil price - The supply/demand dynamic for this type of tonnage - The orderbook and expected yard deliveries - The original build cost of the vessel - The age of the vessel - The design and specification of the vessels and quality of on-board equipment suppliers - The increase/decrease in value of other similar vessels over time - Recent sales of similar tonnage - The current price ideas of buyers and sellers 	<p>There have been very few transactions in the market to provide benchmarks for the value of rigs leading to greater uncertainty over values. The external valuer expect prevailing market factors to negatively affect rig values in the short to medium term in light of weaker demand and the expected number of new build units for delivery over the next 2 - 3 years.</p>

14 BANK FINANCING

	31 March 2018 (reviewed)	31 December 2017 (audited)
Financing for Ijarah assets		
Term financing *	44,805	45,920
	44,805	45,920
General financing **	80,628	81,117
	125,433	127,037

* Term financing is secured by a mortgage over an aircraft (note 9). Term financing has been obtained by FEB-Novus Fin One Ltd Bahamas, a 100% subsidiary of FEB-Novus Aircraft Holding Company, Bahamas which is a 98.5% subsidiary of the Bank. Term financing is at a floating rate of 1 month Libor plus 3.20% maturing on 23 January 2024.

** This represent financing for general purpose secured by sukuk (note 10).

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15 INCOME FROM INVESTMENT SECURITIES

	31 March 2018 (reviewed)	31 March 2017 (reviewed)
Income from sukuk	3,337	2,694
Dividend income	2,495	1,782
Gain on disposal of sukuk	550	2,689
Gain on disposal of quoted equity securities (note 10)	5,454	-
	11,836	7,165

16 NET INCOME FROM IJARAH ASSETS

	31 March 2018 (reviewed)	31 March 2017 (reviewed)
Rental income	2,260	2,692
Finance cost	(545)	(909)
Depreciation on Ijarah assets	(900)	(2,159)
Other operating expenses	(143)	(2,345)
	672	(2,721)

Other operating expenses relating to Ijarah assets comprise the following:

	31 March 2018 (reviewed)	31 March 2017 (reviewed)
Professional and consultancy fee	93	159
Miscellaneous expenses	50	260
Repairs and maintenance - rigs	-	1,794
Insurance - rigs	-	132
	143	2,345

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17 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties comprise major shareholders, directors, Shari'a supervisory board, external auditors and executive management of the Group and/or entities over which they exercise control and/or significant influence.

The significant balances with related parties were as follows:

	Associates	Key management personnel/ Shari'a board members/ external auditors	Significant shareholders/ board members/ entities in which directors are interested	Total
31 March 2018 (reviewed)				
Assets				
Cash and bank balances	-	-	95	95
Placements with financial institutions	-	-	11,999	11,999
Financing assets	14,456	-	50,651	65,107
Equity accounted investees	43,733	-	-	43,733
Other assets	8	-	-	8
Liabilities				
Placements from financial institutions	-	-	35,069	35,069
Other liabilities	249	1,100	11,288	12,637

	Associates	Key management personnel/ Shari'a board members/ external auditors	Significant shareholders/ board members/ entities in which directors are interested	Total
31 December 2017 (audited)				
Assets				
Cash and bank balances	-	-	98	98
Placements with financial institutions	-	-	18,509	18,509
Financing assets	14,312	-	50,039	64,351
Equity accounted investees	44,240	-	-	44,240
Other assets	7	-	-	7
Liabilities				
Placements from financial institutions	-	-	34,875	34,875
Other liabilities	309	1,108	11,288	12,705

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17 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

The transactions with related parties included in the condensed consolidated statement of income were as follows:

	Associates	Key management personnel/ Shari'a board members/ external auditors	Significant shareholders/ board members/ entities in which directors are interested	Total
31 March 2018 (reviewed)				
Income				
Income from financing and placements with financial institutions	169	-	886	1,055
Share of results of equity accounted investees	(389)	-	-	(389)
Other income	-	-	288	288
Expenses				
Staff cost	-	720	-	720
Financing cost on placements from financial institutions	-	-	194	194
Other operating expenses	-	314	-	314

	Associates	Key management personnel/ Shari'a board members/ external auditors	Significant shareholders/ board members/ entities in which directors are interested	Total
31 March 2017 (reviewed)				
Income				
Income from financing and placements with financial institutions	125	-	1,680	1,805
Share of results of equity accounted investees	6	-	-	6
Other income	-	-	1,180	1,180
Expenses				
Staff cost	-	635	-	635
Financing cost on placements from financial institutions	-	-	105	105
Other operating expenses	-	224	-	224

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18 COMMITMENTS

	31 March 2018 (reviewed)	31 December 2017 (audited)
Financing commitments	713	939
Operating lease commitments	352	568
	1,065	1,507

19 FINANCIAL INSTRUMENTS

I. Financial instruments at fair value:

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

Fair value of quoted securities is derived from quoted market prices in active markets, if available.

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

31 March 2018 (reviewed)	Level 1	Level 2	Level 3	Total
Fair value through equity				
Quoted equity securities	42,418	-	-	42,418
31 December 2017 (audited)	Level 1	Level 2	Level 3	Total
Fair value through equity				
Quoted equity securities	37,780	-	-	37,780

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19 FINANCIAL INSTRUMENTS (continued)

II. Financial instruments not at fair value:

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by the Group:

31 March 2018 (reviewed)	Carrying amount	Fair value
Financial assets:		
Financing assets	130,773	130,773
Ijarah assets	77,800	77,800
Investment securities ¹	328,183	318,568
Total	536,756	527,141
Financial liabilities:		
Bank financing	125,433	125,433
Total	125,433	125,433
31 December 2017 (audited)	Carrying amount	Fair value
Financial assets:		
Financing assets	131,482	131,482
Ijarah assets	78,700	78,700
Investment securities ¹	307,032	307,149
Total	517,214	517,331
Financial liabilities:		
Bank financing	127,037	127,037
Total	127,037	127,037

¹ Equity type instruments carried at cost less impairment, of USD 995 thousand (31 December 2017: USD 995 thousand) and debt type instruments of USD 99,542 (31 December 2017: USD 99,542) are excluded due to absence of reliable measure of fair value and amortised cost classification, respectively.

The fair values of other financial instruments on the reporting date are not significantly different from their carrying values.